

## LEBANON THIS WEEK

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Gross written premiums down 4.5% to LBP2,456bn in 2022, claims at LBP2,334bn

Import activity of top five shipping firms and freight forwarders down 4.5% in first five months of 2023

Stock market capitalization up 40% to \$18.7bn at end-August 2023

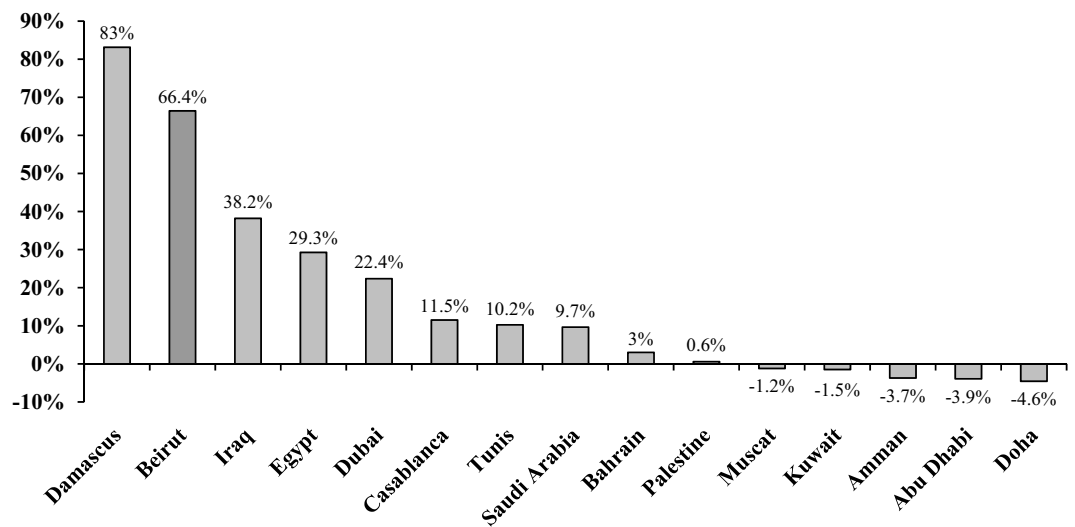
Foreign investments of financial sector at \$1.2bn at end-September 2022

### Ratio Highlights

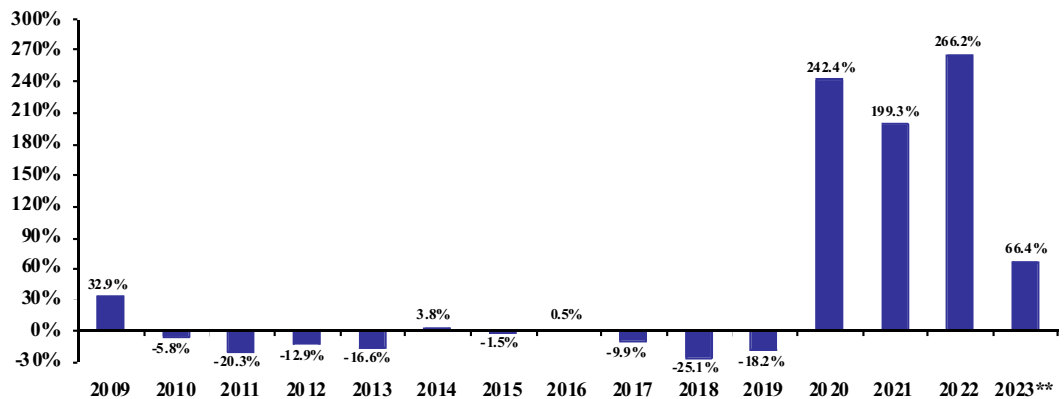
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### Charts of the Week

Stock Market Performance in Select Arab Markets in First Eight Months of 2023\*



Performance of the Beirut Stock Exchange



\*based on change in stock market indices in first eight months of 2023

\*\*change in first eight months of 2023

Source: Local stock market of each index, Refinitiv, Byblos Bank

### Quote to Note

"The election of a new President, the formation of a new Cabinet, and the subsequent agreement of all political factions on a reforms agenda."

*Global investment bank Goldman Sachs, on Lebanon's path to economic recovery*

### Number of the Week

**10:** Number of months that Lebanon has been without a President

## Lebanon in the News

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

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

\*year-on-year

Source: Association of Banks in Lebanon, Banque du Liban, Ministry of Finance, Central Administration of Statistics, Byblos Research

## Capital Markets

Most Traded Stocks on BSE*	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Byblos Common	0.70	(16.7)	87,498	2.2%	Apr 2024	6.65	8.00	1,295.12
Solidere "B"	74.65	(6.6)	49,060	26.4%	Jun 2025	6.25	8.00	208.77
Solidere "A"	77.70	(2.6)	47,622	42.2%	Nov 2026	6.60	8.00	95.86
Audi GDR	1.40	0.0	19,140	0.9%	Mar 2027	6.85	8.00	85.53
Audi Listed	2.35	(1.3)	5,000	7.5%	Nov 2028	6.65	8.00	55.48
HOLCIM	68.95	14.9	484	7.3%	Feb 2030	6.65	8.00	43.09
BLOM GDR	2.14	0.0	-	0.9%	Apr 2031	7.00	8.00	36.01
BLOM Listed	3.00	0.0	-	3.5%	May 2033	8.20	8.00	27.81
Byblos Pref. 08	27.00	0.0	-	0.3%	Nov 2035	7.05	8.00	21.90
Byblos Pref. 09	29.99	0.0	-	0.3%	Mar 2037	7.25	8.00	19.54

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

Source: Refinitiv

	Aug 28 - Sep 1	Aug 21-25	% Change	August 2023	August 2022	% Change
Total shares traded	209,404	766,695	(72.7)	1,893,327	899,525	110.5
Total value traded	\$7,650,722	\$15,904,847	(51.9)	\$46,947,434	\$33,747,990	39.1
Market capitalization	\$18.41bn	\$18.88bn	(2.5)	\$18.72bn	\$13.36bn	40.1

Source: Beirut Stock Exchange (BSE)



### Banque du Liban lifts banking secrecy on 64 cases suspected of money laundering and other crimes in 2022

The Special Investigation Commission (SIC) against money laundering and terrorism financing issued its annual report detailing its actions related to tracing money generated from illegal activities in Lebanon in 2022. Established by Banque du Liban as an independent legal entity, the SIC's mandate is to investigate suspected money-laundering and terrorism financing operations, as well as to monitor compliance with the rules and procedures of Law 318, the anti-money laundering law that the Lebanese Parliament enacted in April 2001 and that it modified to become Law 44 in November 2015.

The report indicated that the SIC received 469 suspected cases in 2022 compared to 404 suspected cases in 2021. It received 346 cases, or 73.8% of the total, from local sources, and 123 cases or 26.2% of the total from international sources in 2022. In turn, the SIC referred 294 suspected cases to the judicial authorities, while 36 cases are still pending and the remaining 139 cases did not fall within the framework of Law 44. Further, the authorities lifted the banking secrecy on 64 cases, with 11 of those cases referred from foreign governments and organizations and 53 cases from domestic sources. The remaining 230 cases were related to information requests in 2022. In comparison, the Lebanese authorities lifted the banking secrecy on 36 cases in 2021, on 29 cases in 2020, on 55 cases in 2019, on 30 cases in 2018, on 48 cases in 2017, and on 42 cases in 2016.

Overall, the SIC investigated 433 out of 469 suspected cases, or 92.3% of the total in 2022, relative to 90.6% of cases in 2021, 83% of cases in 2020, 86.7% of cases in 2019, 85% of cases in 2018, 86% of cases in 2017, 85% of cases in 2016, 77.5% of cases in 2015, 73.6% of cases in 2014, 84.7% of cases in 2013 and 67.3% of cases in 2012.

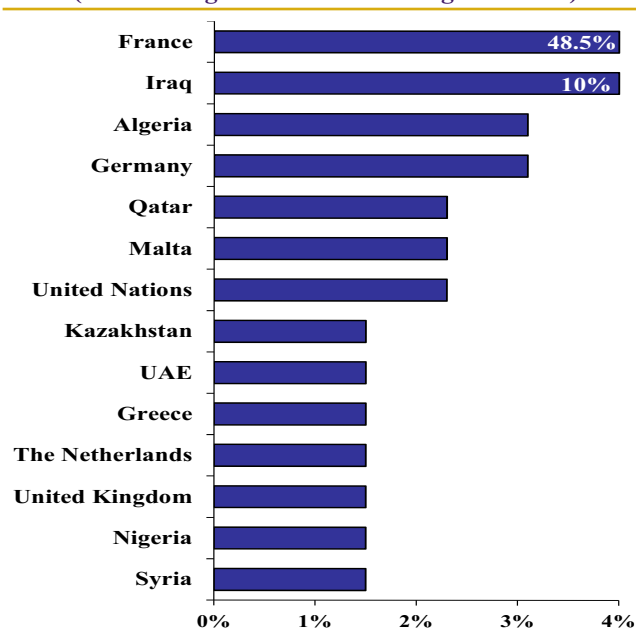
Tax Evasion accounted for 15.5% of the suspected cases that the SIC received in 2022, followed by narcotics trafficking with 12.6%, forgery with 10.2%, corruption with 9%, cybercrime with 8.6%, fraud with 8%, terrorism & terrorism financing with 7%, embezzlement of private funds with 4.8%, smuggling, insider trading, and illegal arms trade with 0.7% each, murder with 0.5%, and counterfeiting of goods and kidnapping with 0.2% each; while the remaining 21% of cases did not fall under a specific category.

In cases related to terrorism or terrorism financing, the SIC received 78 names (22 cases) from domestic sources and 28 names (eight cases) from foreign parties. The breakdown of local sources shows that money transfer operators supplied 17 names (13 cases), the police provided 48 names (five cases), ministries provided 11 names (two cases), and banks supplied two names (two cases). The distribution of foreign sources reveals that the Interpol delivered 13 names (one case), financial investigation units supplied 11 names (four cases), and the United Nations Security Council provided four names (three cases).

Further, the SIC received 207 suspicious transactions reports, 287 requests for assistance, five cross-border cash reports, and one case that was not categorized. Further, Lebanon received 130 foreign requests for assistance, with 66.2% of the requests coming from Europe, 18.5% from the Middle East & the Arabian Gulf countries, 6.9% from Africa, 4.6% from Asia, 2.3% from the United Nations, and 0.8% from North America and Australia each.

In parallel, the SIC's Compliance Unit examined a number of institutions in order to ensure their full compliance with Law 44. It covered 130 money dealers (44% of total money dealers), 21 banks (34% of banks in Lebanon), 17 financial institutions (43% of total financial institutions), 15 insurance firms (31% of insurers), six money transfer operators (46% of MTOs), and four brokerage firms (25% of brokerage firms).

Sources of Request for Assistance\*  
(from Foreign Countries and Organizations)



\*Percentage of total foreign requests

Source: Special Investigation Commission, Byblos Research

### **Draft budget forecasts deficit equivalent to 14% of expenditures for 2024**

The draft budget for 2024 that the Ministry of Finance submitted to the Council of Ministers shows budget expenditures at LBP300,519bn and revenues at LBP258,785bn, leading to a budget deficit of LBP41,734bn, which would be equivalent to 13.9% of public spending compared to 24% of expenditures in the 2023 draft budget. It also includes Treasury receipts of LBP4,561bn, resulting in aggregate public revenues of LBP305,080bn for the year. The ministry did not provide the macroeconomic indicators and assumptions that it used in the draft budget, such as real GDP growth, the inflation rate and nominal GDP.

On the expenditures side, the budget estimates current expenditures at LBP284,993bn and capital expenditures at LBP15,526bn, or 94.8% and 5.2%, respectively, of aggregate public spending. The distribution of current expenditures shows that wages, salaries, social benefits and allocations total LBP174,372bn and account for 61.2% of current spending, followed by spending on goods & services at LBP36,288bn (12.7%), transfers at LBP18,401bn (6.5%), emergency expenditures at LBP 17,025bn (6%) and debt servicing at LBP14,698bn (5.2%), while other spending amounts to LBP24,207bn or 8.5% of current expenditures.

On the revenues side, the draft budget projects tax revenues at LBP208,065bn and non-tax receipts at LBP50,720bn, or 80.4% and 19.6%, respectively, of total public revenues. The ministry estimates that revenues from the excise tax on goods & services would generate LBP114,138bn or 54.8% of total tax receipts; followed by the tax on income, profits & capital gains with LBP33,261bn (16%); income from property taxes with LBP36,017bn (17.3%); receipts from custom duties with LBP13,396bn (6.5%); while other taxes would generate the remaining LBP11,253bn, or 5.4% of aggregate tax receipts. Further, the distribution of projected non-tax revenues shows receipts from government properties and public institutions at LBP41,188bn or 81.2% of the total; followed by administrative fees with LBP6,483bn (12.8%); while penalties, expropriations and other non-tax receipts would generate the balance of LBP3,048bn, or 6% of total non-tax revenues.

The distribution of revenues from the excise tax on goods & services indicates that receipts from the value-added tax (VAT) would account for 78.9% of the total, followed by departure fees from the Lebanese territory (12.5%), fees on cars (5%) and the excise tax on goods (3.4%). Further, the distribution of revenues from the tax on income, profits & capital gains shows that receipts from the tax on profits would account for 74.3% of the total, followed by the tax on wages & salaries (13.3%), the tax on interest income (9%) and the capital gains tax (3%). In addition, the distribution of receipts from the property tax shows that revenues from property registration fees would account for 83.3% of the total, followed by the inheritance tax (13.7%) and the built property tax (3%).

Also, the distribution of non-tax revenues indicated that receipts from government properties and public institutions would account for 81.2% of the total, followed by administrative fees & revenues and sales (12.8%) and other non-tax receipts (6%). Further, the breakdown of revenues from government properties and public institutions shows that receipts from the telecommunications sector would account for 43% of the total, followed by the Port of Beirut (32.7%), the Beirut Rafic Hariri International Airport (17.3%), receipts from the Directorate of Grains & Sugar Beet (2.7%), the national lottery (2%) and Casino du Liban (1.8%). In addition, other non-tax receipts include exceptional revenues from the settlement of seaside properties violations and would account for 5% of non-tax receipts.

The 2024 draft budget modifies taxes and fees, and imposes new ones. For instance, it increases the VAT rate from 11% to 12%, and imposes an "environmental tax" that consists of tariffs that range from 0.1% to 0.4% on imported products, depending on their nature. It also mandated the VAT on natural and moral persons that organize concerts, shows and entertainment events. Further, it initiated a fast delivery service for formalities to be carried out in one to three days at most at an additional fee. It noted that 50% of this extra fee will go to the directorate of the agency that provided the service, 20% to the Treasury, 15% to the mutual fund of public sector employees, 10% to workers of agencies that do not provide services, and 5% to the employees of supervisory authorities. In addition, it authorized taxpayers to pay, within six months of the enactment of the budget, their taxes, fees and penalties due prior to November 15, 2022 from their foreign currency deposit accounts that they opened prior to October 18, 2019 at banks operating in Lebanon, at a rate of 40% of the exchange rate of the US dollar on Banque du Liban's Sayrafa electronic exchange platform.

Further, it raised the fees that the Labor Ministry collects on the granting or renewal of permits for foreign labor. Also, it raised the annual fees on the rental value of residential and non-residential properties to at least LBP1m for residential dwellings and at least LBP2m for non-residential ones, and kept the rates of the fees on the rental values at 5% and 7%, respectively. In addition, it separated the 1.5% fee for the maintenance of sewers and sidewalks from the fees on the rental value of properties, in order to keep imposing the maintenance fee even if the property is vacant. Moreover, it imposed a fee in US dollars on private and public natural and moral persons for the collection, transport and treatment of solid waste, without any exception. It said the fee will range from \$15 to \$60 monthly for public sector entities and persons, between \$30 and \$120 for embassies, international organizations and non-governmental organizations, as well as from \$9 to \$36 on places of worship. Also, it noted that the fees will range from \$30 to \$1,800 per month on commercial enterprises, depending on the sector and the size of the company.



### Banque du Liban's foreign assets at \$13.8bn, gold reserves at \$17.6bn at mid-August 2023

Banque du Liban's (BdL) interim balance sheet shows that its total assets reached LBP1,553.6 trillion (tn), or the equivalent of \$103.6bn, on August 15, 2023, constituting an increase of 0.5% from LBP1,546.4tn (\$103.1bn) at end-July 2023 and a decrease of 1.7% from LBP1,581tn (\$105.4bn) at mid-July 2023. Assets in foreign currency reached \$13.84bn at mid-August 2023, representing a drop of \$1.34bn, or of 8.8% from end-2022 and a decline of \$1.3bn (-8.6%) from \$15.14bn at mid-August 2022. Assets in foreign currency include \$5.03bn in Lebanese Eurobonds, unchanged from a year earlier. The dollar figures up until the end of January 2023 are based on the official exchange rate of the Lebanese pound to the US dollar of LBP1,507.5 per dollar at the time, while the dollar figures starting in February 2023 are based on the new exchange rate of LBP15,000 per dollar.

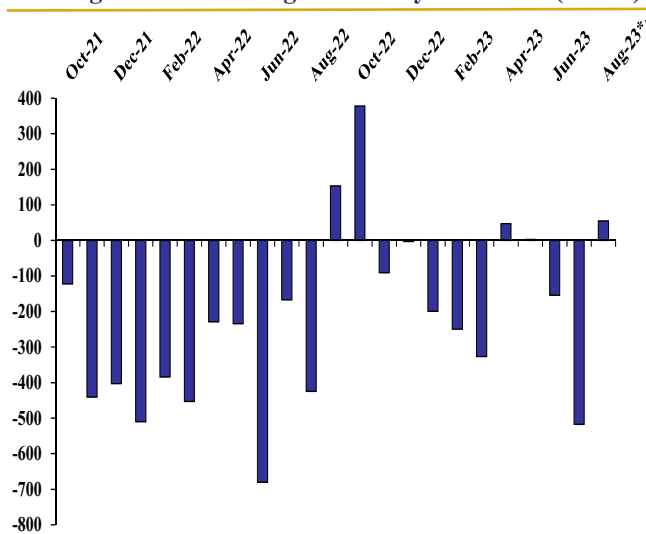
BdL's gross foreign currency reserves, which consist of its assets in foreign currency excluding Lebanese Eurobonds, stood at \$8.81bn at mid-August, 2023, constituting an increase of \$54.6m (+0.6%) from \$8.76bn at end-July 2023 and a decrease of \$553.8m (-6%) from \$9.37bn at mid-July 2023. They dropped by \$1.34bn (-13.2%) from the end of 2022 and by \$1.3bn (-13%) from \$10.11bn at mid-August 2022. Also, BdL's liquid foreign reserve assets amounted to \$8.64bn as at mid-August relative to \$8.57bn at end-July 2023. The cumulative decline of BdL's gross foreign-currency reserves in the past 12 months is largely due the government's borrowing from BdL, to the financing of imports, such as wheat, medicine, medical equipment, and raw materials for agriculture and industry, as well as to the implementation of BdL circulars that allowed depositors to withdraw US dollar banknotes from their accounts or to buy dollar banknotes from BdL through commercial banks. It is also due to the steep drop in capital flows to Lebanon since September 2019, and to the near halt of inflows after the government decided to default on its Eurobonds obligations in March 2020. However, the decline in BdL's assets foreign currency was offset in part by the allocation of about \$1.13bn in Special Drawing Rights that the IMF transferred to BdL's account on September 16, 2021.

Further, BdL's balance sheet shows that currency in circulation outside BdL stood at LBP61,711bn at mid-August 2023, representing a decrease of 23% from LBP80,171.3bn at the end of 2022 and a surge of 41.4% from LBP43,643.3bn at mid-August 2022. Also, the item "Other Assets" on BdL's balance sheet reached LBP102,005.7bn, or \$6.8bn at mid-August 2023, and increased by 1.6% from LBP100,421.5bn a month earlier.

In parallel, the value of BdL's gold reserves reached \$17.6bn at mid-August 2023, constituting a rise of \$996.5m (+6%) from the end of 2022 and an increase of \$1.17bn (+7%) from \$16.48bn at mid-August 2022. The value of gold reserves reached a peak \$18.7bn at mid-April 2023. Also, the securities portfolio of BdL totaled LBP66,499.2bn, or \$4.43bn, at mid-August 2023. In addition, loans to the local financial sector stood at LBP15,640.5bn, or \$1.04bn; while the deposits of the financial sector reached LBP1,337.1tn, or \$89.1bn, at mid-August, 2023. In addition, public sector deposits at BdL stood at LBP124,572.6bn at mid-August 2023 and surged by LBP107,012.3bn from a year earlier.

Moreover, the balance sheet shows that BdL's loans to the public sector totaled LBP249,253bn, equivalent to \$16.62bn, as at mid-August 2023. BdL indicated that it started in 2019 to make payments on behalf of the Lebanese government from its own foreign currency reserves, either against cash collateral in Lebanese pounds at the existing official exchange rate of LBP1,507.5 per dollar, which consists of public sector deposits, or in exchange for a pledge by the government to repay the amounts in the same foreign currency at a later stage. It said that the public sector's deposits valued in local currency exceeded the net cumulative balance for the payments it made on behalf of the government in foreign currency, which allowed BdL to maintain a net credit balance for public sector deposits. It noted that, after the modification of the exchange rate from LBP1,507.5 per dollar to LBP15,000 a dollar at the start of February 2023, the countervalue of the net cumulative balance of assets in foreign currencies exceeded the value of the cash collateral in Lebanese pounds, which resulted in a net debit balance in favor of BdL and required the presentation of the balance of overdraft of \$16.52bn in loans to the public sector on the "assets" side. BdL noted that it opened a special account called the "Exchange Rate Stabilization Fund", in which it recorded all the transactions related to foreign-exchange intervention to stabilize the exchange rate starting in 2020. It said that the balance of the fund was LBP94.7tn at mid-August 2023.

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



\*month-on-month change

\*\*as at mid-August 2023, change from end-July 2023

Source: Banque du Liban, Byblos Research

### Nearly 64% of Treasury securities in Lebanese pounds have seven-year maturities or longer as at end-July 2023

Figures released by the Association of Banks in Lebanon show that the face value of outstanding Treasury securities denominated in Lebanese pounds reached LBP87,462bn at the end of July 2023 compared to LBP90,999bn at end-July 2022. The outstanding Treasury securities denominated in Lebanese pounds were equivalent to \$5.83bn at the end of July 2023 based on the new official exchange rate of LBP15,000 per US dollar, but they become equivalent to \$0.98bn based on the parallel market exchange rate of LBP89,300 per dollar at the end of July. The weighted interest rate on Lebanese Treasury securities denominated in Lebanese pounds was 6.31% in July 2023 compared to 6.5% in July 2023.

The distribution of outstanding Treasury securities shows that 10-year Treasury bonds totaled LBP 33,520bn and accounted for 38.3% of aggregate securities denominated in Lebanese pounds at the end of July 2023, followed by seven-year Treasury bills with LBP17,800bn (20.4%), five-year Treasury securities with LBP15,153bn (17.3%), one-year Treasury securities with LBP5,308bn (6.1%), two-year Treasury bonds with LBP5,191bn (5.9%), three-year Treasury bonds with LBP4,792bn (5.5%), 12-year T-bills with LBP3,076bn (3.5%), 15-year Treasury securities with LBP1,417bn (1.6%), six-month T-bills with LBP883bn (1%), and three-month Treasury bonds with LBP322bn (0.4%). As such, 63.8% of outstanding Treasury securities have seven-year maturities or longer and 81.1% have five-year maturities or more.

In parallel, LBP1,396bn in outstanding Treasury securities denominated in Lebanese pounds matured in July 2023. The distribution of maturing securities shows that 40% consisted of six-months Treasury bills, 15.8% were two-year Treasury bonds, 14.5% were seven-year Treasury bills, 13.6% were three-year T-bills, 7.2% were five-years Treasury securities, 5.6% consisted of three-months Treasury bills, and 3.4% were one-year T-bills. According to ABL, LBP9,230bn in outstanding Treasury bonds in Lebanese pounds will mature in the rest of 2023.

### Banque du Liban's foreign currency liquidity at \$8.54bn at mid-August 2023

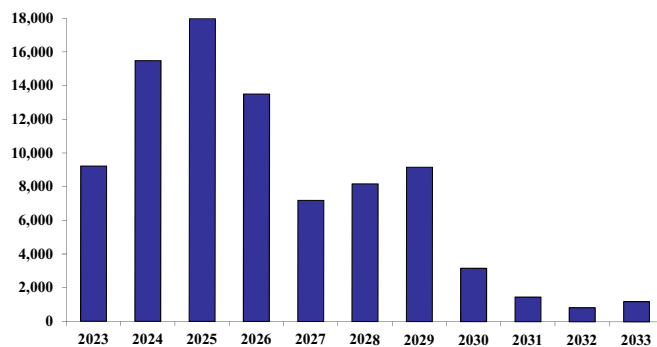
Banque du Liban (BdL) indicated that its foreign currency liquidity stood at \$8.542bn at mid-August 2023, in addition to \$421.8m that consisted of the market value of its portfolio of Lebanese Eurobonds. It noted that the figures exclude BdL's holdings of gold. It added that its obligations in foreign currency totaled \$1.3bn at end-July, which consist of payments that it has to disburse from its foreign currency liquidity when they are due.

The distribution of BdL's foreign currency liquidity shows that term deposits stood at \$3.5bn and accounted for 41% of the total, followed by current accounts at \$3.3bn (38.6%), cash in vault at \$1.53bn (18%), and international securities at \$216m (2.5%). It noted that the accounts consist of foreign currencies, mostly in US dollars and in Euros, at the exchange rates that prevailed as at August 15, 2023.

In parallel, the distribution of BdL's foreign currency obligations shows that loans to Arab parties stood at \$660m and accounted for 50.7% of the total, followed by public sector deposits in "fresh dollars" at \$305m (23.4%), Special Drawing Rights available for use at \$125m (9.6%), deposits of Arab parties at \$106m (8.15%), letters of credits opened by BdL at \$96m (7.6%), and commercial banks' accounts in "fresh dollars" at \$8m (0.7%). It noted that loans to and deposits of Arab parties consist of long-term obligations that carry interest payments.

In addition, BdL's Central Council reiterated its pledge that it will not use the reserve requirements that commercial banks placed at BdL, except to meet its foreign currency obligations and to disburse BdL's part of the requirements of 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.

### Projected Maturities of Treasury Securities in LBP\* (LBP billions)



\*as at end-July 2023

Source: Association of Banks in Lebanon, Byblos Research

### Lack of political will to implement key reforms is delaying financial support

S&P Global Ratings projected Lebanon's real GDP to grow by 0.3% in 2023 and 0.7% in 2024, following annual economic contractions during the 2018-22 period. It expected that favorable base effects, a pickup in private-sector activity in an increasingly cash-based economy, and an uptick in tourism, to support modest growth rates that would average less than 1% annually in the 2023-26 period.

Also, it said that its projections do not take into consideration a potential improvement in policymaking in the near term and, therefore, reflect declining foreign currency reserves, elevated inflation rates, funding constraints to finance the current account deficits, and the potential depreciation of the exchange rate. It added that pressure on public finances will ease relatively starting in 2023, given that the government is collecting a share of its public revenues at the exchange rate of Banque du Liban's (BdL) Sayrafa electronic exchange platform. It forecast the fiscal deficit to average 0.6% of GDP in the 2023-2026 period.

It considered that authorities are likely to postpone negotiations with the holders of Eurobonds on a debt-restructuring agreement due to prolonged delays in appointing key government officials, amid internal political disputes. It added that the delays in appointing a permanent governor at BdL has further constrained Lebanon's institutional effectiveness. Also, it said that the acting governor has called for the enactment of a capital controls law and the approval of the 2023 budget by end-August 2023, as well as for moving to a floating exchange rate managed on an internationally-recognized platform, in addition to enacting a law that would likely curtail BdL's financing of the government. It noted that these reforms are in line with the prior actions that the IMF requested from the Lebanese authorities in order to approve the \$3bn Extended Fund Facility as part of the Staff Level Agreement that the two sides signed on April 7, 2022. It also indicated that the caretaker government can push through the reforms necessary to implement the prior actions that the IMF requested, but it did not anticipate these reforms to take place before the election of a new president. It added that the authorities have not been able so far to make political decisions on the allocation of the banking system's losses, which has delayed the economic recovery.

In addition, S&P indicated that the government has approved a draft budget of LBP34.1 trillion for 2023, and noted that it has been collecting since May 2023 customs duties at the rate of LBP85,000 per US dollar, while other dollar-denominated public revenues have also used a similar rate. As such, it projected the fiscal deficit at 0.3% of GDP in 2023, following a balanced fiscal position in 2022, and anticipated the deficit to widen to 1% of GDP by 2026, amid easing funding constraints, a more streamlined public revenue collection at market rates, and weak economic growth.

Also, it noted that the public debt level has been significantly affected by the sharp depreciation of the Lebanese pound, which increases the value of the foreign currency-denominated component of the public debt stock in the local currency, and which is only partly offset by the impact of elevated inflation rates on nominal GDP. It estimated that the share of debt denominated in foreign currency, which stood at 40% of the total debt stock at the end of 2019, would rise to more than 90% of the total by end-2023 in case the exchange rate was at LBP91,000 per US dollar by the end of the year. Also, the agency noted that the sustainability of public finances requires substantial policy adjustments and public debt write-offs.

Further, it said that BdL has lifted all fuel and food subsidies, given the sustained drain of foreign currency reserves. Still, it projected the current account deficit to narrow from an average of \$12bn annually in the 2021-18 period to about \$1.7bn per year in the 2023-26 period due mainly to import compression as a result of shortages of foreign currency and resilient net remittance inflows, amid the absence of additional external funding. It expected BdL to continue the drawdown of its foreign currency reserves, to a certain extent, in order to fund current account deficits.

Lebanon's Macroeconomic Indicators					
	2021	2022	2023	2024	2025
Real GDP Growth (%)	-7.0%	-1.5%	0.3%	0.7%	1.0%
Fiscal Balance (% of GDP)	0.8%	0.0%	-0.3%	-0.5%	-0.7%
Primary Fiscal Balance (% of GDP)	1.8%	1.2%	0.7%	1.1%	0.7%
Net Public Debt Level (% of GDP)	348.2%	326.6%	323.8%	305.7%	304.1%
Inflation Rate (average,%)	154.8%	171.2%	250.0%	140.0%	90.0%
Exchange Rate (eop, LBP/\$)	23,000	38,000	91,000	95,000	99,000
Current Account Balance (% of GDP)	-21.3%	-42.4%	-11.8%	-9.7%	-11.5%
Gross External Financing Needs / CARs plus Usable Reserves	147.2%	171.2%	166.0%	166.9%	173.5%

Source: S&P Global Ratings

### Construction activity deteriorates in fourth quarter of 2022

Banque du Liban's quarterly business survey about the opinions of business managers shows that the balance of opinions for general construction activity reached -59 in the fourth quarter of 2022, compared to -18 in the previous quarter and to -63 in the fourth quarter of 2021. The balance of opinions for general construction activity in the fourth quarter of 2022 constituted the sixth lowest quarterly level since the first quarter of 2004, after reaching -81 in the second quarter of 2020, -75 in the first and third quarters of 2020, -69 in the fourth quarter of 2020, -67 in the third quarter of 2021, and -63 in the fourth quarter of 2021. The results are attributed to the absence of new projects, very low investments in the sector, delays in the implementation of reforms to restore confidence, the fluctuations of the exchange rate of the US dollar on the parallel market, as well as the relative adjustment of the private sector to the ongoing crisis.

The business survey covers the opinions of managers of construction enterprises about their businesses, 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 a particular indicator and the proportion of those who reported a decline in the same indicator. The balance of opinions for construction activity was -59 in the fourth quarter of 2022 compared to -18 in the preceding quarter and to -60 in the fourth quarter of 2021. It reached its eighth lowest quarterly level since the first quarter of 2004. The balance of opinions about construction activity was -36 in the North, -46 in the South, -56 in the Bekaa, and -91 in Beirut & Mount Lebanon. Also, the balance of opinions about public works stood at -51 in the fourth quarter of 2022 compared to -25 in the third quarter of 2022 and -69 in the fourth quarter of 2021. The opinions about the level of public works reached -18 in the North, -52 in the Bekaa, -80 in the South, and -87 in Beirut & Mount Lebanon.

In addition, the balance of opinions about the portfolio of projects was -77 in the fourth quarter of 2022 relative to -72 in the preceding quarter and to -88 in the fourth quarter of 2021, and reached its ninth lowest quarterly level since the first quarter of 2004. The balance of opinions about the portfolio of projects was -57 in the North, -73 in the South, -87 in the Bekaa and -89 in Beirut & Mount Lebanon. Further, the balance of opinions about construction costs reached +64 in the fourth quarter of 2022, compared to +71 in the preceding quarter and +58 in the fourth quarter of 2021.

In parallel, the balance of opinions about investments in the sector was 12% in the fourth quarter of 2022, compared to 23% in the preceding quarter and to 13% in the fourth quarter of 2021. The balance of opinions about investments was 0% in the Bekaa and the South, 2% in Beirut & Mount Lebanon, and 52% in the North. Also, the balance of opinions about the number of employees in the sector was -72 in the fourth quarter of 2022 compared to -60 in the preceding quarter and to -75 in the fourth quarter of 2021, and reached its ninth lowest quarterly level since the first quarter of 2004. The balance of opinions about the number of employees was -57 in the North, -71 in Beirut & Mount Lebanon, -82 in the Bekaa, and -100 in the South.

<b>Construction and Public Work Activity: Evolution of Opinions</b>				
<b>Aggregate results</b>	<b>Q4-19</b>	<b>Q4-20</b>	<b>Q4-21</b>	<b>Q4-22</b>
General activity	-57	-69	-63	-59
Construction	-58	-67	-60	-59
Public works	-57	-75	-69	-51
Portfolio of projects	-73	-95	-88	-77
Construction costs	45	72	58	64
Investments (% of yes)	12%	16%	13%	12%

*Source: Banque du Liban Business Survey for Fourth Quarter of 2022*



### Occupancy rate at Beirut hotels at 39% in first five months of 2023

EY's benchmark survey of the hotel sector in the Middle East indicates that the average occupancy rate at four- and five-star hotels in Beirut was 38.7% in the first five months of 2023 relative to 42% in the same period of 2022, and compared to an average rate of 64.4% in 13 Arab markets included in the survey. The occupancy rate at Beirut hotels was the lowest in the region in the first five months of the year, while it was the second lowest in the same period of 2022. The occupancy rates at Beirut hotels was 36.8% in January, 35.6% in February, 38.2% in March, 33.4% in April, and 49.2% in May 2023. In comparison, it was 34.7% in January, 43.8% in February, 52.7% in March, in 25.8% in April, and 52.5% in May 2022. The occupancy rate at hotels in Beirut decreased by 3.2 percentage points in the first five months of 2023 from the same period of 2022. In comparison, the average occupancy rate in Arab markets improved by 6.4 percentage points in the covered period.

Also, the average rate per room at Beirut hotels was LBP7.74m (\$82) in the first five months of 2023, relative to LBP1.8m (\$56) in the same period of 2022, and constituted the lowest rate in the region. EY indicated that it based its average rate per room at Beirut hotels on the exchange rate of the Lebanese pound to the US dollar that the hotels used at the time of the client's booking.

The average rate per room in Beirut was lower than the regional average of \$175.6 that increased by \$14, or by 8.7%, from an average of \$161.6 in the same period of 2022. The average rate per room at Beirut hotels was LBP2.9m (\$50) in January, LBP4.4m (\$51) in February, LBP6.3m (\$59) in March, LBP6.7m (\$69.2) in April, and LBP15.26m (\$162) in May 2023. In comparison, it was LBP1.4m (\$69) in January, LBP1.4m (\$67) in February, LBP1.4m (\$61) in March, LBP1.9m (\$72.3) in April, and LBP2.48m (\$79) in May 2022.

Further, revenues per available room (RevPAR) stood at LBP3m (\$32) at Beirut hotels in the covered period compared to LBP739,571 (\$24) in the first five months of 2022, and were the lowest in the region. In comparison, the average RevPAR in Arab markets was \$117.8 in the covered period. EY indicated that it used the same methodology to calculate the RevPAR as it did for the average rate per room. The RevPAR at hotels in Beirut reached LBP1.06m (\$18) in January, LBP1.58m (\$18) in February, LBP2.4m (\$23) in March, LBP2.2m (\$23.1) in April, and LBP7.5m (\$80) in May 2023. In comparison, it was LBP505,622 (\$24) in January, LBP602,568 (\$29) in February, LBP760,794 (\$32) in March, LBP501,535 (\$18.7) in April, and LBP1.3m (\$42) in May 2022. The city of Madinah in Saudi Arabia had the highest hotel occupancy rate in the region at 82.6% in the first five months of 2023, while Dubai registered the highest average rate per room at \$356 and the highest RevPAR at \$294 in the covered period.

### Hotel Sector Performance in First Five Months of 2023

	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Madina	83	157	45.7
Dubai	83	294	1.3
Abu Dhabi	81	84	31.1
Makkah	75	184	52.3
Cairo	71	99	125.3
Riyadh	65	125	12.8
Muscat	62	83	33.3
Jeddah	59	144	25.4
Doha	59	67	1.5
Manama	56	90	22.2
Kuwait City	56	102	-1.2
Amman	50	70	21.3
<b>Beirut</b>	<b>39</b>	<b>32</b>	<b>34.7</b>

Source: EY, Byblos Research

### Gross written premiums down 4.5% to LBP2,456bn in 2022, claims at LBP2,334bn

Figures released by the Insurance Control Commission show that the gross written premiums of 46 licensed insurance companies in Lebanon totaled LBP2,456.4bn in 2022, constituting a decrease of 4.5% from \$2,573.1bn in 2021. Gross premiums reached LBP629.2bn in the first quarter of 2022, LBP631.5bn in the second quarter, LBP579.6bn in the third quarter, and LBP625.9bn in the fourth quarter of last year. They declined by 14% in the first three months of 2022, by 7.6% in the second quarter of the year, and by 2% in the third quarter, while they grew by 9.3% in the fourth quarter of 2022 from the corresponding quarters of 2021.

Motor insurance premiums totaled LBP918.4bn in 2022 and accounted for 37.4% of the sector's aggregate premiums. Medical insurance premiums followed with LBP753bn (30.7%), then life insurance premiums with LBP403.5bn (16.4%), and property & casualty premiums with LBP381.6bn (15.5%). Also, motor insurance premiums surged by 31% in 2022, while life insurance premiums declined by 23%, medical insurance premiums contracted by 19.3%, and property & casualty insurance premiums regressed by 8% last year.

Further, the gross claims settled by insurance companies totaled LBP2,333.8bn in 2022 and increased by 27% from LBP1,838.1bn in 2021. Gross claims reached LBP496.6bn in the first quarter of 2022, LBP581.1bn in the second quarter, LBP505.6bn in the third quarter, and LBP541bn in the fourth quarter of last year. As such, they increased by 32.7% in the first three months of 2022, rose by 33.3% in the second quarter, grew by 9.2% in the third quarter, while they regressed by 4% in the fourth quarter of 2022 from the corresponding quarters of 2021.

Gross claims paid for the motor insurance segment stood at LBP624bn and accounted for 26.7% of total claims that insurers settled last year. Claims disbursed for the life insurance category followed at LBP576.1bn (24.7%), then the health segment at LBP575bn (24.6%), and the property & casualty segment at LBP558.8bn (24%). Also, motor claims surged by 56.6%, property & casualty insurance claims rose by 48%, medical claims increased by 15.4%, and life insurance claims grew by 2% in 2022.

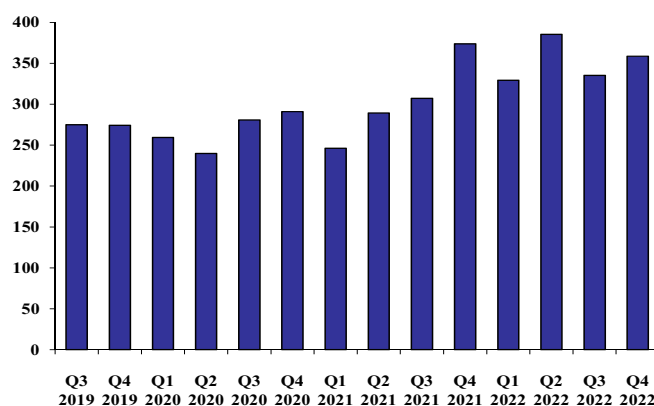
In parallel, the sector's acquisition expenses reached LBP493.7bn in 2022 relative to LBP463.2bn in 2021, while administrative costs totaled LBP506.4bn last year compared to LBP385.2bn in 2021. Also, the insurance sector registered net investment income of LBP56.9bn in 2022 relative to LBP130.7bn in 2021. In addition, the ratio of gross claims settled to gross written premiums stood at 95% last year compared to 71% in 2021. Further, the ratio of expenditures for acquisition and administration to gross written premiums reached 41% in 2022 relative to 33% in the previous year, and the ratio of net investment income to gross written premiums stood at 2% last year compared to 5% in 2021.

### Import activity of top five shipping firms and freight forwarders down 4.5% in first five months of 2023

Figures released by the Port of Beirut show that the aggregate volume of imports by the top five shipping companies and freight forwarders through the port reached 86,207 20-foot equivalent units (TEUs) in the first five months of 2023, constituting a decrease of 4.5% from 90,226 TEUs in the same period of 2022. The five shipping and freight forwarding firms accounted for 85% of imports to the Lebanese market in the covered period. Merit Shipping handled 29,462 TEUs in the first five months of 2023, equivalent to 19.5% of the total import freight market to Lebanon. Mediterranean Shipping Company (MSC) followed with 26,603 TEUs (17.6%), then MAERSK with 15,528 TEUs (10.3%), Sealine Group with 7,985 TEUs (5.3%), and Gezairi Transport with 6,479 TEUs (4.3%). Sealine Group registered a surge of 53.4% in imports in the first five months of 2023, the highest growth rate among the covered companies, while Gezairi Transport posted a decline of 16.4%, the steepest decline among the five firms in the covered period. Also, the import shipping operations of the top five firms through the port increased by 7% in May 2023 from the preceding month.

In parallel, the aggregate volume of exports by the top five shipping and freight forwarding firms through the Port of Beirut reached 32,377 TEUs in the first five months of 2023, constituting an increase of 7.7% from 32,377 TEUs in the same period of 2022. The five shipping companies and freight forwarders accounted for 94% of exported Lebanese cargo in the covered quarter. Merit Shipping handled 18,078 TEUs of freight in the first five months of the year, equivalent to 52.5% of the Lebanese cargo export market. MAERSK followed with 7,881 TEUs (23%), then Sealine Group with 2,957 TEUs (8.6%), MSC with 1,994 TEUs (5.8%), and Gezairi Transport with 1,351 TEUs (4%). MAERSK posted a rise of 68.3% in exports in the first five months of 2023, the highest growth rate among the covered companies, while MSC registered a decrease of 11%, the steepest decline among the five firms in the covered period. The export-shipping operations of the top five companies increased by 8% in May 2023 from the previous month.

Paid Claims (US\$m)



Source: Insurance Control Commission, Byblos Research

### Stock market capitalization up 40% to \$18.7bn at end-August 2023

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 31.5 million shares in the first eight months of 2023, constituting a jump of 185% from 11.1 million shares traded in the same period of 2022; while aggregate turnover amounted to \$311.2m and increased by 12% from a turnover of \$277.8m in the first eight months of 2022. Further, the market capitalization of the BSE stood at \$18.7bn at the end of August 2023, representing an increase of 40% from \$13.4bn a year earlier, with real estate equities accounting for 69% of the total, followed by banking stocks (22.6%), and industrial shares (8.3%). The market liquidity ratio was 1.7% at the end of August 2023 compared to 2.6% a year earlier.

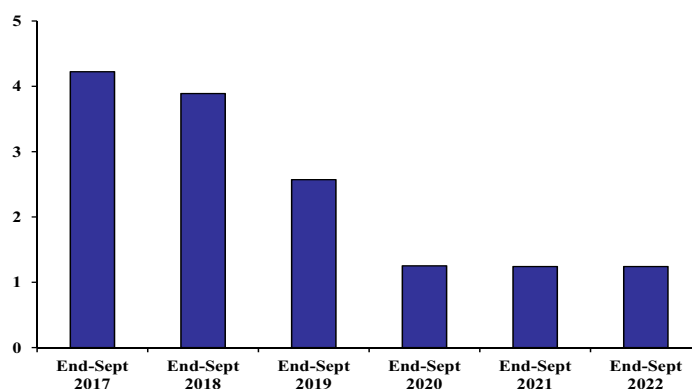
Banking stocks accounted for 88.2% of the trading volume in the first eight months of 2023, followed by real estate equities (11.7%) and industrial shares (0.1%). Also, real estate equities accounted for 90.8% of the aggregate value of shares traded, followed by banking stocks (9%), and industrial shares (0.3%). The average daily traded volume for the first eight months of 2023 was 201,955 shares for an average daily amount of \$2m. The figures represent a surge of 185% of the average daily traded volume and an increase of 12% of the average daily value in the covered period.

In parallel, the Capital Markets Authority's (CMA) Market Value-Weighted Index for stocks traded on the BSE increased by 66.4% in the first eight months of 2023, while the CMA's Banks Market Value-Weighted Index grew by 2.1% from the end of 2022. The increase in the Market Value-Weighted Index is mainly due to the rise in the prices of Solidere 'A' and Solidere 'B' shares by 29.6% and 28.3%, respectively, in the first eight months of 2023, given that the shares had market weights of 42.2% and 26.9%, respectively, on the last trading day in August 2023, the highest among listed companies on the BSE. The rise in the prices of Solidere shares has been mainly driven by the increase in demand for the shares from several bank depositors, given that they consider it a way to channel their deposits out of the banking sector in light of the government's economic rescue plan that stipulates the conversion of deposits into bank shares as part of the restructuring of the banking sector.

### Foreign investments of financial sector at \$1.2bn at end-September 2022

Figures issued by Banque du Liban (BdL) show that the net investment portfolio of Lebanese banks and financial institutions in foreign debt and equity securities totaled \$1.24bn at the end of September 2022, constituting a decrease of 20% in the first nine months of the year from \$1.55bn at the end of 2021 and nearly unchanged from the end of September 2021. According to BdL, the figures cover the net assets of resident banks and financial institutions in foreign tradable debt and equity instruments, on behalf of their clients and on a custodial basis mostly. Investments in long-term debt securities stood at \$647.2m at the end of September 2022 and accounted for 52.2% of the total, followed by placements in equities at \$586m (47.2%), and investments in short-term debt securities at \$7.3m (0.6%). Placements in equities declined by 32.4% and investments in long-term debt securities regressed by 5%, while investments in short-term debt securities surged by 685.7% in the first nine months of 2022.

Foreign Investments of Financial Sector (US\$bn)



Source: Banque du Liban, Byblos Research

The investments of commercial banks in long-term debt securities totaled \$260.8m and accounted for 40.3% of the financial sector's aggregate investments in such securities at the end of September 2022. The net investments of insurance companies followed with \$182.1m (28%), then medium- and long-term banks with \$181.4m (28%), and financial institutions with \$23.1m (3.6%). Further, medium- and long-term banks' investments in equities reached \$189m and represented 32.3% of the financial sector's investments in such securities at the end of September 2022. Financial institutions followed with \$152.7m (26%), then commercial banks with \$149m (25.4%), insurers with \$95m (16.2%), and financial intermediaries with \$0.3m (0.05%). In parallel, insurance firms had \$4m invested in short-term debt securities and accounted for 55.5% of the financial sector's total investments in such securities at the end of September 2022, followed by financial institutions with \$3.3m (44.5%).

The distribution of investments by destination shows that the United States was the main recipient of equity investments of banks and financial institutions operating in Lebanon with \$150.6m, or 25.7% of the total as at the end of September 2022. The United Kingdom followed with equity investments of \$66.1m (11.3%), then the Netherlands with \$52.3m (9%), and Luxembourg with \$46m and Jordan with \$45.6m (7.8% each), while other countries accounted for the remaining 38.5%. In parallel, France was the recipient of \$143m or 22% of investments by Lebanese banks and financial institutions in long-term debt securities, followed by the United Kingdom with \$111.4m (17.2%), the United States with \$104m (16%), Switzerland with \$53.7m (8.3%), and Ireland with \$50.8m (8%), while other countries accounted for the balance of 28.5%. Further, the United States was the recipient of 84.7% of investments by Lebanese banks and financial institutions in short-term debt securities, followed by the United Kingdom with 9%, and the European Union with 6.3%.



## Ratio Highlights

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

\*change in percentage points 21/20;

Source: Banque du Liban, Ministry of Finance, Central Administration of Statistics, Institute of International Finance, Byblos Research Estimates & Calculations

Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

## National Accounts, Prices and Exchange Rates

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

\*Average year-to-July 22, 2022

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

## Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's Investors Service	C	NP	-	C		-
Fitch Ratings	RD	C	-	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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## ADIR INSURANCE

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