

## LEBANON THIS WEEK

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Term deposits account for 56% of customer deposits at end-March 2023

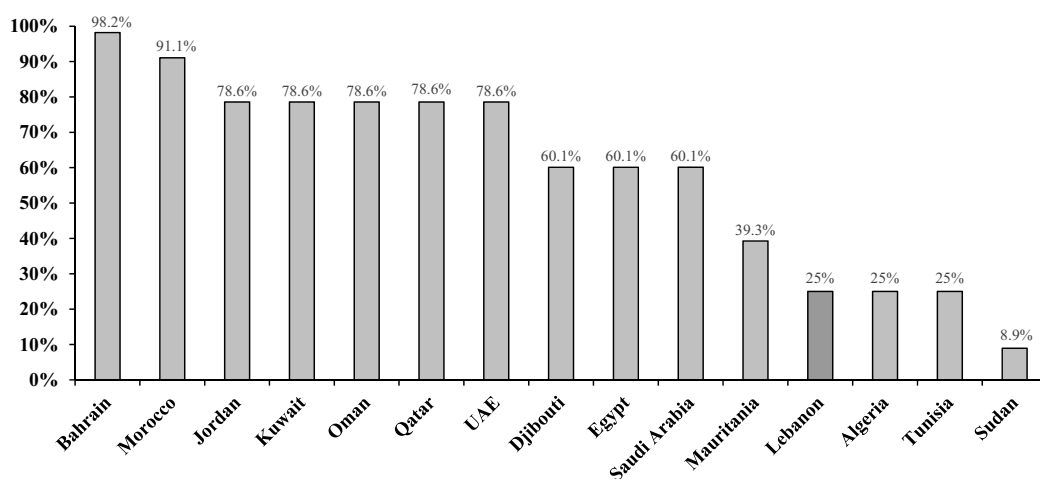
Balance sheet of financial institutions at LBP7 trillion at end-March 2023

### Ratio Highlights

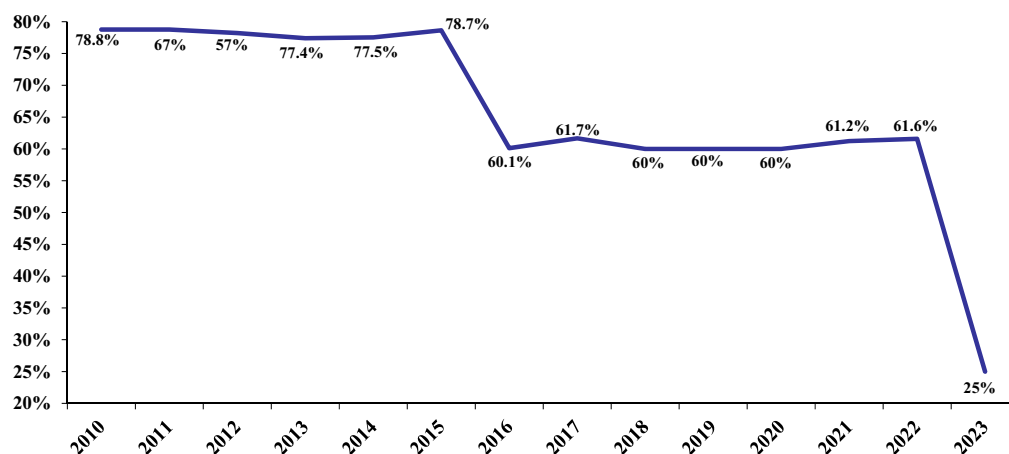
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### Charts of the Week

Percentile Rankings of Arab Countries in terms of Financial Freedom for 2023\*



Percentile Rankings of Lebanon in terms of Financial Freedom



\*The Heritage Foundation defines financial freedom as a measure of investment and financial independence from government control and from interference in the financial sector  
 Source: Heritage Foundation Index of Economic Freedom for 2023, Byblos Bank

### Quote to Note

"The current presidential vacuum leaves a weak caretaker government in charge, further delaying the implementation of the urgent economic reforms."

*The Institute of International Finance, on one of the costs from the political deadlock that is preventing the election of a president*

### Number of the Week

**96.4%:** The dollarization rate of private sector deposits at commercial banks at the end March 2023, based on the new exchange rate of the US dollar, according to Banque du Liban

## Lebanon in the News

\$m (unless otherwise mentioned)	2020	2021	2022	% Change*	Dec-21	Nov-22	Dec-22
Exports	3,544	3,887	3,492	-10.2%	616	274	272
Imports	11,310	13,641	19,053	39.7%	1,269	1,584	1,251
Trade Balance	(7,765)	(9,754)	(15,562)	59.5%	(653)	(1,310)	(979)
Balance of Payments	(10,551)	(1,960)	(3,197)	63.1%	(384)	(354)	17
Checks Cleared in LBP	19,937	18,639	27,14	45.6%	1,738	3,003	3,686
Checks Cleared in FC	33,881	17,779	10,288	-42.1%	1,079	767	577
Total Checks Cleared	53,818	36,418	37,434	2.8%	2,818	3,770	4,263
Fiscal Deficit/Surplus**	(2,709)	1,457	-	-	-	-	-
Primary Balance**	(648)	3,323	-	-	-	-	-
Airport Passengers	2,501,944	4,334,231	6,360,564	46.8%	455,087	446,450	551,632
Consumer Price Index	84.9	154.8	171.2	1,645bps	224.4	142.4	122.0

\$bn (unless otherwise mentioned)	Dec-21	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	% Change*
BdL FX Reserves	13.65	10.63	10.78	10.60	10.40	10.40	(23.8)
In months of Imports	-	-	-	-	-	-	-
Public Debt	100.37	103.65	102.71	101.94	101.94	101.81	1.4
Bank Assets	174.82	168.75	167.01	164.64	165.05	169.06	(3.3)
Bank Deposits (Private Sector)	129.47	125.02	124.96	124.37	124.57	125.72	(2.9)
Bank Loans to Private Sector	27.72	22.82	22.28	21.93	21.29	20.05	(27.7)
Money Supply M2	52.41	50.87	62.15	72.31	71.40	77.34	47.6
Money Supply M3	133.38	127.71	138.46	148.13	147.09	152.29	14.2
LBP Lending Rate (%)	7.14	4.85	5.09	5.00	5.30	4.56	(258)
LBP Deposit Rate (%)	1.09	0.60	0.66	0.70	0.65	0.60	(49)
USD Lending Rate (%)	6.01	5.51	4.61	5.11	4.35	4.16	(185)
USD Deposit Rate (%)	0.19	0.10	0.09	0.10	0.07	0.06	(13)

\*year-on-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"	81.75	0.5	75,928	44.5%	May 2023	6.40	5.75	196,695.65
Byblos Common	0.75	7.1	35,000	2.3%	Apr 2024	6.65	5.75	754.18
Solidere "B"	82.05	2.1	24,161	29.0%	Jun 2025	6.25	5.75	201.00
Byblos Pref. 09	29.99	(21.0)	840	0.3%	Nov 2026	6.60	5.75	100.37
Audi Listed	1.70	13.3	340	5.4%	Mar 2027	6.85	5.75	90.28
BLOM Listed	2.56	0.0	-	3.0%	Feb 2030	6.65	5.75	47.05
BLOM GDR	2.50	0.0	-	1.0%	Apr 2031	7.00	5.75	39.55
Audi GDR	1.38	0.0	-	0.9%	May 2033	8.20	5.75	30.75
HOLCIM	46.08	0.0	-	4.9%	Nov 2035	7.05	5.75	24.32
Byblos Pref. 08	27.00	0.0	-	0.3%	Mar 2037	7.25	5.75	21.75

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

Source: Refinitiv

	May 15-19	May 8-12	% Change	April 2023	April 2022	% Change
Total shares traded	136,569	405,109	(66.3)	315,447	2,124,884	(85.2)
Total value traded	\$8,182,796	\$8,524,197	(4.0)	\$17,282,146	\$30,360,019	(43.1)
Market capitalization	\$18.36bn	\$18.08bn	1.5	\$19.30bn	\$10.59bn	82.1

Source: Beirut Stock Exchange (BSE)



### World Bank estimates cash economy at about \$10bn or 45.7% of GDP in 2022

The World Bank indicated that a dollar-based cash economy has emerged in Lebanon in the wake of the economic and financial crisis, and the prevailing lack of confidence, and that the bulk of financial transactions are being settled in cash, while the lines of credit that the banks are offering have been based on full cash collateral.

It noted that it is essential to estimate the size of the cash economy in order to understand the evolving nature of transactions and to assess the potential implications of a prevalent cash economy on the effectiveness of fiscal and monetary policies. It said that a growing cash economy implies that fiscal policy is less effective, as it would undermine the authorities' efforts to boost tax receipts given the incentive it creates for tax evasion. It added that the prevalence of cash transactions makes monetary policy less effective as well, as it reduces monetary transmission through the banking sector, given that the latter is generally the conduit for exchange rate stability.

It defined the dollar-based cash economy in Lebanon as the total US dollar bills in circulation, and indicated that it reflects the legal transactions in a highly dollarized economy. It also estimated the size of the cash economy in Lebanon as the difference between the size for the country's nominal GDP from the expenditures side and the Gross National Disposable Income (GNDI) as calculated by the Central Administration of Statistics. It indicated that the difference between the GNDI and GDP reached \$4.5bn, or 14.2% of GDP in 2020, compared to a pre-crisis peak of \$2.8bn or 5.6% of GDP in 2015.

It identified six sources of US dollar bills in circulation in the country that consist of: First, the withdrawals from the banking sector of foreign currency-denominated deposits prior to the crisis, and Banque du Liban's (BdL) foreign currency interventions from its remaining reserves since the start of the crisis, including through BdL's Sayrafa electronic exchange platform. Second, the flow of remittances in US dollars from Lebanese expatriates. Third, the US dollar bills that were hoarded at homes since the onset of the crisis. Fourth, the US dollar bills that entered the country through official and unofficial entry points. Fifth, the humanitarian and development cash assistance that international organizations have been providing, including to the refugee communities. Sixth, the post-crisis foreign currency-denominated deposits at commercial banks, or the money deposited in "fresh money" accounts, that are not subject to restrictions on withdrawals and international transfers.

As such, it estimated the size of the dollar-based cash economy in Lebanon at \$6.06bn or 26.2% of GDP in 2021, and at \$9.86bn or 45.7% of GDP in 2022. It attributed the majority of the growth in the size of the cash economy in 2022 to a slowdown in capital outflows. It pointed out that the official figures about the balance-of-payments for the first half of 2022 shows that the "net errors and omissions" item is close to zero for the first time since the onset of the crisis, and assumed that most of the capital outflows occurred in 2020 and 2021, given the imposition of tighter informal controls in 2022. Also, it pointed out that the size of the cash economy relative to the country's GDP was significantly larger in 2022 than it was in 2021 due to the decrease in nominal GDP, which reflects the denominator effect of the corresponding ratio. Further, it considered that transactions in the cash economy are not a net contributor to economic growth, as cash transactions are already reflected in the components of GDP, despite the change in the nature of transaction settlements since the start of the crisis.

In parallel, the World Bank considered that, in the absence of adequate reforms and crisis resolution measures, a growing cash economy constitutes a major impediment to Lebanon's economic recovery, as it significantly increases informality, facilitates tax evasion, and raises the risks of money laundering. It said that the increasing reliance on cash transactions threatens to completely reverse the progress that the Lebanese authorities have made towards enhancing the country's financial integrity by improving the anti-money laundering framework prior to the crisis. It also anticipated that Lebanon's cash economy will likely compound longstanding weaknesses in the country's property, capital gains and income tax codes. It added that cash transactions exacerbate the distortions in the lump sum regime for taxes on business profits and facilitate tax evasion, which, in turn, erodes the government's tax base and reduces tax revenues as a result of lower compliance.

<b>Breakdown of the Components of the Cash Economy in 2021 and 2022</b>		
	<b>2021</b>	<b>2022</b>
<b>US\$ Cash from Deposit Withdrawals (US\$bn)</b>		
<i>Resident Deposits Minus Claims in Foreign Currency</i>	0.734	0.634
<i>Non-Resident Deposits Minus Claims in Foreign Currency</i>	0.523	0.185
<b>Other Sources of US\$ Cash (US\$bn)</b>		
<i>Currency In Circulation</i>	0.93	0.81
<i>Net Remittances</i>	4.25	4.53
<i>Change In Reserves Net of Essential Imports</i>	1.81	2.18
<i>Tourist Spending</i>	1.46	1.18
<i>Humanitarian Assistance</i>	0.12	0.34
<i>Capital Flight</i>	(3.77)	0.00
<b>Total (US\$ billion)</b>	<b>6.06</b>	<b>9.86</b>
<b>in % of GDP</b>	<b>26.2</b>	<b>45.7</b>

Source: World Bank, Byblos Research



### Banque du Liban's foreign assets at \$14.6bn, gold reserves at \$18.6bn at mid-May 2023

Banque du Liban's (BdL) interim balance sheet shows that its total assets reached LBP1,548.8 trillion (tn), or the equivalent of \$103.3bn, on May 15, 2023, constituting increases of 1.1% from LBP1,531.6 (\$102.1bn) at end-April 2023 and of 1.3% from LBP1,528.6tn (\$101.9bn) at mid-April 2023. Assets in foreign currency reached \$14.55bn at mid-May 2023, representing a decline of \$626.2m, or of 4.1%, from the end of 2022 and a drop of \$1.5bn (-9.4%) from \$16.1bn at mid-May 2022. Assets in foreign currency include \$5.03bn in Lebanese Eurobonds, unchanged from a year earlier. The dollar figures up until the end of January 2023 are based on the official exchange rate of the Lebanese pound to the US dollar of LBP1,507.5 per dollar at the time, while the dollar figures starting in February 2023 are based on the new exchange rate of LBP15,000 per dollar.

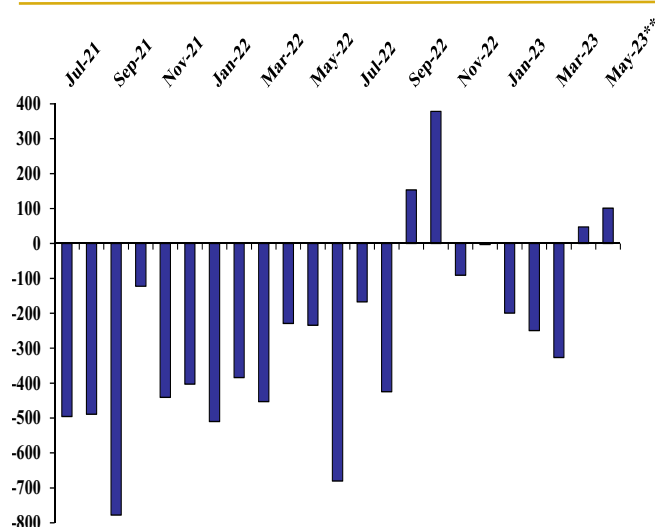
BdL's gross foreign currency reserves, which consist of its assets in foreign currency excluding Lebanese Eurobonds, stood at \$9.58bn on May 15, 2023, constituting increases of \$101.3m (+1.1%) from \$9.43bn at end-April 2023 and of \$61.5m (+0.6%) from \$9.47bn at mid-April 2023. They dropped by \$626.2m (-6.2%) from the end of 2022 and by \$1.5bn (-13.6%) from \$11.03bn at mid-May 2022. The cumulative decline of BdL's gross foreign-currency reserves in the past 12 months is largely due to the financing of imports, such as 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. 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.

Further, BdL's balance sheet shows that currency in circulation outside BdL stood at LBP74,420.8bn on May 15, 2023, representing a decrease of 7.2% from LBP80,171.3bn at the end of 2022, and a surge of 82.5% from LBP40,789.4bn at mid-May 2022. Also, the item "Other Assets" on BdL's balance sheet reached LBP179,375.7bn, or \$11.9bn at mid-May 2023, representing an increase of 13% from LBP158,806.3bn (\$10.6bn) a month earlier.

In parallel, the value of BdL's gold reserves reached \$18.6bn at mid-May 2023, constituting a rise of \$1.94bn (+11.7%) from the end of 2022 and an increase of \$1.78bn (+10.6%) from \$16.8bn at mid-May 2022. The value of gold reserves reached a peak \$18.7bn at mid-April 2023. Also, the securities portfolio of BdL totaled LBP67,202.5bn, or \$4.48bn, at mid-May 2023. In addition, loans to the local financial sector stood at LBP16,261.6bn, or \$1.08bn; while the deposits of the financial sector reached LBP1,350tn or \$90bn on May 15, 2023. In addition, public sector deposits at BdL stood at LBP96,114bn at mid-May 2023 and surged by LBP80,202bn from a year earlier.

Moreover, the balance sheet shows that BdL's loans to the public sector totaled LBP248,295bn, equivalent to \$16.55bn, as at mid-May 2023. BdL indicated that it started in 2019 to make payments on behalf of the Lebanese government from its own foreign currency reserves, either against cash collateral in Lebanese pounds at the existing official exchange rate of LBP1,507.5 per dollar, which consists of public sector deposits, or in exchange for a pledge by the government to repay the amounts in the same foreign currency at a later stage. It said that the public sector's deposits valued in local currency exceeded the net cumulative balance for the payments it made on behalf of the government in foreign currency, which allowed BdL to maintain a net credit balance for public sector deposits. It noted that, after the modification of the exchange rate from LBP1,507.5 per dollar to LBP15,000 a dollar at the start of February 2023, the countervalue of the net cumulative balance of assets in foreign currencies exceeded the value of the cash collateral in Lebanese pounds, which resulted in a net debit balance in favor of BdL and required the presentation of \$16.5bn in loans to the public sector on the "assets" side.

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



\*month-on-month change

\*\*as at mid-May 2023, change from end-April 2023

Source: Banque du Liban, Byblos Research



### Currency in circulation down 27% in first quarter of 2023

Figures released by Banque du Liban show that money supply M1, which includes currency in circulation and demand deposits in Lebanese pounds, reached LBP86,633.4bn at the end of March 2023, constituting a decrease of 12.3% from LBP98,780.3bn at the end of 2022 and a surge of 68.2% from LBP51,496.3bn at end-March 2022. Currency in circulation stood at LBP53,748bn at the end of March 2023, as it decreased by 27% from LBP73,514bn at end-2022 and expanded by 65% from LBP32,597bn at end-March 2022. Also, demand deposits in local currency stood at LBP32,885.3bn at the end of March 2023, representing increases of 30% from the end of 2022 and of 74% from end-March 2022. Money supply M1 decreased by 14.5% in March from LBP101,290bn at end-February 2023, with currency in circulation declining by 29.3%, while demand deposits in local currency rising by 30.4% month-on-month.

In addition, money supply M2, which includes M1 and term deposits in Lebanese pounds, reached LBP103,837.6bn at the end of March 2023, constituting a contraction of 11% from LBP116,582.5bn at the end of 2022 and a jump of 46% from LBP71,185.6bn a year earlier. Term deposits in Lebanese pounds totaled LBP17,204.2bn at the end of March 2023, and regressed by 3.4% from LBP17,802bn at end-2022 and by 12.6% from LBP19,689.2bn at end-March 2022. Money supply M2 decreased by 12.7% in March from LBP118,911.1bn at end-February 2023, with term deposits in local currency regressing by 2.4% month-on-month.

Further, broad money supply M3, which includes M2, deposits in foreign currency and debt securities issued by the banking sector, reached LBP1,207 trillion (tn) at the end of March 2023, with deposits in foreign currency totaling LBP1,099tn and debt securities of the banking sector amounting to LBP4,062.8bn at the end of the period. Also, money supply M3 retreated by 2.8% from LBP1,229tn at the end of February 2023, with deposits in foreign currency regressing by 0.7% and debt securities issued by the banking sector increasing by 41.8% month-on-month. In parallel, M3 surged by LBP977,399.4bn in the first quarter of 2023 due to a jump of LBP762,746.4bn in net claims on the public sector, a surge of LBP203,832.2bn in the net foreign assets of deposit-taking institutions, and an increase of LBP112,243.5bn in the claims on the private sector, which were offset in part by a decline of LBP101,422.8bn in other items.

### United Nations spends \$130m on livelihoods and shelter support for vulnerable citizens in 2022

The United Nations (UN) indicated that it has assisted 1.5 million vulnerable Lebanese citizens under the Lebanon Crisis Response Plan (LCRP) in 2022. The LCRP 2022-2023 is a joint initiative between the Lebanese government and international and national partners that aims to address challenges posed by the large presence of Syrian refugees in the country. The plan comes after the expiration of the LCRP for the 2015-2016 and the 2017-2021 periods. The UN said that its partners delivered activities at the individual, household, community and institutional levels, depending on the type of activity and the needs of the vulnerable population.

It noted that, under the Basic Assistance segment, it provided cash assistance to 70,652 vulnerable Lebanese citizens through the National Poverty Targeting Program and non-governmental organizations. It added that 46,349 vulnerable Lebanese children received child-focused social assistance. Further, it said that it helped 290,000 Lebanese children enroll in public schools in the 2021-22 school year. It added that it provided 3,820 Lebanese citizens with outreach activities targeting children, youth and caregivers, in order to address critical needs to expand access to and stay in schools.

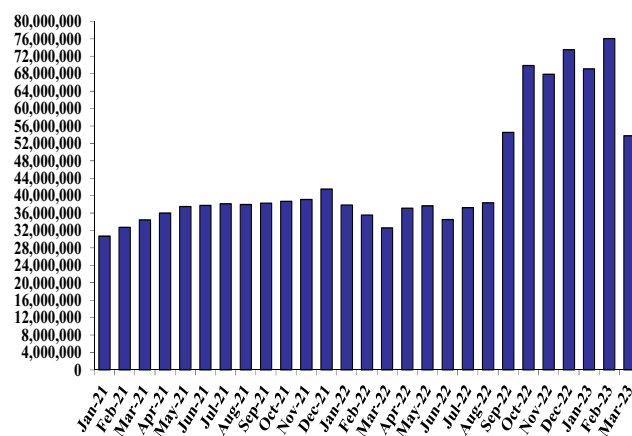
Also, it noted that it delivered in-kind food assistance to 140,717 Lebanese under the Food Security & Agriculture segment, and supported 32,736 farmers with training, technical assistance, and inputs to improve agricultural and livestock practices. In addition, under the Healthcare segment, it subsidized healthcare consultations to 1,904,538 vulnerable Lebanese citizens and said that 175,672 individuals received chronic medication, while it supported 53,027 Lebanese with mental health consultations.

In parallel, it pointed out that its partners invested \$3.96m in labor-intensive public work projects under the Livelihoods segment and supported 8,991 micro-, small- and medium-sized enterprises with cash and in-kind grants. Also, under the Protection segment, it provided specialized rehabilitation support and assistive devices to 2,777 senior citizens and individuals with disability.

Moreover, it said that it supported 12,502 vulnerable Lebanese under the Shelter sector, including cash-for-rent and shelter upgrades. It added that it helped provide minor repairs to the shelters of 3,497 citizens. Further, it assisted 557,637 vulnerable Lebanese with improved access to an adequate quantity of safe water for drinking and for domestic use.

Also, it noted that its partners invested \$26.87m in municipal and community support projects to help 229 municipalities improve the delivery of basic services and reduce pressure on resources in vulnerable communities.

Currency in Circulation (LBP millions)



Source: Banque du Liban, Byblos Research

### Consumer Price Index up 269% year-on-year in April 2023

The Central Administration of Statistics' Consumer Price Index increased by 213.4% in the first four months of 2023 from the same period of 2022. In comparison, it grew by 216.3% and by 144% in the first four months of 2022 and 2021, respectively.

The CPI rose by 268.8% in April 2023 from the same month of 2022, while it registered its 34th consecutive triple-digit increase since July 2020. The cumulative surge in the inflation rate is due in part to the repeated increase in customs tariffs, to the increase in telecommunications rates and electricity tariffs, and to the inability of authorities to monitor and contain retail prices. It is also due to the fluctuation of the Lebanese pound's exchange rate on the parallel market and to the lifting of subsidies on hydrocarbons and on a range of basic products, 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.

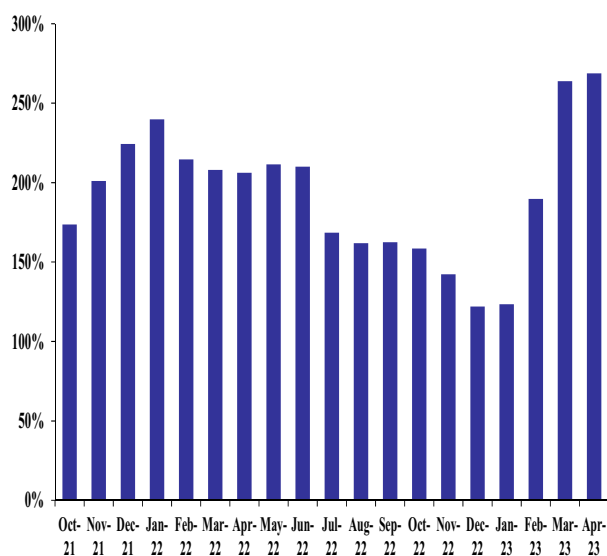
Communication costs surged by 7.1 times in April 2023 from the same month of 2022, followed by the cost of alcoholic beverages & tobacco (+6 times), rates at restaurants & hotels (+4.8 times), the prices of food & non-alcoholic beverages (+4.5 times), the prices of furnishings & household equipment (+4.4 times), healthcare costs and the prices of clothing & footwear (+4.3 times each), transportation costs (+4.1 times), the prices of miscellaneous goods & services (+3.6 times), the cost of recreation & entertainment (+3.2 times), and the prices of water, electricity, gas & other fuels (+3 times). In addition, the cost of education jumped by 193% year-on-year in April 2023, imputed rent (+130.3%), and actual rent (+84.2%). Also, the distribution of actual rent shows that new rent surged by 146.2% and old rent increased by 22.4% in April 2023 from the same month of 2022.

In parallel, the CPI increased by 8.6% in April 2023 from the previous month, compared to a month-on-month rise of 33.3% in March 2023 and to a surge of 25.5% in February 2023.

Imputed rent increased by 21% in April 2023 from March 2023, followed by the prices of clothing & footwear (+16.3%), the prices of food & non-alcoholic beverages (+14.7%), actual rent (+13.8%), the prices of alcoholic beverages & tobacco (+12.3%), the cost of transportation (+7%), the cost of recreation & entertainment and the prices of water, electricity, gas and other fuels (+4.4% each), the rates at restaurants & hotels (+3.7%), the prices of miscellaneous goods & services (+2%), and the prices of furnishings & household equipment (+0.7%). In contrast, the cost of healthcare decreased by 3.2% month-on-month in April 2023, followed by the cost of communications (-0.8%); while the cost of education was unchanged in April 2023. Also, the distribution of actual rent shows that new rent grew by 22% and old rent expanded by 3.4% in April 2023 from the previous month.

Further, the CPI increased by 10.7% in Beirut, by 10% in the North, by 9.1% in the Bekaa, by 8.7% in the South, by 7.8% in Mount Lebanon, and by 6.3% in the Nabatieh during April 2023 from the previous month. In parallel, the Fuel Price Index regressed by 2% and the Education Price Index was unchanged month-on-month in April 2023.

Annual Change in Consumer Price Index\* (%)



\*from the same month of the previous year

Source: Central Administration of Statistics, Byblos Research

### Occupancy rate at Beirut hotels at 37% in first quarter of 2023

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 36.9% in the first quarter of 2023 relative to 43.6% in the same quarter of 2022, and compared to an average rate of 67.3% in 13 Arab markets included in the survey. The occupancy rate at Beirut hotels was the lowest in the region in the first quarter of the year, while it was the third lowest in the same period of 2022. The occupancy rates at Beirut hotels was 36.8% in January, 35.6% in February, and 38.2% in March 2023, compared to 34.7% in January, 43.8% in February, and 52.7% in March 2022. The occupancy rate at hotels in Beirut decreased by 6.7 percentage points in the first quarter of 2023 from the same period of 2022. In comparison, the average occupancy rate in Arab markets improved by 7 percentage points in the covered period.

Also, the average rate per room at Beirut hotels was LBP4.6m (\$43) in the first quarter of 2023, relative to LBP1.4m (\$60) in the same quarter of 2022 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 \$167.6 that increased by \$15.5, or by 10.2%, from an average of \$152.2 in the same quarter of 2022. The average rate per room at Beirut hotels was LBP2.9m (\$50) in January, LBP4.4m (\$51) in February, and LBP6.3m (\$59) in March 2023 compared to LBP1.4m (\$69) in January, LBP1.4m (\$67) in February, and LBP1.4m (\$61) in March 2022.

Further, revenues per available room (RevPAR) amounted to LBP1.7m (\$16) at Beirut hotels in the covered quarter compared to LBP622,144 (\$26) in the first quarter of 2022, and were the lowest in the region. In comparison, the average RevPAR in Arab markets stood at \$118.3 in the covered period. EY indicated that it used the same methodology to calculate the RevPAR as it did for the average rate per room. The RevPAR at hotels in Beirut reached LBP1.06m (\$18) in January, LBP1.58m (\$18) in February, and LBP2.4m (\$23) in March 2023, compared to LBP505,622 (\$24) in January, LBP602,568 (\$29) in February, and LBP760,794 (\$32) in March 2022. The city of Madinah in Saudi Arabia had the highest hotel occupancy rate in the region at 89.4% in the first quarter of 2023, while Dubai registered the highest average rate per room at \$373 and the highest RevPAR at \$313 in the covered period.

### Amount of cleared checks in Lebanese pounds up 64% in first four months of 2023

The amount of cleared checks in Lebanese pounds reached LBP17,963bn in the first four months of 2023 and surged by 64% from LBP10,961bn in the first four months of 2022, while the amount of cleared checks in foreign currency was \$1.69bn and dropped by 58.5% from \$4.07bn in the first four months of 2022. Also, there were 190,418 cleared checks in the first four months of 2023, down by 74% from 732,712 checks in the same period of 2022. In addition, the amount of cleared checks in Lebanese pounds reached LBP3,077bn in April 2023, as it declined by 45.5% from LBP5,646bn in March 2023 and rose by 17.4% from LBP2,621bn in April 2022. Further, the amount of cleared checks in foreign currency was \$133m in April 2023, as it dropped by 72.5% from \$484m in the previous month and by 87.6% from \$1.08bn in April 2022. Also, there were 30,591 cleared checks in April 2023 relative to 66,707 cleared checks in the preceding month and to 167,441 cleared checks in April 2022.

In parallel, the amount of returned checks in Lebanese pounds reached LBP361bn in the first four months of 2023 compared to LBP59bn in the same four months of 2022, while the amount of returned checks in foreign currency was \$58m and increased by 1.8% from \$57m in the first four months of 2022. Also, the amount of returned checks in Lebanese pounds stood at LBP71m in April 2023, as it declined by 24.5% from LBP94m in March 2023 and grew by 491.7% from LBP12m in April 2022. Further, the amount of returned checks in foreign currency was \$28m in April 2023, and rose by 211% from \$9m in the previous month and by 154.5% from \$11m in April 2022.

Also, there were 1,635 returned checks in the first four months of 2023, down by 68.7% from 5,218 returned checks in the same four months of 2022. The number of returned checks in foreign currency reached 633 in the covered period and dropped by 80.4% from 3,226 in the first four months of 2022, while the number of returned checks in Lebanese pounds totaled 1,002 and retreated by 49.7% from 1,992 year-on-year. Further, there were 355 returned checks in April 2023, relative to 597 returned checks in March 2023 and to 1,062 checks in April 2022. Further, there were 213 returned checks in Lebanese pounds in April 2023 relative to 405 in the previous month and compared to 431 in April 2022. Also, the number of returned checks in foreign currency stood at 142 compared to 192 in March 2023, while it reached 631 in April 2022.

### Hotel Sector Performance in First Quarter of 2023

	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Madina	89	148	86.1
Dubai	84	313	-2.3
Makkah	84	162	184.5
Abu Dhabi	82	93	32.5
Cairo	73	103	127.6
Riyadh	73	148	10.0
Muscat	67	96	39.2
Manama	63	102	29.4
Doha	61	70	3.3
Kuwait City	59	112	4.5
Jeddah	53	107	16.1
Amman	49	68	16.2
<b>Beirut</b>	<b>37</b>	<b>16</b>	<b>-39.7</b>

Source: EY, Byblos Research

### Political deadlock exacerbating crisis

The European Bank for Reconstruction and Development (EBRD) considered that the ongoing political deadlock in Lebanon exacerbated the country's economic and financial crisis in 2022. It estimated that real GDP contracted by 4% in 2022 relative to a reduction of 10% in 2021, given the authorities' limited progress on critical reforms, and due to rising global energy and food prices and supply chain disruptions, despite a partial recovery in the tourism sector. In comparison, it estimated that real GDP growth in the 37 countries under the EBRD's coverage decelerated from 7.2% in 2021 to 3.3% in 2022, and that economic activity in the Southern & Eastern Mediterranean (SEM) region expanded by 3.1% last year relative to a growth rate of 6.2% in 2021. The EBRD's countries in the SEM region consist of Egypt, Jordan, Lebanon, Morocco, and Tunisia.

It considered that the uncertainties about a potential program with the International Monetary Fund (IMF) have increased, given that the authorities' momentum for reforms has stalled, which has delayed Lebanon's access to international capital markets, amid a further draw-down of Banque du Liban's foreign currency reserves. Also, it pointed out that the government devalued the exchange rate from LBP1,507.5 per US dollar to LBP15,000 per dollar on February 1, 2023, but that the exchange rate on the parallel market continued to depreciate and reached LBP131,500 per US dollar in March 2023. It said that the inflation rate has been in triple digits and averaged 183.8% in 2022. It added that elevated global inflation rates and repeated reductions of the remaining government subsidies on several basic products and services have left large segments of the population facing electricity and fuel shortages, as well as limited access to basic commodities.

In parallel, the EBRD projected economic activity in Lebanon to grow by 1% in 2023 if the authorities overcome political hurdles and take the necessary steps towards securing the \$3bn Extended Fund Facility with the IMF, which would also allow negotiations to resume with international partners on additional external funding. It expected real GDP growth to accelerate to 3% in 2024, in case authorities step up efforts to implement the much-needed structural and fiscal reforms. In comparison, it forecast economic activity in the 37 countries under the EBRD's coverage to expand by 2.2% in 2023 and by 3.4% next year, while it projected real GDP growth in the Southern & Eastern Mediterranean region to accelerate by 3.6% this year and 4.4% in 2024.

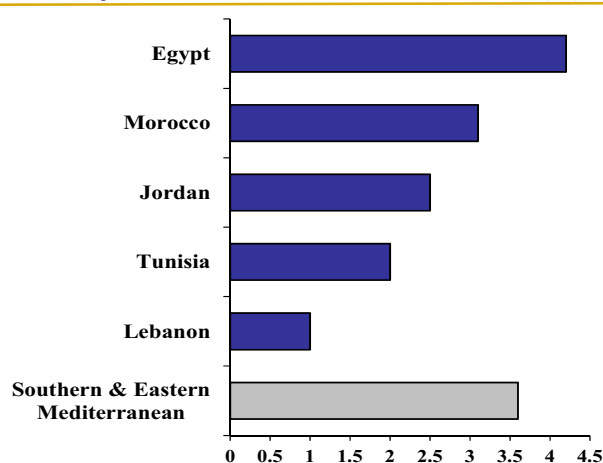
### Gas exploration in Block 9 subject to various outcomes

Bank of America (BoFA) expected the results from offshore gas exploration in Block 9 of Lebanon's territorial waters to materialize in the fourth quarter of 2023, following the U.S.-brokered maritime agreement to delineate the maritime border between Lebanon and Israel that was sealed last October. It indicated that the potential outcomes range from the discovery of enough gas to supply the domestic market for a decade, to Lebanon becoming a major regional gas exporter by the early 2060s. It estimated that, at an illustrative export price of \$10 per million British Thermal Units, Lebanon's average annual gas exports proceeds in the next 15 years could range from \$0.2bn or 0.9% of 2022 GDP to \$4bn or 19.8% of 2022 GDP, which would bring the current account deficit to balance.

However, it considered that the results of the exploratory drilling that took place in Block 4 in April 2020 were disappointing, and expressed doubts about the appetite of companies to bid for the remaining eight blocks in the second licensing round for offshore oil and gas exploration, with the bids due by the end of June 2023. It added that the infrastructure that is needed to supply gas to domestic plants or to export the commodity is still not in place and could be costly to build, and that the lack of governance and proper oversight are a key risk for gas exploration. Still, it expected that proceeds from gas exports could facilitate the restructuring of the financial sector by helping to compensate depositors, which raises considerations about equity. It also cautioned that the political elite could use gas proceeds as a substitute for the implementation of reforms, rather than as a means to complement the reforms process.

In parallel, BoFA considered that the materialization of offshore gas constitutes "mixed news" for Eurobond holders, as a sovereign typically has several channels to shield such revenue streams. It said that a country could establish a separate legal entity to channel these revenues, such as a sovereign wealth fund, or it could shield an asset by pledging it for a pre-existing debt obligation. It expected that the "negative pledge clause" in the Lebanese Eurobonds documentations is unlikely to be effective to prevent such an outcome. It added that a possible use of gas assets could be in the form of a Value Recovery Instrument that authorities would issue in a potential debt restructuring, which would constitute an upside for Eurobond holders.

Projections for Real GDP Growth in 2023 (%)



Source: EBRD, Byblos Research



### **Constitutional Council suspends amendments to public procurement law**

The Constitutional Council decided on May 18, 2023 to suspend Law 309, which modified Public Procurement Law 244/2021 that went into effect on July 29, 2022. The Lebanese Parliament enacted on April 18, 2023 Law 309 that modified articles 7, 11, 19, 46, 60, 76, 100 and 101 of the original law. The government attributed its submission of the modifications to Parliament to the fact that the practical implementation of the law for a period of six months showed obstacles and difficulties in applying certain clauses and articles of the law, and to the need to implement changes to increase its effectiveness and simplify its implementation. The modifications went into effect upon their publication in the Official Gazette on April 26, 2023. The Council attributed its decision to the need to review the amendments included in Law 309 and their constitutionality. As such, Law 244/2021 will continue to be implemented in its original content until the Constitutional Council finalizes its review of Law 309 and issues its related opinion.

First, the changes in Article 7 mandate that the applicants should disclose all the involved parties in the public procurement process of goods and services, as well as identify the rights and responsibilities of all of the beneficial owners.

Second, the modifications of Article 11 about planning the procurement process requested the purchasing party to in the procurement process to send its completed plan to the Public Procurement Authority (PPA) within two months of the start of each fiscal year. It added that the PPA will consolidate all the plans of the buying parties from the public sector into a comprehensive one that covers the entire fiscal year and that it will publish the final plan within 30 business days of the date authorities finalize it. However, it pointed out that the Lebanese armed forces and the security agencies are exempt from these requirements.

Third, the changes to Article 19 about the pre-qualifications of the bidders stipulate that the PPA should pre-approve the standards and procedures that are used to verify the pre-qualifications of bidders. Also, the changes stipulate that the PPA, along with the relevant parties, will set the classification criteria for similar transactions.

Fourth, the modifications to Article 46 about the conditions for consensual agreements with hospitals, medical centers and laboratories, added that such agreements should not constitute unfair competition for the private sector.

Fifth, the changes to Article 76 stipulate the need to verify the qualifications of the members of the procurement committees and to include, when necessary, the compatibility of these qualifications with the required levels of expertise and experience.

Sixth, the modifications to Article 100 state that the selection of the members of the procurement committees will be based on criteria that the PPA will set, on the condition that the priority will be given to persons who are trained in public procurement.

Seventh, the changes to Article 101, stipulate that the selection of the members of the committees that will receive the tender and other documents will be based on criteria that the PPA will set, on the condition that the priority will be given to persons who are trained in public procurement. Also, the modification states that the PPA will accept a signed statement from the beneficial owners that includes the details of the services and works provided, in case it is not possible to submit an invoice, and that submitting the invoice will be sufficient if it is not possible to get two offers.

Law 244/2021, which converted the public procurement department at the Central Inspection Administration into the PPA, among other changes, aimed to usher a modern and transparent procurement system in the public sector. The Lebanese Parliament enacted on June 30, 2021 the new public procurement law, which aimed to limit the proliferation of public transactions and establish a central mechanism for public procurement.



## Term deposits account for 56% of customer deposits at end-March 2023

Figures issued by Banque du Liban about the distribution of bank deposits at commercial banks in Lebanon show that aggregate deposits, which include demand deposits and term deposits, stood at LBP1,530 trillion (tn) at the end of March 2023, or the equivalent of \$102bn at end-March 2023 based on the new exchange rate of LBP15,000 per US dollar that went into effect at the start of February. Total deposits include private sector deposits that reached LBP1,464.4tn, deposits of non-resident financial institutions that amounted to LBP48.6tn, and public sector deposits that stood at LBP16.9tn at the end of March 2023.

Term deposits in all currencies reached LBP855.2tn at the end of March 2023 and declined by LBP8.9tn, or by 1%, from LBP864.1 at end-February 2023; while they accounted for 55.9% of total deposits in Lebanese pounds and in foreign currency as at end-March 2023, relative to a share of 54.7% at the end of 2022 and of 60% at end-March 2022. The increase in the share of term deposits from end-2022 is due to the effect of the new exchange rate. Further, the foreign currency-denominated term deposits of the public sector dropped by 48% in the first quarter of 2023, followed by a decrease of 27% in the term deposits of the non-resident financial sector, a contraction of 9.5% in the term deposits of non-residents, a downturn of 4% in the term deposits in Lebanese pounds of the resident private sector, and a retreat of 3.2% in the foreign currency-denominated term deposits of the resident private sector from end-2022. This was partly offset by an increase of 16.5% in the term deposits in Lebanese pounds of the public sector. Aggregate term deposits declined by \$109.5bn since the end of September 2019, based on the new exchange rate, due to cash withdrawals and to the migration of funds from term to demand deposits, amid the confidence crisis that started in September 2019.

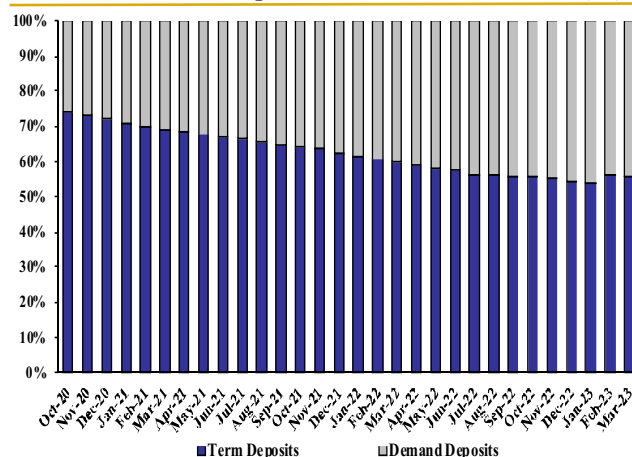
In addition, the foreign currency-denominated term deposits of the resident private sector reached \$39.8bn and accounted for 39% of aggregate deposits at the end of March 2023. Term deposits of non-residents followed with \$13.4bn or 13% of the total, then term deposits of the non-resident financial sector with \$2.1bn (2%), term deposits in Lebanese pounds of the resident private sector with LBP16.7tn (\$1.1bn) (1.1%), and term deposits of the public sector in Lebanese pounds with LBP5tn (\$335.8m) and term deposits of the public sector in foreign currency with \$298m (0.3% each).

In parallel, demand deposits in all currencies at commercial banks stood at LBP674tn at the end of March 2023, constituting an increase of LBP7.8tn (+1.2%), from LBP666.9tn at the end of February 2023. They accounted for 44% of total deposits at end-March 2023 relative to a share of 45.3% at end of 2022 and of 40% at end-March 2022. The decrease in the share of demand deposits from end-2022 was mainly due to a decline of \$510.3m in demand deposits of non-residents in the first quarter of 2023, a decrease of \$310m in demand deposits of the non-resident financial sector, a contraction of \$66.9m in foreign currency-denominated demand deposits of the resident private sector, and a retreat of LBP7.6tn in demand deposits in Lebanese pounds of the resident private sector. This was partly offset by an increase of \$47.3m in demand deposits in foreign currency of the public sector and a rise of LBP258.6bn in demand deposits in Lebanese pounds of the public sector.

Also, demand deposits in foreign currency of the resident private sector totaled \$33.1bn and represented 32.4% of deposits at end-March 2023. Demand deposits of non-residents followed with \$8.1bn (7.9%), then demand deposits in Lebanese pounds of the resident private sector with LBP32.6tn (2.1%), demand deposits of the non-resident financial sector with \$1.2bn (1.2%), demand deposits in foreign currency of the public sector with \$386.3m (0.4%), and demand deposits in Lebanese pounds of the public sector with LBP1.6tn (0.1%).

Based on the latest available figures, Beirut and its suburbs accounted for 66.2% of private-sector deposits and for 49.2% of the number of depositors at the end of September 2022. Mount Lebanon followed with 15.2% of deposits and 18.8% of beneficiaries, then South Lebanon with 7% of deposits and 11.4% of depositors, North Lebanon with 6.6% of deposits and 12% of beneficiaries, and the Bekaa with 5% of deposits and 8.5% of depositors.

**Breakdown of Deposits at Commercial Banks (%)**



Source: Banque du Liban

### Balance sheet of financial institutions at LBP7 trillion at end-March 2023

Figures released by Banque du Liban show that the consolidated balance sheet of financial institutions in Lebanon totaled LBP7 trillion (tn) at the end of March 2023, or the equivalent of \$469.4m, constituting a decrease of 1.3% from LBP7.1tn (\$475.8m) at the end of February 2023. The dollar figures are based on the new exchange rate of LBP15,000 per US dollar that went into effect at the start of February 2023.

On the assets side, claims on resident customers amounted to LBP3.5tn (\$233.4m) at the end of March 2023 and decreased by 1.4% from the end of February 2023. Claims on resident customers in Lebanese pounds totaled LBP355.4bn at end-March 2023, constituting a decrease of 15.6% from end-2022 and an increase of 48% from end-March 2022; while claims on resident customers in foreign currency amounted to \$209.7m at end-March 2023 and declined by 18% in the first quarter of the year and by 31% from end-March 2022. Also, claims on non-resident customers stood at \$7.3m at end-March 2023, representing declines of 40.2% from end-2022 and of 42.2% from a year earlier. In addition, claims on the resident financial sector reached LBP1.9tn (\$129m) at end-March 2023, down by 1.6% from LBP1.96tn at the end of February 2023. Claims on the resident financial sector in Lebanese pounds amounted to LBP211.3bn at end-March 2023 and decreased by 16.5% in the first quarter of the year and by 29.2% from end-March 2022; while claims on the resident financial sector in foreign currency totaled \$114.8m at end-March 2023, up by 4.5% from end-2022 and by 11.4% from end-March 2022. Further, claims on the non-resident financial sector reached \$39.2m at the end of March 2023, as they regressed by 9% from end-2022 and increased by 12.2% from a year earlier. Also, claims on the public sector stood at LBP2.7bn at end March-2023, constituting an increase of 8.7% from end-February 2023 and declines of 79.8% in the first quarter of the year and of 78.6% from a year earlier; while the securities portfolio, which includes Lebanese Treasury bills and Eurobonds, amounted to LBP169.6bn at end-March 2023, representing a decline of 4.6% from LBP177.8bn at end-February 2023. In parallel, currency and deposits with local and foreign central banks reached LBP439.2bn (\$29.3m) at the end of March 2023 and regressed by 6.7% from LBP470.5bn at end-February 2023.

On the liabilities side, deposits of resident customers stood at LBP1.86tn (\$124m) at the end of March 2023, constituting a decrease of 2% from LBP1.9tn (\$126.4m) at end-February 2023. Deposits of resident customers in Lebanese pounds amounted to LBP62.7bn at end-March 2023 and declined by 39.5% from end-2022 and by 57.7% from a year earlier; while deposits of resident customers in foreign currency totaled \$119.8m at end-March 2023, representing a decrease of 2.2% in the first quarter of the year and an increase of 9.1% from end-March 2022. Also, deposits of non-resident customers reached \$5.5m at the end of March 2023, down by 8.2% from end-2022 and up by 20.3% from end-March 2022.

Further, liabilities to the resident financial sector amounted to LBP730.6bn (\$48.7m) at end-March 2023 and grew by 1.6% from LBP719.4m at the end of February 2023. Liabilities to the resident financial sector in Lebanese pounds totaled LBP89.1bn at end-March 2023 and surged by 94% from end-2022 and by 88.2% from a year earlier; while liabilities to the resident financial sector in foreign currency reached \$42.8m at end-March 2023 and dropped by 43% in the first quarter of the year and by 39.5% from end-March 2022. In addition, liabilities to the non-resident financial sector amounted to \$27.2m at end-March 2023 and contracted by 51.7% from end-2022 and by 57% from end-March 2022. Also, public sector deposits totaled LBP76.6bn at end-March 2023 relative to LBP3.6bn at the end of 2022, while issued debt securities stood at LBP54bn at end March-2023 compared to LBP936.2m at end-2022. Further, the aggregate capital account of financial institutions was LBP2.5tn (\$167.3m) at the end of March 2023 relative to LBP757.6bn (\$502.5m) at end-2022 and LBP635.1bn (\$421.3m) a year earlier.

## 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	1,507.5
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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**Economic Research & Analysis Department**  
**Byblos Bank Group**  
**P.O. Box 11-5605**  
**Beirut – Lebanon**  
**Tel: (961) 1 338 100**  
**Fax: (961) 1 217 774**  
**E-mail: [research@byblosbank.com.lb](mailto:research@byblosbank.com.lb)**  
**[www.byblosbank.com](http://www.byblosbank.com)**

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# BYBLOS BANK GROUP

## LEBANON

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Byblos Bank S.A.L  
Achrafieh - Beirut  
Elias Sarkis Avenue - Byblos Bank Tower  
P.O.Box: 11-5605 Riad El Solh - Beirut 1107 2811- Lebanon  
Phone: (+ 961) 1 335200  
Fax: (+ 961) 1 339436

## IRAQ

---

Erbil Branch, Kurdistan, Iraq  
Street 60, Near Sports Stadium  
P.O.Box: 34 - 0383 Erbil - Iraq  
Phone: (+ 964) 66 2233457/8/9 - 2560017/9  
E-mail: [erbilbranch@byblosbank.com.lb](mailto:erbilbranch@byblosbank.com.lb)

Sulaymaniyah Branch, Kurdistan, Iraq  
Salem street, Kurdistan Mall - Sulaymaniyah  
Phone: (+ 964) 773 042 1010 / (+ 964) 773 041 1010

Baghdad Branch, Iraq  
Al Karrada - Salman Faeq Street  
Al Wahda District, No. 904/14, Facing Al Shuruk Building  
P.O.Box: 3085 Badalat Al Olwiya – Iraq  
Phone: (+ 964) 770 6527807 / (+ 964) 780 9133031/2  
E-mail: [baghdadbranch@byblosbank.com.lb](mailto:baghdadbranch@byblosbank.com.lb)

Basra Branch, Iraq  
Intersection of July 14th, Manawi Basha Street, Al Basra – Iraq  
Phone: (+ 964) 770 4931900 / (+ 964) 770 4931919  
E-mail: [basrabranch@byblosbank.com.lb](mailto:basrabranch@byblosbank.com.lb)

## ARMENIA

---

Byblos Bank Armenia CJSC  
18/3 Amiryan Street - Area 0002  
Yerevan - Republic of Armenia  
Phone: (+ 374) 10 530362 Fax: (+ 374) 10 535296  
E-mail: [infoarm@byblosbank.com](mailto:infoarm@byblosbank.com)

## NIGERIA

---

Byblos Bank Nigeria Representative Office  
161C Rafu Taylor Close - Off Idejo Street  
Victoria Island, Lagos - Nigeria  
Phone: (+ 234) 706 112 5800  
(+ 234) 808 839 9122  
E-mail: [nigeriarepresentativeoffice@byblosbank.com.lb](mailto:nigeriarepresentativeoffice@byblosbank.com.lb)

## BELGIUM

---

Byblos Bank Europe S.A.  
Brussels Head Office  
Boulevard Bischoffsheim 1-8  
1000 Brussels  
Phone: (+ 32) 2 551 00 20  
Fax: (+ 32) 2 513 05 26  
E-mail: [byblos.europe@byblosbankeur.com](mailto:byblos.europe@byblosbankeur.com)

## UNITED KINGDOM

---

Byblos Bank Europe S.A., London Branch  
Berkeley Square House  
Berkeley Square  
GB - London W1J 6BS - United Kingdom  
Phone: (+ 44) 20 7518 8100  
Fax: (+ 44) 20 7518 8129  
E-mail: [byblos.london@byblosbankeur.com](mailto:byblos.london@byblosbankeur.com)

## FRANCE

---

Byblos Bank Europe S.A., Paris Branch  
15 Rue Lord Byron  
F- 75008 Paris - France  
Phone: (+33) 1 45 63 10 01  
Fax: (+33) 1 45 61 15 77  
E-mail: [byblos.europe@byblosbankeur.com](mailto:byblos.europe@byblosbankeur.com)

## ADIR INSURANCE

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Dora Highway - Aya Commercial Center  
P.O.Box: 90-1446  
Jdeidet El Metn - 1202 2119 Lebanon  
Phone: (+ 961) 1 256290  
Fax: (+ 961) 1 256293