

## LEBANON THIS WEEK

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### Corporate Highlights

Private sector deposits down \$49.3bn since start of 2019

Stock market capitalization up 28% to \$12.8bn at end-September 2022

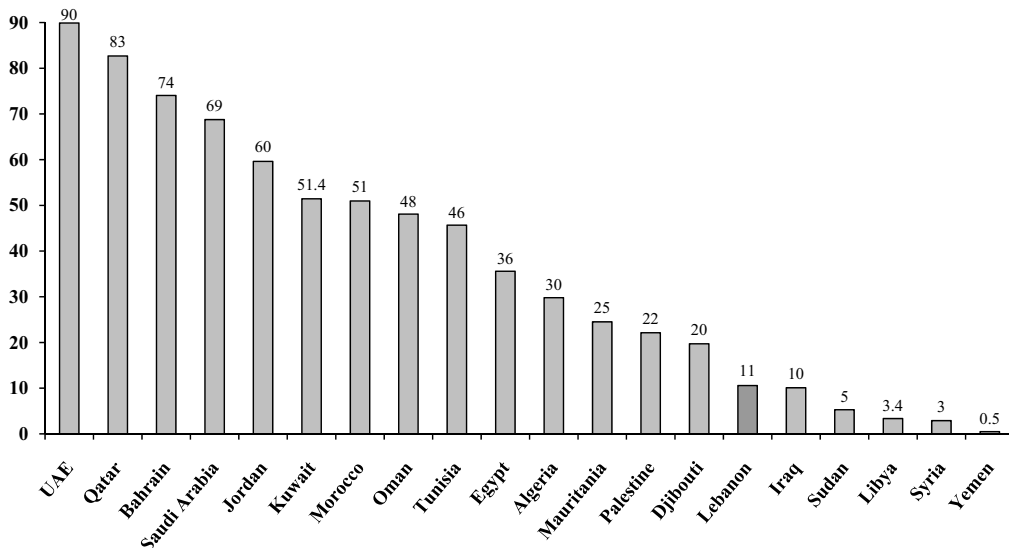
Subscriptions in foreign investment funds at \$547m at end-2021

### Ratio Highlights

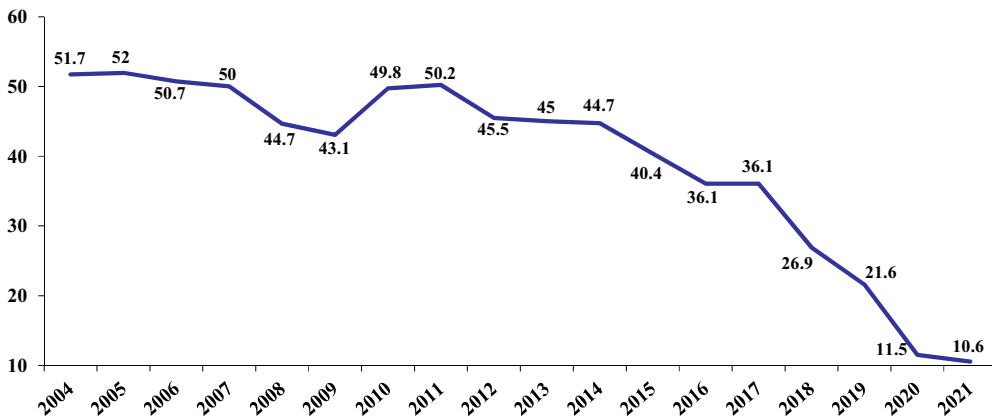
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### Charts of the Week

Percentile Rank of Arab Countries on the Government Effectiveness Indicator in 2021 (%)



Percentile Rank of Lebanon on the Government Effectiveness Indicator (%)



Source: World Bank Governance Indicators for 2021, Byblos Bank

### Quote to Note

"Progress in implementing the reforms agreed under the Staff Level Agreement of last April remains very slow."

*The International Monetary Fund, on the need for Lebanese authorities to prioritize structural reforms*

### Number of the Week

**52%:** Percentage of members of the Lebanese Parliament who cast a blank vote in the parliamentary session for the election of a new President of the Republic

## Lebanon in the News

\$m (unless otherwise mentioned)	2019	2020	2021	% Change*	Dec-20	Nov-21	Dec-21
Exports	3,731	3,544	3,887	9.6%	295	391	616
Imports	19,239	11,310	13,641	20.6%	1,232	1,179	1,269
Trade Balance	(15,508)	(7,765)	(9,754)	25.6%	(937)	(788)	(653)
Balance of Payments	(5,851)	(10,551)	(1,976)	-81.3%	(348)	160	(400)
Checks Cleared in LBP	22,145	19,937	18,639	-6.5%	1,942	1,825	1,738
Checks Cleared in FC	34,826	33,881	17,779	-47.5%	2,802	949	1,079
Total Checks Cleared	56,982	53,828	36,425	-32.3%	4,744	2,773	2,818
Fiscal Deficit/Surplus**	(5,837)	(2,709)	302	-	(30)	-	-
Primary Balance**	(287)	(648)	1,706	-	264	-	-
Airport Passengers	8,684,937	2,501,944	4,334,231	73.2%	282,130	344,737	455,087
Consumer Price Index	2.9	84.9	154.8	6,989bps	145.8	201.1	224.4

\$bn (unless otherwise mentioned)	Dec-20	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	% Change*
BdL FX Reserves	18.60	14.20	14.62	14.49	14.05	13.65	(3.9)
In months of Imports	15.10	-	-	-	-	-	-
Public Debt	95.59	98.74	99.22	99.80	100.39	-	-
Bank Assets	188.04	180.28	179.68	178.90	175.60	174.94	(3.0)
Bank Deposits (Private Sector)	139.14	133.04	132.49	131.65	129.53	129.47	(2.7)
Bank Loans to Private Sector	36.17	30.86	30.00	29.18	28.04	27.71	(10.2)
Money Supply M2	44.78	49.85	49.95	50.03	50.10	52.41	5.1
Money Supply M3	132.70	133.21	132.90	132.42	131.62	133.39	0.1
LBP Lending Rate (%)	7.77	7.52	7.65	7.46	7.20	7.14	(38)
LBP Deposit Rate (%)	2.64	1.62	1.53	1.34	1.23	1.09	(53)
USD Lending Rate (%)	6.73	5.87	6.34	6.86	6.75	6.01	14
USD Deposit Rate (%)	0.94	0.30	0.26	0.23	0.20	0.19	(11)

\*year-on-year; \*\*figures for 2021 reflect the first nine months of the 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 %
Byblos Common	0.59	(7.8)	3,937,174	2.6%	Oct 2022	6.10	5.88	576,765.96
Solidere "A"	51.05	(10.0)	100,116	39.8%	Jan 2023	6.00	5.88	5,104.12
Solidere "B"	51.80	(9.0)	29,478	26.3%	Apr 2024	6.65	5.88	299.03
HOLCIM	28.22	(7.4)	3,000	4.3%	Jun 2025	6.25	5.88	138.79
Audi GDR	1.49	0.7	3,000	1.4%	Nov 2026	6.60	5.88	81.48
Audi Listed	1.41	(6.0)	2,480	6.5%	Feb 2030	6.65	5.88	42.25
BLOM Listed	2.90	0.0	-	4.9%	Apr 2031	7.00	5.88	36.06
BLOM GDR	2.50	0.0	-	1.4%	May 2033	8.20	5.88	28.55
Byblos Pref. 08	27.00	0.0	-	0.4%	Nov 2035	7.05	5.88	22.89
Byblos Pref. 09	37.98	0.0	-	0.6%	Mar 2037	7.25	5.88	20.58

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

Source: Refinitiv

	Sep 26-30	Sep 19-23	% Change	September 2022	September 2021	% Change
Total shares traded	4,075,248	77,623	5,150.1	4,715,731	3,142,850	50.0
Total value traded	\$9,364,368	\$4,226,954	121.5	\$34,022,646	\$52,497,394	(35.2)
Market capitalization	\$12.81bn	\$13.84bn	(7.4)	\$12.81bn	\$10.04bn	27.6

Source: Beirut Stock Exchange (BSE)



### **Economic Associations plan leads to recovery of up to 74% of deposits, reduces public debt to 50% of GDP**

The Group of Economic Associations in Lebanon (GEAL), which includes all the chambers of commerce, industry and agriculture in the country, as well as the Association of Banks in Lebanon, the Association of Lebanese industrialists, the Beirut Traders Association, the Association of Insurance Companies in Lebanon, and most of the other business and trade associations in the country, issued a financial recovery plan as a viable alternative to the government's plan.

First, it said that the plan should not allow for a haircut on bank deposits, regardless of the latter's nature. Second, it noted that there should be any discrimination among depositors, except for deposits that received high interest rates and the deposits in Lebanese pounds that were converted to foreign currency after October 17, 2019, or so-called "ineligible deposits". Third, it added that the goal should be to regain the confidence of depositors rather than to return all deposits simultaneously. Fourth, it indicated that, in order to encourage the recapitalization of banks, it is important to protect the capital increase that took place according to BdL Circular 154. Fifth, it added that the plan should provide incentives to current shareholders to re-invest in the bank in order to contribute to a rapid recapitalization. Sixth, it considered that any organizational request from the regulatory authorities regarding the banks capitalization or liquidity has to take into account the principles of "gradualism" and of "grace period from the regulatory authorities" that are recognized by the Basel Committee on Banking Supervision, the International Accounting Board, and the IMF.

Further, the plan provides detailed measures for the sector's restructuring and the contributions of stakeholders. First, regarding the restructuring of the sovereign Eurobonds, it suggested a fair nominal haircut on the securities, along with other concerted actions, such as extending their maturities and reducing the interest rates for a pre-determined recovery period. It added that there should be a fair restructuring of interest rates on Eurobonds in arrears, as part of negotiations in good faith between the government and Eurobond holders. Further, it said that any losses that banks incurred on the Eurobonds should be written off from the banks' capital and shareholders' equity. Second, regarding the portfolio of private sector loans, it expected that clients will pay back a large part of the outstanding loans denominated in foreign currency, estimated at about \$12.7bn, before the restructuring of the financial sector and the unification of the prevailing multiple exchange rates. It suggested that any losses resulting from the decline in the value of the loan portfolio should be assumed by the banks' capital and shareholders' equity. It added that the credit risks of loans denominated in Lebanese pounds are very limited, given that the majority of the loans are mortgages that have sufficient real collateral, and due to the sharp depreciation of the Lebanese pound. Third, it estimated the net open foreign currency positions of banks at about \$8bn, with losses of up to \$7.8bn when applying an exchange rate of LBP25,000 per US dollar. It said that the losses should be deducted from the banks' capital and shareholders' equity.

Fourth, it considered that "ineligible deposits" should be converted back from foreign currency to Lebanese pounds at an exchange rate of LBP5,000 per dollar at the time of the sector's restructuring. It said that depositors will be able to access their converted deposits in annual equal instalments during a period of 10 years, with 65% of the amount accessible in electronic form and 35% in cash. Also, it suggested that the settlement of deposits of \$100,000 or less to be based on the terms of BdL Circular 158 that stipulates the gradual disbursement of deposits in foreign currency. It recommended the disbursement of between \$250 and \$840 per month in cash for eligible clients for a period of seven years, with BdL providing 66.6% of the funds and commercial banks the remaining 33.3%. It also suggested the conversion to Lebanese pounds of a minimum of \$83.33 and a maximum of \$280 per month of these deposits at the prevailing exchange rate, with 65% of the converted amount accessible in electronic form and the remaining 35% in cash.

Fifth, regarding the state's contribution and the government's contingent liabilities, it suggested the conversion of \$30bn of foreign currency deposits to contingent liability financial instruments issued by a holding company that the government will own in full. It stated that the holding company should own all the shares of newly-established asset management companies (AMCs) that will be in charge of managing the assets of the Lebanese state, such as electricity, the ports, oil and gas, telecommunications, and performing real estate, among others. It said that each depositor will receive perpetual bonds that the AMCs issue and that have a nominal value equivalent to their deposits that will be converted to bonds. It added the depositors can hold the bonds until the full payment of their deposits, and that the annual payment of the debt instrument will depend on the minimum realized profits of the AMCs, which will be determined based on international best practices for each AMC. Further, it stated that the debt instruments could be listed on the Beirut Stock Exchange (BSE) and are not considered as "public debt".

Also, it suggested the protection of \$4bn of the remaining foreign currency deposits, with clients having the possibility of choosing one or more of three options that banks will issue. First, it said that depositors can purchase 10-year subordinated bonds that carry one-year LIBOR rates plus 4%, and that can be considered as additional Tier Two capital and listed on the BSE. Second, depositors can buy perpetual bonds that have a fixed return of 5%, which can be considered as additional Tier One capital and listed on the BSE; or third, they can purchase common shares of commercial banks. Moreover, it indicated that bank liabilities that are considered "new" foreign-currency deposits will not be affected by any capital controls measures or by the sector's restructuring plan.

In parallel, the GEAL indicated that the outcome of the plan will result in a public debt level of about 50% of GDP, which would pave the way for the Lebanese state to return to international capital markets. Further, it considered that the plan will help BdL emerge with a net positive balance sheet in foreign currency and with a slightly negative balance sheet in Lebanese pounds, which will be immediately offset by the net present value of future seignorage in the local currency. In addition, it indicated that the measures demonstrate that the banking sector contributes significantly to the restructuring plan. Finally, it stressed that, if all the measures are properly implemented and in case of a V-shaped economic recovery, depositors will be able to recover up to 74% of the nominal value of their deposits.

### **Lebanese authorities set new exchange rate of Lebanese pound at LBP15,000 per US dollar**

The Ministry of Finance announced on September 28, 2022 that the government intends to devalue the official exchange rate of the Lebanese pound from LBP1,507.5 per US dollar to LBP15,000 per dollar starting on November 1, 2022. It indicated that the devaluation is a "fundamental step" towards unifying the multiple exchange rates that have emerged in the local market since the start of the country's economic and financial crisis. It added that this step is contingent on the approval of the implementation of the government's plan to address the crisis, which Parliament is currently discussing.

In addition, Prime Minister Najib Mikati indicated that the implementation of the new exchange rate will be gradual, with initial exceptions covering the balance sheets of the commercial banks operating in Lebanon as well as the repayment of mortgages. As a result, it said that the new exchange rate of LBP15,000 per US dollar would initially apply to customs duties on imports and to the value-added tax on goods priced in US dollars. It added that Banque du Liban (BdL) will issue timely circulars and decisions that will determine the wider applications of the new exchange rate.

The official exchange rate of the Lebanese pound to the US dollar reached an all-time high of LBP2,527.75 per dollar in September 1992 and has appreciated gradually starting the fourth quarter of 1992. In August 1993, Banque du Liban decided to adopt a currency stabilization policy, and maintained the upward trajectory of the exchange rate. It pegged the exchange rate of the Lebanese pound to the US dollar at LBP1,508 per US dollar in January 1999, and had maintained it at LBP1,507.5 per dollar since September 1999.

In parallel, Citi Research indicated that the Lebanese authorities are planning to modify the official exchange rate of the Lebanese pound from LBP1,507.5 per US dollar to LBP15,000 per dollar starting in November 2022. However, it did not expect the new exchange rate to be the basis of a unified exchange rate regime, given that the exchange rate on BdL's Sayrafa electronic exchange platform stood at about LBP30,000 per dollar and the rate on the parallel market is around LBP39,000 per dollar at the end of September 2022. It considered that the multiple exchange rates in the domestic market have resulted in surging inflation rates, and that the new official exchange rate of LBP15,000 per dollar is significantly overvalued.

In addition, it did not expect a rush to sell US dollars at the new exchange rate, and considered that this suggests either a continuation of the multiple exchange rate regime or that BdL will provide the necessary liquidity to maintain the rate at the new level. However, it did not expect BdL to supply the necessary liquidity in US dollars, given its low level of foreign currency reserves. It added that authorities have indicated that the planned devaluation is a step towards the unification of the multiple exchange rates rather than the "final destination for the exchange rate".

In parallel, Citi noted that the April 2022 Staff Level Agreement between the Lebanese authorities and the International Monetary Fund (IMF) called for the "unification by BdL of the exchange rates for authorized current account transactions, which is critical for boosting economic activity, restoring credibility and external viability, and will be supported by the implementation of formal capital controls." As a result, it did not expect the planned new exchange rate of LBP15,000 per US dollar to be the final rate that will unify the multiple exchange rates in the market, and considered that it will not be the exchange rate that authorities will adopt to record current account transactions. It also anticipated authorities to face difficulties in reaching the goal of "restoring credibility and external viability" at the new rate, which is still an overvalued real exchange rate. As such, it considered that there are uncertainties about whether the IMF will accept the proposed devaluation of the exchange rate as a step in the right direction, or consider it as insufficient progress for the potential disbursement of funds.

### **Banque du Liban extends implementation of Circular 161 for one additional month**

Banque du Liban (BdL) issued on September 30, 2022 Intermediate Circular 13467 addressed to banks that extends until October 31, 2022 the clauses of Circular 161 dated December 16, 2021 about exceptional measures related to cash withdrawals from accounts at commercial banks in Lebanon. Circular 161 stipulated that BdL will provide banks with US dollar banknotes instead of supplying them with Lebanese pound banknotes, at the daily exchange rate of the Lebanese pound to the 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 consist of the preset monthly ceiling for each bank.

Also, 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 for each client. Further, it noted that clients can submit a written request in case they do not want to withdraw their monthly ceiling in US dollars. But the banks' quotas have been insufficient to meet the dollar amounts for the withdrawals of depositors, which prompted BdL to issue a follow up decision on January 11, 2022 that authorized banks to purchase US dollar banknotes from the latter with the Lebanese pounds that they hold, or from their clients' holdings of Lebanese pounds banknotes, at the exchange rate of the dollar on BdL's Sayrafa electronic exchange platform.

However, BdL put a ceiling of \$500 per month on these exchanges starting in June of this year and reduced it to \$400 per month starting in October. This constitutes the ninth extension of Circular 161, as the latter was originally set to expire at the end of 2021, but BdL extended its clauses until the end of January of this year, the end of February, the end of March, the end of April, the end of May, the end of July, the end of August, and the end of September 2022, with the possibility of extending the circular further.





### Banque du Liban's foreign assets at \$14.9bn, gold reserves at \$15.4bn at end-September 2022

Banque du Liban's (BdL) interim balance sheet reached \$178.3bn at the end of September 2022, constituting increases of 9.3% from \$163.2bn at end-2021 and of 12% from \$159.3bn a year earlier. Assets in foreign currency totaled \$14.9bn at end-September 2022, representing a decrease of \$2.9bn, or of 16.4%, in the first nine months of 2022 and a drop of \$3.9bn (-20.7%) from \$18.8bn at the end of September 2021. Assets in foreign currency include \$5.03bn in Lebanese Eurobonds, unchanged from a year earlier. The dollar figures are based on the official exchange rate of the Lebanese pound to the US dollar.

BdL's gross foreign currency reserves, which consist of its assets in foreign currency excluding Lebanese Eurobonds, stood at \$9.87bn at the end of September 2022, constituting increases of \$278m (+3%) from \$9.6bn at mid-September 2022, and of \$153.3m (+1.6%) from \$9.72bn at end-August 2022. They dropped by \$2.9bn (-23%) in the first nine months of the year from \$12.8bn at the end of 2021 and by \$3.89bn (-28.3%) from \$13.76bn at end-September 2021. The cumulative decline of BdL's gross foreign-currency reserves in the past 12 months 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, as well as to the implementation of BdL circulars that allowed depositors to withdraw US dollar banknotes from their accounts or to buy dollar banknotes from BdL through commercial banks. 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.

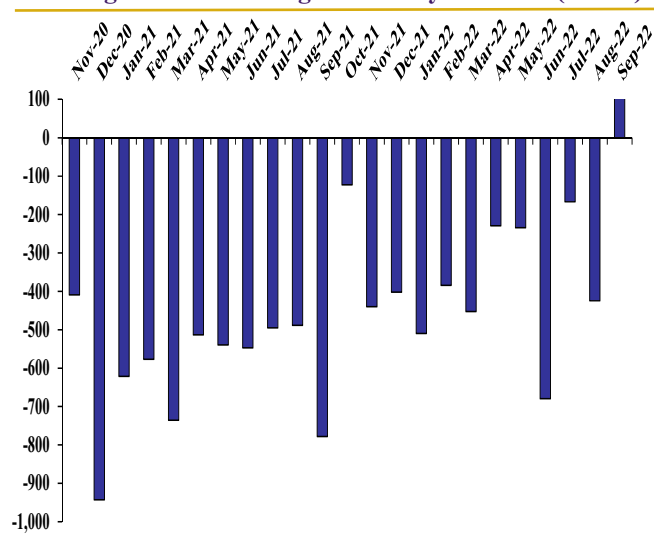
In parallel, the value of BdL's gold reserves stood at \$15.4bn at the end of September 2022, constituting a decrease of \$1.2bn (-7.7%) in the first nine months of the year and a decline of \$544.8m (-3.4%) from \$15.9bn at end-September 2021. The value of gold reserves reached a peak of \$18.15bn at mid-April 2022. Also, the securities portfolio of BdL totaled \$41.1bn at end-September 2022, decreasing by \$209.8m (-0.5%) in the first nine months of the year and increasing by \$195.2m (+0.5%) from \$40.8bn a year earlier. In addition, loans to the local financial sector totaled \$12.9bn, as they regressed by 6% from the end of 2021 and by 7% from a year earlier. Further, the deposits of the financial sector stood at \$108.4bn at the end of September 2022 and grew by \$1.9bn from a year earlier. In addition, public sector deposits at BdL stood at LBP17,261.4bn (\$11.4bn) at end-September 2022, as they rose by LBP5,569.8bn (\$3.7bn) in the first nine months of the year and surged by LBP7,671.8bn (\$5.1bn) from the end of September 2021.

### Port of Beirut processes 2.95 million tons of freight in first seven months of 2022

Figures released by the Port of Beirut show that the port processed 2.95 million tons of freight in the first seven months of 2022, constituting an increase of 6.4% from 2.77 million tons of freight in the same period last year. Imported freight amounted to 2.45 million tons in the first seven months of 2022, up by 5.4% from 2.32 million tons in the same period of 2021, and accounted for 83% of total processed freight. In addition, the volume of exported cargo reached 500,000 tons in the first seven months of 2022, rose by 11% from 450,000 tons in the same period of 2021 and represented 17% of aggregate freight in the covered period. A total of 671 vessels docked at the port in the first seven months of 2022, constituting a decline of 4.6% from 703 ships in the same period of 2021. The port handled 492,000 tons of freight in July 2022, up by 27% from 387,000 tons in June 2022. In addition, 110 vessels docked at the port in July 2022, up by 41% from 78 ships in June 2022.

In parallel, the Port of Tripoli processed 1.91 million tons of freight in the first seven months of 2022, constituting an increase of 419,497 tons (+28%) from 1.5 million tons in the first seven months of 2021. Imported freight amounted to 1.15 million tons in the first seven months of 2022 and grew by 109,622 tons (+10.5%) from 1,044,159 tons in the same period last year. Imports accounted for 60.4% of freight activity in the covered period. In parallel, the volume of cargo that was exported through the port reached 757,029 tons in the first seven months of 2022, up by 309,875 tons (+69.3%) from 447,154 tons in the same period last year, and represented 39.6% of total freight in the covered period. Further, revenues generated through the Port of Tripoli stood at \$129.5m in the first seven months of 2022, and surged by 1,150.4% from \$10.4m in the corresponding period last year. A total of 523 vessels docked at the port in the first seven months of 2022, representing an increase of 23.3% from 424 ships in the same period of 2021.

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



Source: Banque du Liban, Byblos Research

### Net foreign assets of financial sector down \$3.1bn in first eight months of 2022

Figures issued by Banque du Liban (BdL) show that the net foreign assets of the financial sector, which are a proxy for Lebanon's balance of payments, declined by \$3.1bn in the first eight months of 2022, compared to decreases of \$2.4bn in the same period of 2021 and of \$7.5bn in the first eight months of 2020.

The cumulative deficit in the first eight months of 2022 was caused by a drop of \$3.5bn in the net foreign assets of BdL, which was partly offset by an increase of \$382.1m in those of banks and financial institutions. Further, the net foreign assets of the financial sector regressed by \$314.3m in August 2022 compared to a decline of \$207.7m in July 2022 and to a decrease of \$592.8m in August 2021. The August decrease was caused by a contraction of \$469.4m in the net foreign assets of BdL, which was partly offset by an increase of \$155.1m in those of banks and financial institutions.

The cumulative increase in the banks' net foreign assets is mostly due to a decline in their foreign liabilities. The decrease in foreign liabilities was driven mainly by the contraction in liabilities to the non-resident financial sector and in non-resident customer deposits. In parallel, the drop in BdL's net foreign assets was due in part to the financing of the imports of hydrocarbons, wheat, medicine, medical equipment, and raw materials for agriculture and industry; as well as to the implementation of BdL circulars that allowed depositors to withdraw US dollar banknotes from their accounts or to buy dollar banknotes from BdL through commercial banks.

### Amount of cleared checks down 13.5%, returned checks down 39% in first eight months of 2022

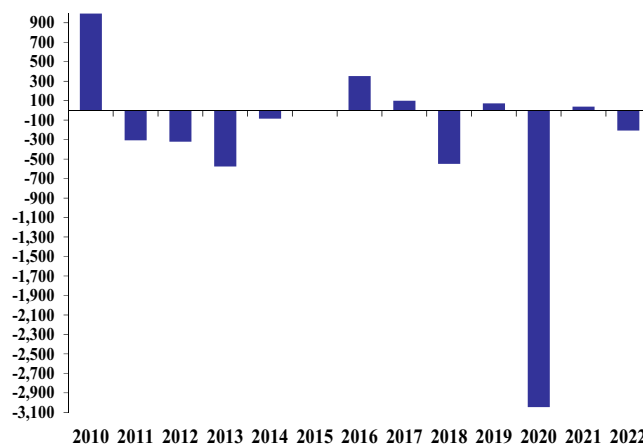
The amount of cleared checks reached LBP34,077bn, or the equivalent of \$22.6bn, in the first eight months of 2022, constituting a decline of 13.5% from \$26.1bn in the same period of 2021. In comparison, the amount of cleared checks dropped by 27.6% in the first eight months of 2021 and regressed by 3.5% in the same period of 2020 from the corresponding periods of the preceding year. The dollar figures are converted at the official exchange rate of the Lebanese pound to the US dollar. The amount of cleared checks in Lebanese pounds reached LBP22,865bn in the first eight months of 2022 and increased by 23% from the same period last year, while the amount of cleared checks in foreign currency was \$7.4bn and dropped by 46% in the covered period. Also, there were 1.23 million cleared checks in the first eight months of 2022, down by 48% from 2.35 million checks in the same period of the previous year. The dollarization rate of cleared checks regressed from 52.7% in the first eight months of 2021 to 33% in the same period of 2022, while the number of checks denominated in foreign currency accounted for 47.2% of total cleared checks in the covered period compared to 53.3% in the same period of 2021.

In addition, the amount of cleared checks totaled LBP4,910bn (\$3.3bn) in August 2022, up by 32% from LBP3,721bn (\$2.5bn) in the preceding month and by 46.4% from LBP3,353bn (\$2.2bn) in August 2021. The amount of cleared checks in Lebanese pounds reached LBP3,723bn in August 2022, as it increased by 45.5% from LBP2,559bn in July 2022 and by 94.6% from LBP1,913bn in August 2021. Further, the amount of cleared checks in foreign currency was \$787m in August 2022, as it grew by 2% from the previous month and declined by 17.6% from August 2021. There were 102,055 cleared checks in August 2022 relative to 109,394 cleared checks in the preceding month and to 192,282 cleared checks in August 2021.

In parallel, the amount of returned checks in local and foreign currencies was \$203m in the first eight months of 2022 compared to \$331m in the same period of 2021 and to \$701.2m in the first eight months of 2020. This constituted a drop of 38.7% in the first eight months of 2022 relative to decreases of 52.8% and 24.3% in the first eight months of 2021 and 2020, respectively. The amount of returned checks in Lebanese pounds reached LBP154bn in the covered period and regressed by 5% from the first eight months of 2021, while the amount of returned checks in foreign currency was \$101m and contracted by 55% in the covered period. Also, there were 8,480 returned checks in the first eight months of 2022, down by 54.8% from 18,759 returned checks in the same period of 2021. The number of returned checks in foreign currency reached 5,086 in the first eight months of 2022 and dropped by 55.2% from the same period of 2021, while the number of returned checks in Lebanese pounds totaled 3,394 and retreated by 54.2% year-on-year.

Further, the amount of returned checks in domestic and foreign currencies stood at \$22.6m in August 2022 compared to \$33.2m in the previous month and to \$23.9m in August 2021. Also, there were 724 returned checks in August 2022, relative to 759 returned checks in July 2022 and to 1,535 checks in August 2021.

Change in Net Foreign Assets of Financial Sector\* (US\$m)



\*in August of each year

Source: Banque du Liban, Byblos Research

### Nearly 50% of residents face food shortages

The Arab Barometer's survey about food insecurity in 10 countries in the Middle East and North Africa region revealed that 48% of respondents in Lebanon said that they ran out of food and that they did not have money to buy more food at the time the survey was conducted. In comparison, 68% of surveyed citizens in Egypt reported food insufficiency, followed by 65% in Mauritania, 63% in Sudan, 57% in Iraq, 55% in Tunisia, 53% in Libya, 48% in Jordan, 36% in Morocco, and 34% in Palestine. Further, it stated that 72% of respondents in rural areas in Lebanon said that they faced food shortages and that they did not have money to purchase additional food items, while 45% of participants in urban areas noted that they struggled to afford food. In addition, the survey indicated that 74% of citizens in Akkar and the North said that they often or sometimes run out of food, followed by 70% in the Bekaa and Baalbeck, then 38% in Beirut, 36% in Mount Lebanon, and 33% in the South and Nabatieh.

Further, the survey showed that 63% of participants in Lebanon noted that they are worried that they would run out of food at the time of the survey. In comparison, 74% of surveyed citizens in Mauritania, 67% of citizens in Egypt, Libya and Sudan, 62% in Morocco, 60% in Iraq, 57% in Tunisia, 53% in Jordan, and 38% in Palestine expressed concerns that they would experience food scarcity. The survey indicated that Lebanon's ongoing economic crisis that began in 2019 contributed to a 20 percentage points rise in the number of citizens who are encountering difficulties to access food and basic needs.

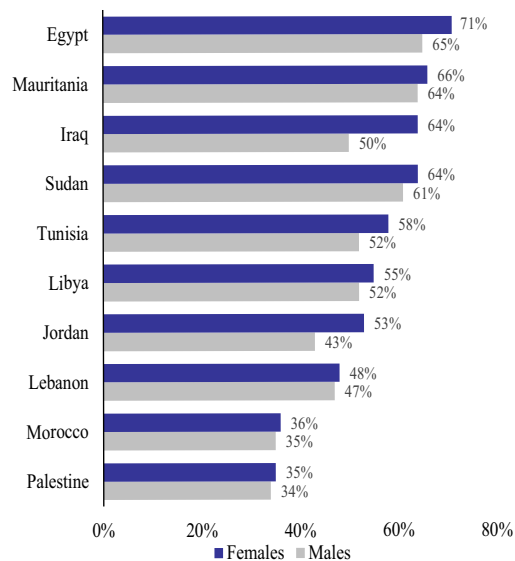
Moreover, the survey revealed that 48% of Lebanese participants who are facing food shortages said that the economic situation is the most important headwind that the country is facing, followed by 23% of respondents who considered that corruption is the most challenging issue for Lebanon, 9% of surveyed Lebanese indicated that instability in the country is an obstacle to solve the country's problem, 7% of participants noted that the spread of the COVID-19 pandemic is the most important challenge, 5% of respondents considered that political foreign interference is an obstacle, 4% of surveyed citizens said that underdeveloped public services are the most important challenge that the country is facing, while 3% pointed out that terrorism is the most significant obstacle to stability.

Also, it noted that 39% of Lebanese respondents who never ran out of food considered emigrating, while 35% of Lebanese participants who often or sometimes run out of food expressed a desire to emigrate. It added that 19% of Lebanese participants who often or sometimes ran out of food believe that economic conditions in the country will improve in the coming two to three years, while 15% of Lebanese respondents who never ran out of food consider that the economic situation in Lebanon will improve in two to three years.

In parallel, the survey showed that 52% of respondents in Lebanon prefer a democratic political system, 25% of participants do not care what kind of political system they have, while 21% of surveyed citizens prefer to have a non-democratic system. Further, 75% of Lebanese citizens who never ran out of food said that they do not care what kind of political system they have, as long as the government can solve the country's economic problems, while 64% of respondents who often or sometimes run out of food indicated that they do not care what kind of system they have, as long as the government can solve the country's economic problems.

The Arab Barometer conducted the survey between October 2021 and July 2022. It is based on face-to-face interviews of a nationally representative sample of between 1,800 and 2,400 citizens living throughout each Arab country included in the survey, and has a margin of error of  $\pm 2$  percentage points. The Arab countries consist of Egypt, Iraq, Jordan, Lebanon, Libya, Mauritania, Morocco, Palestine, Sudan, and Tunisia. It noted that the surveys in Egypt, Iraq, Lebanon, Mauritania, Palestine, and Tunisia were completed before Russia's invasion on Ukraine on February 22, 2022.

### Share of Surveyed Males and Females who Sometimes Faced Food Shortages



Source: Arab Barometer, September 2022

### Occupancy rate at Beirut hotels at 50%, room yields up 38% in first seven months of 2022

EY's benchmark survey of the hotel sector in the Middle East indicates that the average occupancy rate at four- and five-star hotels in Beirut was 50% in the first seven months of 2022 relative to 42.4% in the same period of 2021, and compared to an average rate of 57.3% in 13 Arab markets included in the survey. The occupancy rate at Beirut hotels was the fifth lowest in the region in the first seven months of 2022, while it was the seventh lowest in the same period of 2021. The occupancy rates at Beirut hotels reached 34.7% in January, 43.8% in February, 55.7% in March, 25.8% in April, 52.5% in May, 60.4% in June, and 75% in July 2022. In comparison, it was 29.5% in January, 17% in February, 33.7% in March, 34.6% in April, 50% in May, 54% in June, and 75.9% in July 2021. The occupancy rate at hotels in Beirut increased by 7.5 percentage points in the first seven months of 2022 from the same period of 2021. In comparison, the average occupancy rate in Arab markets grew by 13.9 percentage points in the covered period.

Also, the average rate per room at Beirut hotels was \$67 in the first seven months of 2022, increasing by 18% from \$57 in the same period of 2021 and constituting the lowest rate in the region. EY indicated

that it based its average rate per room at Beirut hotels on the exchange rate of the Lebanese pound to the US dollar that the hotels used at the time of the client's booking. The average rate per room in Beirut was lower than the regional average of \$163.7 that increased by \$32.7 (+25%) from \$131 in the same period of 2021. The average rate per room at Beirut hotels reached \$69 in January, \$66.7 in February, \$64.6 in March, \$72.3 in April, \$79 in May, \$75 in June, and \$88 in July 2022. In comparison, it was \$73 in January, \$81.8 in February, \$72.5 in March, \$90.1 in April, \$103 in May, \$59 in June, and \$68 in July 2021.

Further, revenues per available room (RevPAR) were \$34 at Beirut hotels in the first seven months of 2022 compared to \$24 in the same period last year, and were the lowest in the region. EY indicated that it used the same methodology to calculate the RevPAR as it did for the average rate per room. The RevPAR at Beirut hotels rose by 38.4% in the first seven months of 2022 and posted the ninth largest increase regionally in the covered period. The RevPAR at hotels in Beirut reached \$24 in January, \$29.3 in February, \$36 in March, \$18.7 in April, \$42 in May, \$45 in June, and \$66 in July 2022. In comparison, it was \$21 in January, \$14 in February, \$24.4 in March, \$31.2 in April, \$51 in May, \$32 in June, and \$51 in July 2021. Abu Dhabi had the highest hotel occupancy rate in the region at 74.6% in the first seven months of 2022, while Dubai registered the highest average rate per room at \$328 and the highest RevPAR at \$236 in the covered period.

### Hotel Sector Performance in First Seven Months of 2022

	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Abu Dhabi	75	59	21
Dubai	72	236	70.2
Madina	71	107	174.8
Cairo-City	68	79	159.7
Riyadh	59	99	49.7
Doha	59	66	-2.5
Makkah	58	116	236.8
Jeddah	52	126	16.8
Muscat	48	57	200.9
<b>Beirut</b>	<b>50</b>	<b>34</b>	<b>38.4</b>
Kuwait City	44	105	27.2
Manama	45	71	89.7
Amman	45	66	117.7

Source: EY, Byblos Research



### Private sector deposits down \$49.3bn since start of 2019

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets stood at \$168.8bn at the end of August 2022, constituting declines of 3.5% from \$174.8bn at the end of 2021 and of 6.4% from \$180.3bn at end-August 2021. The dollar figures are based on the official exchange rate of the Lebanese pound to the US dollar.

Loans extended to the private sector reached \$22.8bn at the end of August 2022 and decreased by 17.7% in the first eight months of 2022 and by 26% from a year earlier. Loans to the resident private sector totaled \$20.4bn, constituting declines of 17.8% from the end of 2021 and of 24.6% from end-August 2021. Also, credit to the non-resident private sector amounted to \$2.38bn at the end of August 2022, and contracted by 16% from the end of 2021 and by 37% from the end of August 2021.

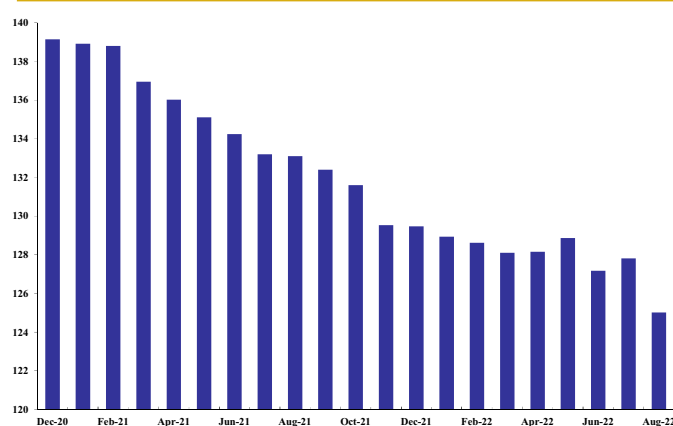
In nominal terms, credit to the private sector decreased by \$4.9bn in the first eight months of 2022 relative to a drop of \$5.3bn in the same period of 2021, as lending to the resident private sector retreated by \$4.4bn and credit to the non-resident private sector regressed by \$454m in the covered period. Further, loans extended to the private sector contracted by \$36.6bn (-61.6%) since the start of 2019, with loans denominated in Lebanese pounds shrinking by LBP11,230.7bn (-73.6%) and loans denominated in foreign currency dropping by \$29.1bn (-70.8%). The dollarization rate of private sector loans regressed from 58% at end-August 2021 to 52.5% at the end of August 2022. The average lending rate in Lebanese pounds was 4.85% in August 2022 compared to 7.52% a year earlier, while the same rate in US dollars was 5.51% relative to 5.87% in August 2021.

In addition, claims on non-resident financial institutions reached \$4bn at the end of August 2022, constituting a decrease of \$599m (-13%) in the first eight months of 2022 and of \$1.1bn (-22%) from a year earlier. Also, claims on non-resident financial institutions dropped by \$5.1bn (-56.3%) from the end of August 2019 and by \$8bn (-66.7%) since the start of 2019. Further, deposits at foreign central banks totaled \$1.1bn, constituting increases of \$60.2m (+5.8%) in the first eight months of 2022 and of \$210.2m (+23.7%) from a year earlier. In addition, the banks' claims on the public sector reached \$14.2bn at end-August 2022, down by \$2.6bn (-15.4%) in the first eight months of the year and by \$4.8bn (-25.3%) from the end of August 2021. The banks' holdings of Lebanese Treasury bills stood at \$10.1bn, while their holdings of Lebanese Eurobonds reached \$3.9bn at end-August 2022. Further, the deposits of commercial banks at Banque du Liban (BdL) amounted to \$108.3bn at the end of August 2022, down by \$723.8 (-0.7%) from \$109bn at end-2021 and nearly unchanged from \$108.3bn at the end of August 2021.

In parallel, private sector deposits totaled \$125bn at the end of August 2022 and regressed by 3.4% in the first eight months of 2022 and by 6% from end-August 2021. Deposits in Lebanese pounds reached the equivalent of \$27.2bn at end-August 2022, as they increased by 2% from the end of 2021 and by 2.8% from a year earlier; while deposits in foreign currency reached \$97.8bn, and regressed by 5% in the first eight months of the year and by 8.2% from the end of August 2021. Resident deposits totaled \$101.4bn at the end of August 2022 and decreased by \$3.5bn (-3.4%) from the end of 2021, while non-resident deposits reached \$23.6bn at end-August 2022, down by \$917m (-3.7%) in the first eight months of the year. Resident deposits in Lebanese pounds stood at LBP37,980.6bn, or the equivalent of \$25.2bn at end-August 2022, constituting an increase of LBP881.4bn, or of 2.4%, in the first eight months of the year, while those in foreign currency totaled \$76.2bn at end-August 2022 and decreased by \$4.1bn (-5%) in the covered period. Non-resident deposits in Lebanese pounds and in foreign currency regressed by 1.7% and 4%, respectively, in the first eight months of 2022. Private sector deposits declined by \$4.4bn in the first eight months of 2022, with deposits in Lebanese pounds increasing by LBP830.7bn, or the equivalent of \$551m, and foreign currency deposits shrinking by \$5bn. Private sector deposits declined by \$535m in January, by \$319.6m in February, by \$513m in March 2022, by \$1.7bn in June and by \$2.8bn in August, while they increased by \$54.8m in April, by \$712.2m in May and by \$643.2m in July 2022. In addition, private sector deposits dropped by \$15.4bn in 2019, by \$19.7bn in 2020 and by \$9.7bn in 2021, including a decrease of \$10.7bn between September and December 2019. As such, aggregate private sector deposits contracted by \$49.3bn (-28.3%) since the start of 2019, with deposits in Lebanese pounds shrinking by \$24bn (-47%) and foreign currency deposits contracting by \$25.3bn (-20.5%). The decrease is due largely to the repayment of loans by companies and individuals, to the hoarding of cash at households, to companies paying their foreign obligations, and to deposit outflows. The dollarization rate of private sector deposits was 78.2% at end-August 2022, relative to 79.4% at end-2021 and to 80.1% a year earlier.

Further, the liabilities of non-resident financial institutions reached \$4.4bn at the end of August 2022 and decreased by 16.6% from \$5.3bn at the end of August 2021. Also, the average deposit rate in Lebanese pounds was 0.6% in August 2022 compared to 1.62% a year earlier, while the same rate in US dollars was 0.1% relative to 0.3% in August 2021. The ratio of private sector loans to deposits in foreign currency stood at 12.3% at the end of August 2022 compared to 16.8% a year earlier, well below BdL's limit of 70. The same ratio in Lebanese pounds reached 39.8% at end-August 2022, down from 48.8% at end-August 2021. As such, the total private sector loans-to-deposits ratio stood at 18.3% at end-August 2022 compared to 23.2% a year earlier. The banks' aggregate capital base totaled LBP25,450.4bn (\$16.88bn) at the end of August 2022, down by LBP1,360.5bn (\$902.5m), or by 5% from \$17.8bn at the end of 2021 and nearly unchanged from end-August 2021.

Private Sector Deposits (US\$bn)



Source: Banque du Liban, Byblos Research

### **Stock market capitalization up 28% to \$12.8bn at end-September 2022**

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 15.8 million shares in the first nine months of 2022, constituting a decrease of 38% from 25.4 million shares traded in the same period of 2021; while aggregate turnover amounted to \$312m and increased by 5.6% from a turnover of \$295.4m in the first nine months of 2021. The market capitalization of the BSE reached \$12.8bn at the end of September 2022, representing a rise of 27.6% from \$10.04bn a year earlier, with real estate equities accounting for 66% of the total, followed by banking stocks (29%), and industrial shares (4%). The market liquidity ratio was 2.4% at the end of September 2022 compared to 2.9% a year earlier.

Banking stocks accounted for 60% of the trading volume in the first nine months of 2022, followed by real estate equities (39%) and industrial shares (1%). Also, real estate equities accounted for 94.2% of the aggregate value of shares traded, followed by banking stocks (4.6%) and industrial shares (1.1%). The average daily traded volume for the first nine months of 2022 was 88,576 shares for an average daily amount of \$1.75m. The figures represent a drop of 44.5% of the average daily traded volume and a decline of 5.7% of 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 surged by 163% in the first nine months of 2022, while the CMA's Banks Market Value-Weighted Index regressed by 18% in the covered period. The increase in the Market Value-Weighted Index is mainly due to the rise in the prices of Solidere 'A' and Solidere 'B' shares by 56.4% and 55.5%, respectively, from the end of 2021, given that the shares had market weights of 40% and 26.3%, respectively, on the last trading day in September, the highest among listed companies on the BSE. The rise in the prices of Solidere shares is mainly driven by the increase in demand for the shares from several bank depositors, given that they consider it a way to channel their deposits out of the banking sector in light of the government's economic rescue plan that stipulates the conversion of deposits into bank shares as part of the restructuring of the banking sector.

### **Subscriptions in foreign investment funds at \$547m at end-2021**

The Capital Markets Authority (CMA) indicated that there were 12 local collective investment schemes (CIS) licensed to operate in Lebanon in 2021, constituting a decrease of 20% from 15 CIS in 2020. According to the CMA, a CIS is "an arrangement including a mutual fund or investment company that enables a number of investors to pool their assets for professional management and diversification of risk."

The breakdown of CIS by type of investments indicates that four funds invested money in fixed income securities, another three CIS made placements in mixed allocations, two funds invested in money markets, one CIS invested in stocks, while two funds made placements in various types of financial securities. There were 1,805 subscribers in CIS funds last year, down by 36.4% from 2,839 in 2020.

Further, the aggregate amount of subscriptions in domestic CIS totaled \$122.5m at the end of 2021, down by 48.4% from \$237.6m at end-2020. The breakdown of subscriptions shows that 80.8% of investments were in fixed income securities, 10.7% in money markets, 4.5% in various types of financial securities, 2.6% in mixed allocation funds, and 1.4% in stocks. The geographical distribution of investments by domestic CIS shows that Lebanon was the recipient of 81% of placements last year, the Middle East region accounted for 13% of the total, placements in global investments represented 5%, and the United States received the balance of 1%.

In parallel, the CMA indicated that a total of 166 foreign CIS were marketed in Lebanon in 2021, constituting a drop of 33.3% from 249 funds in 2020. Foreign CIS are funds that are marketed in Lebanon by financial institutions and financial intermediation firms. Also, the distribution of foreign CIS by type of investments shows that 69 funds invested in stocks, followed by 31 funds in fixed income securities, 26 funds in mutual funds, 17 funds in mixed allocations, 15 funds in private equity, six funds in hedge funds, one fund in alternative investments, and one fund in real estate. There were 2,133 subscribers in CIS foreign funds last year, up by 33.5% from 3,206 investors in 2020.

In addition, the aggregate amount of investments in foreign funds amounted to \$547.1m at the end of 2021, constituting a decrease of 31.5% from \$798.5m at end-2020. The distribution of subscriptions indicates that fixed income securities accounted for 91.3% of placements, followed by private equity funds with 3.9% of the total, stocks with 2.5%, hedge funds with 0.9%, mixed allocation funds with 0.8%, mutual funds with 0.6%, alternative investment funds with 0.01%, and real estate funds with 0.001%.

## Ratio Highlights

(in % unless specified)	2019	2020	2021	Change*
Nominal GDP (\$bn)	53.2	24.7	23.4	(1.3)
Public Debt in Foreign Currency / GDP	63.4	56.8	26.2	(30.6)
Public Debt in Local Currency / GDP	108.8	93.8	42.1	(51.7)
Gross Public Debt / GDP	172.3	150.6	68.3	(82.2)
Trade Balance / GDP	(29.2)	(12.2)	(6.6)	5.6
Exports / Imports	19.4	31.3	28.5	(2.8)
Fiscal Revenues / GDP	20.8	16.0	8.5	(7.5)
Fiscal Expenditures / GDP	31.8	20.3	9.8	(10.5)
Fiscal Balance / GDP	(11.0)	(4.3)	(1.3)	2.9
Primary Balance / GDP	(0.5)	(1.0)	(0.1)	1.0
Gross Foreign Currency Reserves / M2	70.2	41.5	26.0	(15.5)
M3 / GDP	252.9	209.0	90.8	(118.2)
Commercial Banks Assets / GDP	407.5	296.2	119.1	(177.1)
Private Sector Deposits / GDP	298.6	219.2	88.2	(131.0)
Private Sector Loans / GDP	93.6	57.0	18.9	(38.1)
Private Sector Deposits Dollarization Rate	76.0	80.4	79.4	(1.0)
Private Sector Lending Dollarization Rate	68.7	59.6	56.3	(3.3)

\*change in percentage points 21/20;

Source: Banque du Liban, Ministry of Finance, 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

	2020	2021e	2022f
Nominal GDP (LBP trillion)	95.7	212.6	426.8
Nominal GDP (US\$ bn)	24.7	22.6	26.8
Real GDP growth, % change	-25.9	-9.9	2.5
Private consumption	-70	1.2	1.5
Public consumption	-4	-45.7	-9.8
Gross fixed capital	-63	-16.2	21.8
Exports of goods and services	-34.2	9.6	8.9
Imports of goods and services	-33.4	3.9	2.0
Consumer prices, %, average	84.9	154.8	97.7
Official exchange rate, average, LBP/US\$	1,507.5	1,507.5	11,754
Parallel exchange rate, average, LBP/US\$	6,705	16,821	26,070*
Weighted average exchange rate LBP/US\$	3,878	9,452	23,679

\*Average year-to-July 22, 2022

Source: Central Administration of Statistics, Institute of International Finance- June 2022

## 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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