

LEBANON THIS WEEK

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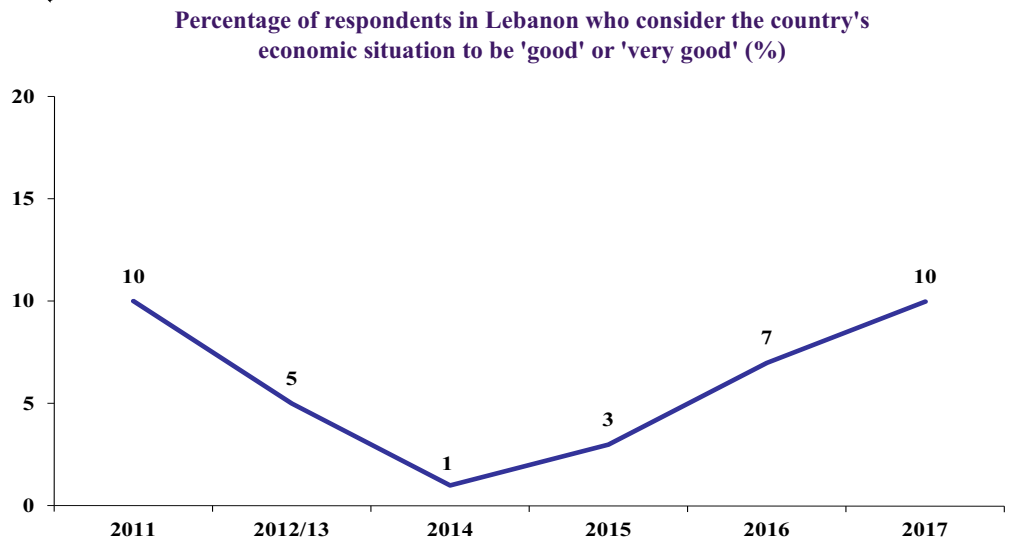
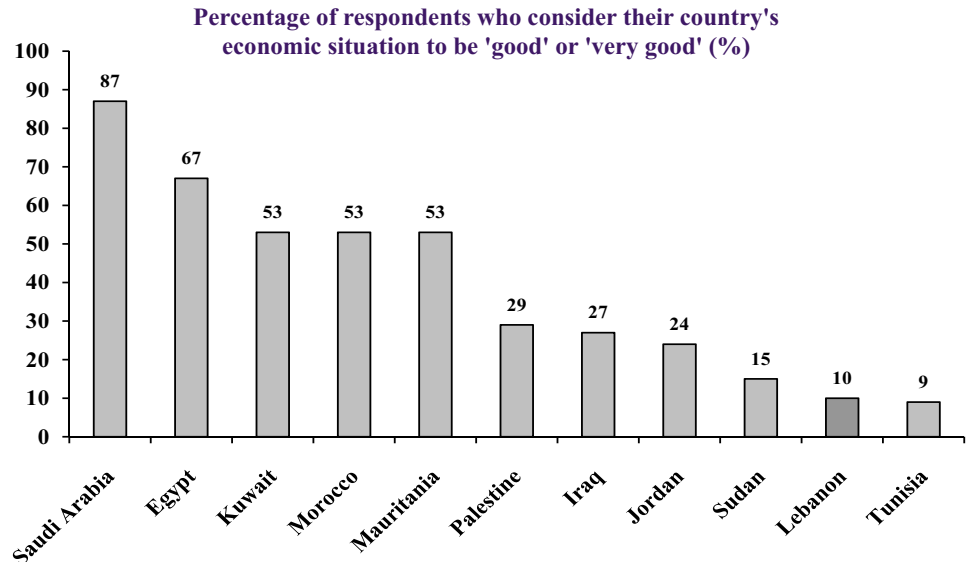
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Source: Arab Center for Research & Policy Studies, Byblos Bank

Quote to Note

"Given the limited amount of data on incomes, it is not possible to produce a full set of sector accounts."

The Central Administration of Statistics, on the need to upgrade and expand Lebanon's statistical system

Number of the Week

\$98: Per capita monthly expenditures of Syrian refugees in Lebanon in 2017, according to the United Nations Higher Council for Refugees

Lebanon in the News

\$m (unless otherwise mentioned)	2017	Dec 2016	Sep 2017	Oct 2017	Nov 2017	Dec 2017	% Change*
Exports	2,844	244	210	251	229	251	2.70
Imports	19,582	1,536	1,297	1,690	1,726	2,278	48.3
Trade Balance	(16,739)	(1,292)	(1,087)	(1,439)	(1,497)	(2,027)	56.88
Balance of Payments	(156)	910	457	(888)	68	854	(6.16)
Checks Cleared in LBP	21,677	1,879	1,475	1,993	1,880	2,131	13.41
Checks Cleared in FC	46,578	3,880	3,010	4,147	3,687	4,127	6.37
Total Checks Cleared	68,255	5,759	4,485	6,140	5,567	6,258	8.67
Budget Deficit/Surplus	(3,300.82)	(513.35)	(651.25)	(273.18)	(865.19)	(350.41)	(31.74)
Primary Balance	1,882.86	(111.56)	(145.72)	166.63	(119.74)	15.77	-
Airport Passengers***	8,235,845	598,001	861,828	616,742	592,890	626,866	4.83

\$bn (unless otherwise mentioned)	2017	Dec 2016	Sep 2017	Oct 2017	Nov 2017	Dec 2017	% Change*
BdL FX Reserves	35.80	34.03	35.06	36.77	35.69	35.80	5.21
In months of Imports	18.57	22.15	27.03	21.76	20.68	6.15	(72.25)
Public Debt	79.52	74.90	78.16	78.47	79.37	79.52	6.17
Bank Assets	219.86	204.31	213.42	215.79	216.21	219.86	7.61
Bank Deposits (Private Sector)	168.67	162.50	169.09	169.40	166.81	168.67	3.80
Bank Loans to Private Sector	60.32	57.18	58.93	59.13	59.55	60.32	5.49
Money Supply M2	52.48	54.68	55.50	55.07	51.96	52.48	(4.02)
Money Supply M3	138.38	132.80	138.87	138.68	136.99	138.38	4.20
LBP Lending Rate (%)****	8.09	8.23	8.31	8.24	7.98	8.09	(14bps)
LBP Deposit Rate (%)	6.41	5.56	5.53	5.56	5.88	6.41	85 bps
USD Lending Rate (%)	7.67	7.35	7.53	7.39	7.32	7.67	32 bps
USD Deposit Rate (%)	3.89	3.52	3.65	3.72	3.80	3.89	37 bps
Consumer Price Index**	4.40	3.10	4.10	4.60	4.80	5.00	190 bps

* Year-on-Year ** Year-on-Year percentage change ***includes arrivals, departures, transit

**** Starting January 2016, lending rates in Lebanese pounds are reported before any subsidy or facility from reserve requirements according to Intermediate Circular No 389, and as such they are not comparable year-on-year

Note: bps i.e. basis points

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
Audi Listed	5.42	(3.21)	1,652,756	20.05%
Byblos Common	1.47	0.00	67,505	7.69%
Solidere "A"	8.12	(1.58)	34,852	7.52%
BLOM Listed	10.50	(2.33)	31,420	20.90%
Audi GDR	5.58	(0.36)	24,050	6.19%
BLOM GDR	10.70	(1.11)	21,880	7.32%
Solidere "B"	8.10	(1.82)	16,187	4.87%
HOLCIM	15.60	3.79	12,168	2.82%
Byblos Pref. 09	96.00	1.05	674	1.78%
Byblos Pref. 08	94.00	0.00	-	1.74%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Nov 2018	5.15	99.875	5.432
May 2019	6.00	98.750	7.392
Mar 2020	6.38	96.750	8.407
Oct 2022	6.10	90.000	8.944
Jun 2025	6.25	84.000	9.422
Nov 2026	6.60	83.250	9.527
Feb 2030	6.65	80.500	9.434
Apr 2031	7.00	81.625	9.503
Nov 2035	7.05	79.750	9.441
Mar 2037	7.25	80.750	9.458

Source: Byblos Bank Capital Markets

	Jun 4-8	May 28-Jun 1	% Change	May 2018	May 2017	% Change
Total shares traded	1,869,332	833,639	124.2	3,629,854	18,564,676	(80.4)
Total value traded	\$10,911,681	\$7,676,382	42.1	\$28,799,512	\$157,326,100	(81.7)
Market capitalization	\$10.80bn	\$10.95bn	(1.36)	\$10.97bn	\$11.72bn	(6.4)

Source: Beirut Stock Exchange (BSE)



Lebanon's piracy rate at 69% in 2017, 37th highest globally and sixth highest among Arab countries

The U.S.-based Business Software Alliance, an industry group representing the world's leading computer software developers, estimated the software piracy rate in Lebanon at 69% in 2017 compared to 70% in 2015, 71% in each of 2011 and 2013, and 72% in 2009. As such, Lebanon had the 37th highest piracy level among 111 countries worldwide and the sixth highest among 15 Arab countries included in the survey. Also, Lebanon had the 14th highest piracy rate among 34 upper middle-income countries (UMICs) included in the survey. The survey covers operating systems, business applications, systems software such as databases and security packages, and consumer applications such as games, personal finance and reference software.

Globally, Lebanon's software piracy rate was higher than rates in Ecuador (68%) and in Argentina and Uruguay (67% each), and lower than rates in Vietnam (74%), Tunisia (73%) and Panama (71%). Further, Lebanon's piracy rate came higher than rates in Ecuador and Argentina, and lower than rates in Albania (74%) and Panama among UMICs. Lebanon's software piracy rate was significantly higher than the global rate of 37% and the Middle East & Africa rate of 56%. Libya had the highest piracy rate in the world at 90%, while the United States had the lowest rate globally at 15% in 2017. Piracy rates among Arab countries increased in Yemen between 2015 and 2017, while they regressed in 11 economies and were unchanged in Iraq, Libya and Oman.

Software Piracy Levels in Arab Countries in 2017

Country	Piracy Rate	Global Rank	Losses (US\$m)
Libya	90%	1	66
Yemen	88%	4	10
Iraq	85%	5	107
Algeria	82%	12	70
Tunisia	73%	35	39
Lebanon	69%	37	61
Morocco	64%	44	52
Oman	60%	52	56
Egypt	59%	53	64
Kuwait	57%	56	86
Jordan	55%	60	32
Bahrain	52%	62	32
Qatar	47%	70	64
Saudi Arabia	47%	70	356
UAE	32%	88	210

Source: Business Software Alliance, Byblos Research

In parallel, software piracy-related losses in Lebanon totaled \$61m in 2017, down from \$65m in each of 2013 and 2015, and compared to losses of \$52m in 2011 and \$46m in 2009. As such, Lebanon posted the 71st highest piracy-related dollar losses worldwide, the 24th highest losses among UMICs and the ninth highest losses among Arab countries. Globally, Lebanon's piracy-related dollar losses were similar to those in El Salvador, and came higher than those in Belarus (\$59m), Oman (\$56m) and Morocco (\$52m), and lower than losses in Egypt (\$64m), and in Kazakhstan and New Zealand (\$62m each). Also, Lebanon's losses came higher than losses in Belarus and Serbia (\$51m), and lower than losses in Libya (\$66m) and Kazakhstan among UMICs; while they were higher than those in Oman, Morocco, Tunisia (\$39m), Bahrain and Jordan (\$32m each) and Yemen (\$10m) regionally. Lebanon's piracy-related dollar losses accounted for 0.1% of global losses, for 0.4% of UMICs' losses, for 2% of losses in the Middle East & Africa region and for 4.7% of total piracy-related losses in Arab countries. Also, Lebanon's piracy-related dollar losses stood at 0.12% of GDP in 2017, relative to 0.13% of GDP in each of 2009, 2011 and 2015, and to 0.14% of GDP in 2013.

Lebanon signs agreement with Norway to support petroleum sector development

The Foreign Affairs and Diaspora Ministry and the Ministry of Energy & Water signed an agreement with the Norwegian Agency for Development Cooperation for the implementation of the third phase of the Oil for Development (OfD) Program. The program aims to support the Lebanese Petroleum Administration, as well as the Ministry of Finance and the Ministry of Environment, in carrying out their assigned roles and responsibilities in accordance with the petroleum sector's strategic and legal frameworks. Specifically, the third phase of the program would allow Lebanon to benefit from Norway's experience for the next three years in managing its offshore oil and gas exploration phase.

The first phase of the program, which extended over the 2006-12 period, supported the development of the legal framework of the Lebanese petroleum sector, as well as the capacity of public institutions to establish policies and frameworks in order to successfully manage the petroleum sector. The second phase of the program, which extended over the 2015-2017 period, promoted the further development of the petroleum sector's strategic and legal frameworks, improved the accountability and transparency of the petroleum industry's institutional framework, as well as addressed additional legal, health, safety and environmental issues.

The Norwegian Agency for Development Cooperation is part of the Norwegian Ministry of Foreign Affairs. It provides development assistance and financial aid to promote the development of civil society, the education sector, the private sector, healthcare, the energy sector, the public administration, as well as environmental and research activities in developing countries.



Foreign direct investment at \$2.6bn in 2017, equivalent to 5% of GDP

Figures released by the United Nations Conference on Trade and Development (UNCTAD) show that foreign direct investment (FDI) in Lebanon totaled \$2.63bn in 2017, constituting a marginal increase of 0.7% from \$2.61bn in 2016 and representing the third annual rise since 2010. FDI inflows in 2017 were 10.2% below the annual average flows of \$2.93bn during the 2010-16 period and came 40% lower than the peak of \$4.38bn posted in 2009. Also, Lebanon was the fourth largest recipient of FDI among 18 Arab countries and the third largest recipient among 12 countries in West Asia in 2017. It was also the 60th largest FDI recipient globally among 136 economies with a nominal GDP of \$10bn or more, and when excluding tax haven islands.

The UNCTAD figures for Lebanon are based on the official figures issued by Banque du Liban. According to BdL's methodology, the sources of FDI figures in Lebanon consist of public sector data, various indicators that estimate non-resident real estate investments, banking sector statistics, as well as statistics from administrative records on the acquisition of real estate by foreigners.

Lebanon was one of 10 Arab countries that registered an increase in FDI inflows in 2017. It posted the third lowest FDI increase among 16 Arab countries with positive flows. In comparison, FDI inflows to Arab economies regressed by 11.7% year-on-year, while FDI flows to West Asia decreased by 17.1%, those to developing economies were nearly unchanged from 2016 and global FDI flows dropped by 23.4%.

FDI inflows to Lebanon accounted for 9.3% of total FDI in Arab countries in 2017, up from a share of 8.1% in 2016. They also represented 10.3% of total flows to West Asia, 0.4% of FDI inflows to developing economies and 0.2% of global FDI in 2017.

Further, FDI inflows to Lebanon were equivalent to 5.1% of GDP in 2017, down from 5.3% of GDP in 2016 and compared to a peak of 15.5% of GDP in 2005. They were the third highest in the Arab world in 2017, behind Djibouti (8.1% of GDP) and Mauritania (6.4% of GDP). Also, FDI inflows to Lebanon as a percentage of GDP were the 28th highest in 2017 among countries with a nominal GDP of \$10bn or more and when excluding tax haven islands.

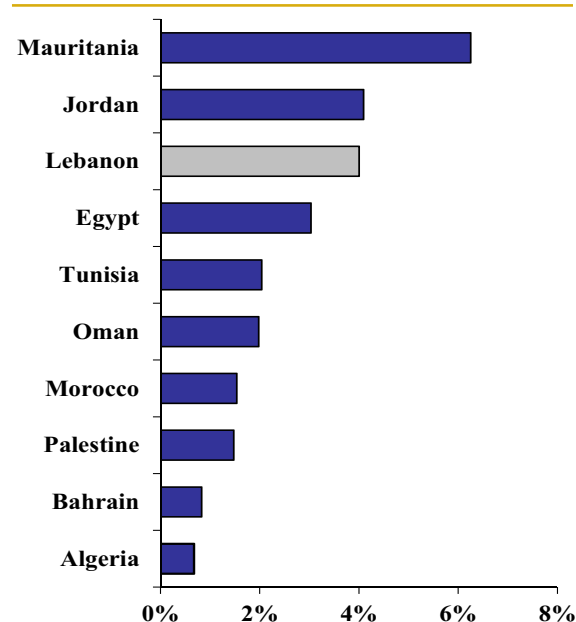
In parallel, FDI outflows from Lebanon totaled \$567.3m in 2017, constituting a decrease of 11.6% from \$642m in 2016, and compared to the annual average of \$998.4m during the 2010-16 period and to a peak of \$2bn registered in 2013. Lebanon was the sixth largest source of FDI outflows among 16 Arab countries with available figures and among West Asian countries in 2017. Further, net FDI flows to Lebanon reached \$2.1bn in 2017, the second highest level in the Arab world, up by 4.7% from net FDI flows of \$2bn in 2016 and relative to a peak of \$3.25bn in 2009.

Foreign Direct Investment in Arab Countries (\$m)

Country	2017	2016	Change (%)
UAE	10,354	9,605	7.8
Egypt	7,392	8,107	(8.8)
Morocco	2,651	2,157	22.9
Lebanon	2,628	2,610	0.7
Oman	1,867	1,680	11.1
Jordan	1,665	1,553	7.2
Saudi Arabia	1,421	7,453	(80.9)
Algeria	1,203	1,635	(26.4)
Sudan	1,065	1,064	0.1
Qatar	986	774	27.4
Tunisia	880	885	(0.6)
Bahrain	519	243	113.2
Mauritania	330	271	21.5
Kuwait	301	419	(28.2)
Palestine	203	297	(31.5)
Djibouti	165	160	3.1
Yemen	(270)	(561)	-
Iraq	(5,032)	(6,256)	-
Total	28,327	32,096	(11.7)

Source: UNCTAD, Byblos Research

Net FDI inflows in Arab Countries in 2017 (% of GDP)



Source: UNCTAD, IMF, Byblos Research

Occupancy rate at Beirut hotels at 60.5%, room yields down 5.6% in first four months of 2018

EY's benchmark survey of the hotel sector in the Middle East indicated that the average occupancy rate at hotels in Beirut was 60.5% in the first four months of 2018, down from 64.5% in the same period of 2017 and compared to an average rate of 70.2% in 14 Arab markets included in the survey. The occupancy rate at Beirut hotels was the third lowest in the region in the first four months of 2018, while it was the fifth lowest in the same period of 2017. Also, the occupancy rate at hotels in Beirut regressed by 3.9 percentage points year-on-year in the covered period, constituting the fourth steepest decrease among the 14 Arab markets, behind only Doha (-9.7 percentage points) and Jeddah and Makkah (-9.2 percentage points each). In comparison, the average occupancy rate in Arab markets grew by 0.6% year-on-year in the first four months of 2018. Occupancy rates at Beirut hotels were 49.1% in January, 61.3% in February, 63.5% in March and 68.5% in April 2018, compared to 56.3% in January, 68.3% in February, 63.1% in March and 70.6% in April 2017.

The average rate per room at Beirut hotels was \$174 in the first four months of 2018, ranking the capital's hotels as the seventh most expensive in the region, relative to Dubai (\$296), Kuwait (\$200), Jeddah and Manama (\$196 each), Riyadh (\$186) and Ras Al Khaimah (\$180).

The average rate per room at Beirut hotels increased by 0.5% year-on-year in the covered period. Beirut had the fifth highest increase in its average rate per room among five cities posting a growth in the first four months of 2018. The average rate per room in Beirut came above the regional average of \$169.4 that regressed by 3.3% from the first four months of 2017.

Further, revenues per available room (RevPAR) were \$105 in Beirut in the first four months of 2018, down from \$111 in the same period of 2017. They were the seventh lowest in the region relative to Makkah (\$71), Cairo (\$76), Amman (\$81), Abu Dhabi and Doha (\$96 each), and Jeddah (\$98). Beirut's RevPAR decreased by 5.6% year-on-year and posted the fourth smallest decline, behind Doha (-20%), Makkah (-17.5%) and Jeddah (-14%). Beirut posted RevPARs of \$74 in January, \$88 in February, \$110 in March and \$120 in April 2018, compared to \$87 in January, \$99 in February, \$106 in March and \$127 in April 2017. Abu Dhabi posted the highest occupancy rate at 87.3%, while Dubai had the highest average rate per room in the region at \$296 and the highest RevPAR at \$255 in the first four months of 2018.

Average size of apartments under construction in Beirut at 182 square meters in 2017

A study conducted by real estate advisory firm RAMCO shows that the average size per apartment under construction in Beirut was 182 square meters (sqm) in 2017, which constitutes a decrease of 8% from 198 sqm in 2016. In comparison, the average size of an apartment under construction in the capital city stood at 252 sqm in 2013, 238 sqm in 2014 and 216 sqm in 2015. Overall, the average size per apartment declined by 128 sqm between 2009 and 2017. The firm attributed the decline in the average size per apartment to the shrinking budget of buyers. As such, it said that developers are proposing smaller apartments in order to attract the largest possible number of buyers. The study covered 269 buildings under construction across Beirut.

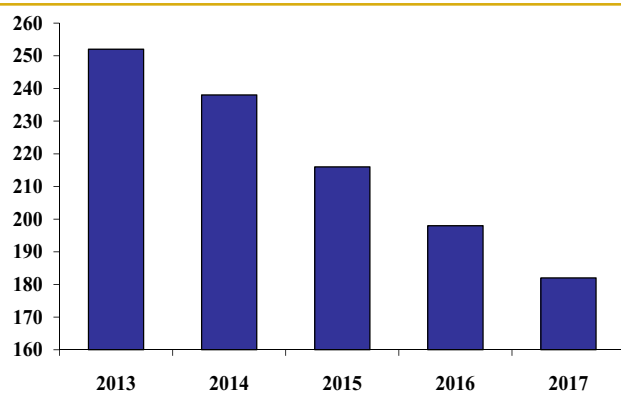
In addition, RAMCO pointed out that the decrease in the average size of apartments has led to the increase in the number of apartments under construction in Beirut that are smaller than 100 sqm. It noted that there are currently 35 buildings under development in Beirut that are offering small apartments of between 50 sqm and 99 sqm. It added that small apartments account for 33% of total residential units under development in Ashrafiyah and for 37.5% of the total in the Beirut Central District. In contrast, it said that only three projects out of the 172 buildings under construction in Western Beirut offer small apartments that have a surface area of less than 100 sqm each.

Hotel Sector Performance in First Four Months of 2018

	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Dubai	86.1	255	(3.8)
Ras Al Khaimah	81.2	147	8.1
Muscat	82.5	142	2.1
Kuwait City	68.0	136	7.3
Manama	61.3	120	5.8
Madina	71.0	118	(5.3)
Riyadh	63.6	115	4.5
Beirut	60.5	105	(5.6)
Jeddah	53.5	98	(14.0)
Doha	64.7	96	(20.0)
Abu Dhabi	87.3	96	(4.1)
Amman	59.6	81	2.8
Cairo City	77.3	76	17.8
Makkah	66.4	71	(17.5)

Source: EY, Byblos Research

Average Size of Apartments Under Construction in Beirut (sqm)



Source: RAMCO, Byblos Research

Lebanon's external debt posts 11th lowest return in emerging markets in first five months of 2018

Figures issued by Intercontinental Exchange, Inc. (ICE) indicate that Lebanon's external debt posted a return of -5.06% in the first five months of 2018, constituting the fifth lowest return among 44 markets in the Central & Eastern Europe and the Middle East & Africa (CEEMEA) region, as well as the 11th lowest return among 76 emerging markets included in ICE's External Debt EM Sovereign Index. Lebanon underperformed the overall emerging markets' return of -3.91% during the covered period. Also, Lebanon's external debt posted the fifth lowest return among 27 countries in the Middle East & Africa region in the first five months of the year.

Further, Lebanon's external debt posted a return of -4.4% in May 2018, constituting the second lowest return in the CEEMEA region, and the fourth lowest in emerging markets during the covered month. Lebanon underperformed the emerging markets' return of -1.13% in May 2018. It also posted the second lowest return in the Middle East & Africa region during the covered month.

In parallel, ICE indicated that the option-adjusted spread on Lebanese Eurobonds was 615 basis points at the end of May 2018 compared to 412 basis points at end-May 2017. The spread on Lebanese Eurobonds was the second widest in the CEEMEA region and the sixth widest among emerging markets. It was wider than the emerging markets' overall spread of 264 basis points at the end of May 2018.

Lebanon has a weight of 2.06% on ICE's External Debt EM Sovereign Index, the ninth largest weight in the CEEMEA universe and the 15th largest among emerging economies. Lebanon accounted for 3.7% of allocations in the CEEMEA region.

Airport passengers up 8% in first five months of 2018

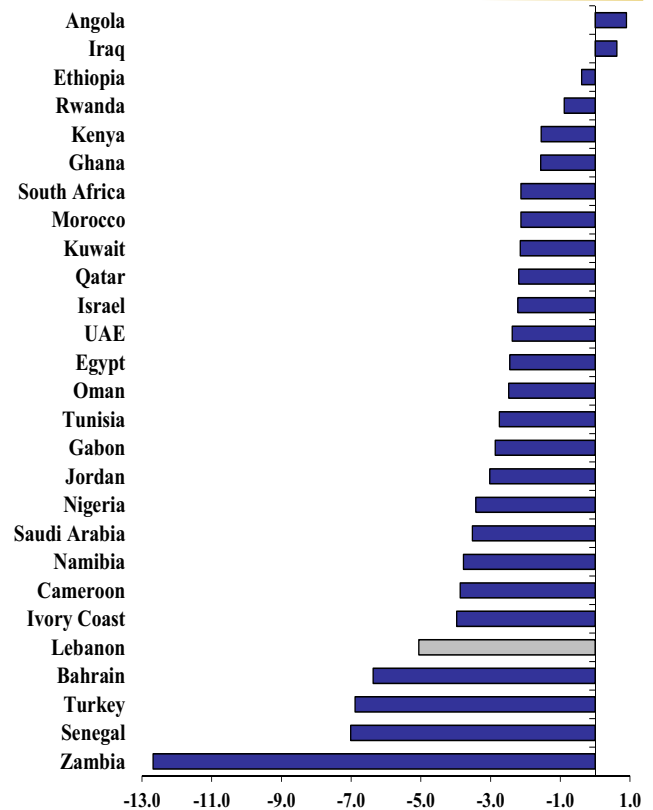
Figures released by the Beirut-Rafic Hariri International Airport show that 3,058,157 passengers utilized the airport (arrivals, departures and transit) in the first five months of 2018, constituting an increase of 7.6% from 2,842,223 passengers in the same period of 2017. The number of arriving passengers grew by 9% year-on-year to 1,524,323 in the first five months of 2018, compared to an increase of 5.1% in the same period last year and to a rise of 8.1% in the first five months of 2016. Also, the number of departing passengers grew by 6.2% year-on-year to 1,532,094 in the first five months of 2018, relative to an increase of 5.8% in the same period of last year and to a rise of 6.3% in the first five months of 2016.

In parallel, the airport's aircraft activity grew by 1.9% annually to 26,696 take-offs and landings in the first five months of 2018, compared to a decrease of 3.1% in the same period of 2017 and to a growth of 7.1% in the first five months of 2016. In addition, the HIA processed 39,616 metric tons of freight in the first five months of 2018 that consisted of 24,354 tons of import freight and 15,262 tons of export freight. Middle East Airlines had 9,543 flights in the first five months of 2018 and accounted for 35.7% of HIA's total aircraft activity.

Coincident Indicator up 3.5% year-on-year in first four months of 2018

Banque du Liban's Coincident Indicator, an index of economic activity in Lebanon, reached 325.7 points in April 2018 compared to 321.4 in March 2018 and 317.6 in April 2017. The Coincident Indicator, an average of 8 weighted economic indicators, increased by 1.3% month-on-month and by 2.6% year-on-year in April 2018. The indicator averaged 317.4 in the first four months of 2018, up by 3.5% from 306.6 in the same period of 2017. Also, the indicator averaged 309.5 in the 12 months ending April 2018, compared to 308.8 in the 12-month period ending March 2018 and 294.3 in the 12 months ending April 2017. As a result, the 12-month average coincident indicator was unchanged month-on-month and grew by 5.2% year-on-year. In parallel, the indicator improved 20 times and regressed 6 times on a monthly basis in the month of April since 1993. It averaged 249.5 points in 2010, 255.7 points in 2011, 256.8 points in 2012, 264.7 points in 2013, 273.2 points in 2014, 278.6 points in 2015, 289.5 points in 2016 and 305.9 points in 2017.

External Debt Performance in the Middle East & Africa in First Five Months of 2018 (%)



Source: ICE, Byblos Research

Public schools have one teacher per 12 students, teachers' salaries per student up 43% in three years

The World Bank considered that public education in Lebanon lags international benchmarks, despite significant government spending. It indicated that the Lebanese government's expenditures on education averaged \$1.2bn annually in the 2013-15 period, which is equivalent to 2% of GDP and 6.3% of total government spending per year. It noted that the government spent around \$1bn per year, or 80% of the total, on public education, while it earmarked the remainder on the construction of public schools and on tuition subsidies for civil servants who enroll their children in private schools.

In parallel, the World Bank indicated that there were 327,951 Lebanese and non-Lebanese students, in first shift public schools in Lebanon in 2017, up by 13,225 students from 2016 and by 51,832 students since 2011. It noted that the number of students grew by 19% between 2011 and 2017 due to an increase of 3.2 times in the number of non-Lebanese students, mainly Syrians. It added that there were 257,378 Lebanese students in public schools, which represented 78% of the total, while 70,573 pupils, or 22% of the total, were non-Lebanese.

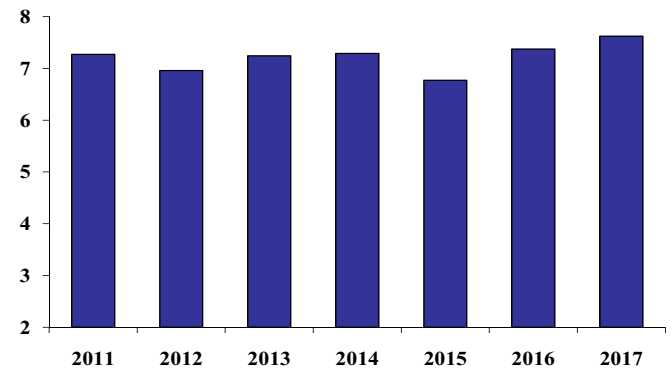
In addition, the Bank pointed out that there were 43,027 teachers in first shift public schools in 2017, up by 5,056 teachers (+13.3%) from 37,971 instructors in 2011, due to an increase of 2.2 times in the number of contractual teachers and a decline of 22% in the number of permanent teachers. It added that there were 21,839 permanent instructors in 2017, or 50.8% of the total number of teachers in 2017, compared to 27,963 permanent teachers, or 73.6% of the total, in 2011. Also, there were 20,253 contractual teachers in 2017, or 47.1% of the total, up from 9,095 instructors, or 24% of the total, in 2011. Further, there were 935 offered teachers, or teachers whose salaries are covered by private organizations, municipalities or civil society organizations, in 2017, and represented the balance of 2.2% of total teachers in 2017. In this context, the World Bank considered that the significant increase in the number of contractual teachers represents a risk to the quality of education at public schools.

Further, the World Bank considered that a more efficient teacher workforce management and deployment is crucial to allow the Lebanese public education sector to reach its full potential. It said that the average student-teacher ratio at public schools in Lebanon is relatively low at about 12 Lebanese students per permanent teacher per public school. It added that the distribution of the pay grade of permanent teachers is skewed towards higher pay grades, mainly due to the old median age of public sector instructors. In fact, there are 8,336 public school teachers in the highest pay grade range, and only 589 public schools teachers in the lowest pay grade range. Also, teachers who belong to the higher pay grade earn higher salaries given their seniority and years of experience. In addition, the World Bank pointed out that the average teacher workload is low at 430 hours per year compared to 771 hours per year in OECD countries. It concluded that the low levels of teacher workload, along with the high per-student teacher salaries, have led to a significant increase in government spending. In fact, the government paid teachers an annual salary of \$1,957 per student in 2014, which constitutes an increase of 43% from \$1,365 per student in 2011.

Balance of payments posts deficit of \$755m in first four months of 2018

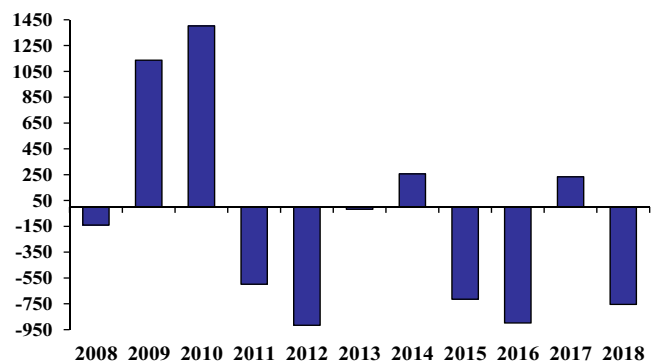
Figures issued by Banque du Liban (BdL) show that Lebanon's balance of payments posted a deficit of \$754.8m in the first four months of 2018 compared to a surplus of \$233.9m in the same period of 2017. The balance of payments posted a deficit of \$556.5m in April 2018 compared to deficits of \$355.4m in March 2018 and of \$320.9m in April 2017. The April 2018 deficit was caused by a decline of \$284.7m in the net foreign assets of banks and financial institutions, and by a drop of \$271.8m in those of BdL. The cumulative deficit in the first four months of 2018 was caused by a decrease of \$1.92bn in the net foreign assets of banks and financial institutions, which was partly offset by a rise of \$1.16bn in those of BdL. The balance of payments posted surpluses of \$7.9bn in 2009, \$3.3bn in 2010 and \$1.2bn in 2016, and deficits of \$2bn in 2011, \$1.5bn in 2012, \$1.1bn in 2013, \$1.4bn in 2014, \$3.4bn in 2015 and \$155.7m in 2017. The balance of payments posted a deficit of 0.3% of GDP in 2017, relative to a surplus of 2.5% of GDP in 2016 and deficits of 6.8% of GDP in 2015 and 2.9% of GDP in 2014.

Student-to-Teacher Ratio at Public Schools in Lebanon (%)



Source: World Bank, Byblos Researrch

Balance of Payments* (US\$m)



* In the first four months of each year

Source: Banque du Liban

Trade deficit narrows by 6% to \$5.3bn in first four months of 2018

The total value of imports reached \$6.4bn in the first four months of 2018, constituting a decline of 3.6% from \$6.6bn in the same period of 2017; while the aggregate value of exports increased by 10.9% year-on-year to \$1.1bn in the covered period. As such, the trade deficit narrowed by 6.1% to \$5.3bn in the first four months of 2018 due to a year-on-year decrease of \$240m in imports and an increase of \$105.2m in exports.

The increase in exports in the first four months of 2018 mainly reflects a growth of \$68m, or 30.2%, in the value of exported jewelry, a rise of \$45.8m, or 43.5%, in the value of exported base metals, and an increase of \$15m, or 14.2%, in the value of exported chemical products. They were partly offset by a decline of \$21.3m, or 70.1%, in the exported mineral products and a drop of \$11.1m, or 10.3%, in the exports of machinery & mechanical appliances.

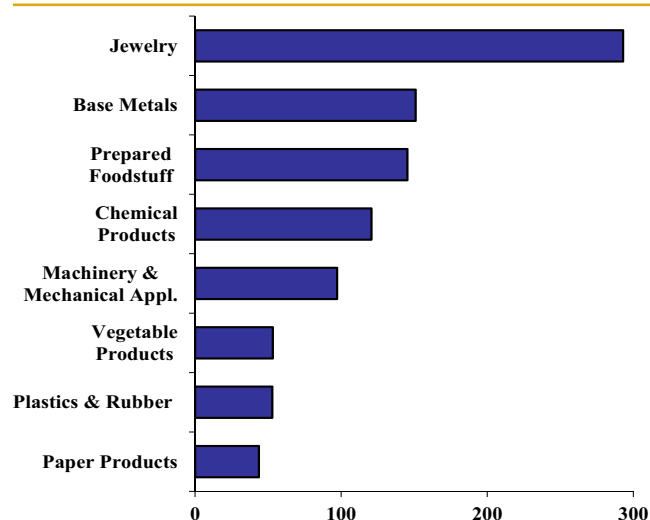
Further, the decline in imports mainly reflects a decrease of \$547.6m, or 33.2%, in the value of imported mineral products, which was offset by a growth of \$307.6m, or 6.2%, in the value of imported non-hydrocarbon products. The value of imported oil & mineral fuels reached \$1.1bn in the first four months of 2018 and accounted for 17.3% of total imports in the covered period.

In parallel, exports to Switzerland expanded by 1.7 times year-on-year in the first four months of 2018, those to Turkey grew by 56.5% and exports to the UAE increased by 52.2%. In contrast, exported goods to Syria dropped by 46.1%, while those to Saudi Arabia declined by 15.1%, exports to South Africa decreased by 14.3% and those to Iraq dropped by 7.5% year-on-year in the covered period. Re-exports totaled \$129.1m in the first four months of 2018 compared to \$227.2m in the same period of 2017. Also, the Port of Beirut was the exit point for 49.2% of Lebanon's total exports in the first four months of 2018, followed by the Hariri International Airport (35.9%), the Port of Tripoli (8.7%), the Masnaa crossing point (3.9%) and the Port of Saida (1.3%).

Lebanon's main non-hydrocarbon imports were chemical products that reached \$737.3m in the first four months of 2018 and increased by 6.9% from the same period of 2017. Imports of machinery & mechanical appliances followed at \$733.7m (+21.4%), then vehicles, aircraft & vessels at \$514m (-9%), jewelry at \$454.4m (+13.6%), base metals at \$452.6m (+6.2%) and prepared foodstuff at \$441.2m (-8.1%). The Port of Beirut was the entry point for 70.3% of Lebanon's merchandise imports in the covered period, followed by the Hariri International Airport (21%), the Port of Tripoli (6.7%) and the Port of Saida (1.3%).

China was the main source of imports with \$697.2m, or 10.9% of the total, in the first four months of 2018, followed by Italy with \$548m (8.6%), Greece with \$492.7m (7.7%), Germany with \$387.4m (6.1%), the United States with \$351.2m (5.5%) and Egypt with \$231.2m (3.6%). Imported goods from China grew by 21.7% year-on-year in the covered period and those from Italy rose by 15.4%. In contrast, imported goods from the United States dropped by 33.1%, those from Egypt decreased by 5.1%, imports from Greece declined by 4% and those from Germany decreased by 1.4% year-on-year in the first four months of 2018.

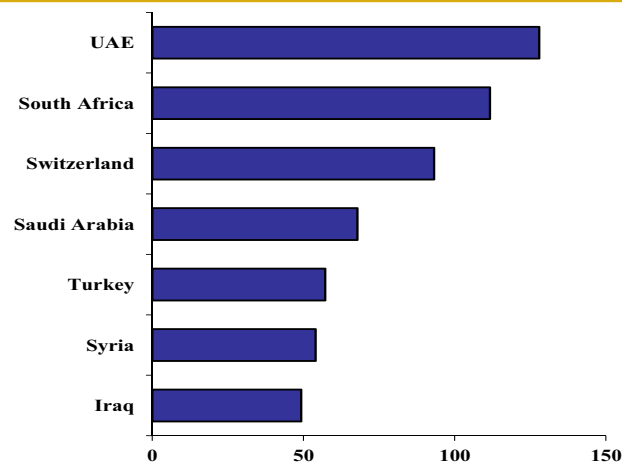
Main Lebanese Exports* (US\$m)



*in the first four months of 2018

Source: Lebanese Customs Administration, Byblos Research

Main Destinations of Lebanese Exports*(US\$m)



*in the first four months of 2018

Source: Lebanese Customs Administration, Byblos Research

Opened letters of credit at \$1.4bn for imports and \$765m for exports in first quarter of 2018

Figures released by Banque du Liban indicate that the value of letters of credit (LCs) opened to finance imports to Lebanon totaled \$1.4bn in the first quarter of 2018, down by 23% from \$1.8bn in the first quarter of 2017. Further, utilized credits for imports reached \$1.3bn in the covered quarter, down by 36.1% from \$2.1bn in the same quarter last year. They accounted for 94% of opened LCs in the first quarter of 2018. Also, outstanding import credits stood at \$1.03bn at the end of March 2018 compared to \$1.2bn at end-March 2017. In addition, the aggregate value of inward bills for collection reached \$250.3m in the first quarter of 2018, constituting a drop of 53.6% from \$539.8m in the first quarter of 2017. The outstanding value of inward bills for collection reached \$59m at the end of March 2018 relative to \$74.8m at end-March 2017.

In parallel, the value of documentary LCs opened to finance exports from Lebanon totaled \$765m in the first quarter of 2018, constituting a decrease of 30.8% from \$1.1bn in the first quarter of 2017. Further, utilized credits for exports reached \$721.3m in the covered quarter, down by 17.3% from \$872m of used credits in the same quarter last year. Also, outstanding export credits stood at \$872m at the end of March 2018 compared to \$933m at end-March 2017. The aggregate value of outward bills for collection amounted to \$387.1m in the first quarter of 2018, constituting an increase of 7.1% from \$361.5m in the same quarter of 2017. The outstanding value of outward bills for collection reached \$415.3m at the end of March 2018 relative to \$478.4m at end-March 2017.

New industrial licenses down 20% in 2017

The Ministry of Industry issued 421 new industrial licenses in 2017, constituting a decrease of 19.8% from 525 licenses in 2016. Construction licenses accounted for 45.8% of issued licenses in 2017, followed by investment licenses with 28.7% and construction & investment licenses with 25.4%. In parallel, the ministry issued 99 requests for settlement, 54 licenses to modify industrial plants' owner or usage and 16 renewed licenses, while it refused or revoked 62 licenses. Overall, the ministry issued 2,203 new industrial licenses over the 2013-17 period, of which 49.1% were construction licenses, 24.6% represented investment licenses and 26.3% were both construction and investment licenses.

The ministry issued 171 new licenses for Mount Lebanon in 2017, or 40.6% of the total; followed by the Bekaa with 114 licenses (27.1%); the North with 45 licenses (10.7%); the South with 44 licenses (10.5%); Nabatieh with 31 licenses (7.4%) and Beirut with 16 licenses (3.8%). Also, the ministry issued 126 licenses in the food processing sector last year, or 30% of the total; followed by 47 licenses for chemicals industry (11.2%); 45 licenses for construction materials (10.7%); 31 licenses for rubber & plastics (7.4%); 25 licenses for each of mining & quarrying products and metal products & electrical appliances (6% each); and 17 licenses for each of the furniture & wood sector, mining materials, and the manufacturing of tools and equipment (4% each).

Construction activity significantly deteriorates in fourth quarter of 2017

Banque du Liban's quarterly business survey of the opinions of business managers shows that general construction activity deteriorated year-on-year in the fourth quarter of 2017, with the balance of opinions standing at -40 compared to -33 in the fourth quarter of 2016. Also, general construction activity significantly deteriorated quarter-on-quarter, as the balance of opinions was -21 in the third quarter of 2017. The business survey reflects the opinions of enterprise managers about the evolution of their businesses, in order to depict the trend of a number of key economic variables. The balance of opinions for construction activity was -39 compared to -21 in the third quarter of 2017 and to -27 in the fourth quarter of 2016. The balance of opinions indicates that construction activity was the highest in the Bekaa at -13, followed by the North (-38), Beirut & Mount Lebanon (-45) and the South (-75). Also, the balance of opinions for public works stood at -31 in the fourth quarter of 2017 compared to -4 in the preceding quarter and to -35 in the fourth quarter of 2016. Opinions about the level of public works were the highest in the North at -9, followed by the Bekaa (-15), Beirut & Mount Lebanon (-43) and the South (-60).

In parallel, the balance of opinions for the portfolio of projects was -45 in the fourth quarter of 2017 relative to -39 in the previous quarter and to -30 in the fourth quarter of 2016. The balance of opinions for the portfolio of projects was the highest in the North at -32, followed by Beirut & Mount Lebanon (-43), the Bekaa (-54) and the South (-62). Further, the balance of opinions for construction costs reached +1 in the covered quarter, relative to +13 in the third quarter of 2017 and to +17 in the fourth quarter of 2016. 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.

Construction and Public Work Activity: Evolution of Opinions				
Aggregate results	Q4-14	Q4-15	Q4-16	Q4-17
General activity	-23	-33	-33	-40
Construction	-22	-36	-27	-39
Public work	-27	-28	-35	-31
Portfolio of projects	-36	-39	-30	-45
Construction costs	16	-23	17	1
Investments (% of yes)	36%	37%	32%	29%

Source: Banque du Liban Business Survey for Fourth Quarter of 2017

Budget for 2018 includes multiple reductions in tax penalties

The 2018 Budget Law that the Lebanese Parliament enacted in March 2018 and that was published in the Official Gazette on April 19, 2018 included several tax exemptions, reductions and facilities. Article 17 of the Budget Law exempts taxpayers from any penalties from their failure to maintain accounting records about their income tax. It reduced by 90% the penalties that result from all other tax violations if the penalties are paid by October 19, 2018. Further, Articles 18 to 22 reduce by 90% the fines and penalties that are due to government entities, such as municipality fees, *mécanique* fees and payment arrears to the National Social Security Fund (NSSF), provided that taxpayers settle their dues before October 19, 2018. In addition, Article 24 exempts taxpayers from penalties related to violations of the income tax law up until 2016, provided that the taxes are paid by October 2018. These violations include the failure of a taxpayer that works in several places, or is self-employed at the same time, to fill and declare the R8 tax form.

In parallel, Article 23 of the 2018 Budget Law allows taxpayers to file by October 2018 their objection about any tax adjustments, provided that they pay 10% of the adjusted taxes prior to submitting the objection. Also, Article 25 stipulates that taxpayers could pay in installments any unpaid value-added tax or taxes deducted at source (TDS), if they submit a written request and settle 50% of those taxes by October 2018. However, in case the installments are not paid on time, the outstanding payments will be subject to a 12% interest rate. Further, Article 32 allows taxpayers who have objected to a tax adjustment to pay 50% of the tax adjustment by August 2018, even if the objection committee has not ruled on this issue yet.

In addition, Article 28 of the law stipulates that taxpayers who earn an annual income per property of up to LBP20m are exempt from taxes on that income starting in 2018, provided that the taxpayer owns a maximum of two apartments. Further, Article 29 reduces the property tax rate from 6% to 4% on the annual income per property of between LBP20m to LBP40m per residential apartment. Moreover, Article 30 reduces registration fees from 5% to 3% on residential properties that are valued at below LBP375m, while properties valued at above that amount will be subject to the existing registration fee of 5% of the value that exceeds LBP375m. Further, Article 31 exempts Lebanese citizens from any fees in case of the full payment of a mortgage of up to a certain amount set by Banque de l'Habitat. Also, non-residential properties that are rented by religious entities, public administrations or institutions, will be exempt from the value-added tax.

In parallel, Article 27 states that the Lebanese government will cover for a period of two years a company's dues to the NSSF for new employees if the new employee's salary does not exceed LBP18m per year and if the employee is hired between March 2018 and December 2019. New employees include those who are hired for the first time, who are previously unemployed, or those who left their job at least six months prior to the publication of the Budget Law in April 2018. Further, Article 38 allows Lebanese passports to have a validity of up to 10 years, while Articles 39 and 40 authorize foreign workers to have a residency permit with a validity of up to two years.

Banking sector assets at \$226bn at end-April 2018

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets stood at \$226.3bn at the end of April 2018, constituting an increase of 2.9% from the end of 2017 and a growth of 9.8% from end-April 2017. Loans extended to the private sector reached \$59bn at the end of April 2018, down by 1.1% from end-2017 and up by 3.5% from a year earlier. Loans to the resident private sector totaled \$52.7bn, constituting a decrease of 1.7% from the end of 2017 and a rise of 3% year-on-year; while credit to the non-resident private sector reached \$6.3bn at end-April 2018 and grew by 4.3% from end-2017 and by 7.1% from a year earlier. In nominal terms, credit to the private sector regressed by \$665.5m in the first four months of 2018, as lending to the resident private sector declined by \$928.6m and credit to the non-resident private sector grew by \$263.2m in the covered period. The dollarization rate in private sector lending dropped from 70.2% at end-April 2017 to 67.7% at end-April 2018.

In addition, claims on non-resident banks reached \$10.1bn at the end of April 2018 and decreased by 10.4% from the end of 2017 and by 24.8% from a year earlier, while claims on the public sector stood at \$30.7bn at end-April 2018, down by 3.8% from end-2017 and by 17.8% from end-April 2017. The average lending rate in Lebanese pounds was 8.99% in April 2018 compared to 8.33% a year earlier, while the same rate in US dollars was 7.82% relative to 7.22% in April 2017. Further, the deposits of commercial banks at Banque du Liban totaled \$112.6bn at the end of April 2018, constituting an increase of 32% from a year earlier.

In parallel, total private sector deposits reached \$171bn at the end of April 2018, increasing by 1.4% from the end of 2017 and by 3.3% from a year earlier. Deposits in Lebanese pounds reached \$54.2bn at end-April 2018, up by 2.7% from end-2017 but down by 2.7% year-on-year; while deposits in foreign currencies totaled \$116.8bn, and grew by 0.8% from end-2017 and by 6.4% from end-April 2017. Resident deposits totaled \$135bn at the end of April 2018, increasing by 1.1% from the end of 2017 and by 3.1% from end-April 2017. Also, non-resident deposits reached \$36bn at end-April 2018, up by 2.4% from end-2017 and by 4.2% from a year earlier. In nominal terms, total private sector deposits grew by \$475.4m in January, by \$854.2m in February, by \$748.6m in March and by \$249m in April 2018. As such, aggregate private sector deposits expanded by \$2.3bn in the first four months of 2018, relative to an increase of \$3bn in the same period of 2017, with deposits in Lebanese pounds growing by \$1.4bn and foreign-currency deposits increasing by \$920.5m.

In parallel, deposits of non-resident banks reached \$7.8bn at the end of April 2018 and increased by 4.2% from end-2017 and by 22.2% from a year earlier. The dollarization rate of deposits was 68.3% at the end of April 2018, slightly down from 68.7% at end-2017 and compared to 66.4% a year earlier. Further, the average deposit rate in Lebanese pounds was 6.64% in April 2018 compared to 5.54% a year earlier, while the same rate in US dollars was 4.1% relative to 3.62% in April 2017. The ratio of private sector loans-to-deposits in foreign currency stood at 34.2%, well below Banque du Liban's limit of 70% and compared to 36.5% a year earlier. The same ratio in Lebanese pounds was 35.2% at end-April 2018 relative to 30.6% at the end of April 2017. As such, the total private sector loans-to-deposits ratio reached 34.5%, unchanged from end-April 2017. The banks' aggregate capital base stood at \$20.9bn at end-April 2018, up by 11.4% from \$18.7bn a year earlier.

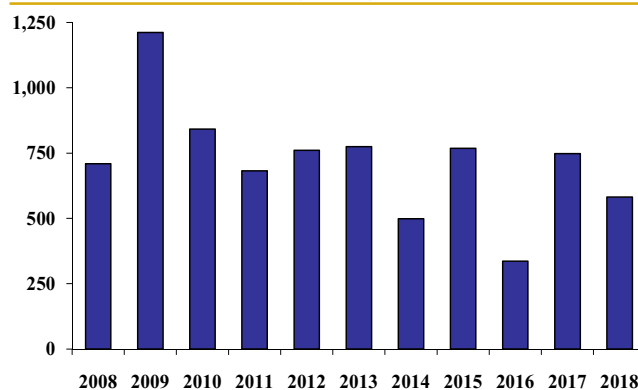
OFID signs \$20m trade finance loan with Banque Libano-Française

The OPEC Fund for International Development (OFID) announced that it signed a \$20m bilateral trade finance term loan agreement with Banque Libano-Française (BLF). The loan agreement seeks to increase access of local enterprises and entrepreneurs to international trade finance credit facilities. Established in 1976 by the member states of OPEC, the OFID is a development finance institution that aims to support developing economies by extending concessional loans for the development projects and programs, as well as to support the development of the private sector. The fund also provides financing for infrastructure projects, to strengthen social services delivery, and to promote productivity, competitiveness and trade.

The OFID extended to Lebanon \$72.4m in funding since 1992 to support the country's healthcare, agriculture, water & sanitation and education sectors. It has provided financial assistance to 134 countries worldwide since its inception.

Banque Libano-Française sal posted unaudited consolidated net profits of \$120.9m in 2017, up by 8.2% from net earnings of \$111.7m in 2016. Its assets reached \$13.6bn at the end of 2017, constituting an increase of 7.4% from a year earlier; while loans & advances to customers, excluding loans & advances to related parties, grew by 4.8% from end-2016 to \$4.3bn. Also, customer deposits, excluding those from related parties, totaled \$10.7bn at the end of 2017, and expanded by 5.2% from end-2016.

Average Monthly Growth in Private Sector Deposits* (US\$m)



* in the first four months of each year

Source: Banque du Liban, Byblos Research

Ratio Highlights

(in % unless specified)	2015	2016	2017e	Change*
Nominal GDP (\$bn)	49.5	49.7	52.5	
Public Debt in Foreign Currency / GDP	54.7	56.6	57.9	1.30
Public Debt in Local Currency / GDP	87.4	94.1	93.6	(0.54)
Gross Public Debt / GDP	142.1	150.7	151.5	0.76
Total Gross External Debt / GDP	175.8	183.9	185.6	1.70
Trade Balance / GDP	(31.6)	(32.5)	(31.9)	0.60
Exports / Imports	15.9	15.6	14.5	(1.04)
Fiscal Revenues / GDP	19.3	20.0	22.1	2.17
Fiscal Expenditures / GDP	27.3	29.9	29.3	(0.62)
Fiscal Balance / GDP	(8.0)	(9.9)	(7.2)	2.79
Primary Balance / GDP	1.5	0.0	2.7	2.68
Gross Foreign Currency Reserves / M2	58.7	62.2	68.2	5.98
M3 / GDP	249.7	267.2	263.6	(3.61)
Commercial Banks Assets / GDP	375.7	411.1	418.8	7.69
Private Sector Deposits / GDP	306.2	327.0	321.3	(5.69)
Private Sector Loans / GDP	109.5	115.0	114.9	(0.16)
Private Sector Deposits Dollarization Rate	64.9	65.8	68.7	2.88
Private Sector Lending Dollarization Rate	74.8	72.6	71.0	(1.61)

*Change in percentage points 16/17

**Includes portion of public debt owed to non-residents, liabilities to non-resident banks, non-resident deposits (estimated by the IMF), Bank for International Settlements' claims on Lebanese non-banks

Source: Association of Banks in Lebanon, Institute of International Finance, International Monetary Fund, World Bank, Byblos Research Estimates & Calculations

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

Risk Metrics

Lebanon	Nov 2016	Oct 2017	Nov 2017	Change**	Risk Level
Political Risk Rating	54.5	55.5	54.5	▼	High
Financial Risk Rating	36.5	33.0	33.0	▲	Moderate
Economic Risk Rating	30.5	27.5	27.5	▲	High
Composite Risk Rating	60.75	58.0	57.5	▲	High

MENA Average*	Nov 2016	Oct 2017	Nov 2017	Change**	Risk Level
Political Risk Rating	57.6	57.9	58.0	▼	High
Financial Risk Rating	38.1	38.6	38.5	▼	Low
Economic Risk Rating	29.6	30.9	31.0	▼	Moderate
Composite Risk Rating	62.6	63.7	63.8	▼	Moderate

*excluding Lebanon

**year-on-year change in risk

Source: The PRS Group, Byblos Research

Note: Political & Composite Risk Ratings range from 0 to 100 (where 100 indicates the lowest risk)

Financial & Economic Risk ratings range from 0 to 50 (where 50 indicates the lowest risk)

Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's	B3	NP	Stable	B3		Stable
Fitch Ratings	B-	B	Stable	B-		Stable
Standard & Poor's	B-	B	Stable	B-	B	Stable
Capital Intelligence Ratings	B	B	Stable	B	B	Stable

Source: Rating agencies

Banking Ratings

Banking Ratings	Outlook
Moody's	Stable

Source: Moody's Investor Services



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