

## COUNTRY RISK WEEKLY BULLETIN

### NEWS HEADLINES

#### EMERGING MARKETS

##### Fixed income trading up 9.3% to \$5,167bn in 2016

Trading in emerging markets (EM) debt instruments reached \$1,132bn in the fourth quarter of 2016, down by 17.9% from \$1,379bn in the preceding quarter and by 1.7% from \$1,152bn in the fourth quarter of 2015. Trading reached \$1,299bn in the first quarter of 2016 and \$1,357bn in the second quarter of the year. Turnover in local-currency instruments was \$664bn in the fourth quarter of 2016, down by 24.4% from \$878bn in the preceding quarter and by 10.3% from \$740bn in the fourth quarter of 2015. Further, trading in sovereign and corporate Eurobonds, stood at \$466bn in the fourth quarter of 2016, down by 6.4% from \$498bn in the third quarter of 2016 but up by 14.8% from \$406bn in the fourth quarter of 2015. The volume of traded sovereign Eurobonds reached \$264bn and accounted for 56.7% of total Eurobonds traded in the covered quarter, while the volume of traded corporate Eurobonds reached \$188bn or 40.3% of the total. The most frequently traded instruments in the fourth quarter of 2016 were Mexican fixed-income assets with a turnover of \$222bn, or 19.6% of the total, followed by securities from Brazil with \$132bn (11.7%), instruments from India with \$88bn (7.8%), assets from China with \$81bn (7.2%) and fixed-income securities from Poland with \$53bn (4.7%). Overall, trading in EM debt instruments totaled \$5,167bn in 2016, up by 9.3% from \$4,727bn in 2015, due to strong capital inflows to EM countries, volatility related to the Brexit vote and the recent U.S. elections, as well as other market developments in India and Argentina. However, trading volumes in 2016 remained substantially lower than the 2013 and 2014 levels, which reflects the impact of tighter regulation on the banks' ability to provide liquidity.

Source: EMTA

#### MENA

##### Stock markets down by 0.4% in first quarter of 2017

Arab stock markets regressed by a marginal 0.4% and Gulf Cooperation Council (GCC) equity markets decelerated by 0.9% in the first quarter of 2017, compared to decreases of 4.6% and 5.2%, respectively, in the same period of 2016. In comparison, global equities increased by 6.4%, while emerging market equities improved by 10.8% in the first quarter of 2017. Activity on the Damascus Securities Exchange jumped by 89.5% in the first quarter of 2017, while the Bursa Kuwait expanded by 22.3%, the Khartoum Stock Exchange increased by 15.3%, the Bahrain Bourse grew by 11.1%, the Egyptian Exchange expanded by 5.3%, the Iraq Stock Exchange improved by 4.5%, the Amman Stock Exchange appreciated by 3.7%, the Palestine Exchange increased by 1.6% and the Tunis Bourse grew by 1%. In contrast, activity on the Muscat Securities Market dropped by 4%, while the Saudi Stock Exchange declined by 2.9%, the Beirut Stock Exchange regressed by 2.6%, the Abu Dhabi Securities Exchange and the Casablanca Stock Exchange retreated by 2.3% each, the Dubai Financial Market contracted by 1.4% and the Qatar Stock Exchange decreased by 0.4%. In parallel, activity on the Tehran Stock Exchange declined by 2.4% in the first quarter of 2017.

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

##### Energy architecture in Arab countries lags global standards

The World Economic Forum ranked Morocco in first place among 16 countries in the Arab World and in 57th place globally among 127 countries on its Energy Architecture Performance Index for 2017. Tunisia (65th), Algeria (81st) and Egypt (90th) followed as the top ranked countries on the index, while the lowest ranked countries were Oman, which came in 122nd place worldwide, Lebanon (125th), Yemen (126th) and Bahrain (127th). The index assesses the performance of energy systems across three fundamental objectives that are delivering economic growth, achieving economic growth in an environmentally-sustainable way, and providing universal energy access and security. The scores and ranks of each country are based on how well its current energy architecture contributes to the three objectives. Scores range between zero and one, with a higher score reflecting better performance. The Arab region received an average score of 0.5 points, lower than the global average of 0.61 points, with an average of 0.46 points for Gulf Cooperation Council (GCC) countries and of 0.53 points for non-GCC Arab states. In parallel, the EAPI's eight-year trend shows that Morocco's rank rose by 14 spots from the 2009 survey and posted the best improvement regionally, while Libya's rank dropped by 38 spots and represented the steepest decline in the Arab region.

Source: World Economic Forum, Byblos Research

#### GCC

##### About half of high net worth individuals are optimistic about the regional economy

A survey of high net worth individuals (HNWI) in the Gulf Cooperation Council (GCC) economies indicated that 44% of HNWIs expect the current economic situation in the GCC to improve in 2017, up from 26% who had a similar view in 2016, while 20% of respondents anticipated the current economic situation in the region to deteriorate compared to 17% of HNWIs who had a pessimistic view of the regional economy last year. In comparison, 47% of HNWIs in the GCC expect the global economic situation to worsen in 2017, while 38% of respondents anticipate global conditions to stay the same. The survey pointed out that HNWIs from the UAE were the most optimistic about current economic conditions in their country with 69% of respondents anticipating an improvement in the domestic economy, followed by HNWIs from Qatar (42%), respondents from Bahrain and Oman (17% each) and HNWIs from Kuwait (8%); while respondents from Saudi Arabia did not expect any improvement in their country's current economic situation. In contrast, 75% of HNWIs from Oman anticipated the economic situation in their country to deteriorate in 2017, followed by respondents from Bahrain and Saudi Arabia (58% each), HNWIs from Kuwait (50%) and their counterparts in Qatar (25%); while HNWIs from the UAE did not expect the current economic situation in their country to worsen.

Source: Emirates Investment Bank

# POLITICAL RISK OVERVIEW - March 2017

## EGYPT

Military clashes with Islamic State (IS) militants continued in the Sinai Peninsula. Two security officers were killed and four were injured by an improvised explosive device (IED) attack in the northern Sinai city of al-Arish. The Sinai Province militant group claimed responsibility for killing three high-ranking police officers, including the General Security Inspector in North Sinai. Also, the group posted a video depicting the beheading of two men for allegedly practicing witchcraft and sorcery. An Egyptian court acquitted former President Hosni Mubarak on charges of killing protesters during the country's 2011 uprising. President Abdel Fattah el-Sisi issued on March 13 an official pardon for 203 prisoners who had received final prison sentences in protest-related cases.

## IRAN

The United States imposed on March 21 sanctions on 11 foreign companies and individuals from China, North Korea and the United Arab Emirates for transferring sensitive technology that can boost Iran's ballistic missile program. It also imposed sanctions on 19 entities and individuals for other violations under the Iran, North Korea and Syria Non-proliferation Act. In parallel, Iran enforced sanctions on 15 U.S. companies that it claimed have violated human rights and cooperated with Israel. A U.S. Navy surveillance ship was harassed by multiple vessels from the Iran Revolutionary Guards while sailing in the Strait of Hormuz in the Arab Gulf.

## IRAQ

U.S.-backed Iraqi forces and allied militias have seized control of more than one-third of western Mosul during their military operations to recapture the city from Islamic State (IS) militants. Iraqi forces captured 'al Hurriya' bridge that leads to the IS-held city from the south. Also, security forces killed the IS commander of Mosul's old city Abdul Rahman al-Ansary during the operations. Iraq's Ambassador to the United Nations indicated that there was no evidence that IS fighters have used chemical weapons during their battle in Mosul. Unclaimed suicide bombings continued in and around Baghdad, killing several civilians. Violence and acts of terrorism in Iraq led to 548 civilian deaths and 567 injuries in March 2017.

## DEM REP CONGO

Clashes erupted between government forces and the Kamwina Nsapu militia group in the Kasai-Central province. The group has allegedly killed 39 police officers in an ambush. Six people were kidnapped in Kasai-Central, including two UN experts investigating the violence and four Congolese working with them. The Catholic Church stopped its mediation between the ruling majority and the opposition after the two sides failed to reach an agreement on critical aspects of governing arrangements. Security forces fired shots and tear gas to break up protests in Kinshasa, while tensions also rose in several other cities. The Ugandan Army arrested 40 members of the Congolese rebel group M23 as they crossed from the DRC into Uganda. The UN Security Council extended for an additional year the mandate of the Organization Stabilization Mission in the DRC (MONUSCO) and reduced the number of authorized troops in its peacekeeping mission.

## LIBYA

Fighting intensified between the Benghazi Defense Brigades (BDB), loyal to the Presidential Council and the Libyan National Army (LNA), loyal to General Khalifa Haftar, over oil installations in the Gulf of Sirte. The BDB took over the oil terminals in Sidra and Ras Lanuf but the LNA regained control of the terminals by mid-March. The Tobruk-based House of Representatives condemned the attack by BDB and voted to withdraw its support for a UN peace deal and a Government of National Accord. The League of Arab States reiterated its commitment to the sovereignty and national unity of Libya.

## SOUTH SUDAN

President Salva Kiir asked the member states of the Intergovernmental Authority on Development to support his country's national dialogue initiative to achieve peace and stability. Former Army Deputy Chief of Staff Lieutenant General Thomas Cirillo Swaka, who resigned in February 2017, formed a new rebel group named the National Salvation Front in early March. Some members of existing rebel groups, including former Vice President Riek Machar's Sudan People's Liberation Army-In Opposition, have joined the new group. A U.N. official indicated that six aid workers were killed north of Juba, the deadliest attack on humanitarian workers since the country's civil war began in 2013. President Kiir pardoned two senior government officials and promised to release other political prisoners, as his rule faces surging resistance, warfare and famine.

## SUDAN

The Sudan People's Liberation Movement-North (SPLM-N) rebel group released all Sudanese Armed Forces prisoners of war on March 4th. In turn, the Sudanese government reciprocated on March 8 by pardoning more than 250 SPLM-N and anti-government Justice and Equality Movement (JEM) militants. President Omar al-Bashir appointed First Vice President Bakri Hassan Saleh as Prime Minister, reinstating a post he eliminated after coming to power in a 1989 coup. The SPLM-N announced on March 18 the resignation of Deputy Chairman Abdelaziz Al-Hilu, who cited his disagreements with Chairman Yassir Arman over the group's position on autonomy for South Kordofan in a post-conflict settlement.

## SYRIA

Fighting continued on multiple fronts, most intensely in east Damascus and near the city of Hama in west-central Syria, as peace talks failed to make progress. Negotiators from the Syrian regime and the opposition traded accusations after an eight-day round of peace talks in Geneva. About 1,500 rebel fighters and their families arrived in northern Syria after abandoning the al Waer neighborhood of the besieged central city of Homs, as part of a deal with regime forces. The Hay'at Tahrir al-Sham (HTS), a rebel alliance dominated by jihadist group Fath al-Sham, claimed twin suicide bombings near shrines frequented by Shiites near Damascus that killed at least 70 persons. The Pentagon denied accusations by a Syrian rebel group that the U.S. had targeted a mosque in Syria and noted that it targeted an al-Qaeda gathering at a building across the street from the mosque. The U.S. said in late March that it is no longer focused on ousting President Bashar al-Assad as it seeks a new strategy to end Syria's six-year conflict. Opposition fighters, including the HTS and the Western-backed Free Syrian Army launched an offensive against regime-held areas near the city of Hama.

## TUNISIA

Islamist militants attacked a security checkpoint in southwestern Tunisia that killed a policeman and wounded three others. Tunisia's Ennahda Party became the largest party in Parliament following the resignation of lawmakers from President Beji Caid Essebsi's Nidaa Tounes Party. Tunisia's former Prime Minister Mehdi Jomaa launched a new political party that aims to restore hope for Tunisians that are frustrated by the country's transition.

## YEMEN

Fighting between Huthi rebels and the Saudi-led coalition continued in the coastal city of Hodeida, while the U.S. continued to increase support for the Saudi-led coalition's military efforts against Huthi rebels. The Saudi-led coalition launched aerial and ground attacks on military sites controlled by Huthi rebels in the Nehm and Sirwah districts, two strategic access points to the rebel-held capital city of Sanaa. A Yemeni court sentenced President Abd-Rabbu Mansour Hadi to death for "high treason".

*Source: International Crisis Group, Newswires*



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# OUTLOOK

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## EMERGING MARKETS

### Diverging trends in external conditions weigh on capital flows to emerging markets

S&P Global Ratings expected capital flows to emerging markets (EMs) to remain subdued and highly volatile in 2017, due to the diverging monetary policies of the U.S. Federal Reserve and the European Central Bank (ECB), as well as to persistent uncertainties about fiscal policies in the United States. It also noted that country-specific factors are important drivers of investor sentiment, such as growth prospects, political developments and geopolitical uncertainties.

The agency said that foreign investors have constantly reassessed over the past few years the attractiveness of EM assets amid changing expectations about the path of global interest rates, which has affected capital flows to EM countries and, in turn, the latter's currency, bond and equity markets. It noted that, more recently, capital inflows to EMs have significantly dropped following the U.S. presidential elections, but they have recovered since December 2016.

S&P indicated that the U.S. Federal Reserve continues to tighten its monetary policy, as it has recently raised the Federal funds rate by 25 basis points to the target range of 0.75% to 1%. In contrast, it noted that the ECB is still implementing a quantitative easing monetary policy, and expected it to continue expanding its balance sheet, although the monthly amount of its purchased assets will decrease gradually from April 2017. Also, it did not anticipate the ECB to increase its policy rate before 2019. In addition, it expected the Bank of England to maintain its accommodative monetary policy after it introduced a new set of easing measures following the Brexit vote in 2016. Further, it considered that higher fiscal stimulus in the U.S. could increase inflationary pressures and result in a stronger response from the Federal Reserve compared with market expectations. In contrast, it noted that the under-delivery of the stimulus compared with what is currently priced-in would push U.S. yields lower and increase the attractiveness of EM assets.

Source: S&P Global Ratings

## NIGERIA

### Stronger macroeconomic policies needed amid internal and external challenges

The International Monetary Fund projected Nigeria's real GDP to grow by 0.8% in 2017 following a contraction of 1.5% in 2016, due to the anticipated recovery in oil production and a sustained strong agricultural activity. It expected the hydrocarbon sector's activity to grow by 7.8% in 2017 following a 13.6% contraction last year, while it forecast non-hydrocarbon growth at 0.2% this year relative to a contraction of 0.3% in 2016. Further, it projected the inflation rate at 17.5% at the end of 2017 as authorities maintain an accommodative monetary policy. Overall, the IMF considered that Nigeria's growth outlook remains challenging amid the low oil price environment, policy uncertainty, the crowding out of the private sector and distortions in the foreign currency market. It said that authorities need to urgently implement stronger macroeconomic policies in the context of persisting internal and external challenges in order to rebuild

confidence and stimulate an economic recovery. It welcomed the authorities' Economic Recovery and Growth Plan, which focuses on economic diversification and upgrading the infrastructure, but it noted that the government may not achieve the desired outcome of the Plan in the absence of stronger policies.

In parallel, the Fund projected Nigeria's fiscal deficit to widen from 4.7% of GDP in 2016 to 5% of GDP in 2017 due to the increase in public spending. It urged the government to raise the value-added tax and excise rates, improve tax compliance and reduce exemptions, as well as to lift fuel subsidies and contain the fiscal deficit of state and local governments. Further, it indicated that the current account balance shifted from a deficit of 3.1% of GDP in 2015 to a surplus of 0.6% of GDP in 2016, as the decline in imports has offset the drop in exports, and projected the surplus to further increase to 1% of GDP this year due to rising exports. It added that a sustained policy of prioritizing exchange rate stability would lead to an increasingly overvalued exchange rate, which could negatively affect the non-oil trade balance and deplete the country's foreign currency reserves. As such, it called on authorities to remove the remaining foreign currency restrictions and multiple currency practices. It expected Nigeria's foreign currency reserves to be nearly unchanged at \$27.1bn, or 5.5 months of import cover, at the end of 2017.

Source: International Monetary Fund

## ARMENIA

### Rising public debt level to require further fiscal consolidation

Merrill Lynch indicated that Armenia has largely completed the adjustment of its monetary and fiscal policies to the recent external shocks related to the slowdown of Russia's economic activity and to lower commodity prices. But it said that Armenia's public debt level is approaching its legal limit of 60% of GDP, which would require authorities to either implement significant fiscal consolidation of up to 3% of GDP this year, or to loosen the fiscal rule. It considered that the two options could have negative implications on Armenia's growth outlook and the credibility of future policy commitments. It said that, in both cases, the room for any additional policy stimulus is limited, and expected fiscal policy to continue to weigh on economic growth in coming years. Also, it projected new external borrowing to be limited to the rollover of external debt that matures in 2020. Merrill Lynch considered that authorities are likely to amend the legal limits on the public debt level by allowing a gradual adjustment to the limit within a given timeframe.

In parallel, Merrill Lynch anticipated that authorities could slightly ease monetary policy, given that Armenia is facing deflation for the second consecutive year. It considered that the risk of renewed pressure on the Armenian dram could prevent the Central Bank of Armenia (CBA) from significantly loosening monetary policy. It added that a weaker dram could complicate the government's efforts to address the rising debt level, given that 80% of the public debt is denominated in foreign currency. As such, it expected the CBA's monetary policy easing to be limited in the near future, which would further support the currency's stability and help narrow the current account deficit.

Source: Merrill Lynch



# ECONOMY & TRADE

## AFRICA

### Côte d'Ivoire and Ghana to weather drop in cocoa prices

Moody's Investors Service expected the 30% drop in cocoa prices since mid-2016 to weigh on Côte d'Ivoire and Ghana's economic activity and on their fiscal and external balances. It expected Côte d'Ivoire's current account balance to be more affected by the decline in cocoa prices, given that cocoa exports accounted for about 43% of its merchandise exports in 2015, compared to 24% of Ghana's exports. As such, it forecast Côte d'Ivoire's current account deficit to widen from 0.6% of GDP in 2016 to 2.7% of GDP in 2017 due to lower export receipts and higher investment-related imports. In contrast, it anticipated Ghana's current account deficit to narrow from 6.6% of GDP last year to 6.3% of GDP in 2017, supported by the country's growing hydrocarbon sector. Further, the agency indicated that household income in the two countries is more exposed to the volatility in cocoa prices than the income generated by traders and manufacturers in the cocoa industry, given that the agricultural sector employs about two-thirds of the population in Côte d'Ivoire and over 40% in Ghana. However, it anticipated that the two countries would be able to weather the short-term price fluctuations, while it did not expect cocoa prices to remain at low levels over the long term. In parallel, IHS Markit projected Côte d'Ivoire's real GDP growth at 7.3% in 2017 and 6.7% in 2018, driven by supportive macroeconomic policies and structural reforms. But it said that reduced household expenditures due to lower cocoa prices, as well as the expected adoption of a more growth-restrictive fiscal policy in the revised 2017 budget, would constrain economic activity.

Source: Moody's Investors Service, IHS Markit

## EGYPT

### Fiscal targets face implementation risks

Moody's Investors Service considered that the implementation of reforms under the IMF program would gradually improve Egypt's fiscal and external positions and would help address the sovereign's key credit challenges. However, it anticipated that authorities could face difficulties in meeting the program's ambitious fiscal consolidation targets in case public discontent intensifies. As such, it noted that the social and economic costs associated with the IMF program could slow down the pace of fiscal reforms. The agency projected Egypt's fiscal deficit to narrow from 12.6% of GDP in the fiscal year that ended in June 2016 to 11% of GDP in FY2016/17 and 8.5% of GDP in FY2018/19. It noted that its fiscal forecasts are wider than the IMF targets of 10% of GDP in FY2016/17 and 6% of GDP in FY2018/19, as it is projecting a slower economic growth than the IMF and is factoring-in fiscal slippages. Still, it anticipated the monetary, fiscal and structural reforms to gradually improve the sovereign's credit profile beyond the timeframe of the IMF program. It expected the liberalization of the foreign exchange regime and the depreciation of the Egyptian pound to keep the current account deficit wide in 2017 due to the low sensitivity of exports to the exchange rate. It pointed out that increased portfolio and foreign direct investments inflows, as well as additional external funding from the IMF and from multilateral and bilateral partners, would support the balance of payments and foreign currency reserves.

Source: Moody's Investors Service

## OMAN

### Investment-grade sovereign rating at risk

Merrill Lynch indicated that Oman's wide fiscal and current account deficits result in significant external financing needs. It noted that the 2017 budget intends to narrow the fiscal deficit from \$13.5bn, or 22.6% of GDP in 2016, to \$7.8bn, or 11.9% of GDP based on an average oil price of \$45 p/b during the year and a 7.5% contraction in public spending. It added that authorities plan to finance 70% of the fiscal gap from external sources, with the remaining funding coming from domestic sources and the drawdown of foreign assets. It did not expect the government to withdraw its deposits, which are equivalent to 23.3% of GDP, from domestic banks in order to avoid tightening liquidity conditions. It noted that the government's debt increased from 4.9% of GDP in 2014 to 32.6% of GDP, or \$19.7bn, in 2016, with external debt standing at \$13.4bn, or 22% of GDP. In parallel, Merrill Lynch estimated Oman's current account deficit at \$12.8bn or 21.4% of GDP in 2016 despite a 20% year-on-year contraction in imports. But it noted that large external borrowing and support from non-resident entities have prevented a more rapid erosion of foreign assets. It estimated liquid assets to provide 2.5 years of external financing needs, which would constitute a cushion for the near term. In parallel, Merrill Lynch considered that Oman's investment grade rating is at risk over the medium term due to the rise in the government's debt level. It noted that debt dynamics are adverse and unanchored in the absence of material fiscal consolidation.

Source: Merrill Lynch

## QATAR

### Insurance sector faces low industry risks

S&P Global Ratings assessed as "intermediate" the overall risk level of the property and casualty (P/C) insurance sector in Qatar. It indicated that the assessment is derived from an "intermediate" country risk and a "low" industry risk for the domestic P/C insurance sector. The risk scale ranges from "low" to "intermediate", "moderate" and "high". S&P noted that the "intermediate" country risk reflects Qatar's high economic wealth amid limited monetary flexibility and weak public institutions. It projected real GDP growth to exceed 3% annually during the 2017-19 period, which would sustain growth in the P/C sector through new insurance opportunities. In parallel, it said that the industry risk assessment takes into account several insurance-specific factors, such as the sector's profitability, barriers to entry and market growth prospects. It projected gross premiums in the Qatari P/C sector to grow by up to 10% annually over the next two years, supported mainly by infrastructure spending related to the 2022 FIFA World Cup, and the planned introduction of mandatory medical insurance for Qatari nationals in 2017 and for expatriates in 2018. It noted that the non-life sector continues to be broadly profitable. It estimated the average return on equity of insurers at around 15% during the 2012-16 period, supported by elevated commission income from ceded reinsurance business and by relatively high returns, mainly from real estate investments. In addition, it considered that barriers to entry to the Qatari non-life market are relatively high due to the dominance of the six largest non-life insurers that generate more than 80% of gross premiums in the market.

Source: S&P Global Ratings



# BANKING

## GCC

### **Banks' profits decline due to significant increase in provisions**

The Boston Consulting Group (BCG) indicated that the aggregate profits of banks in the Gulf Cooperation Council (GCC) countries declined in 2016, constituting the first contraction since in 2008, due to a 20.8% increase in provisions. It noted that only 10% of GCC banks achieved double-digit growth in revenues and profits, while slightly more than 50% of banks posted a decline in their profits. BCG noted that the aggregate net profits of banks in Qatar decreased by 1.8% last year as a result of a 140.2% increase in loan-loss provisions following the integration of acquired banks, while profits of UAE banks regressed by 4.5% in 2016 due to a 12.8% rise in provisions. Also, BCG pointed out that the total revenues of GCC banks increased by 5.2% in 2016, lower than the growth in their revenues in 2015. It noted that retail banking receipts grew by 5.4% in 2016, supported mainly by a 12% increase in Saudi retail banking revenues. It added that corporate banking income in the GCC grew moderately by 4.2% from last year due to a low corporate banking revenue growth in main markets in the region. Further, it indicated that total revenues of Qatari banks jumped by 24.4% in 2016, constituting the highest growth rate in the region, supported by the acquisition of Finansbank by Qatar National Bank. It added that the remaining GCC countries posted low single-digit revenue growth last year. In parallel, BCG indicated that operating expenses at GCC banks increased by 6.3% in 2016, faster than in 2015.

*Source: The Boston Consulting Group*

## EGYPT

### **Banks' solvency threatened by currency risks**

Fitch Ratings indicated that some Egyptian banks continue to face difficulties in meeting the minimum regulatory capital requirement of 11.25%, due to the depreciation of the Egyptian pound following its floatation in November 2016. It noted that the depreciation of the pound has increased the foreign currency risk-weighted assets, while the banks' capital is predominantly in local currency. It expected the banks' capital position to remain vulnerable to the weakening of the pound, as loans extended in foreign currency accounted for 40% of the banking sector's total lending at the end of November 2016. It anticipated that Egyptian authorities would cover capital shortfall at state-owned banks, similar to what they did previously when the Central Bank of Egypt (CBE) provided interest-free loans that were classified as subordinated debt to help recapitalize the banks. However, it noted that the government's ability to provide support is highly constrained by its weak credit profile and limited financial flexibility. It added that privately-owned banks would cut dividends to support their capital position in case of need. Further, Fitch anticipated a modest deterioration of the banks' asset quality as a result of the currency devaluation, mainly because of lending in foreign currency to small borrowers. It noted that the CBE and banks have agreed to restructure the foreign-currency loans of small corporates if needed. In contrast, it said that most of the banks' lending in foreign currency is to borrowers that generate revenues in foreign currency, while import-related trade finance is fully covered by cash in the same currency.

*Source: Fitch Ratings*

## SAUDI ARABIA

### **Agency takes rating actions on 11 banks**

Fitch Ratings downgraded from 'A' to 'A-' the long-term Issuer Default Ratings (IDRs) of Al Rajhi Bank, National Commercial Bank, Riyad Bank and SAMBA Financial Group, and from 'A-' to 'BBB+' those of Alawwal Bank, Alinma Bank, Arab National Bank, Bank Aljazira and Saudi Investment Bank. It revised the outlook on all the banks' long-term IDRs from 'negative' to 'stable'. The agency noted that the downgrade of the nine banks' ratings follows its similar action on the sovereign ratings and reflects the authorities' weakening ability to provide support to the banks in case of need. In parallel, the agency noted that the 'A-' long-term IDR of Banque Saudi Fransi (BSF) and Saudi British Bank (SABB), and the 'negative' outlook on the ratings, were unaffected by the sovereign downgrade, as their IDRs are driven by their respective standalone creditworthiness. In parallel, Fitch indicated that Saudi banks have weathered the liquidity squeeze in 2016 through the government's injection of SAR20bn of public-sector deposits in October 2016 and its payment of SAR75bn in overdue arrears to contractors. It noted that the banks' average liquidity coverage ratio improved from 156% at the end of September 2016 to 204% by the end of 2016. But it said that the sector's net income contracted by 5% to SAR41bn in 2016 due to the liquidity squeeze and the rise in impairment charges. It expected funding costs to continue to rise in 2017, especially with the anticipated increase of the Saudi policy rate.

*Source: Fitch Ratings*

## QATAR

### **Agency takes rating actions on four banks**

Capital Intelligence Ratings (CI) affirmed at 'AA-' the long-term foreign currency rating (FCR) of Qatar National Bank (QNB), while it upgraded the long-term FCR of Doha Bank from 'A' to 'A+' and that of Qatar International Islamic Bank (QIIB) from 'A-' to 'A', and downgraded the long-term FCR of Commercial Bank from 'A' to 'A-'. Also, it revised the outlook on the four banks' long-term FCRs from 'negative' to 'stable', following a similar action on Qatar's sovereign ratings. In addition, the agency affirmed at 'AA-' the financial strength rating (FSR) of QNB, at 'A' that of Doha Bank, at 'A-' the FSR of QIIB, while it lowered Commercial Bank's FSR from 'A-' to 'BBB+'. Also, it maintained the 'stable' outlook on QNB's FSR and revised the outlook on QIIB's FSR from 'positive' to 'stable' and that on the FSR of Doha Bank and Commercial Bank from 'negative' to 'stable'. It attributed its outlook revision on QIIB's FSR to the weakening of the bank's asset quality. Also, the agency noted that QNB's FSR is supported by the bank's very good asset quality, strong capitalization, sound deposit base and good profitability, but are constrained by its relatively tight loans-to-deposits ratio and net liquid asset ratio, as well as by the lack of significant opportunities for domestic lending. Further, it attributed the downgrade of Commercial Bank's FSR to the bank's deteriorating asset quality, tight liquidity, reliance on purchased funds given its weak deposit generation, and weak profitability.

*Source: Capital Intelligence Ratings*



# ENERGY / COMMODITIES

## Crude oil prices to average \$57.3 p/b in 2017

ICE Brent crude oil front-month prices averaged \$54.6 per barrel (p/b) in the first quarter of 2017, constituting increases of 6.9% from the fourth quarter of 2016 and of 54.6% from the same quarter last year; while WTI oil prices averaged \$51.7 p/b in the covered quarter, up by 5.1% from the previous quarter and by 54.5% from the first quarter of 2016. The increase in oil prices was mainly due to the output cut by OPEC and non-OPEC members that has helped oil prices recover from a 12-year low of \$27 p/b reached in January 2016. However, rising U.S. output and crude oil inventories have limited the rally in prices. Also, oil prices rose to a near one-month high to close at \$54.2 p/b on April 4, 2017, due to an unplanned production outage in the North Sea that has more than offset the increase in Libyan oil production, as well as to a drawdown in U.S. crude oil inventories. The oil market oversupply is expected to narrow during 2017, as crude oil inventories would continue to decline at a moderate pace of about 200,000 b/d until September 2017, even if the extension of the OPEC deal does not materialize. As such, oil prices are forecast to gradually increase to an average of \$56.25 p/b in the second quarter, \$58.4 p/b in the third quarter and \$59.5 p/b in the fourth quarter of 2017. Overall, oil prices are expected to increase by 27% to \$57.3 p/b in 2017. In parallel, the Bloomberg Brent Crude Oil Total Return Sub-Index dropped by 5.6% in March 2017 and by 7.7% in the first quarter of 2017.

Source: Thomson Reuters, Byblos Research

## Iraq's oil exports down 3% in March 2017

Iraq's State Organization for the Marketing of Oil (SOMO) indicated that the country's oil production averaged 4.16 million barrels per day (b/d) in March 2017, constituting a decrease of more than 300,000 b/d from levels reached before the November 2016 OPEC agreement to cut oil production. It also noted that Iraqi crude oil exports, including 515,000 b/d in exports from the Kurdistan Regional Government, averaged 3.76 million b/d in March 2017, down by 2.9% from 3.869 million b/d a month earlier. It added that Iraq was 90% compliant with its share of OPEC cuts.

Source: State Organization for the Marketing of Oil

## South Sudan's oil exports to drop by 15%

The International Monetary Fund expected South Sudan's crude oil production to average 43.4 million barrels in the fiscal year that ends in June 2017, which would constitute a decline of 18.3% from an estimated 53.1 million barrels in FY2015/16. The decrease in oil production reflects the drop in global oil prices and the impact of the ongoing civil conflict that started in 2013. It forecast the country's total oil export receipts to reach \$1.8bn in FY2016/17, which would constitute a decline of 14.8% from \$2.1bn in FY2015/16.

Source: International Monetary Fund

## OPEC's oil exports down 1% in March 2017

The Organization of Petroleum Exporting Countries' (OPEC) crude oil exports reached 25.1 million barrels per day (b/d) in March 2017, constituting a decrease of 1% from 25.4 million b/d in each of February 2017 and March 2016. Saudi Arabia's crude oil exports totaled 7.75 million b/d in March, equivalent to 31% of OPEC's total oil exports, followed by Iraq with 3.5 million b/d (14%) and the UAE with 2.8 million b/d (11%).

Source: Thomson Reuters, Byblos Research

## Base Metals: Aluminum market to post first production deficit since 2014

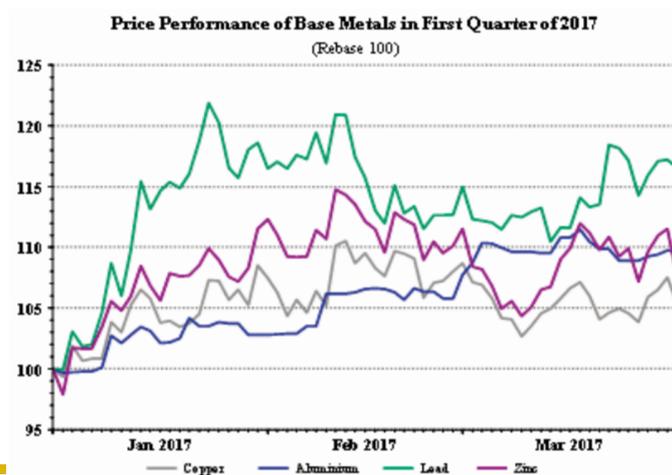
The LME cash price of aluminum averaged \$1,850 per metric ton in the first quarter of 2017, up by 8.1% from an average of \$1,711 per ton in the fourth quarter of 2016 and by 22.3% from \$1,513 per ton in the first quarter of 2016. The upward trend in prices so far this year reflects the Chinese government's efforts to reduce aluminum production due to environmental concerns, as well as expectations of higher U.S. infrastructure spending. Further, aluminum prices are projected to increase by 11.5% to \$1,788 per ton in 2017, driven by an anticipated strong growth in the global automotive and construction industries. Global aluminum demand is forecast to reach 62.4 million tons in 2017, which would constitute a 5.8% increase from 2016 amid an 8% rise in Chinese consumption. In parallel, global production of the metal is projected to reach 62.3 million tons in 2017, up by 5.5% from a year earlier, due to a 6.5% expansion in Chinese aluminum output. The aluminum market is expected to be undersupplied in 2017, posting a deficit of 110,000 tons, compared to a production surplus of 50,000 tons in 2016, constituting the first production deficit since 2014.

Source: Deutsche Bank, Byblos Research

## Precious Metals: Gold prices to increase in 2017 on rising political risks

The gold bullion spot price closed at \$1,248 a troy ounce on April 5, 2017, up by 7.8% from the end of 2016, driven by uncertainties related to the impact of Britain's exit from the European Union. Also, terror attacks in several countries in the world have supported investor demand for the safe haven asset, and in turn, its prices. Gold prices are projected to rise from \$1,219 an ounce in the first quarter of 2017 to \$1,260 in the second quarter, but to decline to \$1,250 an ounce in third quarter of 2017 and to \$1,160 an ounce in the fourth quarter of the year. Overall, prices are forecast to increase from \$1,250 an ounce in 2016 to \$1,260 an ounce in 2017, driven by concerns that anti-establishment parties would succeed in the upcoming elections in Europe, which could potentially trigger the exit of other countries from the European Union. Further, investors would raise their gold holdings in order to hedge against expectations of upward inflationary trends in the United States. Downside risks to the price outlook include weakening global physical demand for the metal, as well as further U.S. interest rate hikes in coming months.

Source: World Gold Council, Thomson Reuters GFMS



# COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	External debt/ Exports (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	IHS								
<b>Africa</b>													
Algeria	-	-	-	-	BB+	-11.2	24.6	4.2	18.9	2.2	-	-11.1	1.0
Angola	B	B1	B	-	B+	-7.1	70.1	96.8*	85.0**	7.3	14.4	-11.6	2.6
Egypt	B-	B3	B	B-	B-	-10.1	93.5	21.1	206.8	11.5	302.8	-5.2	2.4
Ethiopia	B	B1	B	-	B+	-3.0	55.4	29.0*	159.6	4.3	634.6	-10.7	4.1
Ghana	B-	B3	B	-	B+	-3.9	74.1	44.7	110.4**	10.3	371.8	-7.2	7.7
Ivory Coast	-	Ba3	B+	-	B+	-3.1	33.0	34.1	62.9	2.7	169.6	-1.8	3.3
Libya	-	-	B	-	B-	-35.4	83.0	16.5	51.6	-	-	-48.7	-9.6
Dem Rep Congo	B-	B3	-	-	CCC	1.1	19.8	16.6*	41.6	2.1	6.5	-14.2	4.5
Morocco	BBB-	Ba1	BBB-	-	BBB	-3.5	56.5	39.2	124.8	19.9	185.6	-0.5	2.6
Nigeria	B	B1	B+	-	B+	-4.7	13.3	5.5	62.5	0.7	63.2	-3.1	1.2
Sudan	-	-	-	-	CC	-1.7	58.3	53.2	-	-	-	-6.3	1.3
Tunisia	-	Ba3	B+	-	BB+	-5.1	57.8	80.7	165.6	15.7	423.9	-8.7	4.2
Burkina Faso	B-	-	-	-	B+	-3.0	32.6	23.2*	-	-	-	-5.3	2.3
Rwanda	B	B2	B	-	B+	-3.1	41.5	34.4*	-	-	-	-14.2	4.1
<b>Middle East</b>													
Bahrain	BB-	Ba2	BB+	BB+	BBB-	-14.7	73.2	127.6	239.3	24.6	-	-2.1	-0.2
Iran	-	-	-	BB-	BB-	-2.6	17.5	2.2	8.8	-	-	-2.6	-
Iraq	B-	(P)Caa1	B-	-	CC+	-11.3	71.4	59.1	158.8	-	-	-2.8	-
Jordan	BB-	B1	-	BB-	BB+	-3.4	90.4	64.5	141.2**	10.5	177.3	-6.4	5.5
Kuwait	AA	Aa2	AA	AA-	AA-	-2.4	12.8	36.1	61.9	10.5	107.6	-2.1	-8.4
Lebanon	B-	B2	B-	B	B-	-7.8	142.6	175.4	207.2**	23.4	151.1	-21.3	5.9
Oman	BBB	Baa1	BBB	BBB+	BBB	-15.2	25.6	27.5	48.4	5.6	-	-22.4	-1.0
Qatar	AA	Aa2	AA	AA-	AA-	-2.9	41.6	110.9	213.8	24.9	-	-2.0	-1.8
Saudi Arabia	A-	A1	A+	A+	AA-	-11.7	17.6	19.7	60.7	4.2	-	-11.0	0.8
Syria	-	-	-	-	C	-	-	36.5	-	-	-	-	0.6
UAE	-	Aa2	-	AA-	AA-	-6.4	64.9	51.2	54.2	4.0	313.8	-0.3	1.1
Yemen	-	-	-	-	CCC	-10.0	67.3	17.3	-	-	197.2	-7.0	-0.2

# COUNTRY RISK METRICS

Countries	LT Foreign currency rating					Central gvt. balance/ GDP (%)	Gross Public debt (% of GDP)	External debt / GDP (%)	External debt/ Exports (%)	Debt service ratio (%)	External Debt/ Forex Res. (%)	Current Account Balance / GDP (%)	Net FDI / GDP (%)
	S&P	Moody's	Fitch	CI	IHS								
<b>Asia</b>													
Armenia	-	B1	B+	-	B-	-4.1	48.5	78.6	168.2	23.6	612.8	-4.3	3.8
	-	Stable	Stable	-	Stable								
China	AA-	Aa3	A+	-	A	-2.6	41.0	5.1	21.5	3.9	53.5	2.6	1.7
	Stable	Stable	Stable	-	Stable								
India	BBB-	Baa3	BBB-	-	BBB	-6.2	47.5	22.4	111.9	7.3	156.2	-0.6	1.0
	Stable	Positive	Stable	-	Stable								
Kazakhstan	BBB-	Baa2	BBB+	-	BBB-	-4.0	22.1	151.2	325.8	33.6	824.6	-4.0	3.5
	Negative	CWN***	Stable	-	Negative								
<b>Central &amp; Eastern Europe</b>													
Bulgaria	BBB	Baa2	BBB-	-	BBB	-1.5	33.5	88.9	117.6	28.0	236.3	3.4	2.5
	Negative	Stable	Stable	-	Stable								
Romania	BBB-	Baa3	BBB-	-	BBB-	-3.9	42.9	53.0	121.9	14.4	224.0	1.1	1.7
	Stable	Negative	Stable	-	Positive								
Russia	BB+	Baa3	BBB-	-	BB+	-3.1	13.6	37.9	114.5	19.6	150.3	4.9	-1.7
	Negative	CWN***	Negative	-	Negative								
Turkey	BB	Ba1	BB+	BB+	BB-	-2.4	33.5	57.3	215.0	19.8	405.8	-4.1	0.7
	Negative	Negative	Stable	Stable	Negative								
Ukraine	CCC	Caa3	CCC	-	B-	-4.2	69.9	127.1	235.3	22.4	663.6	0.4	1.1
	Negative	Negative	-	-	Stable								

\*to official creditors

\*\* external debt/current account receipts

\*\*\*Credit Watch Negative

Source: Institute of International Finance; International Monetary Fund; IHS Global Insight; Moody's Investors Service; Byblos Research - The above figures are estimates for 2016



## SELECTED POLICY RATES

	Benchmark rate	Current (%)	Last meeting		Next meeting
			Date	Action	
USA	Fed Funds Target Rate	0.75-1.00	15-Mar-17	Raised 25bps	03-May-17
Eurozone	Refi Rate	0.00	09-Mar-17	No change	27-Apr-17
UK	Bank Rate	0.25	16-Mar-17	No change	05-May-17
Japan	O/N Call Rate	-0.10	16-Mar-17	No change	27-Apr-17
Australia	Cash Rate	1.5	04-Apr-17	No change	02-May-17
New Zealand	Cash Rate	1.75	23-Mar-17	No change	11-May-17
Switzerland	3 month Libor target	-1.25-(-0.25)	17-Mar-17	No change	15-Jun-17
Canada	Overnight rate	0.50	01-Mar-17	No change	12-Apr-17
<b>Emerging Markets</b>					
China	One-year lending rate	4.35	17-Dec-15	Cut 25bps	N/A
Hong Kong	Base Rate	1.25	15-Mar-17	Raised 25bps	03-May-17
Taiwan	Discount Rate	1.375	24-Mar-17	No change	29-Jun-17
South Korea	Base Rate	1.25	23-Feb-17	No change	13-Apr-17
Malaysia	O/N Policy Rate	3.00	02-Mar-17	No change	12-May-17
Thailand	1D Repo	1.50	29-Mar-17	No change	24-May-17
India	Reverse repo rate	6.25	06-Apr-17	No change	07-Jun-17
UAE	Overnight repo rate	1.75	15-Mar-17	Raised 25bps	N/A
Saudi Arabia	Reverse repo rate	1.00	15-Mar-17	Raised 25bps	N/A
Egypt	Overnight Deposit	14.75	30-Mar-17	No change	18-May-17
Turkey	Base Rate	8.00	16-Mar-17	No change	26-Apr-17
South Africa	Repo rate	7.00	30-Mar-17	No change	25-May-17
Kenya	Central Bank Rate	10.00	27-Mar-17	No change	23-May-17
Nigeria	Monetary Policy Rate	14.00	21-Mar-17	No change	23-May-17
Ghana	Prime Rate	23.50	27-Mar-17	Cut 200bps	22-May-17
Angola	Base rate	16.00	31-Jan-17	No change	12-May-17
Mexico	Target Rate	6.50	30-Mar-17	Raised 25bps	18-May-17
Brazil	Selic Rate	12.25	22-Feb-17	Cut 75bps	12-Apr-17
Armenia	Refi Rate	6.00	28-Mar-17	No change	16-May-17
Romania	Policy Rate	1.75	05-Apr-17	No change	05-May-17
Bulgaria	Base Interest	0.00	03-Apr-17	No change	02-May-17
Kazakhstan	Repo Rate	11.00	20-Feb-17	Cut 100bps	10-Apr-17
Ukraine	Discount Rate	14.00	02-Mar-17	No change	13-Apr-17
Russia	Refi Rate	9.75	24-Mar-17	Cut 25bps	28-Apr-17



Economic Research & Analysis Department  
Byblos Bank Group  
P.O. Box 11-5605  
Beirut - Lebanon  
Tel: (+961) 1 338 100  
Fax: (+961) 1 217 774  
E-mail: [research@byblosbank.com.lb](mailto:research@byblosbank.com.lb)  
[www.byblosbank.com](http://www.byblosbank.com)

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# BYBLOS BANK GROUP

---

## LEBANON

---

Byblos Bank S.A.L  
Achrafieh - Beirut  
Elias Sarkis Avenue - Byblos Bank Tower  
P.O.Box: 11-5605 Riad El Solh - Beirut 1107 2811- Lebanon  
Phone: (+ 961) 1 335200  
Fax: (+ 961) 1 339436

## SYRIA

---

Byblos Bank Syria S.A.  
Damascus Head Office  
Al Chaalan - Amine Loutfi Hafez Street  
P.O.Box: 5424 Damascus - Syria  
Phone: (+ 963) 11 9292 - 3348240/1/2/3/4  
Fax: (+ 963) 11 3348205  
E-mail: byblosbanksyria@byblosbank.com

## IRAQ

---

Erbil Branch, Kurdistan, Iraq  
Street 60, Near Sports Stadium  
P.O.Box: 34 - 0383 Erbil - Iraq  
Phone: (+ 964) 66 2233457/8/9 - 2560017/9  
E-mail: erbilbranch@byblosbank.com.lb

Sulaymaniyah Branch, Kurdistan, Iraq  
Salem street, Kurdistan Mall - Sulaymaniyah  
Phone: (+ 964) 773 042 1010 / (+ 964) 773 041 1010

Baghdad Branch, Iraq  
Al Karrada - Salman Faeq Street  
Al Wahda District, No. 904/14, Facing Al Shuruk Building  
P.O.Box: 3085 Badalat Al Olwiya - Iraq  
Phone: (+ 964) 770 6527807 / (+ 964) 780 9133031/2  
E-mail: baghdadbranch@byblosbank.com.lb

Basra Branch, Iraq  
Intersection of July 14th, Manawi Basha Street, Al Basra - Iraq  
Phone: (+ 964) 770 4931900 / (+ 964) 770 4931919  
E-mail: basrabranch@byblosbank.com.lb

## UNITED ARAB EMIRATES

---

Byblos Bank Abu Dhabi Representative Office  
Intersection of Muroor and Electra Streets  
P.O.Box: 73893 Abu Dhabi - UAE  
Phone: (+ 971) 2 6336050 - 2 6336400  
Fax: (+ 971) 2 6338400  
E-mail: abudhabirepoffice@byblosbank.com.lb

## ARMENIA

---

Byblos Bank Armenia CJSC  
18/3 Amiryan Street - Area 0002  
Yerevan - Republic of Armenia  
Phone: (+ 374) 10 530362 Fax: (+ 374) 10 535296  
E-mail: infoarm@byblosbank.com

## CYPRUS

---

Limassol Branch  
1, Archbishop Kyprianou Street, Loucaides Building  
P.O.Box 50218  
3602 Limassol - Cyprus  
Phone: (+ 357) 25 341433/4/5 Fax: (+ 357) 25 367139  
E-mail: byblosbankcyprus@byblosbank.com.lb

## BELGIUM

---

Byblos Bank Europe S.A.  
Brussels Head Office  
Rue Montoyer 10  
Bte. 3, 1000 Brussels - Belgium  
Phone: (+ 32) 2 551 00 20  
Fax: (+ 32) 2 513 05 26  
E-mail: byblos.europe@byblosbankeur.com

## UNITED KINGDOM

---

Byblos Bank Europe S.A., London Branch  
Berkeley Square House  
Berkeley Square  
GB - London W1J 6BS - United Kingdom  
Phone: (+ 44) 20 7518 8100  
Fax: (+ 44) 20 7518 8129  
E-mail: byblos.london@byblosbankeur.com

## FRANCE

---

Byblos Bank Europe S.A., Paris Branch  
15 Rue Lord Byron  
75008 Paris - France  
Phone: (+33) 1 45 63 10 01  
Fax: (+33) 1 45 61 15 77  
E-mail: byblos.europe@byblosbankeur.com

## SUDAN

---

Byblos Bank Africa  
Khartoum Head Office  
Intersection of Mac Nimer and Baladiyya Streets  
P.O.Box: 8121 - Khartoum - Sudan  
Phone: (+ 249) 1 56 552 222  
Fax: (+ 249) 1 56 552 220  
E-mail: byblosbankafrica@byblosbank.com

## NIGERIA

---

Byblos Bank Nigeria Representative Office  
161C Rafu Taylor Close - Off Idejo Street  
Victoria Island, Lagos - Nigeria  
Phone: (+ 234) 706 112 5800  
(+ 234) 808 839 9122  
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

## DEMOCRATIC REPUBLIC OF CONGO

---

Byblos Bank RDC S.A.R.L  
Avenue du Marché No. 4  
Kinshasa-Gombe, Democratic Republic of Congo  
Phone: (+ 243) 81 7070701  
(+ 243) 99 1009001  
E-mail: byblosbankrdc@byblosbank.com

## ADIR INSURANCE

---

Dora Highway - Aya Commercial Center  
P.O.Box: 90-1446  
Jdeidet El Metn - 1202 2119 Lebanon  
Phone: (+ 961) 1 256290  
Fax: (+ 961) 1 256293

