

# LEBANON THIS WEEK

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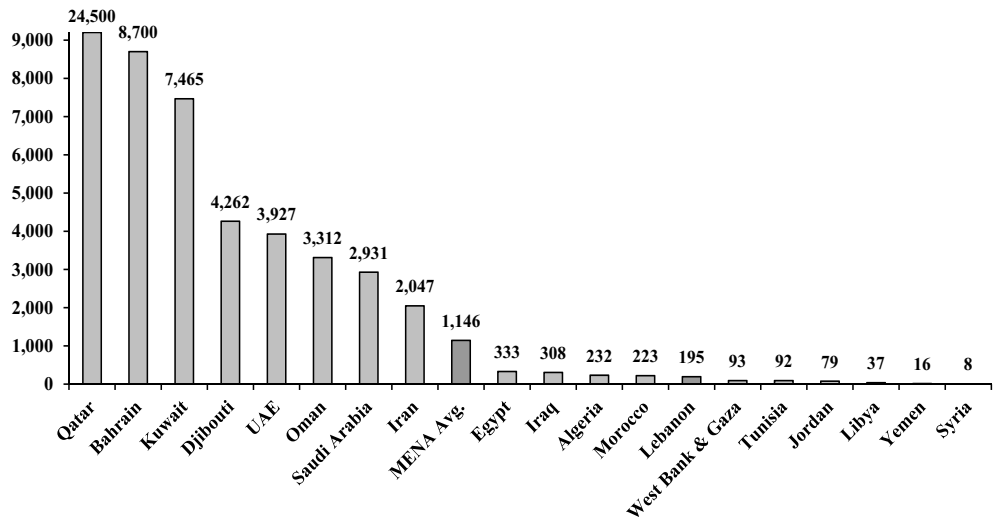
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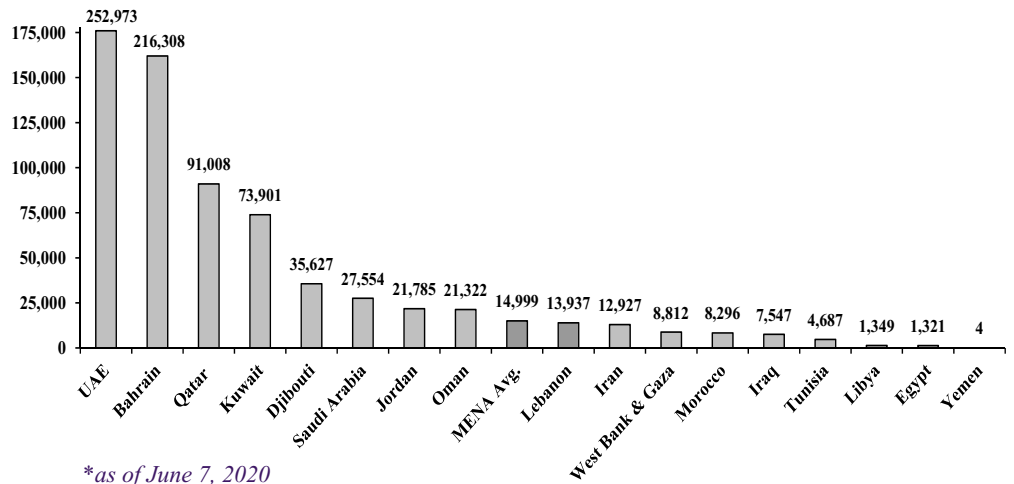
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## Charts of the Week

Number of Total COVID-19 Cases per Million Persons in MENA Countries\*



Number of Total COVID-19 Tests per Million Persons in MENA countries\*



\*as of June 7, 2020

Source: World Bank, Worldometer, Byblos Bank

## Quote to Note

"The political class did not make use of the space afforded by the financial engineering operations."

*Bank of America, on the fact that Banque du Liban's financial measures since 2016 were meant to "buy time" for the executive branch to implement much-needed structural reforms*

## Number of the Week

**91%:** Percent of Lebanese who believe that the economic situation in the country deteriorated between November 2019 and April 2020, according to the April 2020 survey of the Byblos Bank/AUB Consumer Confidence Index

## Lebanon in the News

\$m (unless otherwise mentioned)	2019	Jan-Mar 2019	Jan-Mar 2020	% Change*	Mar-19	Feb-20	Mar-20
Exports	3,731	856	914	6.8	320	343	238
Imports	19,239	4,949	2,931	(40.8)	2,181	951	826
Trade Balance	(15,508)	(4,093)	(2,017)	(50.7)	(1,861)	(608)	(589)
Balance of Payments	(5,851)	(2,005)	(1,062)	(47.0)	(75)	(347)	(557)
Checks Cleared in LBP	22,146	5,475	5,645	3.1	1,837	2,221	1,144
Checks Cleared in FC	34,827	9,347	10,432	11.6	3,230	3,611	2,409
Total Checks Cleared	56,973	14,822	16,077	8.5	5,067	5,832	3,553
Fiscal Deficit/Surplus	(5,837)	(969)	(1,655)	70.9	(311)	(487)	(498)
Primary Balance	(287)	30	(676)	-	119	(211)	(138)
Airport Passengers	8,684,937	1,749,693	1,165,094	(33.4)	618,617	454,841	187,570
Consumer Price Index	2.9	3.5	13	948bps	4.1	11.4	17.5

\$bn (unless otherwise mentioned)	Dec-18	Mar-19	Dec-19	Jan-20	Feb-20	Mar-20	% Change*
BdL FX Reserves	32.51	31.09	29.55	28.96	28.34	28.23	(9.2)
In months of Imports	20.72	14.26	21.95	30.45	29.80	34.17	139.6
Public Debt	85.14	86.22	91.64	91.99	92.24	-	-
Bank Assets	249.48	252.75	216.78**	213.80	210.34	208.55	(17.5)
Bank Deposits (Private Sector)	174.28	172.52	158.86	155.10	151.71	149.59	(13.3)
Bank Loans to Private Sector	59.39	57.33	49.77	47.91	46.08	45.02	(21.5)
Money Supply M2	50.96	50.40	42.11	40.82	39.59	39.60	(21.4)
Money Supply M3	141.29	140.20	134.55	132.56	130.95	130.34	(7.0)
LBP Lending Rate (%)	9.97	10.58	9.09	9.86	9.33	9.41	(117bps)
LBP Deposit Rate (%)	8.30	8.75	7.36	6.62	5.81	5.13	(362bps)
USD Lending Rate (%)	8.57	9.31	10.84	10.07	9.11	8.55	(76bps)
USD Deposit Rate (%)	5.15	5.69	4.62	4.00	3.22	2.53	(316bps)

\*year-on-year \*\*The decline in assets in December 2019 is mainly due to the "netting" on the assets and liabilities' sides of the consolidated balance sheet of commercial banks as part of the implementation of international accounting standard IFRS 7

Source: Association of Banks in Lebanon, Banque du Liban, Ministry of Finance, Central Administration of Statistics, Byblos Research

## Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
Audi Listed	1.00	0.00	902,400	9.78%
Solidere "A"	10.98	4.27	169,536	18.26%
Solidere "B"	10.88	3.42	38,671	11.76%
Audi GDR	1.39	(30.50)	6,653	2.76%
HOLCIM	10.20	2.00	4,152	3.31%
BLOM Listed	3.49	(3.06)	3,000	12.48%
BLOM GDR	3.50	0.00	6	4.30%
Byblos Common	0.60	0.00	-	5.64%
Byblos Pref. 08	49.95	0.00	-	1.66%
Byblos Pref. 09	52.75	0.00	-	1.75%

Source: Beirut Stock Exchange (BSE); \*week-on-week

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Apr 2021	8.25	20.63	322.34
Oct 2022	6.10	19.88	84.17
Jan 2023	6.00	19.75	72.76
Jun 2025	6.25	19.50	35.61
Nov 2026	6.60	19.50	27.03
Feb 2030	6.65	19.38	17.67
Apr 2031	7.00	19.38	15.71
May 2033	8.20	17.75	13.84
Nov 2035	7.05	19.75	10.83
Mar 2037	7.25	21.13	9.49

Source: Byblos Bank Capital Markets, Refinitiv

	June 8-12	June 1-5	% Change	May 2020	May 2019	% Change
Total shares traded	1,124,418	267,693	320	6,731,749	2,118,259	217.8
Total value traded	\$3,221,628	\$2,577,011	25	\$27,765,737	\$11,598,740	139.4
Market capitalization	\$6.01bn	\$6.04bn	(0.4)	\$5.98bn	\$8.51bn	(29.8)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Mar 20, 2020	June 12, 2020	% Change
CDS 1-year*	24,762	0	-
CDS 3-year*	17,668	0	-
CDS 5-year*	14,717	0	-

Source: ICE CMA; \*mid-spread in bps

CDX EM 30*	June 5, 2020	June 12, 2020	% Change***
CDS 5-year**	193.11	250.00	29.5

Source: ICE CMA; \* CDX Emerging Market CDS Index-Series 30  
\*\*mid-spread in bps \*\*\*week-on-week

### Current account deficit narrows by 14% to \$11.5bn in 2019 on lower trade deficit and higher remittance inflows

Figures released by Banque du Liban (BdL) show that the current account deficit reached \$11.5bn in 2019, constituting a decline of 13.7% from a deficit of \$13.4bn in 2018. The current account balance consists of the trade balance, which is the exports and imports of merchandise, as well as the services balance that covers the export and import of transportation services, tourism, insurance and other services. The current account balance also includes remittance inflows, investment income and general government transfers. Also, the current account deficit reached \$2.9bn in the first quarter of 2019, \$3.1bn in the second quarter, \$3bn in the third quarter and \$2.5bn in the fourth quarter. The current account deficit was equivalent to 22.1% of GDP in 2019 compared to 24.3% of GDP in 2018.

The trade deficit reached \$13.4bn in 2019, its lowest level since 2010, and narrowed by 11.3% from \$15.1bn in 2018, with the amount of imported goods decreasing by 3.7% annually to \$18.2bn and the value of exports growing by 25.8% year-on-year to \$4.8bn, their highest level since 2013. The trade deficit totaled \$2.5bn in the fourth quarter of 2019, its lowest level since the first quarter of 2009, and narrowed by 30.2% from the same quarter of 2018. In comparison, the quarterly trade deficit was broadly stable throughout the first three quarters of the year, and averaged \$3.6bn per quarter. The trade deficit was equivalent to 25.6% of GDP last year compared to 27.4% of GDP in 2018, with imports equivalent to 34.8% of GDP and exports at 9.3% of GDP in 2019.

Further, the inflows of expatriates' remittances to Lebanon stood at \$7.4bn in 2019, constituting an increase of 6.2% from \$7bn in 2018. In addition, remittance outflows from Lebanon amounted to \$4.3bn last year, down by 13.5% from \$5bn in 2018. As such, net remittance inflows to Lebanon reached \$3.1bn in 2019, constituting a jump of 56.1% from \$2bn in 2018. Remittance inflows totaled \$1.6bn in the fourth quarter of the year, their lowest level since the fourth quarter of 2012, while remittance outflows reached \$861m in the fourth quarter of 2019, their lowest level since the third quarter of 2007. Remittance inflows were equivalent to 14.2% of GDP in 2019 compared to 12.7% of GDP in 2018.

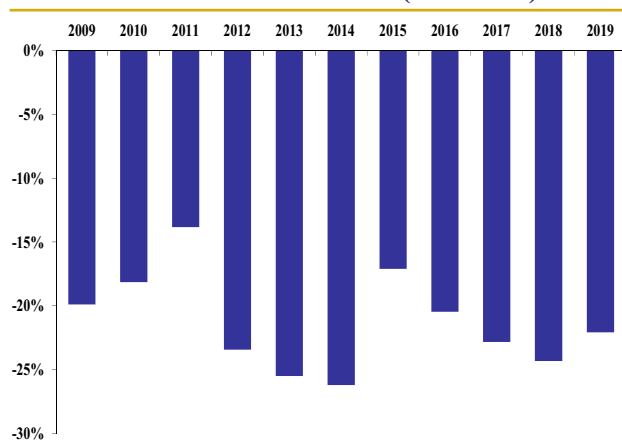
In addition, tourism receipts amounted to \$8.6bn in 2019, their highest level since 2002, and represented an increase of 2.3% from \$8.4bn in 2018. Also, outbound tourism spending reached \$6.7bn in 2019, also their highest level since 2002, and increased by 6.6% from \$6.3bn in 2018. As such, net tourism receipts totaled \$1.9bn last year and decreased by 10.3% from \$2.1bn in 2018. Tourism receipts were equivalent to 16.4% of GDP in 2019 compared to 15.3% of GDP in 2018, while outbound tourist spending was equivalent to 12.8% of GDP last year relative to 11.4% of GDP in 2018.

The other components of the balance of payments show that Lebanon's capital account balance, which includes foreign grants, posted a surplus of \$998m in 2019, down by 31% from a surplus of \$1.4bn in 2018. The surplus in 2019 represented the lowest surplus since the \$179.2m registered in 2012. Lebanon's capital account surplus averaged \$1.5bn per year between 2013 and 2019 due to grants received to support Syrian refugees and host communities in the country, compared to an average of \$157.4m annually between 2009 and 2012. The decrease in Lebanon's capital account surplus last year is due in part to a decline in cash grants received by the government. The capital account surplus was equivalent to 2% of GDP in 2019 compared to 2.6% of GDP in 2018.

In addition, Lebanon's financial account balance, which includes net foreign direct investments, net portfolio investments and other investments, posted a surplus of \$7.7bn in 2019, constituting an increase of 3.2 times from \$1.8bn registered in 2018. It was equivalent to 14.6% of GDP in 2019 compared to 3.3% of GDP in 2018. The improvement in the financial account is due to a shift in net portfolio investments from outflows of \$3.6bn in 2018 to inflows of \$2.7bn, or 5.2% of GDP, in 2019. In contrast, foreign direct investments (FDI) in Lebanon reached \$2.2bn, or 4.3% of GDP, in 2019 and dropped by 16.2% from \$2.7bn in 2018. Also, FDI outflows from Lebanon amounted to \$354m last year, down by 42% from \$611.3m in 2018. As such, net FDI inflows to Lebanon reached \$1.9bn in 2019 and represented a decline of 8.5% from \$2bn in 2018. In addition, the inflows of other investments declined by 9.8% from \$3.4bn in 2018 to \$3.1bn, or 6% of GDP, in 2019. Other investments include deposit flows to the banking sector.

In parallel, unrecorded transactions, or errors and omissions, were at +\$500m in 2019 relative to +\$7.8bn in 2018. According to BdL, unrecorded transactions are in part due to the inadequate sources of data on some economic sectors. They include time and other adjustments for external trade payments, insurance services, migrants' transfers, travel services, transportation services, private sector direct investment, and portfolio investment. Finally, BdL's net foreign assets regressed by \$2.4bn in 2019 relative to a decrease of \$2.3bn in 2018. They were equivalent to 4.6% of GDP in 2019 compared to 4.2% of GDP in 2018.

Current Account Deficit (% of GDP)



Source: Banque du Liban, National Accounts, Institute of International Finance, Byblos Research

## Cost of living in Beirut is 45<sup>th</sup> highest in the world, fourth highest among Arab cities in 2020

The annual Cost of Living Survey in 209 cities around the world by global consulting firm Mercer ranked the cost of living in Beirut as the 45<sup>th</sup> highest worldwide and the fourth highest among 17 Arab cities surveyed in 2020. Also, the cost of living in Beirut is the 13<sup>th</sup> highest among 51 cities in 40 upper middle-income countries (UMICs) included in the survey. In comparison, Beirut was the 53<sup>rd</sup> most expensive city worldwide and the fourth most expensive in the Arab world in 2019.

The study measures the comparative cost of over 200 items in each location, including the cost of housing, food, clothing and household goods, as well as transportation and entertainment. The rankings are derived from a survey conducted in March 2020. It uses New York City as the base city for the index and compares all cities against it. The survey is conducted annually to help multinational companies determine compensation allowances for their expatriate workers. The rankings demonstrate how currency fluctuation and changes in the prices of goods and services can affect the purchasing power of expatriate employees.

On a global basis, the cost of living in Beirut is higher than in Dublin, Milan, and in the New York City suburb of White Plains; and is lower than in Boston, Qingdao in China, and Brazzaville in the Republic of Congo. Also, the survey considered Beirut to be more expensive than St. Petersburg in Russia, Shenyang in China, and Amman; and to be less costly than the cities of Tianjin, Chengdu and Qingdao in China among UMICs. The cost of living in Beirut is lower than only in Dubai, Riyadh and Abu Dhabi in the Arab world.

The rankings of 12 out of the 17 Arab cities increased in the 2020 survey, while the rankings of Algiers, Abu Dhabi, Dubai and Jeddah regressed, and the ranking of Tunisia's capital Tunis was unchanged from last year's survey. In parallel, the rankings included two non-Arab cities from the region, as Istanbul came in 156<sup>th</sup> place relative to 154<sup>th</sup> place in the 2019 survey, and Limassol ranked in the 166<sup>th</sup> spot in 2020 compared to 161<sup>st</sup> place in the previous survey. Hong Kong is the world's most expensive city, while Tunis is the least costly city worldwide.

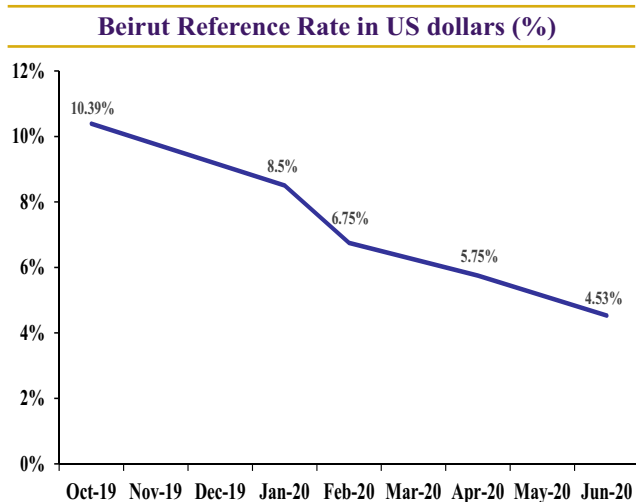
Cost of Living Rankings in 2020			
	Arab Rank	Global Rank	Change in Global Rank*
Dubai	1	23	-2
Riyadh	2	31	+4
Abu Dhabi	3	39	-6
<b>Beirut</b>	<b>4</b>	<b>45</b>	<b>+8</b>
Manama	5	52	+5
Djibouti	6	58	+1
Amman	7	71	+4
Muscat	8	96	+7
Jeddah	9	104	-4
Doha	10	109	+6
Kuwait City	11	113	+6
Casablanca	12	121	+7
Cairo	13	126	+40
Rabat	14	159	+1
Nouakchott	15	184	+8
Algiers	16	194	-10
Tunis	17	209	-

\* (+) reflects a relative increase in the cost of living  
Source: Mercer, Byblos Research

## Association of banks further lowers reference rate on US dollar

The Association of Banks in Lebanon (ABL) recommended to its member banks to decrease the Beirut Reference Rate (BRR) in US dollars by 122 basis points to 4.53% starting in June 2020. This follows ABL's recommendations to lower the BRR by 104 basis points on January 3, to cut the rate by an additional 85 basis points on January 16, to lower the BRR by 175 basis points on February 14, and to reduce the rate by 100 basis points on April 15. The five decisions resulted in a cumulative decline of 586 basis points in the BRR in US dollars so far in 2020. The rate, considered as the reference rate for lending in foreign currency, replaced the London Interbank Offered Rate (LIBOR) in 2009, as the ABL decided that the LIBOR does not reflect the cost of funding and lending in Lebanon.

In addition, the ABL maintained the BRR in Lebanese pounds at 7.75%. The ABL had previously recommended to reduce the rate in Lebanese pounds by 104 basis points on January 3, to lower the rate by 95 basis points on January 16, to reduce the rate by 250 basis points on February 14, and to cut the rate by 125 basis points on April 15. Consequently, the four decisions resulted in a cumulative decline of 574 basis points of the BRR in Lebanese pounds so far in 2020.



Source: Association of Banks in Lebanon, Byblos Research

The ABL indicated that the decreases in the BRR are consistent with its efforts to stimulate the economic cycle in the current challenging environment. It considers that the BRR does not replace the Beirut Prime Lending Rate in each currency, but constitutes the basis for calculating the prime rate after adding the cost of liquidity and refinancing, credit risk and the profitability of banks.

According to Banque du Liban, the weighted average lending rate in Lebanese pounds was 9.29% in April 2020, down from 9.41% in March 2020 and from 10.74% a year earlier, while the same rate in US dollars was 7.79%, relative to 8.55% in the previous month and to 9.34% in April 2019.





### Consumer Price Index up 22% in first four months of 2020

The Central Administration of Statistics' Consumer Price Index increased by 21.5% in the first four months of 2020, compared to a growth of 3.6% in the same period of 2019. Also, the CPI expanded by 46.6% in April 2020 from the same month of 2019, the highest increase since December 2008. The surge in inflation is due in part to the deterioration of the Lebanese pound's exchange rate on the parallel market that encouraged opportunistic wholesalers and retailers to raise consumer prices disproportionately. It also reflects the authorities' inability to monitor and to contain the price hikes.

The CAS claimed that it faced challenges in data collection in March and April due to missing items at outlets, the temporary closure of retail outlets, and restrictions on the movement of data collectors. It imputed the missing data by using the price changes of similar products. It said that 47% of the prices included in the March CPI basket were imputed, while 80% of prices in the April basket were imputed.

According to CAS' adjusted methodology, the prices of alcoholic beverages & tobacco grew by 167.4% annually in April 2020, followed by the prices of food & non-alcoholic beverages (+150.3%), the cost of clothing & footwear (+135%), prices at restaurants & hotels (+123.7%), the prices of furnishings & household equipment (+92%), communication costs (+76.8%), the cost of miscellaneous goods & services (+74.1%), recreation & entertainment (+51.6%), transportation (+27.7%), actual rents (+7.1%), imputed rents (+5.1%), and healthcare and education costs (+4% each). In contrast, the prices of water, electricity, gas & other fuels decreased by 9.6% annually in April 2020. In addition, the distribution of actual rents shows that old rents grew by 9% and new rents increased by 5.8% year-on-year in April 2020.

In parallel, the CPI increased by 25.4% in April 2020 from the previous month, compared to a month-on-month growth of 7.3% in March 2020. The prices of clothing & footwear grew by 88.3% month-on-month in April 2020, followed by prices at restaurants & hotels (+85%), alcoholic beverages & tobacco (+83.3%), the prices of food & non-alcoholic beverages (+79.5%), communication costs (+50.5%), the cost of miscellaneous goods & services (+46.7%), the prices of furnishings & household equipment (+39.8%), recreation & entertainment costs (+32.6%), transportation (+2.8%), healthcare costs (+1.9%), imputed rents (+0.9%), and actual rents (+0.7%). In contrast, the cost of water, electricity, gas & other fuels declined by 8.1% month-on-month in April 2020, while the cost of education was unchanged in the covered month.

Further, the CPI increased by 31% in the North, by 26.4% in the Bekaa, by 26.1% in Nabatieh, by 24.9% in the South, by 24% in Mount Lebanon and by 21.1% in Beirut in April 2020. In parallel, the Fuel Price Index decreased by 13.8% month-on-month in April 2020, while the Education Price Index was unchanged in the covered month.

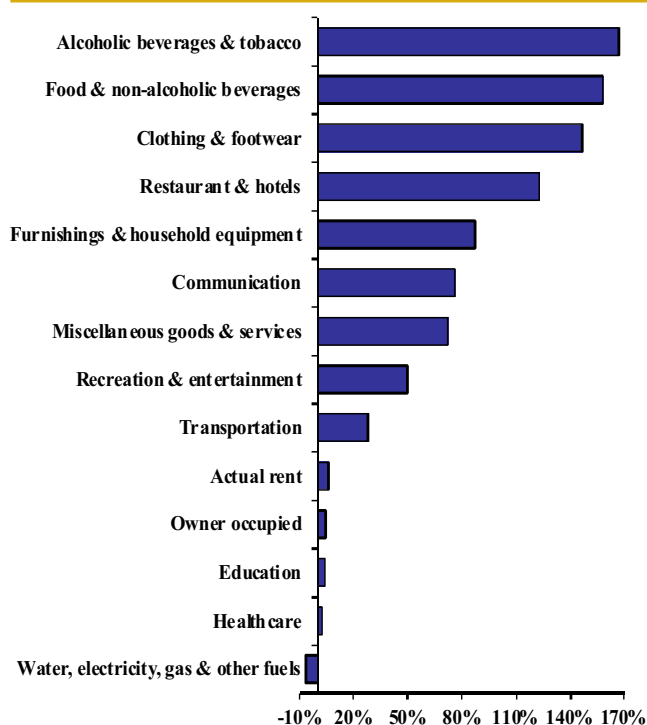
### Banking Control Commission asks banks to provide details about foreign transfers

The Banking Control Commission of Lebanon (BCCL) issued on June 5, 2020 a memo that asks banks operating in Lebanon to provide it with records about incoming and outgoing transfers for individual and corporate clients.

The BCCL required banks to report the number and amount of incoming and outgoing transfers. It also requested banks to specify the amount of transfers from and to Lebanese banks that were made for commercial purposes and for non-commercial reasons, that were related to deposits originating from credit lines, and that were transferred to affiliates, subsidiaries and branches of Lebanese banks abroad.

It noted that banks must provide the requested information on a monthly basis from January 2019 until May 2020, as well as on a daily basis from October 1, 2019 until November 1, 2019. The BCCL indicated that banks have to provide it with the information it requested within 10 days of the date of the memo.

Change in Prices between September 2019 and April 2020 (%)



Source: Central Administration of Statistics, Byblos Research

### One in five Lebanese firms expected to provide gifts when meeting with tax officials

The World Bank's 2019 Enterprise Survey for Lebanon indicated that 12.1% of surveyed Lebanese firms believe that corruption is the biggest obstacle they face when doing business in the country, compared to 7.4% of respondents in the Middle East & North Africa (MENA) region, and 6.7% of surveyed enterprises in upper middle-income countries (UMICs) that share similar views about corruption in their countries.

The World Bank's Enterprise Survey focuses on several aspects of a country's business environment, including infrastructure, trade, finance, regulations, taxes, business licensing, corruption, crime and informality, access to finance, innovation, labor, as well as perceptions about obstacles to doing business. The results of the 2019 Enterprise Survey for Lebanon are based on the responses of business owners and top managers at 532 firms who were interviewed between May 2019 and April 2020. The firms are in the manufacturing, construction, wholesale, retail, information technology, and storage, transportation & communication sectors.

Also, 21.8% of Lebanese firms experienced at least one request for a bribe payment, compared to 17.3% of surveyed companies in the MENA region and 12% of firms in UMICs that have had a similar request in their country. Further, 56.5% of surveyed firms in Lebanon stated that they were expected to give gifts to officials to get a construction permit. In comparison, 26.8% of firms in the MENA region and 16.2% of enterprises in UMICs were supposed to do the same in their countries. In addition, 19.3% of Lebanese respondents noted that they were expected to provide gifts when meeting with tax officials, relative to a share of 13.5% of firms in MENA countries and 9.8% of companies in UMICs that were supposed to do the same in their countries.

In parallel, 37% of surveyed firms in Lebanon considered that political instability is the largest obstacle to doing business in the country, compared to 24.1% of respondents in the MENA region and to 10.6% of participants in UMICs that have similar views about their countries. Also, 56.3% of Lebanese firms indicated that they are competing against informal firms, compared to 42.1% of surveyed firms in MENA countries and 48.5% of participants in UMICs. Further, surveyed Lebanese firms noted that it takes 12.3 days for them to clear exports through customs, while it takes 7.4 days for MENA companies and seven days for firms in UMICs to clear their exports. Also, respondents in Lebanon said that they need 14.2 days to clear imports from customs relative to 10.4 days for MENA firms and 10.6 days for companies in UMICs to clear customs in their respective countries. In addition, it takes 236 days for firms to obtain an electricity connection in Lebanon, while it takes 69 days for MENA companies and 37 days for corporates in UMICs to do the same in their countries.

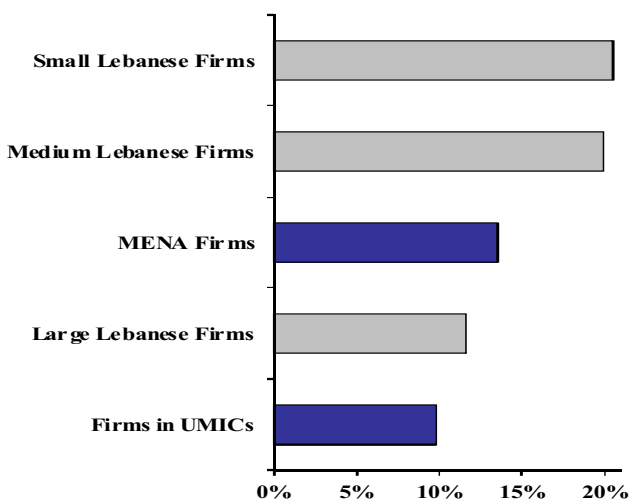
### Broad money supply down 4% in first four months of 2020

Figures released by Banque du Liban show that money supply M1, which includes currency in circulation and demand deposits in Lebanese pounds, reached LBP22,427bn at the end of April 2020, constituting an increase of 35% from LBP16,620bn at the end of 2019 and a rise of 109% from LBP10,735bn at end-April 2019. Currency in circulation stood at LBP14,562bn at the end of April 2020, up by 48.3% from LBP9,818bn at end-2019 and by 199.4% from LBP4,864bn at end-April 2019. Also, demand deposits in local currency stood at LBP7,865bn at the end of April 2020, constituting an increase of 15.6% from end-2019 and a rise of 34% from end-April 2019. The year-on-year increase in money supply largely reflects the migration of term deposits to demand deposits, as well as the shift to a cash based economy. Money supply M1 rose by 2.2% in April from LBP21,936bn at end-March 2020, with currency in circulation growing by 10.2% and demand deposits in local currency declining by 9.8% month-on-month.

In addition, money supply M2, which includes M1 and term deposits in Lebanese pounds, reached LBP58,243bn at the end of April 2020, constituting a decrease of 8.3% from LBP63,484bn at the end of 2019 and a decline of 22.6% from LBP75,296bn a year earlier. Term deposits in Lebanese pounds totaled LBP35,815bn at the end of April 2020, down by 23.6% from LBP46,864bn at end-2019 and by 44.5% from LBP65,561bn at end-April 2019. Money supply M2 regressed by 2.4% in April from LBP59,697bn at end-March 2020, with term deposits in local currency declining by 5.2% month-on-month.

Further, broad money supply M3, which includes M2, deposits in foreign currency and debt securities issued by the banking sector, reached LBP195,245bn at the end of April 2020, constituting a decrease of 3.7% from LBP202,831bn at the end of 2019 and a decline of 7.6% from LBP211,318bn at end-April 2019. Deposits in foreign currency totaled LBP136,529bn at the end of April 2020, declining by 1.7% from end-2019 and increasing by 0.6% from a year earlier. Also, debt securities issued by the banking sector amounted to LBP474bn at the end of April 2020, compared to LBP437bn at the end of 2019 and to LBP301bn at end-April 2019. Money supply M3 regressed by 0.6% from LBP196,483 at the end of March 2020, with deposits in foreign currency and debt securities issued by the banking sector nearly unchanged month-on-month. In parallel, M3 decreased by LBP7,586bn in the first four months of 2020 due to a drop of LBP8,568bn in claims on the private sector and a decline of LBP6,253bn in net claims on the public sector, which were partly offset by a rise of LBP6,266bn in other net items and an increase of LBP969bn in the net foreign assets of deposit-taking institutions.

### Percent of Firms Expected to Give Gifts in Meetings with Tax Officials (%)



Source: World Bank's 2019 Enterprise Survey, Byblos Research

### Fiscal deficit widens by 71% in first quarter of 2020

Figures released by the Ministry of Finance show that the fiscal deficit reached \$1.66bn in the first quarter of 2020 and widened by 71% from a deficit of \$968.65m in the first quarter of 2019. The deficit was equivalent to 42.6% of total budget and Treasury expenditures relative to 27.3% of spending in the same quarter last year. Government expenditures reached \$3.88bn in the first quarter of 2020 and rose by 9.5% from the first quarter of 2019, while revenues regressed by 13.6% to \$2.23bn. As such, the widening of the deficit reflects an increase of \$336.8m in overall spending, mostly in budgetary expenditures, and a drop of \$349.6m in total revenues in the covered quarter.

On the revenues side, tax receipts decreased by 12.5% year-on-year to \$1.73bn in the first quarter of 2020, of which 19%, or \$328.6m, were in VAT receipts that dropped by 42.3% annually. Tax receipts accounted for 82.5% of budgetary revenues and for 77.8% of Treasury and budgetary income in the covered quarter. The distribution of other tax revenues shows that receipts from taxes on income, profits & capital gains rose by 27.1% to \$953.1m in the first quarter of 2020; revenues from customs dropped by 38.6% to \$185.3m; receipts from property taxes declined by 22.6% to \$153.8m; while proceeds from stamp fees decreased by 25% to \$72.8m, and revenues from taxes on goods & services fell by 38.1% to \$38.1m.

The distribution of income tax receipts shows that the tax on interest income accounted for 72.5% of income tax revenues in the first quarter of 2020, followed by the tax on wages & salaries with 15%, the tax on profits with 10.2%, and the capital gains tax with 2.1%. Receipts from the tax on interest income surged by 68.6%, while revenues from the tax on capital gains dropped by 54.7%, revenues from the tax on profits dipped by 23.1% and proceeds from the tax on wages & salaries regressed by 12% year-on-year in the covered quarter. Also, the distribution of property taxes indicates that revenues from real estate registration fees rose by 18.6% year-on-year to \$110.3m, while receipts from the built property tax dropped by 64.6% to \$30.1m and revenues from the inheritance tax fell by 35.4% to \$13.4m in the first quarter of 2020.

Further, non-tax budgetary receipts declined by 20% year-on-year to \$366.5m in the covered quarter. They mainly included \$210m in revenues generated from government properties that fell by 24.7%, as well as \$103.85m in receipts from administrative fees and charges that regressed by 25.5% annually. Receipts from telecommunication services dropped by 38.7% year-on-year to \$132.7m in the first quarter of 2020, and accounted for 63.2% of income from government properties and for 36.2% of non-tax budgetary revenues.

On the expenditures side, total budgetary spending, which includes general expenditures and debt servicing, grew by 12% year-on-year to \$3.7bn in the first quarter of 2020. General spending increased by 18% to \$2.72bn in the covered quarter, and included \$302m in transfers to Electricité du Liban (EdL) that rose by 2.8% year-on-year, and \$1bn in outlays from previous years that surged by 60% annually, among other general spending items. Also, debt servicing totaled \$979.3m in the first quarter of 2020 and regressed by 2% from the first quarter of 2019. Interest payments on Lebanese pound-denominated debt rose by 17.3% year-on-year to \$829.7m in the first quarter of 2020, while debt servicing on foreign currency debt dropped by 54.8% to \$118.8m. In addition, Treasury expenditures, excluding transfers to EdL, declined by 25% year-on-year to \$180.1m in the covered quarter. Further, the primary budget balance posted a deficit of \$624.4m in the first quarter of 2020, equivalent to 17% of budgetary expenditures, while the overall primary balance registered a deficit of \$675.7m, or 17.4% of spending.

Fiscal Results in First Quarter of Each Year			
	2019 (US\$m)	2020 (US\$m)	Change (%)
Budget Revenues	2,436	2,098	-13.9%
Tax Revenues	1,979	1,732	-12.5%
Non-Tax Revenues	457	366	-19.9%
<i>of which Telecom revenues</i>	216	133	-38.7%
Budget Expenditures	3,305	3,702	12.0%
<b>Budget Surplus/Deficit</b>	<b>(869)</b>	<b>(1,604)</b>	<b>84.5%</b>
<i>In % of budget expenditures</i>	<i>-26.3%</i>	<i>-43.3%</i>	
<b>Budget Primary Surplus</b>	<b>129</b>	<b>(624)</b>	<b>-</b>
<i>In % of budget expenditures</i>	<i>3.9%</i>	<i>-16.9%</i>	
Treasury Receipts	141	129	-8.5%
Treasury Expenditures	240	180	-25.0%
Total Revenues	2,577	2,227	-13.6%
Total Expenditures	3,545	3,882	9.5%
<b>Total Deficit</b>	<b>(969)</b>	<b>(1,655)</b>	<b>70.9%</b>
<i>In % of total expenditures</i>	<i>-27.3%</i>	<i>-42.6%</i>	
<b>Total Primary Surplus/Deficit</b>	<b>29.7</b>	<b>(675.7)</b>	<b>-</b>
<i>In % of total expenditures</i>	<i>0.8%</i>	<i>-17.4%</i>	

Source: Ministry of Finance, Byblos Research



### **Banque du Liban modifies conditions to supply foreign currency for essential imports**

Banque du Liban (BdL) issued on June 8, 2020 Intermediate Circular 561 that amends Basic Circular 23 dated March 7, 1996 about the facilities that BdL can provide to commercial banks and financial institutions, as well as Basic Circular 52 dated October 30, 1998 about documentary credits. The circular aims to facilitate and improve the mechanism of obtaining foreign currency in order to import essential goods.

Circular 561 allows banks to buy foreign currency from BdL to cover 90% of a client's import bill of oil derivatives, 85% of the import bill for wheat, medicine, medical supplies, milk for babies who are less than one year old, as well as for raw materials used in the manufacturing of medicine.

Further, the circular specified the list of documents that banks should submit in order to have access for their clients to this mechanism. First, the bank must provide BdL with a copy of the client's application and all documents related to the import of any of the covered products, including the final import invoice of oil derivatives and wheat; a certified copy of the final import bill from the Ministry of Health for medicine, medical supplies, baby milk, and materials used in the manufacturing of medicine; or the final invoice with the approval of the Ministry of Health for importing medicine in case of need. Banks should also provide BdL with documents proving that the imported goods match the volume specified in the import bill, such as the "Airway Bill" or the "Bill of Lading". They should also submit documentary credits when requested, among others.

Second, banks must verify that the import bills and documentary credits cover imported products for domestic consumption only. In parallel, the circular allowed banks to submit requests to finance eligible products that entered Lebanon up to 300 days prior to the date that BdL receives the request.

Moreover, the circular indicated that BdL will transfer the amount required for each import transaction to the current account of the concerned bank at BdL, after the bank provides all the required documents. BdL will then transfer the amount of the approved invoice to the bank's correspondent abroad. It noted that BdL could impose a fine on banks if they violate any of the specified conditions under this mechanism.

Intermediate Circular 561 replaces Intermediate Circular 535 issued on November 26, 2019 about BdL's facilities to banks. Circular 535 allowed banks to buy foreign currency from BdL to cover 85% of a client's import bill of pharmaceuticals, 50% of the import bill of medical supplies, and 75% of the import bill of materials used in the manufacturing of medicine, provided that banks meet specific requirements. In addition, Circular 561 cancels Intermediate Circular 530 dated September 30, 2019 about documentary credits. Intermediate Circular 530 regularized access to foreign currency to finance the imports of hydrocarbons, medicine and wheat and allowed banks that open documentary credits for the imports of the specified products to source the needed foreign currency from BdL, provided that they meet specific requirements.

### **Opened letters of credit at \$228m for imports and \$91.5m for exports in first quarter of 2020**

Figures released by Banque du Liban show that the amount of letters of credit (LCs) opened to finance imports to Lebanon totaled \$228m in the first quarter of 2020, constituting a decrease of 69% from \$735.6m in the fourth quarter of 2019 and a drop of 86.4% from \$1.7bn in the first quarter of 2019. The significant decline in the amount of LCs in the first quarter of the year is due to stricter requirements imposed by correspondent banks following the downgrade of Lebanon's sovereign ratings and to importers' increased challenges in meeting these requirements.

Further, utilized credits for imports reached \$287m in the first quarter of 2020, constituting a decline of 80% from \$1.4bn in the same period of 2019, and accounted for 126% of opened LCs for imports in the covered period. Also, outstanding import credits stood at \$244.6m at the end of March 2020 compared to \$1.1bn a year earlier. In addition, the aggregate amount of inward bills for collection reached \$92m in the first quarter of 2020, down by 63.3% from \$250.5m in the same period of 2019. The outstanding amount of inward bills for collection was \$38.9m at the end of March 2020 relative to \$57.5m at end-March 2019.

In parallel, the amount of documentary letters of credit opened to finance exports from Lebanon totaled \$91.5m in the first quarter of 2020, constituting a decrease of 74.5% from \$358.8m in the fourth quarter of 2019, and a decline of 89.6% from \$882.5m in the first quarter of 2019. Further, utilized credits for exports reached \$213.4m in the first quarter of the year, down by 71.6% from \$752.2m in used credits in the same period of 2019, and accounted for 233.3% of opened LCs for exports in the covered period. Also, outstanding export credits stood at \$376.8m at the end of March 2020 compared to \$898m a year earlier. In addition, the aggregate amount of outward bills for collection amounted to \$87.2m in the first quarter of 2020, constituting a decline of 63.5% from \$239m in the same period of 2019. The outstanding amount of outward bills for collection reached \$271.3m at the end of March 2020 relative to \$400.4m at end-March 2019.



### **Authorities take measures to stop deterioration of exchange rate**

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In a meeting held on June 12, 2020, the Council of Ministers announced that Banque du Liban (BdL) will start injecting foreign currency liquidity in the market through money exchange firms in an attempt to gradually strengthen the exchange rate on the parallel market. Further, the Cabinet mandated the Ministry of Justice to crackdown on persons and entities that are spreading rumors that are adversely affecting confidence in the national currency. In addition, it formed a "crisis cell" chaired by the Minister of Finance that consists of the Minister of Economy & Trade, the Governor of BdL, the President of the Association of Banks in Lebanon, the General Director of the Lebanese General Security, and the Head of the Syndicate of Money Exchange Dealers, among others. It noted that the "crisis cell" will follow up financial and monetary developments, and will ensure the implementation of all related decisions.

In parallel, BdL issued two statements that regulate money dealers' access to foreign currency through BdL. The first memo, issued on June 9, 2020, asks "Category A" money dealers to submit an application to buy US dollars from BdL at rates determined by the Syndicate of Money Exchange Dealers on a daily basis. It added that money dealers need to justify their requests to buy US dollars from BdL and to specify the name of the beneficiary. It noted that BdL will transfer within 48 hours the approved requests to the money dealers' accounts at foreign correspondent banks and that these funds will be used to meet demand for banknotes in the Lebanese market. It warned that Lebanese security forces will crackdown on unlicensed money dealers, as well as on licensed dealers that violate this mechanism. The second memo, issued on June 12, 2020, allows "Category A" money dealers to buy US dollars from money transfer operators or from BdL at rates determined by the Syndicate of Money Exchange Dealers on a daily basis. It also asked money dealers to send to BdL for review all information about the transactions on a daily basis, including the names of the beneficiaries and the amount and description of each transaction. The syndicate set the buying rate of the US dollar at LBP3,860 and the selling rate at LBP3,910 for June 15, 2020.

### **Banque du Liban issues mechanism for electronic platform**

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Banque du Liban (BdL) issued Basic Circular 5 on June 10, 2020 that regulates the access of money exchange firms to BdL's electronic platform to buy and sell foreign currency. First, the circular requested money exchange firms to register to the "Sayrafa" online application in order to conduct foreign currency transactions through the platform. It noted that money dealers will receive electronic tablets that contain this application. Second, the circular requires money dealers to allocate one or more tablets to the head office and branches, as well as to specify the location of each tablet.

Third, it asked money dealers to determine and enter the daily exchange rates that they adopt through the application every day before 9:00am. It added that the firm can adjust the rate during the day, but that the rate should be unified across the dealer's head office and branches. Fourth, the circular mandated money dealers to simultaneously enter on the application all information required by BdL about the transaction when executing it. It noted that the information should include the date and amount of the foreign currency operation, the identity of the beneficiaries, their phone number, and a copy of their identity card or other official documents, among other details.

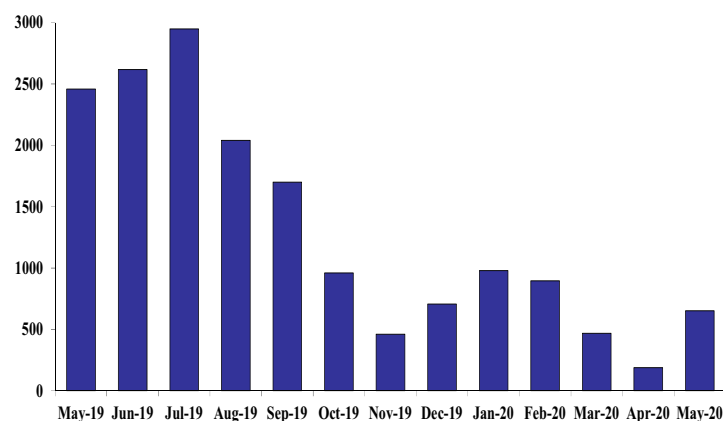
Fifth, it asked money dealers to refrain from conducting any foreign currency transaction outside the "Sayrafa" application. Sixth, the circular required money exchange firms to abide by any exchange rate ceiling that BdL could introduce, and to maintain a normal spread between the buying and selling rates. The measures under Basic Circular 5 will go into effect on June 23, 2020.

### New car sales down 70% in first five months of 2020

Figures released by the Association of Automobile Importers (AAI) in Lebanon show that dealers sold 3,183 new passenger cars in the first five months of 2020, constituting a drop of 70% from 10,560 cars sold in the same period of 2019. Individuals and institutional clients purchased 979 new cars in January, 897 new vehicles in February, 468 new automobiles in March, 188 new cars in April, and 651 new vehicles in May 2020. In comparison, clients bought 1,838 new vehicles in January, 1,906 new automobiles in February, 2,190 new cars in March, 2,168 new vehicles in April, and 2,458 new automobiles in May 2019.

The market for new passenger cars in Lebanon has been facing increasing challenges in the past few years, including economic contraction, job insecurity, reduced purchasing power of consumers, as well as more stringent requirements for car loans. In addition, the market has been affected by the measures that banks had to put in place since last October, as well as by the outbreak of the coronavirus in the country and the related general mobilization measures. The AAI stopped releasing its monthly data on car sales by brand, distributor and source country since January 2020.

Number of Passenger Cars Sold



Source: Association of Automobile Importers

### Contractors claim \$600m in arrears from public sector

The Lebanese Syndicate of Public Works & Buildings Contractors declared that the government owes to contractors and engineers dues of \$600m, which cover payment arrears owed to about 1,000 engineering companies and 300 subcontractors. It noted that the arrears include \$500m in dues from the Council for Development & Reconstruction.

It indicated that 80% of public projects that are financed locally in Lebanese pounds are commissioned by the Council for Development & Reconstruction, while the remaining 20% are projects contracted by ministries, councils and other public entities. It pointed out that such projects have been facing challenges over the past two years, as the Ministry of Finance has not been settling regularly the payments for these projects. It added that the government refuses to recognize the existence of "*force majeure*", or exceptional circumstances, which would require reviewing all the projects in terms of compensation, contract amendment or even terminating the projects. It indicated that the measures that banks were forced to take since October 2019 increased the pressure on contractors, while the emergence of a parallel exchange rate led to higher prices for raw materials, which resulted in the suspension of work in most projects.

Second, the syndicate noted that the payments for projects that are financed locally in US dollars are also being delayed and, once settled, they are paid in Lebanese pounds based on the official exchange rate. As such, contractors suspended work on these projects, which increased their losses. As for the projects that are partly financed by foreign entities, the syndicate pointed out that foreign funding covers usually about 75% of a project's total cost, while the remaining 25% originate from local sources. However, it noted that the Finance Ministry is not paying its share of the funding, which has slowed the work on these projects.

It considered that the current economic crisis in Lebanon has a direct impact on 1,000 engineering companies, contractors and consultants that are engaged in projects for the government and public sector, as well as on about 3,000 subcontractors, 15,000 engineers and 150,000 technicians and workers in these companies.

The syndicate called on the government to issue a decree that allows contractors to classify events that occurred after October 18, 2019 as "*force majeure*", which would imply the extension of project deadlines, the reassessment of projects and the amendment of contracts, especially the clauses related to pricing and to the compensation for losses.

Also, it asked the government to revoke the contracts that are not being honored, in order to limit the losses for the government and contractors. It called on the government to suspend new projects that are financed locally until it solves the financing issues related to existing projects, and to stop launching tenders for projects that are funded externally until banks resume extending guarantees for such projects.

### **Private hospitals facing increasingly challenging operating conditions**

The Syndicate of Private Hospital Owners in Lebanon indicated that the shortage of foreign currency, the weakening of the exchange rate on the parallel market and the coronavirus pandemic exacerbated the challenging operating environment for hospitals in the country. It noted that the healthcare sector is already facing challenges from an obsolete hospital tariff system and the government's delays in paying its dues to hospitals, which have constrained the latter's liquidity and limited their ability to purchase medical equipment, medicine and other usable goods, as well as to settle salaries.

It pointed out that the depreciation of the Lebanese pound against the US dollar on the parallel market to more than LBP4,000 per dollar increased the cost of medical supplies and services, while public institutions, such as the National Social Security Fund (NSSF) and the Ministry of Public Health, continue to pay beneficiaries' bills to hospitals in Lebanese pounds based on the official exchange rate. It noted, however, that suppliers are increasingly asking hospitals to settle their bills in US dollars.

It indicated that the operating expenditures of hospitals grew on average by more than 50%, while the occupancy rate at hospitals declined by about 50% due to fears of contamination from the spread of the coronavirus, which reduced hospitals' revenues. It pointed out that the fee per hospital bed is currently equivalent to \$21 per day based on the market exchange rate, which covers the overnight stay, food, and some medicines and supplies. It added that the average cost of a delivery room is now \$70 per day, while the average cost of a stent vascular surgery is \$165.

As such, the syndicate called on authorities to settle in full, within a period of two weeks, the dues of patients who are covered by the Ministry of Public Health and by the Lebanese Army and the Internal Security Forces' healthcare insurance systems for 2019 and for the first quarter of 2020. In addition, it suggested the formation of a committee that includes the Syndicate of Hospitals Owners as well as the various healthcare insurance bodies in order to deal with the challenges, and to reconsider the current hospital tariffs. Also, it called for establishing a mechanism with suppliers and importers to curb the rise in the prices of materials and supplies used at hospitals, and to price these products in Lebanese pounds. Further, it will approach the Ministry of Labor in order to reach an agreement about the layoffs at hospitals from the challenging financial conditions. It called on the NSSF, the healthcare insurance schemes of the Ministry of Health, the Lebanese Army and the Internal Security Forces, as well as the cooperative of government employees, to take part in addressing these issues before the end of June 2020, in order to ensure the sustainability of the healthcare sector.



## Ratio Highlights

(in % unless specified)	2017	2018	2019	Change*
Nominal GDP (\$bn)	53.1	55.0	56.8	1.85
Public Debt in Foreign Currency / GDP	57.2	60.9	59.4	(1.54)
Public Debt in Local Currency / GDP	92.5	94.0	101.9	7.94
Gross Public Debt / GDP	149.7	154.9	161.3	6.40
Total Gross External Debt / GDP**	139.2	137.0	128.4	(8.62)
Trade Balance / GDP	(31.5)	(31.0)	(27.3)	3.69
Exports / Imports	14.5	14.8	19.4	4.62
Fiscal Revenues / GDP	21.9	21.0	19.5	(1.53)
Fiscal Expenditures / GDP	28.9	32.4	29.7	(2.62)
Fiscal Balance / GDP	(7.1)	(11.4)	(10.3)	1.09
Primary Balance / GDP	2.7	(1.2)	(0.5)	0.65
Gross Foreign Currency Reserves / M2	68.2	63.8	70.2	6.38
M3 / GDP	260.8	257.1	236.7	(20.33)
Commercial Banks Assets / GDP	413.7	453.9	381.6	(72.37)***
Private Sector Deposits / GDP	317.4	317.1	279.6	(37.48)
Private Sector Loans / GDP****	112.3	108.1	87.6	(20.45)
Private Sector Deposits Dollarization Rate	68.7	70.6	76.0	5.41
Private Sector Lending Dollarization Rate	68.6	69.2	68.7	(0.50)

\*change in percentage points 19/18; \*\*includes portion of public debt owed to non-residents, liabilities to non-resident banks, non-resident deposits (estimated by the IMF), Bank for International Settlements' claims on Lebanese non-banks; \*\*\*The decline in assets in 2019 is mainly due to the "netting" on the assets and liabilities' sides of the consolidated balance sheet of commercial banks as part of the implementation of international accounting standard IFRS 7; \*\*\*\* in January 2018, Lebanese banks started reporting their financials based on international accounting standard IFRS 9, and revised the 2017 figures accordingly  
Source: Association of Banks in Lebanon, Institute of International Finance, Central Administration of Statistics, Byblos Research Estimates & Calculations  
Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

## Risk Metrics

Lebanon	Feb 2018	Jan 2019	Feb 2019	Change**	Risk Level
Political Risk Rating	55.0	54.0	54.0	▲	High
Financial Risk Rating	33.0	31.5	31.5	▲	Moderate
Economic Risk Rating	28.5	24.0	24.0	▲	Very High
Composite Risk Rating	58.25	54.75	54.75	▲	High

MENA Average*	Feb 2018	Jan 2019	Feb 2019	Change**	Risk Level
Political Risk Rating	58.2	58.1	58.2	➔	High
Financial Risk Rating	37.9	39.1	39.2	▼	Low
Economic Risk Rating	31.4	33.8	33.8	▼	Moderate
Composite Risk Rating	63.8	65.5	65.6	▼	Moderate

\*excluding Lebanon

\*\*year-on-year change in risk

Source: The PRS Group, Byblos Research

Note: Political & Composite Risk Ratings range from 0 to 100 (where 100 indicates the lowest risk)

Financial & Economic Risk ratings range from 0 to 50 (where 50 indicates the lowest risk)

## Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's Investors Service	Ca	NP	Stable	Ca		Stable
Fitch Ratings	RD	C	-	CC	C	-
S&P Global Ratings	SD	SD	-	CC	C	Negative
Capital Intelligence Ratings	SD	SD	-	C-	C	Negative

\*for downgrade

\*\*CreditWatch negative

Source: Rating agencies

### Banking Sector Ratings

Banking Sector Ratings	Outlook
Moody's Investors Service	Negative

Source: Moody's Investors Service





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