

LEBANON THIS WEEK

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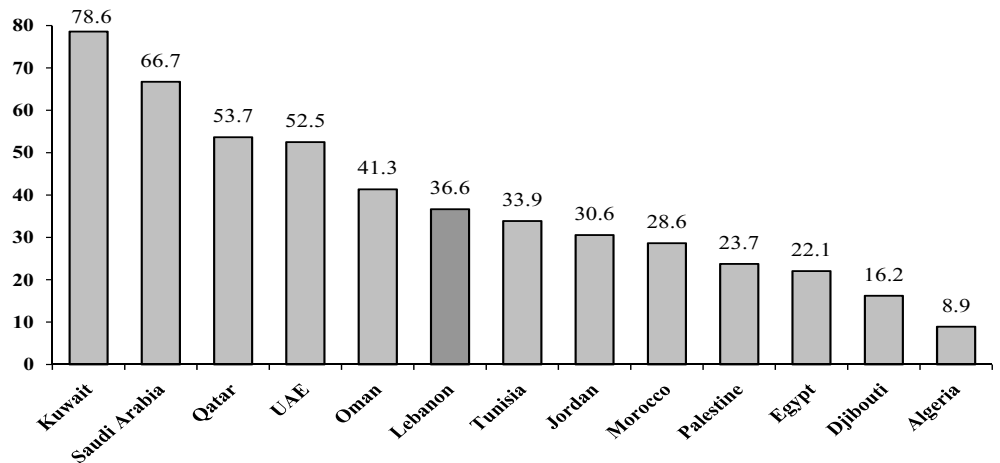
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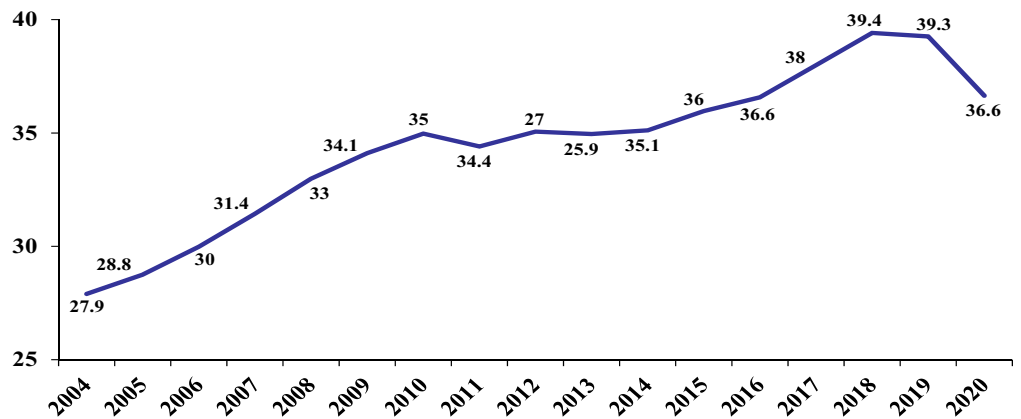
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Charts of the Week

Penetration Rate of Commercial Banks' ATMs in Select Arab Countries at end-2020
(Number of ATMs per 100,000 adults)



Penetration Rate in Lebanon of Commercial Banks' ATMs
(Number of ATMs per 100,000 adults)



Source: International Monetary Fund, Byblos Bank

Quote to Note

"The Lebanese people expect their political leaders to listen to their needs and to restore the economy, including through a functioning government and state institutions, and by effectively fighting corruption."

The Secretary-General of the United Nations, António Guterres, on the aspirations of the Lebanese people

Number of the Week

1,614%: Percentage increase in the prices of clothing and footwear between December 2019 and October 2021, according to the Central Administration of Statistics

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	Sep-20	Jun-21	Jul-21	Aug-21	Sep-21	% Change*
BdL FX Reserves	18.60	20.00	15.19	14.68	14.20	14.62	(26.9)
In months of Imports	15.10	-	-	-	-	-	-
Public Debt	95.59	94.81	97.75	98.19	98.73	-	-
Bank Assets	188.04	192.57	181.08	180.64	180.28	179.68	(6.7)
Bank Deposits (Private Sector)	139.14	142.18	134.23	134.23	133.04	132.49	(6.8)
Bank Loans to Private Sector	36.17	38.60	31.87	31.41	30.86	30.00	(22.3)
Money Supply M2	44.78	40.94	49.77	49.59	49.85	49.95	22.0
Money Supply M3	132.70	130.92	134.15	133.42	133.21	132.90	1.5
LBP Lending Rate (%)	7.77	7.89	7.32	7.26	7.52	7.65	(24)
LBP Deposit Rate (%)	2.64	3.35	1.84	1.74	1.62	1.53	(182)
USD Lending Rate (%)	6.73	7.54	6.46	5.99	5.87	6.34	(120)
USD Deposit Rate (%)	0.94	1.15	0.39	0.33	0.30	0.26	(89)

*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 %
Solidere "A"	32.65	10.7	101,738	30.8%	Oct 2022	6.10	10.00	728.32
Solidere "B"	33.32	12.6	44,889	20.4%	Jan 2023	6.00	9.88	393.71
Byblos Pref. 08	34.99	0.0	10,000	0.7%	Apr 2024	6.65	10.00	129.93
Byblos Pref. 09	37.99	0.0	9,864	0.7%	Jun 2025	6.25	10.00	79.53
Audi GDR	1.90	4.4	3,850	2.1%	Nov 2026	6.60	10.38	52.06
HOLCIM	19.33	(3.4)	689	3.6%	Feb 2030	6.65	9.88	30.55
Byblos Common	0.82	0.0	-	4.4%	Apr 2031	7.00	9.88	26.51
BLOM Listed	3.75	0.0	-	7.6%	May 2033	8.20	10.00	21.31
Audi Listed	2.30	0.0	-	12.8%	Nov 2035	7.05	10.00	17.36
BLOM GDR	3.31	0.0	-	2.3%	Mar 2037	7.25	10.13	15.63

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

Source: Refinitiv

	Dec 27-30	Dec 20-23	% Change	December 2021	December 2020	% Change
Total shares traded	171,230	186,194	(8.0)	1,283,538	3,480,130	(63.1)
Total value traded	\$5,359,042	\$2,089,126	156.5	\$22,004,921	\$29,046,630	(24.2)
Market capitalization	\$10.61bn	\$10.05bn	5.51	\$10.61bn	\$6.72bn	57.8

Source: Beirut Stock Exchange (BSE)



Lebanon ranks 92nd globally, ninth among Arab countries on Knowledge Index

The Global Knowledge Index (GKI) for 2021 ranked Lebanon in 92nd place among 154 countries around the world and in ninth place among 17 Arab countries. The results of this year's survey are not comparable with the findings of the 2020 index due to changes in the methodology to produce the index. The index is a joint initiative between the United Nations Development Program and the Dubai-based Mohammed Bin Rashid Al Maktoum Knowledge Foundation.

The GKI measures the multidimensional concept of knowledge, and aims to provide a comprehensive approach to "knowledge-based development". It is composed of seven weighted sub-indices that are Pre-University Education (15%), Technical Vocational Education & Training (15%), Higher Education (15%), Research, Development & Innovation (15%), Information & Communications Technology (15%), the Economy (15%), and the General Enabling Environment (10%). The index aims to guide policymakers and the private sector in fostering a development process that seeks to equip individuals with the necessary skills for the labor market of the future. It rates the knowledge level in each country on a scale from zero to 100, with a score of 100 reflecting the country with high knowledge.

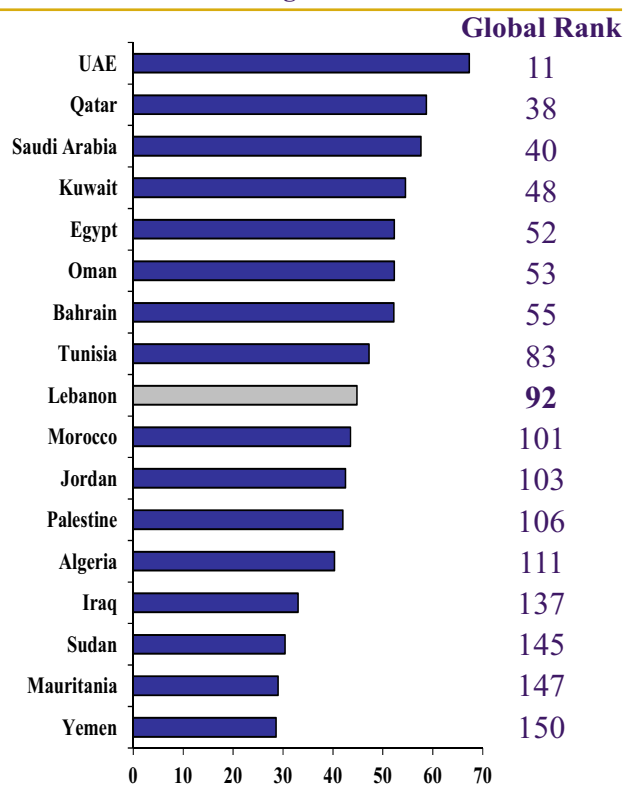
Globally, the knowledge level in Lebanon is better than the level in Paraguay, the Dominican Republic and Azerbaijan, and lower than the level of knowledge in Indonesia, Ecuador and Jamaica among countries with a GDP of \$10bn or more. Also, Lebanon ranked ahead of Morocco, Jordan, Palestine, Algeria, Iraq, Sudan, Mauritania and Yemen in the Arab world, while it trailed nine Arab countries. Lebanon received a score of 44.8 points in 2021 compared to the global average score of 48.4 points and the Arab region's average score of 45.65 points.

Lebanon preceded Spain, Poland and Croatia, and came behind Ireland, Romania and the Czech Republic on the Higher Education Sub-Index. This category measures the level of education among the youth, as well as the development of their qualifications, knowledge and skills, in order to improve a country's productivity and competitiveness in global markets. Regionally, Lebanon came ahead of 14 Arab countries, and trailed only the UAE and Qatar.

Also, Lebanon ranked ahead of Bolivia, Uzbekistan and Jamaica, and came behind El Salvador, Ghana and Sri Lanka on the Information & Communications Technology (ICT) Sub-Index. This category assesses how ICT supports the advancement of knowledge across all sectors based on ICT inputs and outputs. Regionally, Lebanon came ahead of six Arab countries, while it ranked behind 10 Arab economies.

Further, Lebanon preceded Malaysia, Slovakia and Romania, and trailed Belarus, Croatia and Saudi Arabia on the Research, Development & Innovation (RDI) Sub-Index. This category assesses how RDI contributes to increasing knowledge at the national and regional levels based on research and development, innovation in production, as well as on social innovation. Lebanon ranked ahead of 13 Arab countries and came behind only the UAE, Qatar and Saudi Arabia in the Arab region.

**Global Knowledge Index for 2021
Scores & Rankings of Arab Countries**



Source: Knowledge4all, Byblos Research

Components of the 2021 Global Knowledge Index for Lebanon

Component	Global Rank	Arab Rank	Lebanon Score	Global Avg Score	Arab Avg Score
Pre-University Education	116	13	47.6	60.8	60.1
The Economy	92	9	48.8	52.9	51.2
General Enabling Environment	139	13	39.5	55.5	46.6
Higher Education	31	3	56.7	46.1	42.8
Technical & Vocational Education and Training	89	9	47.6	51.2	49.3
Research, Development & Innovation	49	4	35.5	31.4	28.1
Information & Communications Technology	98	11	36.0	43.3	41.8

Source: Knowledge4all, Byblos Research

Banque du Liban's foreign assets at \$18bn, gold reserves at \$16.3bn at mid-December 2021

Banque du Liban's (BdL) interim balance sheet reached \$163.87bn on December 15, 2021, constituting increases of 10.2% from \$148.6bn at end-2020 and of 3.6% from \$158.2bn a year earlier. Assets in foreign currency totaled \$18.1bn at mid-December 2021, representing a decrease of \$6bn, or of 25%, from the end of 2020 and a drop of \$6.8bn (-27.3%) from \$24.88bn at mid-December 2020. Assets in foreign currency include \$5.03bn in Lebanese Eurobonds, unchanged from a year earlier.

BdL's assets in foreign currency, excluding Lebanese Eurobonds, stood at \$13.06bn at mid-December 2021 and regressed by \$141.2m (-1.1%) from \$13.2bn at end-November 2021 and by \$313.65m (-2.35%) from \$13.37bn on November 15, 2021. They dropped by \$6bn (-31.5%) from \$19.1bn at the end of 2020 and by \$6.8bn (-34.2%) from \$19.85bn at mid-December 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 large number of food and non-food items, and raw materials for agriculture and industry. It is also due to the steep drop in capital flows to Lebanon since September 2019, and to the near halt of inflows after the government decided to default on its Eurobonds obligations in March 2020. However, the decline in BdL's assets foreign currency was offset in part by the allocation of about \$1.13bn in Special Drawing Rights that the IMF transferred to BdL's account on September 16, 2021.

In parallel, the value of BdL's gold reserves amounted to \$16.3bn at mid-December 2021, constituting decreases of \$1.02bn (-6%) from the end of 2020 and of \$720.5m (-4.2%) from \$17.03bn at mid-December 2020. The value of gold reserves reached a peak of \$18.13bn at mid-September 2020. Also, the securities portfolio of BdL totaled \$41.3bn at mid-December 2021, increasing by \$1.26bn (+3.2%) from the end of 2020 and by \$1.14bn (+2.8%) from \$40.1bn a year earlier. In addition, loans to the local financial sector totaled \$13.71bn, regressing by 4% from the end of 2020 and from mid-December 2020. Further, the deposits of the financial sector stood at \$106.5bn at mid-December 2021 and declined by \$1.2bn from a year earlier. In addition, public sector deposits at BdL reached \$7.45bn at mid-December 2021, increasing by \$2.9bn from the end of 2020 and by \$2.55bn from a year earlier.

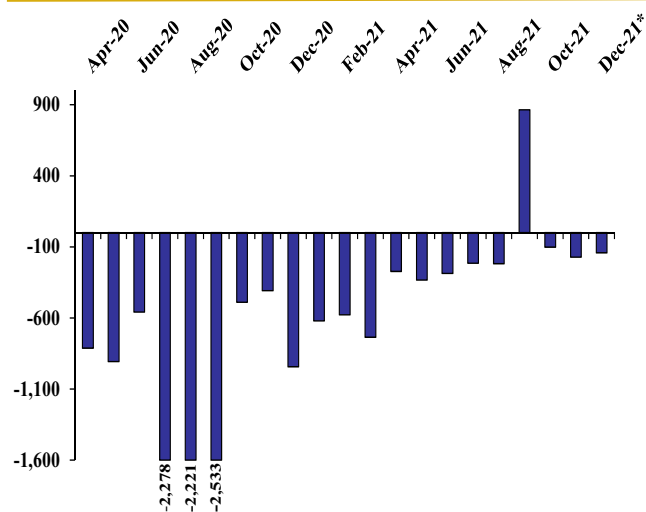
Surveyed economists expect Lebanon's real GDP to contract by 8.3% in 2021

Bloomberg's quarterly survey of economists and analysts about the outlook on the Lebanese economy estimated that economic activity contracted by 8.3% in 2021, compared to an earlier forecast of a retreat of 8% in the September 2021 survey. The individual estimates for 2021 ranged from contractions of 2.5% to 15% for 2021, while the consensus forecast among 50% of participants is that real GDP will shrink by more than 10% this year. In addition, respondents projected Lebanon's real GDP to expand to 1.7% in 2022 compared to a forecasted increase of 2.4% in the September survey. The individual forecasts of growth rates for 2022 ranged from -5% to 5%, while the consensus forecast among 75% of participants is that the real GDP would range between -5% and 2.9% in 2022. The results displayed a median real GDP contraction figure of 8.2% for 2021, compared to a median real GDP retreat of 7.9% in the September survey, as well as a median real GDP growth figure of 2% for 2022. Bloomberg conducted the poll in December 2021, and the survey's results are based on the opinions of 10 economists and analysts based in Lebanon and abroad.

Further, participants estimated the average inflation rate in Lebanon at 140.3% in 2021 compared to a projection of 115% in the September 2021 survey. The estimates of polled economists differed on the magnitude of the increase in consumer prices in 2021, with expectations ranging from 55% to 222.6%, while 80% of participants predicted that the inflation rate stood at between 100% and 222.6% in 2021. The surveyed analysts projected the inflation rate to average 90.1% in 2022. The opinions of participants differed on the direction of consumer prices in 2022 with expectations ranging from 20% to 246.4%, while 66.7% of participants predicted that the inflation rate would be between 20% and 63% in 2022. The poll's results revealed a median inflation rate of 128.6% for 2021, compared to 110.5% in the September survey, as well as a median of 60% for 2022.

In addition, surveyed analysts estimated Lebanon's fiscal deficit at 6.6% of GDP in 2021 compared to a previous forecast of 6.1% of GDP in the September 2021 survey. The projections of polled economists for the fiscal deficit ranged from 3% of GDP to 12.4% of GDP in 2021, with a median deficit of 6% of GDP for the year. The analysts projected the deficit at 6.4% of GDP in 2022. They expected the fiscal deficit at between 2% of GDP and 10.8% of GDP in 2022, with a median deficit of 8.1% of GDP. Further, the survey's participants estimated the current account deficit at 13.1% of GDP in 2021 compared to a previous forecast of a deficit of 11.2% of GDP in September 2021. The estimations of polled analysts for the current account deficit ranged from 1.6% of GDP to 26% of GDP in 2021, with a median deficit of 13.4% of GDP for the year. The survey's participants expected the current account deficit to narrow to 8.2% of GDP in 2022 and to range between 0.6% of GDP and 12.7% of GDP for the year, with a median deficit of 8.5% of GDP for 2022.

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



* at mid-December 2021

Source: Banque du Liban, Byblos Research

Consumer Price Index up 201% year-on-year in November 2021

The Central Administration of Statistics' Consumer Price Index increased by 178.4% in the first 11 months of 2021 from the same period of 2020. In comparison, it grew by 127.3% and by 4.1% in the first 11 months of 2020 and 2019, respectively.

The CPI rose by 201% in November 2021 from the same month of 2020, while it registered its 17th 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 and the gradual lifting of subsidies on hydrocarbons, which have 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 emergence of an active black market for gasoline during the summer has put upward pressure on prices and on inflation.

Transportation costs surged by 6.8 times in November 2021 from the same month last year, followed by healthcare costs (4.7 times), the prices of food & non-alcoholic beverages (4.6 times), the rates at restaurants & hotels (+4.4 times), the prices of water, electricity, gas & other fuels (+4 times), the cost of alcoholic beverages & tobacco (+3.5 times), the prices of clothing & footwear (+3.4 times), and prices of furnishings & household equipment (+3.1 times). In addition, the prices of miscellaneous goods & services jumped by 151.7% year-on-year in November 2021, followed by the cost of recreation & entertainment (+136.4%), communication costs (+35.5%), the cost of education (+35%), actual rent (+4%), and imputed rent (+2.4%). Also, the distribution of actual rent shows that new rent grew by 5.3% and old rent increased by 2.2% in November 2021 from the same month last year.

In parallel, the CPI increased by 10.6% in November 2021 from the previous month, compared to a month-on-month rise of 16.4% in October 2021 and of 8.2% in September 2021. Healthcare costs surged by 43% month-on-month in November 2021, followed by prices of furnishings & household equipment (+30.8%), prices of food & non-alcoholic beverages (+14%), clothing & footwear prices (+11.7%), prices of alcoholic beverages & tobacco (+11.4%), rates at restaurants & hotels (11.2%), transportation costs (+11%), the cost of miscellaneous goods & services (+8%), prices of water, electricity, gas and other fuels (+7%), the cost of recreation & entertainment (+6.2%), and communication costs (+0.9%). Also, the cost of education, actual rent and imputed rent were unchanged in November 2021 from the preceding month.

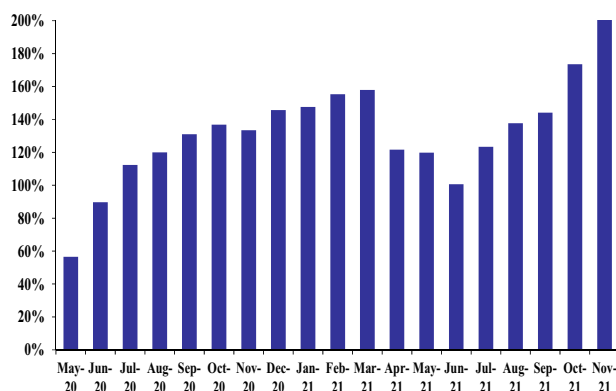
Further, the CPI increased by 13.4% in Nabatieh, by 13% in the South, by 12% in the North, by 11.7% in Beirut, by 10.6% in the Bekaa, and by 9.05% in Mount Lebanon, during November 2021 from the previous month. In parallel, the Education Price Index was unchanged, while the Fuel Price Index increased by 17.4% month-on-month in November 2021.

Energy Ministry announces projects to upgrade oil and gas infrastructure

The Ministry of Energy and Water signed an agreement with the Egyptian firm Technical Company for Gas Pipeline Operation Services to rehabilitate the part of the Arab Gas Pipeline within Lebanon's borders that has been out of service for at least 10 years. The project aims to facilitate the flow of natural gas from Egypt to Lebanon in order to raise local electricity production. In September 2021, Egypt agreed to supply Lebanon's power plants with natural gas through the Arab Gas Pipeline that runs through Jordan and Syria. The agreement stipulates that about 650 million cubic meters of gas will be shipped to Lebanon through the pipeline to the Deir Ammar power station in the north, which will lead to the production of 450 megawatts (MW) of electricity and add electricity output by three to four hours per day. As such, electricity supply in the country is expected improve to between eight and 12 hours a day, at a cost of 7.5 to 8 cents per kilowatt-hour. The ministry clarified that the contract to bring gas from Egypt to Lebanon through Syria will not be targeted by U.S. sanctions in place, given that "no cash is going from any side to Syria".

In parallel, the ministry indicated that Russian energy company Rosneft will rehabilitate storage tanks and build new ones at the oil refinery near Tripoli, and added that the tanks will have a capacity to store 151,000 cubic meters of oil derivatives that can reach 248,000 cubic meters at a later stage. The project is part of a deal that Lebanon signed with Rosneft in 2019 to upgrade and manage oil storage facilities near Tripoli. It said that the firm will renovate three storage tanks and build three new ones, and expected the project to take about 18 months to be completed. It stated that Rosneft will also construct solar photovoltaic systems with a production capacity of about one million MW of electricity. Finally, it noted that Rosneft, in collaboration with engineering consulting firm Dar Al-Handasah Consultants, will help qualify specialized companies to build and develop oil facilities.

Annual Change in CPI (%)



Source: Central Administration of Statistics, Byblos Research

Fiscal surplus equivalent to 3% of expenditures in first half of 2021

Figures released by the Ministry of Finance show that the fiscal balance posted a surplus of LBP281.4bn, or \$186.7m, in the first half of 2021 compared to a deficit of LBP3,351.7bn (\$2.2bn) in the same period of 2020. The dollar figures are based on the official exchange rate of the Lebanese pound to the US dollar. The surplus was equivalent to 3.2% of total budget and Treasury expenditures relative to a contraction of 32.5% in spending in the first half of 2020. Government spending reached LBP8,729.4bn (\$5.8bn) in the first half of 2021 and declined by 15.3% from the same period of 2020, while revenues stood at LBP9,010.8bn (\$6bn) and grew by 29.6% year-on-year. The surplus of the fiscal balance was caused by a contraction of LBP1,577.1bn (\$1.05bn) in spending from lower debt servicing cost and Treasury transfers to Electricité du Liban (EdL), as well as by an increase of LBP2,056bn (\$1.36bn) in revenues.

On the revenues side, tax receipts rose by 38% year-on-year to LBP6,938bn (\$4.6bn) in the first half of 2021, of which 26.8%, or LBP1,862.5bn (\$1.24bn), were in VAT receipts that surged by 119% annually due in large part to accelerating inflation. Tax receipts accounted for 82.5% of budgetary revenues and for 77% of Treasury and budgetary income in the covered period. The distribution of other tax receipts shows that revenues from taxes on income, profits & capital gains increased by 23.4% to LBP3,092.5bn (\$2.05bn) in the covered period; receipts from customs grew by 16.4% to LBP742.3bn (\$492.4m); revenues from property taxes rose by 60% to LBP778.2bn (\$516.2m); proceeds from stamp fees increased by 17.2% to LBP234bn (\$155.2m); while revenues from taxes on goods & services dropped by 33.5% to LBP228.5bn (\$151.6m).

The distribution of income tax receipts shows that the tax on interest income accounted for 41% of income tax revenues in the first half of 2021, followed by the tax on profits with 40%, the tax on wages & salaries with 14.4%, and the capital gains tax with 4%. Receipts from the tax on profits jumped by 390%, revenues from the tax on capital gains surged by 139.4%, and proceeds from the tax on wages & salaries increased by 17.8%, while revenues from the tax on interest income fell by 30% in the covered period. Also, revenues from the inheritance tax jumped by 298% to LBP123.8bn (\$82.1m), proceeds from the built property tax surged by 72.6% to LBP152.5bn (\$101.2m), and receipts from real estate registration fees expanded by 36.7% to LBP502bn (\$333m) in the first half of 2021. Further, non-tax budgetary receipts grew by 54% year-on-year to LBP1,468.8bn (\$974.3m) in the covered period. They mainly included LBP970.6bn (\$644m) in revenues generated from government properties that rose by 95%, as well as LBP304.7bn (\$202m) in receipts from administrative fees and charges that grew by 5% annually. Receipts from telecommunication services jumped by 174% to LBP821.4bn (\$545m) in the first half of 2021, and accounted for 84.6% of income from government properties and for nearly 56% of non-tax budgetary revenues. In parallel, Treasury receipts decreased by 38% to LBP604bn (\$400.7m) in the covered period.

On the expenditures side, total budgetary spending, which includes general expenditures and debt servicing, declined by 14% to LBP7,827.8bn (\$5.2bn) in the first half of 2021. General spending regressed by 10% to LBP6,373bn (\$4.2bn) in the covered period, and included LBP517.8bn (\$343.5m) in transfers to EdL that decreased by 21% year-on-year, and LBP1,018.7bn (\$675.7m) in outlays from previous years that shrank by 46.5% annually, among other general spending items. Further, debt servicing totaled LBP1,455bn (\$965m) in the covered period and contracted by 28.4% from the first half of 2020. Interest payments on Lebanese pound-denominated debt declined by 22.7% to LBP1,328.6bn (\$881.3m), while debt servicing on foreign currency debt dropped by 85% in the first half of 2021. In addition, Treasury expenditures, excluding transfers to EdL, decreased by 25% year-on-year to LBP901.6bn (\$598.1m) in the covered period. Also, the primary budget balance posted a surplus of LBP2,034bn (\$1.35bn) in the first half of 2021, equivalent to 26% of budgetary expenditures, while the overall primary balance registered a surplus of LBP1,736.3bn (\$1.15bn), or 20% of spending.

Fiscal Results in First Half of Each Year			
	2020 (US\$m)	2021 (US\$m)	Change (%)
Budget Revenues	3,966	5,577	40.6%
Tax Revenues	3,334	4,602	38.0%
Non-Tax Revenues	633	974	54.0%
of which Telecom revenues	199	545	173.8%
Budget Expenditures	6,039	5,193	-14.0%
Budget Surplus/Deficit	(2,072)	384	
In % of budget expenditures	-34.3%	7.4%	
Budget Primary Surplus/Deficit	(725)	1,349	
In % of budget expenditures	-12.0%	26.0%	
Treasury Receipts	647	401	-38.1%
Treasury Expenditures	798	598	-25.1%
Total Revenues	4,613	5,977	29.6%
Total Expenditures	6,837	5,791	-15.3%
Total Surplus/Deficit	(2,223)	187	
In % of total expenditures	-32.5%	3.2%	
Total Primary Surplus/Deficit	(876.2)	1,151.8	
In % of total expenditures	-12.8%	20%	

Source: Ministry of Finance, Byblos Research

Banque du Liban replaces Lebanese pounds cash withdrawals from banks with US dollars

Banque du Liban (BdL) issued Basic Circular 161 dated December 16, 2021 addressed to banks about exceptional measures related to cash withdrawals from accounts at banks in Lebanon.

First, BdL indicated that it will provide commercial banks cash US dollar banknotes instead of the supply of Lebanese pound banknotes, at the daily exchange rate of the Lebanese pound to the US dollar, based on the operations conducted on BdL's Sayrafa electronic exchange platform on the previous day. It added that the supply of the dollar banknotes will be within the remaining amount from the preset ceiling for each bank for the month of December.

Second, BdL asked all banks to disburse the dollar banknotes in full to their clients at the Sayrafa exchange rate as specified, instead of settling the depositors' withdrawal amounts or cash operations at counters in Lebanese pounds, based on the authorized ceiling of each client. Third, it noted that clients can submit a written request in case they do not want to withdraw their monthly ceiling in US dollars. It added that the clauses of the circular expire at the end of December 2021.

In parallel, BdL issued Intermediate Circular 601 on December 23, 2021 that extended the implementation of Basic Circular 161 until January 31, 2022.

Finance Ministry clarifies mechanism for disbursement of LBP810bn in social assistance to public sector personnel

The Ministry of Finance issued Decision 3713/1 on December 12, 2021 that clarifies the mechanism for the disbursement of LBP810bn in temporary social assistance to public sector workers, employees and retirees. It indicated that the individuals who will benefit from the assistance are the employees, contractual workers and wage earners in the public sector, members of the army and security forces, judges, wage-earners in the public education sector in all its categories, municipal workers, public hospital workers, and retirees who benefit from monthly pension payments. It noted that all Lebanese diplomats posted at foreign missions, as well as all workers in the public sector or at public institutions who receive their wages or salaries in foreign currencies, will be excluded from this assistance.

Also, it said that the amount of the social assistance will be equivalent to one month of the beneficiaries' basic salary or wage, and to one month of pension payments for retirees, and will range from a minimum of LBP1.5m to a maximum of LBP3m. It noted that the assistance will be disbursed in two equal payments, and that it will determine at a later stage the amount of the assistance for daily and hourly workers, and for technical service providers. In addition, it adjusted the transportation stipend for public sector workers and employees from LBP 24,000 per day to LBP 64,000 per day starting in November. In parallel, the ministry indicated that the amount of the social assistance will come from an advance from the Treasury as part of the budget for 2022.

Capital Intelligence withdraws sovereign ratings on Lebanon

Capital Intelligence Ratings (CI) withdrew its sovereign issuer credit ratings on Lebanon, following its withdrawal of credit ratings of four Lebanese banks in October 2021. The agency indicated that, at the time of the ratings' withdrawal, it had long- and-short term foreign currency ratings of Selective Default 'SD' on Lebanon, while it had long-term local currency rating and short-term local currency rating of 'C-' and 'C', respectively, with a 'negative' outlook on the local currency long-term ratings.

In March 2020, CI downgraded Lebanon's long-term foreign currency rating from 'C-' to 'SD' and the short-term foreign currency rating from 'C' to 'SD' due to the government's decision to suspend all payments on its outstanding Eurobonds starting in March 2020. It also downgraded Lebanon's long-term local currency rating from 'C+' to 'C-' and its short-term local currency rating from 'B' to 'C'. It attributed its decision to the fact that the authorities were still servicing the debt denominated in Lebanese pounds and had not missed any principal or coupon payments, despite the increasing risk of the government defaulting on its local currency debt.

On October 20, 2021, CI withdrew the credit ratings and discontinued its analytical coverage of Bank Audi sal, BLOM Bank sal, Byblos Bank sal and Crédit Libanais sal. It attributed the withdrawal of the ratings to business reasons or to a request from the bank. The agency indicated that, at the time of the ratings' withdrawal, it had long- and-short term foreign currency ratings of Selective Default 'SD' on the four banks. It pointed out that the 'SD' ratings reflected the restrictions applied by all Lebanese banks on the withdrawal of deposits and, in particular, the changes to the terms and conditions of certain types of foreign currency deposits. Also, it had a Core Financial Strength (CFS) rating of 'c+' and a Bank Standalone Ratings (BSR) of 'c' on Bank Audi, BLOM bank and Byblos Bank, and a rating of 'c' on the CFS rating and the BSR of Crédit Libanais. It added that the Operating Environment Risk Anchor of the four banks stood at 'c-', while their Extraordinary Support Level was 'Uncertain' at the time of the ratings' withdrawal.

Number of registered real estate transactions up 36% in first 11 months of 2021

Figures released by the Ministry of Finance show that the ministry registered 93,654 real estate transactions in the first 11 months of 2021, constituting an increase of 36% from 68,811 in the same period of 2020. In comparison, it registered 44,163 real estate transactions in the first 10 months of 2019 and 54,687 real estate deals in the same period of 2018. The increase in the number of registered transactions in the covered period is due in part to the easing of the national lockdown measures that the government imposed to contain the spread of COVID-19, which led to the reopening of many public agencies and departments starting in March 2021 and to the resumption of the processing and official registration of real estate transactions. More specifically, the increase reflects the normalization of real estate activity in the nine-month period ending November 2021 following closures in the first two months of the year, as well as to the higher number of registered transactions relative to March, April and May 2020, when Lebanon witnessed the first round of coronavirus-related lockdown measures. Moreover, the ministry registered 10,708 real estate transactions in November 2021, constituting a decline of 5.8% from 11,366 in October 2021, and compared to 6,038 transactions in November 2020.

Further, the ministry registered 20,113 real estate transactions in the Baabda/Aley/Chouf region in the first 11 months of 2021, representing 21.5% of the total. The North followed with 12,108 deals (13%), then the South governorate with 11,425 transactions (12.2%), the Keserwan/Jbeil area with 10,893 deals (11.6%), the Northern Metn district with 10,600 transaction (11.3%), the Nabatieh governorate with 9,531 deals (10.2%), the Bekaa/Baalbeck-Hermel region with 8,878 transactions (9.5%), and Beirut with 7,254 deals (7.7%).

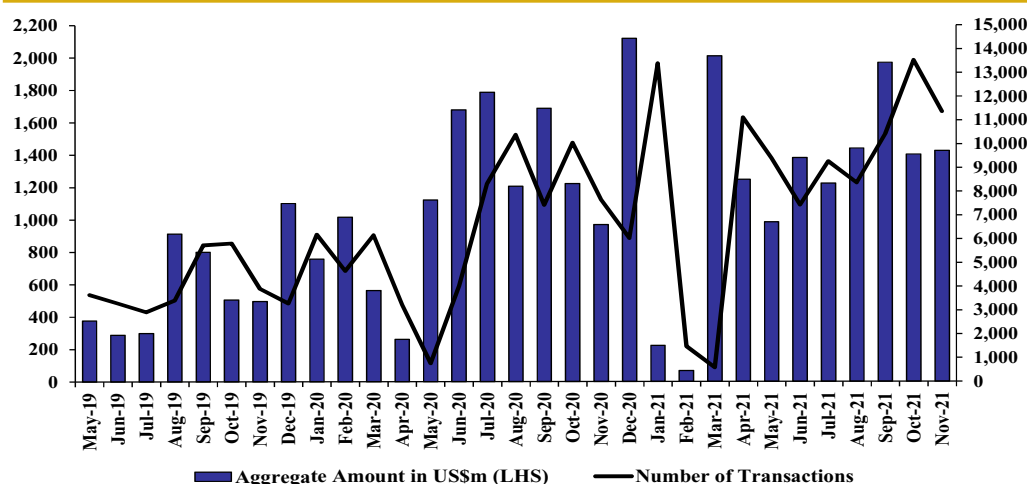
The aggregate amount of registered real estate transactions reached LBP20,158.8bn, or \$13.37bn based on the official exchange rate of the US dollar, in the first 11 months of 2021 and increased by 9% from LBP18,495.1bn (\$12.27bn) in the same period of 2020. In comparison, the amount of real estate deals surged by 113.8% in the first 11 months of 2020 and decreased by 21.5% in the same period of 2019 from the first 11 months of 2018. Further, the value of registered real estate transactions in Beirut amounted to \$3.5bn and accounted for 26% of the total in the first 11 months of 2021. The Baabda/Aley/Chouf area followed with \$2.48bn (18.5%), then the Northern Metn district with \$2.16bn (16.1%), the Keserwan/Jbeil area with \$1.74bn (13%), the South governorate with \$1.4bn (10.4%), the North with \$945m (7.1%), the Bekaa/Baalbeck-Hermel region with \$508m (3.8%), and the Nabatieh governorate with \$473.3m (3.5%).

The amount of registered real estate transactions in the North rose by 51.8% in the first 11 months of 2021 from the same period of 2020, followed by deals in the South governorate (+36.2%), the Bekaa/Baalbeck-Hermel area (+36%), the Nabatieh governorate (+33.7%), the Keserwan/Jbeil region (+20.7%), the Baabda/Aley/Chouf area (+18.3%), and the Northern Metn district (+3.4%). In contrast, the amount of registered real estate transactions in Beirut regressed by 16.6% in the first 11 months of 2021. In addition, the aggregate amount of real estate transactions reached \$1.43bn in November 2021, constituting an increase of 1.7% from \$1.4bn in October 2021 and compared to \$969m in November 2020.

In parallel, the average amount per registered real estate transaction was LBP215.25m (\$142,785) in the first 11 months of 2021, down by 20% from an average of LBP268.78m (\$178,296) in the same period of 2020. Further, there were 1,308 real estate transactions executed by foreigners in the first 11 months of 2021, compared to 1,016 deals in the same period of 2020 and to 900 transactions in the first 11 months of 2019. The number of real estate deals by foreigners accounted for 1.4% of the registered real estate transactions in the covered period, down from 1.5% in the first 11 months of 2020 and from 2% in the same period of 2019.

Further, 26.5% of real estate transactions executed by foreigners in the first 11 months of 2021 were in the Baabda/Aley/Chouf area, followed by the South governorate (19.4%), the Northern Metn district (14.4%), Beirut (14.1%), the Keserwan/Jbeil region (12.2%), the North (6.7%), the Bekaa/Baalbeck-Hermel region (5.1%), and the Nabatieh governorate (1.8%). The latest available figures show that Syrian citizens accounted for 35.4% of the amount of real estate transactions executed by foreigners in August 2021, followed by Iraqi nationals (14.3%), citizens from the Dominican Republic and Canadian nationals (7.2% each), and Saudi citizens (3.5%).

Number and Amount of Real Estate Transactions



Banque du Liban tightens AML/CFT procedures

Banque du Liban (BdL) issued Intermediate Circular 605 on December 23, 2021 addressed to banks and financial institutions that amends Basic Circular 83 dated May 18, 2001 about the supervision and oversight of financial and banking operations to combat money laundering and the financing of terrorism (AML/CFT).

First, the circular stipulated that banks should not enter into, pursue or maintain a correspondent banking relationship with a shell bank; and that they should verify that the bank actually exists based on documentary evidence, that it does not deal with shell banks, that it has a good reputation, is subject to proper supervision, implements sufficient and effective AML/CFT procedures, and if it was subject to any investigation about money laundering or the financing of terrorism.

Second, it said that banks must refrain from maintaining anonymous accounts or accounts under fictitious names, adopt clear procedures to open accounts, and conduct due diligence and Know Your Customer (KYC) procedures, such as verifying the identity of their resident or non-resident and permanent or transient clients, in addition to identifying the nature of their business and obtaining a written statement about the client's tax residency. Further, banks must understand the ownership and control structure of the legal person, identify the purpose and nature of the business relationship and/or the reason for opening an account, as well as identify the Beneficial Owner and the source of funds, and monitoring operations on a continuous basis.

Third, the circular noted that, in case the customer is a legal person, such as a company or institution or a legal entity, the latter has to submit to the bank duly authenticated documents about its bylaws, registration certificate, the ownership structure, the direct and indirect distribution of shares, the list of authorized signatories, in addition to a copy of the identity card of its legal representatives, directors, and natural persons holding directly or indirectly an interest that enables them to have effective control over the company, along with the statement that the Beneficial Owner submitted to the Ministry of Finance and to the Commercial Registry. In parallel, in case the bank cannot complete the due diligence process on the customer or beneficial owner in a satisfactory way, it should end the business relationship, and inform the Special Investigation Commission (SIC) for combating money laundering and terrorism financing.

Fourth, the circular stipulated that the bank must keep information about the customer and the beneficial owner, in particular the client's full name, residency address, the registered address of the place of work of the legal person, the customer's occupation and financial status, in addition to copies of all the documents used to verify the above-mentioned information and of the client's accounts, for at least five years after closing the account or ending the business relationship. It must also keep all documents related to all operations, including business correspondence and the results of any analysis conducted, for at least five years after the operation's date, in order for these records to constitute evidence, when needed, in case of prosecution for criminal acts.

Fifth, it noted that the bank has to inform the BdL Governor, in his capacity as the head of the SIC, in case it has proof or doubts, about an actual or potential banking operation that is related to money laundering or related crimes, or about the financing of terrorism or terrorist organizations.

Sixth, it stated that the banks' control measures have to be risk-based and adopt, at the minimum, the following risk management measures regarding beneficial owners and politically-exposed persons (PEPs), their families and close associates, and "High Risk" operations: prioritizing and implementing stricter oversight and following up continuously on the business relationship; increasing KYC for clients and beneficial owners, such as identifying the source of their wealth; receiving the approval of the bank's senior management to continue the business relationship and to execute related operations; conduct a periodic review of the relationship with clients; conduct peer comparisons on a continuous basis; and put in place a system to identify if the client or the beneficial owner is a PEP.

Seventh, the circular instructed banks to establish an AML/CFT Compliance Unit that is headed by a qualified person who holds related certifications such as the CAMS-Certified Anti-money Laundering Specialist, as well as staffing the unit with experienced persons and supporting the unit with the necessary resources to conduct its work. Eighth, it indicated that, when the bank utilizes the services of a third party from within the group in the AML/CFT process, it should verify that the third party is implementing the KYC procedures for clients and PEPs, and limit the elevated country risks related to jurisdictions that do not implement in part or in full the recommendations of the Financial Action Task Force (FATF), through the group's internal controls for AML/CFT.

Ninth, the circular asked banks to review regularly any update on the website of the General Directorate of the Internal Security Forces (ISF) with regard to the names listed on the latter's watch list of natural or legal persons or entities involved in terrorism or terrorism financing, and to apply the SIC's related decisions, such as freezing their accounts or operations, and other assets affiliated to them. Also, the bank has to inform the SIC within 48 hours in case it has a client with the same name as the ones on the ISF's watch list. Banks should also implement the seventh recommendation of the FATF about the immediate freezing of accounts or funds or related assets of suspected persons or entities, and inform the SIC within 48 hours of its action. In addition, when the FATF calls for taking measures against a country or jurisdiction, the bank should implement enhanced due diligence on the business relationship and the operations that take place with natural and legal persons, including financial institutions, from this country or jurisdiction.

Tenth, it noted that the above procedures apply to financial institutions and leasing companies operating in Lebanon, as well as to firms that issue and distribute payment or credit cards in the country.



Net profits of Syrian affiliates of Lebanese banks at SYP450bn in first nine months of 2021 on unrealized foreign exchange gains

Financial results issued by the affiliates of six Lebanese banks operating in Syria show that their aggregate net profits reached SYP449.74bn in the first nine months of 2021 relative to net earnings of SYP232bn in the same period of 2020. The improvement in the banks' net income is mainly due to the depreciation of the Syrian pound from SYP1,256 against the US dollar at the end of 2020 to SYP2,512 per US dollar at the end of September 2021, which resulted in unrealized foreign exchange gains of SYP386.6bn on the banks' structural positions in the first nine months of 2021 relative to profits of SYP202.8bn in the same period of 2020. The aggregate net income of the six banks becomes SYP63.16bn in the covered period when excluding foreign exchange gains on structural positions, relative to earnings of SYP29.04bn in the first nine months of 2020.

The profits of Banque BEMO Saudi Fransi surged by SYP98.7bn in the first nine months of 2021, followed by an increase of SYP30.6bn in the net income of Byblos Bank Syria, an expansion of SYP26bn in the earnings of Fransabank Syria, a rise of SYP25.3bn in the profits of Syria Gulf Bank, the affiliate of First National Bank, an uptick of SYP24.4bn in the earnings of Bank of Syria & Overseas, and an improvement of SYP12.9bn in the net income of Bank Al-Sharq, the affiliate of Banque Libano-Française.

The net interest income of the six banks totaled SYP49bn in the first nine months 2021, up by 123.7% from SYP22bn in the same period of 2020; while their net fees & commission income rose by 3.8 times from the same period of 2020 to SYP49bn. The operating income of the six banks surged by two times from SYP275.3bn in the first nine months of 2020 to SYP553.2bn in the same period of 2021; while their total operating expenses reached SYP98.6bn in the first nine months of 2021, up by 2.3 times from SYP43bn in the same period of 2020.

In parallel, the banks' aggregate assets reached SYP3,587bn at the end-September 2021 and increased by 101% from SYP1,786.5bn at end-2020. The rise in assets was due to an expansion of 168.3% in the assets of Syria Gulf Bank (+SYP411bn), a growth of 125% in those of Banque BEMO Saudi Fransi (+SYP819bn), an uptick of 73.2% in the assets of Bank Al Sharq (+SYP101.7bn), a surge of 69.3% in the assets of Fransabank Syria (+SYP189bn), a rise of 64.4% in those of Byblos Bank Syria (+SYP117.8bn), and an increase of 55.8% in the assets of Bank of Syria & Overseas (+SYP168bn).

Also, the banks' total loans reached SYP659.5bn at end-September 2021, constituting a surge of 135% from SYP280.7bn at the end of 2020. Further, the banks' customer deposits totaled SYP2,186.2bn at the end-September 2021, and increased by 86.8% from SYP1,170.1bn at the end of 2020. The banks' loans-to-deposits ratio stood at 30.2% at the end-September 2021 relative to 24% at end-2020. In parallel, the aggregate shareholders' equity of the six banks reached SYP825.6bn at end-September 2021, representing an upturn of 134.2% from SYP352.6bn at end-2020.

Results of Affiliates of Lebanese Banks in Syria in First Nine Months of 2021 (SYPbn)						
	Banque BEMO Saudi Fransi	Syria Gulf Bank	Bank of Syria & Overseas	Fransabank Bank	Byblos Bank Syria	Bank Al-Sharq
Net Profits	141.9	56.6	59.4	75.2	79.1	37.5
Total Assets	1,474.3	655.1	469.1	447	300.8	240.7
% Change*	125%	168.3%	55.8%	69.3%	64.4%	73.2%
Loans	183.5	332.8	23.6	60.7	34.4	24.4
% Change*	89%	376.4%	113.6%	19.1%	13.8%	13.6%
Customer Deposits	1,100	276.4	325.3	210.4	124.5	150
% Change*	106%	147%	71.7%	46.4%	25%	63.8%

*Change from end-2020

Source: Banks' financial statements, Byblos Research

Stock market capitalization up 58% to \$11bn at end of 2021

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 29,620,288 shares in 2021, constituting a decrease of 40.6% from 49,901,171 shares traded in 2020; while aggregate turnover amounted to \$354.1m and increased by 46% from a turnover of \$242.5m in 2020. The market capitalization of the BSE reached \$10.61bn at the end of 2021, representing a surge of 57.8% from \$6.72bn at the end of 2020, with real estate equities accounting for 51.2% of the total, followed by banking stocks (44.4%), industrial shares (4%), and trading firms' equities (0.4%). The market liquidity ratio was 3.34% at the end of 2021 compared to 3.61% a year earlier.

Banking stocks accounted for 57% of the trading volume in 2021, followed by real estate equities (41.7%), trading firms' equities (1%), and industrial shares (0.4%). Also, real estate equities accounted for 90.3% of the aggregate value of shares traded, followed by banking stocks (9%), industrial shares (0.4%), and trading firms' equities (0.3%). The average daily traded volume for 2021 was 135,252 shares for an average daily amount of \$1.62m. The figures reflect a decline of 36.3% in the average daily traded volume and a rise of 56.7% in the average daily value in the covered period.

In parallel, the Capital Markets Authority's (CMA) Market Value-Weighted Index for stocks traded on the BSE jumped by 199.3% in 2021, while the CMA's Banks Market Value-Weighted Index regressed by 2.9% in the covered period. The increase in the Market Value-Weighted Index is mainly due to the surge in the prices of Solidere 'A' and of Solidere 'B' shares by 76.5% and 82.2%, respectively, from end-2021, which, in turn, led to a rise in their market weights to 30.8% and 20.4%, respectively, at the end of 2021, the highest among listed companies on the BSE.

Import activity of top five shipping firms and freight forwarders up 22.5% in first 10 months of 2021

Figures released by the Port of Beirut show that the aggregate volume of imports by the top five shipping companies and freight forwarders through the port reached 153,024 20-foot equivalent units (TEUs) in the first 10 months of 2021, constituting an increase of 22.5% from 124,962 TEUs in the same period of 2020. The five shipping and freight forwarding firms accounted for 83% of imports to the Lebanese market and for 60.5% of the total import freight market in the first 10 months of 2021. Merit Shipping handled 47,518 TEUs in the covered period, equivalent to 18.8% of the total import freight market. Mediterranean Shipping Company (MSC) followed with 41,231 TEUs (16.3%), then MAERSK with 33,076 TEUs (13%), Gezairi Transport with 17,265 TEUs (6.8%), and Lotus Shipping with 13,934 TEUs (5.5%). The five shipping and freight forwarding firms registered increases in import shipping in the covered period, with Lotus Shipping posting a growth of 74.3%, the highest among the top five companies. The import shipping operations of the five firms through the port regressed by 12% in October 2021 from the preceding month.

In parallel, the aggregate volume of exports by the top five shipping and freight forwarding firms through the Port of Beirut reached 60,088 TEUs in the first 10 months of 2021, constituting an increase of 3% from 58,343 TEUs in the same period of 2020. The five shipping companies and freight forwarders accounted for 90% of exported Lebanese cargo and for 25% of the total export freight market in the first 10 months of 2021. Merit Shipping handled 39,294 TEUs of freight in the covered period, equivalent to 59% of the Lebanese cargo export market. MAERSK followed with 9,319 TEUs (14%), then Sealine Group with 4,422 TEUs (5.4%), MSC with 3,726 TEUs (5.6%), and Tourism & Shipping with 3,327 TEUs (5%). Merit Shipping registered a rise of 22.6% in exports in the first 10 months of 2021, the highest growth rate among the top five shipping and freight forwarding companies, while Sealine Group posted a drop of 29.6%, the steepest decline among the five firms. The export-shipping operations of the top five companies decreased by 23.7% in October 2021 from the previous month.

Ratio Highlights

(in % unless specified)	2019	2020	2021	Change*
Nominal GDP (\$bn)	51.3	22.6	23.2	0.60
Public Debt in Foreign Currency / GDP	63.0	58.1	-	-
Public Debt in Local Currency / GDP	108.1	95.9	-	-
Gross Public Debt / GDP	171.1	154.0	299.4	145.5
Trade Balance / GDP	(29.0)	(12.5)	(22.2)	(9.71)
Exports / Imports	19.4	31.3	47.7	16.40
Fiscal Revenues / GDP	20.7	16.4	10.0	(6.37)
Fiscal Expenditures / GDP	31.6	20.8	14.7	(6.09)
Fiscal Balance / GDP	(10.9)	(4.4)	(4.7)	(0.29)
Primary Balance / GDP	(0.5)	(1.0)	(2.3)	(1.22)
Gross Foreign Currency Reserves / M2	70.2	41.5	-	-
M3 / GDP	251.2	213.7	-	-
Commercial Banks Assets / GDP	404.8	302.9	-	-
Private Sector Deposits / GDP	296.6	224.1	-	-
Private Sector Loans / GDP	92.9	58.3	-	-
Private Sector Deposits Dollarization Rate	80.3	80.4	-	-
Private Sector Lending Dollarization Rate	68.7	59.6	-	-

*change in percentage points 21/20;

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

	2019	2020e	2021f
Nominal GDP (LBP trillion)	80.8	93.6	182.3
Nominal GDP (US\$ bn)	51.6	22.6	23.2
Real GDP growth, % change	-6.7	-26.2	-8.3
Private consumption	-7.3	-20.2	-10.0
Public consumption	2.5	-67.0	-60.0
Gross fixed capital	-11.1	-31.3	-21.5
Exports of goods and services	-4.0	-35.8	1.1
Imports of goods and services	-4.9	-38.0	-21.0
Consumer prices, %, average	2.9	84.9	140.2
Official exchange rate, average, LBP/US\$	1,507.5	1,507.5	1,507.5
Parallel exchange rate, average, LBP/US\$	1,625	5,549	13,569
Weighted average exchange rate LBP/US\$	1,566	4,142	7,865

Source: Institute of International Finance- September 2021

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

Source: Rating agencies

Banking Sector Ratings	Outlook
Moody's Investors Service	Negative

Source: Moody's Investors Service



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