

## COUNTRY RISK WEEKLY BULLETIN

## NEWS HEADLINES

## AFRICA

**Sovereign borrowing from commercial sources projected at \$55bn in 2019**

S&P Global Ratings projected the aggregate long-term sovereign borrowing from commercial sources by the 18 countries that it rates in Sub-Saharan Africa (SSA) at \$55bn in 2019, which would constitute a decline of 15.5% from \$65bn in 2018. South Africa is forecast to account for 30% of commercial long-term borrowing in 2019, followed by Angola (20.8%), Nigeria (16.9%), Kenya (11.3%), Ghana (4.9%) and Senegal (4.4%). S&P said that \$26bn, or about 47.3% of total sovereign borrowing, would be used to re-finance maturing long-term debt, which would result in net commercial borrowing requirements of \$29bn in 2019. In parallel, it expected the total sovereign commercial debt stock of the 18 countries to increase from \$420bn at end-2018 to \$446bn at the end of 2019, and to consist of \$56bn in short-term debt and of \$390bn in medium- and long-term debt. South Africa would account for 46% of the commercial debt stock at end-2019, followed by Nigeria (12.9%), Angola (12.7%), Kenya (7.7%) and Ghana (5.7%). Further, gross long-term sovereign commercial borrowing would be equivalent to 4.1% of the aggregate GDP of the 18 economies this year, while their commercial debt stock would be equivalent to 33.2% of their GDP. S&P expected the pace of Eurobond issuance to moderate in 2019 amid tighter financing conditions.

Source: S&P Global Ratings

## GCC

**Fixed income issuance down 19% to \$18bn in first two months of 2019**

Total fixed income issuance in Gulf Cooperation Council (GCC) countries reached \$17.8bn in the first two months of 2019, down by 19.1% from \$22bn in the same period of 2018. Aggregate fixed income in the first two months of 2019 included \$8.9bn in sovereign bonds, or 50% of the total, followed by sovereign sukuk at \$5bn (28.1%), corporate bond issuance at \$2.2bn (12.4%), and corporate sukuk at \$1.7bn (9.6%). Aggregate bonds and sukuk issued by GCC sovereigns reached \$13.9bn, or 78.1% of total fixed income issuance in the region in the first two months of the year, while bonds and sukuk issued by corporates in the GCC amounted to \$3.9bn or 21.9% of the total. On a monthly basis, GCC sovereigns issued \$12bn in bonds and sukuk in January and \$1.9bn in February 2019. In parallel, corporates in the GCC issued \$1.7bn in bonds and sukuk in January and \$2.2bn in February 2019. Saudi Arabia was the only sovereign to issue fixed income securities in February 2019, as it issued \$1.9bn in sovereign sukuk, equivalent to 46.3% of total fixed income issuance in the GCC region in the same month. In parallel, UAE firms accounted for the bulk of corporate bond issuances in February 2019. The seven largest corporate bond issuances in February 2019 included one issuance by Mashreqbank for \$500m, three issuances by Emirates NBD for a total of \$259.3m, two issuances by First Abu Dhabi Bank for a total of \$157.9m and one issue by Qatar's AKCB Finance for \$50m. Also, Bahrain's Mumtalakat Holding Company and Saudi Real Estate issued \$600m and \$133.3m, respectively, in corporate sukuk in February 2019.

Source: KAMCO

## MENA

**Stock markets up 5% in first two months of 2019**

Arab stock markets improved by 5.4% and Gulf Cooperation Council equity markets increased by 5.6% in the first two months of 2019, relative to expansions of 2.9% and 2.5%, respectively, in the same period of 2018. In comparison, global stocks grew by 10.6% and emerging markets equities increased by 8.4% in the first two months of 2019. Activity on the Egyptian Exchange jumped by 13.6% in the covered period, the Saudi Stock Exchange rose by 8.5%, the Bahrain Bourse expanded by 5.6%, the Abu Dhabi Securities Exchange improved by 4.5%, the Amman Stock Exchange grew by 4.4%, the Dubai Financial Market increased by 4.2%, the Palestine Exchange rose by 2.2%, the Khartoum Stock Exchange expanded by 1%, and the Boursa Kuwait grew by 0.7%. In contrast, activity on the Iraq Stock Exchange decreased by 8.8% in the first two months of 2019, the Beirut Stock Exchange declined by 7.5%, the Muscat Securities Market retreated by 4.1%, the Tunis Bourse dropped by 2.2%, the Casablanca Stock Exchange regressed by 2%, the Qatar Stock Exchange contracted by 1.8%, and the Damascus Securities Exchange declined by 0.1%. In parallel, activity on the Tehran Stock Exchange improved by 2.4% in the first two months of 2019.

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

**M&A deals at \$16bn in first two months of 2019**

Figures issued by Bureau Van Dijk and Zephyr show that there were 85 merger & acquisition (M&A) deals targeting companies in the Middle East & North Africa (MENA) region for a total of \$16bn in the first two months of 2019. In comparison, there were 103 M&A deals worth \$3.2bn in the first two months of 2018. The figures show a decline of 17.5% in the volume of deals and a rise of 4.9 times in their amount year-on-year in the covered period. On a monthly basis, M&A deals fell significantly from \$15.4bn in January 2019, the highest monthly level since July 2016, to \$545m in February, the lowest monthly level since July 2017, due to the lack of high-value deals. In contrast, the number of transactions grew from 39 deals in January to 46 transactions in February 2019, with deals announced in February having a value of less than \$200m each. The amount of M&A transactions in the UAE reached \$7.4bn in the first two months of the year, which accounted for 46.6% of the region's aggregate deal value. Bahrain followed with M&A deals of \$6.7bn (42.1%), then Kuwait with \$1.2bn (7.4%), Saudi Arabia with \$306m (1.9%), Qatar with \$177m (1.1%), Egypt with \$120m (0.8%), and Iran with \$7m. In volume terms, Egypt had 18 M&A deals in the covered period, followed by Iran with 17 transactions, the UAE with 15 deals, Saudi Arabia with 11 transactions, Kuwait with 10 deals, Oman with seven transactions and Bahrain with three deals, while the remaining deals were in four other MENA countries.

Source: Zephyr, Bureau Van Dijk, Byblos Research

# POLITICAL RISK OVERVIEW - February 2019

## ALGERIA

President Abdelaziz Bouteflika announced that he will run for a fifth term in the April 2019 presidential elections, despite his poor health condition. The ruling National Liberation Front party declared its support for the President. Bouteflika's announcement triggered a wave of protests across the country and in France. In addition, authorities barred opposition figure and potential presidential candidate Rachid Nekkas from holding a rally for his supporters in Khenchela city, which triggered further protests. Several leaders from opposition parties failed to agree on a joint candidate to face Bouteflika in the elections.

## DEM REP CONGO

Security conditions slightly improved following the presidential elections. New President Felix Tshisekedi started to fill key positions in the presidential office, while he has yet to replace the current Cabinet. Former President Joseph Kabila's alliance maintained its majority in Parliament. President Tshisekedi attended the 32<sup>nd</sup> African Union Heads of State and Government Summit, and requested that the head of the EU delegation to the DRC returns to Kinshasa. Opposition leader Martin Fayulu, who was the runner-up in the presidential poll, continued to reject the vote, asked the international community not to recognize the results and called for peaceful demonstrations across the country.

## IRAN

The rift between the U.S. and Europe about the Iranian nuclear deal widened, as the U.S. urged European countries at the Munich Security Conference to stop undermining U.S. sanctions and to withdraw from the nuclear deal. The U.S. and Poland chaired a ministerial meeting in Warsaw that focused on countering Iran's policies in the region. President Hassan Rouhani insisted on Iran's right to develop its defense capabilities, while Supreme Leader Khamenei counselled against trusting European governments and negotiating with the United States. President Rouhani rejected the resignation of Minister of Foreign Affairs Javad Zarif. Sunni militant group Jaish al-Adl claimed a suicide attack against a vehicle of the Islamic Revolutionary Guards, while the government accused Pakistan of sheltering the militant group.

## IRAQ

U.S. President Donald Trump indicated that the U.S. will keep its military presence in Iraq to monitor Iran's activity, provoking criticism from President Barham Salih. In a surprise visit to Iraq, acting U.S. Secretary of Defense Patrick Shanahan stated that counterterrorism objectives guide the U.S.-Iraqi partnership. Members of Parliament from the Sayirun alliance and the Iran-backed al-Fatah coalition proposed a draft legislation that ends the agreements governing the presence of U.S. troops in Iraq. Prime Minister Adil Abdul-Mahdi opposed the legislation. Parliament passed the federal budget for 2019, signaling improved relations between Baghdad and the Kurdistan Regional Government. IS-related insecurity continued across the country.

## LIBYA

The Libyan National Army (LNA) continued to expand its control over the south of the country. The LNA clashed with local Tebu non-Arab armed groups near the oasis towns of Ghadduwah and Murzuq. The LNA announced that it took over the al-Feel oil field near Murzuq, as well as the Sharara oil field west of Sebha. The LNA also claimed victory against armed militias known as the Derna Protection Force in the port city of Derna. In response to the advances made by the LNA, the Tripoli-based Government of National Accord (GNA) appointed several military personnel. The GNA also indicated that it conducted, along with U.S. forces, airstrikes on an al-Qaeda camp in the country's southwest, killing four militants.

## NIGERIA

President Muhammadu Buhari was re-elected on February 23, 2019, and received 56% of the votes. However, his main competitor and runner-up in the elections, Atiku Abubakar, rejected the results and vowed to go to court to contest them. Violence intensified ahead of the general elections, leading to 40 deaths, which increased risks of further violence ahead of the gubernatorial elections in March 2019. In addition, ethnic violence erupted in the northwestern Kaduna state between Fulani herders and Adara farmers, killing about 160 people.

## SUDAN

President Omar al-Bashir declared a nationwide state of emergency, following sustained protests that began in December 2018. He also extended the power of government security forces, raising the risk of a more violent crackdown against protesters. The President dissolved the Cabinet and replaced all provincial governors with senior army and intelligence officials. This contradicted the previous announcement of intelligence chief Salah Gosh that the President would step down as the head of the ruling party and would end attempts to modify the constitution in order to run in the 2020 presidential elections. The Special Assistant to the U.S. President stated that the U.S. could propose a resolution to defer President al-Bashir's case at the International Criminal Court, in case he agrees to step down.

## SYRIA

The Salvation Government established by Jihadist group Hei'at Tahrir al-Sham called for the election of a Shura council to replace the Salvation Government, and to create a military council that includes all of Idlib's armed factions. Regime forces shelled opposition areas in Idlib and rejected a proposed Kurdish autonomy in the northeast. The U.S. indicated that 400 U.S. troops will stay in Syria to set up a safe zone, while Turkey stressed that the proposed safe zone should be under Turkish control. In the east, the Syrian Democratic Forces attacked the Islamic State militants' last territory in Baghouz near the Iraqi border.

## TURKEY

Turkish military airstrikes continued on the militant positions of the Kurdistan Workers' Party (PKK) in northern Iraq. The government also intensified its crackdown on PKK sympathizers ahead of the municipal elections on March 31<sup>st</sup>, 2019. President Recep El Tayep Erdoğan criticized the U.S. for delays in the withdrawal of the Kurdish People's Protection Units from the Syrian city of Manbij. Talks between Turkey, Russia and Iran signaled a possible joint operation against jihadist alliance Hei'at Tahrir al-Sham in Syria.

## YEMEN

The Redeployment Coordination Committee that consists of the United Nations, the Hadi government and Houthi rebels, reached a deal on the first phase of redeployment of Houthi rebels and forces loyal to President Abdrabbuh Mansour Hadi from the city of Hodeida. The first phase stipulates that the opposing parties must withdraw from the ports of Hodeidah, Saleef and Ras Isa. The World Food Program regained access to the Red Sea Mills, a major wheat facility near Hodeida, as fighting in the area eased. In contrast, fighting intensified on the Yemen-Saudi border between forces loyal to President Hadi and the Houthi rebels in Hajja, Saada and al-Jawf governorates. The newly-appointed Head of the Supreme Commission for Elections and Referendum announced plans to hold elections to fill vacant seats in the parliament. The U.S. House of Representatives adopted a resolution that aims to end U.S. support for the Saudi-led coalition.

Source: *International Crisis Group, Newswires*

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# OUTLOOK

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## MENA

### Growth prospects vary among oil exporters

The Institute of International Finance indicated that economic prospects vary among the nine oil-exporting economies in the Middle East & North Africa (MENA) region. It projected real GDP growth in the six Gulf Cooperation Council (GCC) countries to decline from about 2.3% in 2018 to 1.8% in 2019, due to compliance with the OPEC production cut agreement and to relatively lower global oil prices. However, it expected non-hydrocarbon sector growth in the GCC to accelerate from 2.7% in 2018 to 3.3% in 2019, driven by stronger domestic demand amid fiscal expansion and improving confidence. It added that tight global financial conditions and geopolitical tensions continue to weigh on private sector activity in the GCC. Further, it forecast growth in Iraq to rise from 2.3% in 2018 to 4% in 2019, supported by post-war reconstruction, while it anticipated Iran's economy to contract by about 3% in the fiscal year ending in March 2020 due to a sharp decline in oil exports and the depreciation of the Iranian rial from the re-imposition of U.S. sanctions. It said that downside risks to the outlook of the region's oil exporters include lower-than-anticipated global oil prices, slower implementation of reforms, and the collapse of the nuclear deal with Iran.

In parallel, the IIF expected the fiscal balance in most of the region's oil exporters to deteriorate in 2019, mostly due to lower hydrocarbon revenues and rising public spending. It forecast the GCC's aggregate fiscal deficit to widen from 1.5% of GDP in 2018 to 4% of GDP in 2019. However, it anticipated governments to comfortably finance their fiscal needs through external and domestic debt issuances, which would increase their debt levels. Further, it projected the aggregate current account surplus of the region's oil exporters to decline from \$172bn, or 7.3% of GDP, in 2018 to \$60bn, or 2.5% of GDP, in 2019 due to lower oil export receipts. It noted that external pressures persist in Algeria, Bahrain and Oman, given their wide fiscal and current account deficits and declining foreign currency reserves.

*Source: Institute of International Finance*

## ANGOLA

### Prevailing macroeconomic imbalances to constrain fast economic recovery

BNP Paribas indicated that the Angolan government has implemented significant reforms since late 2017 to improve the country's financial sector transparency, enhance the efficiency of state-owned entities (SOEs), liberalize the foreign exchange regime and improve the business climate. It added that the government's agenda focuses on anti-corruption and economic reforms to attract new investments and boost potential growth. Also, it said that the IMF financing package will help implement structural reforms to diversify the economy by fostering private sector development, and will ease the pressure on foreign currency liquidity in the near term. However, it noted that Angola still faces several challenges despite the government's positive shift in economic policy, such as currency depreciation, sustained pressure on foreign currency liquidity, a rising government debt level, the erosion of household purchasing power, as well as the difficulties facing the banking sector. As such, it expected Angola's near-term economic recovery to be very gradual due to the persistence of major macroeconomic imbalances.

It projected real GDP growth to shift to positive territory in 2019 relative to a contraction of about 3% in 2018, due to financial support from the IMF, the stabilization of oil production this year, as well as resilient non-hydrocarbon sector activity. In parallel, it noted that the average inflation rate reached 18.2% in 2018 and expected it to remain much higher than the monetary authorities' inflation target rate of between 7% to 9%.

Further, BNP Paribas indicated that the authorities made notable progress in narrowing the fiscal deficit from 6.3% of GDP in 2017 to 0.5% of GDP in 2018. However, it anticipated the government to miss its fiscal surplus target of 1.4% of GDP in 2019 due to its expectations of weaker oil prices and slower currency depreciation this year. Also, it estimated that the public debt level exceeded 73% of GDP at the end of 2018 due to the significant depreciation of the currency, given that 80% of the public debt is denominated in foreign currency. Further, it expected the current account balance to shift from a surplus of 1.9% of GDP in 2018 to a deficit of 1.9% of GDP in 2019.

*Source: BNP Paribas*

## ALGERIA

### Lack of structural reforms limits growth prospects

The Institute of International Finance estimated Algeria's real GDP growth to have accelerated from 1.4% in 2017 to 2.8% in 2018, supported by increased government spending. It projected growth at 2.7% in 2019, as public spending will remain high ahead of the upcoming national elections in April 2019. It anticipated non-hydrocarbon growth to decline from 3.5% in 2018 to 2.7% in 2019, while it forecast hydrocarbon output to expand by 2.8%, following a contraction of 0.3% in 2018, due to higher gas production. Still, it said that delays in bringing new gas capacity online, underinvestment in mature fields and uncertainty about reforming the hydrocarbon law, are constraining hydrocarbon output and, in turn, overall economic growth. The IIF did not expect real GDP growth to accelerate significantly in the medium term, due to mixed signals about the current administration's willingness to implement substantial reforms to empower the private sector and to remove barriers to the free flow of goods. However, it considered that the emergence of protests across the country in February 2019, following President Bouteflika's announcement that he would run for a fifth term, shows that discontent with the status quo is likely to keep rising.

In parallel, the IIF indicated that external pressures persist amid wide fiscal and current account deficits, and declining foreign currency reserves. It projected the fiscal deficit to widen from 7.4% of GDP in 2018 to 7.7% of GDP in 2019, due to lower hydrocarbon revenues and to the government's decision to maintain high subsidies and refrain from introducing new taxes, in order to prevent mass popular backlash in the run-up to the elections. It added that the deficit will be funded domestically under the amendment to the Money and Credit law that enables the government to borrow directly from Banque d'Algérie. As such, it forecast the public debt level to increase from 30% of GDP at the end of 2018 to 36.1% of GDP at end-2019. Further, it expected the current account deficit to widen from 6.8% of GDP in 2018 to 9.4% of GDP in 2019, due to lower global oil prices and higher domestic consumption. It projected foreign currency reserves to drop from \$82bn at end-2018 to \$63.5bn at the end of 2019.

*Source: Institute of International Finance*

# ECONOMY & TRADE

## OMAN

### **Sovereign ratings lowered to below investment grade**

Moody's Investors Service downgraded Oman's long-term issuer and senior unsecured bond ratings from 'Baa3' to 'Ba1', which is one notch below investment grade. It maintained the 'negative' outlook on the ratings. It attributed the downgrade to the authorities' limited scope for further fiscal consolidation in the context of weak growth. The agency pointed out that higher global oil prices during 2018 reduced the fiscal reform momentum, including delaying the introduction of special excise taxes and the value-added tax to the second half of 2019 at the earliest. It added that the 2019 budget includes few new fiscal consolidation measures, such as the sale of state assets and the standardization of municipality fees. As a result, it forecast the fiscal deficit at 7% of GDP to 11% of GDP over the next three years. It anticipated the public debt level to regress to around 60% of GDP by 2021 in case fiscal reforms are implemented as planned. Further, Moody's projected the current account deficit to narrow over the medium term, but to remain wide at between 6% of GDP and 10% of GDP, which raises the risk of external shocks. It also expected Oman to remain dependent on external financing to maintain an adequate level of foreign currency reserves. In parallel, the agency noted that the 'negative' outlook reflects the potential weakening of foreign investors' appetite to finance Oman's wide fiscal deficits at relatively low costs, which would exacerbate the sovereign's external vulnerabilities and raise the pressure on government liquidity. It forecast Oman's gross financing needs to rise from 10% of GDP in 2018 to around 14% of GDP in 2022.

*Source: Moody's Investors Service*

## TUNISIA

### **Increase in public-sector wages could jeopardize IMF-related funding**

Bank of America Merrill Lynch (BofAML) considered that the Tunisian government's agreement with the labor union on public-sector wages may jeopardize IMF-related external donor funding, which, in turn, could widen the government's financing gap and weaken its creditworthiness. It also anticipated progress on reforms to be constrained by the 2019 parliamentary and presidential elections. It pointed out that authorities estimated the total budget cost of the wage settlement at \$0.4bn, or 1% of GDP, of which \$0.2bn, or 0.6% of GDP, will affect the 2019 budget. As such, it forecast the public wage bill to increase by 4% in 2019. It indicated that the authorities are committed to maintain the 2019 budget deficit at 3.9% of GDP. It added that the government intends to finance the wage increase in 2019 through reallocating domestic energy subsidy spending, and drawing on two spending lines for unforeseen situations in the 2019 budget. But it said that the IMF is likely to express concerns about the sustainability of the government's fiscal adjustment. It noted that the conditionality of the IMF program requires authorities to avoid any wage increase in 2018 and to maintain the freeze on the nominal wage bill in 2019. As such, it anticipated the conclusion of the fifth review of the IMF program to be delayed. Still, it expected the IMF and the authorities to eventually reach an agreement in coming months on measures that would address fiscal imbalances, given Tunisia's tight external financing conditions.

*Source: Bank of America Merrill Lynch*

## ARMENIA

### **IMF program to support reform agenda**

Fitch Ratings considered that Armenia's precautionary Stand-By Arrangement with the International Monetary Fund confirms that the new government's economic priorities consist of maintaining sustainable growth, implementing fiscal consolidation measures, and mitigating external vulnerabilities. It said that technical aid from the IMF will support the government's plans to accelerate tax and spending reforms, improve the business environment, strengthen the management of public finances and public investment, and address monopolies and vested interests. Also, it noted that the IMF agreement could reinforce the credibility and predictability of the fiscal consolidation strategy, which is crucial to stabilize the country's debt dynamics and to mitigate the sovereign's relatively low external liquidity ratio. It added that the arrangement with the IMF could support investor confidence, which would ease refinancing risks, especially that a \$500m Eurobond matures in 2020. The agency said that the continuous functioning of economic institutions, such as the Central Bank of Armenia, during the political transitions in 2018 helped avoid significant economic disruptions and financial pressures, and preserved the stability of the dram. It considered that this provides the new government with a solid macroeconomic starting point for its economic policy. It added that Prime Minister Pashinyan's first government implemented several reforms in 2018, such as the last phase of the 2014 pension reform and new fiscal rules.

*Source: Fitch Ratings*

## BAHRAIN

### **Additional reforms key to fiscal sustainability and maintaining currency peg**

The International Monetary Fund indicated that economic activity in Bahrain was subdued in 2018 with an estimated real GDP growth of 1.8%. It said that hydrocarbon output grew by 1.2%, while non-hydrocarbon sector activity decelerated to 2.5% due to a slowdown in the retail, hospitality, and financial services sectors, despite growth in the construction sector. In parallel, it said that the fiscal deficit narrowed from 14.2% of GDP in 2017 to 11.7% of GDP in 2018, supported by higher oil prices, lower utility subsidies and new excise taxes. The Fund considered that the government's Fiscal Balance Program (FBP), which is underpinned by the 2019-20 budget and supported by \$10bn in funding from GCC peers, has provided a solid framework to limit the decline in fiscal and external buffers since 2014. It projected the fiscal deficit to narrow further over the medium term due to new measures implemented under the FBP, the introduction of a value-added tax, as well as subsidy reforms. However, it estimated the public debt level to have increased to 93% of GDP in 2018 and expected it to further rise in the medium term. In this context, the IMF called on authorities to implement additional reforms to ensure fiscal sustainability and maintain the currency peg to the US dollar, which continues to provide a clear and credible monetary anchor. It also encouraged the government to introduce direct taxation, such as a corporate income tax, and to contain the public-sector wage bill. Further, the Fund indicated that the current account deficit narrowed to 5.8% of GDP in 2018 and that foreign currency reserves covered about one month of non-oil imports at the end of 2018.

*Source: International Monetary Fund*



# BANKING

## JORDAN

### Construction and trade account for 43.3% of overall lending at end-2018

Figures released by the Central Bank of Jordan indicate that credit facilities extended by commercial banks in Jordan totaled JD26.1bn, or \$36.8bn, at the end of 2018, constituting an increase of 5.5% from JD24.7bn at end-2017. Credit facilities were equivalent to 87.3% of GDP in 2018 compared to 87% of GDP in 2017. Credit in foreign currency represented 11.2% of the total at the end of 2018 relative to 10.5% a year earlier. The resident private sector accounted for 88.1% of total credit at end-2018, relative to 87.9% at end-2017; followed by the central government with 7.6%, down from 8.5% at end-2017; the non-resident private sector with 2.5%, up from 2% a year earlier; and public entities with 1.6%, up from 1.4% at end-2017. The distribution of credit by sector shows that construction represented JD6.8bn or 26.2% of the total at end-2018, down from 26.7% a year earlier; while general trade accounted for JD4.5bn or 17.1% of the total, unchanged from the end of 2017. Public services & utilities followed with JD3.9bn or 14.8% of the total, then industry with JD3.1bn (11.7%); financial services with JD768.2m (2.9%); tourism, hotels & restaurants with JD592.1m (2.3%); mining with JD355.7m (1.4%); and agriculture with JD336.7m and transportation with JD328.8m (1.3% each). Further, other sectors accounted for JD5.5bn, or 21.1% of total credit, of which JD152.1m were extended to buy shares. In parallel, loans & advances reached JD17bn at end-2018, followed by Islamic banks' receivables with JD5.7bn, overdrafts with JD3.1bn, discounted bills with JD242.7m and credit cards with JD167.3m.

Source: Central Bank of Jordan, Byblos Research

## PAKISTAN

### FATF urges Pakistan to address its AML/CFT deficiencies

The Financial Action Task Force (FATF), the global standard setting body for anti-money laundering and combating the financing of terrorism (AML/CFT), indicated that Pakistan has taken since June 2018 several steps to improve its AML/CFT regime. It noted that authorities launched the integrated database for the country's currency declaration regime and reviewed the terrorist financing (TF) risk assessment. It called on authorities to continue implementing Pakistan's action plan to address its strategic deficiencies, including by adequately demonstrating a proper understanding of the TF risks posed by terrorist groups, and by conducting supervision on a risk-sensitive basis. It noted that officials should prove that remedial actions and sanctions are applied in cases of AML/CFT violations, and that authorities are identifying illegal money or value transfer services and are taking enforcement action against them. It added that authorities should improve inter-agency coordination on combating TF risks, show that law enforcement agencies are identifying and investigating TF activity, and demonstrate enforcement against violations of TF sanctions. It also called on authorities to ensure that TF prosecutions result in effective, proportionate and dissuasive sanctions, as well as to enhance the capacity and support for prosecutors and the judiciary. FATF urged Pakistan to complete the items in its action plan that should be met by the May 2019 deadline, given the limited progress it made on items that were due in January 2019.

Source: Financial Action Task Force

## TURKEY

### Banks under pressure to increase lending

Moody's Investors Service indicated that the state-owned *Turkiye Vakiflar Bankasi*, T.C. *Ziraat Bankasi* and *Turkiye Halk Bankasi* have started to participate in a government plan to provide consumer loans at rates significantly below prevailing market rates. It noted that Turkish banks have been under increasing pressure to sustain lending to the economy after credit growth declined in 2018. It added that the banking sector's non-performing loans ratio increased to its highest level since 2009 to reach 3.9% at the end of 2018. Further, it said that the Central Bank of the Republic of Turkey reduced in February 2019 the reserve requirement ratios for banks' deposits in Turkish lira, while the Ministry of Treasury and Finance urged the banks to resume lending. Overall, it considered that the banks' recent measures, along with the government's requests to sustain lending, are credit negative for Turkish banks, as they could add new risks and negatively affect the banks' profit margins. It added that lending growth requires additional funds at a time when international market access is constrained and the cost of funding has increased. In parallel, Fitch Ratings affirmed the long-term foreign-currency Issuer Default Ratings (IDRs) of *Denizbank*, *QNB Finansbank*, *Turk Ekonomi Bankasi* and *ING Bank* at 'BB-', with a 'negative' outlook. It also affirmed the banks' Viability Ratings (VRs) at 'b+'. It indicated that the banks' IDRs are driven by their potential shareholder support. It pointed out that the 'negative' outlook on the banks' IDRs reflects a similar outlook on the Turkish sovereign, while it noted that the banks' VRs show the concentration of their operations in the high-risk Turkish operating environment.

Source: Fitch Ratings, Moody's Investors Service

## MOROCCO

### Agency takes rating actions on five banks

Fitch Ratings affirmed at 'BB+' the long-term foreign- and local-currency Issuer Default Ratings (IDRs) of *Attijariwafa Bank* (AWB), *BMCE Bank* and *Crédit Immobilier et Hôtelier* (CIH). Also, it affirmed at 'AAA(mar)' the ratings of *Société Générale Marocaine de Banques* (SGMB) and *Banque Marocaine pour le Commerce et l'Industrie* (BMCI), and at 'AA-(mar)' those of AWB, *BMCE Bank* and *CIH*. It maintained the 'stable' outlook on all the banks' ratings, in line with the outlook on the sovereign. The agency noted that the IDRs of AWB and of *BMCE Bank* are driven by a moderate probability of support from the Moroccan government. It added that the ratings of *BMCI* and of *SGMB* reflect a high probability of support from the banks' respective major shareholder *BNP Paribas* and *Société Générale* (SG), while the ratings of *CIH* are underpinned by potential support from its major shareholder *Caisse des Dépôt et Gestion*. In parallel, Fitch upgraded the Viability Rating (VR) of *BMCE Bank* from 'b+' to 'bb-', due to the improvement in the bank's risk appetite, while it maintained at 'bb-' the VR of AWB and *CIH*. It pointed out that AWB's VR is supported by the bank's strong franchise, balanced business model, strong funding and liquidity profiles, robust earnings, as well as stable deposit base, but is constrained by the bank's weak asset quality and capitalization metrics.

Source: Fitch Ratings



# ENERGY / COMMODITIES

## Oil prices up 7.5% in February 2019

ICE Brent crude oil front-month prices have been trading at between \$64 per barrel (p/b) and \$66 p/b in the last two weeks. Brent oil prices averaged \$64.4 p/b in February 2019, constituting an increase of 7.5% from \$60 p/b in January 2019, and a decline of 2% from \$65.7 p/b in February 2018. Further, oil prices averaged \$62 p/b in the first two months of 2019 relative to \$67.5 p/b in the same period last year. The year-on-year decline in oil prices was mainly due to the U.S. waivers for the main importers of Iranian oil, higher U.S. oil output, and projections for slower growth in global oil demand. In contrast, the month-on-month increase in prices was mainly due to the implementation of OPEC and non-OPEC oil production cuts, the U.S. sanctions on Iran and Venezuela, as well as to the positive sentiment from improved trade talks between the U.S. and China. Still, oil prices continue to slow down due to strong growth in U.S. shale oil output, as well as to sustained build-ups in U.S. crude oil inventories. Upside risks to the price outlook include larger-than-expected cuts in Iranian and Venezuelan crude oil exports, and pipeline-related constraints in the U.S. In contrast, a rapid increase in U.S. oil output and the possibility that the OPEC deal will not be renewed could exert downward pressure on oil prices. Overall, Brent oil prices are forecast to average \$65 p/b in 2019.

Source: Institute of International Finance, Thomson Reuters

## Iraq's oil exports down 10% in February 2019

Iraq's crude oil exports totaled 101.4 million barrels in February 2019, constituting a decrease of 10.4% from 113.1 million barrels in January 2019. They averaged 3.62 million barrels per day (b/d) in February 2019, compared to 3.65 million b/d in the previous month. Crude oil exports that originated from the country's central and southern fields reached 99.1 million barrels in February, followed by shipments from the Kirkuk fields with 1.75 million barrels and those from the northern Qayara oil field with 514,236 barrels. Oil export receipts stood at \$6.2bn in February 2019, down by 3.1% from \$6.4bn in the preceding month.

Source: Iraq Ministry of Oil, Byblos Research

## Egypt's gas output to exceed 7.5 billion cubic feet per day by end-2019

Egypt's Ministry of Petroleum projected the country's gas production to increase from 6.8 billion cubic feet (bcf) per day currently to more than 7.5 bcf per day by the end of 2019, and for its natural gas exports to rise from 1.1 bcf currently to 2 bcf before end-2019. In parallel, liquefied natural gas exports from the Idku export plant reached about 520 million cubic feet per day in January 2019, compared to 300 million cubic feet per day in 2018. Egypt became self-sufficient in terms of gas production in late 2018.

Source: Thomson Reuters, Byblos Research

## Middle East's energy consumption to post a CAGR of 1.9% in 2017-40 period

The Middle East region's primary energy consumption is expected to increase by a compound annual growth rate of 1.9% between 2017 and 2040. Natural gas would constitute 51.4% of the region's energy mix in 2040, followed by oil (34.2%), renewable energy (9.5%), nuclear energy (2.7%), coal (1.7%) and hydroelectricity (0.6%). The industrial sector is expected to remain the region's main consumer of primary energy in 2040 with a share of 38%, followed by the usage of energy in buildings (33%), the transport sector (16%), and non-combusted usage (12.3%).

Source: BP, Byblos Research

## Base Metals: Nickel prices up 28% to six-month high amid recovering demand and tight supply

The LME cash price of nickel reached \$13,574 per metric ton on March 5, 2019, its highest level in six months, constituting an increase of 28% from \$10,605 per ton at the end of 2018. The rise in prices was mainly driven by expectations of a fourth consecutive year of supply deficit in the nickel market. In fact, nickel demand has been recovering, notably demand from stainless steel mills in China amid tight supply conditions. LME-registered nickel inventories have declined from about 330,000 tons a year ago to less than 197,000 tons currently, while global exchange inventories of the metal decreased by about 47% year-on-year. The supply deficit in the nickel market is projected at 33,000 tons in 2019 relative to 127,000 tons in 2018. In addition, nickel prices were supported by China's announcement of a stimulus package that included a 3% cut in the value-added tax for the manufacturing sector. Also, prices increased due to easing U.S.-China trade tensions amid the delay in the increase of U.S. tariffs on Chinese imports that was scheduled for March 1, 2019. However, the surge in prices was partly offset by a stronger U.S. dollar and rising growth concerns following China's lowering of its 2019 growth target from 6.6% last year to between 6% and 6.5% this year.

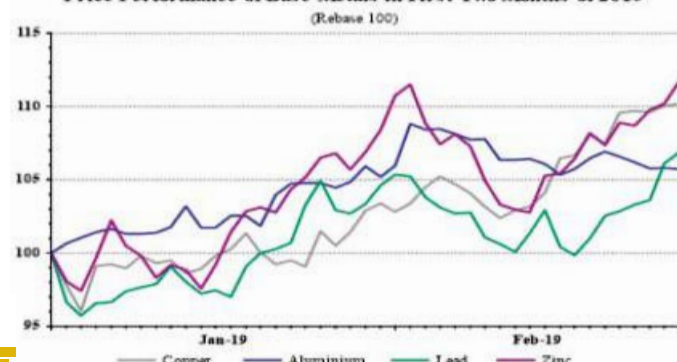
Source: International Nickel Study Group, Thomson Reuters

## Precious Metals: Production surplus in platinum market to slightly widen in 2019

The platinum market's production surplus is projected to slightly widen from 645,000 ounces in 2018 to 680,000 ounces in 2019 due to an increase in the metal's supply, which would be partly offset by a rise in platinum demand. On the consumption side, global platinum demand is projected to increase by 5% to 7.7 million ounces in 2019 due to a significant rise in investments in platinum exchange-traded funds, which would more than offset the decline in demand in the automotive and industrial sectors, as well as for jewelry and bar & coin. In this context, demand in the automotive sector is forecast to decrease by 3% in 2019, which is smaller than the 7% decline in 2018, due to a more moderate contraction of the market share of diesel cars in Western Europe. Also, demand for platinum jewelry and the usage of the metal in the industrial sector are anticipated to decrease by 1% each in 2019. On the production side, global platinum supply is expected at 8.4 million ounces in 2019, up by 5% from 2018. Also, global refined output of platinum is forecast to expand by 6% to 6.5 million ounces this year, mainly due to a 14% rise in North American supply, and a 7% increase in South African output in 2019.

Source: World Platinum Investment Council, Thomson Reuters

Price Performance of Base Metals in First Two Months of 2019



Source: Thomson Reuters Datastream, Byblos Research

# COUNTRY RISK METRICS

Countries	LT Foreign currency rating					General govt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	Short-Term External Debt by Rem. Mat./ CARs	Govt. Interest Exp./ Rev. (%)	Gross Ext. Fin. needs / (CAR + Use. Res.) (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	IHS								
<b>Africa</b>													
Algeria	-	-	-	-	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
	Negative	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-	A	-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
	Negative	Stable	Negative	Negative	Stable								
Oman	BB	Ba1	BB+	BBB-	BBB	-2.0	48.7	80.7	44.9	4.5	140.3	-3.3	1.5
	Stable	Negative	Stable	Stable	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								
Pakistan	B-	B3	B-	-	CCC	-6.5	72.5	31.5	50.1	28.3	144.3	-5.9	0.87
	Stable	Negative	Stable	-	Negative								
<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	07-Mar-19	No change	10-Apr-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-Mar-18	No change	02-Apr-19
New Zealand	Cash Rate	1.75	13-Feb-19	No change	27-Mar-19
Switzerland	3 month Libor target	-1.25(-0.25)	13-Dec-18	No change	21-Mar-19
Canada	Overnight rate	1.75	06-Mar-19	No change	24-Apr-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	28-Feb-19	No change	18-Apr-19
Malaysia	O/N Policy Rate	3.25	05-Mar-19	No change	07-May-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	15.75	14-Feb-19	Cut 100bps	28-Mar-19
Turkey	Repo Rate	24.0	06-Mar-19	No change	25-Apr-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	27-Mar-19
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	07-Feb-19	No change	28-Mar-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	02-Apr-19
Bulgaria	Base Interest	0.00	01-Mar-19	No change	01-Apr-19
Kazakhstan	Repo Rate	9.25	04-Mar-19	No change	16-Apr-19
Ukraine	Discount Rate	18.00	31-Jan-19	No change	14-Mar-19
Russia	Refi Rate	7.75	08-Feb-19	No change	22-Mar-19



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