

## LEBANON THIS WEEK

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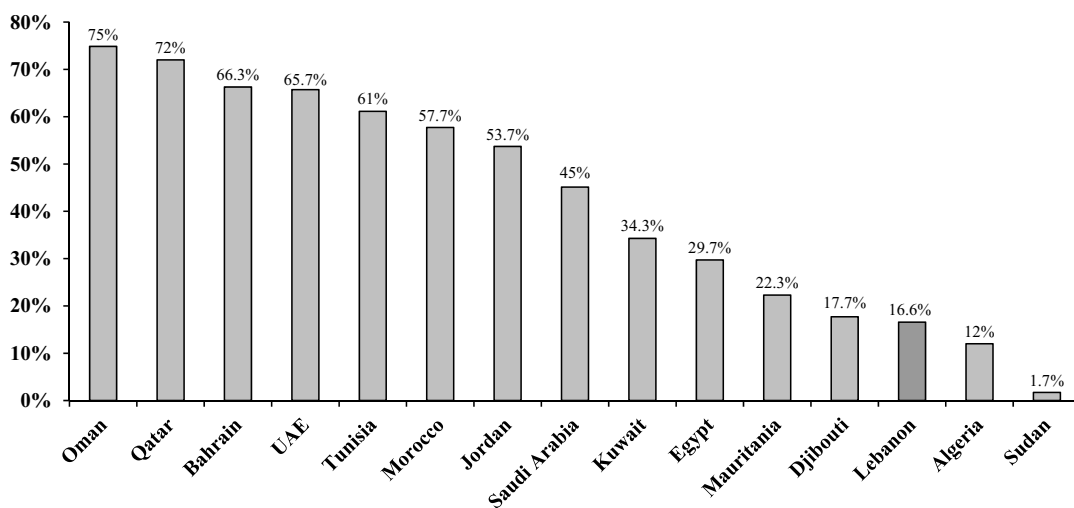
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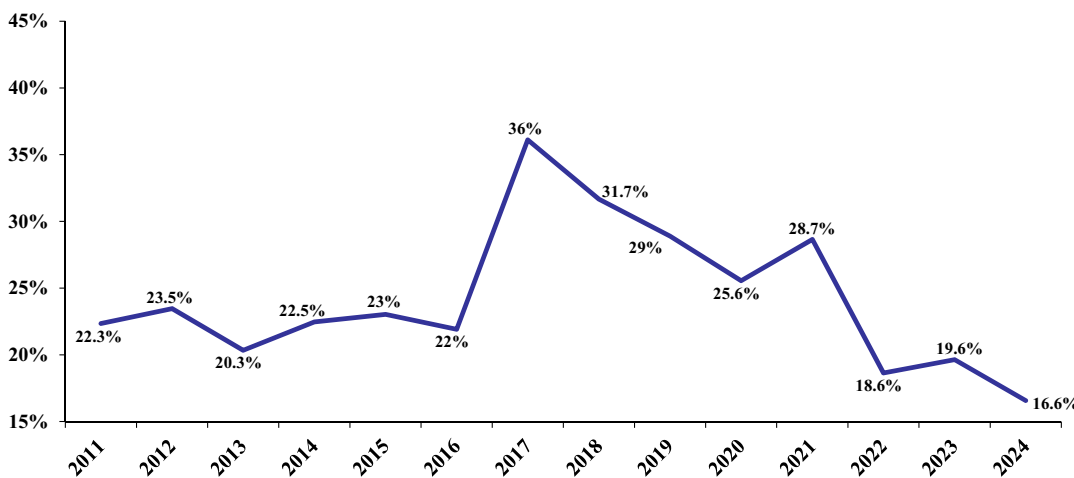
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Percentile Rankings of Arab Countries in terms of Property Rights for 2024\*



Percentile Ranking of Lebanon in terms of Property Rights



\*The Heritage Foundation defines property rights as the ability of individuals to accumulate private property, with this right secured by clear laws that are fully enforced by the State

Source: Heritage Foundation, Index of Economic Freedom for 2024, Byblos Bank

### Quote to Note

"The end of monetary financing, which forced a balanced budget and a stable exchange rate, has helped ease inflationary pressures since mid-2023."

*The International Monetary Fund, on the deceleration of the inflation rate in Lebanon*

### Number of the Week

**55%:** Households expenditures on private illegal electricity generators as a percentage of household spending on energy in 2023, according to the World Bank

## Lebanon in the News

\$m (unless otherwise mentioned)	2021	2022	2023	% Change*	Dec-22	Nov-23	Dec-23
Exports**	3,887	3,492	1,704	-	272	-	-
Imports**	13,641	19,053	10,285	-	1,251	-	-
Trade Balance**	(9,754)	(15,562)	(8,582)	-	(979)	-	-
Balance of Payments	(1,960)	(3,197)	2,237	-170.0%	17	186	591
Checks Cleared in LBP***	18,639	27,146	4,396	-83.8%	3,686	359	404
Checks Cleared in FC***	17,779	10,288	3,109	-69.8%	577	106	183
Total Checks Cleared***	36,418	37,434	7,505	-80.0%	4,263	465	587
Fiscal Deficit/Surplus	2,197	-	-	-	-	-	-
Primary Balance	5,009	-	-	-	-	-	-
Airport Passengers	4,334,231	6,360,564	7,103,349	11.7%	551,632	323,523	481,470
Consumer Price Index	154.8	171.2	221.3	5,014bps	122.0	211.9	192.3

\$bn (unless otherwise mentioned)	Dec-22	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	% Change*
BdL FX Reserves	10.40	8.82	8.91	9.14	9.37	9.64	-7.3%
In months of Imports	-	-	-	-	-	-	-
Public Debt	101.81	-	-	-	-	-	-
Bank Assets	169.06	113.72	112.69	112.25	112.58	115.25	-31.8%
Bank Deposits (Private Sector)	125.72	95.59	95.17	94.64	94.97	94.75	-24.6%
Bank Loans to Private Sector	20.05	8.92	8.69	8.58	8.53	8.32	-58.5%
Money Supply M2	77.34	6.64	6.77	6.48	6.78	6.72	-91.3%
Money Supply M3	152.29	78.38	78.10	77.42	77.74	77.75	-48.9%
LBP Lending Rate (%)	4.56	3.77	4.36	3.34	3.29	3.97	20
LBP Deposit Rate (%)	0.60	0.41	0.49	1.02	1.41	0.55	14
USD Lending Rate (%)	4.16	2.40	3.15	3.70	3.08	1.95	(45)
USD Deposit Rate (%)	0.06	0.03	0.03	0.05	0.05	0.03	0

\*year-on-year

\*\*trade figures for 2023 are for the first eight months of 2023

\*\*\*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"	74.40	0.3	47,555	42.8%	Apr 2024	6.65	6.375	528,705.88
HOLCIM	60.00	0.0	10,819	6.7%	Jun 2025	6.25	6.375	471.70
Byblos Common	0.58	3.6	10,600	1.9%	Nov 2026	6.60	6.375	139.96
Solidere "B"	73.80	0.4	6,830	27.6%	Mar 2027	6.85	6.375	120.61
BLOM GDR	3.50	0.0	-	1.5%	Nov 2028	6.65	6.375	71.05
Audi Listed	1.53	0.0	-	5.2%	Feb 2030	6.65	6.375	53.14
Audi GDR	1.12	0.0	-	0.8%	Apr 2031	7.00	6.375	43.48
Byblos Pref. 08	27.00	0.0	-	0.3%	May 2033	8.20	6.375	32.79
BLOM Listed	3.50	0.0	-	4.3%	Nov 2035	7.05	6.375	25.37
Byblos Pref. 09	29.99	0.0	-	0.3%	Mar 2037	7.25	6.375	22.49

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

Source: Refinitiv

	Apr 15-19	Apr 8-9	% Change	March 2024	March 2023	% Change
Total shares traded	75,804	494,015	(84.7)	797,200	1,077,531	(26.0)
Total value traded	\$4,693,290	\$3,397,719	38.1	\$14,485,247	\$57,766,543	(74.9)
Market capitalization	\$17.39bn	\$17.33bn	0.3	\$17.82bn	\$18.89bn	(5.7)

Source: Beirut Stock Exchange (BSE)



### Gaza War weighing on economic activity

In its Macro Poverty Outlook of April 2024, the World Bank projected the Lebanese economy to post a real GDP growth rate of 0.5% in 2024. It considered that growth in private consumption, supported by tourism, remittance inflows and a stabilization in private sector activity, will underpin the continued and volatile economic recovery, in case the military confrontation in southern Lebanon comes to a halt in the second half of 2024.

In addition, it indicated that Lebanon has been facing a large shock from the spillovers of the war in the Gaza Strip, and that the escalation of military confrontation in southern Lebanon has caused significant damage to infrastructure and affected primarily the tourism and agriculture sectors in the country. As such, it estimated that the Lebanese economy contracted by 0.2% in 2023, constituting a change from its forecast of a growth rate of 0.2% prior to the eruption of the conflict. It attributed the modification of its forecast to the sharp shock to tourism activity that has undermined consumption, along with the reduction in business volumes and the disruption in trade activity in the fourth quarter of 2023. It noted that the shock to the tourism sector that started in the fourth quarter of last year has had ripple effects on economic activity, given the dependence of the economy on tourism. It added that the war is further weighing on the socioeconomic crisis in the country, amid the ongoing presidential vacuum since October 2022, a caretaker government with restricted executive powers, an interim governor at Banque du Liban (BdL), the limited legislative action by Parliament, and the absence of political will to undertake urgent reforms. Further, it projected the inflation rate to regress from 221.3% in 2023 to 84.3% in 2024, due mainly to the increased dollarization of the components of the Consumer Price Index.

In addition, it estimated that the fiscal balance posted a surplus at 0.5% of GDP in 2023, relative to a deficit of 2.5% of GDP in 2022, due to the increase in public revenues resulting from the revaluation of the exchange rate for customs and taxes, and to a decrease in public expenditures in the absence of a ratified budget for the year, and to the decision of BdL to stop financing the government. Also, it estimated that revenues rose from 6.1% of GDP in 2022 to 15.3% of GDP in 2023 due to the revenue mobilization measures in 2022 that materialized in 2023 and the collection of port and airport fees in US dollars starting in 2023. It added that Parliament enacted the budget of 2024 within the constitutional deadline for the first time in two decades, and that the budget projects a fiscal balance, with public revenues and expenditures at 17.3% of GDP. However, it noted that the fiscal balance does not take into account the government's arrears and its foreign currency loans, and considered that the budget constitutes a simple summation of the cost of inputs and a compilation of tax revenues without any reform of budget processes and fiscal policy.

In parallel, it estimated that the current account deficit narrowed from \$6.9bn or the equivalent of 32.7% of GDP in 2022 to \$2bn or the equivalent of 11% of GDP in 2023, due to a decline in imports of goods and a surplus of 10% of GDP in trade-in-services, driven mainly by tourism receipts in the first nine months of 2023. Also, it projected the current account deficit at \$2.1bn in 2024 and anticipated it to contract further to the equivalent of 10.4% of GDP in 2024.

#### Macroeconomic Indicators for Lebanese Economy

	2020	2021e	2022e	2023e	2024f
Real GDP growth (%)	-21.4	-7.0	-0.6	-0.2	0.5
Inflation Rate (Average, %)	84.3	150.0	171.2	221.3	83.9
Fiscal Balance (% of GDP)	-3.3	0.9	-2.9	0.5	0.0
Primary Balance (% of GDP)	-0.8	1.8	-2.5	1.6	0.4
Public Debt Level (% of GDP)	179.2	172.5	179.7	201.2	180.4
Current Account Balance (% of GDP)	-9.3	-12.5	-32.7	-11.0	-10.4
External Debt Level (% of GDP)	101.0	138.3	166.9	198.0	178.1
FDI, net inflows (% of GDP)	5.0	8.5	0.8	0.6	1.5

Source: World Bank, April 2024

### Banque du Liban's liquid foreign reserves at \$9.64bn, gold reserves at \$21.7bn at mid-April 2024

Banque du Liban's (BdL) interim balance sheet shows that its total assets reached LBP8,366.3 trillion (tn) on April 15, 2024, relative to LBP8,360.4tn at the end of March 2024 and to LBP1,528.7tn at mid-April 2023. Assets in foreign currency stood at \$14.86bn on April 15, 2024, compared to \$14.81bn at end-March 2024 and to \$14.5bn at mid-April 2023. The dollar figures are based on the exchange rate of the Lebanese pound of LBP89,500 per US dollar starting on February 15, 2024, according to the BdL Central Council's Decision No. 48/4/24 dated February 15, 2024.

According to BdL, assets in foreign currency include \$5.21bn in Lebanese Eurobonds as at mid-April, nearly unchanged from end-March 2024. Further, BdL's liquid foreign currency reserves stood at \$9.64bn at mid-April 2024 compared to \$9.6bn at end-March 2024, to \$9.32bn at the end of 2023, and to \$8.57bn at end-July 2023. As such, liquid foreign currency reserves increased by \$1.07bn from the end of July 2023.

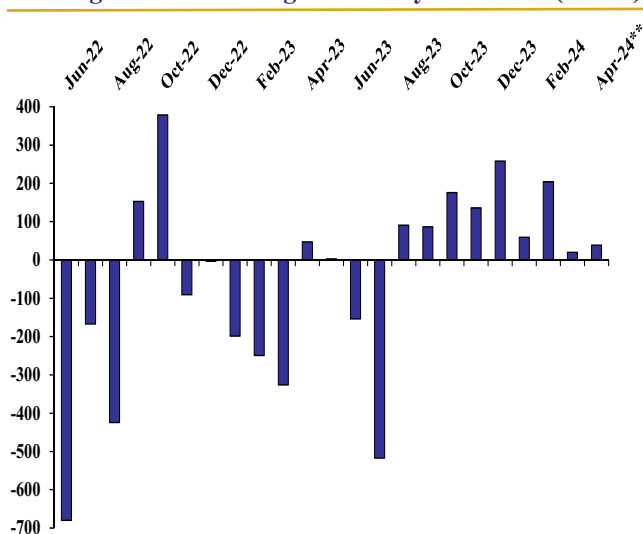
Further, the value of BdL's gold reserves reached a new peak of \$21.7bn at mid-April 2024, relative to \$20.3bn at end-March 2024 and to \$18.7bn at mid-April 2023. Also, the securities portfolio of BdL totaled LBP129,543.4bn at mid-April 2024 relative to LBP129,702.5bn at end-March 2024. In addition, loans to the local financial sector stood at LBP14,807bn at mid-April 2024 compared to LBP14,886.4bn at end-March 2024.

Deferred Open-Market Operations stood at LBP134,074bn at mid-April 2024 relative to LBP131,168.3bn at end-March 2024 and to LBP118,971.3bn at end-2023. BdL said that, based on the Central Council's decision 23/36/45 of December 20, 2023, it has started to present all deferred interest costs originating from open-market operations under this new line item. As a result, it transferred all deferred interest costs included in the "Other Assets" and "Assets from Exchange Operations" entries to the new item. Therefore, the item "Other Assets" stood at LBP10,392.1bn at mid-April 2024 relative to LBP9,767.7bn two weeks earlier. Also, the Revaluation Adjustments item on the asset side reached LBP3,321,670.7bn at mid-April 2024 relative to LBP3,442,274.9bn at end-March 2024. It consists of a special account called the "Exchange Rate Stabilization Fund", in which it recorded all the transactions related to foreign-exchange interventions to stabilize the exchange rate starting in 2020 and that had a balance of LBP161.43tn at mid-April 2024. It also consists of a special account in the name of the Treasury that stood at LBP3,160.2tn at mid-April 2024. The account includes the differences between the countervalue, at the official exchange rate, of BdL's gold and currency holdings, and the value of these holdings at the market exchange rate, as well as the profits or losses on BdL's gold and currency holdings from the modification of the official exchange rate of the Lebanese pound or of a foreign currency exchange rate.

Further, the balance sheet shows that BdL's loans to the public sector totaled LBP1,486,702.5bn at mid-April 2024 relative to LBP1,486,997.3bn two weeks earlier.

On the liabilities side, BdL's balance sheet shows that currency in circulation outside BdL stood at LBP62,178bn at mid-April 2024 compared to LBP59,947.5bn at end-March 2024, and represented a decrease of 6.4% from LBP66,439.5bn at mid-April 2023. Further, the deposits of the financial sector reached LBP7,788.7tn or the equivalent of \$87.02bn at mid-April 2024, relative to LBP7,792tn or \$87.06bn at end-March 2024, and to LBP1,351.4tn or \$90.1bn at mid-April 2023; while public sector deposits at BdL stood at LBP402,503.1bn at mid-April 2024 compared to LBP397,913.8bn at end-March 2024 and to LBP84,186bn at mid-April 2023. BdL noted that, starting on March 15, 2019, it has offset loans with their corresponding deposits in Lebanese pounds that have the same maturities, according to the criteria in International Accounting Standard 32 and as per International Financial Reporting Standard 7 on offsetting financial assets and liabilities. As such, loans that were offset against financial sector deposits stood at LBP36.26tn as at April 15, 2024. In parallel, BdL stated that it is currently working on changing its accounting policy in line with international practices.

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



\*month-on-month change

\*\*as at mid-April 2024, change from end-March 2024

Source: Banque du Liban, Byblos Research

### **Banque du Liban takes measures to address cash economy**

Banque du Liban (BdL) declared that it has been working to encourage the utilization of electronic payment means and reduce cash transactions in the Lebanese economy, in line with international standards, especially those related to fighting money laundering and combating the financing of terrorism. It added that it has encouraged the usage of payment cards in coordination with international companies MasterCard and VISA, and with banks and financial institutions that manage and issue the cards. It noted that one of the measures consists of reducing the cost of using payment cards locally, especially on cards that are issued by non-Lebanese banks and that are used in the Lebanese market.

In addition, BdL called on banks and financial institutions to adopt the necessary measures to facilitate electronic payments at minimal cost, especially those related to payment cards. It also called on all merchants to avoid imposing any fees or additional costs on consumers when the latter use payment cards for their purchases, as this practice is against the law and harms the national economy.

It added that it is working and coordinating with the Ministry of Finance on a project that would allow taxpayers to pay their taxes and fees by payment cards, after installing point-of-sales machines at all of the ministry's tax collection centers across the country.

Further, BdL indicated that it issued Basic Circular 165/13548 dated April 19, 2023 that established a clearing mechanism for checks and transfers in "fresh" dollars and Lebanese pounds, and noted that the amounts and numbers of checks and transfers in "fresh" currencies is increasing, and that checks drawn on "fresh" dollar accounts have become a key, secure and alternative payment system to cash transactions.

BdL added that it amended Basic Circular 69/7548 dated March 3, 2000 about electronic payments and issued licenses to a number of electronic wallets, as these wallets allow their owners to transfer funds to merchants and individuals in a secure and seamless way according to the regulations in place. It stated that the above measures have started to gradually reduce the volume of cash transactions in the Lebanese market.

In parallel, BdL indicated that the continuous delays in enacting reforms-related draft laws weaken the financial standing of the Lebanese State, of BdL, and of commercial banks, and added that, in case this trend continues, it will negatively affect depositors. As such, it said that the delays in addressing the banking crisis has negative consequences on the national economy and on Lebanese society as a whole. As such, it stressed the need to develop a realistic, practical and scientific plan to reform and restructure the banking and financial sector, and to enact the related laws and begin negotiations with Eurobond holders. Also, it reaffirmed its readiness to carry out all the measures that the prevailing laws mandate, in order to reach this objective.

Further, BdL stated that, following up on the multiple correspondences that it has sent to the concerned parties to ensure the need to implement Law 340 dated July 16, 2021 that aims to conduct a forensic audit on all the beneficiaries from the government's subsidy of the US dollar or of other foreign currencies for imports, it has submitted to the concerned parties a detailed list of the files related to the subsidies issue. It also called for addressing this issue as soon as possible in order to shed light on crimes that could have taken place when BdL was subsidizing the US dollar for the import of several goods and products.

### **Salaries in foreign currency to be calculated at exchange rate of LBP89,500 per US dollar**

The Ministry of Finance issued on April 2, 2024 Decision no. 302/1, in application of Article 18 of Budget Law 314 dated February 12, 2024. First, it said the decision determines the value in Lebanese pounds of the wages and salaries that employers pay in full or in part to their employees in US dollars or in any other foreign currency, starting on April 1, 2024. Second, it stipulates that the conversion rate of the wages and salaries that are fully or partially paid in US dollars should be LBP89,500 per dollar, irrespective of the payment method. Third, it indicates that, in case the wages and salaries were paid in any currency other than the US dollar, the employer must convert the wages and salaries to the US dollar based on the weighted average of the exchange rate of the used currency against the dollar, and then convert the wages and salaries to Lebanese pounds. Fourth, it noted that the decision will go into effect once it is published in the Official Gazette and on the website of the Ministry of Finance.

Further, the wages and salaries that are fully or partially paid in US dollars have to be converted at the previous exchange rate of LBP15,000 per dollar for salaries paid in the first quarter of 2024, as per the Ministry of Finance's Decision no. 3/1 dated January 9, 2023 in application of Article 35 of Budget Law 10 of 2022 that went into effect on November 15, 2022.

In parallel, the Ministry of Finance and the interim Governor of Banque du Liban signed jointly the ministry's decision, in compliance with Article 35 of Budget Law 10.





### Lebanon ranks 68<sup>th</sup> globally, 12<sup>th</sup> in Arab world in terms of energy sector performance

The World Energy Council (WEC) ranked Lebanon in 68<sup>th</sup> place among 126 countries globally and in 12<sup>th</sup> place among 14 Arab countries on its Energy Trilemma Index for 2024. The results of this year's survey are not comparable with the findings of last year's index due to changes in the methodology to produce the index.

The index measures a country's ability to provide a secure, affordable and environmentally sustainable energy system. It assesses the performance of a country's energy sector based on three dimensions that are Energy Security, Energy Equity, and Environmental Sustainability. The index consists of 60 datasets that are aggregated in 32 indicators, which are grouped in the three dimensions. The survey assigns each country a rating on a scale from 'A' to 'D' per dimension, with an 'A' rating reflecting the best performance. As such, the best performing country across all three dimensions receives an 'AAA' rating. In contrast, lower ratings point to an imbalance in a country's energy sector performance, which highlights current or future challenges in its energy policy. The survey added this year a fourth dimension to the index that consists of the Country Context, in order to capture important differences in the institutional and macroeconomic contexts of economies. It said that the new dimension reflects a country's underlying macroeconomic and governance conditions, the strength and stability of the national economy and government, the economy's attractiveness to investors, and its capacity for innovation. The survey assigns each country a rating on a scale from 'a' to 'd' on the Country Context dimension.

Globally, the performance of Lebanon's energy sector was similar to the energy sector's performance of Trinidad and Tobago, came better than the energy sector's performance of South Africa, Tajikistan and Jamaica, and was worse than the energy sector's performance of Angola, Jordan and the Dominican Republic. Lebanon received a score of 57.7 points on the index for 2024 relative to a global average score of 62.8 points and the Arab average score of 61.1 points. Also, Lebanon's score came higher than the average score of non-Gulf Cooperation Council (GCC) Arab countries of 57 points and was lower than the GCC countries' average score of 66.6 points. Further, Lebanon received a rating of 'DACd', which indicates an 'A' rating on the Energy Equity dimension, a 'C' rating on the Environmental Sustainability dimension, a 'D' rating on the Energy Security dimension, and a 'd' rating on the Country Context dimension.

In parallel, the WEC considered that Lebanon's Distributed Renewable Energy law that Parliament enacted in 2023 marks a significant turning point in the nation's energy landscape. It cited a notable shift towards solar energy in the residential and industrial sectors, including at vital institutions like schools and hospitals. It said that the new law, catalyzed by economic pressures, introduces a transformative approach by allowing the private sector to produce and sell renewable electricity, thereby enabling peer-to-peer trading. It stated that this legislative shift addresses the pressing need for energy diversification and is aligned with global sustainability goals by leveraging Lebanon's solar potential, and would help the country balance its energy trilemma amid ongoing economic challenges.

Further, Lebanon came in 48<sup>th</sup> place globally and in seventh place regionally on the Energy Equity dimension, which assesses a country's ability to provide access to reliable and affordable energy for domestic and commercial use. Globally, Lebanon preceded Romania, Chile and Algeria, while it trailed Latvia, Poland and Argentina. Regionally, Lebanon came behind the UAE, Qatar, Kuwait, Oman, Bahrain and Saudi Arabia.

In addition, Lebanon ranked in 67<sup>th</sup> place globally and in second place regionally on the Environmental Sustainability dimension, which measures a country's ability to mitigate the depletion of its natural resources and the degradation of its environment. Globally, Lebanon ranked ahead of Poland, Hong Kong and Australia, while it ranked behind Malta, Jordan and Eswatini. Lebanon trailed only Jordan among Arab economies.

Also, Lebanon ranked in last place globally on the Energy Security dimension, which measures a country's ability to meet its current and future energy needs.

#### Energy Trilemma Index for 2024 Arab Countries' Rankings & Ratings

	Rank	Rating
UAE	30	BADa
Saudi Arabia	38	BADb
Qatar	40	BADa
Kuwait	41	BADb
Bahrain	43	BADb
Oman	44	CADb
Egypt	54	BBDd
Algeria	55	CBDd
Tunisia	57	CCCd
Morocco	62	DCCc
Jordan	66	DCBc
<b>Lebanon</b>	<b>68</b>	<b>DACd</b>
Iraq	78	DBDd
Mauritania	87	CADd

Source: World Energy Council, Byblos Research

#### Components of the 2024 Energy Trilemma Index for Lebanon

	Global Rank	Arab Rank	Lebanon Score	Global Average Score	Arab Average Score
Environmental Sustainability	67	2	65.5	65.8	51.7
Energy Equity	48	7	83.6	68.8	82.9
Energy Security	126	14	31.4	56.9	52.5

Source: World Energy Council, Byblos Research

### Currency in circulation down 4% in January 2024

Figures released by Banque du Liban (BdL) show that money supply M1, which includes currency in circulation and demand deposits in Lebanese pounds, reached LBP85,740.4bn at the end of January 2024, constituting an increase of 0.3% from LBP85,449.6bn at end-2023 and a decrease of 9.6% from LBP94,882.2bn at end-January 2023. Currency in circulation stood at LBP48,757.4bn at the end of January 2024, as it declined by 3.6% from LBP50,599.7bn a month earlier and by 29.5% from LBP69,123.6bn at end-January 2023. Also, demand deposits in local currency stood at LBP36,988bn at the end of January 2024, as they increased by 6.1% from LBP34,850bn at end-2023 and surged by 43.6% from LBP25,758.6bn at the end of January 2023.

In addition, money supply M2, which includes M1 and term deposits in Lebanese pounds, stood at LBP100,781.6bn at the end of January 2024, almost unchanged from LBP100,787.3bn at end-2023, and decreased by 10.6% from LBP112,763.6bn at end-January 2023. Also, term deposits in Lebanese pounds totaled LBP15,036.2bn at the end of January 2024, down by 2% from LBP15,337.7bn at the end of 2023 and by 16% from LBP17,881.4bn at end-January 2023.

Further, broad money supply M3, which includes M2, deposits in foreign currency and debt securities issued by the banking sector, reached LBP6,400.3 trillion (tn) at the end of January 2024 compared to LBP1,166.2tn at end-2023. Deposits in foreign currency totaled LBP6,276.6tn while debt securities of the banking sector amounted to LBP22,925.73bn at end-January 2024. In parallel, M3 increased by LBP5,234.1tn in the first month of 2024 due to a jump of LBP4,121.6tn in claims on the public sector, a rise of LBP1,242.4tn in the net foreign assets of deposit-taking institutions and a surge of LBP525,411bn in claims on the private sector, which was offset by a decline of LBP101,538bn in other items. The surge in M3 is due to the impact of the new exchange rate of the Lebanese pound that went into effect on January 31, 2024.

BdL issued Basic Circular 167/13612 dated February 2, 2024 that asked banks and financial institutions to convert their assets and liabilities in foreign currencies to Lebanese pounds at the exchange rate of LBP89,500 per US dollar when preparing their financial positions. BdL requested banks and financial institutions, in line with the provisions of International Accounting Standard 21, to convert their foreign currency monetary assets and liabilities and non-monetary assets classified by fair value or by equity method at the exchange rate published on BdL's electronic platform at the date of the preparation of the financial statements. It added that the decision is applicable as of January 31, 2024. BdL had modified on February 1, 2023 the official exchange rate of the Lebanese pound against the US dollar from LBP1.507.5 per dollar to LBP15,000 per dollar, as part of the measures to unify the multiple exchange rates of the dollar that prevail in the Lebanese economy.

### Draft law aims to shield income tax payers from impact of price fluctuations on tax bill

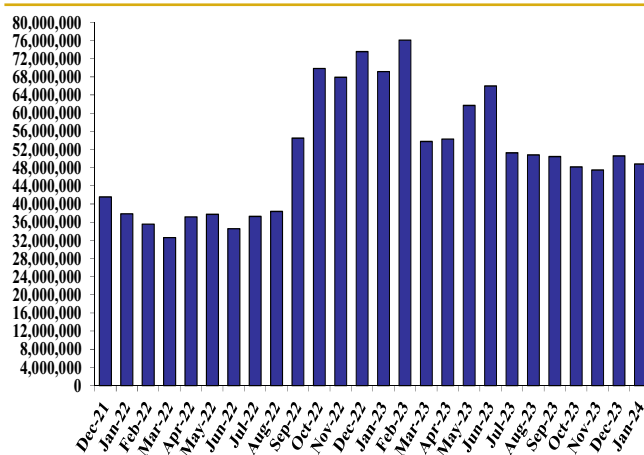
The Council of Ministers issued Decision 3/69 dated April 4, 2024 about the modification of Article 45 of Law 144, or the Income Tax Law. First, it approved a draft law that amends Article 45 of Law 144. Second, the amendment authorizes income tax taxpayers to revalue, on an exceptional basis, their inventory and fixed assets, as well as to adopt, exceptionally, the positive and negative exchange rate differentials resulting from accounts receivables and payables in foreign currency and from financial accounts in foreign currency. Third, it approved forwarding the draft law to Parliament.

Further, it noted that the draft budget for 2024 included an article that aims to amend Article 45 of the Income Tax Law. It said that the amendment grants exceptional permission to institutions subject to the profit-based taxation method and to financial companies and individual firms that are taxed on a flat-rate basis to revalue their fixed asset on an annual basis starting from the end of 2023 for a period ending on December 31, 2026. It added that the current text of Article 45 allows these institutions to revalue their fixed assets once every five years. It pointed out that the budget increased the tax rate on the profits resulting from this revaluation from 10% to 15%, which aligned this tax with the tax rate on profits from the disposal of assets.

It indicated that the draft budget for 2024 includes another article that permits natural and moral individuals that are taxed on the real profit basis to revalue, exceptionally, their inventory as at December 31, 2022, with the positive differentials resulting from this revaluation subject to a tax rate of 7%. It noted that Parliament's Budget and Finance Committee approved these two articles after including some modifications, and that the enacted Budget Law 324 dated February 12, 2024 did not include the two articles. It added that the two articles aim to assist taxpayers in absorbing the impact of the inflation rate caused by the depreciation of the exchange rate of the Lebanese pound against the US dollar, and, consequently, to avoid taxing them on unrealized gains.

It added that the proposed draft law aims to prevent income tax payers from bearing any losses that result from price fluctuations and to preserve the value of their capital, and to unify the tax rates on profits resulting from the disposal of fixed assets and from the revaluation of assets, as it was previously, especially that having different tax rates on these two categories of profits is inappropriate. Finally, it stated that the proposed amendment is in line with international reporting standards that relate to inflation, mainly International Accounting Standard 29.

Currency in Circulation (LBP millions)



Source: Banque du Liban, Byblos Research

### Consumer Price Index up 70% year-on-year in March 2024

The Central Administration of Statistics' Consumer Price Index increased by 114.5% in the first quarter of 2024 from the same period of 2023. In comparison, it grew by 193% and by 220.2% in the first three months of 2023 and 2022, respectively.

The CPI rose by 70.4% in March 2024 from the same month of 2023, while it registered its first two-digit increase since July 2020. The slowdown of the inflation rate is due in part to the increasing dollarization of consumer goods and services in the economy, and to the stabilization of the exchange rate of the Lebanese pound against the US dollar since July 2023. However, the cumulative surge in the inflation rate is due in part to the repeated increase in customs tariffs, to the rise of telecommunications rates and electricity tariffs, and to the inability of the authorities to monitor and contain retail prices. It is also due to the impact of rising transportation costs and insurance rates on imported goods in the wake of the war in the Gaza Strip.

The cost of education surged by 6.9 times in March 2024 from the same month in 2023, followed by imputed rent (+2.7 times), actual rent (+2.2 times), as well as the cost recreation & entertainment (+1.7 times). In addition, the cost of food and non-alcoholic beverages rose by 51.4% year-on-year in March 2024, followed by the prices of miscellaneous goods & services (+50.2%), the prices of water, electricity, gas & other fuels (+48.5%), healthcare costs (+45%), the prices of clothing & footwear (+39.5%), the cost of alcoholic beverages & tobacco (+36.2%), the rates at restaurants & hotels (+31%), the cost of communication services (+29%), transportation costs (+13.2%), and the prices furnishings & household equipment (+9.5%). Also, the distribution of actual rent shows that new rent surged by 212.2% and old rent increased by 31.4% in March 2024 from the same month of 2023.

In parallel, the CPI increased by 1.7% in March 2024 from the previous month, compared to a month-on-month rise of 1.1% in February 2024. The cost of imputed rent surged by 5.2% in March 2024 from February 2024, followed by the prices of clothing & footwear (+5.1%), the prices of water, electricity, gas and other fuels (+2.6%), the prices of food & non-alcoholic beverages (+2.4%), the cost of transportation (+1.5%), the cost of alcoholic beverages & tobacco (+1.2%), the rates at restaurants & hotels (+1%), the prices of furnishings & household equipment and miscellaneous goods & services (+0.6% each), the cost of recreation & entertainment (+0.2%) as well as the cost of education (+0.1%). In contrast, the cost of healthcare regressed by 0.7% month-on-month in March 2024, while the cost of communication was nearly unchanged from the previous month. Also, the distribution of actual rent shows that new rent increased by 5.1%, while old rent remained unchanged in March 2024 from the preceding month.

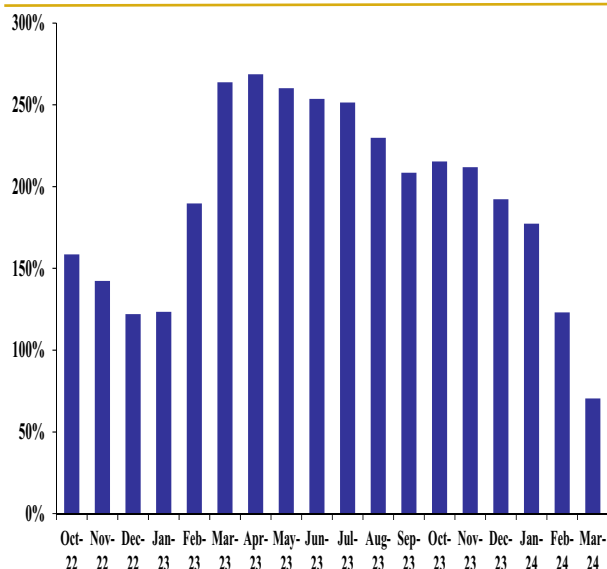
Further, the CPI increased by 2.8% in the North, by 1.7% in Beirut, by 1.6% in Mount Lebanon, by 1.3% in the Bekaa, by 1.24% in the South, and by 0.8% in the Nabatieh in March 2024 from the previous month. In parallel, the Fuel Price Index grew by 1.8% and the Education Price Index increased by 0.06% month-on-month in March 2024.

### Port of Beirut processes 5.4 million tons of freight in 2023

Figures released by the Port of Beirut show that the port processed 5.41 million tons of freight in the 2023, constituting an increase of 5% from 5.15 million tons of freight in 2022. Imported freight totaled 4.42 million tons in 2023, up by 5.6% from 4.2 million tons in the previous year, and accounted for 81.8% of total processed freight. In addition, the volume of exported cargo reached 982,000 tons in 2023, representing an increase of 2.2% from 961,000 tons in 2022, and accounted for 18.2% of aggregate freight in the covered period. A total of 1,371 vessels docked at the port in 2023, constituting a rise of 15% from 1,193 ships in the preceding year. The port handled 487,000 tons of freight in December 2023, up by 19.4% from 408,000 tons in November 2023. In addition, 119 vessels docked at the port in December 2023 compared to 109 ships in the preceding month.

In parallel, the Port of Tripoli processed 3.615 million tons of freight in 2023, representing an uptick of 1.1% or 38,000 tons from 3.58 million tons in 2022. Imported freight totaled 1.71 million tons in 2023, down by 16.4% from 2.05 million tons in the previous year, and accounted for 47.3% of freight activity in the covered period. In parallel, the volume of exported cargo reached 1.91 million tons in 2023, constituting a surge of 24.4% from 1,532,000 tons in 2022, and represented 52.7% of aggregate freight in the covered period. A total of 837 vessels docked at the port in 2023, constituting a decrease of 5.4% from 885 ships in 2022. Also, 70 vessels docked at the port in December 2023 compared to 68 ships in November 2023.

Annual Change in Consumer Price Index\* (%)



\*from the same month of the previous year

Source: Central Administration of Statistics, Byblos Research



### Payment cards at 2.05 million at end-September 2023, ATMs total 1,264

Figures released by Banque du Liban show that the number of payment cards issued in Lebanon reached 2,050,821 cards at the end of September 2023, constituting a decline of 328,386 cards (-13.8%) from 2,379,207 cards at the end of 2022 and a decrease of 390,041 cards (-16%) from 2,440,862 at end-September 2022.

Payment cards held by residents accounted for 97.1% of total cards issued in Lebanon at the end of September 2023. The distribution of payment cards by type shows that debit cards with residents reached 1,342,877 and accounted for 65.5% of the total, followed by prepaid cards with residents at 501,300 (24.4%), credit cards with residents at 82,252 (4.0%), charge cards with residents at 63,899 (3.1%), debit cards held by non-residents at 49,548 (2.4%), credit cards with non-residents at 4,161 (0.2%), charge cards held by non-residents at 3,482 (0.17%), and prepaid cards with non-residents at 3,302 (0.16%).

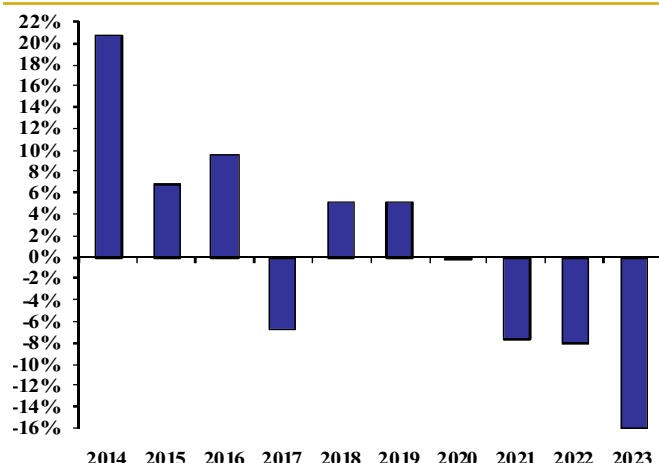
The number of prepaid cards with non-residents rose by 1,266 cards (+62.2%) in the first nine months 2023; while the number of debit cards with residents declined by 158,809 cards (-10.6%), the number of prepaid cards with residents dropped by 112,836 cards (-18.4%), the number of credit cards with residents decreased by 53,521 cards (-39.4%), the number of debit cards held by non-residents contracted by 1,715 cards (-3.3%), the number of charge cards with residents regressed by 1,368 cards (-2.1%), credit cards held with non-residents retreated by 1,255 cards (-23.2%), and charge cards with non-residents dipped by 148 cards (-4.1%).

In parallel, the number of prepaid cards with non-residents rose by 1,362 cards (+70.2%) in the 12-months ending September 2023. In contrast, the number of resident debit cards dropped by 203,192 cards (-13.1%) in the covered period, prepaid cards with residents declined by 109,690 cards (-18%), credit cards with residents decreased by 69,934 cards (-46%), resident charge cards shrank by 3,572 cards (-5.3%), non-resident debit cards contracted by 2,885 cards (-5.5%), credit cards with non-residents retreated by 1,893 cards (-31.3%), and non-resident charge cards regressed by 237 cards (-6.4%). The decline in debit and credit cards held by residents and non-residents since 2020 is due in part to a large number of retailers' refusal to accept payment cards and to the banks' tighter controls on credit card issuance and renewal.

Further, the aggregate number of registered points-of-sales (PoS) that accept payment cards reached 38,643 at the end of September 2023, constituting a decrease of 2,739 (-6.6%) from 41,382 PoS at end-2022 and a drop of 3,452 (-8.2%) from 42,095 PoS at end-September 2022. There were 3.7 registered PoS per square kilometer (km<sup>2</sup>) in Lebanon at the end of September 2023 compared to 3.96 PoS per km<sup>2</sup> at the end of 2022 and to 4.03 PoS per km<sup>2</sup> at the end of September 2022.

In parallel, there were 1,264 automated teller machines (ATMs) across Lebanon at the end of September 2023, constituting a decline of 251 ATMs in the first nine months of the year and a decrease of 316 ATMs from a year earlier. The Mount Lebanon area had 441 ATMs at the end of September 2023, equivalent to 34.9% of the total, followed by the Greater Beirut area with 439 ATMs (34.7%), the North with 137 ATMs (10.8%), the Bekaa with 113 ATMs (8.9%), the South region with 107 ATMs (8.5%), and the Nabatieh area with 27 ATMs (2.1%). As such, there were 121 ATMs per 1,000 km<sup>2</sup> in Lebanon at the end of September 2023 compared to 145 ATMs per 1,000 km<sup>2</sup> at the end of 2022 and to 151 ATMs per 1,000 km<sup>2</sup> at end-September 2022.

Change in Number of Payment Cards (%)\*



\*year-on-year change, at end-September of each year  
Source: Banque du Liban, Byblos Research

### Commercial activity improves significantly in third quarter of 2023

Banque du Liban's quarterly business survey about the opinions of business managers shows that the balance of opinions for the volume of commercial sales was +7 in the third quarter of 2023, relative to -2 in the preceding quarter and to zero in the third quarter of 2022. The balance of opinions for the third quarter of 2023 reflects the normalization of economic activity as a result of favorable base effects in the country, as well as the relative adjustment of the private sector to the ongoing crisis and a successful summer season. The balance of opinions for the volume of commercial sales in the third quarter of 2023 reached its highest quarterly level since the third quarter of 2014.

The survey covers the opinions of enterprise managers about their business activity in order to depict the evolution of a number of key economic variables. The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in an indicator and the proportion of those who reported a decline in the same indicator. The balance of opinions was the highest in the Bekaa region at +55, followed by Beirut and Mount Lebanon (+7), the North (-3), and the South (-44).

The survey shows that the balance of opinions about the sales of food items was +40 in the third quarter of 2023, relative to +17 in the previous quarter and to +3 in the third quarter of 2022. The balance of opinions about the sales of food items reached its highest level in the third quarter of 2023 since the second quarter of 2010.

Also, the balance of opinions about the sales of non-food products was -4 in the covered quarter, relative to -5 in the previous quarter and to -2 in the third quarter of 2022; while it was -10 for inter-industrial goods, compared to -14 in the second quarter of 2023 and to -2 in the third quarter of 2022.

Further, the balance of opinions for inventory levels of finished goods in all commercial sub-sectors was -19 in the third quarter of 2023, compared to -17 in the previous quarter and to -29 in the third quarter of 2022. The balance of opinions about the level of inventories was -8 in Beirut and Mount Lebanon, followed by the Bekaa area (-11), the North (-23), and the South (-50).

Also, the balance of opinions about the number of employees in the sector was -10 in the third quarter of 2023 compared to -18 in the preceding quarter and to -17 in the third quarter of 2022. It was +4 in Beirut & Mount Lebanon, followed by the Bekaa area (zero), the North (-27), and the South (-34).

Commercial Activity: Year-on-Year Evolution of Opinions				
Aggregate results	Q3-20	Q3-21	Q3-22	Q3-23
Sales volume	-68	-61	0	+7
Number of employees	-44	-37	-17	-10
Inventories of finished goods	-42	-44	-29	-19
Q3-23 Regional results	Beirut / Mount Lebanon	North	South	Bekaa
Sales volume	-7	-3	-44	+55
Inventories of finished goods	-8	-23	-50	-11

Source: Banque du Liban business survey for third quarter of 2023



### Term deposits account for 54.6% of customer deposits at end-January 2024

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 LBP8,476.4 trillion (tn) at the end of January 2024, or the equivalent of \$94.7bn. The figures reflect Banque du Liban's Basic Circular 167/13612 dated February 2, 2024 that asked banks and financial institutions to convert their assets and liabilities in foreign currencies to Lebanese pounds at the exchange rate of LBP89,500 per US dollar when preparing their financial positions starting on January 31, 2024. Total deposits include private sector deposits that reached LBP8,167.9tn, deposits of non-resident financial institutions that amounted to LBP242.7tn, and public sector deposits that stood at LBP65.8tn at the end of January 2024.

Term deposits in all currencies reached LBP4,624.3tn at the end of January 2024 and accounted for 54.6% of total deposits in Lebanese pounds and in foreign currency at end-January 2024 relative to a share of 54% at end-2023 and of 54.3% at end-January 2023. Further, the foreign currency-denominated term deposits of the public sector declined by 9% from end-2023, followed by a decrease of 8% in the term deposits of the non-resident financial sector, a contraction of 3.1% in the term deposits in Lebanese pounds of the resident private sector, a retreat of 1.1% in the term deposits of non-residents, and a downturn of 0.8% in foreign currency-denominated term deposits of the resident private sector. This was partly offset by an increase of 20.6% in the term deposits in Lebanese pounds of the public sector from the end of 2023. Aggregate term deposits declined by \$114.8bn 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.

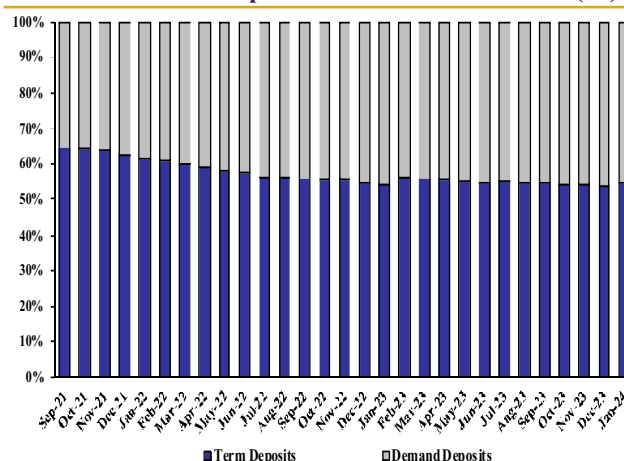
In addition, the foreign currency-denominated term deposits of the resident private sector reached \$36.7bn and accounted for 38.8% of aggregate deposits at the end of January 2024, relative to 37.4% at end-2023 and 30.2% at end-January 2023. Term deposits of non-residents followed with \$12.8bn or 13.5% of the total, then the term deposits of the non-resident financial sector with \$1.7bn (1.7%), term deposits of the public sector in foreign currency with \$281.4m (0.3%), term deposits in Lebanese pounds of the resident private sector with LBP14.5tn (0.2%), and term deposits of the public sector in Lebanese pounds with LBP6.4tn (0.1%).

In parallel, demand deposits in all currencies at commercial banks stood at LBP3,852.1tn at the end of January 2024. They accounted for 45.4% of aggregate deposits at end-January 2024 relative to a share of 46% at end-2023 and 45.7% at end-January 2023. Foreign currency-denominated demand deposits of the resident private sector declined by \$310.8m from end-2023, followed by a decrease of \$30.5m in demand deposits of the non-resident financial sector, and an downturn of \$19.7m in demand deposits of non-residents. This was partly offset by an increase of \$9.7m in demand deposits in foreign currency of the public sector, a rise of LBP1,903.3bn in demand deposits in Lebanese pounds of the resident private sector, and an upturn of LBP287.4bn in demand deposits in Lebanese pounds of the public sector.

Also, demand deposits in foreign currency of the resident private sector totaled \$33bn and represented 34.8% of deposits at end-January 2024, relative to 33.7% at end-2023 and to 24.7% at the end of January 2023. Demand deposits of non-residents followed with \$8.2bn (8.7%), then demand deposits of the non-resident financial sector with \$1.06bn (1.1%), demand deposits in foreign currency of the public sector with \$342.1m and demand deposits in Lebanese pounds of the resident private sector with LBP36.1tn (0.4% each), and demand deposits in Lebanese pounds of the public sector with LBP3.65tn (0.04%).

Based on the latest available figures, Beirut and its suburbs accounted for 66.2% of private-sector deposits and for 53% of the number of depositors at the end of September 2023. Mount Lebanon followed with 14.7% of deposits and 16.7% of beneficiaries, then South Lebanon with 7.4% of deposits and 10.5% of depositors, North Lebanon with 6.6% of deposits and 11.9% of beneficiaries, and the Bekaa with 5.1% of deposits and 8.1% of depositors.

Breakdown of Deposits at Commercial Banks (%)



Source: Banque du Liban, Byblos Research

## 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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