

LEBANON THIS WEEK

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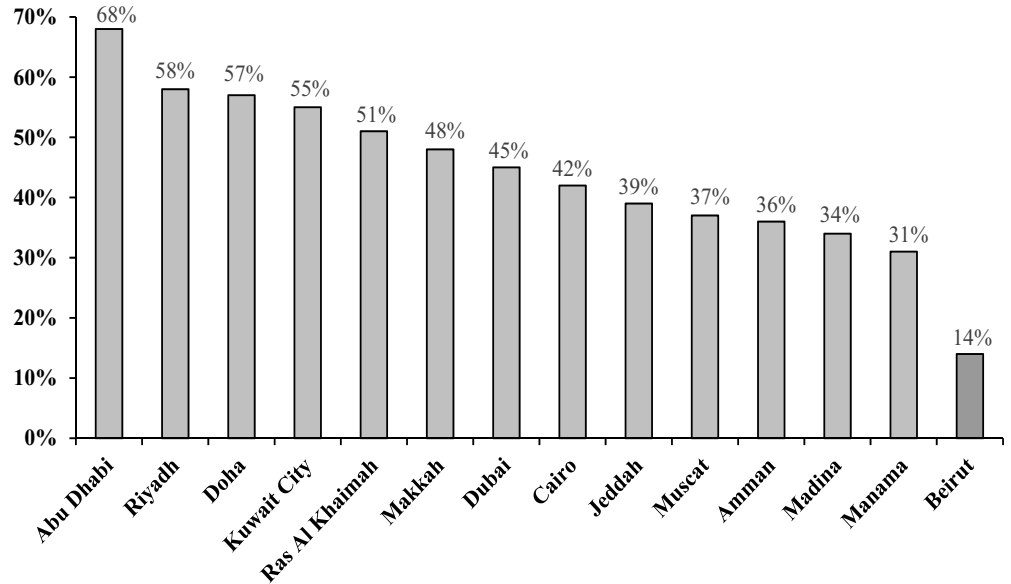
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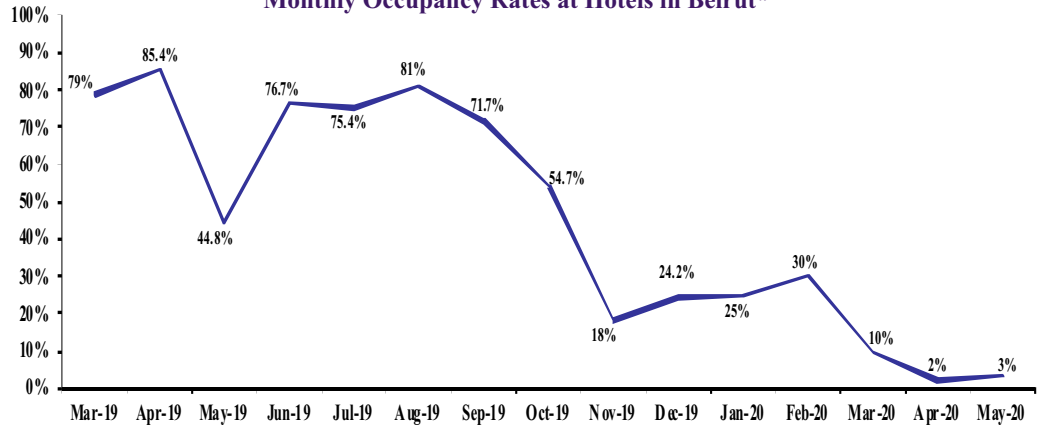
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Charts of the Week

Occupancy Rates at Hotels in Selected Arab Cities in First Five Months of 2020* (%)



Monthly Occupancy Rates at Hotels in Beirut*



*at four- and five-star hotels

Source: EY, Byblos Research

Quote to Note

"It is essential for the authorities to begin implementing critical economic reforms to immediately stop the worsening of economic conditions."

Athanasios Arvanitis, Deputy Director of the Middle East and Central Asia Department at the International Monetary Fund, on the urgent need for the Lebanese government to implement reform measures regardless of the state of negotiations with the IMF

Number of the Week

73.2%: Percentage of Lebanese who believe that an agreement with the International Monetary Fund will lead to the stabilization of the Lebanese pound exchange rate, according to an opinion poll conducted through the online platform "mysay"

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	-	-
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"	15.00	0.47	223,187	23.29%
Solidere "B"	14.80	(1.33)	116,804	14.94%
Audi Listed	0.95	1.06	59,287	8.68%
Byblos Common	0.40	(11.11)	35,000	3.51%
BLOM Listed	3.18	0.00	500	10.62%
BLOM GDR	2.98	(0.67)	2	3.42%
HOLCIM	12.10	0.00	-	3.67%
Audi GDR	1.39	0.00	-	2.58%
Byblos Pref. 08	49.95	0.00	-	1.55%
Byblos Pref. 09	52.75	0.00	-	1.64%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Apr 2021	8.25	18.00	452.58
Oct 2022	6.10	17.38	97.55
Jan 2023	6.00	16.63	85.66
Jun 2025	6.25	16.25	40.82
Nov 2026	6.60	16.38	30.63
Feb 2030	6.65	16.25	19.86
Apr 2031	7.00	15.75	17.95
May 2033	8.20	14.88	15.43
Nov 2035	7.05	16.38	12.20
Mar 2037	7.25	17.50	10.73

Source: Byblos Bank Capital Markets, Refinitiv

	Jul 13-17	Jul 6-10	% Change	June 2020	June 2019	% Change
Total shares traded	463,150	671,126	(31.0)	9,040,647	1,693,147	434
Total value traded	\$6,275,204	\$8,812,422	(28.8)	\$28,524,807	\$7,832,924	264.2
Market capitalization	\$6.44bn	\$6.50bn	(0.8)	\$6.36bn	\$8.58bn	(25.9)

Source: Beirut Stock Exchange (BSE)



Lebanon ranks 127th globally, 12th among Arab countries in electronic government

The United Nations' E-Government Development Index for 2020 ranked Lebanon in 127th place among 193 countries worldwide and in 12th place among 19 Arab countries. Also, Lebanon came in 47th place among 58 upper middle-income countries (UMICs) included in the survey. Lebanon's global rank regressed by 28 spots from 99th place in the 2018 survey, constituting the second steepest drop globally; while its regional rank retreated by three spots from ninth place in the previous survey.

The index benchmarks the development of electronic government across member states of the United Nations. It is a composite indicator that measures the willingness and capacity of national administrations to use information and communication technology to deliver public services. The index is a weighted average of three sub-indices that represent the most important dimensions of e-government, which are the Online Service Index, the Telecommunication Infrastructure Index and the Human Capital Index. A country's overall score ranges from zero to one, with a higher score reflecting a more developed electronic government system.

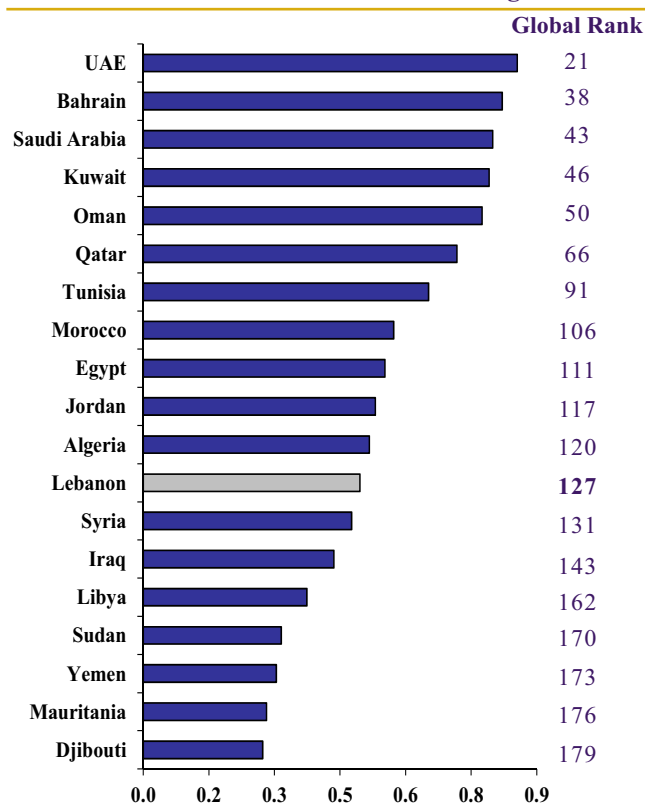
Globally, Lebanon has a more developed e-government system than Rwanda, Syria and Nepal, and a less advanced one than Nicaragua, Cambodia and Zimbabwe among economies with a GDP of \$10bn or more. Lebanon received a score of 0.4955 points on the index, down by 10.4% from 0.553 points in the 2018 survey, and constituting the seventh steepest decline globally. Also, Lebanon's score is lower than the global average score of 0.5988 points, the UMICs' average score of 0.6204 points, and the Arab average score of 0.5549 points. Lebanon's score is also lower than the Gulf Cooperation Council (GCC) countries' average score of 0.7932 points, but it is higher than the average score of non-GCC Arab countries of 0.4449 points. Denmark has the world's most developed e-government system, while South Sudan has the least developed one globally.

In parallel, Lebanon preceded Afghanistan and Nepal, while it trailed Cambodia and Côte d'Ivoire on the Online Service Sub-Index. This category assesses a country's national websites, including the national statistics portal, the e-services portal and the e-participation portal, as well as the websites of the ministries of education, environment, finance, health, labor and social services. Lebanon ranked ahead of Jordan, Iraq and Yemen, and came behind Egypt, Syria and Morocco among Arab countries on this category.

Further, Lebanon ranked ahead of Mauritania and Nicaragua, while it came behind Egypt and Senegal globally on the Telecommunications Infrastructure Sub-Index. This category covers the number of Internet users per 100 inhabitants, the number of mobile phone subscribers per 100 inhabitants, the number of mobile broadband subscriptions per 100 inhabitants and the number of fixed broadband penetration rates. Lebanon ranked ahead of Mauritania, Syria, Libya, Sudan, Djibouti and Yemen regionally on this category.

Finally, Lebanon preceded Namibia and Korea, while it trailed Gabon and Qatar globally on the Human Capital Sub-Index. This category covers the adult literacy rate, the combined primary, secondary and tertiary school gross enrolment ratios, the expected years of schooling and the average years of schooling. Lebanon came ahead of Egypt, Morocco, Syria, Iraq, Yemen, Mauritania, Sudan, and Djibouti regionally on this category.

**E-Government Development Index for 2020
Arab Countries Scores & Rankings**



Source: United Nations, Byblos Research

Components of 2020 E-Government Development Index for Lebanon

Sub-Index	Global Rank	Change in Rank*	Arab Rank	UMICs Rank	Lebanon Score	Global Average Score	Arab Average Score	UMICs Average Score
Online Service	134	-13	11	38	0.4176	0.5620	0.4932	0.5515
Telecom Infrastructure	128	-58	13	49	0.4123	0.5464	0.5532	0.5618
Human Capital	115	-19	9	45	0.6649	0.6627	0.5996	0.7231

*change in global rank from 2018; (+) reflects an improvement in rank

Source: United Nations, Byblos Research

Lebanon has 20th highest level of gold reserves globally, second highest among Arab countries

Figures released by the World Gold Council show that Lebanon holds 286.8 tons in gold reserves. As such, Lebanon ranked in 20th place in terms of gold holdings among 96 countries, as well as the International Monetary Fund, the West African Economic Monetary Union, the European Central Bank and the Bank for International Settlements. It also ranked in eighth place among 66 non-OECD countries and in second place among 15 Arab countries included in the survey. The World Gold Council compiled the data from the International Monetary Fund's International Financial Statistics. The figures are two months in arrears, which means that gold holdings are reported for May 2020 for most countries, and for April 2020 or earlier for countries with delayed reporting.

Globally, Lebanon had more gold reserves than Spain (281.6 tons), Austria (280 tons) and Poland (228.6 tons); while it held fewer reserves than Uzbekistan (342.8 tons), Saudi Arabia (323.1 tons) and the United Kingdom (310.3 tons). Also, Lebanon held more gold than Poland and less than Saudi Arabia among non-OECD countries. The United States is the top holder of gold in the world with 8,133.5 tons, while Haiti ranks in last place with 1.8 tons in gold reserves. Lebanon's gold holdings accounted for about 21.5% of the Arab region's aggregate gold reserves, for nearly 3.1% of the holdings of non-OECD countries and for about 0.8% of global gold reserves.

Further, the value of Lebanon's gold reserves was \$15.94bn at the end of May 2020, based on a price of \$1,728.7 per troy ounce as published by the London Bullion Market Association.

In addition, Lebanon's gold holdings were equivalent to 31.1% of the country's official assets in foreign currency plus gold reserves as of May 2020, which ranked Lebanon in 21st place globally, in 11th place among non-OECD countries and in first place among Arab countries. Globally, Lebanon's share of gold reserves out of its official foreign assets is higher than that of the European Central Bank (31%), the Kyrgyz Republic (25.7%), and Finland (23.7%); while it is smaller than the share of Turkey (36.4%), Mongolia (34.7%), and Belarus (34.6%). Also, Lebanon's share of gold holdings out of its official foreign assets is higher than the share of the Kyrgyz Republic and lower than that of Belarus among non-OECD countries. The gold reserves of Venezuela are equivalent to 82.3% of its total foreign exchange reserves, the highest share in the world, while Hong Kong's gold holdings account for 0.03% of its total foreign assets, the lowest such share globally.

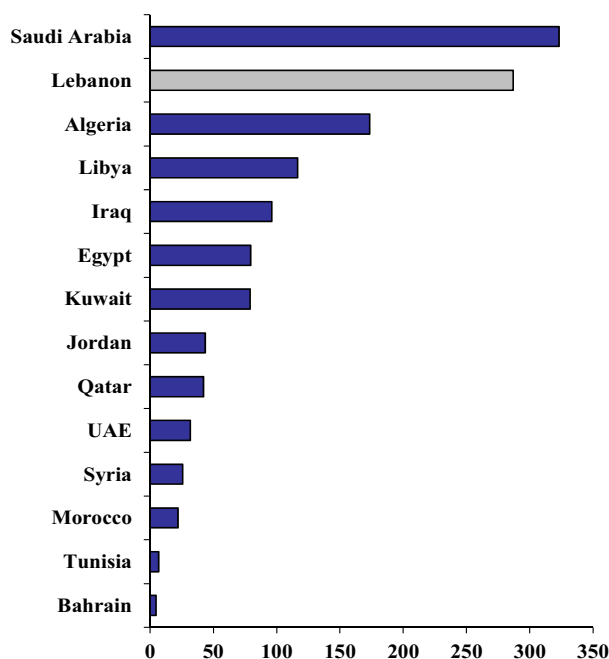
Coincident Indicator down 27% in first four months of 2020

Banque du Liban's Coincident Indicator, an index of economic activity in Lebanon, reached 172.5 points in April 2020, its lowest level since June 2007, compared to 199.7 in March 2020 and 316.1 in April 2019. The Coincident Indicator, an average of eight weighted economic indicators, decreased by 13.6% month-on-month and regressed by 45.4% year-on-year in April 2020. The annual decline in the indicator in April 2020 is the steepest on record, reflecting the deterioration of economic and financial conditions, as well as the tightening of lockdown measures at the time to contain the spread of COVID-19 in the country.

The indicator averaged 222.4 in the first four months of 2020, constituting a decline of 27.1% from an average of 305 in the same period of 2019 and representing its lowest level for the first four months of a year since 2009. The drop in the indicator is the steepest on record in the first four months of a year since BdL introduced the indicator in 1993. The indicator averaged 265.1 in the 12 months ending April 2020, compared to an average of 277.1 in the 12-month period ending March 2020 and to an average of 303.6 in the 12 months ending April 2019. As a result, the 12-month average coincident indicator declined by 4.3% month-on-month, while it regressed by 12.7% year-on-year.

In parallel, the indicator improved 21 times and regressed seven times in the month of April 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.

Gold Reserves in Arab Countries (in tons)*



*as of May 2020

Source: World Gold Council, Byblos Research

World Bank identifies priority actions to reform electricity sector

The World Bank's Power Sector Emergency Action Plan for Lebanon indicated that the electricity sector in Lebanon has been at the center of the country's economic and fiscal imbalances for decades. It noted that the sector has not adequately supplied electricity to consumers, which has significantly impacted economic and social development, and increased public distrust. It estimated that Electricité du Liban (EdL) secured only 55% to 64% of Lebanon's electricity needs in 2018, while private diesel generators supplied the remainder of the country's electricity demand.

It indicated that the cost of supplying electricity in Lebanon is elevated, largely due to the cost of fuel, including the cost of temporary generation through barges, as well as expenditures for power purchases from Syria, and operation and maintenance costs. It pointed out that the cost of fuel accounted for 64.5% of the total \$2.6bn cost of supplying electricity as estimated in 2018, which makes the electricity sector vulnerable to fluctuations in international fuel prices. It said that operation and maintenance expenditures followed with 27% of total electricity costs, while expenses for power purchases represented 8.5% of the total. It pointed out that Treasury transfers to EdL averaged 3.8% of GDP annually in the 2008-18 period, which represented about 50% of the country's average annual fiscal deficits. It added that the government transferred a record high of \$2.2bn to EdL in 2012, which was equivalent to 5.1% of GDP.

The World Bank indicated that EdL is constrained by challenges in its governance structure, by limited control over its budget that dilutes its focus on improving operations and services, as well as by a lack of transparency in its finance, human resources, procurement, accounting and technical planning processes. It identified priority actions that it classified under the governance, security of electricity supply, financial stability, and environmental sustainability pillars.

In terms of the governance pillar, it called on authorities to establish the Electricity Regulatory Authority (ERA), which will help safeguard the sector's transparency and promote accountability. It also stressed on the importance of modernizing EdL through strengthening its governance structure, core business areas, operations, and administrative processes. It encouraged the Ministry of Energy & Water to establish a department for energy infrastructure planning, and to develop a framework that redefines the roles of all major stakeholders, such as the Lebanese Petroleum Administration and the Lebanese Center for Energy Conservation, in the planning process.

In terms of the security of electricity supply, the Bank highlighted the importance of mainstreaming and expanding renewable energy generation, which has played a secondary role in the sector so far, in order to reduce the dependency on costly imported fuels. It said that the government will need an additional 4,700 megawatts of renewable energy capacity in the next 10 years to reach its target of producing 30% of electricity demand from renewable energy sources by 2030. It also stressed on the need for authorities to accelerate the installation of the floating storage regasification units at Zahrani in the South and at Deir Amar in the North to import gas, as well as to launch separate tender processes for additional temporary and permanent generation capacity.

In terms of financial stability, it called on the authorities to pursue tariff reforms based on a clear action plan, and to adopt a framework to lift subsidies while protecting the poor. It also stressed on the importance of reducing technical and non-technical losses on EdL's distribution network through accelerating the rollout of smart meters, and of improving revenue collection through establishing a mechanism that facilitates the timely payment of electricity charges by public institutions. The Ministry of Energy & Water estimated the accumulated arrears of public institutions to EdL in the last 10 years at over \$1.2bn. In terms of environmental sustainability, the Bank called on authorities to reinforce policy, regulatory, infrastructure, financing and capacity building mechanisms to promote and implement wider energy efficiency measures.

The World Bank concluded that the implementation of these priority actions would reduce the cost of supplying electricity in Lebanon, would increase energy supply to provide customers with reliable electricity, and would eliminate the need for costly and polluting private diesel generators.

Banque du Liban establishes committee for banking sector restructuring

Banque du Liban (BdL) established on July 15, 2020 a special committee to examine the restructuring of the Lebanese banking sector. It indicated that the committee will be tasked to review Basic Decision No. 12713 dated November 7, 2017 about the implementation of international accounting standard IFRS9, and Basic Decision No. 6939 dated March 25, 1998 about the capital adequacy regulatory framework for banks operating in Lebanon. It also noted that the committee will propose the necessary amendments to the prudential regulations related to the banks' operations, as well as review the financial performance of Lebanese banks and propose the necessary measures to safeguard the banking sector. BdL allowed the committee to seek any assistance it may need from third parties.

It pointed out that the committee is headed by BdL's Second Vice Governor, while members consist of the heads of BdL's Legal Affairs Department and Compliance Unit, as well as four members of the Banking Control Commission of Lebanon; and three representatives of the Association of Banks in Lebanon. The committee will submit its reports and suggestions to BdL Governor Riad Salamé. There were 47 commercial banks and 16 investment banks in Lebanon at the end of 2019.

Banque du Liban's foreign assets at \$31bn, gold reserves at \$16.7bn at mid-July 2020

Banque du Liban's (BdL) interim balance sheet reached \$151.8bn on July 15, 2020, nearly unchanged from \$152bn at end-June 2020, and up by 7.4% from \$141.4bn at the end of 2019.

Assets in foreign currency reached \$30.8bn at mid-July 2020, constituting a decline of 6.5% from \$33bn at end-June and a drop of 17.4% from \$37.3bn at end-2019. They included \$5.03bn in Lebanese Eurobonds at mid-July 2020 relative to \$5.7bn at the end of 2019.

BdL's assets in foreign currency, excluding Lebanese Eurobonds, reached \$25.8bn at mid-July 2020, constituting a drop of \$2.16bn from the end of June 2020. They declined by \$613.3m in January 2020, by \$684.6m in February, by \$67m in March, by \$812m in April, by \$907m in May, and by \$558m in June, resulting in a cumulative drop of \$5.8bn so far in 2020. They also fell by \$9.7bn between the end of August 2019 and mid-July 2020.

The decline in BdL's assets in foreign currency, excluding Lebanese Eurobonds, is largely due to the fact that BdL has paid, at the request of the government, maturing Eurobonds and external debt servicing until early March 2020, to deposit outflows, as well as to the financing of the imports of hydrocarbons, wheat and medicine and, more recently, to BdL's intervention in the currency market. BdL's assets in foreign currency, including Lebanese Eurobonds, decreased by \$6.5bn since the start of 2020 and by \$7.9bn between the end of August 2019 and mid-July 2020.

In addition, the value of BdL's gold reserves reached \$16.7bn at mid-July 2020, constituting an increase of 2.2% from \$16.3bn at end-June 2020 and a rise of 19.7% from \$13.9bn at end-2019. The value of gold reserves reached a peak of \$16.75bn at the end of August 2011. Also, the securities portfolio of BdL totaled \$38.8bn at mid-July 2020, and increased by 2% from the end of 2019. In addition, loans to the local financial sector regressed by 2.1% from end-2019 to \$14.6bn at mid-July 2020. Further, deposits of the financial sector reached \$110.1bn at mid-July 2020, constituting a decline of \$1.9bn from end-2019. Also, public sector deposits at BdL totaled \$4.5bn at mid-July 2020 and regressed by \$891.5m from end-2019.

Renewable energy projects face significant challenges

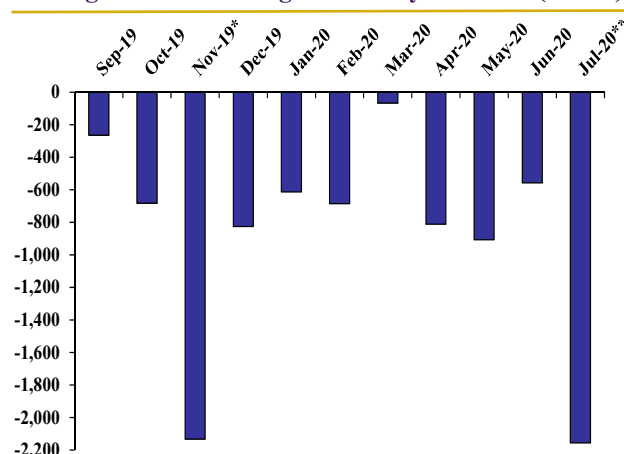
The International Renewable Energy Agency (IRENA) indicated that Lebanon's total installed renewable energy power capacity is currently at 350 megawatts (MWs). It noted that the installed capacity consists of 286 MWs from hydropower sources, 56.37 MWs from solar power and 7 MWs from landfills municipal solid waste (biogas). It said that the installed capacity of renewable energy for the power sector needs to total 4,700 MWs by 2030 so that the share of renewable energy reaches 30% of total power consumption by 2030, as per the national target. But it pointed out that, under current plans, renewable energy would only account for 18% of total electricity consumed by 2030. Consequently, it estimated the required investments to reach the targeted level of renewable energy by 2030 at \$6.67bn, which is \$2.2bn higher than the expected level of investments under current policies and plans.

Further, it indicated that Lebanese authorities should adjust the existing policy, regulatory, technology, infrastructure and financing mechanisms in order to achieve the 30% target by 2030. It added that the existence of several conflicting laws does not encourage private sector investments in renewable energy projects. As such, it called for the implementation of more stable and integrated regulations for the deployment of renewable energy. It encouraged the adoption of new measures to process small-scale projects by integrating innovative market schemes and incentives for the installation of solar water heaters. Further, it called on the government to introduce technology-specific targets to the total renewable energy target. It proposed technology targets of 2,500 MWs for centralized solar photovoltaic (PV), 1,000 MWs for wind power, 601 MWs for hydropower, 500 MWs for decentralized solar PV, and 13 MWs for biogas by 2030.

In parallel, it said that national efforts to deploy renewables are concentrated in the power sector, rather than on heating and cooling projects that focus on solar water heaters (SWHs). As such, it encouraged authorities to set subsidies for heat pumps in order to increase competitiveness and complement current incentives for SWHs. Further, it noted that establishing a databank for SWH projects and their current market dynamics, along with tailored support programs, may encourage investments in such projects. In addition, it called for reforming electricity subsidies and tariffs in order to encourage public and private investments. It indicated that large-scale renewable energy projects face significant challenges due to technical and non-technical losses at the grid level. As such, it noted that reinforcing the transmission grid and conducting a complete grid impact assessment are crucial to encourage renewable energy investments.

In parallel, it indicated that Lebanese authorities have deployed several incentives to provide financing for renewable energy projects. However, it said that weak risk allocation among stakeholders due to "resource and off-taker risk", grid losses, as well as burdensome administrative procedures, must all be addressed for both small- and large-scale projects. It called for the adoption of simple and permanent administrative processes and for developing risk mitigation schemes for renewable energy projects. It pointed out that international financial institutions can move from issuing concessionary loans to providing blended financing, such as public-private co-financing schemes, and risk mitigation solutions to mobilize the local private sector.

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



*BdL paid \$2.1bn in external public debt servicing in November

**as of mid-July 2020

Source: Banque du Liban

Greenfield foreign direct investments at \$290m 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 attracted 12 greenfield foreign direct investment projects for a total of \$289.6m in 2019, compared to six projects worth \$148.8m in 2018. The number of greenfield FDI projects doubled year-on-year, while the amount of greenfield FDI rose by 94.7% in 2019. In comparison, Lebanon attracted \$102.7m in greenfield FDI in 2017 (11 projects), \$87.6m in 2016 (10 projects), \$77.5m in 2015 (seven projects), \$1.2bn in 2014 (10 projects), and \$131.2m in 2013 (16 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.

Lebanon was the 21st smallest recipient of greenfield FDI in nominal terms among 140 economies with a GDP of \$10bn or more, as well as the sixth smallest recipient of greenfield FDI among 19 Arab countries. Lebanon was among 66 countries globally that registered an increase in the amount of inward greenfield FDI in 2019. Also, the amount of inward greenfield FDI to Arab economies decreased by 27.3% to \$60.2bn in 2019, while greenfield FDI to West Asian economies dropped by 40.3% to \$42bn last year.

In parallel, Lebanon attracted the 39th lowest number of greenfield FDI projects globally in 2019 and the seventh lowest number regionally, ahead of Djibouti and Palestine (three projects each); Libya, Mauritania and Sudan (two projects each); and Syria (one project). Also, Lebanon was among 63 countries worldwide that registered a rise in the number of greenfield FDI projects in 2019. Also, the number of greenfield FDI projects to Arab economies increased by 24.2% to 1,093 projects last year, while greenfield projects to West Asian economies rose by 11.5% year-on-year to 995 projects in 2019.

Further, the amount of greenfield FDI in Lebanon accounted for 0.5% of total greenfield FDI in Arab countries last year relative to 0.18% in 2018. It also represented 0.7% of total flows to West Asian countries, up from 0.2% in 2018. Also, the amount of greenfield FDI in Lebanon was equivalent to 0.6% of GDP in 2019, the fourth lowest such ratio in the Arab world, ahead of only Kuwait (0.5% of GDP), and Libya and Sudan (0.2% of GDP each).

Import activity of top five shippers and freight forwarders down 50% in first four months of 2020

Figures released by the Port of Beirut show that overall import shipping operations by the top five shipping companies and freight forwarders through the port reached 47,534 20-foot equivalent units (TEUs) in the first four months of 2020, constituting a decrease of 50.2% from 95,433 TEUs in the same period of 2019. The five shipping and freight-forwarding firms accounted for 76.4% of imports to the Lebanese market for local use and for 34% of the total import freight market, which includes transshipments to other ports, in the covered period. Mediterranean Shipping Company (MSC) handled 17,421 TEUs in imports in the first four months of 2020, or 12.4% of the total import freight market. Merit Shipping followed with 10,781 TEUs (7.7%), then MAERSK with 8,298 TEUs (6%), Gezairy Transport with 6,054 TEUs (4.3%), and Metz Group with 4,980 TEUs (3.6%). The five shipping and freight forwarding companies registered year-on-year decreases in import shipping in the first four months of 2020, with Metz Group posting a decline of 58%, the steepest among the top five firms.

In parallel, export-shipping operations by the top five shipping and freight-forwarding firms through the Port of Beirut reached 19,256 TEUs in the first four months of 2020, constituting a decrease of 8.7% from 21,080 TEUs in the same period of 2019. The five shipping companies and freight forwarders accounted for 86.5% of exported Lebanese cargo and for 13.6% of the total export freight market that includes transshipments through Lebanese ports. Merit Shipping handled 9,428 TEUs of freight in the first four months of 2020, equivalent to 42.3% of the Lebanese cargo export market. MAERSK followed with 4,203 TEUs (19%), then Metz group with 2,137 TEUs (9.6%), Sealine Group with 1,878 TEUs (8.4%), and Tourism & Shipping Services with 1,610 TEUs (7.2%). MAERSK registered a year-on-year rise of 2% in export shipping in the first four months of 2020, the highest growth rate among the top five shipping and freight forwarding companies, while Tourism & Shipping Services posted a drop of 33%, the steepest decline among the top five firms

Greenfield FDI in Arab Countries (US\$m)			
	2019	2018	Change (%)
Egypt	13,715	12,832	6.9%
UAE	13,557	11,895	14.0%
Saudi Arabia	12,526	15,549	-19.4%
Oman	3,647	19,683	-81.5%
Morocco	3,069	4,553	-32.6%
Tunisia	2,519	557	352.2%
Algeria	2,316	9,259	-75.0%
Jordan	2,290	396	478.3%
Iraq	2,117	4,108	-48.5%
Qatar	1,581	537	194.6%
Bahrain	1,051	1,424	-26.2%
Kuwait	695	358	94.2%
Palestine	347	128	170.5%
Lebanon	290	149	94.7%
Djibouti	181	186	-2.4%
Mauritania	159	-	-
Sudan	78	25	209.5%
Libya	70	1,023	-93.1%
Syria	31	162	-81.0%
Total	60,239	82,823	-27.3%

Source: fDi Markets, UNCTAD, Byblos Research

Term deposits account for 80.5% of customer deposits at end-May 2020

Figures issued by Banque du Liban about the distribution of bank deposits at commercial banks in Lebanon show that term deposits in all currencies reached \$128bn, while demand deposits in all currencies stood at \$31bn at the end of May 2020.

Term deposits in all currencies declined by \$21.7bn, or by 14.5% from \$149.7bn at end-2019. They accounted for 80.5% of total deposits in Lebanese pounds and in foreign currency at end-May 2020 relative to a share of 86.7% at end-2019. The decline in term deposits was due to a drop of 27.7% in term deposits in Lebanese pounds of the resident private sector, a 17.1% contraction in term deposits of non-residents, a 13.7% decline in term deposits of the non-resident financial sector, a 9.3% decrease in foreign currency-denominated term deposits of the resident private sector, and a 7.8% contraction in term deposits in Lebanese pounds of the public sector. This was slightly offset by a surge of 89.2% in foreign currency-denominated term deposits of the public sector. The drop in term deposits is due to cash withdrawals and to the migration of funds from term deposits to demand deposits, amid the confidence crisis that started in September 2019, as aggregate term deposits declined by \$40.9bn since the end of August 2019. Further, foreign currency-denominated term deposits of the resident private sector amounted to \$71.6bn and accounted for 45% of total deposits at the end of May 2020. Term deposits of non-residents followed with \$24.3bn (15.3%), then term deposits in Lebanese pounds of the resident private sector with \$21.9bn (13.8%), term deposits of the non-resident financial sector with \$5.9bn (3.7%), term deposits in Lebanese pounds of the public sector with \$3.8bn (2.4%), and term deposits in foreign currency of the public sector with \$607.3m (0.4%).

In parallel, demand deposits in all currencies rose by \$8.1bn, or by 35.2%, from \$22.9bn at end-2019. They accounted for 19.5% of total deposits at end-May 2020 relative to a share of 13.3% at end-2019. The increase in demand deposits was mainly due to a growth of \$5.6bn in foreign currency-denominated demand deposits of the resident private sector, a rise of \$1.62bn in demand deposits of non-residents, and an increase of \$916m in demand deposits in Lebanese pounds of the resident private sector. Demand deposits in foreign currency of the resident private sector amounted to \$18.2bn and represented 11.4% of total deposits at the end of May 2020. Demand deposits in Lebanese pounds of the resident private sector followed with \$5.6bn (3.5%), then demand deposits of non-residents with \$4.8bn (3%), demand deposits of the non-resident financial sector with \$1.9bn (1.2%), demand deposits in Lebanese pounds of the public sector with \$276.5m (0.2%), and demand deposits in foreign currency of the public sector with \$181.6m (0.1%).

Smoking kills more than 4,800 Lebanese annually, costs 1.1% of GDP

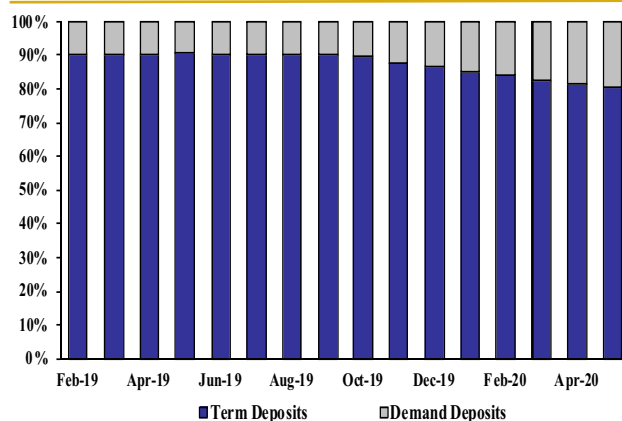
A study by the American University of Beirut's Knowledge to Policy Center (K2P) indicated that the use of tobacco kills over 4,800 persons annually in Lebanon. It pointed out the annual economic costs of tobacco use are estimated at \$327.1m, which is equivalent to 1.1% of GDP. It also said that 4,385 tons of cigarette butts and packs end up as toxic waste in Lebanon each year.

The study noted that individuals who smoke on a daily basis in Lebanon spend 4.6% of their income on average to purchase cigarettes. It added that Lebanon has the third highest cigarette consumption level worldwide with 3,023 cigarettes per capita annually. It said that 48.6% of males and 21.5% of females in Lebanon are currently cigarette smokers, while 32.7% of men and 46.2% of women are waterpipe smokers.

Further, the study noted that there is mounting evidence globally that the use of tobacco could increase the risk of infection and mortality from the COVID-19 virus. For instance, research studies conducted worldwide show that the use of tobacco raises by 1.4 to 1.45 times the risk of complications and of severe infection from COVID-19, while the risk of requiring mechanical ventilation, needing intensive care and dying increases by 2.4 times when an individual smokes. As such, it pointed out that international public health institutions have called on governments to strengthen tobacco control measures amid the pandemic. The study considered that the Lebanese government's enforcement of Law 174, which was issued in 2011 to combat smoking and regulate the production, packaging and advertising of tobacco products in Lebanon, has been weak, especially with regards to banning smoking in public spaces. It said that the lack of political will by consecutive governments, slow levels of coordination between relevant authorities, limited resources, and the interference of the tobacco industry and its allies have constituted challenges to the implementation of this law.

As such, the study recommended several immediate actions that the Lebanese government could take in order to reduce the harm caused by tobacco. It said that these measures include capitalizing on the efforts related to the COVID-19 general mobilization to enforce Law 174, and coordinating with municipalities to support the implementation of the law through monitoring public places.

Breakdown of Deposits at Commercial Banks (%)



Source: Banque du Liban

Music tech startup raises \$2.8m in "Series A" funding

The Beirut- and Seattle-based music technology startup Band Industries announced that it has raised \$2.8m in "Series A" funding to expand its product portfolio and business outreach. "Series A" funding refers to an investment in a startup that has shown progress in developing its business model and has demonstrated a potential to grow and generate revenues. The funding round was led by the Beirut-based venture capital firm Cedar Mundi, along with B&Y Venture Partners, the iSME program of the Kafalat Corporation, venture capital fund Berytech Fund II, and U.S. venture capital firm SOS Ventures. Band Industries, which was founded in 2013, raised \$1.5m in seed funding in July 2016.

The startup's product portfolio includes the Roadie Tuner, which is an automatic guitar tuner; the Roadie 2, which tunes guitars, ukuleles, mandolins and banjos, among other instruments; the Roadie Bass that is used to tune bass guitars; as well as the Roadie 3, which is an updated version of Roadie 2 that will be made available in October 2020. The Roadie Tuner raised around \$180,000 in crowdfunding in 2013, and Roadie 2 and Roadie Bass together sourced about \$500,000 in 2017, while Roadie 3 raised around \$378,000 in financing.

Moody's affirms CMA CGM's rating, changes outlook to 'negative'

Moody's Investors Service affirmed the Lebanese-owned and France-based container-shipping group CMA CGM's corporate family rating at 'B2', its probability of default rating at 'B2-PD' and its senior unsecured bond ratings at 'Caa1'. It also changed the outlook on the ratings from 'under review for downgrade' to 'negative'. It pointed out that the rating action concludes the review for downgrade process, which it initiated on April 1, 2020.

It indicated that the firm's liquidity has improved after the company signed a Term Loan of €1.05bn, or \$1.15bn, with a consortium of banks, of which 70% is guaranteed by the Government of France. It said that the company used €200m to prepay the €725m senior unsecured bond that matures in January 2021, while it injected €300m as equity into its subsidiary CEVA Logistics AG. It added that the firm will use the remainder of the loan to cover short-term debt maturities, as well as to absorb any coronavirus-related impact on the business. Moody's considered this initiative as credit positive, as it will ease short-term pressure on the company's liquidity, which was one of the main drivers to placing the company's ratings 'under review for downgrade'.

The agency pointed out that the rating action also takes into consideration risks stemming from the threat of a second wave of the pandemic, which will affect the already fragile demand for the transportation of goods. It noted that the firm and the container shipping industry have managed so far to keep the freight rates above last year's levels through unprecedented capacity adjustments, and despite a significant decrease in the bunker price. However, it indicated that there is still a risk that the freight rates will react to the record low bunker prices due to the usual time lag, which could be challenging for the company this year.

In parallel, the agency indicated that it will revise the outlook on the ratings of CMA CGM and on the industry from 'negative' to 'stable', if the shipping industry maintains its robust performance despite a weak macroeconomic environment, and if freight rates remain stable in the upcoming two quarters.

BLOM Bank's profits down 77% to \$115m in 2019

BLOM Bank sal declared unaudited net profits of \$115.4m in 2019, constituting a decline of 77.4% from \$511.6m in 2018, due to the impact of the financial and economic crisis in Lebanon since October 2019. The bank indicated that the profits for 2019 mostly came from its units outside Lebanon, while its branches in the country did not generate any profits last year due to the provisions booked in accordance with Banque du Liban's (BdL) circulars to cover for credit risks arising from the prevailing conditions in financial markets.

The bank added that it is required to comply by all BdL circulars, as stipulated in the Code of Money & Credit. As such, it noted that it calculated the expected credit losses in accordance with specific ratios listed in BdL's Basic Circular 44 dated March 25, 1998 about the capital adequacy regulatory framework for banks operating in Lebanon, and Circular 543 dated February 3, 2020 that amended Basic Circular 44.

The bank's net interest income reached \$746m in 2019, down by 11.3% from \$840.5m in 2018; while net fees & commissions income stood at \$138.7m last year relative to \$142.5m in 2018. Net operating income totaled \$563.8m in 2019 and declined by 44.5% from \$1bn in 2018. In parallel, the bank's operating expenditures reached \$343.5m in 2019 relative to \$385m in 2018, with personnel cost accounting for 55.6% of the total last year.

Also, the bank's aggregate assets reached \$33.3bn at the end of 2019, declining by 9.4% from \$36.7bn at end-2018. Net loans & advances to customers totaled \$5.8bn at the end of 2019, down by 18.8% from \$7.1bn at end-2018, while net loans & advances to related parties reached \$12.1m. Further, customer deposits amounted to \$26.1bn, and decreased by 2.7%, or by \$724m, from end-2018, while deposits from related parties stood at \$75.2m at the end of 2019. In parallel, the bank's shareholders' equity was \$3.2bn at the end of 2019 and dropped by 3.4% from a year earlier.

BLOM Bank indicated that its Board of Directors approved the adverse opinion of its external auditors about its financial statements for 2019. It noted that the Board unanimously decided to publish the adverse opinion in order to be transparent, and that the General Assembly approved the decision.



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	82,250	119,401
Nominal GDP (US\$ bn)	55.0	52.2	35.2
Real GDP growth, % change	-1.9	-7.2	-14.6
Domestic demand	-0.3	-5.8	-17.0
Private consumption	-1.3	-6.4	-14.5
Public consumption	6.7	1.5	-28.5
Gross fixed capital	-1.8	-9.9	-15.8
Exports of goods and services	-4.7	-5	-24.9
Imports of goods and services	1.1	-3.5	-23.5
Consumer prices, %, end-period	3.9	6.9	94.1
Official exchange rate, average, LBP/US\$	1,507.5	1,507.5	1,923
Parallel exchange rate, average, LBP/US\$	n/a	1,620	4,021
Weighted average exchange rate LBP/US\$	1,507.5	1,575	3,392

Source: Institute of International Finance

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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