

LEBANON THIS WEEK

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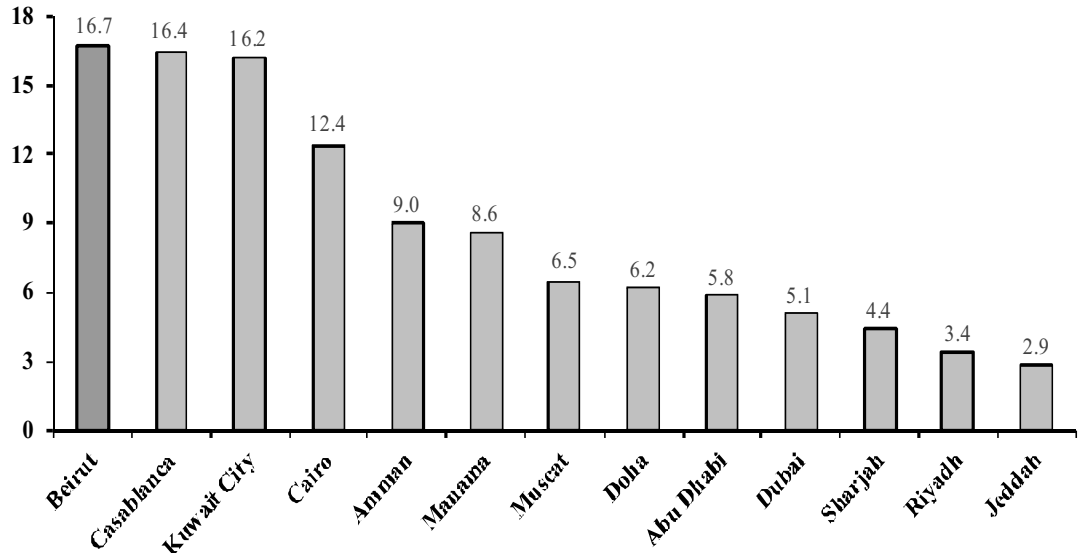
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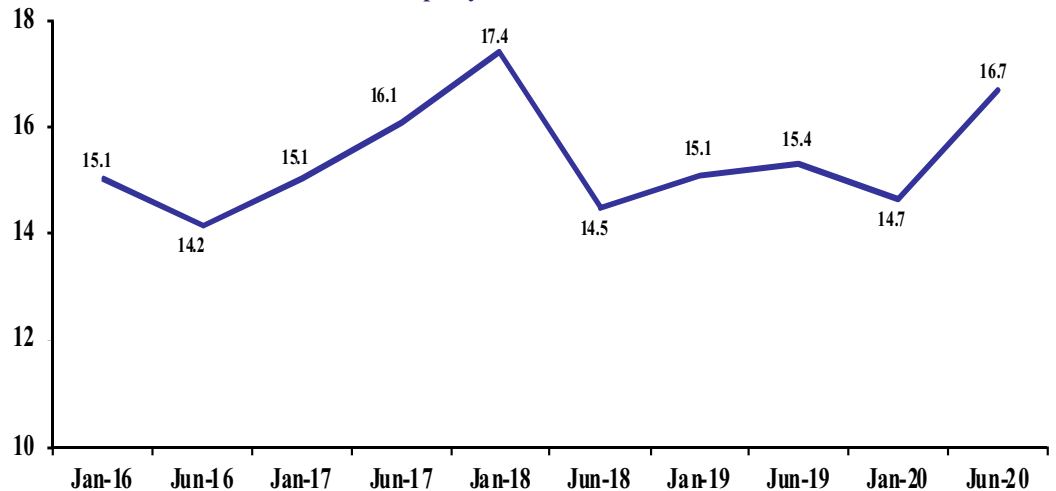
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Charts of the Week

Property Price-to-Income Ratio in Select Arab Cities at end-June 2020



Evolution of Property Price-to-Income Ratio in Beirut



*Higher score reflects higher property price-to-income ratio

Source: Numbeo's mid-2020 Quality of Life Index, Byblos Bank

Quote to Note

"We must not fool ourselves: There is no alternative to an IMF program if Lebanon is to exit the crisis."

Jean-Yves Le Drian, French Minister of Foreign Affairs and International Development, urging the Lebanese government to solidly commit to reforms and agree on a funded program with the International Monetary Fund

Number of the Week

\$1.2bn: Accumulated unpaid electricity bills by public institutions to Electricité du Liban in the past 10 years, according to the World Bank

Lebanon in the News

\$m (unless otherwise mentioned)	2019	Jan-May 2019	Jan-May 2020	% Change*	May-19	Apr-20	May-20
Exports	3,731	1,440	1,335	(7.3)	319	171	251
Imports	19,239	8,762	4,349	(50.4)	2,456	745	674
Trade Balance	(15,508)	(7,322)	(3,014)	(58.8)	(2,137)	(574)	(423)
Balance of Payments	(5,851)	(5,187)	(2,191)	(57.8)	(1,882)	(241)	(888)
Checks Cleared in LBP	22,146	8,732	7,748	(11.3)	1,623	998	1,105
Checks Cleared in FC	34,827	14,677	13,847	(5.7)	2,529	1,948	1,467
Total Checks Cleared	56,973	23,409	21,595	(7.7)	4,152	2,946	2,572
Fiscal Deficit/Surplus**	(5,837)	(1,380)	(1,751)	26.9	(1,006)	(96)	-
Primary Balance**	(287)	23	(596)	-	(60)	79	-
Airport Passengers	8,684,937	3,139,690	1,191,376	(62.1)	572,876	6,029	20,253
Consumer Price Index	2.9	3.6	28.6	2500bps	3.5	46.6	56.5

\$bn (unless otherwise mentioned)	Dec-19	May-19	Feb-20	Mar-20	Apr-20	May-20	% Change*
BdL FX Reserves	29.55	29.72	28.34	28.23	27.37	26.44	(11.0)
In months of Imports	21.95	12.10	29.80	34.18	36.76	39.24	224.3
Public Debt	91.64	85.35	92.24	92.60	92.87	93.14	9.1
Bank Assets	216.78***	253.63	210.34	208.55	205.75	203.84	(19.6)
Bank Deposits (Private Sector)	158.86	170.85	151.71	149.59	147.52	146.30	(14.4)
Bank Loans to Private Sector	49.77	56.32	46.08	45.02	43.90	42.91	(23.8)
Money Supply M2	42.11	49.23	39.59	39.60	38.64	38.78	(21.2)
Money Supply M3	134.55	139.33	130.95	130.34	129.52	129.67	(6.9)
LBP Lending Rate (%)	9.09	10.75	9.33	9.41	9.29	8.45	(230bps)
LBP Deposit Rate (%)	7.36	8.72	5.81	5.13	5.06	4.63	(409bps)
USD Lending Rate (%)	10.84	9.54	9.11	8.55	7.79	7.90	(164bps)
USD Deposit Rate (%)	4.62	5.79	3.22	2.53	2.32	1.99	(380bps)

*year-on-year **year-to-date figures reflect results for first four months of each year ***The decline in assets in December 2019 is mainly due to the "netting" on the assets and liabilities' sides of the consolidated balance sheet of commercial banks as part of the implementation of international accounting standard IFRS 7
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
Solidere "A"	12.87	(14.20)	423,979	21.07%
Audi Listed	0.96	1.05	138,680	9.25%
Solidere "B"	13.02	(12.03)	79,136	13.86%
Byblos Common	0.37	(7.50)	30,000	3.43%
BLOM Listed	3.18	0.00	-	11.19%
BLOM GDR	2.98	0.00	-	3.61%
HOLCIM	12.10	0.00	-	3.87%
Audi GDR	1.39	0.00	-	2.72%
Byblos Pref. 08	49.95	0.00	-	1.64%
Byblos Pref. 09	52.75	0.00	-	1.73%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Apr 2021	8.25	18.25	467.64
Oct 2022	6.10	17.38	98.60
Jan 2023	6.00	16.75	86.02
Jun 2025	6.25	16.25	41.00
Nov 2026	6.60	16.50	30.59
Feb 2030	6.65	16.25	19.90
Apr 2031	7.00	16.00	17.82
May 2033	8.20	15.00	15.38
Nov 2035	7.05	16.50	12.16
Mar 2037	7.25	17.63	10.70

Source: Byblos Bank Capital Markets, Refinitiv

	Jul 20-24	Jul 13-17	% Change	June 2020	June 2019	% Change
Total shares traded	687,180	463,150	48.4	9,040,647	1,693,147	434
Total value traded	\$7,292,418	\$6,275,204	16.2	\$28,524,807	\$7,832,924	264.2
Market capitalization	\$6.11bn	\$6.44bn	(5.2)	\$6.36bn	\$8.58bn	(25.9)

Source: Beirut Stock Exchange (BSE)



Consumer confidence drops to lowest level on record in second quarter of 2020

The results of the Byblos Bank/AUB Consumer Confidence Index show that the Index averaged 19 points in the second quarter of 2020, constituting a decline of 51% from 38.7 points in the first quarter of 2020 and a decrease of 73% from 70.9 points in the second quarter of 2019. The index registered a record low of 20.1 in April 2020 and further dropped to a new all-time low of 15.4 in May 2020, before slightly increasing to 21.6 in June 2020. Further, the Byblos Bank/AUB Present Situation Index averaged 18.9 in the second quarter of 2020 and retreated by 43% from the preceding quarter, while the Byblos Bank/AUB Expectations Index averaged 19.2 and regressed by 54.8% from the first quarter of 2020. The two sub-indices reached their lowest levels since the start of the Index's inception in July 2007.

In addition, the average monthly score of the Index in the second quarter of 2020 was 82% lower than the quarterly peak score of 105.8 registered in the fourth quarter of 2008, and was 65.5% lower than the monthly trend average of 55.3 points. The second-quarter results constitute their lowest level in 52 quarters.

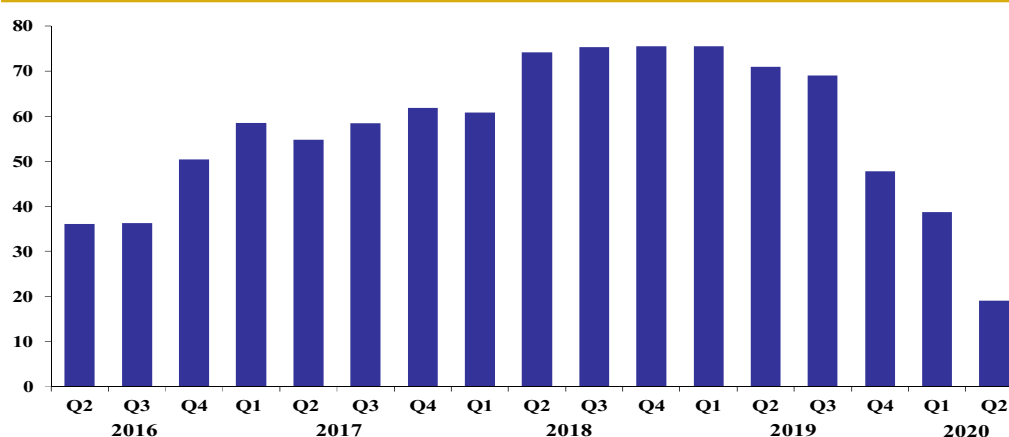
The collapse in household sentiment was due to the government's limited action to address the economic and financial crisis, as well as to the coronavirus-related lockdown measures that worsened socioeconomic conditions. In addition, the Lebanese pound's exchange rate in the parallel market significantly weakened in the second quarter of 2020, which, along with the substantial surge of consumer prices, have reduced the purchasing power of households. Also, the shutdown of the economy due to the pandemic led several companies to cut salaries or, in some cases, lay-off employees, which reduced households' income. Consequently, only 0.6% of Lebanese polled in June 2020 considered that their personal financial conditions improved from six months earlier, while 85.5% of respondents said that their financial situation deteriorated from December 2019. In addition, only 0.1% of the Lebanese surveyed in June 2020 considered that economic conditions in Lebanon improved from six months earlier, while 91.1% indicated that economic conditions deteriorated from December 2019.

Further, the detailed results of the Index's monthly survey reflect the prevailing frustrations of Lebanese households about the absence of measures to improve conditions in the country. Specifically, only 0.3% of the Lebanese polled in June believed that their personal financial conditions will improve in the coming six months, while 85.6% of households considered that their financial conditions will deteriorate by December 2020. In addition, 0.8% of respondents anticipated economic conditions to improve in the coming six months, while 90.3% of respondents expected business conditions to deteriorate by December 2020.

The results of the Byblos Bank/AUB Consumer Confidence Index for the second quarter of 2020 show that the confidence level of residents in the North dropped by 65.3% in the second quarter of 2020 from the first quarter of the year, followed by households in the Bekaa region (-50.3%), the South (-49.7%), Mount Lebanon (-47%), and Beirut (-45%). The sentiment of residents in Beirut was the highest among all geographic regions during the second quarter of 2020, followed by households in the Bekaa, Mount Lebanon, the South and the North. Also, the confidence level of Shiite households dropped by 59.5% quarter-on-quarter in the second quarter of 2020, followed by the sentiment of Sunni households (-51.8%), Christian households (-47.3%) and Druze households (-32.7%). Christian households registered the highest level of confidence in the second quarter of 2020, followed by Druze, Sunni and Shiite households.

The Byblos Bank/AUB Consumer Confidence Index is a measure of the sentiment and expectations of Lebanese consumers toward the economy and their own financial situation. The Index is compiled, implemented and analyzed in line with international best practices and according to criteria from leading consumer confidence indices worldwide. It is composed of two sub-indices, the Byblos Bank/AUB Present Situation Index and the Byblos Bank/AUB Expectations Index. The first sub-index covers the current economic and financial conditions of Lebanese consumers, and the second one addresses their outlook over the coming six months. The Byblos Bank Economic Research and Analysis Department has been calculating the Index on a monthly basis since July 2007, with January 2009 as its base month. The Index is based on a face-to-face monthly survey of a nationally representative sample of 1,200 males and females living throughout Lebanon, but the April and May 2020 surveys were conducted by phone amid the coronavirus pandemic. The monthly field survey is conducted by Statistics Lebanon Ltd, a market research and opinion-polling firm.

Byblos Bank/AUB Consumer Confidence Index*



* Quarterly Average Score

Source: Byblos Bank Economic Research & Analysis Department, based on surveys conducted by Statistics Lebanon

Consumer Price Index up 90% in June 2020

The Central Administration of Statistics' Consumer Price Index increased by 38.8% in the first half of 2020, compared to a growth of 3.3% in the same period of 2019. Also, the CPI expanded by 89.7% in June 2020 from the same month of 2019, and registered a double-digit increase in each month so far this year. The cumulative surge in inflation in the first half of 2020 is due in part to the ongoing deterioration of the Lebanese pound's exchange rate on the parallel market, which has encouraged opportunistic wholesalers and retailers to raise consumer prices disproportionately. It also reflects the authorities' inability to monitor and contain prices.

The prices of furnishings & household equipment surged by 5.1 times annually in June 2020, followed by the prices of clothing & footwear (+4.45 times), prices at restaurants & hotels (+4.42 times), alcoholic beverages & tobacco (+3.54 times), food & non-alcoholic beverages (+3.47 times), miscellaneous goods & services (+2.9 times), recreation & entertainment (+2.3 times), transportation (+84.7%), communication (+83.4%), health-care costs (+10.5%), actual rents (+8.3%), imputed rents (+5.5%), education (+4.4%), and the prices of water, electricity, gas & other fuels (+0.3%). Also, the distribution of actual rents shows that old rents grew by 11.1% and new rents increased by 6.4% year-on-year in June 2020.

In parallel, the CPI increased by 20.2% in June 2020 from the previous month, compared to a month-on-month growth of 6.9% in May 2020. The prices of furnishings & household equipment increased by 110.5% month-on-month in June 2020, followed by the cost of clothing & footwear (+57.4%), miscellaneous goods & services (+50.2%), recreation & entertainment (+47%), transportation (+41%), prices at restaurants & hotels (+30%), food & non-alcoholic beverages (+17.4%), alcoholic beverages & tobacco (+17%), the cost of water, electricity, gas & other fuels (+12.6%), healthcare costs (+4.4%), communication (+2.3%), actual rents (0.5%), education and imputed rents (+0.4% each).

Further, the CPI increased by 23.4% in the Bekaa, by 22% in the South, by 21.3% in Nabatieh, by 20.4% in the North, by 20.2% in Mount Lebanon, and by 15.4% in Beirut in June 2020. In parallel, the Fuel Price Index grew by 11% month-on-month in June 2020, while the Education Price Index expanded marginally by 0.4% in the covered month.

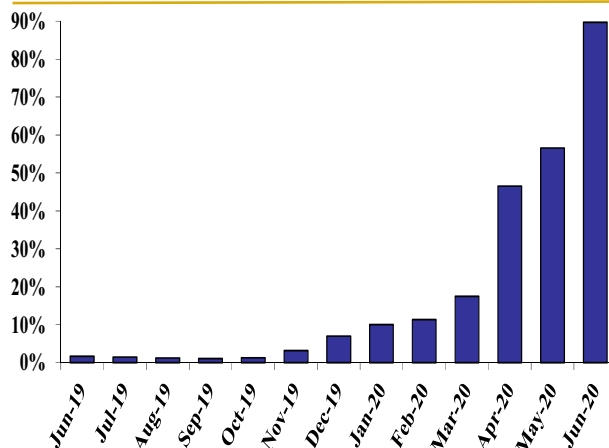
Eighty six percent of Treasury securities in Lebanese pounds have five-year maturities or longer

Figures released by the Association of Banks in Lebanon (ABL) show that the face value of outstanding Treasury securities denominated in Lebanese pounds reached LBP86,549bn, or the equivalent of \$57.4bn, at the end of May 2020, compared to LBP78,705bn, or \$52.2bn, at the end of May 2019. The weighted interest rate on Lebanese Treasury securities denominated in Lebanese pounds was 6.5% in May 2020 compared to 6.33% in May 2019.

The distribution of outstanding Treasury securities denominated in Lebanese pounds at end-May 2020 shows that 15-year Treasury bonds accounted for 1.6%, or LBP1,417bn, of total securities in Lebanese pounds; 12-year Treasury securities represented 3.6% of the total (LBP3,076bn); and 10-year Treasury bonds had a share of 37.6% (LBP32,537bn). Also, the share of eight-year Treasury securities was 2.1% (LBP1,832bn), seven-year Treasury bonds represented 18.5% (LBP16,016bn), five-year Treasury securities accounted for 23% (LBP19,930bn), the share of three-year Treasury bonds was 10.2% (LBP8,851bn), two-year Treasury bills represented 2% (LBP1,672bn), one-year T-bills accounted for 1.3% (LBP1,106bn), the share of six-month T-bills was 0.08% (LBP67bn), and three-month T-bills represented 0.05% (LBP45bn) of the total. As such, 63.4% of outstanding Treasury securities have seven-year maturities or longer and 86.4% have five-year maturities or more.

In parallel, the face value of outstanding Treasury securities denominated in Lebanese pounds that matured in May 2020 was LBP597bn (\$396m), of which 50.3% were two-year Treasury bonds, 26.1% were three-year Treasury securities, 14.6% were five-year Treasury bonds, 3.7% were one-year T-bills, 3.4% were three-month Treasury bills, and 1.8% were six-month T-bills. According to ABL, LBP6,970bn, or the equivalent of \$4.6bn of outstanding Treasury bonds in Lebanese pounds, will mature in the remainder of 2020, while LBP9,494bn (\$6.3bn) will come due in 2021 and LBP9,570bn (\$6.35bn) will mature in 2022.

Annual Change in CPI (%)



Source: Central Administration of Statistics, Byblos Research

Three out of 10 Lebanese lost their jobs after COVID-19 outbreak

A study by the World Food Program (WFP) indicated that the economic and socio-political crisis in Lebanon, along with the COVID-19 pandemic, reduced the income of Lebanese households, as well as of Syrian and Palestinian refugees in the country, and resulted in large-scale job losses. According to the study, 62% of Lebanese households indicated that their income declined this year, and 23% of households said that their income was unchanged from 2019, while 5% of them reported an increase in their income and the remaining 10% of households had to seek alternative sources to maintain their income level. In parallel, 66% of Syrian refugees and 62% of Palestinian refugees experienced a decrease in their income from the previous year.

The study covers the responses of 2,418 Lebanese, as well as 887 Syrian and 165 Palestinian refugees through web surveys between April 20, 2020 and May 18, 2020. The surveys covered individuals above 14 years of age.

Also, 29% of Lebanese respondents indicated that they lost their job after the COVID-19 outbreak and 23% of them had their salaries reduced, while 30% of respondents said that their employment status was not affected. Further, 10% of surveyed Lebanese indicated that they lost their job before the onset of the pandemic, while 8% of them experienced a reduction in their salary before the virus outbreak. In comparison, 52% of Syrians and 39% of Palestinians in Lebanon lost their jobs after the virus outbreak.

In addition, 42% of Lebanese respondents reported that they borrowed money to cover their basic needs, compared to 55% of Palestinian refugees and 61% of Syrian households who did the same. In the case of Lebanese households, 37% of respondents incurred debt in order to pay for food, followed by rent (29%), and medical care (12%). In addition, 65% of Lebanese households resorted in the month prior to the survey to coping strategies, such as spending less on healthcare and education, and selling productive assets, in order to meet their most essential needs.

In parallel, 50% of Lebanese respondents expressed concerns about not having enough to eat in the month prior to the survey, compared to 75% of Syrian and 63% Palestinian refugees who shared similar concerns. Also, 41% of Lebanese respondents considered that they could not afford to stockpile food, compared to 64% of Syrian and 44% of Palestinian refugees who faced the same difficulty.

World Bank suspends disbursement of Bisri Dam loan

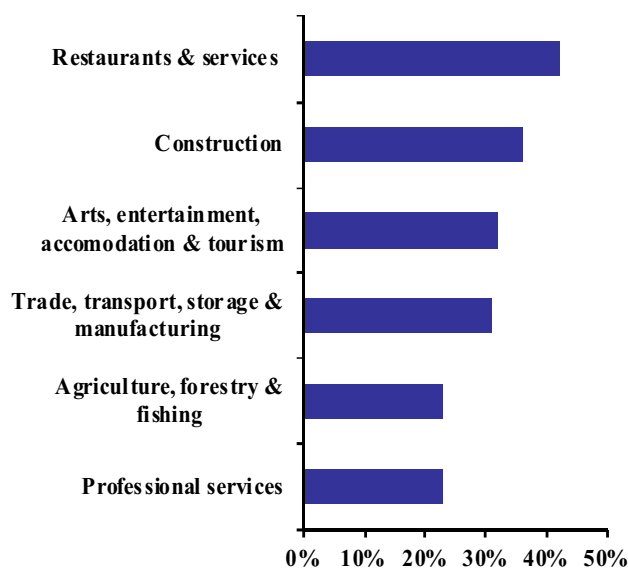
The World Bank indicated that it has partially suspended the disbursement of a \$474m concessional loan under the Bisri Dam project due to the Lebanese authorities' inadequate compliance with the requirements of the loan agreement. The Bank had given the government until July 22, 2020 to make progress on several requirements, such as completing the ecological compensation plan, drafting a roadmap for the plan's implementation in the medium to long terms, and reaching an agreement on the operation and maintenance of the dam with the concerned parties. But the Lebanese government asked the World Bank to extend the July 22 deadline by three months, while the Bank is assessing the progress that Lebanon made to date. In addition, the World Bank called on the government to maintain an open, transparent and inclusive consultative process with all Lebanese stakeholders.

Further, the Bank reiterated its readiness to work with the government to assess the possible use of the country's existing loan portfolio, including the undisbursed amounts under the Bisri project, more efficiently to respond to the emerging needs of the Lebanese people.

The Bisri Dam is part of the Water Supply Augmentation (WSA) project that the World Bank approved in September 2014, and that aims to support the development of the water sector in the Greater Beirut & Mount Lebanon area, and the management of sustainable water resources. The \$617m WSA project consists of the construction of the Bisri Dam in the South with a storage capacity of 125 million cubic meters of water and its related 26 kilometer underground pipeline. The project was supposed to be financed by a \$474m concessional loan from the World Bank, a \$128m loan from the Islamic Development Bank and by \$15m from the Lebanese government.

Lebanese authorities had previously indicated that the costs incurred for the project until April 2020 reached \$340m, and that the land appropriations have been settled. The Ministry of Energy & Water noted that the government could incur additional costs if the contracts are canceled, as it was liable for the loan.

Percentage of Lebanese Respondents who Lost their Jobs after COVID-19 Outbreak by Sector (%)



Source: World Food Program

Compensation of public-sector personnel absorbs 70% of public revenues in first four months of 2020

Figures issued by the Ministry of Finance show that the compensation of public-sector personnel totaled \$2.2bn in the first four months of 2020, constituting an increase of 0.8% from \$2.18bn in the same period of 2019. Salaries, wages and related benefits accounted for 62.3% of the total in the covered period, followed by retirement benefits (28.4%), end-of-service indemnities (4.8%), and transfers to public institutions to cover salaries (4.5%).

The marginal increase in the compensation of public-sector personnel is due to a 4.1% rise in salaries, wages and related benefits, a 9.3% growth in retirement benefits and a 34.2% expansion in transfers to public institutions to cover salaries, which were nearly offset by an annual decline of 52% in end-of-service indemnities. The compensation of public-sector personnel represented the largest component of current primary spending and accounted for 67.7% of such expenditures in the first four months of 2020 compared to 73.3% in the same period of 2019. It accounted for 45% of fiscal spending in the covered period, unchanged from the same period of 2019; while it absorbed 70% of public revenues in the first four months of 2020 relative to 63.1% of government receipts in the same period of 2019.

In parallel, salaries, wages and related benefits paid to public-sector workers amounted to \$1.37bn in the first four months of 2020, up by 4.1% from \$1.32bn in the same period of 2019. This category includes basic salaries, employment benefits, allowances, contributions to civil servants' cooperatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly civil and religious judges, and employees at the Parliament. Salaries and benefits of military personnel reached \$921.4m and accounted for 67.2% of salaries, wages and related benefits paid to the public sector in the first four months of 2020. The salaries and benefits of personnel in public education followed with \$234.2m (17.1% of the total), then civil staff with \$135.3m (9.9%), the government's contribution to the employees' cooperative with \$63.7m (4.6%), and the salaries and benefits of customs employees with \$16m (1.2%).

Also, the Lebanese Army's salaries totaled \$592.4m in the first four months of 2020 and represented 64.3% of the salaries and benefits of military personnel. The salaries of the Internal Security Forces followed with \$254.7m (27.6%), those of the General Security Forces with \$55.1m (6%), and the salaries of State Security Forces with \$19.2m (2.1%).

In addition, the breakdown of salaries, wages and related benefits paid to public-sector employees shows that allowances increased by \$67.7m annually, and benefits and other payments given to non-military bodies rose by \$30m; while basic salaries regressed by \$43.1m year-on-year. Benefits include payments for transportation, overtime and family-related benefits, while other payments to non-military bodies include bonuses, and the State's contribution to the Mutual Funds and to the National Social Security Fund, among others. Basic salaries declined by 4.2% annually to \$981.8m in the first four months of 2020, allowances rose by 40% to \$236.8m, and benefits and other payments grew by 27.8% year-on-year to \$137.3m in the first four months of 2020.

Tourist receipts up 2% to \$9bn in 2019

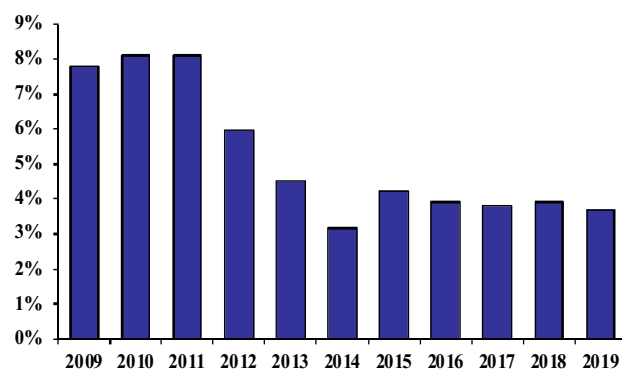
Figures released by Banque du Liban show that tourism receipts in Lebanon totaled \$8.6bn in 2019, constituting an increase of 2.3% from \$8.4bn in 2018 and representing their highest level in the 2002-19 period. They were equivalent to 16.5% of GDP in 2019, relative to 15.3% of GDP in 2018. Tourism revenues amounted to \$1.8bn in the first quarter of 2019, \$2.3bn in the second quarter, \$2.9bn in the third quarter, and \$1.6bn in the fourth quarter of last year.

Further, tourism receipts in the first three quarters of 2019 reached their highest level for the first nine months of a year between 2002 and 2019. This was due to the increase in the number of incoming visitors to Lebanon in the first nine months of last year, which reached their highest level since 2010. However, tourism receipts in the fourth quarter of the year stood at their lowest level since the first quarter of 2017, as the number of tourist arrivals was at its lowest quarterly level since the first quarter of 2016. Tourism revenues in Lebanon averaged \$7.3bn annually between 2009 and 2019.

In parallel, outbound tourism spending from Lebanon reached \$6.7bn in 2019, and increased by 6.6% from \$6.3bn in 2018. It was equivalent to 12.8% of GDP last year compared to 11.4% of GDP in 2018. It totaled \$1.37bn in the first quarter, \$1.7bn in the second quarter, \$2.2bn in the third quarter, and \$1.42bn in the fourth quarter of 2019. In addition, outbound tourism spending in 2019 reached its highest level during the 2002-19 period. It averaged \$5bn annually between 2009 and 2019.

As such, net tourism receipts totaled \$1.9bn last year and decreased by 10.3% from \$2.1bn in 2018. Net tourism receipts in Lebanon in 2019 constituted their third lowest level between 2002 and 2019. They averaged \$2.3bn annually between 2009 and 2019, while they were equivalent to 3.7% of GDP in 2019, down from 4% of GDP in 2018.

Net Tourism Receipts in Lebanon (% of GDP)



Source: Banque du Liban, Central Administration of Statistics, Institute of International Finance, Byblos Research

Council of Ministers retains three firms to audit Banque du Liban

The Council of Ministers approved on July 21, 2020 the proposal of the Ministry of Finance to contract U.S.-based turnaround management firm Alvarez & Marsal LLC to carry out a forensic audit of the accounts of Banque du Liban (BdL). It also confirmed that it would hire international accounting firm KPMG to conduct a financial audit of BdL's accounts, as well as management consulting firm Oliver Wyman to perform a management audit of BdL. It added that the contracts between the Lebanese Republic and the three companies will be finalized within a week. It noted that the three firms may take between three to six months to complete the audit.

In April 2020, the Council of Ministers approved the proposal of the Ministry of Finance to sign consensual agreements with KPMG and Oliver Wyman, as well as with the global provider of risk solutions Kroll, in order to audit BdL's accounts, but the decision to hire Kroll was revoked due to political opposition.

BdL's interim balance sheet totaled \$151.8bn on July 15, 2020. Assets in foreign currency stood at \$30.8bn at mid-July 2020 and declined by 17.4% from \$37.3bn at end-2019. They included \$5bn in Eurobonds. Further, the value of BdL's gold reserves reached \$16.7bn at mid-July 2020, constituting a rise of 19.7% from \$13.9bn at end-2019. In addition, the securities portfolio of BdL totaled \$38.8bn at mid-July 2020. Also, loans to the local financial sector stood at \$14.6bn and deposits of the financial sector reached \$110.1bn at mid-July 2020, while public sector deposits at BdL totaled \$4.5bn.

Coincident Indicator down 31% in first five months of 2020

Banque du Liban's Coincident Indicator, an index of economic activity in Lebanon, stood at 162.8 points in May 2020, compared to 172.5 in April 2020 and 297.4 in May 2019, and reached its lowest level since September 2006. The Coincident Indicator, an average of eight weighted economic indicators, decreased by 5.6% month-on-month and regressed by 45.3% year-on-year in May 2020. The annual decline in the indicator in May 2020 is the second steepest on record following a year-on-year decrease of 45.4% in April 2020, and reflects the deterioration of economic and financial conditions despite the gradual easing of coronavirus-related lockdown measures that started on April 27.

The indicator averaged 210.5 in the first five months of 2020, constituting a decline of 30.6% from an average of 303.4 in the same period of 2019 and representing its lowest level for the first five months of a year since 2008. The drop in the indicator is the steepest on record in the first five months of a year since BdL launched the indicator in 1993. The indicator averaged 254 in the 12 months ending May 2020, compared to an average of 265.1 in the 12-month period ending April 2020 and to an average of 303.1 in the 12 months ending May 2019. As a result, the 12-month average coincident indicator declined by 4.2% month-on-month and regressed by 16.2% year-on-year.

In parallel, the indicator regressed 19 times and improved nine times in the month of May since 1993. It averaged 256.6 points in 2012, 264.7 points in 2013, 273.2 points in 2014, 278.6 points in 2015, 289.5 points in 2016, 305.9 points in 2017, 307.7 points in 2018, and 292.6 points in 2019.

Industrial exports down 22% to \$680m in first four months of 2020

Figures released by the Ministry of Industry show that industrial exports totaled \$680.4m in the first four months of 2020, constituting a decline of 21.8% from \$870.1m in the same period of 2019. Industrial exports reached \$120.2m in April 2020, dropping by 29.2% from \$169.7m in March 2020 and falling by 43% from \$210.5m in April 2019. Exports of prepared foodstuffs & tobacco amounted to \$133.5m and accounted for 19.6% of aggregate industrial exports in the first four months of 2020, followed by machinery & mechanical appliances with \$123.4m (18.1%), chemical products with \$109m (16%), base metals with \$98.6m (14.5%), pearls or semi-precious stones with \$36.2m (5.3%), and plastics & rubber with \$34.4m (5.1%). Arab countries were the destination of 51.8% of Lebanese industrial exports in the first four months of 2020, followed by European economies with 22.4%, African economies with 12.2%, Asian countries with 6.7%, countries in the Americas with 5%, and markets in Oceania with 0.9%.

On a country basis, Saudi Arabia was the main destination of Lebanese industrial exports and accounted for 10.7% of the total in the first four months of 2020, followed by the UAE with 9.9%, Iraq with 7.7%, Qatar with 4.8%, Greece with 4.3%, Egypt with 4.2%, Syria with 3.6% and Jordan with 3.5%. In April 2020, 11 Arab states, eight European economies, three African countries, and two countries in each of Asia and the Americas imported \$1m or more each of Lebanese industrial products.

In parallel, imports of industrial equipment and machinery reached \$35m in the first four months of 2020, constituting a decline of 50.7% from \$70.8m in the same period of 2019. Italy was the main source of such imports and accounted for 48.5% of the total in the first four months of 2020, followed by China with 15% and Germany with 9.3%. Further, imports of industrial equipment and machinery amounted to \$5.6m in April 2020, down by 40.4% from \$9.4m in March 2020 and by 65% from \$16m in April 2019. China was the main source of such imports with \$1.7m and accounted for 30% of the total in the covered month, followed by Germany with \$1.1m (19.8%), and Italy with \$813,800 (14.6%).

Outward greenfield foreign direct investments at \$316m in 2019, equivalent to 0.6% of GDP

Figures compiled by fDi Markets and released by the United Nations Conference on Trade and Development (UNCTAD) show that Lebanon was the source of 34 greenfield foreign direct investments (FDI) for a total of \$316.1m in 2019, compared to 17 projects worth \$156.4m in 2018. The number and amount of outward greenfield FDI doubled in 2019. In comparison, outward Lebanese greenfield FDI stood at \$1.04bn in 2017 (12 projects), \$569m in 2016 (nine projects), \$733.8m in 2015 (17 projects), \$216.5m in 2014 (17 projects), and \$204.6m in 2013 (seven projects).

The FDI figures cover cross-border greenfield projects that lead to the direct creation of jobs and capital investment. They include joint ventures when these transactions lead to a new physical greenfield operation. The figures exclude mergers and acquisitions and other equity investments. fDi Markets is a database that tracks cross-border greenfield investments across the world, and is owned by the Financial Times Group.

Globally, the amount of outward Lebanese greenfield FDI was the 53rd smallest in nominal terms among 117 economies with a GDP of \$10bn or more, as well as the sixth smallest among 14 Arab countries. Lebanon was among 57 countries that registered an increase in the amount of outward greenfield FDI in 2019. Also, Lebanon was the source of \$264.5m in greenfield FDI to the Arab region in 2019 relative to \$115.7m in 2018.

In parallel, the number of greenfield FDI projects from Lebanon was the 42nd highest globally in 2019 and the third highest number regionally, behind the UAE (256 projects) and Saudi Arabia (49 projects). Also, Lebanon was among 53 countries worldwide that registered a rise in the number of outward greenfield FDI projects last year.

In addition, the amount of outward greenfield FDI from Lebanon accounted for 0.51% of total greenfield FDI from Arab countries last year relative to 0.34% in 2018. It also represented 0.5% of total flows from West Asian countries, up from 0.33% in 2018. Further, the amount of outward Lebanese greenfield FDI was equivalent to 0.6% of GDP in 2019, the seventh lowest such ratio in the Arab world, ahead of only Kuwait (0.4% of GDP), Palestine and Tunisia (0.3% of GDP each), Jordan (0.2% of GDP), and Iraq and Libya (0.04% of GDP each).

Compensation of public-sector personnel absorbs 50% of current spending in first four months of 2020

Figures issued by the Ministry of Finance show that public expenditures reached \$4.9bn in the first four months of 2020, constituting an increase of 1.1% from \$4.84bn in the same period last year. Current expenditures stood at \$4.4bn, and accounted for 90% of public spending. They included \$2.2bn in compensation of public-sector personnel, \$1.15bn in debt servicing, and \$386.7m in transfers to Electricité du Liban (EdL). Also, the compensation of public-sector personnel represented 50% of current spending and 45% of total public expenditures, debt servicing accounted for 25.3% of current spending and for 22.8% of total public expenditures, and transfers to EdL represented 8.8% of current spending and 7.9% of total public expenditures. In addition, current expenditures grew by 0.6% annually in the first four months of 2020, as the compensation of public-sector personnel increased by 0.8% year-on-year; while debt servicing declined by 17.7% annually in the covered period and transfers to EdL dropped by 23.7% year-on-year. The decrease in debt servicing was due to the government's decision to suspend all payments on its outstanding Eurobonds starting in March 2020, while the decline in transfers to EdL was the result of a 23.8% decrease in the reimbursements for the purchase of natural gas, fuel and gas oil. Further, transfers to the Higher Council of Relief stood at \$49.8m in the first four months of 2020, spending on medicine surged by five times year-on-year to \$49.8m, and transfers to hospitals rose by 4.3 times to \$169.2m in the covered period, mainly due to the COVID-19 outbreak. As such, direct pandemic-related spending totaled \$268.7m in the first four months of 2020, and accounted for 6.1% of current spending and for 5.5% of total public expenditures in the covered period. Consequently, current primary expenditures, which represent current spending that excludes debt servicing, rose by 9.1% to \$3.25bn annually in the first four months of 2020.

In parallel, capital expenditures stood at \$171.1m in the first four months of 2020, constituting a decline of 12.7% from \$196.4m in the same period last year, and accounted for 3.5% of public spending. Capital expenditures included \$96.2m in "construction in progress" spending that rose by 11% year-on-year, as well as maintenance costs that dropped by 43% annually in the covered period, among other items. Also, "construction in progress" expenses, which include projects under the supervision of the Council for Development and Reconstruction, accounted for 56.2% of capital expenditures and for 2% of total public spending; while maintenance costs represented 27.5% of capital expenditures and 1% of total public spending in the first four months of the year.

Further, budget advances surged by five times annually to \$22.6m in the first four months of 2020 and represented 0.5% of public spending. The Finance Ministry did not provide any details on the nature and the breakdown of such advances. It indicated that it will normalize this category at a later stage, at which time "budget advances" will be classified according to their respective categories in the budget.

Outward Greenfield FDI from Arab Countries (\$m)

	2019	2018	Change (%)
Saudi Arabia	21,214	4,120	414.9%
Qatar	18,942	6,929	173.4%
UAE	14,913	28,840	-48.3%
Morocco	3,255	1,153	182.4%
Egypt	1,684	892	88.7%
Bahrain	836	148	466.6%
Kuwait	553	3,137	-82.4%
Oman	449	466	-3.6%
Lebanon	316	156	102.1%
Tunisia	126	104	21.5%
Iraq	96	52	85.9%
Jordan	77	179	-57.0%
Palestine	47	35	33.3%
Libya	15	13	9.8%
Algeria	-	303.7	-
Total	62,522	46,528	34.4%

Source: fDi Markets, UNCTAD, Byblos Research

Two Lebanese banks exist Iraqi market

The Central Bank of Iraq (CBI) approved on June 21, 2020 the request of Crédit Libanais and Fransabank to close their branches in Iraq. The CBI indicated that its decision is conditional on the two banks fulfilling all their obligations towards depositors, customers and employees in the country. Crédit Libanais and Fransabank submitted their request to exit the Iraqi market to the CBI on May 28 and on June 5, 2020, respectively.

The two banks' decision was due to the CBI's introduction on November 11, 2019 of new requirements for foreign banks operating in the country. The CBI required banks to cap at 30% the percentage of deposits in foreign currency or at 20% the share of equity that the banks can invest outside of Iraq, and gave the banks until the end of 2019 to abide by the new conditions. In addition, the CBI imposed on May 21, 2020 stricter capital and liquidity measures on Lebanese banks specifically, after the downgrade of Lebanon's sovereign rating to 'Selective Default'. It first requested Lebanese banks operating in Iraq, which have not yet met the end of 2019 deadline for the ceilings on foreign currency liquidity outside Iraq, to immediately transfer the required amount of deposits or capital to the country. It also asked the branches of Lebanese banks in Iraq to transfer all of their deposits that are kept abroad to correspondent banks that are rated 'B' or higher, and to place them in an account at correspondent banks that is separate from the account of their parent banks that are rated lower than 'B'.

The eight remaining Lebanese banks in Iraq are Byblos Bank, BankMed, Bank Audi, BBAC, BLOM Bank, MEAB Bank, Banque Libano-Française and IBL Bank.

Launch of new program to support seed stage startups

Venture capital firm Nucleus Ventures launched a seed-stage initiative named the Nucleus Program that aims to provide Lebanese entrepreneurs with the resources and mentorship to build and expand their businesses. The seed program will allocate, with the backing of the British Embassy in Lebanon and in partnership with the U.K. Aid-funded Lebanese Enterprise and Employment program, between \$5,000 and \$100,000 in seed funding to each startup on a case by case basis. The funding will be disbursed progressively as startups demonstrate progress.

Under the program, entrepreneurs will have access to mentors that would guide them, as well as to local and international dealmakers that would help them tap international networks. The program will provide tailored support to early-stage entrepreneurs both virtually through its online platform and in-person. Interested entrepreneurs may apply for the program starting on July 27, 2020.

Nucleus Ventures, which currently operates the UK Lebanon Tech Hub, is a newly-launched company that is operated by private investors and that is no longer part of Banque du Liban's Circular 331 that aimed to promoting the knowledge economy in Lebanon.

AM Best affirms ratings of Arabia Insurance

Insurance rating agency AM Best affirmed the Financial Strength Rating of Arabia Insurance Company at 'B++' (Good), and its long-term Issuer Credit Rating (ICR) at 'bbb', with a 'negative' outlook on the ratings. It noted that the ratings reflect the insurer's strong balance sheet, as well as its adequate operating performance, appropriate enterprise risk management (ERM), and neutral business profile. It said that the strength of the balance sheet is underpinned by the company's solid capital generation in recent years, and takes into account its good geographical diversification in nine Arab countries, which insulates the insurer from the very high political, economic and financial risks in Lebanon. But it attributed the 'negative' outlook to pressures on the company's balance sheet from the rising level of financial leverage with short-term maturities, which exposes the group to significant refinancing risks.

Further, the agency pointed out that the insurer has one of the most geographically-diverse underwriting portfolios in the Middle East, although its position in key markets is relatively small and concentrated in specific lines of business. It considered that political and regulatory risks are the most significant threats that the insurer faces, given that the group is domiciled in Lebanon and operates in a number of markets in the Middle East with increasing regulatory requirements.

Al-Bayan magazine's annual survey of the Insurance sector in Lebanon ranked Arabia Insurance in 16th and 15th place in 2019 in terms of life and non-life premiums, respectively. The firm's non-life premiums increased by 14% to \$25.1m in 2019, while its life premiums grew by 95.4% to \$3.8m last year. It had a share of 2.2% share of the local non-life market and a 0.8% share of the life market in 2019. The company had a 1.8% market share of the Lebanese insurance market in 2019, ranking it in 17th place in terms of life and non-life premiums.

Ratio Highlights

(in % unless specified)	2017	2018	2019	Change*
Nominal GDP (\$bn)	53.1	55.0	52.2	(2.76)
Public Debt in Foreign Currency / GDP	57.2	60.9	64.6	3.71
Public Debt in Local Currency / GDP	92.5	94.0	110.9	16.95
Gross Public Debt / GDP	149.7	154.9	175.6	20.66
Total Gross External Debt / GDP**	190.3	192.8	196.3	3.50
Trade Balance / GDP	(31.5)	(31.0)	(29.7)	1.27
Exports / Imports	14.5	14.8	19.4	4.62
Fiscal Revenues / GDP	21.9	21.0	19.5	(1.53)
Fiscal Expenditures / GDP	28.9	32.4	29.7	(2.62)
Fiscal Balance / GDP	(7.1)	(11.4)	(10.3)	1.09
Primary Balance / GDP	2.7	(1.2)	(0.5)	0.65
Gross Foreign Currency Reserves / M2	68.2	63.8	70.2	6.38
M3 / GDP	260.8	257.1	257.7	0.59
Commercial Banks Assets / GDP	413.7	453.9	415.3	(38.64)***
Private Sector Deposits / GDP	317.4	317.1	304.3	(12.76)
Private Sector Loans / GDP****	112.3	108.1	95.3	(12.71)
Private Sector Deposits Dollarization Rate	68.7	70.6	76.0	5.41
Private Sector Lending Dollarization Rate	68.6	69.2	68.7	(0.50)

*change in percentage points 19/18; **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; ***The decline in assets in 2019 is mainly due to the "netting" on the assets and liabilities' sides of the consolidated balance sheet of commercial banks as part of the implementation of international accounting standard IFRS 7; **** in January 2018, Lebanese banks started reporting their financials based on international accounting standard IFRS 9, and revised the 2017 figures accordingly
Source: Association of Banks in Lebanon, Institute of International Finance, Central Administration of Statistics, 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

	2018	2019e	2020f
Nominal GDP (LBP bn)	82,854	81,361	145,620
Nominal GDP (US\$ bn)	55.0	51.7	34.4
Real GDP growth, % change	-1.9	-7.3	-16.4
Domestic demand	-0.3	-6.4	-20.5
Private consumption	-1.3	-7.1	-13.2
Public consumption	6.7	1.5	-52.4
Gross fixed capital	-1.8	-10.7	-17.6
Exports of goods and services	0.5	-5.0	-33.6
Imports of goods and services	1.1	-4.5	-32.0
Consumer prices, %, end-period	3.9	6.9	162.2
Official exchange rate, average, LBP/US\$	1,507.5	1,507.5	1,507.5
Parallel exchange rate, average, LBP/US\$	n/a	1,620	5,476
Weighted average exchange rate LBP/US\$	1,507.5	1,575	4,227

Source: Institute of International Finance- July 27, 2020

Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's Investors Service	Ca	NP	Stable	Ca		Stable
Fitch Ratings	RD	C	-	CC	C	-
S&P Global Ratings	SD	SD	-	CC	C	Negative
Capital Intelligence Ratings	SD	SD	-	C-	C	Negative

*for downgrade

**CreditWatch negative

Source: Rating agencies

Banking Sector Ratings

	Outlook
Moody's Investors Service	Negative

Source: Moody's Investors Service

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