

## COUNTRY RISK WEEKLY BULLETIN

## NEWS HEADLINES

## WORLD

**Global private capital dry powder at \$2.1 trillion at the end of June 2018**

Research provider Preqin indicated that global private capital dry powder, or the amount of capital available for fund managers to deploy, reached a record-high of \$2,099bn at the end of June 2018, and constituting an increase of 18% from \$1,779.1bn at the end of 2017. In comparison, the amount of global private capital dry powder reached \$1,507.4bn at the end of 2016 and \$983bn at end-2010. It noted that capital dry powder held by private equity (PE) funds accounted for 57.8% of total dry powder at the end of June 2018, followed by real estate investment funds (15.4%), private debt funds (14.6%), infrastructure funds (8.7%) and natural resources funds (3.5%). Also, it said that buyout funds accounted for 58.3% of global dry powder, followed by venture capital funds (19.9%), growth funds (17.7%), and other PE funds such as balanced and co-investment funds (4.1%). On a regional level, it noted that the majority, or 55.2% of global private capital dry powder, targeted North America at the end of June 2018. It added that dry powder targeting Europe and Asia followed with 23.1% and 17.1% of the total, respectively, while dry powder targeting the rest of the world accounted for the remaining 3.9% of global private capital dry powder.

Source: Preqin

**ETF assets at \$4.8 trillion at end-2018**

Figures released by Deutsche Bank show that the assets of global Exchange Traded Funds (ETFs) reached \$4,790bn at the end of 2018, nearly unchanged from \$4,780bn at end-2017 and compared to \$1,444bn at end-2010. ETFs are marketable securities that track an index, a commodity, bonds or a basket of assets. Assets of global ETFs grew at a compounded annual growth rate of 23.4% between 2003 and 2018. On a regional basis, the U.S. ETF industry had assets of \$3,381bn and accounted for 70.6% of total assets invested in ETFs worldwide, followed by the European industry with \$760.8bn (15.9%), and ETFs in the Asia-Pacific with \$512.9bn (10.7%), while the rest of the world accounted for the remaining \$135.6bn, or 2.8% of total ETFs assets. In parallel, net inflows in ETFs reached \$533bn in 2018, down by 17.9% from \$649bn in 2017. In addition, equity ETFs attracted net inflows of \$384bn in 2018, followed by fixed income ETFs with \$142bn, while commodity ETFs posted net inflows of \$3.8bn. Further, the U.S. ETF industry attracted net inflows of \$312.8bn in 2018, the equivalent of 58.7% of total net inflows in ETFs, followed by Asia-Pacific with \$141.2bn (26.5%), and Europe with \$57.1bn (10.7%), while the rest of the world attracted the remaining \$22bn, or 4.1%.

Source: Deutsche Bank, Byblos Research

## MENA

**Stock markets up 6% in January 2019**

Arab stock markets improved by 6.2% and Gulf Cooperation Council equity markets increased by 6.9% in January 2019, relative to growth rates of 5.1% and 5.5%, respectively, in the same month of 2018. In comparison, global equities grew by 7.9% and emerging markets equities increased by 7.8% in January 2019. Activity on the Saudi Stock Exchange jumped by 9.4% in the covered month, the Egyptian Exchange rose by 8.4%, the Qatar Stock Exchange surged by 4.1%, the Bahrain Bourse expanded by 4%, the Abu Dhabi Securities Exchange improved by 2.6%, the Amman Stock Exchange grew by 2.2%, the Dubai Financial Market increased by 1.5%, the Bursa Kuwait rose by 1.3%, the Khartoum Stock Exchange expanded by 0.9% and the Palestine Exchange grew by 0.3%. In contrast, activity on the Beirut Stock Exchange declined by 6% in January 2019, the Muscat Securities Market retreated by 3.6%, the Iraq Stock Exchange decreased by 3.5%, the Damascus Securities Exchange dropped by 2.3%, and the Tunis Bourse and the Casablanca Stock Exchange regressed by 0.1% each. In parallel, activity on the Tehran Stock Exchange contracted by 0.7% in January 2019.

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

**Economic freedom slightly deteriorates in Arab countries**

The Heritage Foundation Index of Economic Freedom for 2019, a broad indicator of economic freedom in 180 countries, shows that the level of economic freedom in 15 Arab countries slightly deteriorated from the 2018 survey. The region's level of economic freedom stood at 58.9% in 2019, down from 59.1% in 2018, and compared to the global average of 60.8% this year. The GCC countries have an average score of 66.5% in 2019, compared to 66.8% in the 2018 index, while non-GCC Arab countries post an average of 53.9% in 2019, unchanged from last year. The index evaluates individual economies on the basis of 12 equally-weighted broad factors of economic freedom. The rankings of nine Arab countries improved and six deteriorated, while the scores of six Arab countries improved, those of six economies regressed and the scores of three countries were unchanged from the 2018 survey. The UAE is the ninth freest economy in the world and is the only Arab country to rank among the top 20 worldwide. Qatar followed in 28th place, then Jordan (53rd) and Bahrain (54th). In contrast, Lebanon (154th), Sudan (166th), Djibouti (169th) and Algeria (171st) are the lowest ranked Arab countries. Two Arab economies came in the "mostly free" category, six countries had economies that were "moderately free", four were "mostly unfree" and three were "repressed" economies. Also, the survey upgraded the economy of Saudi Arabia to the "moderately free" category from the "mostly unfree" segment. Further, the region's level of economic freedom is higher than in Latin America & the Caribbean (58.4%), South Asia (55.5%) and Sub-Saharan Africa (54.3%), while it is lower than in North America (77.3%), Europe & Central Asia (67.4%) and East Asia & Pacific (62.8%).

Source: Heritage Foundation, Byblos Research

# POLITICAL RISK OVERVIEW - January 2019

## DEM REP CONGO

Opposition candidate Mr. Félix Tshisekedi was sworn in as President in the country's first peaceful transfer of power. He defeated the Lamuka alliance's candidate Martin Fayulu and the ruling coalition's candidate Emmanuel Ramazani Shadary in what were considered highly controversial elections. However, the coalition of former President Joseph Kabila, the Common Front for Congo, won a majority of 335 out of 485 seats in the national assembly, as well as in most of the 26 provincial assemblies. Despite broadly calm security conditions, the results triggered demonstrations in the province of Kwilu, as well as in Goma, Kisangani, Mbandaka and the capital Kinshasa. In the eastern province of North Kivu, the army clashed with the Rwandan Hutu rebel group Democratic Liberation Forces of Rwanda, as well as with militants from the Allied Democratic Forces near the city of Beni.

## IRAN

Relations between the EU and Iran deteriorated due to the latter's involvement in a series of assassinations and attacks against Iranian political dissidents in several European countries. As such, European countries imposed sanctions on an Iranian intelligence unit and on two of its staff. Tensions between the U.S. and Iran continued, as the U.S. protested the launch of an Iranian satellite, which it claims the Iranian government is using as a cover for developing ballistic missile capabilities.

## IRAQ

U.S. President Donald Trump confirmed during his visit to the U.S. military base in the Anbar province that the U.S. will keep its military presence in Iraq despite the planned withdrawal from Syria. Also, the U.S. government discussed greater economic cooperation with Iraq during the visit of Secretary of State Mike Pompeo, and put pressure on Iraq to stop importing gas from Iran. In addition, Iranian Foreign Minister Mohammad Zarif visited Iraq and reiterated Iran's commitment towards the country. Islamic State (IS) bombings continued in the Salah al-Din and Anbar provinces and in Kirkuk. Russia pledged to support Iraq in fighting IS.

## LIBYA

Fighting erupted between rival armed groups in the capital city of Tripoli that resulted in 16 deaths. In response to local mediation, the militant groups agreed to a new ceasefire on January 21. The Libyan National Army (LNA) entered the southwestern city of Sebha to fight armed groups in the region and secure oil installations. Local militant groups from the Tebu, Tuareg and Arab tribes that are allied with the Tripoli-based UN-backed Presidency Council vacated their military bases in Sebha, but tensions remained high as many others declared opposition to the LNA's arrival. International efforts to broker an agreement between the head of the Presidency Council, Faiez Al-Serraj, and Field Marshal Khalifa Haftar continued.

## NIGERIA

Election-related violence increased ahead of the February general elections, with criminals attacking campaign offices, vehicles and rallies. Also, criminals attacked the home of the Senate President and member of the main opposition party, the Peoples' Democratic Party, in the Kwara State, wounding at least eleven people. Boko Haram insurgents increased their attacks in the Borno and Yobe states in the northeast of the country. In addition, criminal violence involving bandits, communities and security forces continued in the Zamfara, Sokoto and Katsina states in the northwest of the country, killing over 120 people.

## SUDAN

President Omar Al Bashir accused rebel groups from Darfur and foreign powers of instigating the anti-government protests that have reached nationwide levels. Government security services responded firmly to the continued protests that called for President Bashir to step down. However, additional protests and strikes were reported to have gathered pace across the country. Authorities released 186 protestors following orders by the intelligence chief to release all detained persons in recent incidents amid increasing international criticism of Khartoum's handling of the anti-government demonstrations.

## SYRIA

Jihadist alliance Hei'at Tahrir al-Sham defeated Nour al-Din al-Zinki in Idlib and proclaimed the Salvation Government to administer most of Idlib and parts of neighboring provinces. The regime responded to the violation by shelling the city of Maarat al-Numan south of Idlib. Russia and Turkey agreed to closer military cooperation in Idlib, but Russia reaffirmed its support for dialogue between the regime and Kurds. Turkey deployed tanks and armored vehicles to districts on the Syrian border and requested from Russia to use Syria's airspace for a possible operation against the Kurdish People's Protection Units. Israel carried out airstrikes against Iranian installations in Damascus. In response, Iranian forces fired a missile on Golan Heights, prompting an Israeli airstrike on Iran's Al-Quds Force.

## TUNISIA

The ongoing dispute between President Mohamed Beji Caid Essebsi and Prime Minister Youssef Chahed has paralyzed the government and prevented the Parliament from appointing the 12 members of the new Constitutional Court. The newly-elected electoral commission announced that the parliamentary and presidential elections will be held in October and November 2019, respectively. More than 90% of public-sector workers participated in a nation-wide strike staged by the Tunisian General Labor Union to protest against the government's refusal to raise public-sector wages. The union accused PM Chahed of endangering Tunisia's sovereignty in order to meet the IMF's demands.

## TURKEY

The government's crackdown continued on the Kurdistan Workers' Party-related individuals, as well as on the jihadist alliance Hei'at Tahrir al-Sham in Turkey. Tensions between Turkey and the U.S. increased following a U.S. statement that a withdrawal from Syria was conditional on Turkey's guarantee not to attack Kurdish fighters. In response, Turkey renewed its threat to carry out a military offensive in north Syria. Also, Turkey and the U.S. discussed a possible 20-mile safe zone in northeast Syria, but Turkey said that it would start its military takeover of Manbij inside the safe zone if Turkey's borders are not protected.

## YEMEN

Despite reported infractions, fighting eased in the port city of Hodeida under the Stockholm Agreement that was signed in December 2018. But forces loyal to President Abdrabbuh Mansour Hadi and Huthi rebels failed to redeploy from the city of Hodeida by the January 8 deadline. Also, the Redeployment Coordination Committee that consists of the United Nations, the Hadi government and Houthi rebels, and that aims to oversee the implementation of the agreement, failed to agree on the terms of a ceasefire and on the redeployment mechanism. The UN Security Council unanimously approved the creation of a UN mission to support the Hodeida Agreement, which mandates 75 monitors to oversee the initial implementation of the agreement for six months.

Source: *International Crisis Group, Newswires*

# OUTLOOK

## UAE

### Non-hydrocarbon growth at 4.1% annually in the 2019-20 period

The International Monetary Fund indicated that the UAE's economy is starting to recover from the slowdown caused by the 2014 oil price shock. It projected the UAE's real GDP growth to accelerate from 2.9% in 2018 to about 3.7% annually in the 2019-20 period, supported by higher oil output, increased public investment and higher tourism receipts from Expo 2020. It added that the contribution from the private sector to growth is projected to rise due to the stepped-up structural reforms, ongoing recovery in private sector credit growth and stronger consumption growth. It forecast non-hydrocarbon growth to increase from 2.9% in 2018 to 3.9% in 2019 and 4.2% in 2020, while it expected activity in the hydrocarbon sector to expand from 2.9% in 2018 to 3.1% this year amid higher global oil prices, and to reach 2.2% in 2020. The Fund commended the authorities for their strong policy response, including the introduction of the value-added tax, accelerated structural reforms, and the upgrade of the prudential framework. But it noted that reforms should also focus on increasing competition, improving financial inclusion, and reducing labor market fragmentation, among others.

In parallel, the Fund expected the UAE's fiscal balance to shift from a deficit of 1.6% of GDP in 2018 to a surplus of 1.8% of GDP in 2019, mainly due to higher oil revenues. It considered that the ongoing fiscal easing is appropriate in the near term to facilitate economic recovery. However, it said that a gradual growth-friendly fiscal consolidation should resume in the following years, as private sector activity picks up and stimulus measures are phased out, in order to ensure sufficient savings of oil wealth for future generations. Further, it projected the current account surplus to increase from 7.1% of GDP in 2018 to 7.9% of GDP in 2019 amid higher oil export receipts. But it forecast the surplus to narrow to an average of 5.1% of GDP annually in the medium term, in case oil prices moderate. The Fund noted that external downside risks have increased in recent months and include tighter global financial conditions, heightened volatility in emerging markets, ongoing geopolitical tensions, and rising trade protectionism. On the domestic front, it said that risks consist of a slowdown in bank lending, lower oil output and prices, and slippages in implementing the reform agenda.

*Source: International Monetary Fund*

## EGYPT

### Favorable outlook contingent on reform implementation

The International Monetary Fund indicated that Egypt's macroeconomic outlook is favorable, supported by strong policy implementation, robust economic activity, a rebound in the tourism sector, strong remittance inflows and a declining unemployment rate. It projected real GDP growth to increase from 5.3% in the fiscal year that ended in June 2018 to 5.5% in FY2018/19. It noted that Egypt's structural reforms agenda addresses longstanding constraints to private sector development, including reforms to improve competition policy, public procurement, and the management of state-owned enterprises. It said that the sustained implementation of these reforms is essential to support medium-term growth and job creation.

In parallel, the Fund pointed out that the recent pickup in the inflation rate was mainly due to temporary increases in food and energy prices. But it forecast the average inflation rate to decline from 20.9% in FY2017/18 to 15.8% in FY2018/19, amid tight monetary policy. It added that authorities took important steps to deepen the foreign currency market and allow greater exchange rate flexibility. Further, the IMF pointed out that the government's fiscal consolidation plan is on track, and expected the fiscal deficit to narrow from 9.8% of GDP in FY2017/18 to 8.3% of GDP in FY2018/19. It considered that the ongoing reforms to energy subsidies would support fiscal consolidation and encourage more efficient energy use. It added that this, along with revenue-enhancing reforms, will help create the fiscal space needed for high-priority spending on health and education. Further, it projected the public debt level to regress from 92.6% of GDP at end-June 2018 to 86% of GDP at end-June 2019. In parallel, it forecast the current account deficit at 2.5% of GDP in FY2018/19 relative to 2.4% of GDP in FY2017/18. It anticipated foreign currency reserves to reach \$44.9bn, or 6.6 months of import cover at the end of June 2019, compared to \$43.5bn, or 6.6 months of imports at end-June 2018.

*Source: International Monetary Fund*

## TURKEY

### Economy to enter recession in coming quarters

BNP Paribas indicated that Turkish authorities have launched major measures on the macroeconomic front in order to stimulate economic activity. It noted that financial pressures have eased since the currency crisis in August 2018, but that cyclical conditions have deteriorated. As such, it expected Turkey to face a recession that would last for several quarters, with the financial weakness of many non-financial corporates being a main concern. In this context, it forecast real GDP growth to decline from 2.9% in 2018 to 2% in 2019, before it recovers to 3.3% in 2020. It projected the inflation rate at 17.1% in 2019 and 11.4% in 2020. Further, it expected the potential decline in fiscal and non-recurring revenues, as well as the announced stimulus measures, to weigh on public finances in 2019. As such, it anticipated the fiscal deficit to widen from 2% of GDP in 2018 to 2.2% of GDP in each of 2019 and 2020. It projected the public debt level at 30% of GDP at the end of 2019 and at 29.2% of GDP at end-2020. It said that the government is favoring foreign-currency debt, given the sharp increase in the cost of financing in the local market.

In parallel, BNP Paribas indicated that the financial turmoil has eased since mid-September, due to a massive interest rate hike and the easing of tensions with the U.S. It noted that the Turkish lira depreciated by 27% in 2018, compared to a 42% depreciation between January and August 2018. It expected the lira to further depreciate by 8.6% in 2019. It indicated that banks managed to rebuild their foreign currency deposits through the Reserve Options Mechanism with the Central Bank of the Republic of Turkey (CBT). It expected foreign currency reserves to be nearly unchanged at \$72bn, or 3.4 months of imports, in 2019, and to reach \$75bn, or 3.2 months of import cover, in 2020. It forecast the current account deficit to narrow from 3.6% of GDP last year to 3.3% of GDP this year, and to reach 3.7% of GDP in 2020. It did not expect the CBT to loosen financing conditions until it has a clear confirmation of disinflation.

*Source: BNP Paribas*





# ECONOMY & TRADE

## KUWAIT

### Non-hydrocarbon growth to accelerate to 3.3% in 2019-20

The International Monetary Fund projected Kuwait's real GDP growth to accelerate from 1.7% in 2018 to 2.5% in 2019, mainly due to improved non-hydrocarbon sector activity. It forecast hydrocarbon sector activity to expand by 2% in 2019 and by 2.5% in 2020, while it anticipated growth in the non-hydrocarbon sector at 3% this year and 3.5% in 2020, driven by higher capital spending. In parallel, it forecast Kuwait's fiscal surplus to increase from 8.1% of GDP in the fiscal year that ended in March 2018 to 11.8% of GDP in FY2018/19, due to higher oil revenues and investment income. It expected Kuwait's fiscal financing needs, as measured by its overall fiscal balance, excluding investment income and after the transfers to the Future Generations Fund, at an average of 13.5% of GDP annually in the medium term. It said that this would lead to an increase in Kuwait's gross financing needs over the next six years. It expected the government to cover its financing needs through the drawdown of foreign assets, as well as through domestic and external borrowing. As such, it projected the public debt level to increase from 14.8% of GDP at end-March 2019 to 38.1% of GDP by end-March 2025. Further, it forecast the current account surplus to decline from 13.2% of GDP in 2018 to 4.9% of GDP in 2019, and expected it to remain broadly balanced over the medium term. The Fund indicated that downside risks to the growth outlook include lower-than-anticipated oil prices, tighter global financial conditions, heightened security and geopolitical tensions, as well as delays in the implementation of reforms.

Source: International Monetary Fund

## JORDAN

### Favorable outlook despite persisting challenges

The International Monetary Fund indicated that Jordanian authorities have continued to implement policies and reforms under the IMF program, in order to preserve macroeconomic stability and support higher economic growth. It noted that exports increased in 2018, supported by the re-opening of the border with Iraq, while activity in the tourism sector improved significantly and lending to the private sector grew at solid rates last year. However, it said that external financing conditions were less favorable, amid a significant slowdown in FDI inflows and some capital outflows in 2018. Further, it indicated that real GDP growth reached about 2% last year, while the inflation rate remained relatively stable at below 4% at the end of 2018. It added that the country's subdued growth and investments were insufficient to generate additional jobs, with the unemployment rate reaching about 18%. Still, it noted that Jordan's economic outlook is favorable despite the persistent challenges. It said that risks to the outlook are mainly related to tighter and more volatile global financing conditions, as well as to elevated external vulnerabilities. As such, the Fund indicated that it reached an agreement with Jordanian authorities on policies and reforms for 2019, including fiscal and structural reforms. It added that the fiscal policy this year will focus on narrowing the fiscal deficit from 4% of GDP in 2018 to 2.5% of GDP in 2019, mainly through the introduction of a new income tax law, the strengthening of tax administration and the control of public spending.

Source: International Monetary Fund

## PAKISTAN

### Sovereign ratings downgraded to 'B-' on external and fiscal risks

S&P Global Ratings downgraded Pakistan's long-term sovereign credit ratings from 'B' to 'B-', with a 'stable' outlook. It attributed the downgrade to its expectations of subdued economic growth and heightened external and fiscal risks, amid an ongoing deterioration in the country's macroeconomic settings. It expected real GDP growth to decline from 5.8% in 2018 to 4% in 2019 and to average 3.5% annually in the 2020-21 period. It projected the fiscal deficit at 6% of GDP in 2019 and 5.5% of GDP in 2020, and for the current account deficit to reach 5.1% of GDP this year and 4.7% of GDP next year. Also, it anticipated the government's debt level at 72.5% of GDP at end-2019 and 73.2% of GDP at end-2020. It considered that the ratings are constrained by a narrow tax base, very low income level, inadequate infrastructure, as well as by domestic and external security risks. It expected fiscal consolidation to be challenging as the economy slows down, and as the stimulus from the China-Pakistan Economic Corridor investment fades. In parallel, Moody's Investors Service indicated that the second mini-budget announced in January 2019 focuses on revenue-based measures to improve supply-side conditions for businesses and to encourage domestic reinvestment. It noted that the planned measures will help narrow the current account deficit by fostering exports and import substitution, but that they could keep Pakistan's budget deficits wide in the absence of new spending cuts or revenue-raising measures. Further, it expected the current account deficit to narrow in coming years but to remain sizable and larger than the deficit registered during the 2013-16 period.

Source: S&P Global Ratings, Moody's Investors Service

## ALGERIA

### Hydrocarbon sector to weigh on growth in 2019

Algeria's National Office of Statistics indicated that real GDP growth decelerate to 0.8% in the third quarter of 2018 from 1.2% in the first quarter and 1.1% in the second quarter of 2018. The slowdown in activity was due to lower hydrocarbon output. In fact, hydrocarbon sector activity shrank by 9.3% in the third quarter of 2018, relative to contractions of 2.4% in first three months of the year and 8.2% in the second quarter of 2018. Further, growth in the non-hydrocarbon sector reached 3.3% in the third quarter of 2018, unchanged from the previous quarter, but up from a growth rate of 2% in the first three months of 2018. Non-hydrocarbon sector activity in the third quarter of 2018 was supported by the construction and industrial sectors, despite the slowdown in agricultural output and in activity in the transportation sector. Based on the newly-issued quarterly figures, IHS Markit revised downward its estimate for Algeria's real GDP growth for the fourth quarter of 2018 and for full year 2018, as it expected the hydrocarbon sector to continue to be a drag on overall economic activity. As a result, it estimated real GDP growth at 1% in full year 2018, supported by the non-hydrocarbon sector. It forecast economic activity to expand by 1.5% in 2019 due to the underperformance of the hydrocarbon sector in the context of the Organization of the Petroleum Exporting Countries' agreement to cut hydrocarbon production.

Source: National Office of Statistics, IHS Markit

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# BANKING

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## GCC

### **Banks' net interest margins dependent on pace of U.S. rate hikes**

Goldman Sachs considered that banks in the Gulf Cooperation Council (GCC) region are among the best positioned in emerging markets to manage higher U.S. interest rates, given that their local monetary policy remains broadly aligned with their U.S. counterpart. It noted that interbank rates in the GCC increased significantly during 2018, with the average interbank rate growing by an average of 55 basis points last year. However, it revised downward its forecast for the number of U.S. interest rate hikes this year from four to two. As such, it anticipated that a slowdown in the pace of increase in global rates would likely limit the expansion of the net interest margins of GCC banks in the short- to medium term. It expected the banks' net interest margins to expand by nine basis points on average in 2019, driven by hikes that already occurred, while it anticipated a contraction in net interest margins in 2020 as the pace of interest rate hikes slows down. In parallel, it noted that lower interest rates could reduce the pressure on GCC economies, given that higher local rates have been driven by the increase in global interest rates. Further, it said that lower interest rates would limit the shift from current and saving accounts (CASA) to time deposits, which could reduce the cost of funding. It added that the expansion of the banks' net interest margins was mainly driven by access to low-cost CASA funding. Further, Goldman Sachs expected loan growth to be muted in GCC countries given the weakness in the consumer and real estate sectors. It also anticipated asset growth to remain subdued in the context of higher interest rates and relatively weak oil prices.

*Source: Goldman Sachs*

## NIGERIA

### **Banking sector faces economic challenges**

S&P Global Ratings maintained Nigeria's banking sector in 'Group 10' under its Banking Industry Country Risk Assessment (BICRA), with an economic risk score of '10' and an industry risk score of '9'. The BICRA framework evaluates global banking systems based on economic and industry risks facing the banking sector, with 'Group 10' including the riskiest banking sectors. Other countries in BICRA's 'Group 10' include Belarus, Greece and Ukraine. The agency indicated that Nigeria's economic risk score reflects its "extremely high risks" in economic resilience and credit risk in the economy, as well as its "high risks" in economic imbalances. It noted that Nigeria's economy is constrained by its low level of wealth, weak growth, high reliance on the oil and gas sector as a source of foreign currency, weak governance and rule of law, as well as high credit losses in the banking sector. It forecast nominal credit growth at 5% in 2018 and at about 8% to 10% in the 2019-20 period. Further, S&P pointed out that the industry score reflects the country's "extremely high risks" in its institutional framework and in its system-wide funding, and "intermediate risks" in its competitive dynamics. It said that the industry risk assessment is based on the sector's weak regulatory oversight and moderate risk appetite, as well as on the vulnerability of the banks' funding to foreign currency outflows. S&P indicated that the trends for economic risks and industry risks are "stable". It expected the banking sector to be resilient during the next 12 months.

*Source: S&P Global Ratings*

## ANGOLA

### **Banking sector reforms are credit positive**

Fitch Ratings indicated that the recent closure of two Angolan banks by the Banco Nacional de Angola (BNA) shows that the reforms to address the weaknesses in Angola's banking system are starting to have an impact. It said that the BNA announced on January 4, 2019 that it had revoked the licenses of Banco Mais and of Banco Postal due to their failure to meet the new capital requirements. It noted that the closures were orderly, and that customers were given time to withdraw their deposits or transfer them to other banks. It expected the banks' closures to be credit positive for the Angolan banking sector, as they will eliminate the smaller and weaker banks and reduce the competitive pressure on the remaining banks. Further, it indicated that the BNA requested Angolan banks to have a paid-in capital of at least AOA7.5bn, or about \$24m, by the end of 2018, which is three times the previous minimum requirement. As a result, it noted that several banks had to increase their paid-in capital in order to comply with the new requirement. However, it noted that the new capital requirement is still considered low by international standards, and expected the sector to remain weak and fragmented in the near future. In parallel, it indicated that the capitalization level of Angolan banks is weak relative to the high country risk level, given that the banks operate almost exclusively in the domestic market and have a high proportion of their assets invested in domestic government securities. It added that the banks' loan quality is poor and asset quality metrics are volatile, while single-name loan and deposit concentrations are high, which exposes the banks to significant default and liquidity risks.

*Source: Fitch Ratings*

## MOROCCO

### **Banks need to increase capital in next five years**

The International Monetary Fund indicated that Morocco's banking sector is sound and resilient, as it expected authorities to continue to strengthen the financial sector's policy framework in line with the IMF's recommendations. It noted that the regulatory capital adequacy ratio of Moroccan banks decreased slightly from 13.8% at the end of 2017 to 13.3% at end-June 2018. However, it considered that the banks have adequate capital buffers, but it added that the adoption of the International Financial Reporting Standard (IFRS 9) in January 2018 requires the strengthening of the banks' capitalization over the next five years. Further, it pointed out that the banks' non-performing loans ratio is moderately elevated at 7.5% at end-June 2018, but it noted that provisioning levels are relatively high at 70%. It added that liquidity conditions at the banks have deteriorated, as reflected by the decline of the liquid assets-to-total assets ratio from 13.7% at end-2017 to 12.9% at end-June 2018. In parallel, the Fund indicated that risks from the banks' large credit exposures persist despite strict regulatory limits. It pointed out that the continued expansion of Moroccan banks in Africa provides diversification and profit opportunities, but is also a potential channel of risk transmission. It noted that the financial sector regulation and supervision is effective and is being upgraded in line with best international practices to reduce the macro-financial stability risks and improve the sector's resilience.

*Source: International Monetary Fund*



## Oil price outlook remains uncertain ahead of trade talks outcome

ICE Brent crude oil front-month prices traded at between \$61 per barrel (p/b) and \$63 p/b in the week to February 6, 2019. Oil prices averaged \$60 p/b in January 2019, up by 4.6% month-on-month, but down 13.1% from an average of \$69 p/b in January 2018. The month-on-month growth in oil prices is mainly due to the OPEC production cut agreement. However, oil prices have been relatively steady since mid-January due to the prevailing uncertainties about the global trade outlook, which will be strongly shaped by the outcome of the talks between the U.S. and China. Oil traders are in a wait-and-see approach, given that the deadline for the talks is March 2, 2019. The outcome of the trade talks will affect oil consumption throughout 2019, given that the threat of tariffs and the associated uncertainties would drag global economic growth. Further, oil prices were supported by a lower-than-expected increase in U.S. crude oil inventories. In fact, figures released by the U.S. Energy Information Administration show a 1.3 million barrels increase in crude oil inventories in the week to February 1, compared to expectations of a rise of 2.5 million barrels. Overall, Brent oil prices are forecast to average \$63.3 p/b in the first quarter of 2019, \$67.4 p/b in the second quarter, \$68.3 p/b in the third quarter and \$67.9 p/b in the fourth quarter of 2019. *Source: Thomson Reuters, U.S. EIA, CNBC, Byblos Research*

## Iraq's oil exports down 2% in January 2019

Iraq's crude oil exports totaled 113.1 million barrels in January 2019, constituting a decrease of 2.1% from 115.5 million barrels in December 2018. Oil exports amounted to 3.65 million barrels per day (b/d) in January 2019, nearly unchanged from 3.7 million b/d in the previous month. Crude oil exports that originated from the country's central and southern fields reached 110.2 million barrels, or 97.5% of the total, in January, followed by shipments from the Kirkuk fields with 2.3 million barrels (2.1%) and those from the northern Qayara oil field with 550,775 barrels (0.5%). Iraq's oil export receipts were \$6.35bn in January 2019, up by 1.9% from \$6.2bn in December 2018. *Source: Iraq Ministry of Oil, Byblos Research*

## Nigeria's oil receipts up 59% to \$4.6bn in first 10 months of 2018

Nigeria's crude oil and condensate export receipts totaled \$4.6bn in the first 10 months of 2018, up by 59% from \$2.9bn in the same period of 2017. Export revenues in the first 10 months of 2018 consisted of \$3.4bn from crude oil exports (72.6%), \$1.1bn from gas exports (24%) and \$155.6m in other receipts (3.4%). The authorities transferred \$204m of total hydrocarbon revenues in October 2018 to the Federation Account, while they used \$436.4m to pay global oil companies. *Source: Nigerian National Petroleum Corporation*

## Stable outlook for global steel sector in 2019

Fitch Ratings considered that the outlook on the global steel sector for 2019 is stable. It anticipated winter-related supply cuts to continue to limit Chinese exports, which it forecast at 75 million tons annually in the long term, and expected Chinese domestic demand for steel to ease amid a slowdown in property sales and a subdued automotive sector. Further, it noted that the European steel market would face slower demand from the automotive, construction and mechanical engineering sectors in 2019. *Source: Fitch Ratings*

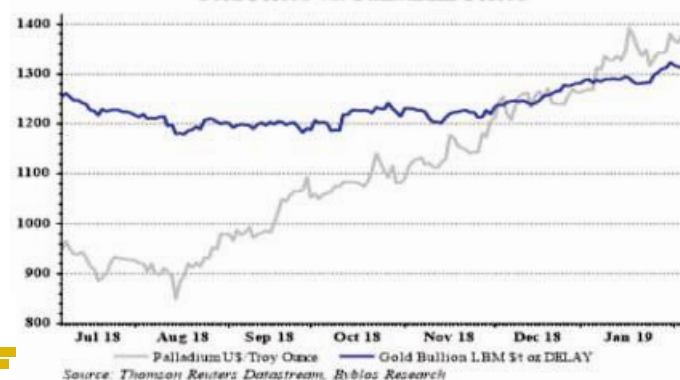
## Base Metals: Zinc prices increase to seven-month high

LME zinc 3-month future prices reached \$2,801 per ton on February 4, 2019, constituting an increase of 13.5% from \$2,467 per ton at the end of 2018, and reaching their highest level in seven months. The rally in prices was mainly driven by concerns about tight supply in the zinc market amid environmental constraints and delays for new capacity to come online in the world's top producer China. In fact, LME zinc stocks currently stand at 111,775 tons, their lowest level since 2008. In addition, China's production of refined zinc fell by 4.6% in 2018, its steepest decline in output since 2013, due to the relocation of the country's largest producer. Zinc prices were also supported by the U.S. Federal Reserve's decision to ease the pace of interest rate hikes, as well as by signs of easing trade disputes between the U.S. and China as talks between the two parties have been progressing. In parallel, the zinc market is projected to post a deficit of 72,000 tons in 2019. This would constitute the fourth consecutive year of supply deficits, and would effectively offset the surplus of zinc accumulated during the 2007-12 period. *Source: International Lead and Zinc Study Group, Thomson Reuters, Byblos Research*

## Precious Metals: Palladium prices to moderate by 2020

Palladium prices averaged \$1,328.3 per ounce in January 2019, up by 6.5% from an average of \$1,246.9 an ounce in December 2018 and by 21.6% from \$1,092.8 per ounce in January 2017. Also, prices are expected to increase from an average of \$1,400 an ounce in the first quarter of 2019 to \$1,500 per ounce in the second and third quarters of the year, due to a continued production deficit in the palladium market that is projected at 1.5 million ounces in 2019. However, the rally in prices is anticipated to stall in the medium term, as prices are forecast to moderate to an average of \$1,300 per ounce in the fourth quarter of 2019 and to an average of \$1,150 an ounce in 2020, due to an anticipated weakening in the automotive market that could prompt investors, who have helped drive prices higher, to exit their positions. Car sales in China fell in 2018 for the first time in 30 years, while automotive sales in the United States and Europe are weakening amid fears of a global economic slowdown. In addition, downside risks to the palladium price outlook could arise from increased demand for electric vehicles, which do not require palladium- or platinum-based catalytic converters. But the widespread adoption of electric vehicles is expected to materialize and to weigh on palladium demand only gradually in the next decade. *Source: Citi Research, Thomson Reuters, Byblos Research*

Gold Prices vs. Palladium Prices





# 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	-	-	-	-	BB+	-6.1	32.9*	2.1	-	-	-	-9	-
	-	-	-	-	Negative								
Angola	B-	B3	B	-	B-	-0.8	80.5	42.1**	50.5	26.7	102.2	-2.1	1
	Stable	Stable	Stable	-	Stable								
Egypt	B	B3	B	B+	B+	-9.3	92.5	35.8	51.8	45	115.4	-2.6	3
	Stable	Positive	Positive	Stable	Positive								
Ethiopia	B	B1	B	-	B+	-3.7	59.5	30.5**	27.2	3.6	146.2	-6.2	4.1
	Stable	Stable	Stable	-	Stable								
Ghana	B	B3	B	-	BB-	-6	71.2	34.5**	38.9	31.9	121.8	-4.1	6
	Stable	Stable	Stable	-	Stable								
Ivory Coast	-	Ba3	B+	-	B+	-3.8	48.8	33.5**	-	-	-	-4.6	-
	-	Stable	Stable	-	Stable								
Libya	-	-	B	-	B-	-25.1	112.1	-	-	-	-	-1.5	-
	-	-	Stable	-	Stable								
Dem Rep Congo	CCC+	B3	-	-	CCC	-0.6	16.2	12.9**	4.4	3	104.1	0	2.8
	Stable	Negative	-	-	Stable								
Morocco	BBB-	Ba1	BBB-	-	BBB	-3.2	64.4*	34.6	30.6	7.4	93	-4.3	2.1
	Negative	Stable	Stable	-	Stable								
Nigeria	B	B2	B+	-	BB-	-5.1	24.8	8.2**	67.6	22.8	104.2	2	0.7
	Stable	Stable	Stable	-	Stable								
Sudan	-	-	-	-	CC	-4.1	167.5	166.6	-	-	-	-14.2	-
	-	-	-	-	Negative								
Tunisia	-	B2	B+	-	BB-	-5.2	70.5	82.6	-	-	-	-9.6	-
	-	Negative	Negative	-	Negative								
Burkina Faso	B	-	-	-	B+	-5.1	41.2	23.7**	21	4.6	145.4	-8.6	2.8
	Stable	-	-	-	Stable								
Rwanda	B	B2	B+	-	B+	-2	42.6	38.4**	13.2	5.1	102.8	-8.9	2.9
	Positive	Stable	Stable	-	Stable								
<b>Middle East</b>													
Bahrain	B+	B2	BB-	BB	BB+	-8.9	88.4	169.4	201.7	22.3	327.6	-2.5	0.4
	Stable	Stable	Stable	Stable	Stable								
Iran	-	-	-	B+	BB-	-3.2	44.2	2.1	-	-	-	1.3	-
	-	-	-	Negative	Negative								
Iraq	B-	Caa1	B-	-	CC+	5.6	51.8	32.5	3.7	2.2	100.9	6.9	1.0
	Stable	Stable	Stable	-	Stable								
Jordan	B+	B1	-	BB-	BB+	-2.9	96.0	70.1	63.6	9.4	151.0	-9.6	4.5
	Stable	Stable	-	Negative	Stable								
Kuwait	AA	Aa2	AA	AA-	AA-	11.6	18.8	41.3	32.8	0.55	87.9	11.3	-5.5
	Stable	Stable	Stable	Stable	Stable								
Lebanon	B-	Caa1	B-	B	B-	-9.7	150.0	183.3	136.8	50.1	136.2	-25.6	2.8
	Stable	Stable	Negative	Negative	Stable								
Oman	BB	Baa3	BB+	BBB	BBB	-2.0	48.7	80.7	44.9	4.5	140.3	-3.3	1.5
	Stable	Negative	Stable	Negative	Stable								
Qatar	AA-	Aa3	AA-	AA-	A+	3.6	53.4	84.6	60.9	3.4	173.9	4.8	-1.0
	Stable	Stable	Stable	Stable	Stable								
Saudi Arabia	A-	A1	A+	A+	AA-	-4.6	19.4	27.6	8.0	1.2	36.9	8.4	0.3
	Stable	Stable	Stable	Stable	Stable								
Syria	-	-	-	-	C	-	-	-	-	-	-	-	-
	-	-	-	-	Stable								
UAE	-	Aa2	-	AA-	AA-	0.6	17.8	54.9	-	-	-	7.2	-0.8
	-	Stable	-	Stable	Stable								
Yemen	-	-	-	-	CC	-10.7	62.5	19.4	-	-	-	-9.3	-
	-	-	-	-	Negative								



# 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	-	B1	B+	-	B-	-2.7	52.5	82.8	-	-	-	-3.8	-
	-	Positive	Positive	-	Stable								
China	A+	A1	A+	-	A	-4.1	50.1	-	40.0	2.1	64.2	0.7	0.8
	Stable	Stable	Stable	-	Stable								
India	BBB-	Baa2	BBB-	-	BBB	-6.6	69.6	-	39.5	19.4	90.7	-3.0	1.6
	Stable	Stable	Stable	-	Stable								
Kazakhstan	BBB-	Baa3	BBB	-	BBB	1.4	17.8	-	25.7	4.7	87.4	-0.2	1.5
	Stable	Stable	Stable	-	Stable								
<b>Central &amp; Eastern Europe</b>													
Bulgaria	BBB-	Baa2	BBB	-	BBB	-0.9	23.3	-	26.0	2.0	100.8	2.4	1.9
	Positive	Stable	Stable	-	Stable								
Romania	BBB-	Baa3	BBB-	-	BBB-	-3.6	37.2	-	25.8	4.2	95.1	-3.5	2.4
	Stable	Stable	Stable	-	Stable								
Russia	BBB-	Ba1	BBB-	-	BBB-	1.6	15.3	-	17.2	2.6	57.4	6.2	-1.3
	Stable	Positive	Positive	-	Stable								
Turkey	B+	Ba3	BB	BB-	B+	-4.0	32.3	-	84.3	5.9	176.4	-5.7	1.0
	Stable	Negative	Negative	Negative	Negative								
Ukraine	B-	Caa2	B-	-	B-	-2.5	70.5	-	59.3	9.3	129.2	-3.1	1.0
	Stable	Positive	Stable	-	Stable								

\* Central Government

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

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





## SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	2.25-2.50	30-Jan-19	No change	20-Mar-19
Eurozone	Refi Rate	0.00	24-Jan-19	No change	07-Mar-19
UK	Bank Rate	0.75	07-Feb-19	No change	21-Mar-19
Japan	O/N Call Rate	-0.10	23-Jan-19	No change	15-Mar-19
Australia	Cash Rate	1.50	05-Feb-18	No change	05-Mar-19
New Zealand	Cash Rate	1.75	07-Nov-18	No change	13-Feb-19
Switzerland	3 month Libor target	-1.25-(-0.25)	13-Dec-18	No change	21-Mar-19
Canada	Overnight rate	1.75	09-Jan-19	No change	06-Mar-19
<b>Emerging Markets</b>					
China	One-year lending rate	4.35	17-Dec-15	Cut 25bps	N/A
Hong Kong	Base Rate	2.75	20-Dec-18	Raised 25bps	N/A
Taiwan	Discount Rate	1.375	20-Dec-18	No change	21-Mar-19
South Korea	Base Rate	1.75	24-Jan-19	No change	28-Feb-19
Malaysia	O/N Policy Rate	3.25	24-Jan-19	No change	05-Mar-19
Thailand	1D Repo	1.75	06-Feb-19	No change	20-Mar-19
India	Reverse repo rate	6.25	07-Feb-19	Cut 25bps	04-Apr-19
UAE	Repo rate	2.75	19-Dec-18	Raised 25bps	N/A
Saudi Arabia	Repo rate	3.00	19-Dec-18	Raised 25bps	N/A
Egypt	Overnight Deposit	16.75	27-Dec-18	No change	14-Feb-19
Turkey	Repo Rate	24.0	16-Jan-19	No change	06-Mar-19
South Africa	Repo rate	6.75	17-Jan-19	No change	28-Mar-19
Kenya	Central Bank Rate	9.00	28-Jan-19	No change	N/A
Nigeria	Monetary Policy Rate	14.00	22-Jan-19	No change	26-Mar-19
Ghana	Prime Rate	16.00	28-Jan-19	Cut 100bps	25-Mar-19
Angola	Base rate	15.75	28-Jan-19	Cut 75bps	28-Mar-19
Mexico	Target Rate	8.25	20-Dec-18	Raised 25bps	07-Feb-19
Brazil	Selic Rate	6.50	06-Feb-19	No change	20-Mar-19
Armenia	Refi Rate	5.75	29-Jan-19	Cut 25bps	12-Mar-19
Romania	Policy Rate	2.50	07-Feb-19	No change	N/A
Bulgaria	Base Interest	0.00	01-Feb-19	No change	01-Mar-19
Kazakhstan	Repo Rate	9.25	14-Jan-19	No change	04-Mar-19
Ukraine	Discount Rate	18.00	31-Jan-19	No change	14-Mar-19
Russia	Refi Rate	7.75	14-Dec-18	Raised 25bps	08-Feb-19



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