

LEBANON THIS WEEK

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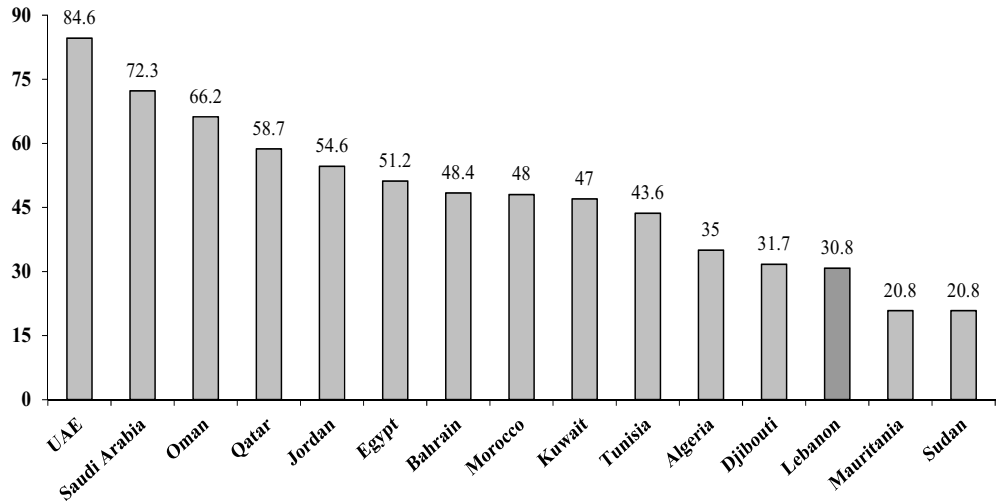
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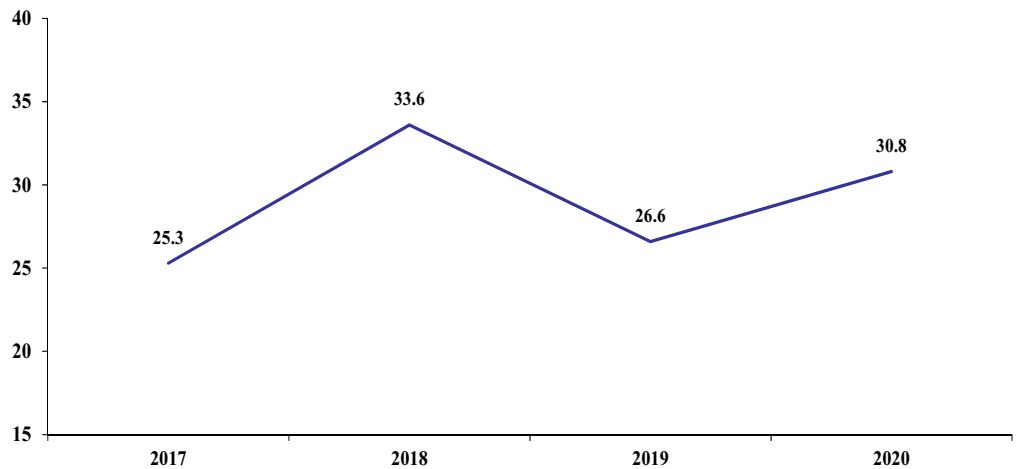
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Charts of the Week

Performance of Arab Countries in terms of Judicial Effectiveness* (%)



Performance of Lebanon in terms of Judicial Effectiveness* (%)



*higher score reflects a more efficient, fair and independent judiciary

Source: The Heritage Foundation's 2020 Index of Economic Freedom

Quote to Note

"A bail-in of deposits should prove extremely challenging to implement due to its unpopularity and potential constitutional amendments that may be required, even if only large deposits are targeted."

Barclays Capital, on the need for Lebanese authorities to find other alternatives than haircuts on deposits to recapitalize the banking sector

Number of the Week

70.13%: Percentage of polled Lebanese who think that the government is doing a satisfactory job in facing the outbreak of the coronavirus in the country, according to an opinion poll conducted through the mysay online application

Lebanon in the News

\$m (unless otherwise mentioned)	2018	2019	% Change*	Jan-19	Nov-19	Dec-19	Jan-20
Exports	2,952	3,731	26.4	236	309	324	333
Imports	19,980	19,239	(3.7)	1,404	1,281	1,346	1,154
Trade Balance	(17,028)	(15,508)	(8.9)	(1,168)	(972)	(1,022)	(821)
Balance of Payments	(4,823)	(4,351)	(9.8)	(1,380)	1,143	(841)	(158)
Checks Cleared in LBP	22,133	22,146	0.1	1,856	2,232	2,403	2,281
Checks Cleared in FC	44,436	34,827	(21.6)	3,045	2,946	3,898	4,413
Total Checks Cleared	66,569	56,973	(14.4)	4,901	5,178	6,301	6,694
Fiscal Deficit/Surplus	(6,246)	(5,837)	(6.6)	(73)	(892)	(920)	-
Primary Balance	(636)	(287)	(54.8)	232	17	(521)	-
Airport Passengers	8,842,442	8,684,937	(1.8)	606,784	438,674	544,967	522,683
Consumer Price Index**	6.1	2.9	(317bps)	4.0	3.2	7.0	10.0

\$bn (unless otherwise mentioned)	Dec-18	Jan-19	Oct-19	Nov-19	Dec-19	Jan-20	% Change*
BdL FX Reserves	32.51	31.93	30.98	30.15	29.55	28.96	(9.3)
In months of Imports	20.72	22.74	23.68	23.54	21.95	25.10	10.4
Public Debt	85.14	85.32	87.08	89.48	91.64	91.99	7.8
Bank Assets	249.48	248.88	262.80	259.69	216.78***	213.8	(14.1)
Bank Deposits (Private Sector)	174.28	172.11	168.36	162.60	158.86	155.10	(9.9)
Bank Loans to Private Sector	59.39	58.14	54.17	52.48	49.77	47.91	(17.6)
Money Supply M2	50.96	49.79	45.77	43.82	42.11	40.82	(18.0)
Money Supply M3	141.29	139.59	138.37	136.44	134.55	132.56	(5.0)
LBP Lending Rate (%)	9.97	9.97	11.19	9.69	9.09	9.86	(11bps)
LBP Deposit Rate (%)	8.30	8.30	9.03	9.40	7.36	6.62	(168bps)
USD Lending Rate (%)	8.57	8.57	10.05	10.64	10.84	10.07	150bps
USD Deposit Rate (%)	5.15	5.15	6.61	6.31	4.62	4.00	(115bps)

*year-on-year **year-on-year percentage change; bps i.e. basis points ***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
Audi Listed	1.35	(10.00)	9,259,009	12.94%
Byblos Common	0.75	(7.41)	2,655,966	6.91%
Solidere "A"	9.99	9.90	133,128	16.27%
Solidere "B"	9.25	1.65	47,813	9.79%
BLOM Listed	3.00	0.00	-	10.51%
BLOM GDR	3.50	0.00	-	4.21%
HOLCIM	9.71	0.00	-	3.09%
Byblos Pref. 08	60.00	0.00	-	1.95%
Audi GDR	2.39	0.00	-	4.66%
Byblos Pref. 09	59.90	0.00	-	1.95%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Apr 2021	8.25	18.00	265.90
Oct 2022	6.10	17.63	83.34
Jan 2023	6.00	17.63	72.51
Jun 2025	6.25	19.00	34.77
Nov 2026	6.60	18.00	27.57
Feb 2030	6.65	17.50	18.43
Apr 2031	7.00	17.50	16.43
May 2033	8.20	16.00	14.48
Nov 2035	7.05	17.50	11.51
Mar 2037	7.25	17.50	10.55

Source: Byblos Bank Capital Markets, Refinitiv

	Mar 30-Apr 3	Mar 23-27	% Change	March 2020	March 2019	% Change
Total shares traded	12,098,916	92,864	12,928.6	4,520,173	10,078,398	(55.1)
Total value traded	\$16,396,719	\$829,833	1,875.9	\$15,709,340	\$55,317,527	(71.6)
Market capitalization	\$6.14bn	\$6.16bn	(0.34)	\$6.2bn	\$9.63bn	(35.6)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Mar 20, 2020	April 3, 2020	% Change
CDS 1-year*	24,762	0	-
CDS 3-year*	17,668	0	-
CDS 5-year*	14,717	0	-

Source: ICE CMA; *mid-spread in bps

CDX EM 30*	Mar 27, 2020	April 3, 2020	% Change***
CDS 5-year**	343.27	441.92	28.7

Source: ICE CMA; * CDX Emerging Market CDS Index-Series 30

mid-spread in bps *week-on-week

Markets skeptical about government reforms

Bank of America (BofA) indicated that the investor presentation that the Ministry of Finance held on March 27, 2020 for the holders of Lebanese Eurobonds is a first step towards the government's broader engagement with its creditors. However, it said that the presentation did not provide a restructuring proposal for creditors, and only unveiled ongoing work on a comprehensive economic plan. It considered that local and international markets are likely to remain skeptical about the authorities' reform efforts and credibility, as developments in the country have been mixed. For instance, it pointed out that the Council of Ministers withdrew from consideration a capital controls draft law, which it has been reviewing, amid political opposition to its contents, while the authorities did not make any progress on the appointment of Banque du Liban's (BdL) vice governors, more than one year after their term expired.

Further, BofA considered that the restructuring of the debt, which the government aims to complete by the end of 2020, continues to be complex, as the information it provided to investors, as well as the economic and legal challenges, indicate that it will be difficult for bondholders to preserve the value of their holdings after the restructuring. It noted that the Finance Ministry confirmed during the presentation that the government will restructure its Lebanese pound-denominated debt in due course. It added that the stock of bilateral and multilateral loans of \$2bn will be excluded for the debt restructuring, while it estimated at \$0.3bn the external debt servicing cost on these loans in 2020.

In addition, it indicated that Lebanese authorities are focused on restoring the sustainability of the government's debt, instead of minimizing the cost of recapitalizing the banking sector. It pointed out that the authorities' suggestion to disentangle the balance sheet of commercial banks from that of BdL implies that they intend to restructure the banks' foreign currency exposure to BdL. Further, it noted that the government's intention to conduct "consultations" with bondholders suggests that it prefers to refrain from dealing with a committee of creditors, but it could also reflect the diverse base of Eurobond holders. It considered that bilateral consultations between the Lebanese government and holders of Eurobonds could make it more challenging for bondholders to coordinate and to agree on a unified negotiating position.

Moreover, BofA anticipated that the government's economic recovery plan will form the basis for potential negotiations with the International Monetary Fund on a funding program. Meanwhile, it said that the government is examining whether to request a \$0.5bn from the IMF through the Rapid Financing Instrument facility, in order to contain the impact on the economy of the coronavirus pandemic. However, it considered that Lebanon's unsustainable public debt could prevent it from qualifying for support through the RFI.

In addition, global investment bank Morgan Stanley considered that the scale of challenges related to the restructuring of Lebanon's public debt reinforces the materialization of a "harsh" restructuring scenario. The bank had previously modeled three different scenarios for debt restructuring from the perspective of foreign investors, which are the "soft", "medium" and "harsh" scenarios. It noted that most of the restructuring burden would fall on Eurobond holders in the "harsh" scenario, while the "soft" and "medium" scenarios are stricter on the holders of Lebanese pound-denominated debt and on depositors. It indicated that the "harsh" scenario, to which it assigns a probability of 60%, stipulates a sharp reduction in the principal payments on Eurobonds, as well as a re-profiling of the Lebanese pound-denominated debt and an implicit bail-in from deposits. It said that the government's projections of a nominal GDP of \$34.4bn in 2020 would lead the public debt level to surge to 280% of GDP. It includes in its public debt calculation the debt of the government and BdL-issued Certificates of Deposits in Lebanese pounds and US dollars, and excludes BdL's holdings of government debt. It estimated that the significantly elevated debt level implies a deeper-than-previously anticipated haircut on the Eurobonds, which would signal a trend towards the "harsh" scenario.

EU allocates €168m to support Syrian refugees and vulnerable persons in Lebanon

The European Union (EU) announced that it will extend €168m in financial support to Lebanon, as part of its €240m assistance package to support Syrian refugees and vulnerable persons in Lebanon, Iraq and Jordan through the EU Regional Trust Fund in Response to the Syrian Crisis. It added that Jordan will receive €60.5m and Iraq will get the remaining €10m of the assistance package. It considered that the new funding is particularly relevant amid the outbreak of the coronavirus, as it provides additional support for the most vulnerable persons in the three countries, while also assisting host countries to better face public health challenges, among other issues.

The breakdown of the financial support to Lebanon shows that €100m will be allocated towards strengthening the resilience of vulnerable local households and Syrian refugees, as well as to establish sustainable social safety nets in the country. Also, €57.5m will be earmarked to strengthen the public education system in Lebanon in order to deliver inclusive and quality education for the children of vulnerable Lebanese and of Syrian refugees in Lebanon. The remaining €10.5m will support child protection systems, as well as policy and services for boys, girls and women in Lebanon.

Established in December 2014, the EU Regional Trust Fund in Response to the Syrian Crisis aims to provide an integrated EU aid response to the Syrian crisis and enhance the self-reliance of Syrian refugees, while easing the pressure on host countries, such as Lebanon, Jordan, Iraq and Turkey. The Fund has so far mobilized a total of €900m in assistance to Lebanon, as well as €500m to each of Jordan and Turkey, and €160m to Iraq.



Banque du Liban's foreign assets at \$35.2bn, gold reserves at \$14.8bn at end-March 2020

Banque du Liban's (BdL) interim balance sheet totaled \$146.3bn at the end of March 2020, constituting an increase of 3.5% from \$141.4bn at the end of 2019 and a rise of 17.1% from \$124.9bn at end-March 2019.

Assets in foreign currency reached \$35.2bn at the end of March 2020, down by 5.5% from \$37.3bn at the end of 2019 and by 8.6% from \$38.6bn at end-March 2019. They included \$5.03bn worth of Eurobonds at the end of March 2020 relative to \$5.5bn at end-February and \$5.7bn at end-January. Excluding Lebanese Eurobonds, BdL's assets in foreign currency reached \$30.2bn at end-March 2020, constituting a decline of \$67m from the end of February 2020.

BdL's assets in foreign currency, excluding Lebanese Eurobonds, decreased by \$264.2m in September 2019, by \$683.1m in October, by \$2.1bn in November, by \$826.4m in December, by \$613.3m in January 2020, and by \$684.6m in February, resulting in a cumulative decline of \$5.3bn between the end of August 2019 and end-March 2020.

The decrease in BdL's assets in foreign currency, excluding Lebanese Eurobonds, is largely due to the fact that BdL has been paying, at the request of the government, maturing Eurobonds and external debt servicing until early March 2020, as well as to the financing of the imports of hydrocarbons, wheat and medicine, and to deposit outflows. In comparison, assets in foreign currency, including Lebanese Eurobonds, declined by \$3.4bn between the end of August 2019 and the end of March 2020.

In addition, the value of BdL's gold reserves rose by 6.3% from the end of 2019 and by 24.5% from end-March 2019 to \$14.8bn at the end of March 2020. The value of gold reserves reached a peak of \$16.7bn at the end of August 2011. Also, the securities portfolio of BdL totaled \$38.4bn at end-March 2020, and increased by 1% from end-2019 and by 20.3% from a year earlier. In addition, loans to the local financial sector regressed by 0.8% from end-2019 to \$14.8bn at end-March 2020. Further, deposits of the financial sector reached \$113.1bn at end-March 2020, up by \$1.07bn from end-2019. Also, public sector deposits at BdL totaled \$4.5bn at end-March 2020 and decreased by \$969.5m from end-2019.

In parallel, the Council of Ministers announced on March 26, 2020 that it has mandated the Ministry of Finance to take the necessary measures, in coordination with BdL and the relevant authorities, to conduct a "focused" audit, within a period of one month, in order to clarify the reasons that led to the current financial and monetary conditions in Lebanon. It also said that the audit should help reveal the accurate numbers on BdL's balance sheet and income statement, in an attempt to show the exact level of foreign currency reserves available at BdL.

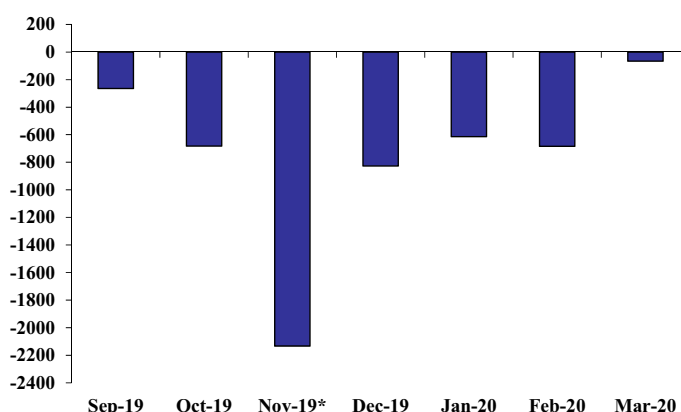
Ratings withdrawn on Lebanese Eurobonds following government default

Capital Intelligence Ratings (CI Ratings) downgraded the foreign-currency issuer ratings assigned to three Lebanese Eurobonds from 'CC' to 'D' (Default). It noted that the three Eurobonds are the \$1.25bn bond that matures in 2027, the \$1bn Eurobond that is due in 2032, and the \$750m bond that matures in 2037. It said that the downgrade follows the government's decision on March 23, 2020 to discontinue payments on all of its outstanding Eurobonds, as well as to the agency's expectation that the government will not make any payments during the 30-day grace period for the repayment of coupons. Concurrently, it withdrew the ratings on the three Eurobonds, as the ratings are no longer relevant following the government's decision to default, and given the government's intention to restructure its entire stock of Eurobonds. The agency had downgraded Lebanon's long-term foreign currency issuer rating from 'C' to 'SD' (Selective Default) following the government's announcement on March 7 that it will suspend the payments of the Eurobonds that matured on March 9, 2020.

CI Ratings indicated that the Lebanese government revealed its intention to engage in "good faith" negotiations with Eurobond holders to restructure all its Eurobond series. It noted that the government will refrain from making debt service payments on all Eurobond instruments. It said that Lebanon has \$31bn in outstanding Eurobonds, of which \$14bn are held by the domestic banking sector, \$5.5bn are held by Banque du Liban, and the remaining \$11.5bn are held by foreign creditors.

The Ministry of Finance held on March 27, 2020 its first investor presentation for holders of Lebanese Eurobonds, where it noted that the government will develop and approve a detailed economic recovery plan before the end of 2020, and that authorities will engage with multilateral partners on potential external support. It also indicated that authorities will engage between March and December 2020 with the holders of the public debt in order to reach an agreement on key financial and legal terms of the debt restructuring process of the 29 Eurobond series.

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



*BdL paid \$2.1bn in external public debt servicing in November
Source: Banque du Liban, Byblos Research

Current account deficit narrows by 12% to \$9bn in first nine months of 2019 on increase in remittance inflows and tourist revenues

Figures released by Banque du Liban show that the current account deficit reached \$9bn in the first nine months of 2019, constituting a decline of 12.3% from a deficit of \$10.3bn in the same period of 2018. The current account balance consists of the trade balance, which is the exports and imports of merchandise, as well as the services balance that covers the export and import of transportation services, tourism, insurance and other services. The current account balance also includes remittance inflows, investment income and general government transfers.

The trade deficit reached \$10.8bn in the first nine months of 2019 and narrowed by 5.3% from the same period of 2018, with the amount of imported goods increasing by 1.2% annually to \$14.5bn and the value of exports growing by 27% year-on-year to \$3.6bn, their highest level since 2013. Further, the inflows of expatriates' remittances to Lebanon stood at \$5.8bn in the first nine months of 2019, constituting an increase of 10.2% from \$5.3bn in the same period of 2018. In addition, remittance outflows from Lebanon amounted to \$3.5bn in the covered period, down by 6.8% from \$3.7bn in the first nine months of 2018. As such, net remittance inflows to Lebanon reached \$2.3bn in the first nine months of the year, constituting a jump of 51.8% from \$1.5bn in the same period of 2018.

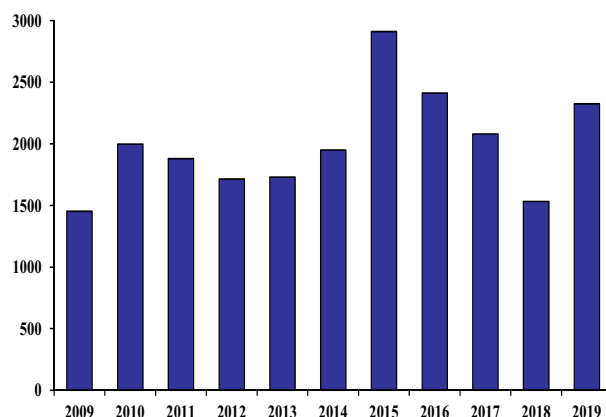
Further, tourism receipts amounted to \$7bn in the first nine months of 2019, representing an increase of 13.4% from \$6.2bn in the same period of 2018. Also, outbound tourism spending reached \$5.2bn in the first nine months of 2019, up by 10.7% from \$4.7bn in the same period of 2018. As such, net tourism receipts totaled \$1.8bn in the covered period and increased by 22.2% from \$1.5bn in the first nine months of 2018. The rise in tourism receipts is due to the increase in the number of incoming visitors to Lebanon in the covered period, which reached their highest level for the first nine months of each year since 2010.

The other components of the balance of payments show that Lebanon's capital account balance, which includes foreign grants, posted a surplus of \$786.2m in the first nine months of 2019, down by 32.5% from a surplus of \$1.2bn in the same period of 2018. The surplus in the first nine months of 2019 represented the lowest surplus for the first nine months of the year since the \$129.7m registered in the first nine months of 2012. Lebanon's capital account surplus averaged \$1.2bn during the first nine months of each year between 2013 and 2019, due to grants received to support Syrian refugees and host communities in the country, compared to an average of \$99.8m during the first nine months of each year between 2009 and 2012. The decrease in Lebanon's capital account surplus in the covered period is due in part to a decline in cash grants received by the government.

In addition, Lebanon's financial account balance, which includes net foreign direct investments, net portfolio investments and other investments, posted a surplus of \$7.5bn in the first nine months of 2019, constituting an increase of 91.2% from \$3.9bn registered in the first nine months of 2018. The improvement in the financial account is due to a shift in net portfolio investments from outflows of \$2.3bn in the first nine months of 2018 to inflows of \$1.4bn in the same period of 2019, as well as to the increase in the inflows of other investments from \$4.3bn in the first nine months of 2018 to \$4.8bn in the first nine months of 2019. Other investments include deposit flows to the banking sector. In contrast, foreign direct investments (FDI) in Lebanon reached \$1.6bn in the first nine months of 2019 and dropped by 26.7% from \$2.2bn in the same period of 2018. Also, FDI outflows from Lebanon amounted to \$328.4m in the covered period, up by 5.1% from \$312.4m in the first nine months of 2018. As such, net FDI inflows to Lebanon reached \$1.3bn in the first nine months of 2019 and represented a decline of 32% from \$1.9bn in the same period of 2018.

In parallel, unrecorded transactions, or errors and omissions, were at -\$381.3m in the first nine months of 2019 relative to +\$6.7bn in the same period of 2018. According to BdL, unrecorded transactions are in part due to the inadequate sources of data on some economic sectors. They include time and other adjustments for external trade payments, insurance services, migrants' transfers, travel services, transportation services, private sector direct investment, and portfolio investment. Finally, BdL's net foreign assets regressed by \$1.1bn in the first nine months of 2019 relative to an increase of \$1.5bn in the same period of 2018.

Net Remittance Inflows to Lebanon* (US\$m)



*in first nine months of each year

Source: Banque du Liban, Byblos Research

Net foreign assets of financial sector down by \$505.3m in first two months of 2020

Figures issued by Banque du Liban (BdL) show that the net foreign assets of the financial sector, which are a proxy for Lebanon's balance of payments, declined by \$505.3m in the first two months of 2020 compared to a decrease of \$1.9bn in the same period of 2019. The deficit in the first two months of the year was caused by a drop of \$1.6bn in the net foreign assets of BdL, which was partly offset by an increase of \$1.1bn in those of banks and financial institutions. Further, the net foreign assets of the financial sector decreased by \$347.4m in February 2020 compared to a decline of \$157.9m in January 2020 and to a drop of \$550.1m in February 2019. The month-on-month decline in February 2020 was caused by a decrease of \$989.2m in the net foreign assets of BdL, which was partly offset by an increase of \$641.7m in those of banks and financial institutions.

The increase in the banks' net foreign assets is due to the steeper decline of their foreign liabilities relative to the decrease of their foreign assets. The drop in foreign liabilities was driven to a large extent by a decrease in non-resident deposits and in non-resident financial liabilities; while the decline in the banks' foreign assets was mostly due to a contraction of their deposits with non-resident financial institutions and central banks as well as to a decline of their claims on non-resident customers. In parallel, the decrease in BdL's net foreign assets is due in part to the financing of necessity imports, such as hydrocarbons, medicine and wheat.

In comparison, the net foreign assets of the financial sector grew by \$1.2bn in 2016, while they decreased by \$155.7m in 2017, by \$4.8bn in 2018 and by \$4.35bn in 2019. They declined by the equivalent of 7.8% of GDP in 2019, 8.8% of GDP in 2018 and 0.3% of GDP in 2017, relative to an increase equivalent to 2.4% of GDP in 2016.

Compensation of public-sector personnel at \$6.7bn in 2019, absorbs 61% of revenues

Figures issued by the Ministry of Finance show that the compensation of public-sector personnel totaled \$6.7bn in 2019, constituting an increase of 4.4% from \$6.4bn in 2018. The compensation of public-sector personnel was equivalent to 11.9% of GDP in 2019, relative to 11.7% of GDP in 2018. Salaries, wages and related benefits accounted for 59.4% of the total in 2019, followed by retirement benefits (26.5%), end-of-service indemnities (9.6%), and transfers to public institutions to cover salaries (4.5%). The compensation of public-sector personnel represented the largest component of current primary spending and accounted for 71.6% of such expenditures in 2019, compared to 66.1% in 2018. Also, the compensation of public-sector personnel absorbed 60.8% of total fiscal receipts in 2019 relative to 55.8% in 2018. It accounted for 39.8% of overall fiscal spending in 2019 compared to 36.2% in 2018.

Salaries, wages & related benefits paid to public-sector employees reached \$4bn in 2019, constituting a marginal increase of 0.2% from \$3.99bn in 2018. 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. In addition, retirement benefits grew by 14.5% to \$1.8bn in 2019, end-of-service indemnities increased by 13.4% to \$645.4m, while transfers to public institutions to cover salaries declined by 8.7% to \$299.8m in 2019. The Finance Ministry previously indicated that the increase in retirement benefits partly reflects the implementation of the new salary scale, which encouraged public sector employees to retire before reaching the legal retirement age.

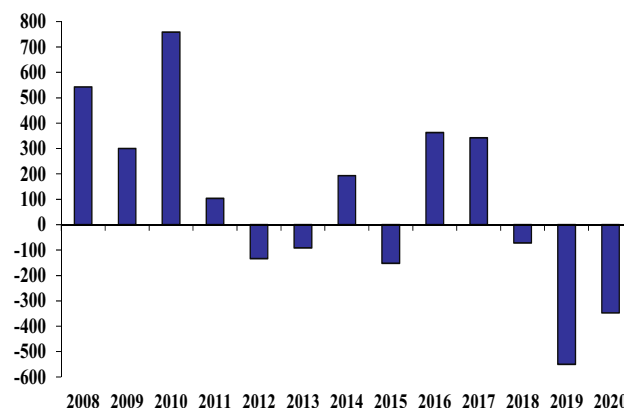
Treasury transfers to Electricité du Liban down 14% to \$1.5bn in 2019, equivalent to 2.7% of GDP

Figures released by the Ministry of Finance show that Treasury transfers to Electricité du Liban (EdL) totaled \$1.5bn in 2019, constituting a decline of 14.3% from \$1.76bn in 2018.

Reimbursements for the purchase of natural gas, fuel and gas oil reached \$1.5bn, or 99.8% of transfers, in 2019, while EdL's debt servicing represented the balance of \$2.65m, or 0.2% of the total. The decline in transfers is mainly due to a decrease of \$234.8m in reimbursements for the purchase of natural gas, fuel and gas oil, which mostly consist of payments to the Kuwait Petroleum Corporation and to the Algerian energy conglomerate Sonatrach, as well as to a drop of \$4m in debt servicing. Reimbursements fell by about 14% year-on-year from \$1.74bn in 2018, while debt servicing declined by 55% from \$6.4m. In addition, there were no transfers to Electricity Syria in 2019, compared to transfers of \$12.7m in 2018.

Treasury transfers to EdL accounted for 13.3% of budgetary primary expenditures in 2019, relative to 14.4% in 2018. They constituted the third largest expenditures item, or 8.9% of overall fiscal spending, after public sector personnel costs and debt servicing. EdL transfers were equivalent to 5.1% of GDP in 2012, 4.3% of GDP in 2013, 4.4% of GDP in 2014, 2.3% of GDP in 2015, 1.8% of GDP in 2016, 2.5% of GDP in 2017, 3.2% of GDP in 2018, and 2.7% of GDP in 2019.

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



*in February of each year

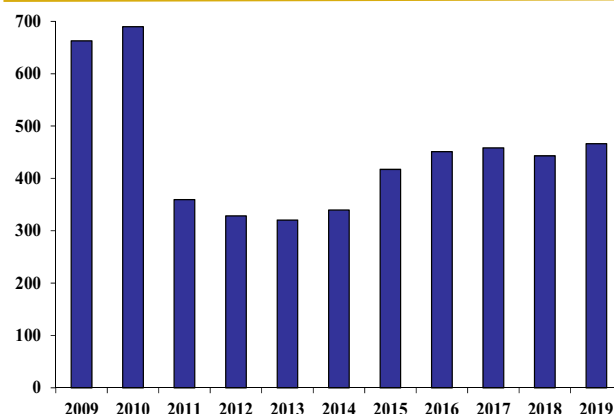
Source: Banque du Liban

Government sets floor on gasoline prices

The Council of Ministers decided on March 12, 2020, to set a floor for gasoline prices in the country. It set at LBP23,500 the minimum retail price of 20 liters of 95 Octane gasoline, and at LBP24,000 the minimum price of 20 liters of 98 Octane gasoline. The decision aims to increase government receipts from the sales of gasoline. Prior to the current decision, the government collected about LBP8,000 from the sale of 20 liters of gasoline, which consists of an excise tax of LBP5,000 and the revenues from the value-added tax rate of 11%. The current decision will allow the government to collect additional revenues from the difference between the new fixed prices and the actual global oil prices. In parallel, diesel and gas prices will continue to follow global trends, as they are exempt from taxes.

Lebanon imports all of its fuel needs. In May 2004, the Lebanese government capped the retail price of gasoline at the prevailing level due to increasing oil prices on international markets at the time, which eroded the gasoline excise revenue base. The decision was introduced temporarily on the assumption that oil prices would decline shortly after, but they increased to historic highs until the global financial crisis led to the collapse of global oil prices. In January 2009, the Lebanese government restored the gasoline excise tax and fixed it at LBP476.5 per liter or LBP9,530 per 20 liters for 95 octane gasoline, and at LBP474 per liter or LBP9,480 per 20 liters for 98 octane gasoline. As such, the government took the decision to fix the excise rate at the level prevailing in January 2009 and to allow domestic prices to move in conjunction with international oil prices. In February 2011, and due to the increase in global oil prices at the time, the government reduced the excise tax on gasoline by LBP5,000 or \$3.3 per 20 liters. The decision constituted declines in the excise tax of 52.5% on 95 Octane and of 52.7% on 98 Octane gasoline. The excise tax has been fixed at LBP5,000 since then.

Government Receipts From Excise Tax on Gasoline (US\$m)



Source: Ministry of Finance, Byblos Research

Government to provide LBP400,000 to needy households

The Council of Ministers agreed on March 31, 2020 to provide vulnerable households in Lebanon with a cash contribution of LBP400,000 per household. The cash contribution aims to help needy families cope with the economic and financial impact of the general mobilization that the government has been enforcing since March 16, 2020, in order to contain the coronavirus pandemic in the country. The Lebanese Army will distribute the cash contributions.

The government pointed out that the initiative is part of a broader plan that the Ministry of Social Affairs developed, adding that the process of choosing the vulnerable households will be based on a specific set of criteria, but it did not provide additional details. It acknowledged that LBP400,000 per household is not enough to help vulnerable families face the current challenging conditions, but stressed that it is what the government is currently capable of offering. The government added that it will consider additional assistance in the form of food supplies, as it considered that the latter is the easiest, fastest and most effective way to provide support to vulnerable households.

The distribution of cash contributions follows the government's previous measures to ease the financial and social implications of the general mobilization. On March 26, 2020 the government allocated to the Higher Relief Council LBP75bn from the reserves of the 2020 budget, in order to provide food and aid for people to help offset the social implications of the general mobilization.

Also, the Ministry of Finance suspended all deadlines on obligations that taxpayers had to meet after March 1, 2020. It noted that these obligations include the payment of taxes and fees, and the declarations of taxes to the ministry, among others. It also postponed taxpayers' installments that are due on March 31, 2020 until the end of April of this year, while it suspended the deadlines for taxpayers to file an objection or appeal to the tax administration or the Shuraa Council, among other deadlines related to the tax administration. In addition, the Ministry of Finance and the Ministry of Interior & Municipalities agreed to settle the payments owed to municipalities from the receipts of the telecommunications sector for the year 2017. The Finance Ministry also announced that it settled all the pending payment requests that public and private hospitals submitted previously. According to the Council of Ministers, the Ministry of Finance paid LBP20bn to private hospitals.

Cost of sending remittances from Australia, Canada, Saudi Arabia and the U.S decreases in first quarter of 2020

Figures issued by the World Bank show that the cost of sending \$500 in remittances from the United States to Lebanon reached 5.3% in the first quarter of 2020, constituting a decrease from 5.53% in the fourth quarter of 2019 and from 5.83% in the first quarter of 2019. The cost includes the transaction fee and exchange rate margin, and represents the average cost of transferring money through commercial banks and money transfer operators (MTOs). In nominal terms, the cost of sending \$500 from the U.S. to Lebanon was \$26.48 in the first quarter of 2020 compared to \$27.65 in the preceding quarter and to \$29.15 in the first quarter of 2019. Lebanon is the 10th most expensive destination for sending \$500 from the U.S. among 42 countries with available data.

Further, the cost of sending remittances from Canada to Lebanon was 6.45% in the first quarter of 2020 for a transfer of CAD500, down from 7.35% in the fourth quarter of 2019 and compared to 6.41% in the first quarter of 2019. In nominal terms, the cost of sending CAD500 from Canada to Lebanon was CAD32.23 in the first quarter of 2020 relative to CAD36.77 in the previous quarter and to CAD32.07 in the first quarter of 2019. Lebanon is the second costliest destination for sending CAD500 from Canada among 15 countries with available data.

Also, the cost of sending remittances from Australia to Lebanon reached 7.19% in the first quarter of 2020 for a transfer of AUD500, down from 7.23% in the fourth quarter of 2019 and compared to 6.94% in the first quarter of 2019. The cost of sending AUD500 from Australia to Lebanon was AUD35.96 in the first quarter of 2020 compared to AUD36.16 in the preceding quarter and to AUD34.72 in the first quarter of 2019. Lebanon is the fourth most expensive destination for sending AUD500 from Australia among 16 countries with available data.

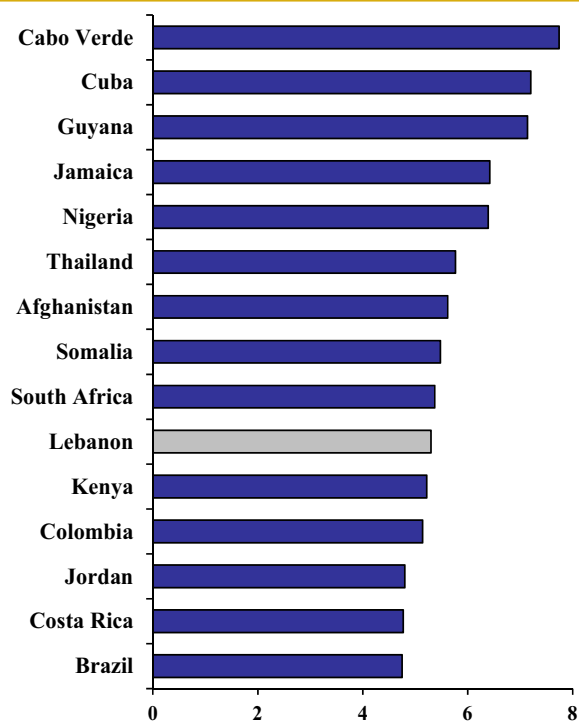
In addition, the cost of sending remittances from France to Lebanon was 7.45% in the first quarter of 2020 for a transfer of €345, constituting an increase from 6.75% in the fourth quarter of 2019 and from 6.4% in the first quarter of 2019. In nominal terms, the cost of sending €345 from France to Lebanon was €25.7 in the first quarter of 2020 compared to €23.3 in the previous quarter and to €22.09 in the first quarter of 2019. Lebanon is the third most expensive destination for sending €345 from France among 16 countries with available data.

Further, the cost of sending remittances from the United Kingdom to Lebanon reached 8.61% in the first quarter of 2020 for a transfer of £300, up from 7.91% in the fourth quarter of 2019 and from 7.68% in the first quarter of 2019. In nominal terms, the cost of sending £300 from the UK to Lebanon was £25.83 in the first quarter of 2020 relative to £23.73 in the preceding quarter and to £23.03 in the first quarter of 2019. Lebanon is the fourth most expensive destination for sending £300 from the UK, among 33 countries with available data.

Also, the cost of sending remittances from Germany to Lebanon was 7.58% in the first quarter of 2020 for a transfer of €345, constituting an increase from 7.33% in the fourth quarter of 2019 and from 6.84% in the first quarter of 2019. In nominal terms, the cost of sending €345 from Germany to Lebanon was €26.15 in the first quarter of 2020 relative to €25.28 in the previous quarter and to €23.6 in the first quarter of 2019. Lebanon is the fifth most expensive destination for sending €345 from Germany among 24 countries with available data.

Finally, the cost of sending remittances from Saudi Arabia to Lebanon reached 1.98% in the first quarter of 2020 for a transfer of SAR1,870, equivalent to \$500, down from 2.96% in the fourth quarter of 2019 and from 2.22% in the first quarter of 2019. In nominal terms, the cost of sending SAR1,870 from Saudi Arabia to Lebanon was SAR37.07 in the first quarter of 2020, relative to SAR55.35 in the preceding quarter and to SAR41.51 in the first quarter of 2019. Lebanon is the sixth least expensive destination for sending SAR1,870 from Saudi Arabia among 17 countries with available data.

Costliest Destinations of Remittances from the United States* (%)



*cost of sending \$500 from the U.S.

Source: World Bank, Byblos Research

Lebanon ranks 130th globally, second in the Arab world in political freedoms

In its annual survey on political freedoms in 195 countries, non-profit organization Freedom House ranked Lebanon in 130th place worldwide and in second place among 19 Arab countries in the 2020 survey. In comparison, Lebanon came in 129th place globally and in second place regionally in the 2019 survey. The survey rates each country on political rights and civil liberties on a scale of zero to 100 points, with 100 points representing the highest degree of freedom and a score of zero points reflecting the lowest level. The combined average of the ratings determines each country's status of "Free", "Partly Free", or "Not Free".

Globally, Lebanon has the same level of political freedoms as the Comoros and Togo, while it has a higher level than Mali and Guinea, and a lower level of political freedoms than Honduras and Mozambique. Also, Lebanon came in the "Partly Free" category, unchanged since 2005 when it was upgraded from the "Not Free" category. Further, Lebanon's freedom rating stood at 44 points, below the global average of 59 points, but significantly higher than the Arab average rating of 25.4 points.

Lebanon tied with Mozambique and Myanmar, while it came ahead of Morocco and Kuwait, and behind Bangladesh and Guinea on the Political Rights sub-index, which reflects citizens' ability to participate freely in the political process. Lebanon came in third place in the Arab region on this category, behind Tunisia and Iraq. Also, Lebanon received a rating of 14 points out of a maximum of 40 points on this indicator, worse than the global average of 23.4 points, but better than the Arab average of 8.3 points.

In addition, Lebanon tied Bhutan, while it came ahead of Guinea-Bissau and Kenya, and behind Indonesia and Singapore on the Civil Liberties sub-index. This category reflects the freedoms of expression and belief, associational and organizational rights, the rule of law, and personal autonomy. Lebanon came in second place in the Arab region on this category, behind Tunisia. Further, Lebanon received a rating of 30 points out of a maximum of 60 points on this sub-index, worse than the global average of 35.7 points, but better than the Arab level of 17.2 points.

In parallel, the survey classified 83 countries in the "Free" category, 63 countries in the "Partly Free" category and 49 countries in the "Not Free" category. It also concluded that 39% of the global population lives under political systems that are "Free", whereas 25% is in systems that are "Partly Free", and 36% lives under political systems that are "Not Free".

Freedom in the World Index 2020 Arab Countries' Scores & Rankings

Country	Freedom Rating	Arab Rank	Global Rank	Category
Tunisia	70	1	85	Free
Lebanon	44	2	130	Partly Free
Morocco	37	3	141	Partly Free
Jordan	37	3	141	Partly Free
Kuwait	36	5	143	Partly Free
Mauritania	34	6	144	Partly Free
Algeria	34	6	144	Not Free
Iraq	31	8	150	Not Free
Qatar	25	9	156	Not Free
Djibouti	24	10	158	Not Free
Oman	23	11	160	Not Free
Egypt	21	12	164	Not Free
UAE	17	13	172	Not Free
Sudan	12	14	179	Not Free
Bahrain	11	15	180	Not Free
Yemen	11	15	180	Not Free
Libya	9	17	186	Not Free
Saudi Arabia	7	18	188	Not Free
Syria	0	19	195	Not Free

Source: Freedom House, Byblos Research

Private sector deposits down \$21bn in six-month period ending February 2020

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets stood at \$210.3bn at the end of February 2020, constituting a decrease of 3% from \$216.8bn at the end of 2019 and a decline of 15.9% from \$250.2bn at end-February 2019. The year-on-year decline in assets is mainly due to the "netting" on the assets and liabilities' sides of the consolidated balance sheet of banks, as part of the implementation of international accounting standard IFRS 7 starting in December 2019.

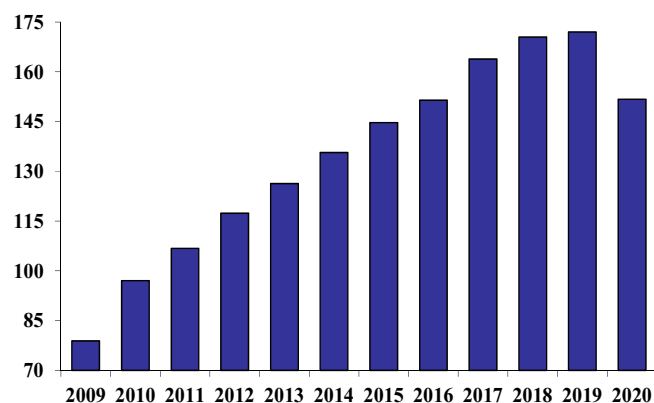
Loans extended to the private sector reached \$46.1bn at the end of February 2020, regressing by 7.4% from end-2019 and by 19.7% from a year earlier. Loans to the resident private sector totaled \$40.9bn, constituting a decrease of 7.4% from the end of 2019 and of 19.6% from end-February 2019. Also, credit to the non-resident private sector reached \$5.1bn at end-February 2020, declining by 7.7% from end-2019 and by 20.8% from a year earlier. In nominal terms, credit to the private sector contracted by \$3.7bn in the first two months of 2020 relative to a decrease of \$2bn in the same period of 2019, as lending to the resident private sector declined by \$3.3bn and credit to the non-resident private sector regressed by \$430.7m in the covered period. The dollarization rate of private sector loans fell from 69.1% at end-February 2019 to 66.9% at end-February 2020.

In addition, claims on non-resident financial institutions reached \$5.7bn at the end of February 2020 and declined by \$1bn (-15.1%) from end-2019, by \$3.4bn (-37.1%) from the end of August 2019, and by \$4.7bn (-45.2%) from a year earlier. Also, deposits at foreign central banks totaled \$578.4m and dropped by 1.7% from end-2019 and by 41.8% from end-February 2019. In addition, claims on the public sector stood at \$26.2bn at end-February 2020, down by \$2.5bn (-8.8%) from end-2019 and by \$7.4bn (-22%) from end-February 2019. The banks' holdings of Lebanese Treasury bills stood at \$14.3bn at the end of February 2020 while their holdings of Lebanese Eurobonds reached \$11.6bn at end-February 2020. The average lending rate in Lebanese pounds was 9.33% in February 2020 compared to 10.55% a year earlier, while the same rate in US dollars was 9.11% relative to 8.91% in February 2019. Further, the deposits of commercial banks at BdL totaled \$117.4bn at the end of February 2020, nearly unchanged from the end of 2019 and down by 12.7% from \$134.4bn at the end of February 2019, following the netting operation.

In parallel, private sector deposits totaled \$151.7bn at the end of February 2020, and decreased by 4.5% from the end of 2019 and by 11.8% from end-February 2019. Deposits in Lebanese pounds reached the equivalent of \$33.9bn at end-February 2020, down by 11% from the end of 2019 and by 33% from a year earlier; while deposits in foreign currency totaled \$117.8bn, as they regressed by 2.5% from end-2019 and by 3% from end-February 2019. Resident deposits totaled \$121.4bn at the end of February 2020 and decreased by \$5bn (-4%) from the end of 2019 and by \$13.9bn (-10.3%) from a year earlier. Also, non-resident deposits reached \$30.3bn at end-February 2020, as they regressed by \$2.2bn (-6.6%) from end-2019 and by \$6.4bn (-17.4%) from the end of February 2019. In nominal terms, private sector deposits declined by \$3.76bn in January and by \$3.4bn in February 2020. As such, aggregate private sector deposits regressed by \$7.15bn in the first two months of 2020 relative to a decrease of \$2.3bn in the same period of 2019, with deposits in Lebanese pounds dropping by \$4.15bn and foreign-currency deposits declining by \$3bn. In comparison, private sector deposits declined by \$2.2bn in September, by \$1.9bn in October, by \$5.8bn in November and by \$3.7bn in December 2019. As such, aggregate private sector deposits dropped by \$20.8bn in the six-month period ending in February 2020, due largely to the repayment of loans, to the hoarding of cash at households, and to deposit outflows. The dollarization rate of private sector deposits was 77.6% at end-February 2020, up from 76% at the end of 2019, and compared to 70.6% a year earlier.

In parallel, the liabilities of non-resident financial institutions reached \$8.3bn at the end of February 2020 and decreased by 6.3% from end-2019. Further, the average deposit rate in Lebanese pounds was 5.81% in February 2020 compared to 9.16% a year earlier, while the same rate in US dollars was 3.22% relative to 5.62% in February 2019. The ratio of private sector loans to deposits in foreign currency stood at 26.2% at the end of February 2020 compared to 32.7% a year earlier, well below BdL's limit of 70%. The same ratio in Lebanese pounds reached 44.9% at end-February 2020 relative to 35% from a year earlier. As such, the total private sector loans-to-deposits ratio reached 30.4% compared to 33.4% at end-February 2019. The banks' aggregate capital base stood at \$20.8bn at end-February 2020, down by 6.3% from \$22.2bn a year earlier.

Private Sector Deposits at Banks* (US\$bn)



*at the end of February of each year

Source: Banque du Liban, Byblos Research

Banque du Liban issues mechanism for withdrawal of small amounts from banks

Banque du Liban (BdL) issued Basic Circular 148 on April 3, 2020 about exceptional measures related to cash withdrawal from small accounts at banks in Lebanon.

The circular allows clients to withdraw, through a specific mechanism, the total amount they have in Lebanese pounds in all their accounts at a bank, provided that the aggregate amount they have does not exceed LBP5,000,000, or the equivalent of \$3,000 in any foreign currency as at March 3, 2020. It added that the bank will compute the aggregate amount in all accounts after netting all obligations that the client has towards the bank.

For eligible accounts denominated in Lebanese pounds, and at the request of the client, the bank will convert them to US dollars at the rate that BdL uses in its operations with banks, which is currently the official exchange rate that ranges between LBP1,500 and LBP1,515. Then, the bank will convert the US dollar amount back to Lebanese pounds at the market rate that prevails at the time of the transaction. Also, for accounts denominated in US dollars or in other foreign currencies that do not exceed \$3,000 or the equivalent in any foreign currency, the client can withdraw the entire amount in Lebanese pounds at the market rate that prevails at the time of the withdrawal. The circular asked each bank to announce the market rate that is offering on a daily basis. According to the circular, the aforementioned measures are valid for a period of three months.

Further, BdL issued Basic Circular 149 on April 3, 2020 about BdL's purchasing of foreign currency. According to the circular, BdL will establish a special unit that will be responsible for trading in foreign currency according to the market exchange rate, especially in US dollars, in order to secure the economy's needs in foreign currency. Also, the circular noted that Category A money dealers that are interested in trading in foreign currency can submit an application to the BdL's special unit. It added that BdL will establish an electronic platform that includes BdL, banks and money dealers, through which the market price of all foreign currencies, especially US dollars, will be announced. In addition, the circular cancelled BdL's previous decision that sets the ceiling for money dealers' buying price of foreign currency at 30% of the exchange rate that BdL uses in its operations with banks in the country.

In parallel, the Association of Banks in Lebanon announced that it will set the daily market exchange rate in collaboration with BdL until the latter establishes the electronic platform for currency trading.

Stock market capitalization down 36% year-on-year at end-March 2020

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 8,298,287 shares in the first quarter of 2020, constituting a decline of 95.5% from 182,997,099 shares traded in the same period last year; while aggregate turnover amounted to \$43.3m, down by 94.4% from a turnover of \$777.3m in the first quarter of 2019. The sharp decline in trading volume and turnover in the first three months of 2020 was from a high base in the same period last year, which saw eight block trades in the shares of three listed companies.

The market capitalization of the BSE regressed by 35.6% from \$9.6bn at the end of March 2019 to \$6.2bn at end-March 2020, with banking stocks accounting for 71% of the total, followed by real estate equities (25%), industrial shares (3.5%), and trading firms' equities (0.6%). The market liquidity ratio was 0.7% in the covered period compared to 8.1% in the first quarter of 2019.

Real estate equities accounted for 52.5% of the aggregate trading volume in the first quarter of 2020, followed by banking stocks with 46.7%, and trading firms' equities and industrial shares with 0.4% each. Also, real estate equities accounted for 85.4% of the aggregate value of shares traded, followed by banking stocks with 14.1%, industrial stocks with 0.3%, and trading firms' equities with 0.2%. The average daily traded volume for the period was 140,649 shares for an average daily value of \$734,567. The figures reflect a year-on-year decrease of 95.5% in average daily traded volume, and an annual drop of 94.4% in the average value in the first quarter of the year.



Ratio Highlights

(in % unless specified)	2017	2018	2019	Change*
Nominal GDP (\$bn)	53.1	55.0	56.8	1.85
Public Debt in Foreign Currency / GDP	57.2	60.9	59.4	(1.54)
Public Debt in Local Currency / GDP	92.5	94.0	101.9	7.94
Gross Public Debt / GDP	149.7	154.9	161.3	6.40
Total Gross External Debt / GDP**	139.2	137.0	128.4	(8.62)
Trade Balance / GDP	(31.5)	(31.0)	(27.3)	3.69
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	236.7	(20.33)
Commercial Banks Assets / GDP	413.7	453.9	381.6	(72.37)***
Private Sector Deposits / GDP	317.4	317.1	279.6	(37.48)
Private Sector Loans / GDP****	112.3	108.1	87.6	(20.45)
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

Risk Metrics

Lebanon	Feb 2018	Jan 2019	Feb 2019	Change**	Risk Level
Political Risk Rating	55.0	54.0	54.0	▲	High
Financial Risk Rating	33.0	31.5	31.5	▲	Moderate
Economic Risk Rating	28.5	24.0	24.0	▲	Very High
Composite Risk Rating	58.25	54.75	54.75	▲	High

MENA Average*	Feb 2018	Jan 2019	Feb 2019	Change**	Risk Level
Political Risk Rating	58.2	58.1	58.2	➔	High
Financial Risk Rating	37.9	39.1	39.2	▼	Low
Economic Risk Rating	31.4	33.8	33.8	▼	Moderate
Composite Risk Rating	63.8	65.5	65.6	▼	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 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

Banking Sector Ratings	Outlook
Moody's Investors Service	Stable

Source: Moody's Investors Service



Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut – Lebanon
Tel: (961) 1 338 100
Fax: (961) 1 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com

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BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605 Riad El Solh - Beirut 1107 2811- Lebanon
Phone: (+ 961) 1 335200
Fax: (+ 961) 1 339436

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60, Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457/8/9 - 2560017/9
E-mail: erbilbranch@byblosbank.com.lb

Sulaymaniyah Branch, Kurdistan, Iraq
Salem street, Kurdistan Mall - Sulaymaniyah
Phone: (+ 964) 773 042 1010 / (+ 964) 773 041 1010

Baghdad Branch, Iraq
Al Karrada - Salman Faeq Street
Al Wahda District, No. 904/14, Facing Al Shuruk Building
P.O.Box: 3085 Badalat Al Olwiya – Iraq
Phone: (+ 964) 770 6527807 / (+ 964) 780 9133031/2
E-mail: baghdadbranch@byblosbank.com.lb

Basra Branch, Iraq
Intersection of July 14th, Manawi Basha Street, Al Basra – Iraq
Phone: (+ 964) 770 4931900 / (+ 964) 770 4931919
E-mail: basrabranch@byblosbank.com.lb

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Al Reem Island - Sky Tower - Office 2206
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336050 - 2 6336400
Fax: (+ 971) 2 6338400
E-mail: abudhabirepoffice@byblosbank.com.lb

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryan Street - Area 0002
Yerevan - Republic of Armenia
Phone: (+ 374) 10 530362 Fax: (+ 374) 10 535296
E-mail: infoarm@byblosbank.com

NIGERIA

Byblos Bank Nigeria Representative Office
161C Rafu Taylor Close - Off Idejo Street
Victoria Island, Lagos - Nigeria
Phone: (+ 234) 706 112 5800
(+ 234) 808 839 9122
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

BELGIUM

Byblos Bank Europe S.A.
Brussels Head Office
Boulevard Bischoffsheim 1-8
1000 Brussels
Phone: (+ 32) 2 551 00 20
Fax: (+ 32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

UNITED KINGDOM

Byblos Bank Europe S.A., London Branch
Berkeley Square House
Berkeley Square
GB - London W1J 6BS - United Kingdom
Phone: (+ 44) 20 7518 8100
Fax: (+ 44) 20 7518 8129
E-mail: byblos.london@byblosbankeur.com

FRANCE

Byblos Bank Europe S.A., Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+33) 1 45 63 10 01
Fax: (+33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

CYPRUS

Limassol Branch
1, Archbishop Kyprianou Street, Loucaides Building
P.O.Box 50218
3602 Limassol - Cyprus
Phone: (+ 357) 25 341433/4/5 Fax: (+ 357) 25 367139
E-mail: byblosbankcyprus@byblosbank.com.lb

ADIR INSURANCE

Dora Highway - Aya Commercial Center
P.O.Box: 90-1446
Jdeidet El Metn - 1202 2119 Lebanon
Phone: (+ 961) 1 256290
Fax: (+ 961) 1 256293