

## LEBANON THIS WEEK

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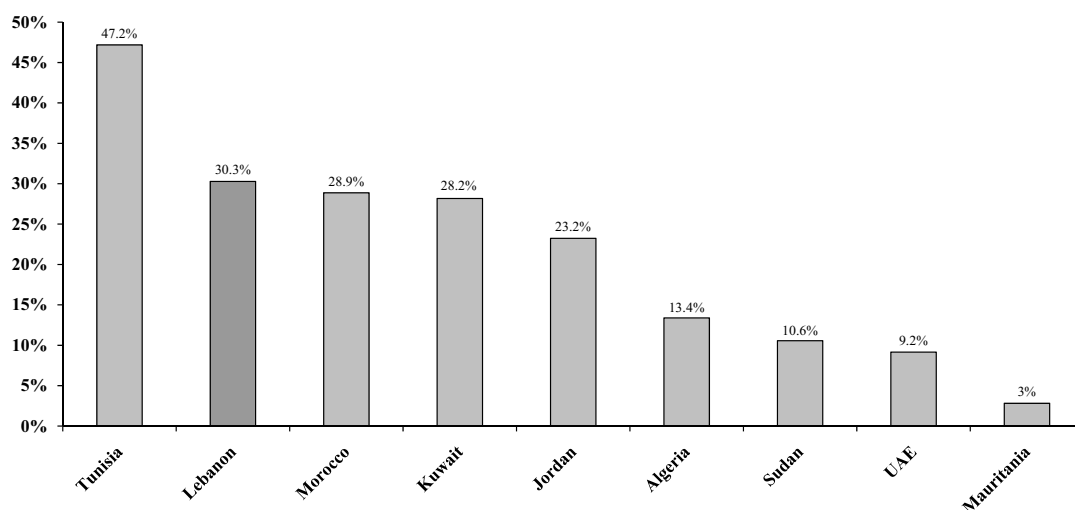
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### Ratio Highlights

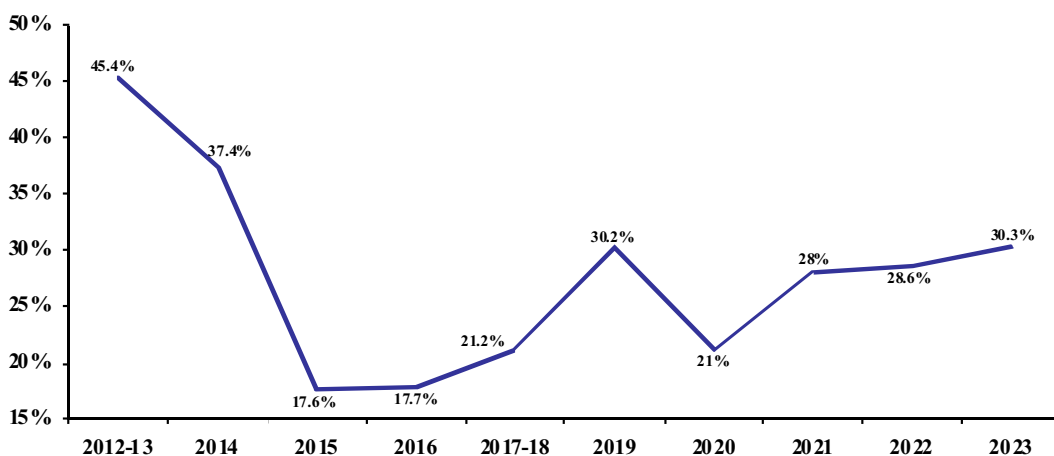
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### Charts of the Week

Percentile Rank of Select Arab Countries in terms of Open Government for 2023\*



Percentile Rank of Lebanon in terms of Open Government\*



\*Open Government is defined as the extent that society has clear, publicized and stable laws; if administrative proceedings are open to public participation; and if official information is available to the public

Source: World Justice Project's 2023 Rule of Law Index, Byblos Bank

### Quote to Note

"The decline in public revenues has been mostly driven by an important reduction in value-added tax and income tax collection."

*Harvard University's Center for International Development, on the impact of the prolonged closure of public administration departments on the tax receipts of the Lebanese Treasury*

### Number of the Week

**22:** Number of months since Lebanon signed a Staff Level Agreement with the International Monetary Fund

## Lebanon in the News

| \$m (unless otherwise mentioned) | 2022      | Jan-Aug 2022 | Jan-Aug 2023 | % Change* | Aug-22  | Dec-22  | Aug-23  |
|----------------------------------|-----------|--------------|--------------|-----------|---------|---------|---------|
| Exports                          | 3,492     | 2,411        | 1,704        | -29.4%    | 282     | 272     | 89      |
| Imports                          | 19,053    | 12,773       | 10,285       | -19.5%    | 1,964   | 1,251   | 487     |
| Trade Balance                    | (15,562)  | (10,362)     | (8,582)      | -17.2%    | (1,682) | (979)   | (397)   |
| Balance of Payments              | (3,197)   | (3,101)      | 1,071        | -         | (314)   | 17      | 145     |
| Checks Cleared in LBP            | 27,146    | 15,167       | 6,820**      | -55.0%    | 2,470   | 3,686   | 338**   |
| Checks Cleared in FC             | 10,288    | 7,436        | 2,590**      | -65.2%    | 787     | 577     | 188**   |
| Total Checks Cleared             | 37,434    | 22,603       | 9,410**      | -58.4%    | 3,257   | 4,263   | 526**   |
| Fiscal Deficit/Surplus           | -         | -            | -            | -         | -       | -       | -       |
| Primary Balance                  | -         | -            | -            | -         | -       | -       | -       |
| Airport Passengers               | 6,360,564 | 4,194,798    | 5,005,141    | 19.3%     | 793,287 | 551,632 | 914,262 |
| Consumer Price Index             | 171.2     | 197.3        | 233.0        | 3,563bps  | 161.9   | 122.0   | 229.8   |

| \$bn (unless otherwise mentioned) | Dec-22 | Aug-22 | May-23 | Jun-23 | Jul-23 | Aug-23 | % Change* |
|-----------------------------------|--------|--------|--------|--------|--------|--------|-----------|
| BdL FX Reserves                   | 10.40  | 10.63  | 9.72   | 9.29   | 8.76   | 8.82   | -17.0%    |
| In months of Imports              | -      | -      | -      | -      | -      | -      | -         |
| Public Debt                       | 101.81 | 103.65 | -      | -      | -      | -      | -         |
| Bank Assets                       | 169.06 | 168.75 | 115.21 | 116.43 | 117.19 | 113.72 | -32.6%    |
| Bank Deposits (Private Sector)    | 125.72 | 125.02 | 97.31  | 97.40  | 96.35  | 95.59  | -23.5%    |
| Bank Loans to Private Sector      | 20.05  | 22.82  | 9.53   | 9.30   | 9.04   | 8.92   | -60.9%    |
| Money Supply M2                   | 77.34  | 50.87  | 8.10   | 8.80   | 7.01   | 6.64   | -87.0%    |
| Money Supply M3                   | 152.29 | 127.71 | 80.76  | 81.10  | 79.09  | 78.38  | -38.6%    |
| LBP Lending Rate (%)              | 4.56   | 4.85   | 3.53   | 4.24   | 3.60   | 3.77   | (108)     |
| LBP Deposit Rate (%)              | 0.60   | 0.60   | 0.84   | 0.67   | 0.81   | 0.41   | (19)      |
| USD Lending Rate (%)              | 4.16   | 5.51   | 2.30   | 2.02   | 2.61   | 2.40   | (311)     |
| USD Deposit Rate (%)              | 0.06   | 0.10   | 0.09   | 0.05   | 0.08   | 0.03   | (7)       |

\*year-on-year

\*\*checks figures do not include compensated checks in fresh currencies

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"               | 86.40           | 0.7       | 32,610       | 43.5%                           | Apr 2024            | 6.65     | 5.63         | 8,753.62    |
| Byblos Common              | 0.75            | 0.0       | 20,500       | 2.1%                            | Jun 2025            | 6.25     | 5.63         | 389.81      |
| Solidere "B"               | 86.75           | (1.5)     | 3,894        | 28.4%                           | Nov 2026            | 6.60     | 5.63         | 135.05      |
| Audi Listed                | 2.35            | 0.0       | -            | 7.0%                            | Mar 2027            | 6.85     | 5.63         | 117.62      |
| BLOM GDR                   | 3.00            | 0.0       | -            | 1.1%                            | Nov 2028            | 6.65     | 5.63         | 71.25       |
| BLOM Listed                | 2.80            | 0.0       | -            | 3.0%                            | Feb 2030            | 6.65     | 5.63         | 53.84       |
| Audi GDR                   | 1.16            | 0.0       | -            | 0.7%                            | Apr 2031            | 7.00     | 5.63         | 44.30       |
| HOLCIM                     | 59.20           | 0.0       | -            | 5.8%                            | May 2033            | 8.20     | 5.63         | 33.62       |
| Byblos Pref. 08            | 27.00           | 0.0       | -            | 0.3%                            | Nov 2035            | 7.05     | 5.63         | 26.13       |
| Byblos Pref. 09            | 29.99           | 0.0       | -            | 0.3%                            | Mar 2037            | 7.25     | 5.63         | 23.20       |

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

Source: Refinitiv

|                       | Feb 5-8     | Jan 29 - Feb 2 | % Change | January 2024  | January 2023 | % Change |
|-----------------------|-------------|----------------|----------|---------------|--------------|----------|
| Total shares traded   | 57,004      | 405,304        | (85.9)   | 2,004,203     | 25,094,470   | (92.0)   |
| Total value traded    | \$3,127,928 | \$17,989,460   | (82.6)   | \$101,988,193 | \$52,671,810 | 93.6     |
| Market capitalization | \$19.87bn   | \$19.90bn      | (0.1)    | \$20.56bn     | \$14.99bn    | 37.2     |

Source: Beirut Stock Exchange (BSE)



### **BdL and BCCL submit amended banking sector restructuring draft law**

Banque du Liban (BdL) and the Banking Control Commission of Lebanon (BCCL) amended the draft law about the restructuring of the banking sector in Lebanon. The updated draft law, which is dated February 8, 2024, consists of 61 clauses that address the various aspects of the restructuring of the Lebanese banking sector. It said that the first 40 articles address the general framework of restructuring and/or liquidating banks; while articles 41 to 60 address the exceptional decisions that will be implemented in order to reform the banking sector in an organized way.

Article 3 stipulates that the objectives of the draft law consist of protecting deposits as a priority, strengthening the stability of the banking and financial sector, ensuring the continuity of the key functions of banks to serve the economy, seeking to safeguard, at the minimum, the amount of deposits that are protected in case of liquidation; and limiting the use of public funds in the restructuring of the sector. Article 4 says that the content of the law applies to Lebanese banks, including their branches abroad, unless the rule or regulations of foreign countries state otherwise. Article 5 stipulates that the Special Commission to Restructure Banks (SCRB) is the party that can take decisions about banks that need to be restructured or liquidated.

Article 9 indicates that the commission will take the decision to restructure or liquidate a bank based on an assessment report that the BCCL prepares and sends to the SCRB, and that recommends whether to restructure the bank or to liquidate it. Also, it noted that the assessment aims to determine the net asset value of the bank and the size of its losses, and that the process can start with an interim assessment until the valuation is properly completed by independent evaluators. Further, it states that, in the case of the restructuring of a bank, the SCRB will issue a decision that includes the instruments and tools that the bank has to use, as well as the measures that the bank needs to abide by throughout the restructuring period. It said that, in the case of liquidation, the commission will issue a decision to delist the bank from the list of banks at BdL, which will result in its liquidation, and will be followed by a decision to appoint a liquidator. Article 12 stipulates that the banks' valuation will be based on international valuation standards and on international financial reporting standards, while taking into consideration local prudential measures.

Article 14 says that the BCCL will assess if a bank is insolvent or could become insolvent, and if there are any alternative measures, such as the economic recovery plan or any intervention by supervisory authorities, that can prevent the insolvency of the bank, based on the following criteria: the bank's inability or possible inability to comply with the minimum required regulatory capital within the set deadline; its potential inability to comply with the minimum required liquidity by the set deadline; the bank's inability to meet its liabilities when they mature; its possible inability to maintain proper governance and risk management practices; the bank's inability to restore the elements of profitability and maintain them; and its inability to comply with the conditions that allowed it to receive a banking license, including the significant breaching of prevailing rules and regulations. Article 15 states that the SCRB can implement any of the following measures or use any of the following instruments to reform a bank. It said that the latter include a bail-in by reducing the bank's regulatory capital and liabilities, and/or converting liabilities into capital instruments; recapitalizing the bank by new investors; transferring some or all the bank's assets and liabilities to another institution; and transferring the bank's ownership by merging it with another institution.

Article 16 details the general principles for restructuring the banking sector. It noted that these principles include the hierarchy of claims by creditors; the private funds' absorption of losses proportionately to the hierarchy of the composition of the funds; the absorption by the bank's creditors of losses proportionately within the classification of liabilities; the equal treatment of creditors within the same category; the equal treatment of shareholders within the same category; and the protection of depositors within the ceiling of the National Deposits Guarantee Institution (NDGI). Article 33 stipulates that the decisions of the SCRB are final and cannot be subject to review, or to legal or judicial regular or non-regular appeals. Article 56 indicates that banks, based on the exceptional assessment report, must submit to the BCCL a business plan that aims to help the bank restore the elements of its continuity and that ensures, within a specific and short period of time, that it complies with the regulatory ratios, including the capitalization and liquidity requirements, as set by BdL. It noted that the plan has to include the external sources of funds to meet the minimum capital and liquidity requirements and a description of the measures that aim to ensure the bank's continuity, with their impact on profitability and compliance with regulatory ratios, as well as the timeframe to implement these measures. It said these measures can include the bank's reorganization, changes in the bank's operating systems and infrastructure, the changes in the business model and business lines, and the sale of assets.

It added that the banks that will be restructured have to gradually meet the minimum regulatory capital requirements on a consolidated basis as follows: 15% of the required capital within one month of the decision to restructure the bank, an additional 30% of the required capital within six months of the restructuring decision, an additional 20% of the required capital within 12 months of the decision date, an additional 20% of the required capital within 24 months of the decision, and an additional 15% of the required capital within 36 months of the restructuring decision. It added that the capital that the bank has to inject to meet the minimum capital requirements has to take into consideration the net asset value of the bank as calculated by the independent evaluators as stipulated in Article 55, and a simulation of the implementation of the restructuring tools and instruments as stated in Article 58 of the law.

Other articles in the draft law cover the prerogatives of the SCRB; the prerogatives of the BCCL in the context of restructuring the banks; the cooperation of various parties with the SCRB; the mechanism to appoint a bank liquidator or a committee of liquidators and their role and prerogatives; the appointment of a temporary administrator and his/her responsibilities and prerogatives; the role of the NDGI: the special tribunal; legal immunity; cross-border cooperation; the lifting of banking secrecy; and the penalties in case of non-compliance with the content of this law, among others.



### Lebanon ranks 78<sup>th</sup> globally, ninth in Arab countries on Labor Resilience Index

The Global Labor Resilience Index (GLRI) for 2024 ranked Lebanon in 78<sup>th</sup> place among 136 countries globally and in ninth place among 14 Arab countries. Lebanon came in 90<sup>th</sup> place globally and in 11<sup>th</sup> place in the Arab world in the 2023 index. Lebanon also ranked in ninth place among 40 lower middle-income countries (LMICs) included in the survey, up from 12<sup>th</sup> place in the preceding year. Based on the same set of countries in the 2023 and 2024 surveys, Lebanon's global rank improved by 12 notches, while its regional and LMICs ranks increased by two and three spots, respectively, year-on-year. Whiteshield, a global strategy and public policy advisory firm, developed and issues the index annually.

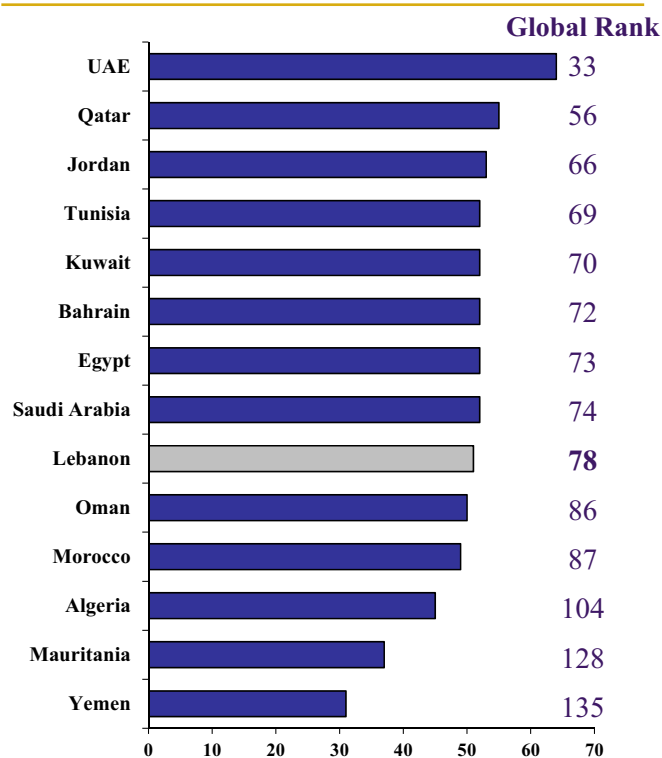
The GLRI measures the readiness and capacity level of labor markets to address the impact of short-term shocks such as the COVID-19 pandemic, and of long-term shocks such as technological disruptions and green transitions. It also assesses the factors that allow labor markets to recover from shocks and aims to be a tool to build labor market resilience and capabilities. The rankings on the index are based on the weighted scores of the two pillars, with the Cyclical Pillar carrying a weight of 66% and the Structural Pillar a weight of 33%. The scores on the index range from zero to 100 points, with higher scores reflecting the higher capacity of a country's labor market to absorb shocks.

Globally, Lebanon has a better capacity to absorb labor market shocks than Argentina, Jamaica, and Peru; while it has a lower capacity than the Dominican Republic, Trinidad and Tobago, and Brazil among economies with a GDP of \$10bn or more. It also preceded Sri Lanka, Morocco and Nepal, and trailed Egypt, Kyrgyzstan, and Tunisia among LMICs. Lebanon received a score of 51 points on the index, lower than the global average score of 53.9 points and higher than the Arab average of 49.6 points. Further, Lebanon's score came lower than the Gulf Cooperation Council (GCC) countries' average score of 54.2 points, but it was higher than the average score of non-GCC Arab countries of 46.3 points and the LMICs average score of 45.3 points.

In parallel, Lebanon preceded India, Malaysia and Lithuania, and trailed Thailand, Canada and Croatia worldwide on the Structural Pillar. This category assesses the vulnerabilities or the risks a country's labor market is exposed to in terms of its demography, capabilities, economic development, macroeconomic stability, trade vulnerability, and inequality among its population. Lebanon ranked in first place among LMICs, and came second to the UAE in the Arab region on this category.

Also, Lebanon ranked ahead of Guatemala, Tajikistan and Kenya, and came behind Ghana, Honduras and Nepal globally on the Cyclical Pillar. This component captures how the policies in place can mitigate disruptions caused by a shock in the labor market. Lebanon preceded Tajikistan and Kenya, and came behind Honduras and Nepal among LMICs. Regionally, it ranked ahead of Algeria and Mauritania, and stood behind Morocco and Egypt.

**Global Labor Resilience Index for 2024  
Arab Countries' Scores & Rankings**



Source: Whiteshield, Byblos Research

**Components of the Labor Resilience Index for 2024**

| Pillars           | Global Rank | Arab Rank | LMIC Rank | Lebanon Score | Global Avg Score | Arab Avg Score | LMIC Avg Score |
|-------------------|-------------|-----------|-----------|---------------|------------------|----------------|----------------|
| Structural Pillar | 31          | 2         | 1         | 65            | 56.3             | 55.4           | 51.5           |
| Cyclical Pillar   | 100         | 11        | 18        | 44            | 52.8             | 46.8           | 42.3           |

Source: Whiteshield, Byblos Research

### Lebanon has 24<sup>th</sup> lowest retail gasoline prices and 24<sup>th</sup> lowest diesel prices in the world

Figures issued by database GlobalPetrolPrices show that the retail price of gasoline in Lebanon was the 24<sup>th</sup> lowest among 168 countries globally, but was the fifth highest among 16 Arab countries included in the survey. It said that the retail price of Octane 95 gasoline in Lebanon was \$0.791 per liter (p/l) on February 5, 2024, and that the price of gasoline in the country ranged between LBP67,950 per liter and LBP77,950 per liter during the 12-month period ending February 5, 2024. It indicated that it obtained the data for Lebanon and other countries from official government sources, regulatory agencies, petroleum companies, and major media sources. The survey shows that the retail price of gasoline in Lebanon was higher than prices in the UAE (\$0.751 p/l), Belarus (\$0.721 p/l), and Sudan (\$0.7 p/l), while it was lower than retail prices in Bhutan (\$0.814 p/l), Tunisia (\$0.808 p/l), and Kyrgyzstan (\$0.798 p/l) as at February 5, 2024.

Regionally, the retail price of gasoline in Lebanon was lower than prices in Jordan (\$1.622 p/l), Morocco (\$1.535 p/l), Syria (\$0.988 p/l), and Tunisia (\$0.808 p/l). Further, the price of gasoline in Lebanon was lower than the average price of \$1.29 per liter around the world, while it was higher than the Arab average price of \$0.70 per liter. Also, the price of gasoline in the country came higher than the Gulf Cooperation Council (GCC) countries' average price of \$0.57 per liter and the non-GCC Arab countries' average price of \$0.78 per liter. Hong Kong had the highest retail price of gasoline in the world at \$3.11 per liter, while Iran had the lowest price at \$0.029 per liter on February 5, 2024.

In parallel, the retail price of diesel in Lebanon was the 24<sup>th</sup> lowest among 167 economies worldwide and the fifth highest among 15 Arab countries. The retail price of diesel in Lebanon was \$0.788 per liter as of February 5, 2024. It noted that the average price of diesel in Lebanon ranged between LBP66,650 per liter on February 5, 2023 and LBP77,600 per liter on February 5, 2024. In comparison, it came higher than in Belarus (\$0.721 per liter), Russia (\$0.711 p/l), and Tunisia (\$0.706 p/l), while it was lower than in Bhutan (\$0.856 p/l), Thailand (\$0.841 per liter) and Kyrgyzstan (\$0.798 p/l).

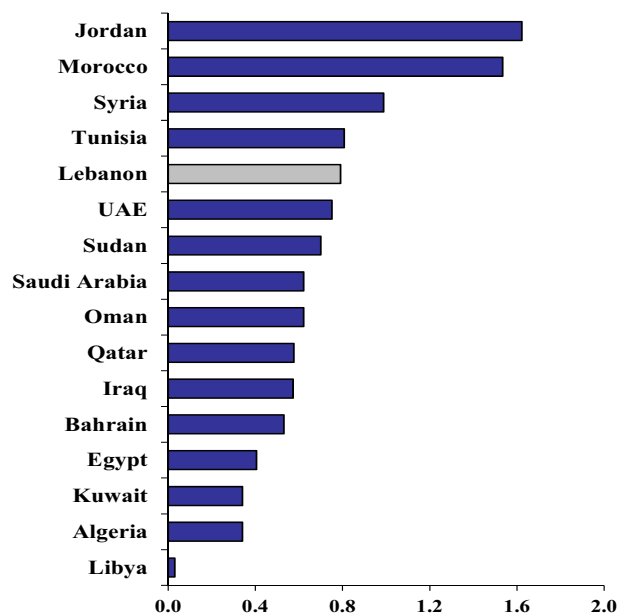
Regionally, the retail price of diesel in Lebanon was lower than prices in Morocco (\$1.396 p/l), the UAE (\$1.086 p/l), Jordan (\$1.015 p/l), and Syria (\$0.888 p/l). In addition, the price of diesel in Lebanon was lower than the average price of \$1.25 per liter around the world, while it was higher than the Arab average price of \$0.63 per liter. Also, Lebanon's diesel price came higher than the GCC economies' average price of \$0.58 per liter and the non-GCC Arab countries' average price of \$0.66 per liter. Hong Kong had the highest retail price of diesel worldwide at \$2.947 per liter, while Venezuela had the lowest price of diesel at \$0.004 per liter on February 5, 2024.

### Net foreign assets of financial sector up \$2.24bn in 2023

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, increased by \$2.24bn in 2023, compared to decreases of \$3.2bn in 2022 and of \$1.96bn in 2021. The cumulative surplus last year was caused by an increase of \$3.05bn in the net foreign assets of banks and financial institutions, which was partly offset by a decline of \$813m in those of BdL. Further, the net foreign assets of the financial sector rose by \$591.3m in December 2023 compared to increases of \$185.6m in November 2023 and of \$17.1m in December 2022. The rise in December was caused by increases of \$131.6m in the net foreign assets of BdL and of \$459.7m in those banks and financial institutions.

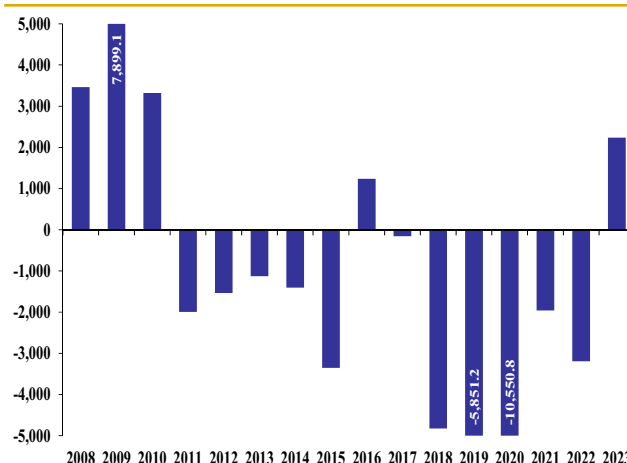
The cumulative increase in the banks' net foreign assets is mostly due to a decline in their foreign liabilities. The decrease in foreign liabilities was driven mainly by the contraction in liabilities to the non-resident financial sector and in non-resident customer deposits. In parallel, the decline in BdL's net foreign assets was due in part to the financing of the imports of 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.

Retail Prices of Gasoline in Arab Countries on February 5, 2024 (in US\$ per liter)



Source: GlobalPetrolPrices, Byblos Research

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



Source: Banque du Liban, Byblos Research

### Number of airport passengers down 8% in January 2024

Figures released by the Beirut-Rafic Hariri International Airport (HIA) show that 450,650 passengers utilized the airport (arrivals, departures and transit) in January 2024, constituting a decrease of 8.1% from 490,296 passengers in January 2023, and an increase of 23.8% relative to 363,886 passengers in January 2022.

The number of arriving passengers stood at 201,501 in January 2024, representing a decline of 4.2% from 210,318 arriving passengers in January 2023 and a surge of 31.5% from 153,230 arriving passengers in January 2022. Also, the number of departing passengers totaled 248,936 in January 2024, as they declined by 10.8% from 279,122 departing passengers in the same month last year and increased by 19.3% from 208,594 travelers in January 2022.

In parallel, the airport's aircraft activity registered 3,849 take-offs and landings in January 2024, representing a drop of 14.3% from 4,490 takeoffs and landings in the same month of 2023. In comparison, aircraft activity decreased by 14.3% in January 2024 and increased by 22.3% in January 2023 from the same month of the preceding year.

Also, the HIA processed 4,634 metric tons of freight in January 2024 that consisted of 3,108 tons of import freight and 1,526 tons of export freight. Middle East Airlines had 1,408 flights in January 2024 and accounted for 36.6% of HIA's total aircraft activity.

The drop in the airport's passenger and aircraft activity during January 2024 from the same month last year is mainly due to the war in the Gaza Strip and to the related Israeli attacks along Lebanon's southern border, given that several foreign carriers reduced or suspended temporarily their flights to Lebanon since October 7.

### Banque du Liban prohibits beneficiaries of Circular 158 from applying to Circular 166

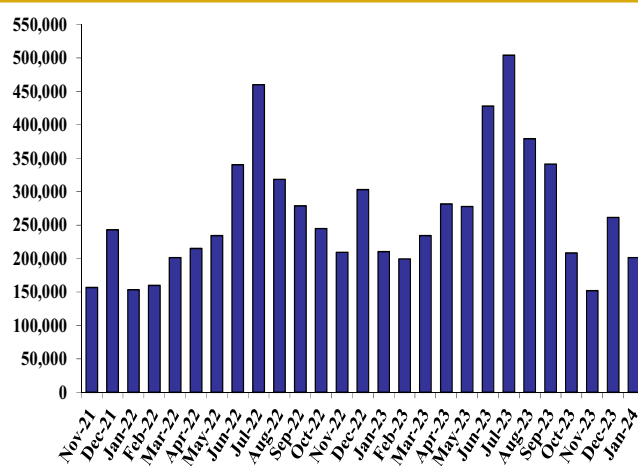
Banque du Liban (BdL) issued Intermediate Circular 687/13614 dated February 2, 2024 addressed to banks that modifies Basic Circular 158/13335 dated June 8, 2021 about exceptional measures related to the gradual disbursement of deposits in foreign currency from accounts that clients opened prior to October 31, 2019.

The circular stated that the account holder cannot benefit from the terms of Basic Circular 166/ 13611 from any individual account that he/she has, or from any joint or collective account that he/she co-owns at any bank, if he/she has benefited from Basic Circular 158/13335.

BdL issued Basic Circular 166/13611 dated February 2, 2024 about exceptional measures related to the gradual disbursement of deposits in foreign currency from accounts that clients opened after October 31, 2019. First, the circular stipulates that the amounts that are eligible for withdrawals consist of a resident or non-resident natural person's aggregate foreign currency deposit balance at all bank accounts as at June 30, 2023, with the exception of "fresh money" accounts. Second, it said that the account owner can benefit from the terms of this circular for an amount that does not exceed \$4,350 from all banks combined.

Third, it said that eligible depositors can withdraw from their "Special Sub-Account" \$150 in banknotes per month for a maximum of \$1,800 per year, and/or they can transfer the sum abroad or deposit it in a "fresh dollar" account, without incurring any commission or direct or indirect fees of any kind. Fourth, it indicated that the customer has to lift the banking secrecy on the "Special Sub-Account" in favor of BdL and the Banking Control Commission. Fifth, it provided a list of conditions that determine the eligibility of depositors.

Number of Arriving Passengers



Source: Beirut-Rafic Hariri International Airport

### Purchasing Managers' Index improves in January 2024

The BLOM Lebanon Purchasing Managers' Index (PMI), an indicator of operating conditions in Lebanon's private sector, stood at 49.4 in January 2024 relative to 48.4 in December and 47.7 in January 2023, when it scored its lowest monthly score of the year. Further, the score came higher than the PMI's trend average of 46.6 since the index's inception in May 2013. A score that exceeds 50 signals positive business activity, while a score that is lower than 50 shows a deterioration in activity.

The survey's results show that the New Orders Index stood at 48.8 in January 2024 compared to 46.9 in December 2023. The increase of the index reflects a slower pace in the deceleration new orders, given that the score is still below the 50-mark. The survey's participants cited persisting security concerns from the conflict in the region, as well as domestic instability due to political and economic uncertainties, as the reasons for the slowdown in new orders. In addition, the New Export Orders Index reached 48.4 in the January of this year relative to 49.1 in the previous month, indicating a deceleration in demand from foreign clients. The surveyed companies linked regional security concerns to a decline in export sales.

Further, the survey indicated that the Output Index stood at 48.7 in January 2024 compared to 47 in the preceding month. The increase of the index reflects a slower pace of decrease in output, given that the score is still below the 50-mark. Businesses attributed the constraints on output levels to challenging domestic political and economic conditions. In addition, the Employment Index reached 50 in January 2024 relative to 49.8 in the preceding month, even though private sector companies in Lebanon did not report changes to their workforce numbers at the start of the year. Also, the results show that the Backlogs of Work Index stood at 48.8 in January 2024 compared to 48.7 in December 2023, as businesses said that the rate of depletion of outstanding work and pending projects was mild. They linked a lack of incoming new orders to the reduction in work-in-hand.

In parallel, the survey indicated that the Suppliers' Delivery Times Index reached 49.7 in January 2024 relative to 49.6 in the previous month, as the index rose to its highest mark in four months, reflecting the lowest number of delivery delays since September 2023. Also, the Stocks of Purchases Index stood at 50.8 in the covered month compared to 50.5 in December 2023, as the survey data pointed to an increase in stocks of purchases held by private sector firms in Lebanon. Respondents noted that the rate of accumulation was the quickest in four months.

The PMI is a weighted average of five individual sub-components that are New Orders with a weight of 30%, Output (25%), Employment (20%), Suppliers' Delivery Times (15%), and Stocks of Purchases (10%). The calculation of the PMI is based on data compiled from responses to questionnaires sent to purchasing executives at about 400 private sector companies in Lebanon across the manufacturing, services, construction and retail sectors. The sample selection is based on each sector's contribution to GDP. The survey is compiled monthly by S&P Global Market Intelligence.

**BLOM Lebanon Purchasing Managers' Index**



Source: BLOM Bank, S&P Global Market Intelligence

**Components of BLOM Lebanon Purchasing Managers' Index**

|                | Output | New Orders | New Export Orders | Future Output | Employment |
|----------------|--------|------------|-------------------|---------------|------------|
| August 2023    | 47.6   | 47.7       | 48.6              | 26.2          | 50.0       |
| September 2023 | 48.4   | 47.9       | 49.0              | 22.9          | 50.1       |
| October 2023   | 47.8   | 47.6       | 48.8              | 22.3          | 50.2       |
| November 2023  | 49.2   | 48.6       | 50.8              | 24.4          | 50.1       |
| December 2023  | 47.0   | 46.9       | 49.1              | 28.5          | 49.8       |
| January 2024   | 48.7   | 48.8       | 48.4              | 25.3          | 50.0       |

Source: BLOM Bank, S&P Global Market Intelligence

### **Electricité du Liban reduces tariffs, allows invoice payments in US dollars or Lebanese pounds**

The state-owned Electricité du Liban (EdL) announced that it has modified the method for calculating tariffs and fees for electricity bills, starting with the invoices due for May 2023. First, it canceled the increment of 20% that it has added previously to the exchange rate of the Lebanese pound to the US dollar on Banque du Liban's (BdL) Sayrafa electronic exchange platform in its bills. EdL has been using an exchange rate of LBP103,100 per US dollar for its invoices compared to the prevailing Sayrafa rate of LBP85,500 per dollar. But BdL modified the exchange rate on the platform to LBP89,500 on December 19, 2023, which means that EdL would have started to submit its invoices at a rate of LBP107,400 per dollar. Second, it stated that subscribers can start paying their electricity bills in US dollars or in Lebanese pounds, based on the exchange rate that BdL determines. Third, it canceled the rehabilitation fee for low voltage and medium voltage subscriptions.

EdL indicated that it took its decision after it received the consent of the Legislation and Consultation Committee at the Ministry of Justice on September 12, 2023 and of the Consultative Council on November 21, 2023, as well as the approval of the Ministry of Energy and Water and the concerned ministries.

It considered that this procedure will give flexibility to consumers to choose the currency of their choice with which to pay their energy bills, and that it will contribute to addressing the problem of generating foreign currency liquidity to EdL so it can meet its obligations in US dollars and in Lebanese pounds. Further, it noted that the decision will reduce by about 46% the energy bills of 72% of subscribers to the low voltage service, and by about 51% of the fixed tariffs of productive sectors that subscribe to the medium voltage service. In addition, it called on all citizens, public sector entities and refugee camps to pay their invoices on time, in order to avoid incurring penalties on the unpaid bills. It added that the penalties are equivalent to 1% of the invoice for every month of delay and can reach up to 15% of the bill.

In parallel, the 2024 budget stipulates that the Ministry of Finance can collect taxes and fees in foreign currencies on revenues, profits and interest rates generated in foreign currency. This include customs tariffs, the value-added tax (VAT) at customs, the fees that EdL levies, airport fees and the VAT on airport fees, the fee on departures from the Lebanese territory by air or by sea, all port fees levied on the usage of container terminals, and taxes dues on income in foreign currency generated from movable capital, among others.

In March 2021, the Ministry of Finance asked EdL to provide the ministry with the mechanism that EdL intends to follow in order to pay back Treasury advances and other transfers it has received from the Lebanese Treasury between 1997 and 2020. The Finance Ministry estimated that such advances and transfers totaled about LBP37,000bn, or \$24.54bn in the covered period. In addition, Alvarez & Marsal's preliminary forensic audit report of BdL dated August 7, 2023 shows that the latter used a total of \$24.53bn from its foreign currency reserves between 2010 and 2021 for the electricity sector that consist of \$18.93bn in credits and direct transfers to EdL, and \$5.6bn to the Energy Ministry.

Losses at EdL have constituted a burden on public finances for more than 20 years, which has required regular transfers from the Treasury and has led to wide fiscal deficits. The latest available figures show that Treasury transfers to EdL were equivalent to 5.1% of GDP in 2012, 4.3% of GDP in 2013, 4.4% of GDP in 2014, 2.3% of GDP in 2015, 1.8% of GDP in 2016, 2.5% of GDP in 2017, 3.2% of GDP in 2018, 2.8% of GDP in 2019, 3.7% of GDP in 2020, and 3% of GDP in 2021.



### Private sector deposits at \$94.8bn at end-2023

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets stood at LBP1,728.7 trillion (tn), or the equivalent of \$115.25bn at the end of 2023, constituting increases of 2.4% from LBP1,688.7tn (\$112.6bn) at end-November 2023 and of 0.2% from LBP1,725.1tn (\$115bn) at end-February 2023. The dollar figures are based on the official exchange rate of the Lebanese pound to the US dollar of LBP1,507.5 per dollar until the end of January 2023 and of LBP15,000 per dollar starting in February 2023.

Loans extended to the private sector totaled LBP124.8tn at the end of 2023, constituting a decrease of 2.4% from LBP127.95tn at end-November 2023. Loans to the resident private sector reached LBP110.1tn at end-2023 and regressed by 2.3% from LBP112.7bn a month earlier, while credit to the non-resident private sector amounted to LBP14.71tn at the end of 2023 and contracted by 3.3% from LBP15.22tn at end-November 2023. Loans extended to the private sector in Lebanese pounds reached LBP11.4tn at the end of 2023, constituting decreases of 6% from LBP12.1tn at end-November 2023 and of 23.6% from end-2022; while loans in foreign currency totaled \$7.6bn at the end of 2023 and regressed by 2.1% from the previous month and by 25.6% from end-2022.

In nominal terms, credit to the private sector in Lebanese pounds regressed by LBP3.5tn in 2023 compared to a drop of LBP3.4tn in 2022, while lending to the private sector in foreign currency dropped by \$2.6bn in 2023 relative to a contraction of \$5.4bn in 2022. Loans extended to the private sector in Lebanese pounds shrank by LBP16.2tn (-58.7%) and loans denominated in foreign currency dropped by \$33.5bn (-81.6%) since the start of 2019. The dollarization rate of private sector loans changed from 50.7% at end-2022 to 91% at end-2023 due to the new exchange rate of LBP15,000 per dollar that went into effect in February 2023. The average lending rate in Lebanese pounds was 3.97% in December 2023 compared to 4.56% a year earlier, while the same rate in US dollars was 1.95% relative to 4.16% in December 2022.

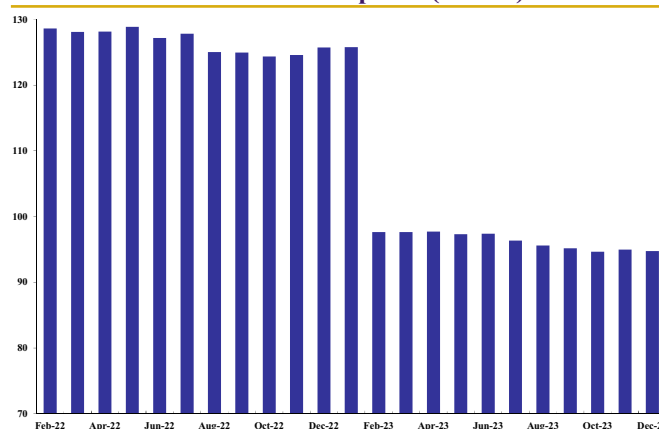
In addition, claims on non-resident financial institutions reached \$4.5bn at the end of 2023, constituting increases of \$147.2m (+3.4%) from end-November 2023 and of \$259.5m (+6.2%) from end-2022. Further, claims on non-resident financial institutions dropped by \$4.7bn (-51.2%) from the end of August 2019 and by \$7.5bn (-62.8%) since the start of 2019. Also, deposits at foreign central banks stood at \$737.1m at the end of 2023, constituting decreases of \$100m (-12%) from end-November 2023 and of \$67.4m (-8.4%) from end-2022. In addition, the banks' claims on the public sector reached LBP44.9tn at end-2023, down from LBP48.3tn at end-November 2023. The banks' holdings of Lebanese Treasury bills stood at LBP11.4tn, while their holdings of Lebanese Eurobonds reached \$2.2bn at end-2023 relative to \$2.9bn a year earlier. Further, the deposits of commercial banks at Banque du Liban amounted to LBP1,254.4tn (\$83.6bn) at the end of 2023 relative to LBP1,256.5tn (\$83.8bn) at end-November 2023.

In parallel, private sector deposits totaled LBP1,421.3tn at the end of 2023, or \$94.8tn based on the new exchange rate, constituting a decrease of 0.2% from LBP1,424.6tn the end of November 2023. Deposits in Lebanese pounds reached LBP52.05tn at end-2023, as they decreased by 6% from the previous month, and increased by 14.7% from the end of 2022; while deposits in foreign currency stood at \$91.3bn, nearly unchanged from end-November 2023, and decreased by 4.5% in 2023. Resident deposits accounted for 77.7% and non-resident deposits represented 22.3% of total deposits at end-2023.

In nominal terms, private sector deposits in Lebanese pounds decreased by LBP3.3tn from end-November 2023 and increased by LBP6.7tn in 2023, while foreign currency deposits contracted by \$3.9m from end-November 2023 and by \$4.3bn from end-2022. In addition, private sector deposits dropped by \$15.4bn in 2019, by \$19.7bn in 2020, by \$9.7bn in 2021, and by \$3.75bn in 2022, including a decrease of \$13.7bn between September and December 2019. Further, aggregate private sector deposits in Lebanese pounds shrank by LBP25.15tn (-32.6%) and foreign currency deposits declined by \$31.8bn (-25.8%) since the start of 2019. The dollarization rate of private sector deposits changed from 76% at end-2022 to 96.3% at end-2023, due to the effects of the new exchange rate on the Lebanese pound component of the balance sheet.

In addition, the liabilities of non-resident financial institutions reached \$2.89bn at the end of 2023, down by 4.6% from \$3bn at the end of November 2023 and by 33% from \$4.3bn at end-2022. Also, the average deposit rate in Lebanese pounds was 0.55% in December 2023 compared to 0.6% a year earlier, while the same rate in US dollars was 0.03%, relative to 0.06% in December 2022. Further, the banks' aggregate capital base stood at LBP76.4tn (\$5.1bn) at the end of 2023, down by LBP1.5tn from LBP77.9tn at end-November 2023.

Private Sector Deposits (US\$bn)



Source: Banque du Liban, Byblos Research

### **Banque du Liban reduces by 75% interest rates on foreign currency deposits and Certificates of Deposits**

Banque du Liban (BdL) issued Intermediate Circular 686/13613 dated February 2, 2024 addressed to banks, financial institutions that modifies Basic Circular 14/5258 of September 17, 1993 about the opening of deposit accounts in foreign currency at BdL and Basic Circular 67/7534 dated March 2, 2000 about BdL's issuance of Certificates of Deposits in US dollars.

First, the circular stipulates that BdL will reduce by 75% the interest rates that it pays on the commercial banks' term deposits in foreign currency placed at BdL, and that the latter will pay the interest rates in US dollars. Second, BdL said that it will reduce by 75% the interest rates that it pays on the Certificates of Deposits in US dollars that it has issued and that are held by commercial banks; and that it will pay the interest rates in US dollars. Third, it said that the terms of this circular go into effect on February 3 and will end on June 30, 2024.

BdL has reduced in 2019 the interest rates that it pays on deposits and Certificates of Deposits in foreign currency. BdL issued on December 4, 2019 Intermediate Circular 536/13157 that stipulates that BdL will, exceptionally and for a period of six months, apply new rules on the interest income it pays on term deposits that banks placed in US dollars at BdL and on the Certificates of Deposits that it issued in US dollars. At the time, the circular stipulates that BdL will reduce by 50% the interest rates that it pays on the commercial banks' term deposits in foreign currency placed at BdL, and that the latter will, on an exceptional basis, continue to pay half of the interest rates in US dollars and the other half in Lebanese pounds. Also, BdL said that it will reduce by 50% the interest rates that it pays on the Certificates of Deposits in US dollars that it has issued and that are held by commercial banks; and that it will, on an exceptional basis, continue to pay half of the interest rates in US dollars and the other half in Lebanese pounds. It then extended the terms of the circular repeatedly for six to 12-month periods until the end of 2023.

### **Banque du Liban modifies deductions from banks' regulatory capital to calculate capital adequacy ratio**

Banque du Liban (BdL) issued Intermediate Circular 690/13617 dated February 2, 2024 addressed to banks that modifies Basic Circular 43/6938 dated March 25, 1998 about the regulatory capital for calculating the prudential limits for banks operating in Lebanon.

First, it said that the regulatory capital for calculating the prudential limits for banks should include the cumulative change in the fair value of financial instruments classified at fair value through other comprehensive income (OCI).

Second, it stated that the regulatory adjustments related to deductions from the regulatory capital should include: first, the results of the financial period in case they are positive, as well as the account for expenses and revenues in case it is positive. Second, 25%, instead of 100%, of the change in fair value of the financial instruments classified at fair value through OCI, if it is positive. Third, the positive or negative cash flow hedge reserves resulting from the revaluation of hedging instruments. Fourth, the positive or negative reserves resulting from changes in the bank's own credit risk. Fifth, other positive reserves related to OCI. Sixth, the shortage in reserves against real estate and participations to be liquidated. Seventh, the shortages in special reserves to be formed against doubtful and non-performing loans that have not been settled. Eighth, common shares or bonds related to regulatory capital that have been repurchased directly or indirectly. Ninth, goodwill and other intangible assets. Tenth, the shortage in the required provisions. Eleventh, breaching or exceeding the terms of articles 152 and 153 of the Code of Money and Credit, whichever is higher. Article 152 relates to limits that banks must observe for loans they extend to related parties, such as board members, general managers and executive managers; while Article 153 is about the limits that banks must comply with in terms of real estate ownership.

Third, it suspended, on a temporary basis and until further notice, the terms of several items and the deduction of the excess to Article 153 of the Code of Money and Credit. Fourth, it said that the circular enters into force starting with the banks' financial position as at December 31, 2023.

### **BLC Bank posts net losses of LBP97.5bn in 2022**

BLC Bank, one of six listed banks on the Beirut Stock Exchange, announced audited consolidated net losses of LBP97.5bn, or \$64.7m, in 2022, compared to losses of LBP192bn (\$127.4m) in 2021. The dollar figures are based on the official exchange rate of the Lebanese pound to the US dollar of 1,507.5 per dollar at the time. The bank's net interest income reached LBP181.6bn (\$120.5m) in 2022 and increased by 3.1% from LBP176.1bn (\$116.8m) in 2021; while its net fees & commissions income stood LBP68.6bn (\$45.5m) in 2022 and surged by 93.1% from LBP35.5bn (\$23.5m) in 2021. Further, the bank's net financial revenues totaled LBP159.4bn (\$105.7m) in 2022 compared to net financial expenses of LBP24bn (\$16m) in 2021. In parallel, the bank's operating expenditures amounted to LBP145.3bn (\$96.4m) in 2022 relative to LBP109bn (\$72.2m) in 2021, with personnel cost accounting for 67% of the total.

In addition, total assets stood at LBP5,215.1bn (\$3.5bn) at the end of 2022, constituting a decline of 1.2% from LBP5,280.4bn (\$3.5bn) at end-2021, while loans & advances to customers amounted to LBP564.7bn (\$374.6m) at end-2022 and dropped by 42.5% from LBP983bn (\$652m) at the end of 2021. Also, customer deposits totaled LBP4,253.5bn (\$2.8bn) at the end of 2022, up by 0.8% from LBP4,222.5bn (\$2.8bn) a year earlier. Further, the bank's total shareholders' equity stood at LBP546.5bn (\$362.5m) at end-2022 and declined by 15.2% from LBP644.6bn (\$427.6m) at the end of 2021. In parallel, the bank's external auditors indicated that "the accompanying consolidated financial statements do not present fairly the consolidated financial position of the Group as at December 31, 2022", nor the Group's "consolidated financial performance and its consolidated cash flows for the year that ended in accordance with International Financial Reporting Standards." They added that the bank and its subsidiaries did not apply the requirements of International Accounting Standard (IAS) 29 in the consolidated financial statements for 2022, which is an auditing requirement for economies that suffer from hyperinflation.

## Ratio Highlights

| (in % unless specified)                    | 2020  | 2021  | 2022  | Change* |
|--|-------|-------|-------|---------|
| Nominal GDP (\$bn)                         | 24.7  | 20.5  | 21.8  | 1.3     |
| Public Debt in Foreign Currency / GDP      | 56.8  | 188.1 | 189.8 | 1.7     |
| Public Debt in Local Currency / GDP        | 93.8  | 302.1 | 277.7 | (24.4)  |
| Gross Public Debt / GDP                    | 150.6 | 490.2 | 467.5 | (22.7)  |
| Trade Balance / GDP                        | (8.1) | (4.7) | (2.8) | 1.9     |
| Exports / Imports                          | 31.3  | 28.5  | 18.3  | (10.2)  |
| Fiscal Revenues / GDP                      | 16.0  | 9.8   | 6.3   | (3.4)   |
| Fiscal Expenditures / GDP                  | 20.3  | 8.7   | 11.3  | 2.5     |
| Fiscal Balance / GDP                       | (4.3) | 1.1   | (4.9) | -       |
| Primary Balance / GDP                      | (1.0) | 2.4   | (4.3) | -       |
| Gross Foreign Currency Reserves / M2       | 41.5  | 26.0  | 13.4  | (12.6)  |
| M3 / GDP                                   | 209.0 | 96.9  | 41.8  | (55.2)  |
| Commercial Banks Assets / GDP              | 296.2 | 127.1 | 46.4  | (80.7)  |
| Private Sector Deposits / GDP              | 219.2 | 94.1  | 34.5  | (59.6)  |
| Private Sector Loans / GDP                 | 57.0  | 20.1  | 5.5   | (14.6)  |
| Private Sector Deposits Dollarization Rate | 80.4  | 79.4  | 76.1  | (3.3)   |
| Private Sector Lending Dollarization Rate  | 59.6  | 56.3  | 50.7  | (5.6)   |

\*change in percentage points 22/21;

Source: Banque du Liban, Ministry of Finance, Central Administration of Statistics, International Monetary Fund, 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    | 196     | 480     |
| Nominal GDP (US\$ bn)                     | 24.7    | 18.0    | 18.3    |
| Real GDP growth, % change                 | -25.9   | -8.4    | -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   | 8.7     | 6.6     |
| Imports of goods and services             | -33.4   | -1.1    | 10.6    |
| Consumer prices, %, average               | 84.9    | 154.8   | 171.2   |
| 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  | 30,313  |
| Weighted average exchange rate LBP/US\$   | 3,878   | 10,876  | 26,222  |

Source: Central Administration of Statistics, Institute of International Finance- May 2023

## Ratings & Outlook

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