

LEBANON THIS WEEK

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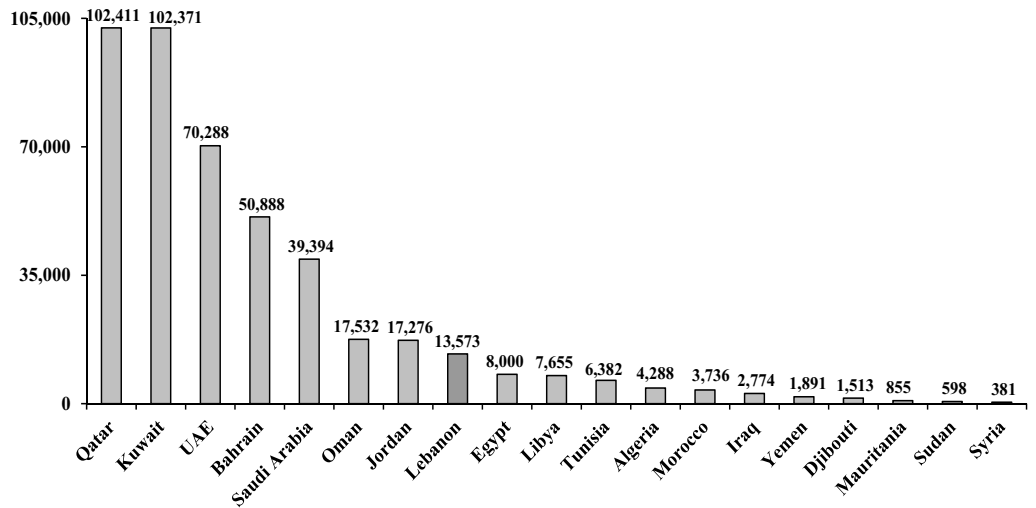
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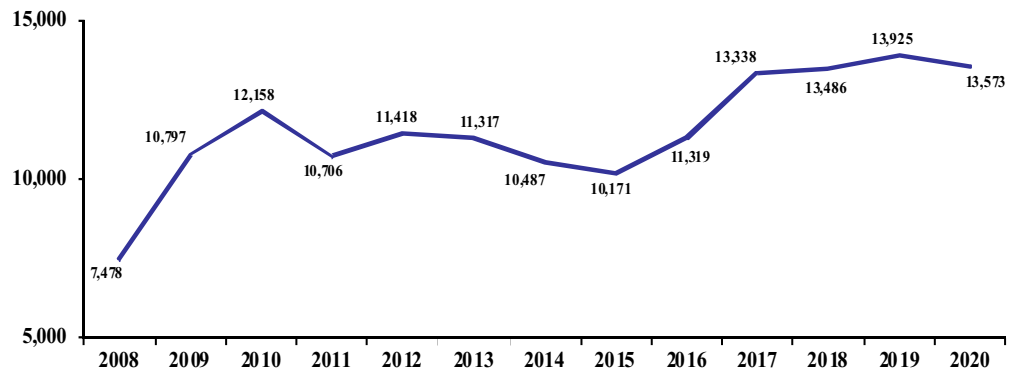
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Charts of the Week

Financial Wealth per Adult in Arab Countries at the end of 2020 (US\$)



Financial Wealth per Adult in Lebanon (US\$)



Source: Credit Suisse

Quote to Note

"The members of the Security Council urged Lebanon's new government to swiftly and transparently implement the well-known, necessary and tangible reforms, as reiterated in the new government's Ministerial Declaration, and underlined the importance of delivering those reforms in order to ensure effective international support."

The United Nations Security Council, on the priority of the Lebanese government

Number of the Week

\$23.2bn: Size of Lebanon's nominal GDP in 2021, as estimated by the Institute of International Finance

Lebanon in the News

\$m (unless otherwise mentioned)	2020	Jan-May 2020	Jan-May 2021	% Change*	May-20	Apr-21	May-21
Exports**	3,544	914	699	-23.6%	251	-	-
Imports**	11,310	2,931	3,329	13.6%	674	-	-
Trade Balance**	(7,765)	(2,017)	(2,631)	30.5%	(423)	-	-
Balance of Payments	(10,551)	(2,191)	(1,574)	-28.2%	(888)	(546)	(181)
Checks Cleared in LBP	19,937	7,748	7,481	-3.5%	1,105	1,719	1,611
Checks Cleared in FC	33,881	13,845	9,456	-31.7%	1,467	2,108	1,501
Total Checks Cleared	53,828	21,597	16,941	-21.6%	2,572	3,828	3,112
Fiscal Deficit/Surplus	(2,535)	(1,998)	-	-	(247)	-	-
Primary Balance	(1,136)	(716)	-	-	(120)	-	-
Airport Passengers	2,501,975	1,191,376	1,052,191	-11.7%	20,253	216,344	286,371
Consumer Price Index	84.9	28.6	138.0	10940	56.5	121.7	119.8

\$bn (unless otherwise mentioned)	Dec-20	May-20	Feb-21	Mar-21	Apr-21	May-21	% Change*
BdL FX Reserves	18.60	26.44	17.49	16.75	16.23	15.71	(40.6)
In months of Imports	15.10	39.24	16.94	-	-	-	-
Public Debt	95.59	93.15	96.83	-	-	-	-
Bank Assets	188.04	203.84	188.13	186.26	184.53	183.35	(10.1)
Bank Deposits (Private Sector)	139.14	146.30	138.85	136.95	136.02	135.11	(7.6)
Bank Loans to Private Sector	36.17	42.91	35.49	34.20	33.11	32.53	(24.2)
Money Supply M2	44.78	38.78	47.50	47.96	48.59	49.30	27.1
Money Supply M3	132.70	129.67	134.60	134.11	134.34	134.49	3.7
LBP Lending Rate (%)	7.77	8.45	7.59	8.02	8.00	7.86	(59)
LBP Deposit Rate (%)	2.64	4.63	2.11	1.96	2.01	1.85	(278)
USD Lending Rate (%)	6.73	7.90	6.92	7.14	6.88	6.61	(129)
USD Deposit Rate (%)	0.94	1.99	0.54	0.52	0.49	0.42	(157)

*year-on-year; **figures for the period reflect the first quarter of each year

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 %
Audi GDR	2.48	9.7%	74,971	2.8%	Oct 2022	6.10	15.75	296.38
Solidere "A"	33.35	(4.7%)	48,524	31.0%	Jan 2023	6.00	15.75	200.57
Solidere "B"	33.97	(1.3%)	33,259	20.5%	Apr 2024	6.65	15.75	86.68
BLOM GDR	3.47	9.8%	5,120	2.4%	Jun 2025	6.25	15.75	56.65
Byblos Common	0.93	0.0%	-	4.9%	Nov 2026	6.60	15.75	39.20
Audi Listed	2.40	(4.0%)	-	13.1%	Feb 2030	6.65	15.75	23.23
Byblos Pref. 09	38.38	0.0%	-	0.7%	Apr 2031	7.00	15.75	20.28
BLOM Listed	3.20	0.0%	-	6.4%	May 2033	8.20	15.75	16.53
HOLCIM	20.95	0.0%	-	3.8%	Nov 2035	7.05	16.63	13.14
Byblos Pref. 08	34.99	0.0%	-	0.7%	Mar 2037	7.25	18.00	11.39

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

Source: Refinitiv

	Sep 20-24	Sep 13-17	% Change	August 2021	August 2020	% Change
Total shares traded	1,098,041	1,059,450	3.6	2,166,545	941,951	130.0
Total value traded	\$9,445,432	\$23,806,615	(60.3)	\$24,370,670	\$10,392,324	134.5
Market capitalization	\$10.03bn	\$9.68bn	3.64	\$10.57bn	\$6.20bn	70.4

Source: Beirut Stock Exchange (BSE)



Lebanon ranks 185th globally, 15th in Arab world in government effectiveness

The World Bank's annual World Governance Indicators for 2020 show that Lebanon's score increased on one out of six governance indicators included in the survey and regressed on five indicators, reflecting a relatively worse level of governance in the country from the previous year. Also, Lebanon's rankings improved on two indicators and regressed on three other ones, while it was unchanged on the remaining indicator from the previous survey. The indicators cover 214 countries and territories and are rated on a scale of -2.5 to +2.5, with higher values corresponding to better governance outcomes.

Lebanon ranked in 185th place worldwide among 209 countries with available figures and in 15th place among 20 Arab countries in terms of Government Effectiveness. The indicator evaluates the quality of public and civil services and the degree of their independence from political pressure, as well as the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. Lebanon's global rank regressed by 13 spots, while its regional rank was unchanged year-on-year. Globally, Lebanon had a more effective government than Angola, Zimbabwe and Iraq, and a less effective one than Nigeria, Mali and Turkmenistan among countries with a GDP of \$10bn or more. Regionally, Lebanon had a higher level of government effectiveness than only Iraq, Sudan, Syria, Libya and Yemen. The results show that 88.5% of countries and territories in the world have a better score than Lebanon on this dimension of governance.

In addition, Lebanon ranked in 184th place globally among 209 countries with available figures and in 15th place regionally on the Control of Corruption category, which measures the level of corruption in a country. Lebanon's global and regional ranks were unchanged from the previous year. Globally, Lebanon had a lower level of corruption than Cameroon, Kyrgyzstan, and Nigeria, and a higher level of graft than Cambodia, Nicaragua and Zimbabwe. Regionally, Lebanon had a lower level of corruption than Iraq, Sudan, Libya, Yemen and Syria. The results show that 88% of countries and territories around the world had a better score than Lebanon on this dimension of governance.

Further, Lebanon ranked in 149th place worldwide among 209 countries with available figures and in 11th place among Arab countries in terms of Regulatory Quality, which assesses market-friendly policies and laws that enable and promote private sector development. Lebanon's global and regional rankings deteriorated by 16 spots and by one notch, respectively, year-on-year on this indicator. Globally, Lebanon ranked ahead of Myanmar, Belarus and Tanzania, and came behind Mali, Cambodia and Zambia on this indicator. Regionally, the quality of rules and regulations in Lebanon was better than in Egypt, Mauritania and Djibouti, while it was worse than in Palestine, Morocco and Tunisia. The results show that 71.2% of countries and territories in the world have a better score than Lebanon on this dimension of governance.

Also, Lebanon ranked in 169th place globally among 209 countries with available figures and in 14th place regionally on the Rule of Law category, which is a measure of the extent that citizens have confidence in the rules of society and abide by them, as well as the likelihood that acts of crime and violence will occur. Lebanon's rank deteriorated by one notch globally, while its regional rank was unchanged from the preceding year. Globally, Lebanon ranked ahead of Mali, Kyrgyzstan and Cambodia, while it came behind Laos, Iran and Madagascar on this indicator. Regionally, Lebanon preceded Djibouti, Sudan, Iraq, Yemen, Libya and Syria. The results show that 80.8% of countries and territories around the world have a better score than Lebanon on this dimension of governance.

Government Effectiveness Rankings & Scores in 2020

	Score	Arab Rank	Global Rank
UAE	1.33	1	26
Qatar	0.91	2	46
Bahrain	0.43	3	67
Saudi Arabia	0.15	4	87
Oman	0.14	5	88
Jordan	0.11	6	90
Morocco	-0.03	7	99
Kuwait	-0.16	8	114
Tunisia	-0.20	9	118
Algeria	-0.53	10	139
Egypt	-0.55	11	142
Palestine	-0.64	12	149
Djibouti	-0.68	13	155
Mauritania	-0.77	14	165
Lebanon	-1.17	15	185
Iraq	-1.33	16	189
Sudan	-1.49	17	197
Syria	-1.73	18	203
Libya	-2.01	19	205
Yemen	-2.31	20	208

Source: World Bank, Byblos Research

Lebanon's Rankings and Scores on Governance Indicators for 2020

	Global Rank	Change in Rank	Arab Rank	Lebanon Score	Change in Score	Arab Avg Score
Voice & Accountability	140	▲	2	-0.56	▼	-1.11
Political Stability	196	▲	14	-1.65	▲	-0.98
Government Effectiveness	185	▼	15	-1.17	▼	-0.53
Regulatory Quality	149	▼	11	-0.63	▼	-0.49
Rule of Law	169	▼	14	-0.90	▼	-0.44
Control of Corruption	184	↔	15	-1.15	▼	-0.52

Source: World Bank, Byblos Research



Consumer Price Index up 138% year-on-year in August 2021

The Central Administration of Statistics' Consumer Price Index increased by 130% in the first eight months of 2021 from the same period of 2020. In comparison, it grew by 58.1% and by 2.8% in the first eight months of 2020 and 2019, respectively.

The CPI rose by 137.7% in August 2021 from the same month of 2020, while it registered its 14th consecutive triple-digit increase since July 2020. The cumulative surge in inflation is due in part to the inability of authorities to monitor and contain retail prices, as well as to the deterioration of the Lebanese pound's exchange rate on the parallel market, which has encouraged opportunistic wholesalers and retailers to raise the prices of consumer goods disproportionately. In addition, the smuggling of subsidized imported goods has resulted in shortages of these products locally, which contributed to the rise in prices. Further, the recent emergence of an active black market for gasoline has put upward pressure on prices and on inflation. According to the International Monetary Fund, the CPI averaged 487.2% in 1987 and ended the year at 741.2%, constituting the highest inflation rates on record.

The prices of food & non-alcoholic beverages and transportation costs surged by 3.9 times in August 2021 from the same month last year, followed by rates at restaurants & hotels (+3.8 times), the prices of clothing & footwear and healthcare costs (+3.1 times), the cost of alcoholic beverages & tobacco (+3 times), prices of furnishings & household equipment (+2.5 times), and the prices of water, electricity, gas & other fuels (+2.4 times). In addition, the prices of miscellaneous goods & services jumped by 128.5% year-on-year in August 2021, followed by the cost of recreation & entertainment (+115.1%), communication costs (+33.9%), the cost of education (+10.5%), actual rent (+7.4%), and imputed rent (+4.4%). Also, the distribution of actual rent shows that new rent grew by 9% and old rent increased by 5.1% in August 2021 from the same month last year.

In parallel, the CPI increased by 10.2% in August 2021 from the previous month, compared to a month-on-month rise of 24.1% in July 2021 and of 9.7% in June 2021. Prices of alcoholic beverages & tobacco surged by 26.5% month-on-month in August 2021, followed by prices of food & non-alcoholic beverages (+20.8%), transportation costs (+17.4%), rates at restaurants & hotels (16.9%), prices of water, electricity, gas and other fuels (+13.1%), healthcare costs (+12.3%), prices of furnishings & household equipment (+10.3%), the cost of recreation & entertainment (+4.7%), the cost of miscellaneous goods & services (+2.7%), prices of clothing & footwear (+2.5%), and communication costs (+0.5%). Also, the cost of education, actual rent and imputed rent were unchanged in August 2021 from the preceding month. Further, the CPI increased by 12.8% in Nabatieh, by 12.2% in the North, by 11.8% in the Bekaa, by 9.9% in the South, by 9.7% in Mount Lebanon, and by 7.2% in Beirut during August 2021 from the previous month. In parallel, the Education Price Index was unchanged, while the Fuel Price Index increased by 39.7% month-on-month in August 2021.

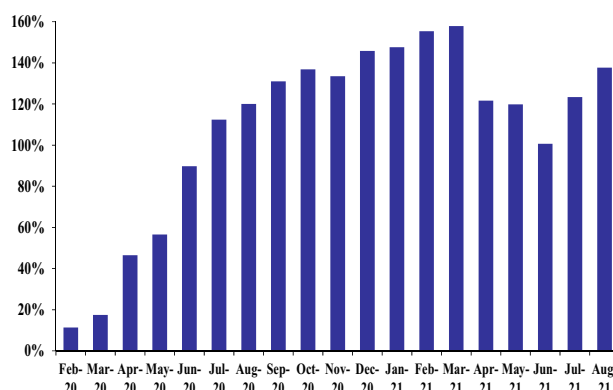
Exchange rate of LBP10,000 could be appropriate for reforms

Citi Research indicated that the formation of a new Lebanese government is the first step to address the financial and economic crises that the country is confronting. It considered that the government faces the challenge of formulating a plan for economic stabilization that would almost certainly involve a program supported by the International Monetary Fund. It expected the plan to include three core elements, which are the restructuring of the public debt and of the banking sector, as well as the adoption of a new exchange rate. It added that these components are highly interconnected, as the banking sector is a large creditor of the government and of Banque du Liban (BdL), and has significant foreign currency liabilities to its depositors. It anticipated authorities to adopt a significantly weaker official exchange rate than the current official rate of LBP1507 per US dollar, given that foreign currency reserves at BdL are rapidly declining and authorities are gradually lifting import subsidies.

In addition, it did not expect authorities to utilize the rate of LBP3,500 per dollar that was used in the program that the previous government outlined in 2020, or the rate of LBP3,900 that BdL has set for the withdrawals in Lebanese pounds of foreign currency deposits. It noted that the parallel market exchange rate, which is at about LBP16,000 per dollar, takes into account significant premia related to the shortages of foreign currency.

In this context, Citi considered that an exchange rate of LBP10,000 per dollar could close the gap in the external current account and would support domestic money supply with sufficient foreign currency reserves. It estimated that an increase in BdL's foreign currency reserves to \$20bn would make them equivalent to nearly 25% of money supply in Lebanese pounds, which it considered to be enough to restore investors' confidence in the local currency. Also, it said that this exchange rate would reduce the overvaluation of the real exchange rate of the Lebanese pound relative to the currencies of Lebanon's main trading partners. As such, it projected that an exchange rate of LBP10,000 per dollar would bring about a depreciation in the real exchange rate of the Lebanese pound to the US dollar of around 33%, which would correct a current overvaluation of 50%. It noted that there are uncertainties about what exchange rate the authorities will adopt, but that a rate of LBP10,000 per dollar starting in 2022 is likely, given that the economy has been recently operating with exchange rates of above LBP15,000 per dollar. It noted that authorities could also decide to set the exchange rate at LBP8,000 per dollar, and allow it to gradually depreciate by about 5% annually. It added that the new exchange rate regime will be key in determining the size of haircuts to the public debt and to deposits in foreign currency.

Annual Change in CPI (%)



Source: Central Administration of Statistics, Byblos Research

Fiscal deficit equivalent to 27% of expenditures in first quarter of 2021

Figures released by the Ministry of Finance show that the fiscal deficit reached \$824.6m in the first quarter of 2021 and narrowed by 50.2% from a deficit of \$1.66bn in the same quarter of 2020, based on the official exchange rate of the Lebanese pound to the US dollar. The deficit was equivalent to 26.7% of total budget and Treasury expenditures relative to 42.6% of spending in the first quarter of 2020. Government spending reached \$3.1bn in the first quarter of 2021 and dropped by 20.4% from the same quarter of 2020, while revenues stood at \$2.27bn and grew by 1.8% year-on-year. The narrowing of the deficit was caused by a contraction of \$790m in spending from lower debt servicing cost and Treasury transfers to Electricité du Liban (EdL), as well as by an increase of \$40.5m in revenues.

On the revenues side, tax receipts declined by 4.4% year-on-year to \$1.65bn in the first quarter of 2021, of which 27.2%, or \$449.6m, were in VAT receipts that surged by 36.8% annually due in large part to accelerating inflation. Tax receipts accounted for 79.1% of budgetary revenues and for 73% of Treasury and budgetary income in the covered quarter. The distribution of other tax receipts shows that revenues from taxes on income, profits & capital gains declined by 25.3% to \$711.8m in the covered quarter; receipts from customs grew by 22% to \$226.1m; revenues from property taxes rose by 18.8% to \$182.7m; while proceeds from stamp fees retreated by 17.8% to \$59.8m and revenues from taxes on goods & services decreased by 34.6% to \$25m.

The distribution of income tax receipts shows that the tax on interest income accounted for 55.8% of income tax revenues in the first quarter of 2021, followed by the tax on profits with 21.4%, the tax on wages & salaries with 18.7%, and the capital gains tax with 3.8%. Revenues from the tax on profits surged by 57.1% and receipts from the tax on capital gains increased by 36.6%, while revenues from the tax on interest income fell by 42.5% and proceeds from the tax on wages & salaries declined by 6.3% in the covered quarter. Also, receipts from real estate registration fees expanded by 8.5% to \$119.7m, proceeds from the built property tax increased by 19.6% to \$36m, and revenues from the inheritance tax surged by 101.2% to \$26.9m in the first quarter of 2021.

Further, non-tax budgetary receipts grew by 19.2% year-on-year to \$437m in the covered quarter. They mainly included \$326.7m in revenues generated from government properties that rose by 55.7%, as well as \$56.2m in receipts from administrative fees and charges that decreased by 46% annually. Receipts from telecommunication services jumped by 111% to \$279.8m in the first quarter of 2021, and accounted for 85.6% of income from government properties and for 64% of non-tax budgetary revenues. In parallel, Treasury receipts increased by 36.3% to \$175.5m in the covered quarter.

On the expenditures side, total budgetary spending, which includes general expenditures and debt servicing, declined by 26.8% to \$2.7bn in the first quarter of 2021. General spending regressed by 19% to \$2.2bn in the covered quarter, and included \$217.4m in transfers to EdL that fell by 28% year-on-year, and \$603.8m in outlays from previous years that shrank by 42% annually, among other general spending items. Also, debt servicing totaled \$502.6m in the covered quarter and contracted by 48.7% from the first quarter of 2020. Interest payments on Lebanese pound-denominated debt declined by 43.8% to \$466.3m in the first quarter of 2021, while debt servicing on foreign currency debt fell by 93.3% to \$7.9m, due to the government's decision to suspend all payments on its outstanding Eurobonds starting in March 2020. In addition, Treasury expenditures, excluding transfers to EdL, surged by 112.7% year-on-year to \$383.1m in the covered quarter. Further, the primary budget balance posted a deficit of \$114.4m in the first quarter of 2021, equivalent to 4.2% of budgetary expenditures, while the overall primary balance registered a deficit of \$321.9m, or 10.4% of spending.

Fiscal Results in First Quarter of Each Year			
	2020 (US\$m)	2021 (US\$m)	Change (%)
Budget Revenues	2,098	2,092	-0.3%
Tax Revenues	1,732	1,655	-4.4%
Non-Tax Revenues	366	437	19.2%
<i>of which Telecom revenues</i>	<i>133</i>	<i>280</i>	<i>110.9%</i>
Budget Expenditures	3,702	2,709	-26.8%
Budget Surplus/Deficit	(1,604)	(617)	-61.5%
<i>In % of budget expenditures</i>	<i>-43.3%</i>	<i>-22.8%</i>	
Budget Primary Surplus/Deficit	(624)	(114)	-81.7%
<i>In % of budget expenditures</i>	<i>-16.9%</i>	<i>-4.2%</i>	
Treasury Receipts	129	176	36.3%
Treasury Expenditures	180	383	112.7%
Total Revenues	2,227	2,267	1.8%
Total Expenditures	3,882	3,092	-20.4%
Total Surplus/Deficit	(1,655)	(825)	-50.2%
<i>In % of total expenditures</i>	<i>-42.6%</i>	<i>-26.7%</i>	
Total Primary Surplus/Deficit	(675.7)	(321.9)	-52.4%
<i>In % of total expenditures</i>	<i>-17.4%</i>	<i>-10.4%</i>	

Source: Ministry of Finance, Byblos Research



Banking Control Commission addresses banks' foreign currency liquidity

The Banking Control Commission of Lebanon (BCCL) issued a memo to banks operating in Lebanon about their liquidity in foreign currency at correspondent banks, in reference to Banque du Liban's Basic Circular 154 dated August 27, 2020. It asked banks to maintain permanently a foreign liquidity ratio of at least 3% of their foreign currency deposits, after deducting the amounts in foreign currency that depositors are withdrawing from their accounts as per Basic Circular 158 dated June 8, 2021, and that are financed from the banks' own liquidity in foreign currency. It noted that banks must abide by the content of Article 6 of Circular 158 and reconstitute their liquidity ratio to at least 3% by the end of 2022, in case the ratio falls below this threshold. Further, it asked banks to maintain on a continuous basis in their account at correspondent banks that is free of any obligations, foreign currency liquidity that is equivalent to at least 100% of the "Fresh Money" that depositors hold at the banks. Also, it asked banks to report to the BCCL the foreign liquidity ratio and the ratio of funds at the account at correspondent banks relative to the fresh money at banks on a weekly basis starting with the week ending September 25, 2021 and on a monthly basis starting with the data for the end of August 2021.

Banque du Liban (BdL) issued on June 8, 2021 Circular 158 for banks operating in Lebanon about exceptional measures related to the gradual disbursement of deposits in foreign currency from accounts that clients opened prior to October 31, 2019. It noted that qualified clients can withdraw up to \$400 in foreign currency banknotes per month and up to the equivalent of \$400 converted to Lebanese pounds at the rate of LBP12,000 per US dollar, with half of the amount disbursed in cash and the other half to be used through payment cards. Also, the circular indicates that banks and BdL will equally source the foreign currency liquidity needed for the withdrawals, as 50% of the funds will originate from freeing part of the compulsory reserves that commercial banks place at BdL, while banks can use their deposits at correspondent banks abroad for this purpose. In addition, the circular authorized banks to use the liquidity that they accumulated at correspondent banks as per Circular 154. The latter mandated banks to place at an account at foreign correspondent banks, by the end of February 2021, the equivalent of at least 3% of the aggregate amount of the bank's deposits in foreign currency as at end-July 2020. Article 6 of Circular 158 stipulated that, in case the liquidity in this account falls short of the 3% floor, banks have until the end of 2022 to meet the threshold. It also forbids banks from using the foreign currency liquidity that covers "Fresh Accounts" that clients opened as per Circular 150 of April 2020, as well as the liquidity that clients repatriated in compliance with Circular 154.

Banque du Liban modifies temporarily Common Equity Tier One Capital composition

Banque du Liban (BdL) issued Intermediate Circular 595 on September 21, 2021 addressed to banks, financial institutions and auditors that modifies Basic Circular 44 dated March 25, 1998 about the regulatory framework for the capital adequacy of banks operating in Lebanon.

The circular said that, on an exceptional basis, banks will be allowed to temporarily incorporate within their Common Equity Tier One Capital (CET1) 75% of the unrealized profits on equities that they hold at Fair Value through Other Comprehensive Income, pending the approval of the BdL Central Council. It added that banks will have to book provisions equivalent to 25% of the unrealized profits over a 10-year period, with a minimum of 10% annually on average during the covered timeframe.

In parallel, the circular modified the risk weight on corporate loans to non-rated resident companies from 150% previously to 100%. It kept the risk weights for the other categories of loans as follows: 20% for companies rated in the 'AAA' to 'AA-' range, 50% on firms rated in the 'A+' to 'A-' bracket, 100% for entities rated in the 'BBB+' to 'BB-' range, 150% for firms rated below 'BB-', 100% for unrated non-resident firms, and 150% for unrated firms that are based in jurisdictions that have sovereign ratings that require a risk weight of 150%.

Cash assistance at \$60.2m in first half of 2021

The United Nations indicated that international contributions to the Lebanon Crisis Response Plan (LCRP) reached \$92.8m in the first half of 2021 with \$50.5m in the first quarter and \$42.3m in the second quarter of 2021, and represented 17.6% of the \$527.5m that the LCPR appealed for to assist the affected Lebanese and non-Lebanese individuals in the country in the first six months of the year. It also noted that \$7.7m were carried over from funding received in 2020, which is equivalent to 1.5% of the total appealed funds. The Lebanon Crisis Response Plan 2017-2021 is a joint initiative between the Lebanese government and international and national partners that aims to address challenges posed by the large presence of Syrian refugees in the country.

Also, the UN indicated that it distributed the LCRP assistance to 833,484 individuals across Lebanon in the first half of 2021 who consist of 800,000 displaced Syrians, or 96% of the total, followed by 26,806 Palestinian refugees from Syria (3.2%), 1,924 vulnerable Lebanese citizens (0.2%), and 108 Palestinian refugees in Lebanon (0.01%).

Further, it said that the LCRP support resulted in the injection of \$60.2m in the Lebanese economy in the form of cash assistance in the first half of 2021, of which \$49.2m were regular cash transfers to Syrian, Lebanese and Palestinian households. It noted that the cash assistance reached 170,055 households with multi-sector cash transfers in the covered period, which consist of 160,000 Syrian households or 94.1% of the total, followed by 8,130 Palestinian families (4.8%), and 1,924 Lebanese households (1.1%). In addition, it pointed out that 4,903 households received cash from the UNICEF Integrated Child Well-Being Program.

In parallel, the UN stated that the Bekaa region accounted for 33% of cash assistance for Syrian refugees, followed by the Baalbeck-Hermel governorate (26%), the Akkar administrative district (20%), Mount Lebanon (10%), the North and the South (5% each), and the Nabatieh area and Beirut (1% each).

Lebanon ranks 92nd globally, 10th among Arab countries in terms of innovation

The 2021 Global Innovation Index ranked Lebanon in 92nd place among 132 countries around the world and in 10th place among 13 Arab countries. The index is co-published by the INSEAD Business School, Cornell University and the World Intellectual Property Organization, three organizations indicated that they modified the methodology to calculate the 2021 index. As such, the results of this year's survey are not comparable with the findings of last year's index.

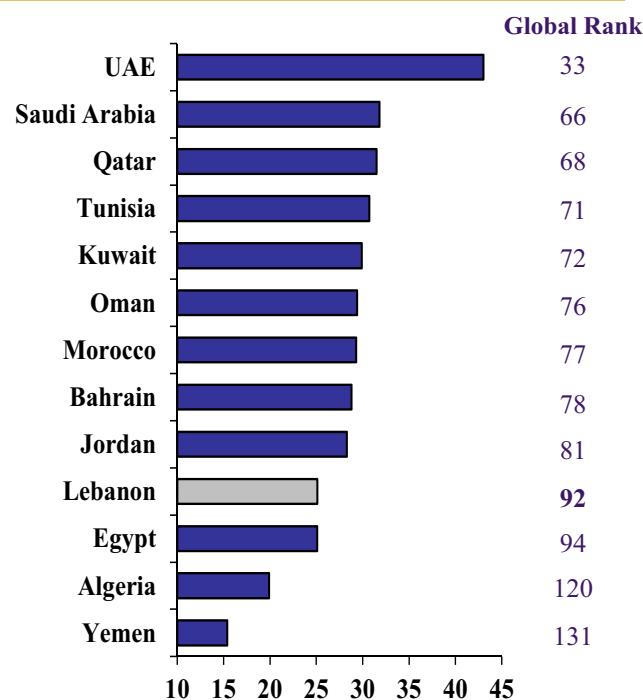
The index measures innovation in a broad sense and covers scientific, social and business development. It aims to provide the tools that can assist stakeholders in tailoring policies to promote long-term economic growth, improve innovation and support job creation. The index is a composite of 81 variables that are grouped in two sub-indices, the Innovation Input Sub-Index and the Innovation Output Sub-Index. The score of the Global Innovation Index is the simple average of the scores of the Input and Output Sub-Indices. The survey rates the innovation level of each country on a scale from zero to 100, with a score of 100 reflecting the most innovative economy. The countries included in the index represent 94.3% of the world's population and 99% of global GDP.

Globally, Lebanon has a higher innovation level than the Dominican Republic, Egypt and Sri Lanka, and is less innovative than Cape Verde, Tanzania and Ecuador among economies with a GDP of \$10 billion or more. Lebanon received a score of 25.1 points, which is below the global average score of 34.3 points and the Arab average of 28.3 points. Also, its score is lower than the Gulf Cooperation Council (GCC) countries' average score of 32.4 points, but it is higher than the average of non-GCC Arab countries of 25.6 points. Switzerland has the highest innovation level worldwide with a score of 65.5 points, while Angola is the least innovative country globally with 15 points.

In parallel, Lebanon preceded Bolivia, Cape Verde and Trinidad & Tobago, and trailed Rwanda, Ecuador and the Dominican Republic worldwide on the Innovation Input Sub-Index. This category covers the elements of the national economy that enable innovative activities, such as institutions, human capital & research, infrastructure, market sophistication, and business sophistication. Lebanon also ranked ahead of Egypt, Algeria and Yemen among Arab countries.

Further, Lebanon came ahead of the Dominican Republic, Bahrain and Uzbekistan, while it ranked behind Ecuador, Trinidad & Tobago and Tajikistan globally on the Innovation Output Sub-Index. This category reflects the results of innovative activities within the economy such as technology, knowledge and creativity. Also, Lebanon preceded Bahrain, Yemen and Algeria in the Arab region.

**Global Innovation Index for 2021
Arab Countries Scores & Rankings**



Source: INSEAD, Cornell University, WIPO, Byblos Research

Components of the 2021 Global Innovation Index for Lebanon

	Global Rank	Arab Rank	Lebanon Score	Arab Average Score
Innovation Input	94	10		
Institutions	112	11	50.1	58.00
Human Capital & Research	87	11	24.9	31.08
Infrastructure	100	11	30.4	39.75
Market Sophistication	90	7	42.0	42.20
Business Sophistication	64	2	25.4	21.65
Innovation Output	97	10		
Knowledge & Technology Output	91	10	14.1	16.85
Creative Outputs	92	9	17.2	19.35

Source: INSEAD, Cornell University, WIPO, Byblos Research

Remittance inflows to Lebanon down 10.5% to \$6.6bn in 2020

Figures released by Banque du Liban show that the inflows of expatriates' remittances to Lebanon totaled \$6.63bn in 2020, constituting a decrease of 10.5% from \$7.41bn in 2019, relative to an increase of 6.2% in 2019. Remittance inflows to Lebanon reached \$1.54bn in the first quarter of 2020, their lowest quarterly level since the fourth quarter of 2019, \$1.67bn in the second quarter, \$1.75bn in the third quarter, and \$1.68bn in the fourth quarter of 2020. They decreased by 19.5% in the first three months of the year from the same quarter of 2019, contracted by 15.3% in the second quarter, regressed by 9.2% in the third quarter, and grew by 4.7% in the fourth quarter of 2020 from the same period of the previous year. The figures include workers' remittances and the compensation of employees, according to the World Bank's definition of remittances. Banque du Liban's figures are the only official data on remittance flows to and from Lebanon.

In addition, remittance inflows to Lebanon in 2020 reached their seventh lowest annual level during the 2002-2020 period, a high of \$7.6bn in 2016 and a low of \$2.54bn in 2002. They averaged \$6.4bn annually between 2002 and 2020, but they increased from an annual average of \$4.8bn during the 2002-07 period to a yearly average of \$7.2bn between 2008 and 2020. Further, remittance inflows were equivalent to 29.4% of GDP in 2020 compared to 14.4% of GDP in 2019.

In parallel, remittance outflows from Lebanon amounted to \$2.95bn in 2020, constituting a drop of 32.1% from \$4.34bn in 2019, and relative to a decrease of 13.4% in 2019. Remittance outflows from Lebanon totaled \$850.2m in the first quarter of 2020, \$763.2m in the second quarter, \$718.2m in the third quarter, and, \$614.2m in the fourth quarter of 2020, their lowest level since the second quarter of 2007. They declined by 28.7% in the first quarter of the year from the same quarter of 2019, contracted by 35% in each of the second quarter and third quarters, and dipped by 29% in the fourth quarter of 2020 from the same period of the previous year.

In addition, remittance outflows in 2020 reached their second lowest annual level during the 2002-20 period, with a high of \$5.75bn in 2009 and a low of \$2.52bn in 2002. They averaged \$4.14bn annually between 2002 and 2020, but they increased from an annual average of \$3.54bn during the 2002-07 period to a yearly average of \$4.42bn between 2008 and 2020. Further, remittance outflows from Lebanon were equivalent to 13% of GDP in 2020 compared to 8.4% of GDP in 2019.

As such, net remittance inflows to Lebanon totaled \$3.69bn in 2020, constituting a rise of 20% from \$3.1bn in 2019, relative to a jump of 56% in 2019. Net remittance inflows to Lebanon in 2020 reached their second highest annual level during the 2002-20 period, after peaking at \$3.8bn in 2015. They averaged \$2.27bn annually between 2002 and 2020, but they increased from an annual average of \$1.25bn during the 2002-07 period to a yearly average of \$2.75bn between 2008 and 2020. Net remittance inflows to Lebanon were equivalent to 16.3% of GDP in 2020 compared to 6% of GDP in 2019.

Surveyed economists expect Lebanon's real GDP to contract by 8% in 2021

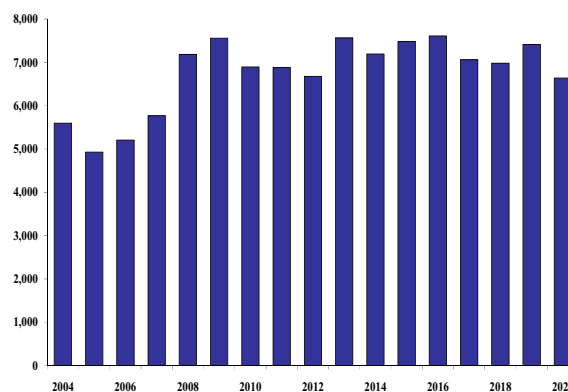
Bloomberg's quarterly survey of economists and analysts about the outlook on the Lebanese economy projected economic activity to contract by 8% in 2021, compared to an earlier forecast of a retreat of 5.6% in the June 2021 survey. The individual forecasts for 2021 ranged from contractions of 2.5% to 15% for the current year, with a median real GDP contraction of 7.9% for 2021. Also, the poll indicates that the consensus forecast among 50% of participants is that real GDP will shrink by more than 10% this year. Bloomberg conducted the poll in September 2021, and the survey's results are based on the opinions of 10 economists and analysts based in Lebanon and abroad.

Further, participants forecast the average inflation rate in Lebanon at 114.9% in 2021 compared to a projection of 92.3% in the June 2021 survey. The opinions of surveyed analysts differed on the magnitude of the increase in consumer prices in 2021, with expectations ranging from 63.5% to 190%, with a median inflation rate of 110.5% for 2021. Also, 80% of participants predicted that the inflation rate would range between 100% and 190% this year.

In addition, surveyed analysts projected Lebanon's fiscal deficit at 6.1% of GDP in 2021 compared to a previous forecast of 7.4% of GDP in the June 2021 survey. The projections of polled economists for the fiscal deficit ranged from 4.6% of GDP to 8% of GDP in 2021, with a median deficit of 5.9% of GDP. Further, the survey's participants forecast the current account deficit at 11.2% of GDP in 2021 compared to a previous forecast of a deficit of 15.4% of GDP in June 2021. The polled analysts expected the current account deficit to range from 1.6% of GDP to 15% of GDP in 2021, with a median deficit of 12.2% of GDP for the year.

In parallel, respondents assigned a median probability of 60% for Lebanon to enter into a recession in the next 12 months. The analysts forecast at between 50% and 95% the probability of an economic recession in Lebanon in the next 12 months.

Remittance Inflows to Lebanon (US\$m)



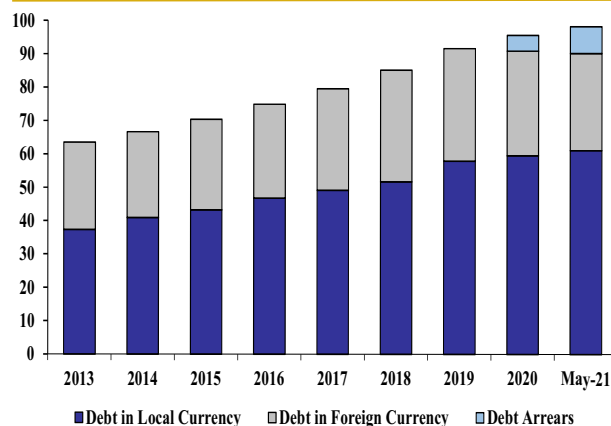
Source: Banque du Liban, Byblos Research

Gross public debt at \$98bn at end-May 2021

Figures issued by the Ministry of Finance show that Lebanon's gross public debt reached \$98.2bn at the end of May 2021, constituting an increase of 2.7% from \$95.6bn at the end of 2020 and a rise of 5.4% from \$93.1bn at the end of May 2020. The dollar figures are converted at the official exchange rate of the Lebanese pound against the US dollar. The gross public debt grew by \$2.6bn in the first five months of 2021 relative to an increase of \$1.5bn in the same period of 2020.

Debt denominated in Lebanese pounds totaled LBP92,109bn, or the equivalent of \$61.1bn, at the end of May 2021, and expanded by 2.6% from end-2020 and by 4.4% from a year earlier; while debt denominated in foreign currency stood at \$37.1bn and grew by 2.8% from end-2020 and by 7% from end-May 2020. On March 7, 2020, the Lebanese government decided to default on the \$1.2bn Eurobond that was due on March 9, 2020. It also announced on March 23, 2020 that Lebanon will discontinue payments on all of its outstanding Eurobonds. According to the Finance Ministry, about \$8bn of the debt stock denominated in foreign currency were in arrear as at the end of May 2021.

Lebanon's Gross Public Debt (US\$bn)



Source: Ministry of Finance, Byblos Research

Local currency debt accounted for 62.2% of the gross public debt at the end of May 2021 and foreign currency-denominated debt represented the balance of 37.8%, compared to 62.8% and 37.1%, respectively, a year earlier. The weighted interest rate on outstanding Treasury bills was 6.49% in May 2021, while the weighted life of Treasury bills and bonds was 1,605 days. BdL held 38.6% of the public debt at the end of May 2021, followed by commercial banks (15.7%), and non-bank resident financial institutions (8%); while other investors, including foreign investors, held 35.7% of the debt, and multilateral institutions and foreign governments accounted for the remaining 2.1%. BdL held 62% of the Lebanese pound-denominated public debt at the end of May 2021 compared to 59% a year earlier, while commercial banks accounted for 25.1% of the local debt relative to 28% at end-May 2020. Also, public agencies, financial institutions and the public held 13% of the local debt at the end of May 2021, unchanged from a year earlier. Further, investors in Eurobonds and special T-bills in foreign currencies held 94.5% of the foreign currency-denominated debt at the end of May 2021, followed by multilateral institutions with 3.9%, and foreign governments with 1.5%. In addition, the net public debt, which excludes public sector deposits at BdL and at commercial and investment banks from overall debt figures, stood at \$86.7bn at the end of May 2021 and grew by 1.3% in the first five months of the year. Further, the gross market debt accounted for about 52% of the public debt. The gross market debt is the total public debt less the portfolios of BdL, the National Social Security Fund, as well as bilateral and multilateral loans.

Compensation of public-sector personnel absorbs 78% of public revenues in first two months of 2021

Figures issued by the Ministry of Finance show that the compensation of public-sector personnel totaled LBP1,515bn, or the equivalent of \$1bn, in the first two months of 2021, constituting a decrease of 17.3% from \$1.22bn in the same period of 2020. Salaries, wages and related benefits accounted for 62.8% of the total, followed by retirement benefits (31.7%), transfers to public institutions to cover salaries (3.6%), and end-of-service indemnities (1.8%). The dollar figures are based on the official exchange rate of the Lebanese pound to the US dollar. Further, end-of-service indemnities dropped by 75.2%; transfers to public institutions to cover salaries declined by 31.3%; and salaries, wages and related benefits decreased by 18.8%; while retirement salaries increased by 2.1% in the covered period. The compensation of public-sector personnel represented the largest component of current primary spending and accounted for 71.7% of such expenditures in the first two months of 2021 compared to 63.3% in the same period of 2020. It also represented 52% of fiscal spending in the first two months of 2021 relative to 42.8% in the same period of 2020; while it absorbed 78% of public revenues in the first two months of 2020 relative to 72.3% of government receipts in the same period of 2020.

In parallel, salaries, wages and related benefits paid to public-sector workers amounted to LBP954bn, or the equivalent of \$632.8m, in the first two months of 2021 compared to \$777.4m in the same period of 2020. This category includes basic salaries, employment benefits, allowances, contributions to civil servants' cooperatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly civil and religious judges, and employees at the Parliament. The breakdown of salaries, wages and related benefits paid to public-sector employees shows that allowances decreased by \$98.8m, while benefits and other payments given to non-military bodies and basic salaries regressed each by \$9.3m year-on-year. Benefits include payments for transportation, overtime and family-related benefits, while other payments to non-military bodies consist of the State's contribution to mutual funds and to the National Social Security Fund, as well as bonuses, among others. Basic salaries decreased by 2% to \$471.6m in the first two months of 2021, allowances regressed by 45% to \$120.7m, and benefits and other payments dropped by 28% to \$23.9m from the first two months of 2020. In addition, salaries and benefits of military personnel reached \$470.3m and accounted for 74.3% of salaries, wages and related benefits paid to public sector employees in the first two months of 2021. The salaries and benefits of personnel in public education followed with \$91.5m (14.5% of the total), then civil staff with \$59m (9.3%), and the salaries and benefits of customs employees with \$10.6m (1.7%). Also, the Lebanese Army's salaries and benefits totaled \$292.5m and represented 62.2% of the salaries and benefits of military personnel. The salaries of the Internal Security Forces followed with \$132m (28.1%), those of the General Security Forces with \$36.5m (7.7%), and the salaries of State Security Forces with \$9.3m (2%).

Term deposits account for 67% of customer deposits at end-July 2021

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 \$143.9bn at the end of July 2021, constituting a decrease of \$7.3bn, or 4.8% from \$151.2bn the end of 2020. Total deposits include private sector deposits that reached \$133.2bn, deposits of non-resident financial institutions that amounted to \$5.3bn, and public sector deposits that stood at \$4.5bn at the end of July 2021.

Term deposits in all currencies reached \$95.7bn at the end of July 2021 and declined by \$13.4bn, or by 12.3%, from \$109.2bn at end-2020; while they accounted for 66.5% of total deposits in Lebanese pounds and in foreign currency as at end-July 2021 relative to a share of 72.2% at the end of 2020.

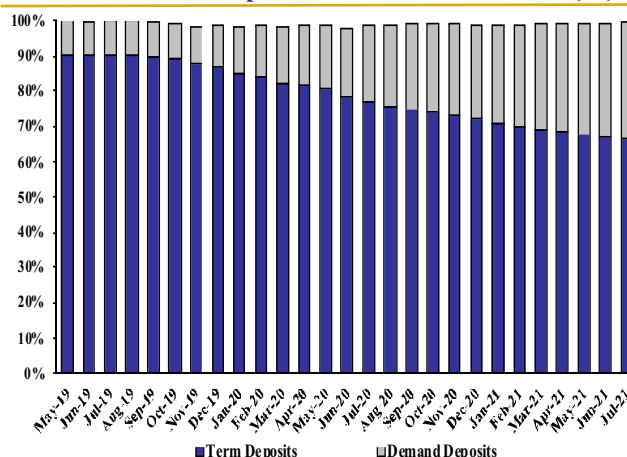
The decline in term deposits is due to a drop of 22% in the term deposits of the non-resident financial sector, a decrease of 15.8% in the term deposits in Lebanese pounds of the resident private sector, a dip of 12.3% in the foreign currency-denominated term deposits of the resident private sector, a 11.3% decline in the term deposits of non-residents, and a decrease of 6.6% in the term deposits in Lebanese pounds of the public sector. This was partly offset by an increase of 3.3% in foreign currency-denominated term deposits of the public sector. The decline 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 \$70.7bn since the end of September 2019.

Further, foreign currency-denominated term deposits of the resident private sector reached \$53.7bn and accounted for 37.3% of aggregate deposits at the end of July 2021. Term deposits of non-residents followed with \$18.8bn (13.1%), then term deposits in Lebanese pounds of the resident private sector with \$15bn (10.4%), term deposits of the public sector in Lebanese pounds with \$3.9bn (2.7%), term deposits of the non-resident financial sector with \$3.7bn (2.6%), and term deposits of the public sector in foreign currency with \$688m (0.5%).

In parallel, demand deposits in all currencies at commercial banks stood at \$48.4bn at the end of July 2021 and increased by \$6.1bn, or by 16.3%, from \$42bn at end-2020. They accounted for 33.4% of total deposits at end-July 2021 relative to a share of 27.8% at end-2020. The increase in demand deposits was mainly due to a growth of \$3.9bn in foreign currency-denominated demand deposits of the resident private sector, a rise of \$1.74bn in demand deposits in Lebanese pounds of the resident private sector, and an increase of \$392.6m in demand deposits of non-residents.

Also, demand deposits in foreign currency of the resident private sector totaled \$29.5bn and represented 20.4% of deposits at end-July 2021. Demand deposits in Lebanese pounds of the resident private sector followed with \$9bn (6.2%), then demand deposits of non-residents with \$7.42bn (5.1%), demand deposits of the non-resident financial sector with \$1.6bn (1.1%), demand deposits in Lebanese pounds of the public sector with \$556m (0.4%), and demand deposits in foreign currency of the public sector with \$191.5m (0.1%).

Breakdown of Deposits at Commercial Banks (%)



Source: Banque du Liban

Ratio Highlights

(in % unless specified)	2018	2019	2020	Change*
Nominal GDP (\$bn)	55.0	51.3	33.4	(17.88)
Public Debt in Foreign Currency / GDP	60.6	63.0	55.8	(7.17)
Public Debt in Local Currency / GDP	93.4	108.1	92.2	(15.87)
Gross Public Debt / GDP	154.0	171.1	148.1	(23.04)
Trade Balance / GDP	(30.8)	(29.0)	(12.0)	16.93
Exports / Imports	14.8	19.4	31.3	11.95
Fiscal Revenues / GDP	20.9	20.7	15.8	(4.90)
Fiscal Expenditures / GDP	32.2	31.6	20.0	(11.60)
Fiscal Balance / GDP	(11.3)	(10.9)	(4.2)	6.70
Primary Balance / GDP	(1.1)	(0.5)	(1.0)	(0.47)
Gross Foreign Currency Reserves / M2	63.8	70.2	41.5	(28.63)
M3 / GDP	255.6	251.2	205.6	(45.67)
Commercial Banks Assets / GDP	451.3	404.8	291.3	(113.50)
Private Sector Deposits / GDP	315.3	296.6	215.5	(81.10)
Private Sector Loans / GDP	107.4	92.9	56.0	(36.91)
Private Sector Deposits Dollarization Rate	70.6	80.3	80.4	0.08
Private Sector Lending Dollarization Rate	69.2	68.7	59.6	(9.12)

*change in percentage points 20/19;

Source: Banque du Liban, Central Administration of Statistics, Institute of International Finance, 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	25.9
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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