

# LEBANON THIS WEEK

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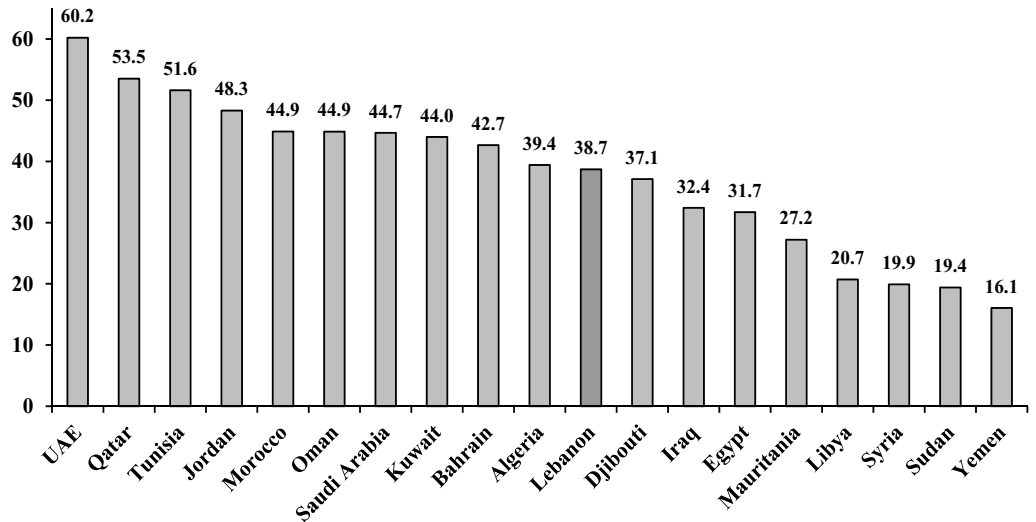
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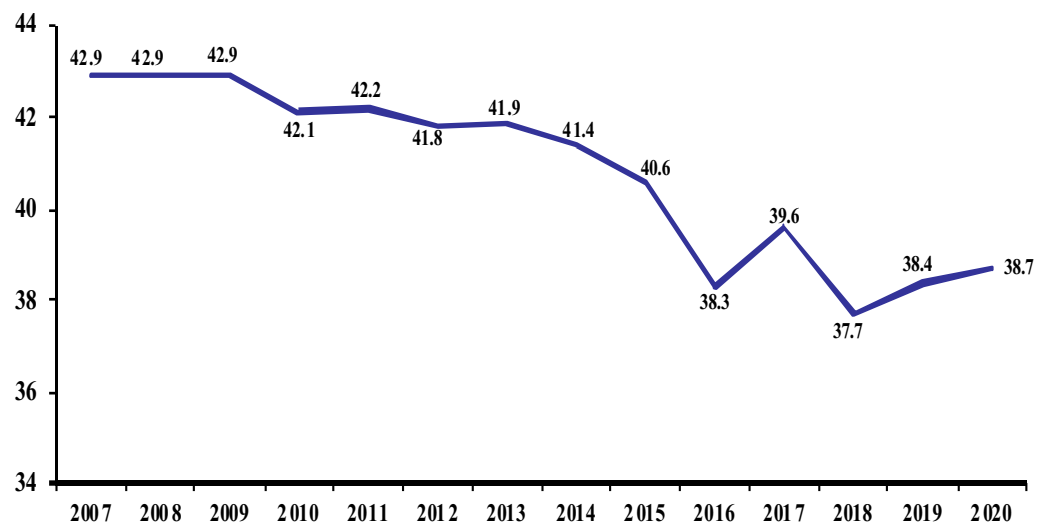
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## Charts of the Week

Performance of Arab Countries in Terms of Governance in 2020



Performance of Lebanon in Terms of Governance



Source: Legatum Institute's Prosperity Index for 2020, Byblos Bank

## Quote to Note

"In the long-term, there may be opportunities in Lebanon for international companies in the energy, water and wastewater, safety and security, fast-food franchising, healthcare and medical technologies, and Information and Communications Technology sectors."

*The U.S. Department of Commerce's Country Commercial Guide for Lebanon, on potential opportunities in the Lebanese market*

## Number of the Week

**\$30bn:** Size of the Lebanese economy in 2020, according to the World Bank

## Lebanon in the News

\$m (unless otherwise mentioned)	2019	Jan-Nov 2019	Jan-Nov 2020	% Change*	Nov-19	Oct-20	Nov-20
Exports**	3,731	2,806	2,632	(6.2)	309	-	-
Imports**	19,239	15,304	7,878	(48.5)	1,281	-	-
Trade Balance**	(15,508)	(12,498)	(5,246)	(58.0)	(972)	-	-
Balance of Payments	(5,851)	(5,010)	(10,203)	103.6	1,143	(380)	(214)
Checks Cleared in LBP	22,146	19,743	17,995	(8.9)	2,232	1,855	1,683
Checks Cleared in FC	34,827	30,928	31,079	0.5	2,946	2,626	2,242
Total Checks Cleared	56,973	50,671	49,074	(3.2)	5,178	4,481	3,925
Fiscal Deficit/Surplus***	(5,837)	(2,952)	(2,535)	(14.1)	(892)	-	-
Primary Balance***	(287)	368	(1,136)	-	17	-	-
Airport Passengers	8,683,719	8,138,752	2,219,845	(72.7)	438,674	242,817	220,333
Consumer Price Index (%)	2.9	2.5	79.0	7650	3.2	136.8	133.5

\$bn (unless otherwise mentioned)	Dec-19	Nov-19	Aug-20	Sep-20	Oct-20	Nov-20	% Change*
BdL FX Reserves	29.55	30.15	22.76	20.00	19.46	19.03	(36.9)
In months of Imports	21.95	23.54	28.48	20.95	-	-	-
Public Debt	91.64	89.48	94.27	94.81	95.04	-	-
Bank Assets	216.78****	259.69	195.71	192.57	191.09	190.31	(26.7)
Bank Deposits (Private Sector)	158.86	162.60	143.04	142.18	140.96	139.91	(14.0)
Bank Loans to Private Sector	49.77	52.48	39.64	38.60	37.68	37.11	(29.3)
Money Supply M2	42.11	43.82	40.21	40.94	42.06	43.32	(1.1)
Money Supply M3	134.55	136.44	130.53	130.92	131.20	131.92	(3.3)
LBP Lending Rate (%)	9.09	9.69	7.14	7.89	7.61	7.92	(177)
LBP Deposit Rate (%)	7.36	9.40	3.47	3.35	3.14	2.91	(649)
USD Lending Rate (%)	10.84	10.64	7.54	7.54	7.46	6.63	(401)
USD Deposit Rate (%)	4.62	6.31	1.28	1.15	1.04	0.97	(534)

\*year-on-year \*\*figures for the period reflect the first nine months of each year \*\*\*figures for the period reflect the first eight months of each year \*\*\*\*The annual 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	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Solidere "A"	18.98	1.2	49,747	28.1%	Apr 2021	8.25	13.63	2783.17
Solidere "B"	18.57	0.9	7,686	17.9%	Oct 2022	6.10	13.50	159.73
Audi Listed	1.21	0.8	5,098	10.6%	Jan 2023	6.00	13.00	131.44
Byblos Common	0.50	0.0	-	4.2%	Jun 2025	6.25	12.75	52.82
Audi GDR	1.20	0.0	-	2.1%	Nov 2026	6.60	12.63	38.68
BLOM GDR	2.12	(3.6)	-	2.3%	Feb 2030	6.65	12.63	24.09
HOLCIM	13.13	0.0	-	3.8%	Apr 2031	7.00	12.63	21.23
BLOM Listed	2.07	0.0	-	6.6%	May 2033	8.20	12.63	17.51
Byblos Pref. 08	43.00	0.0	-	1.3%	Nov 2035	7.05	12.50	14.57
Byblos Pref. 09	40.00	0.0	-	1.2%	Mar 2037	7.25	12.63	13.21

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

Source: Refinitiv

	Jan 11-13	Jan 4-8	% Change	Dec 2020	Dec 2019	% Change
Total shares traded	64,532	106,202	(39.2)	3,480,130	1,527,358	128
Total value traded	\$1,173,009	\$1,200,920	(2.3)	\$29,046,630	\$24,640,092	18
Market capitalization	\$6.75bn	\$6.71bn	0.5	\$6.72bn	\$7.76bn	(13.3)

Source: Beirut Stock Exchange (BSE)



### Cost of living in Beirut is 57<sup>th</sup> highest in the world, highest among Arab cities

The 2021 Cost of Living Index, produced by crowd-sourced global database Numbeo, ranked the cost of living in Beirut as the 57<sup>th</sup> highest among 598 cities around the world and the highest among 26 Arab cities. Also, the cost of living in Beirut was the highest among 122 cities in upper middle-income countries (UMICs) included in the survey. In comparison, Beirut came in 184<sup>th</sup> place in the 2020 survey among 440 cities worldwide. Beirut ranked in the 90<sup>th</sup> percentile worldwide in the 2021 Index, which means that the cost of living in the city was higher than about 90% of cities covered by the survey, while the cost of living in Beirut was higher than about 58% of cities worldwide in the 2020 survey, which reflects a significant increase in the city's cost of living in relative terms. The Cost of Living Index is an indicator of the prices of consumer goods, such as groceries, meals and drinks at restaurants, transportation, and utilities. Numbeo benchmarks the Index against New York City. It also issues a Rent Index, which is an estimation of apartment rents in a city compared to New York City rents. Numbeo relies on residents' inputs and uses data from official sources to compute the indices.

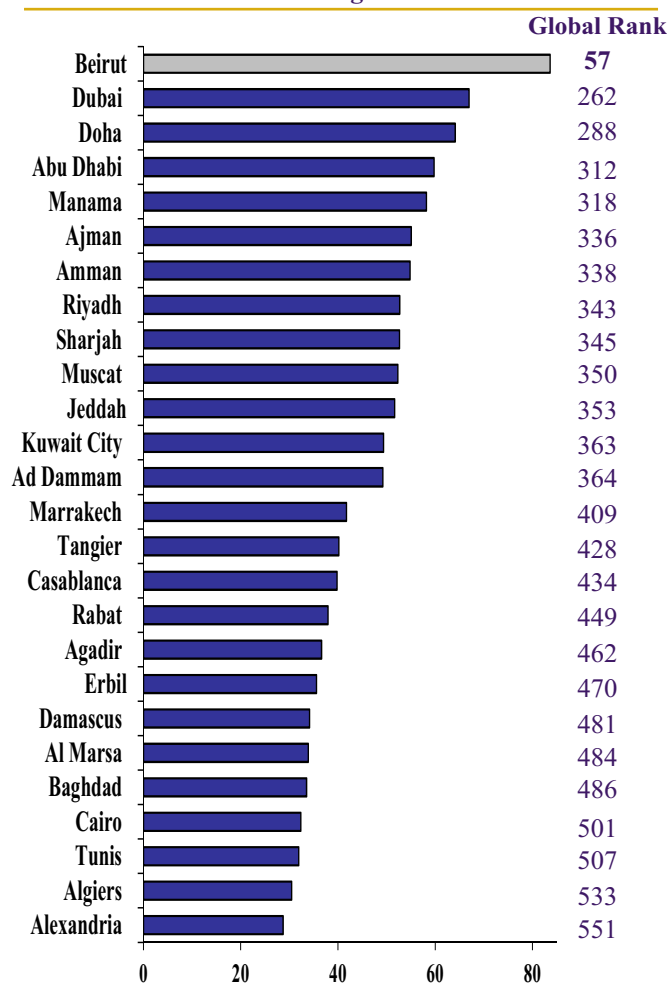
According to the Cost of Living Index, consumer goods in Beirut are more expensive than in Jersey City in the United States, the Gold Coast in Australia and Breda in the Netherlands; while they are less costly than in Jerusalem, Galway in Ireland, and Milan in Italy. Beirut received a score of 83.6 points, which means that prices in Beirut are 16.4% lower than those in New York City.

In parallel, the Rent Index ranked Beirut in 269<sup>th</sup> place globally, in seventh place among Arab cities, and in sixth place among cities in UMICs. Globally, renting an apartment in Beirut is more expensive than in Erlangen in Germany, and Liverpool and Newcastle upon Tyne in the United Kingdom; while it is less expensive than in Poland's capital Warsaw, Bangkok, and Peterborough in the United Kingdom. Further, Dubai, Doha, Abu Dhabi, Kuwait City, Ajman and Manama are the only Arab cities that have more expensive rents than Beirut; while Shanghai, Beijing, Shenzhen, Moscow and Bangkok are the only cities among UMICs with more expensive rents. Beirut received a score of 25.4 points on the index, which means that rent in Beirut is 74.6% less expensive than in New York City.

Also, the Groceries Index, which is an estimate of grocery prices in a city compared to New York City, ranked Beirut in 41<sup>st</sup> place globally, and in first place among Arab cities and cities in UMICs. Beirut received a score of 82.1 points, which means that groceries in Beirut are 18% less expensive than they are in New York City. Globally, groceries in Beirut are more expensive than in Sydney, Charleston in the U.S., and Luxembourg; while they are cheaper than in Brisbane in Australia, Tel Aviv, and Halifax in Canada.

Finally, the Restaurant Index, which compares the prices of meals and drinks at restaurants and pubs relative to New York City, ranked Beirut in 144<sup>th</sup> place globally, and in first place among Arab cities and cities in UMICs. The Lebanese capital received a score of 72.3 points on the index, which means that prices at restaurants and pubs in Beirut are 27.7% less expensive than they are in New York City. Globally, meals and drinks at restaurants and pubs in Beirut are more expensive than in Montpellier in France, and Bend and Richmond in the U.S.; while they are cheaper than in Burnaby in Canada, Spokane in the U.S., and Stuttgart in Germany.

Cost of Living Index for 2021  
Scores & Rankings of Arab Cities



Source: Numbeo, Byblos Research

### World Bank approves \$246m loan for social safety net

The World Bank Group's Executive Directors approved on January 12, 2021 a \$246m loan for the Lebanon Emergency Crisis and COVID-19 Response Social Net Project (ESSN). The ESSN aims to provide cash transfers and access to social services to about 786,000 extremely poor and vulnerable individuals who have been affected by the economic crisis and the COVID-19 shock. The project will be implemented in coordination with the Presidency of the Council of Ministers, the Ministry of Social Affairs, and the Ministry of Education and Higher Education. The World Food Program will execute the cash transfers to beneficiaries, while Lebanon must hire a "Third-Party Monitoring Agent" that the World Bank approves to carry out a verification and periodic recertification of eligible beneficiaries and of the payments. The Lebanese Parliament still needs to ratify the loan in order for the funds to be disbursed.

The project, which will be implemented over three years, consists of four components. First, it will provide a total of \$204m in cash transfers for basic income support to 147,000 extremely poor Lebanese households. Second, it will extend an aggregate of \$23m in additional cash transfers for 87,000 students from extremely poor Lebanese households who are at risk of dropping out of school. Third, it allocates \$10m to strengthen the capacity and systems of the Ministry of Social Affairs and its social development centers, and to increase access to quality social services for poor and vulnerable households, including refugees. Fourth, it earmarks \$9m to support the creation and the strengthening of social safety net delivery systems, including building a National Social Registry.

The World Bank indicated that eligible households will receive a monthly transfer of LBP100,000 per household member for a maximum of six members, in addition to a flat amount of LBP200,000 per household. It said that beneficiary households can cash out the amount at automated teller machines (ATMs) through pre-paid cards, or use the cards to make electronic payments for purchases at a network of pre-approved food outlets. It also noted that each student will receive between LBP1,235,000 and LBP1,921,920 for the academic year 2021/22, depending on the grade and type of education. It added that cash transfers for students will cover school textbooks costs, transportation and school uniform expenses, as well as computer equipment and/or Internet connectivity to enable remote learning, while school fees will be paid directly to the respective schools. The Bank pointed out that it will review, in coordination with other related entities, the benefits in Lebanese pounds on a quarterly basis, or at more frequent intervals if needed, to mitigate for foreign exchange and inflation risks and preserve the purchasing power of the cash transfers.

According to the World Bank, the Lebanese government preferred to disburse the payments under the ESSN in Lebanese pounds and not in US dollars as the Bank initially envisaged, in order to ensure the project's alignment with existing government and humanitarian programs in the country. It added that it negotiated with Lebanese authorities a preferential rate to convert the amount of the loan to the local currency, and reached a conversion rate of 1.6 times the exchange rate that is set through Banque du Liban's "Sayrafa" electronic platform for foreign currency trading. It noted that the conversion rate, which currently is LBP6,240 per dollar, is the highest exchange rate obtained for any internationally financed program in Lebanon.

In parallel, the ESSN will assess the eligibility of about 150,000 households already in the National Poverty Targeting Program (NPTP) database, about 105,000 households in the Inter-Municipal Electronic Platform for Assessment, Coordination and Tracking (IMPACT) database, and any new applications that authorities receive. It noted that the assessment of all applications will include a household visit to collect information that allows the computing of a household "poverty score". It added that this step will help unify the databases of poor households in Lebanon and pave the way to create a National Social Registry.

The World Bank estimated that the poverty rate in Lebanon increased from 25.6% in 2012 to 45% currently based on the contraction of GDP and the inflation rate in the first half of 2020, while the extreme poverty rate grew from 10% in 2012 to 22% currently. Consequently, it estimated that 1.7 million persons, or 350,000 households, are under the poverty line, of which 841,000 persons or 156,000 households are under the food poverty line.

### Coincident Indicator down 38% in first nine months of 2020

Banque du Liban's Coincident Indicator, an index of economic activity in Lebanon, stood at 157.7 points in September 2020 compared to 144.6 in the previous month and to 284.5 in September 2019. The Coincident Indicator, an average of eight weighted economic indicators, regressed by 44.6% year-on-year in September 2020, constituting the steepest annual decline on record in September of a year and reflecting the deterioration of economic and financial conditions in the country. However, it increased by 9.1% from August, when it reached its lowest level since August 2006 due to the explosion at the Port of Beirut on August 4.

The indicator averaged 184.4 in the first nine months of 2020, constituting a decline of 38.3% from an average of 299 in the same period of 2019 and representing its lowest level for the first nine months of a year since 2007 when it recorded 177.9. The drop in the indicator is the steepest on record in the first nine months of a year since BdL launched the indicator in 1993.

The indicator averaged 206.7 in the 12 months ending September 2020, compared to an average of 217.3 in the 12-month period ending August 2020 and to an average of 301.4 in the 12 months ending September 2019. As a result, the 12-month average coincident indicator declined by 5% month-on-month and regressed by 31.4% year-on-year.

In parallel, the indicator regressed 16 times and improved 12 times in the month of September since 1993. It averaged 256.6 points in 2012, 264.7 points in 2013, 273.2 points in 2014, 278.6 points in 2015, 289.5 points in 2016, 305.9 points in 2017, 307.7 points in 2018, and 292.6 points in 2019.



### Occupancy rate at Beirut hotels at 16%, room yields down 80% in first 11 months of 2020

EY's benchmark survey of the hotel sector in the Middle East indicates that the average occupancy rate at four- and five-star hotels in Beirut was 16% in the first 11 months of 2020 relative to 69% in the same period of 2019, and compared to an average rate of 37% in 14 Arab markets included in the survey. The occupancy rate at Beirut hotels was the lowest in the region in the covered period, while it was the fifth highest in the first 11 months of 2019. The occupancy rate at hotels in Beirut regressed by 52.7 percentage points in the first 11 months of 2020, representing the steepest decline in the region. In comparison, the average occupancy rate in Arab markets declined by 29.3 percentage points in the covered period.

The occupancy rate at Beirut hotels stood at 25% in November 2020, constituting a decrease of 2.5 percentage points from 28% in November 2019. It was the fifth lowest rate in the region in the covered month. The occupancy rate at Beirut hotels was 25% in January, 30% in February, 10% in March, 2% in April, 3% in May, 3% in June, 11% in July, 22% in August, 43% in September and 37% in October 2020. In comparison, it stood at 60% in January, 71% in February, 79% in March, 85% in April, 45% in May, 77% in June, 77% in July, 83% in August, 77% in September and 61% in October 2019.

Also, the average rate per room at Beirut hotels was \$165 in the first 11 months of 2020, decreasing by 15.3% from \$195 in the same period of 2019 and constituting the fifth highest rate in the region. The average rate per room in Beirut was higher than the regional average of \$134.7 that regressed by 18.6% from the first 11 months of 2019. The average rate per room at Beirut hotels was \$215 in November 2020, up by 156% from \$84 in November 2019 and relative to \$138 in January, \$123 in February, \$122 in March, \$124 in April, \$108 in May, \$170 in June, \$283 in July, \$202 in August, \$157 in September and \$179 in October 2020.

Further, revenues per available room (RevPAR) were \$27 at Beirut hotels in the first 11 months of 2020 compared to \$135 in the same period of 2019, and were the third lowest rate in the region after the RevPAR of Madinah (\$26) and of Muscat (\$25). Beirut's RevPAR regressed by 80% year-on-year and posted the steepest decrease regionally. Beirut posted a RevPAR of \$54 in November 2020, up by 132.6% from \$23 in November 2019 and constituting the seventh highest in the region in the covered month. In comparison, Beirut posted RevPARs of \$35 in January, \$37 in February, \$12 in March, \$2 in April, \$3 in May, \$5 in June, \$32 in July, \$45 in August, \$68 in September and \$67 in October 2020; while it registered RevPARs of \$118 in January, \$132 in February, \$146 in March, \$174 in April, \$83 in May, \$181 in June, \$164 in July, \$180 in August, \$83 in September and \$65 in October 2019. Abu Dhabi posted the highest hotel occupancy rate in the region at 72% in the first 11 months of 2020, while Kuwait City registered the highest average rate per room at \$207, and Ras Al-Khaimah had the highest RevPAR at \$78 in the covered period.

### Banque du Liban reiterates need to validate documents for subsidized imports

Banque du Liban (BdL) issued on January 8, 2021 Announcement 933 to underline that banks must verify that the imported subsidized products under Intermediate Circulars 561 and 564 are destined for domestic consumption only and are in line with the needs of the local market. Intermediate Circular 561 that BdL issued on June 8, 2020 allowed banks operating in Lebanon to source foreign currency from BdL to finance the imports of oil derivatives, wheat, medicine, medical supplies, baby milk, and materials used in the manufacturing of medicine. Also, Intermediate Circular 564 that BdL issued on July 8, 2020 authorized banks to access foreign currency from BdL to finance the imports of basic food products and raw materials that are used in the agro-food industry.

BdL asked banks to validate the invoices and documentary credits related to the imports of subsidized products. Also, it noted that banks should obtain from the importer an explicit pledge to confirm that the imported products are destined exclusively for the local market and will not be partly or fully re-exported. It required banks to provide BdL with a copy of the pledge. Further, it stressed that banks should monitor and evaluate the volume of the placed orders for imports and verify that they are in line with the market's needs and with the importers' previous operations. It called on banks to take the necessary measures to abide by the aforementioned requirements.

Intermediate Circular 561 allowed 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.

Intermediate Circular 564 indicated that the importers and manufacturers of food products must submit their import requests to the banks and pay the import bill in cash in Lebanese pounds. In turn, each bank will transfer the funds to BdL, where the latter will convert the money to US dollars and then transfer it to correspondent banks. It added that the financing mechanism will use the exchange rate that will be set through BdL's "Sayrafa" electronic platform for foreign currency trading.

### Hotel Sector Performance in First 11 Months of 2020

	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Ras Al Khaimah	46	78	(27.7)
Dubai	41	76	(53.7)
Kuwait City	34	71	(46.9)
Riyadh	50	70	(31.1)
Jeddah	37	67	(58.8)
Doha	58	60	(20.9)
Abu Dhabi	72	53	(33.6)
Makkah	32	34	(70.6)
Manama	27	34	(60.7)
Amman	28	30	(67.1)
Cairo	30	28	(68.2)
<b>Beirut</b>	<b>16</b>	<b>27</b>	<b>(79.9)</b>
Madina	23	26	(70.9)
Muscat	23	25	(68.9)

Source: EY, Byblos Research

### Banque du Liban's foreign assets at \$24bn, gold reserves at \$17bn at mid-January 2021

Banque du Liban's (BdL) interim balance sheet reached \$148.7bn as of January 15, 2021, nearly unchanged from \$148.6bn at end-2020 and constituting an increase of 4.7% from \$142bn at mid-January 2020. Assets in foreign currency totaled \$23.7bn at mid-January 2021, representing a drop of \$13.2bn, or of 35.8%, from \$37bn at mid-January 2020; and a decrease of \$356.7m, or 1.5% from the end of 2020. Assets in foreign currency include \$5.03bn in Lebanese Eurobonds relative to \$5.7bn at the end of 2019.

BdL's assets in foreign currency, excluding Lebanese Eurobonds, stood at \$18.7bn at mid-January 2021, and fell by \$12.6bn, or by 40.2%, from mid-January 2020. The cumulative decline in BdL's assets in foreign currency, excluding Lebanese Eurobonds, is largely due to the financing of the imports of hydrocarbons, wheat, medicine, medical equipment, a basket of about 300 food and non-food items, and raw materials for agriculture and industry. It is also due to the fact that BdL has paid, at the request of the government, maturing Eurobonds and external debt servicing until early March 2020, as well as to BdL's intervention in the currency market and to the banks' repayment of their foreign currency loans to BdL, mostly in September 2020.

In parallel, the value of BdL's gold reserves amounted to \$17.1bn at mid-January 2021 and increased by 19.5% from \$14.3bn at mid-January 2020, but it regressed by 1.3% from \$17.3bn at end-2020. The value of gold reserves reached a peak of \$18.1bn at mid-September 2020. Also, the securities portfolio of BdL totaled \$40.1bn at mid-January 2021, nearly unchanged from \$40bn at end-2020, and up by 5.3% from \$38bn at mid-January 2020. In addition, loans to the local financial sector regressed by 4.5% from mid-January 2020 and by 0.6% from end-2020 and reached \$14.2bn at mid-January 2021. Further, deposits of the financial sector stood at \$107.6bn at mid-January 2021 and declined by \$4.6bn from a year earlier and by \$379.7m in the first two weeks of the year. In addition, public sector deposits at BdL totaled \$4.6bn at mid-January 2021 and regressed by \$968.2m from mid-January 2020, while they increased by \$65.4m from the end of 2020.

### Tourist spending down 68%, number of refunds down 78% in 2020

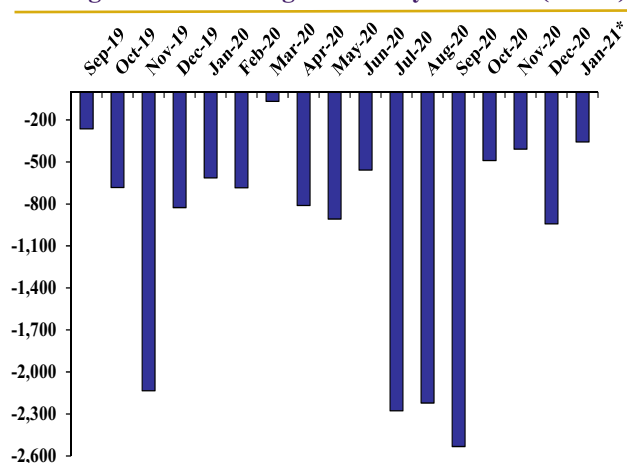
Figures issued by Global Blue, the value-added tax (VAT) refund operator for international shoppers, show that spending by visitors in Lebanon dropped by 68% in 2020 compared to a decline of 1.8% in 2019. The figures cover purchases on which visitors claimed VAT refunds. Spending above LBP10m per visitor accounted for 48% of total expenditures by visitors, followed by expenditures between LBP2m and LBP5m (17%), outlays of less than LBP1m (13%), spending between LBP5m and LBP10m (12%), and expenditures of between LBP1m and LBP2m (10%). Spending by tourists fell by 47% year-on-year in the first quarter of 2020, by 98% in the second quarter, by 78% in the third quarter, and by 33% in the fourth quarter of the year.

Visitors from the UAE accounted for 15% of total tourist expenditures in 2020, followed by visitors from Saudi Arabia with 9%, Egypt with 8%; Syria with 7%; Kuwait and Qatar with 3% each; while visitors from other countries represented the remaining 55%. Spending by visitors from Kuwait fell by 88% last year, followed by expenditures by tourists from Qatar (-87%), Saudi Arabia (-79%), Syria (-72%), and Egypt and the UAE (-54% each), while the outlays of visitors from other countries declined by 62%.

Further, Beirut attracted 73% of aggregate expenditures in 2020, followed by the Metn area with 19%, the Baabda district with 4% and the Keserwan region with 2%. In parallel, fashion & clothing accounted for 58% of total spending in 2020, followed by watches & jewelry with 26%, outlays at department stores with 5%, disbursements on home & garden products with 4%, and payments on sports equipment & clothing with 3%. Expenditures on fashion & clothing dropped by 71%, outlays on home & garden products fell by 70%, spending on watches & jewelry decreased by 61%, disbursements at department stores contracted by 53%, and expenditures on sports equipment & clothing declined by 49%, with outlays on other categories dipping by 70%.

Also, the total number of refund transactions by visitors dropped by 78% in 2020. Visitors from Egypt and the UAE accounted for 11% each of the number of refund transactions in the covered year, followed by those from Syria (10%), Saudi Arabia (9%), Kuwait (3%), and Qatar (2%), while other countries represented the remaining 54%. Refunded transactions for amounts of less than LBP1m accounted for 65% of the total number of transactions, followed by spending of LBP1m to LBP2m (16%), then outlays of between LBP2m and LBP5m (12%), disbursements of LBP5m to LBP10m (4%), and payments of more than LBP10m (3%).

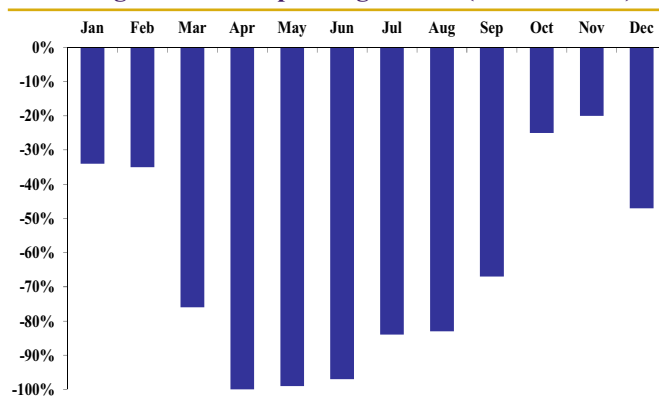
### Change in Gross Foreign Currency Reserves (US\$m)



\*Mid-January 2021

Source: Banque du Liban

### Change in Tourist Spending in 2020 (Year-on-Year)



Source: Global Blue, Byblos Research

### Increase in food prices in Lebanon is highest in MENA region

In its assessment of the impact of the COVID-19 pandemic on food-price inflation in the Middle East & North Africa (MENA) region, the World Bank indicated that prices in Lebanon have surged across all food categories between February 14, 2020 and December 16, 2020. It assessed the change in food prices in 19 countries in the MENA region across five main food categories that are carbohydrates, dairy, fruits, meats and vegetables.

The prices of fresh or frozen cattle meat in Lebanon rose by 96.7% between February 14 and December 16, constituting the highest increase in the price of this item in the region. In comparison, the price of fresh or frozen cattle meat posted an average growth of 14.3% in the region. Also, the price of bananas in Lebanon surged by 90.2% in the covered period, representing the highest growth rate in the price of this fruit regionally, relative to an average increase of 10% among MENA countries. Lebanon, along with Djibouti and Yemen, were the only countries in the region that posted increases of above 15% in the price of bananas.

In parallel, the price of eggs in Lebanon jumped by 79.5% in the covered period, the highest price increase for this product in the MENA region. Lebanon, Djibouti, Syria and Yemen were the only countries in the region that posted a rise of more than 25% in the price of eggs. In comparison, the price of eggs increased by an average of 10.7% in the region.

In addition, the prices of rice and tomatoes in Lebanon climbed by 78.6% and by 72.8%, respectively, between February 14 and December 16, 2020, the highest surge in the prices of these food products regionally. Also, the prices of onions and lettuce jumped by 68% and by 61.5%, respectively, the highest price leap in the region for such products.

The prices of potatoes in Lebanon grew by 60.2% in the covered period, the most significant rise regionally relative to an average increase of 10.2% in the region. Also, the prices of fresh or frozen chicken surged by 54.4% between February 14 and December 16, 2020, the second highest increase, after Djibouti, among MENA countries and compared to an average growth of 16.3% regionally. Lebanon, along with Djibouti and Saudi Arabia, were the only countries in the region that posted increases of above 20% in the price of fresh or frozen chicken.

Further, the prices of oranges and apples in Lebanon soared by 51% and 50%, respectively, between February 14 and December 16, 2020, the most significant price increases for such fruits among MENA countries. Lebanon, along with Egypt, Morocco, Tunisia and Yemen, were the only countries in the region that posted increases of above 20% in the price of oranges. Also, the price of processed liquid milk in Lebanon grew by 47.5%, the second highest price rise regionally, after Djibouti. Further, the price of cheese surged by 21.2%, the highest price increase regionally for this category; while the price of bread in Lebanon expanded by 9.1% in the covered period, representing the seventh highest increase in bread prices among MENA countries.

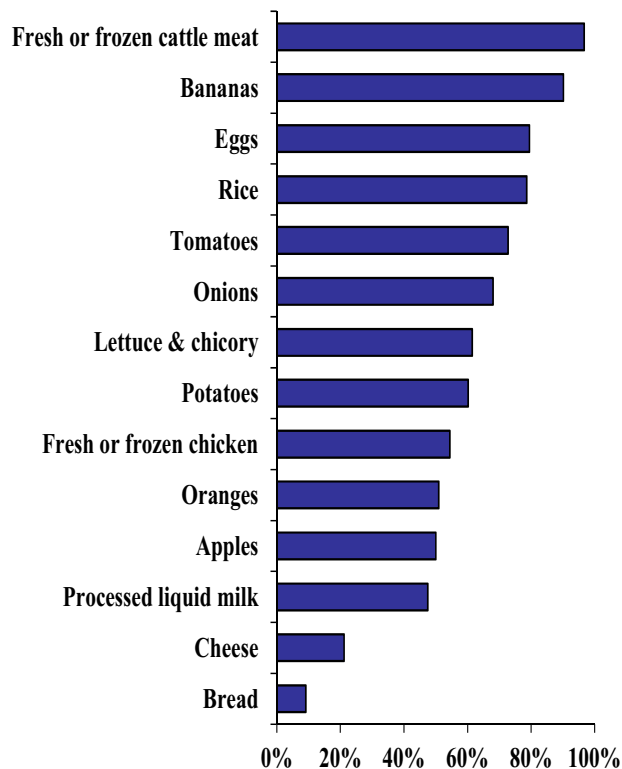
### Finance Ministry provides accounting guidelines for exchange rate fluctuations

The Ministry of Finance issued Decision 893/1 on December 31, 2020 about the accounting entries of transactions and balance sheet items that are affected by the fluctuation of the exchange rate.

It said that companies or institutions that are registered in Lebanon can record on their books in Lebanese pounds and at the prevalent parallel market exchange rate any fixed assets that they buy in foreign currency. It noted that the value-added tax that they have to pay on the acquired asset will be based on the asset's value after the conversion of its price in foreign currency at the parallel market rate. In addition, it indicated that companies or institutions must have a special Treasury account on their books to register all foreign currencies that they buy on the parallel market and to specify the amount purchased, the exchange rate used, and the date of the transaction. It also noted that companies or institutions have to register in this account all transactions that are settled using the foreign currency that they purchased on the parallel market. Further, it asked companies or institutions to open a special intermediate account for transactions settled in checks denominated in foreign currency. The ministry also provided other details related to transactions affected by the fluctuation of the black market exchange rate.

The emergence of multiple exchange rates since September 2019 and the wide spreads between the official and parallel market rates have complicated the accounting practices of companies in Lebanon. Public services are still paid at the official rate of LBP1507.5 per US dollar, while many firms have to source foreign currency on the parallel market to import non-subsidized goods or raw materials. In addition, BdL has been subsidizing basic products either at the official rate or at the exchange rate set through BdL's "Sayrafa" electronic platform for foreign currency trading. The parallel market exchange rate is currently at around LBP8,800 per dollar, while the "Sayrafa" rate is at LBP3,900 against the dollar.

**Change in Food Prices in Lebanon  
Between February 14 and December 16, 2020 (%)**



Source: World Bank, Byblos Research

### Number of real estate transactions up 63%, amount of deals up 110% in 2020

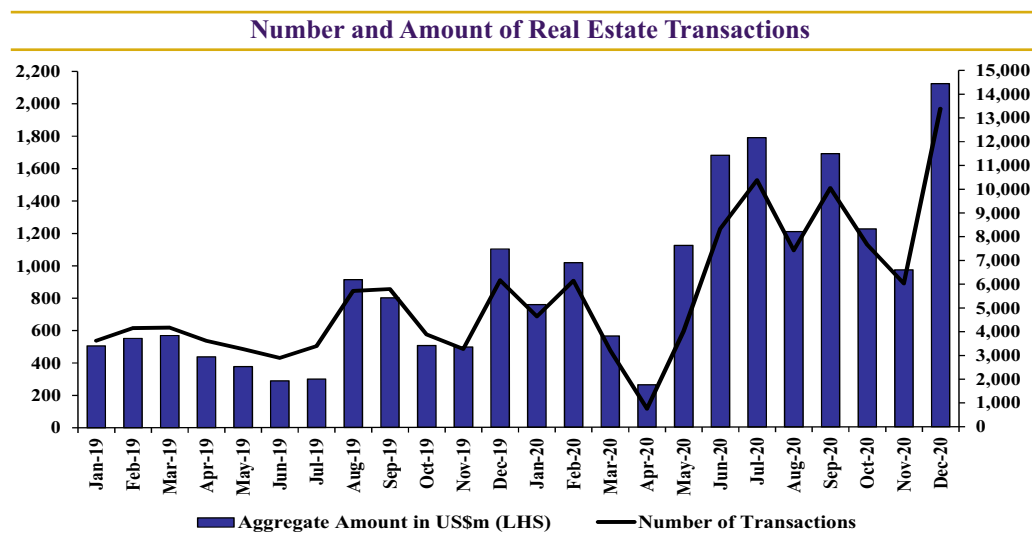
Figures released by the Ministry of Finance show that 82,202 real estate transactions took place in 2020, constituting an increase of 63.3% from 50,352 deals in 2019. In comparison, there were 60,714 real estate transactions in 2018 and 73,541 real estate deals in 2017. The number of transactions reached 13,391 in December 2020, up from 6,038 in November and relative to 6,189 deals in December 2019. The increase in real estate activity mainly reflects the continuous migration of some deposits out of the banking sector towards real estate.

Further, there were 16,169 real estate transactions in the Baabda area in 2020, representing 19.7% of the total. The South followed with 10,966 deals (13.3%), then the North with 10,509 transactions (12.8%), the Metn district with 9,796 deals (11.9%), the Keserwan region with 9,467 transactions (11.5%), the Zahlé area with 8,425 deals (10.2%), the Nabatieh area with 7,699 transactions (9.4%), and Beirut with 6,876 deals (8.4%).

The aggregate amount of real estate transactions reached \$14.4bn in 2020 and increased by 110.4% from \$6.84bn in 2019. In comparison, the amount of real estate deals regressed by 16% in 2019 and declined by 18.3% to \$8.13bn in 2018. The amount of transactions stood at \$2.1bn in December 2020, compared to \$969m in November 2020 and \$1.1bn in December 2019. Further, the value of real estate transactions in Beirut totaled \$4.77bn and accounted for 33.2% of the total last year. The Metn region followed with \$2.53bn (17.6%), the Baabda district with \$2.52bn (17.5%), the Keserwan area with \$1.66bn (11.5%), the South with \$1.18bn (8.2%), the North with \$761.6m (5.3%), the Zahlé area with \$450.5m (3.1%), and the Nabatieh region with \$412.6m (2.9%). The amount of real estate transactions in the Keserwan region increased by 153% in 2020, followed by the amount of deals in the Nabatieh region (+113.6%), the Metn district (+112.3%), the South (+109.5%), Beirut (+105.5%), the Baabda district (+103%), the Zahlé area (+99.5%), and the North (+94.7%).

In parallel, the average amount per real estate transaction was \$175,015 last year, up by 29% from an average of \$135,828 in 2019 and relative to an average of \$133,977 in 2018. Further, there were 1,257 real estate transactions executed by foreigners in 2020, compared to 993 deals in 2019 and to 1,214 transactions in 2018. The number of real estate deals by foreigners accounted for 1.5% of total real estate transactions last year, down from 2% in 2019 and in 2018.

Further, 26.3% of real estate transactions executed by foreigners in 2020 were in the Baabda area, followed by Beirut (20.8%), the Metn district (16.5%), the South (12.6%), the Keserwan region (8.1%), the North (7.6%), the Zahlé area (6.4%), and the Nabatieh region (1.5%). The latest available figures show that Syrian citizens accounted for 29.6% of the amount of real estate transactions executed by foreigners in December 2020, followed by Iraqi citizens (6.4%), Jordanians (4.1%), French nationals (3.4%), and U.S. citizens (3%).



Source: Ministry of Finance, Byblos Research



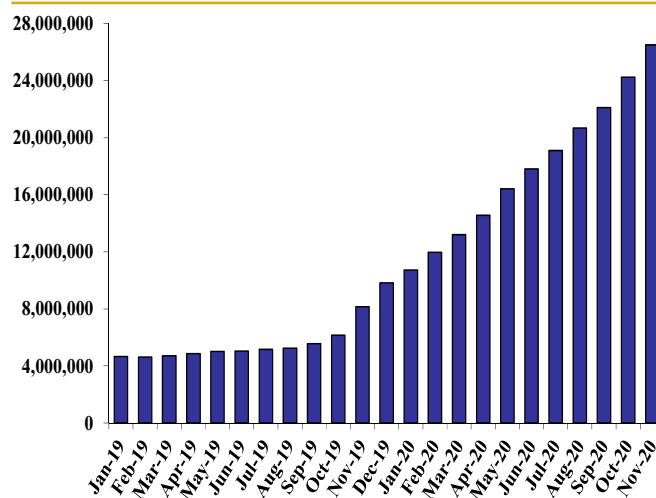
### Broad money supply down 2% in first 11 months of 2020, currency in circulation up 170%

Figures released by Banque du Liban show that money supply M1, which includes currency in circulation and demand deposits in Lebanese pounds, reached LBP37,372bn at the end of November 2020, constituting an increase of 125% from LBP16,620bn at the end of 2019 and a rise of 147.7% from LBP15,089bn at end-November 2019. Currency in circulation stood at LBP26,520bn at the end of November 2020, and grew by 170% from LBP9,818bn at end-2019 and by 225.4% from LBP8,151bn at end-November 2019. Also, demand deposits in local currency stood at LBP10,851bn at the end of November 2020, and expanded by 59.5% from end-2019 and by 56.4% from end-November 2019. Money supply M1 rose by 7% in November from LBP34,932bn at end-October 2020, with currency in circulation growing by 9.4% and demand deposits in local currency expanding by 1.6% month-on-month. The increase in money supply largely reflects the migration of term deposits to demand deposits, as well as the shift to a cash-based economy.

In addition, money supply M2, which includes M1 and term deposits in Lebanese pounds, reached LBP65,312bn at the end of November 2020, constituting an increase of 3% from LBP63,484bn at the end of 2019 and a decline of 1.1% from LBP66,054bn a year earlier. Term deposits in Lebanese pounds totaled LBP27,940bn at the end of November 2020, and declined by 40.4% from LBP46,864bn at end-2019 and by 45.2% from LBP50,965bn at end-November 2019. Money supply M2 grew by 3% in November from LBP63,410bn at end-October 2020, with term deposits in local currency declining by 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 LBP198,875bn at the end of November 2020, constituting a decrease of 2% from LBP202,831bn at the end of 2019 and a decline of 3.3% from LBP205,681bn at end-November 2019. Deposits in foreign currency totaled LBP133,018bn at the end of November 2020, regressing by 4.2% from end-2019 and by 4.4% from a year earlier. Also, debt securities issued by the banking sector amounted to LBP546bn at the end of November 2020 compared to LBP437bn at the end of 2019 and to LBP456bn at end-November 2019. Money supply M3 grew by a marginal 0.5% from LBP197,791bn at the end of October 2020, with deposits in foreign currency regressing by 0.6% and debt securities issued by the banking sector expanding by 6.5% month-on-month. In parallel, M3 retreated by LBP3,956bn in the first 11 months of 2020, due to a drop of LBP17,161bn in claims on the private sector, including claims in foreign currencies that fell by LBP16,100bn; a decline of LBP11,725bn in the net foreign assets of deposit-taking institutions and a decrease of LBP10,599bn in net claims on the public sector; which were partly offset by a rise of LBP35,529bn in other net items.

Currency in Circulation (LBP Millions)

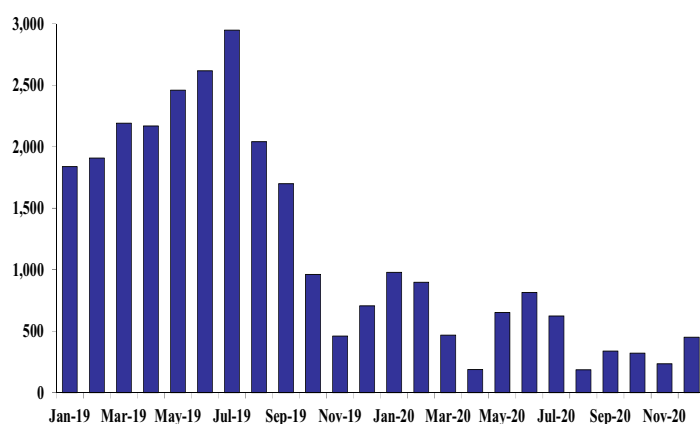


Source: Banque du Liban, Byblos Research

### New car sales down 72% in 2020

Figures released by the Association of Automobile Importers (AIA) in Lebanon show that dealers sold 6,152 new passenger cars in 2020, constituting a drop of 72% from 21,991 automobiles sold in 2019. Individuals and institutional clients purchased 979 new cars in January, 897 new vehicles in February, 468 automobiles in March, 188 new cars in April, 651 vehicles in May, 815 new automobiles in June, 624 cars in July, 186 new vehicles in August, 338 automobiles in September, 321 new cars in October, 235 new vehicles in November, and 450 automobiles in December 2020. In comparison, clients bought 1,838 new vehicles in January, 1,906 automobiles in February, 2,190 new cars in March, 2,168 vehicles in April, 2,458 new automobiles in May, 2,616 cars in June, 2,948 new vehicles in July, 2,041 automobiles in August, 1,700 new cars in September, 960 vehicles in October, 460 new automobiles in November, and 706 cars in December 2019.

Number of Passenger Cars Sold



Source: Association of Automobile Importers

The market for new passenger cars in Lebanon has been facing increasing challenges in the past few years, including the contraction in economic activity, job insecurity and, more recently, the shortage of foreign currency liquidity in the local market, the emergence of a parallel exchange rate market, as well as the reduced purchasing power of consumers and a very low level of household confidence. Further, the AIA indicated that car dealers incurred damages in the tens of millions of dollars as a result of the explosion at the Port of Beirut on August 4, 2020. It considered that a number of car dealerships could close down and lay off a large number of their employees, and that car sales could further deteriorate in the coming months. Also, it estimated that tax payments by car dealers to the Treasury dropped by 87.5% from \$265m in 2018 to less than \$33m in 2020. The AIA stopped releasing its monthly data on car sales by brand, distributor and source country since January 2020.

### Balance sheet of financial institutions down 15% in first 11 months of 2020

Figures released by Banque du Liban show that the consolidated balance sheet of financial institutions in Lebanon totaled LBP1,780bn, or \$1.18bn, at the end of November 2020, constituting a decrease of 14.6% from LBP2,084bn (\$1.38bn) at the end of 2019, and a decline of 15.7% from LBP2,111bn (\$1.4bn) at the end of November 2019.

On the assets side, claims on resident customers amounted to \$489.4m at the end of November 2020, and declined by 21.6% from the end of 2019 and by 25.5% from end-November 2019; while claims on non-resident customers stood at \$12m at end-November 2020 and decreased by 74.6% from the end of 2019 and by 74% from a year earlier. In addition, claims on the resident financial sector reached \$319m at end-November 2020, up by 4% from end-2019 and by 5.7% from end-November 2019; while claims on the non-resident financial sector totaled \$25.5m at the end of November 2020 and dropped by 50.2% from end-2019 and by 34.2% from a year earlier. Also, claims on the public sector stood at \$4.8m at end-November 2020, constituting a decrease of 6.5% from end-2019 and of 5.3% from the end of November 2019; while the securities portfolio, which includes Lebanese Treasury bills and Eurobonds, amounted to \$71.7m at end-November 2020 and regressed by 20.2% from end-2019 and by 27.8% from a year earlier. In parallel, currency and deposits with local and foreign central banks reached \$67.5m at the end of November 2020 and increased by 32.7% from \$51m at end-November 2019.

On the liabilities side, deposits of resident customers stood at \$149.6m at the end of November 2020, constituting a decrease of 12.5% from end-2019 and of 11.4% from the end of November 2019; while deposits of non-resident customers reached \$4.9m at the end of November 2020 and dropped by 71% from end-2019 and by 71.7% from a year earlier. Liabilities to the resident financial sector amounted to \$162.2m at end-November 2020 and declined by 27.4% from end-2019 and by 34.7% from end-November 2019; while liabilities to the non-resident financial sector regressed by 36.6% from end-2019 to \$79m. Also, public sector deposits rose by 18.7% in the first 11 months of 2020 to \$4.7m, while issued debt securities totaled \$96.4m at end-November 2020 and declined by 13.8% from end-2019 and by 7.5% from the end of November 2019. Further, the aggregate capital account of financial institutions was \$460.2m at the end of November 2020, and decreased by 5.4% from the end of 2019 and by 6.5% from the end of November 2019.



### Term deposits account for 73% of customer deposits at end-November 2020

Figures issued by Banque du Liban about the distribution of bank deposits at commercial banks in Lebanon show that aggregate deposits, which include demand deposits and term deposits, stood at \$152.3bn at the end of November 2020, constituting a decrease of \$20.2bn, or 11.7% from the end of 2019.

Term deposits in all currencies reached \$111.6bn at the end of November 2020 and declined by \$38.1bn, or by 25.5%, from \$149.7bn at end-2019; while they accounted for 73.2% of total deposits in Lebanese pounds and in foreign currency as at end-November 2020 relative to a share of 86.7% at the end of 2019. The decline in term deposits is due to a drop of 40% in term deposits in Lebanese pounds of the resident private sector, a 29.3% contraction in term deposits of non-residents, a 26.4% decrease in term deposits of the non-resident financial sector, a 20.2% decline in term deposits of the non-resident financial sector, a 20.2% decline in foreign currency-denominated term deposits of the resident private sector, and a 1.4% decrease in term deposits in Lebanese pounds of the public sector. This was partly offset by a surge of 104% in foreign currency-denominated term deposits of the public sector, mainly due to the buying of US dollars by the National Social Security Fund in an attempt to convert a part of the end-of-service indemnities deposited at banks from Lebanese pounds to dollars in order to hedge against a devaluation of the pound. The drop in term deposits is due to cash withdrawals and to the migration of funds from term to demand deposits, amid the confidence crisis that started in September 2019. Aggregate term deposits declined by \$55bn since the end of September 2019.

Further, foreign currency-denominated term deposits of the resident private sector reached \$63bn and accounted for 41.3% of aggregate deposits at the end of November 2020. Term deposits of non-residents followed with \$20.7bn (13.6%), then term deposits in Lebanese pounds of the resident private sector with \$18.2bn (12%), term deposits of the non-resident financial sector with \$5bn (3.3%), term deposits of the public sector in Lebanese pounds with \$4.1bn (2.7%), and term deposits of the public sector in foreign currency with \$655m (0.4%).

In parallel, demand deposits in all currencies at commercial banks stood at \$40.8bn at the end of November 2020 and rose by \$17.9bn, or by 78.2%, from \$22.88bn at end-2019. They accounted for 26.8% of total deposits at end-November 2020 relative to a share of 13.3% at end-2019. The increase in demand deposits was mainly due to an expansion of \$11.9bn in foreign currency-denominated demand deposits of the resident private sector, a rise of \$3.25bn in demand deposits of non-residents, and an increase of \$2.5bn in demand deposits in Lebanese pounds of the resident private sector.

Also, demand deposits in foreign currency of the resident private sector totaled \$24.4bn and represented 16% of deposits at end-November 2020. Demand deposits in Lebanese pounds of the resident private sector followed with \$7.2bn (4.7%), then demand deposits of non-residents with \$6.4bn (4.2%), demand deposits of the non-resident financial sector with \$2.1bn (1.4%), demand deposits in Lebanese pounds of the public sector with \$358.4m (0.2%), and demand deposits in foreign currency of the public sector with \$223.8m (0.1%).

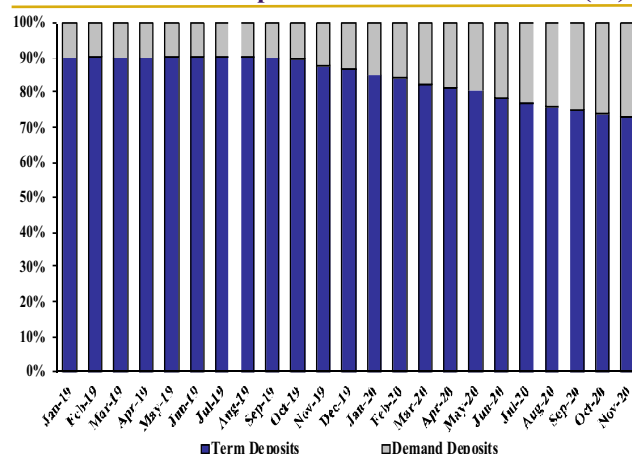
The latest available figures show that Beirut and its suburbs accounted for 65.8% of private-sector deposits and for 48% of the number of depositors at the end of June 2020. Mount Lebanon followed with 15.2% of deposits and 18.9% of beneficiaries, then South Lebanon with 7.4% of deposits and 12% of depositors, North Lebanon with 6.6% of deposits and 12.4% of beneficiaries, and the Bekaa with 5% of deposits and 8.8% of depositors.

### BLOM Bank sells Egyptian subsidiary

BLOM Bank sal announced on January 17, 2021 that it sold BLOM Bank Egypt sae, its Egyptian subsidiary, to the Bahrain-based Arab Banking Corporation B.S.C. (Bank ABC) for about \$427m. The transaction includes all of BLOM Bank Egypt's physical and non-physical assets, as well as its customer accounts. The deal is subject to the approvals of the Central Bank of Egypt and of Banque du Liban (BdL), as well as of other regulatory authorities in Egypt and Bahrain. The two banks expect the transaction to be completed in the first half of 2021. BLOM Bank sal had a 99.42% stake in BLOM Bank Egypt sae. The Lebanese bank indicated that the transaction will allow it to comply with BdL Intermediate Circular 567, which stipulates that all Lebanese banks must increase their equity by 20%.

BLOM Bank Egypt was established in 1977 and has 41 branches across the country. The bank's total assets reached EGP45.1bn, or \$2.8bn, and customers' loans & advances totaled EGP13bn, or \$824.4m, at the end of September 2020. Also, the bank's customers' deposits amounted to EGP39bn, or \$2.5bn, at the end of September 2020. The bank posted net profits of EGP630.6m, or \$39.8m, in the first nine months of 2020, relative to net earnings of EGP746.5m or \$43.8m, in the same period of 2019. Bank ABC is an international bank established in 1980 in Bahrain. It is present in 15 countries in the Middle East, Europe, North America, Latin America and Asia. Bank ABC has a 93% stake in Bank ABC Egypt. The Bahrain-based bank noted that it will merge BLOM Bank Egypt with Bank ABC Egypt.

Breakdown of Deposits at Commercial Banks (%)



Source: Banque du Liban

## Ratio Highlights

(in % unless specified)	2017	2018	2019	Change*
Nominal GDP (\$bn)	53.1	55.0	51.3	(3.70)
Public Debt in Foreign Currency / GDP	57.2	60.9	65.8	4.89
Public Debt in Local Currency / GDP	92.5	93.9	112.9	18.96
Gross Public Debt / GDP	149.7	154.8	178.6	23.85
Total Gross External Debt / GDP**	190.3	192.8	196.3	3.50
Trade Balance / GDP	(31.5)	(31.0)	(30.2)	0.73
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	256.9	262.2	5.29
Commercial Banks Assets / GDP	413.7	453.6	422.6	(31.04)***
Private Sector Deposits / GDP	317.4	316.9	309.7	(7.21)
Private Sector Loans / GDP	112.3	108.0	97.0	(10.96)
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 incorporates 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, International Monetary Fund, 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

## National Accounts, Prices and Exchange Rates

	2018	2019e	2020f
Nominal GDP (LBP trillion)	82.9	80.8	99.4
Nominal GDP (US\$ bn)	55.0	51.3	25.8
Real GDP growth, % change	-1.9	-6.7	-26.4
Private consumption	-1.3	-7.3	-23.4
Public consumption	6.7	2.5	-64.7
Gross fixed capital	-1.8	-11.1	-32.2
Exports of goods and services	0.5	-4.0	-31.6
Imports of goods and services	1.1	-4.9	-39.5
Consumer prices, %, average	6.1	2.9	85.2
Official exchange rate, average, LBP/US\$	1,507.5	1,507.5	1,507.5
Parallel exchange rate, average, LBP/US\$	n/a	1,620	5,528
Weighted average exchange rate LBP/US\$	1,507.5	1,575	3,853

Source: Institute of International Finance- December 2020

## Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's Investors Service	C	NP	-	C		-
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

	Outlook
Moody's Investors Service	Negative

Source: Moody's Investors Service

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## ADIR INSURANCE

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