In memory of the victims of
the Beirut Port explosion

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Economic Research & Analysis Department

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LEBANON THIS WEEK

In This Issue

Economic Indicators.........................1
Capital Markets................................1
Lebanon in the News.........................2

Public debt to decline to less than 100% of GDP by end-2025 in case of reforms and IMF funding

UN seeks $345m to meet immediate needs of people affected by Beirut Port explosion

Number of airport passengers down 75% in first eight months of 2020

World Bank cancels disbursement of Bisri Dam loan

ALI and BTA express concerns about recent Banque du Liban circulars

Finance Ministry signs contracts with three international firms to audit BdL

Roadmap for priority actions suggested

Banque du Liban's foreign assets at $28.5bn, gold reserves at $18.1bn at end-August 2020

Beirut Port explosion accelerates need for political parties to agree on reform process

Mobility of Lebanon residents down 26% due to coronavirus-related social distancing measures

Lebanon ranks 58th globally, ninth among Arab countries on liner shipping connectivity in second quarter of 2020

Corporate Highlights 9

Private sector deposits down $29.2bn in 11-month period ending July 2020

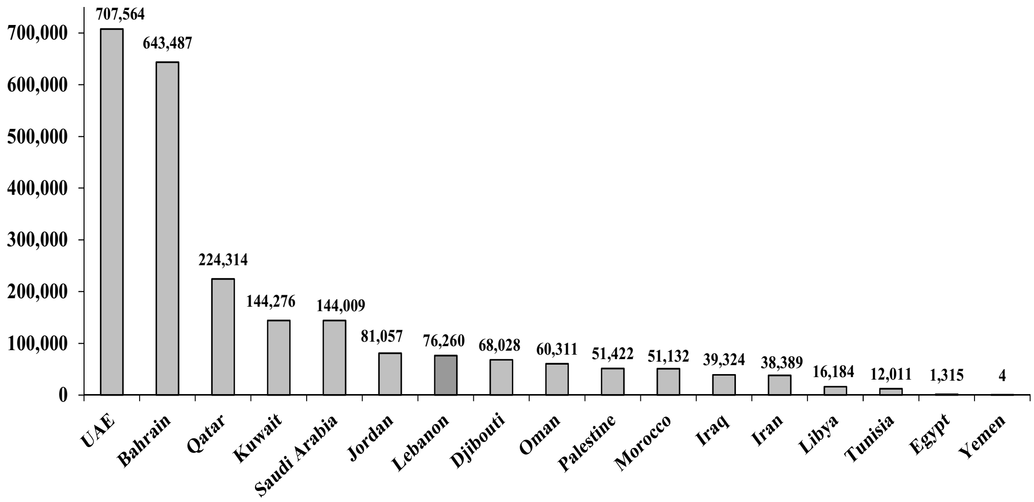
Stock market capitalization down 21% to $6.2bn at end of August 2020

Moody's completes a periodic review of CMA CGM's ratings

Ratio Highlights...............................11
Natinal Accounts, Prices and Exchange Rates 11
Ratings & Outlook...........................11

Charts of the Week

Number of Total COVID-19 Tests per One Million Persons in MENA Countries*



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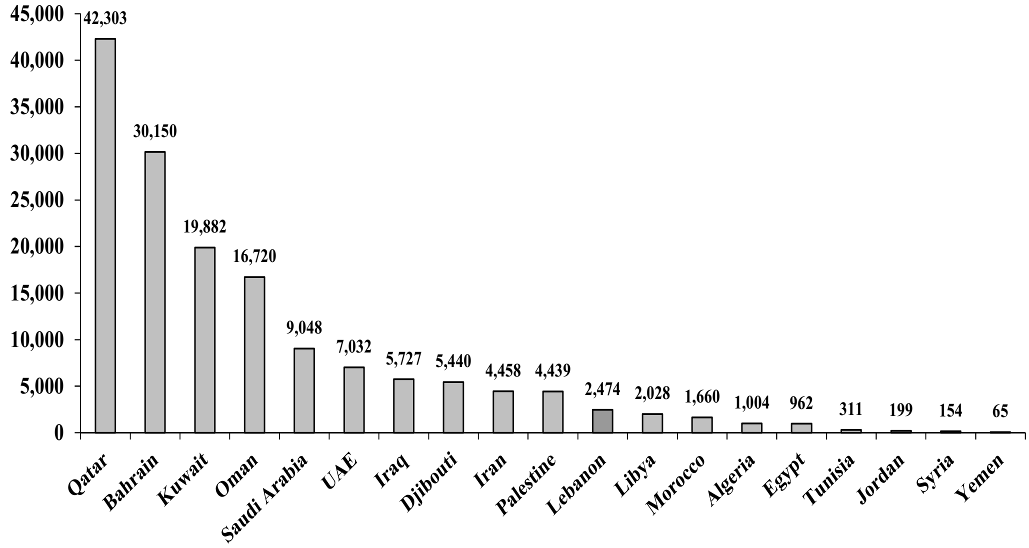


**as of August 30, 2020*
Source: World Bank Group, Byblos Bank

Quote to Note

"The disaster adds to the urgency for a credible, comprehensive, and coordinated macro-financial stability strategy, within a medium term macro-fiscal framework."

The World Bank Group, on the urgent need to accelerate structural reforms in the wake of the August 4 explosion at the Port of Beirut

Number of the Week

90.3%: Percentage of Lebanese who believe that economic conditions in the country will deteriorate in the second half of 2020, according to the June 2020 survey of the Byblos Bank /AUB Consumer Confidence Index

Lebanon in the News

$m (unless otherwise mentioned)	2019	Jan-Jun 2019	Jan-Jun 2020	% Change*	Jun-19	May-20	Jun-20
Exports	3,731	1,725	1,612	(6.5)	285	251	277
Imports	19,239	10,139	5,202	(48.7)	1,377	674	854
Trade Balance	(15,508)	(8,414)	(3,590)	(57.3)	(1,092)	(423)	(577)
Balance of Payments	(5,851)	(5,391)	(2,486)	(53.9)	(204)	(888)	(296)
Checks Cleared in LBP	22,146	10,313	9,514	(7.8)	1,581	1,105	1,766
Checks Cleared in FC	34,827	17,178	16,944	(1.4)	2,501	1,467	3,097
Total Checks Cleared	56,973	27,498	26,461	(3.8)	4,084	2,572	4,863
Fiscal Deficit/Surplus**	(5,837)	(2,387)	(1,998)	(16.3)	(33)	(247)	-
Primary Balance**	(287)	(39)	(716)	1756	347	(120)	-
Airport Passengers	8,684,937	3,978,188	1,206,671	(69.7)	838,498	20,253	15,295
Consumer Price Index	2.9	3.3	38.8	3550bps	1.7	56.5	89.7

$bn (unless otherwise mentioned)	Dec-19	Jun-19	Mar-20	Apr-20	May-20	Jun-20	% Change*
BdL FX Reserves	29.55	29.75	28.23	27.37	26.44	25.87	(13.0)
In months of Imports	1.54	21.61	34.18	36.76	39.24	30.30	(40.2)
Public Debt	91.64	85.73	92.40	92.87	93.14	93.40	(8.9)
Bank Assets	216.78***	255.98	208.55	205.75	203.84	201.09	(21.4)
Bank Deposits (Private Sector)	158.86	172.13	149.59	147.52	146.30	144.50	(16.1)
Bank Loans to Private Sector	49.77	56.00	45.02	43.90	42.91	41.42	(26.0)
Money Supply M2	42.11	49.11	39.60	38.64	38.78	39.02	(20.5)
Money Supply M3	134.55	139.93	130.34	129.52	129.67	129.51	(7.4)
LBP Lending Rate (%)	9.09	10.94	9.41	9.29	8.45	6.84	(410bps)
LBP Deposit Rate (%)	7.36	8.80	5.13	5.06	4.63	4.16	(464bps)
USD Lending Rate (%)	10.84	9.49	8.55	7.79	7.90	7.49	(200bps)
USD Deposit Rate (%)	4.62	5.84	2.53	2.32	1.99	1.64	(420bps)

**year-on-year **year-to-date figures reflect results for first five 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"	14.61	2.60	136,871	23.42%
Audi Listed	1.05	3.96	44,420	9.90%
Solidere "B"	14.60	2.46	24,614	15.21%
Byblos Common	0.39	0.00	10,591	3.53%
Audi GDR	0.95	(5.00)	5,000	1.82%
BLOM GDR	1.80	0.00	-	2.13%
HOLCIM	12.00	0.00	-	3.75%
BLOM Listed	2.81	0.00	-	9.68%
Byblos Pref. 08	49.89	0.00	-	1.60%
Byblos Pref. 09	52.75	0.00	-	1.69%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Apr 2021	8.25	20.13	575.22
Oct 2022	6.10	18.50	100.67
Jan 2023	6.00	17.63	87.86
Jun 2025	6.25	17.88	39.66
Nov 2026	6.60	17.50	30.10
Feb 2030	6.65	17.25	19.46
Apr 2031	7.00	18.25	16.68
May 2033	8.20	17.13	14.40
Nov 2035	7.05	18.13	11.60
Mar 2037	7.25	18.25	10.55

Source: Byblos Bank Capital Markets, Refinitiv

	Aug 31-Sep 4	Aug 24-28	% Change	Aug 2020	Aug 2019	% Change
Total shares traded	221,496	269,983	(18.0)	941,951	1,085,556	(13.2)
Total value traded	$2,387,747	$2,690,999	(11.3)	$10,392,324	$6,488,622	60.2
Market capitalization	$6.24bn	$6.16bn	1.3	$6.20bn	$7.87bn	(21.2)

Source: Beirut Stock Exchange (BSE)

Public debt to decline to less than 100% of GDP by end-2025 in case of reforms and IMF funding

Citi Research considered that Lebanon's public debt level would decline by more than 80 percentage points (pp) to less than 100% of GDP by the end of 2025, in case Lebanese authorities implement reforms to unlock funding from the International Monetary Fund (IMF). It noted that the reduction in the public debt level would mainly originate from a decrease in the value of local currency-denominated debt due to the depreciation of the exchange rate, as well as from haircuts on Lebanon's local and foreign currency-denominated debt. But it said that the debt reduction would partly be offset by an increase in foreign-currency denominated debt because the latter will be inflated by the currency depreciation, as well as by an accumulation of loans from the IMF and other external sources.

It considered that the "debt-reduction" scenario is as probable as a more adverse alternative that does not include reforms. It added that the debt reduction scenario assumes that authorities would reach an agreement with the IMF on a funding package by the end of 2020. It also pointed out that Lebanon is running out of time to implement a solution to its macroeconomic imbalances, and that the country is relying on monetizing the deficit by Banque du Liban (BdL) in the absence of foreign financing. As a result, it indicated that BdL's foreign currency reserves have been decreasing, which has led to the emergence of multiple exchange rates in the domestic market.

Under its "debt-reduction" scenario, Citi anticipated that the public debt-to-GDP ratio could rise by about 11 pp in the short term, amid the economic contraction, the depreciation of the currency and the addition of loans from the IMF and other sources. However, it noted that the debt level would fall significantly after this initial rise. It anticipated that the elevated inflation rate as a result of the exchange rate depreciation would erode the value of the Lebanese pound-denominated debt and push effective real interest rates into negative territory. It assumed that this would reduce the public debt ratio by about 190 pp by the end of 2025. It considered that the decline would partly be offset by around 135 pp increase in foreign-currency denominated debt as a result of the exchange rate depreciation.

In addition, Citi indicated that a haircut of 65% on the holders of Eurobonds and of 20% on the holders of local-currency debt would lead to an additional reduction of 59 pp in the debt level, and said that authorities would also negotiate the terms of the Eurobonds to extend maturities, reduce coupon rates and introduce grace periods. It considered that one-third of the haircuts would take place this year, and that the remaining two-thirds would materialize next year. It added that proceeds from the privatization of state-owned assets would lower the debt ratio by another 13 pp by the end of 2025, while it indicated that a loan from the IMF would add 27 pp to the debt level.

In parallel, it indicated that a funding agreement with the IMF, as well as additional external financing from other sources, will be crucial to stabilize the economy at first and to develop a new financing model at a later stage. First, it indicated that funding from the IMF and other external sources would guarantee the import of basic necessities and the financing of the reconstruction of Beirut following the explosion at the Port of Beirut. Second, it said that Lebanese authorities would need to implement reforms not only to unlock external funding, but to also move the economy towards a sustainable path. Further, it considered that the IMF program is unlikely to include significant reductions in public spending in the short term, given Lebanon's vulnerable humanitarian situation. But it expected the Fund to encourage increasing tax revenues.

Under the same scenario, Citi indicated that authorities would initially devalue the local currency to LBP4,300 against the US dollar by the end of 2020, followed by another period of depreciation that would stabilize the exchange rate by the end of 2024. Over the medium term, it considered that a more unified rate should then help reduce inflation. It projected the average annual inflation rate to gradually fall from 96% in 2020 to 60% in 2021, 30% in 2022, 15% in 2023 and 8% in 2024.

Lebanon Economic Indicators

	2016	2017	2018	2019	2020f	2021f	2022f	2023f	2024f
Economic Activity									
Nominal GDP, US$bn	51.2	53.1	55.0	51.7	33.3	37.0	38.0	40.3	42.4
Real GDP, % yoy	1.5	0.9	-1.9	-8.4	-23.8	6.2	2.0	3.0	3.0
Prices, Money & Credit									
CPI, % yoy	3.1	5.1	3.9	6.9	185.0	45.0	45.0	8.0	5.0
CPI, % avg	-0.8	4.5	6.1	2.9	96.0	60.0	30.0	15.0	8.0
LBP/US$, eop	1,508	1,508	1,508	1,512	4,300	6,400	7,400	8,000	8,300
LBP/US$, avg	1,509	1,509	1,512	1,511	3,500	5,350	6,900	7,700	8,150
Balance of Payments, US$bn									
Current account	-10.5	-12.1	-13.4	-11.5	-4.8	-2.9	-1.8	-1.2	-1.0
% of GDP	-20.5	-22.8	-24.3	-22.3	-14.6	-7.8	-4.7	-2.9	-2.3
Trade balance	-14.0	-14.5	-14.9	-13.4	-7.8	-6.0	-5.3	-4.8	-4.7
Exports	3.7	3.8	3.5	4.5	2.9	2.7	2.7	2.7	2.8
Imports	17.7	18.2	18.5	18.0	10.8	8.6	7.9	7.5	7.5
FDI, net	1.6	1.2	2.0	1.9	-1.0	1.0	-	-	-
Public Finances, % of GDP									
Government revenues	19.4	21.9	21.0	21.4	20.0	21.0	22.0	22.5	22.5
Government expenditure	29.0	28.9	32.4	32.7	29.8	29.7	28.4	26.7	25.3
Government balance	-9.7	-7.1	-11.4	-11.3	-9.8	-8.7	-6.4	-4.2	-2.8
Central government debt	146.3	149.7	154.9	177.2	186.9	132.8	116.9	108.5	101.4

Source: Citi Research

Lebanon in the News

United Nations seeks $345m to meet immediate needs of people affected by Beirut Port explosion

The United Nations' Office for the Coordination of Humanitarian Affairs (OCHA) in Lebanon indicated that the UN is seeking $344.5m, through the Flash Appeal that it launched on August 14, in order to meet the immediate needs of persons affected by the explosion at the Port of Beirut for the next three months. The breakdown of the financial requirements shows that the UN aims to allocate $100.4m, or 29% of the total, to food security projects, followed by $85.7m to the healthcare sector (25%), $84.6m to shelter (24.6%), $27.4m for protection initiatives (8%), $23.8m to the water, sanitation and hygiene (WASH) sector (7%), $22.4m to the education sector (6.5%), and $0.3m to logistics (0.1%). It said that the UN-coordinated response consists of 117 projects that are targeting 300,000 people who were affected by the explosion. It noted that funding is critically needed, as the Lebanon Flash Appeal received only $56.3m, or 16.3% of the amount required, as of September 2.

In parallel, the OCHA indicated that the World Health Organization (WHO) reported that the explosion severely damaged more than 80 primary healthcare centers (PHCs). It added that, according to an assessment of 55 PHCs completed by the United Nations Population Fund (UNFPA), 45 centers are partially damaged, four are totally damaged and six are not damaged. The assessment also found that 39 PHCs are fully functioning, eight are partially functioning and another eight centers are non-functional.

Further, the OCHA said that the majority of the damages in the water and sanitation sector are in individual buildings. It added that a WASH assessment of 5,355 buildings in the affected areas found that the water systems in 1,339 buildings and the wastewater system of 647 buildings are damaged, while 3,584 roof tanks are affected and need intervention or substitution. It indicated that, based on the assessments, plumbing teams repaired the damaged connections to the urban network in 155 buildings and the internal networks of 310 buildings, with 873 new water tanks installed to restore water supply.

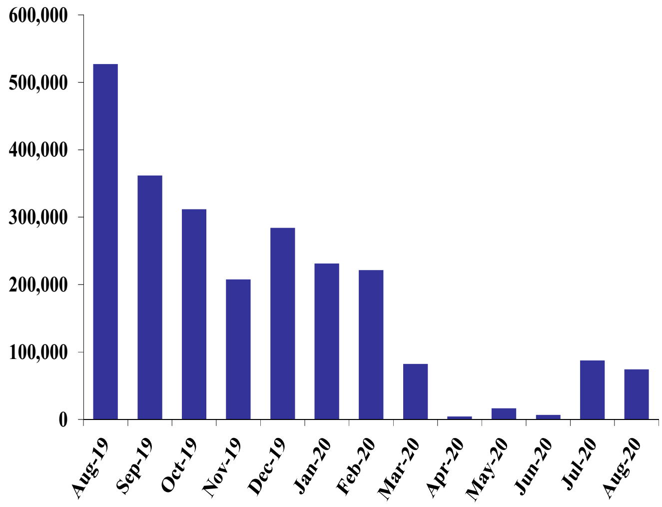
In addition, it said that an ongoing assessment conducted by the Ministry of Education & Higher Education (MEHE) found that 178 private and public schools were damaged by the explosion as of August 25, constituting an increase from 120 schools initially. It added that, according to other assessments, the explosion also affected higher education facilities, such as 22 buildings belonging to the Lebanese University and 14 buildings owned by private universities in Achrafieh, that include scientific labs for medical schools. It also pointed out that the UN education partners conducted a rapid assessment on the structural and programmatic impact of the explosion on 30 premises of 17 education and youth non-profit organizations that are partners of the UN in Beirut and Mount Lebanon. The assessment found that 24 premises were damaged, as 15 buildings suffered small damages, eight had moderate damages and one sustained severe damages. The results also show that programs and activities at 13 of the 30 premises have been disrupted and that 2,750 students have been affected.

Number of airport passengers down 75% in first eight months of 2020

Figures released by the Beirut-Rafic Hariri International Airport (HIA) show that 1,557,273 passengers utilized the airport (arrivals, departures and transit) in the first eight months of 2020, constituting a decline of 75% from 6,222,002 passengers in the same period of 2019. The number of arriving passengers decreased by 76.7% to 726,021 in the first eight months of 2020, compared to an increase of 2% in the same period last year and to a rise of 8.9% in the first eight months of 2018. Also, the number of departing passengers fell by 74% to 803,573 in the first eight months of 2020, relative to an increase of 4.4% in the same period of 2019 and to a rise of 8% in the first eight months of 2018.

In parallel, the airport's aircraft activity regressed by 65.5% to 17,358 take-offs and landings in the covered period, relative to a growth of 1.2% in the same period of 2019 and to an increase of 4.3% in the first eight months of 2018. In addition, the HIA processed 38,871 metric tons of freight in the first eight months of 2020 that consisted of 18,986 tons of import freight and 19,885 tons of export freight. Middle East Airlines had 6,377 flights in the first eight months of 2020 and accounted for 36.7% of HIA's total aircraft activity.

Number of Arriving Passengers



Source: Beirut-Rafic Hariri International Airport

The significant decline in the number of airport passengers and aircraft activity in the covered period is mainly due to the closure of the airport between March 18, 2020 and the end of June, as well as to the lockdown measures and the closure of airports in several countries in response to the outbreak of the coronavirus worldwide. However, the number of passengers that utilized the airport increased by nearly 10 times month-on-month to reach 150,234 in July and by 33.4% month-on-month to 200,368 passengers in August 2020, as the airport resumed its partial activity on July 1. Also, the airport's aircraft activity increased from 653 take-offs and landings in June to 1,884 in July and reached 2,770 take-offs and landings in August 2020. Still, the number of passengers that utilized the airport fell by 83% from 1,185,765 passengers in August of last year, while aircraft activity dropped by 68.3% from 8,731 take-offs and landings in August 2019.

World Bank cancels disbursement of Bisri Dam loan

The World Bank (WB) cancelled on September 5, 2020 the disbursement of $244m under the loan agreement of the Bisri Dam project, due to the non-completion by the Lebanese government of several pre-requisites for the start of the dam's construction. It had partially suspended on June 26 the disbursement of the $474m concessional loan under the project, and gave the government until July 22 to proceed on several requirements. Also, it had approved the Lebanese government's request to extend until September 4, 2020 the deadline to fulfill the requirements of the project's loan agreement. The requirements consisted of finalizing the Ecological Compensation Plan (ECP) in consultation with key stakeholders by September 4, as well as the Operation and Maintenance (O&M) arrangements by August 24, and of mobilizing the contractor at the worksite by September 4.

The WB pointed out that the government submitted a draft ECP on August 12, 2020, and that the former provided its comments on August 25, 2020. But it said that the government did not address the WB's comments and did not hold consultations with stakeholders.

In addition, the government submitted a Memorandum of Understanding for the O&M arrangements on August 24, 2020, and the WB requested further details on the institutional and financial mechanisms put in place between the Ministry of Energy & Water and the Beirut & Mount Lebanon Water Establishment. The WB considered that, without this information, it is not in a position to determine if the relevant parties are complying with the covenant of the loan agreement that addresses the O&M arrangements. It added that the contractor did not move to the worksite. As such, the WB said that it did not receive satisfactory evidence on the three required actions.

The WB exempted from the loan cancellation the staff contracts related to the Project Management Unit, as well as the audit contract and consultancy and works related to environmental and social safeguards. It pointed out that the cancellation of the remaining undisbursed funds will take place once all fiduciary, and environmental and social requirements applicable to the project are met.

The Bisri Dam was part of the Water Supply Augmentation (WSA) project that the WB approved in September 2014, and that aimed to support the development of the water sector in the Greater Beirut & Mount Lebanon area, and the management of sustainable water resources. The $617m WSA project consists of the construction of the Bisri Dam in the South with a storage capacity of 125 million cubic meters of water and its related 26 kilometer underground pipeline. The project was supposed to be financed by a $474m concessional loan from the WB, a $128m loan from the Islamic Development Bank and $15m from the Lebanese government. Lebanese authorities previously noted that the costs incurred for the project until April 2020 reached $340m, and that they have settled land appropriations.

ALI and BTA express concerns about recent Banque du Liban circulars

The Association of Lebanese Industrialists (ALI) considered that Banque du Liban's (BdL) recently-issued Intermediate Circular 568 and Basic Circular 154 contain measures that will have negative repercussions on the economy and will put additional strains on the already suffering industrial sector.

The ALI objected to Article 1 of Intermediate Circular 568, which allowed bank clients to settle the payments of their retail loans denominated in US dollars in Lebanese pounds based on the official exchange rate of LBP1,507.5 per dollar, while it kept the settlement of commercial loans in foreign currency subject to the conditions set in the loan agreement between the bank and the client, which means that companies will have to settle their loans in foreign currency. It argued that BdL should allow the settlement of commercial loans, similarly to retail loans, in Lebanese pounds at the official exchange rate. Also, it objected to Article 2 of Basic Circular 154, which asked banks to encourage importers to transfer from abroad the equivalent of 15% of the aggregate amount of the letters of credits that they opened in any of the past four years, and to deposit these funds in a "special account" and block them for five years. It indicated that these conditions should not apply to companies that transferred funds to pay their suppliers or to honor other commitments abroad.

The ALI stated that the circulars contain elements that contradict the Code of Obligations & Contracts, the Code of Money and Credit, as well as the Penal Code. It warned that the implementation of the circulars could put at risk the remaining productive capacity and sustainability of businesses in the country. It added that businesses are already suffering from a decline in their sales volume, a deterioration in the purchasing power of consumers, low liquidity levels, as well as their inability to access foreign currency or open letters of credit to import raw materials. In this context, it asked BdL to suspend the implementation of the two circulars, and added that it is considering all legal possibilities to appeal and void these circulars.

In parallel, the Beirut Traders Association (BTA) provided its input on the two circulars. First, the BTA objected to the part of Article 1 of Intermediate Circular 568 that stipulates that the settlement of non-retail loans, especially commercial loans, remain subject to the conditions set in the loan agreement between the bank and the client. It considered that Article 1 of the circular "contradicts the Constitution and the law", and argued that the settlement of commercial loans, similarly to retail loans, should be in Lebanese pounds based on the official exchange rate of LBP1,507.5 per dollar. It added that it was hoping that the circulars would provide incentives and exemptions to the commercial sector rather than additional burdens, given the sector's vulnerable state.

Second, the BTA highlighted the uncertainties under Article 2 of Basic Circular 154. It indicated that this part of the circular should not apply to companies that transferred funds to pay their suppliers or to honor other commitments abroad, including payments to tax authorities.

Finance Ministry signs contracts with three international firms to audit BdL

The Minister of Finance in the caretaker government signed contracts with three international professional services firms to audit Banque du Liban (BdL). The minister signed a $2.25m contract with U.S.-based financial services firm Alvarez & Marsal LLC to carry out a forensic audit of BdL. According to a source from the ministry, Alvarez & Marsal will audit BdL in the last five years and will begin its task in the second week of September 2020. The company's scope of work consists of auditing BdL's financial engineering operations, computing BdL's foreign currency reserves and comparing them to published figures, and revaluing BdL's gold reserves, among other tasks. The firm is expected to provide a preliminary report of its findings in 10 weeks.

The minister also signed a contract with international accounting and auditing firm KPMG and an additional one with management consulting firm Oliver Wyman. The two companies will conduct an accounting and financial audit of BdL. The International Monetary Fund had previously stressed on the importance of conducting comprehensive audits of key public institutions, including of Eléctricité du Liban and BdL, which, along with other measures, would help unlock "billions of dollars for the benefit of the Lebanese people".

In July 2020, the Council of Ministers approved the proposal of the Ministry of Finance to contract Alvarez & Marsal, KPMG and Oliver Wyman, in order to audit BdL. At the time, it indicated that the three firms may take between three to six months to complete the audit. In April 2020, the Council of Ministers approved the proposal of the Finance Ministry to sign consensual agreements with KPMG and Oliver Wyman, as well as with the global provider of risk solutions Kroll to audit BdL, but the decision to hire Kroll was revoked due to political opposition.

Roadmap for priority actions suggested

The Embassy of France in Lebanon distributed to political parties a roadmap that suggests the reforms and measures that the new government needs to implement in order to support the recovery of the Lebanese economy.

First, the proposal stipulates that the upcoming Lebanese government should prioritize fighting the impact of the COVID-19 pandemic on the most vulnerable and marginalized segments of the population. Second, the plan noted that, in the aftermath of the explosion at the Port of Beirut on August 4, 2020, authorities should put in place governance mechanisms to facilitate the disbursement of international aid in a "transparent and traceable manner" under the auspices of the United Nations. It added that the relevant parties should start the reconstruction of damaged property based on the recommendations of the Beirut Rapid Damage and Needs Assessment prepared by the World Bank, and in cooperation with the European Union and the United Nations. Further, it expected the government to expedite the tenders for the reconstruction of the Beirut Port according to "fair standards".

Third, the proposed roadmap encouraged authorities to immediately resume stalled negotiations with the International Monetary Fund and to rapidly approve measures that the Fund requested. It also called on authorities to approve a timetable for resuming negotiations with the IMF. It pointed out that reforms should cover immediate and short-term measures in the electricity sector, and include appointing officials to the National Electricity Regulatory Authority according to Law 462/2002 and "without amendments" to this law; providing the latter with the resources to carry out its work; launching tenders for gas-fired power plants to cover Lebanon's significant energy gap and reduce the use of generators; as well as abandon the controversial Selaata power plant project in its current form. It added that the government should announce a timetable for gradually raising electricity tariffs, given that such increases must first affect consumers with the highest incomes. Further, the plan stressed that members of Parliament should, within a period of one month and after seeking the approval of the IMF on the content of the capital controls draft law, complete and enact the law and implement it over a period of four years. Also, the draft proposal stressed that the government should regularly exchange views and ideas with civil society about the former's reform agenda.

In addition, it encouraged the government to hold a second local follow-up meeting about the CEDRE Conference. Also, it stressed that Parliament should approve the proposed law on the independence of the judiciary, and that authorities should conduct a full audit of the accounts of Banque du Liban. It added that authorities should appoint key officials in the judiciary, as well as at the regulatory authorities of the electricity, telecommunications and civil aviation sectors, according to transparent criteria and based on the applicants' competence. It also said that the government should solicit the expertise of an independent international institution, such as the World Bank or the Organization for Economic Co-operation and Development, in order to conduct a comprehensive census on public sector employees as well as an assessment of the public administration.

Further, the suggested roadmap stipulates that the government should immediately establish the National Anti-Corruption Commission and grant it the necessary resources to carry out its tasks, and that authorities should initiate Lebanon's access to the treaty on fighting corruption issued by the Organization for Economic Co-operation and Development in 1997. It added that the government should, within a period of three months, establish "control gates" and strengthen oversights at the ports of Beirut and Tripoli, as well as at the Beirut-Rafic Hariri International Airport and at other cross-border entry points, and implement customs reforms. The plan also encouraged Parliament to prepare, enact and implement a draft law on public procurement, and stressed that the government should grant the Higher Council for Privatization and Public-Private Partnerships the human and financial resources it requires to carry out its mission. In addition, it indicated that authorities should, within one month, prepare and vote on a finance bill that explicitly clarifies the government's finances for the year 2020; as well as prepare and approve, before the end of the year, a "corresponding" budget for the year 2021, in line with the 2020 public finances.

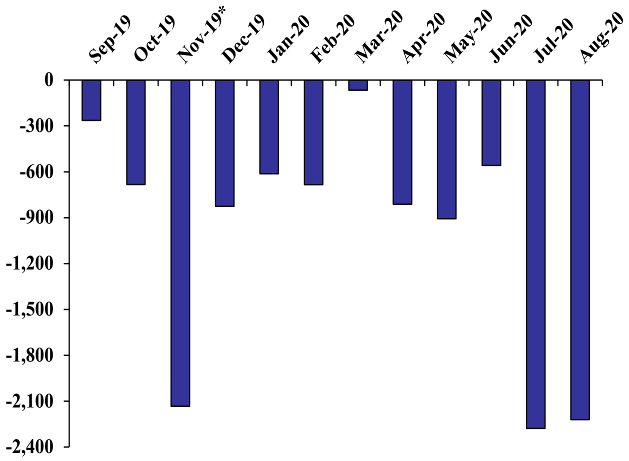
Banque du Liban's foreign assets at $28.5bn, gold reserves at $18.1bn at end-August 2020

Banque du Liban's (BdL) interim balance sheet reached $154.5bn at the end of August 2020, constituting an increase of 9.3% from $141.4bn at the end of 2019, and a rise of 15.1% from $134.2bn at end-August 2019.

Assets in foreign currency totaled $28.5bn at the end of August 2020, representing a decline of $8.8bn, or 23.6%, from $37.3bn at end-2019; and a drop of $10.2bn, or 26.4%, from $38.7bn at end-August 2019. They included $5.03bn in Lebanese Eurobonds relative to $5.7bn at the end of 2019.

BdL's assets in foreign currency, excluding Lebanese Eurobonds, stood at $23.4bn at end-August 2020, constituting a decrease of $2.22bn, or 8.7%, from the end of July 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, by $558m in June, and by $2.3bn in July, resulting in a cumulative drop of $8.1bn, or 25.8%, in the first eight months of 2020. They also fell by $12.05bn, or 34%, between the end of August 2019 and end-August 2020.

Change in Gross Foreign Currency Reserves (US$m)



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

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.

In addition, the value of BdL's gold reserves reached $18.1bn at the end of August 2020, constituting an increase of 30% from $13.9bn at end-2019 and a rise of 28.7% from $14.1bn at end-August 2019. The value of gold reserves exceeded their previous peak of $16.75bn at the end of August 2011. Also, the securities portfolio of BdL totaled $39.1bn at the end of August and increased by 3% from the end of 2019. In addition, loans to the local financial sector regressed by 2.2% from end-2019 to $14.6bn at end-August 2020. Further, deposits of the financial sector stood at $109.2bn at end-August 2020 and declined by $2.8bn from end-2019. Also, public sector deposits at BdL totaled $4.3bn at end-August 2020 and regressed by $413.2m from end-2019.

Beirut Port explosion accelerates need for political parties to agree on reform process

The UAE-based Emirates NBD Bank (ENBD) considered that Lebanon's new Prime Minister-designate faces an extraordinary task in putting the Lebanese economy back on a sustainable footing. It considered that forming a new government should be completed in record time if the country is to implement much-needed reforms, unlock $11bn in funding pledged at the CEDRE Conference in 2018, and reach a deal with the International Monetary Fund. As such, it projected real GDP to contract by 30% in 2020, in case authorities fail to secure a deal with the IMF.

The bank indicated that the failure of successive Lebanese governments to narrow the fiscal deficit and reduce the public debt level, as well as to implement the reforms required by international donors to disburse CEDRE-related funding, steadily eroded investor and depositor confidence and raised fears about possible defaults and the sustainability of the peg of the Lebanese pound to the US dollar, amid weaker-than-expected regional financial support. It noted that the subsequent political uncertainties, as well as the significant slowdown in foreign currency deposit inflows, resulted in Lebanon's first default on its foreign debt in March 2020.

In parallel, it considered that private sector activity in Lebanon is significantly shrinking. It said that the lockdown measures by the Lebanese authorities in response to the COVID-19 pandemic resulted in a sharp decline in visitors' arrivals and that hotel occupancy rates also fell and significantly weighed on the country's tourism sector, which is a key source of foreign currency receipts and employment.

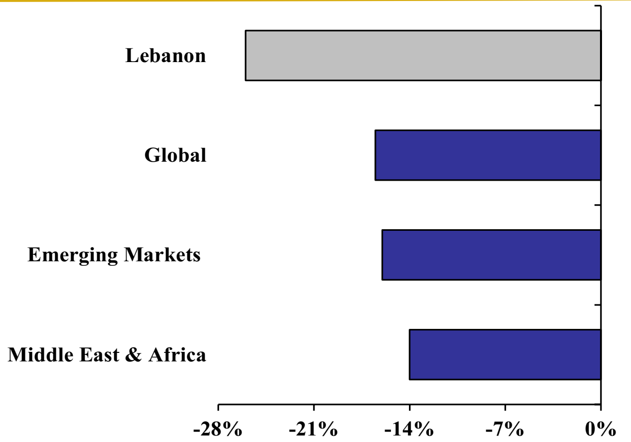
Further, it noted that the substantial rise in the inflation rate has severely curtailed the purchasing power of households, and cautioned that the sustained increase in food prices could threaten social stability. It anticipated the explosion at the Port of Beirut to exacerbate the more-than-threefold rise in food prices, and for the inflation rate to further increase in the next several months. It expected that the loss of homes and livelihoods following the blast will also weigh on private consumption, which accounts for nearly 90% of Lebanon's GDP.

ENBD considered that the damage from the explosion at the Port of Beirut has made it critical for Lebanon's political key players to agree on a much-needed reform process in order to secure a deal with the IMF. It said that, since the country announced that it was formally seeking the Fund's support in May 2020, negotiations have stalled due to disputes about the size of the loss to be incurred by the banking system. It expected that any deal with the IMF will necessitate a devaluation of the current official exchange rate towards a rate close to the market rate.

Mobility of Lebanon residents down 26% due to coronavirus-related social distancing measures

Citi Research's Social Distancing Index shows that, as of August 28, 2020, general mobility in Lebanon contracted by 26% relative to the baseline period extending from January 3 to February 6, 2020, as a result of the social distancing measures from the outbreak of the COVID-19 pandemic. It defines general mobility as the movement of individuals in different locations within a geographic area. In comparison, the mobility of the Lebanese retreated by 19% on July 17 from the January 3-February 6 period, which means that residents were under tighter social distancing measures on August 28 than they were six weeks earlier. The tightening of social distancing measures in Lebanon is due to the government's re-imposition of lockdown measures in early August following the surge in new coronavirus cases in the country. The mobility level on August 28 shows that residents of Lebanon have been under tighter social distancing measures than countries globally (-17%), than countries in emerging markets (-16%), and countries in the Middle East & Africa (ME&A) region (-14%).

Percentage Change in Mobility of People*



**% change from the January 3-February 6 period*
Source: Citi Research, Byblos Bank

The index measures the degree of social distancing implemented across countries and regions worldwide in response to the outbreak of the coronavirus. It is based on the results of the Google COVID-19 Mobility Report, which highlights the percentage change in people's visits to different places, such as retail and recreational areas, groceries and pharmacies, parks, transit stations, workplaces, and residential locations. It then compares these trends to the baseline period, which is the median mobility level between January 3 and February 6, 2020. The index is the simple average of four factors that are Retail & Recreation, Transit Stations, Workplace, and Grocery & Pharmacy. A lower score on the index implies more social distancing, while a higher score reflects less social distancing.

The mobility of the residents of Lebanon on the Retail & Recreation category declined by 23% on August 28 from the baseline period, compared to a retreat of 17% on July 17. This category measures the movement of people to places like restaurants, cafés, shopping centers, theme parks, museums, libraries, and movie theaters. The mobility of Beirut residents for the Retail & Recreation category regressed by 60% on August 28 from the baseline period, followed by residents of Akkar (-29%), Mount Lebanon (-28%), the South (-16%), and the North (-1%). In contrast, the movement of residents of the Bekaa region for this category increased by 15% and the mobility of Nabatieh residents grew by 5% on August 28 from the baseline period.

Further, the movement of residents of Lebanon under the Grocery & Pharmacy category, which includes places like grocery markets, food warehouses, farmers markets, specialty food shops, drug stores, and pharmacies, decreased by 15% from the January 3-February 6 period, compared to a decline of 9% on July 17. The mobility of Beirut residents for this category regressed by 31% on August 28 from the baseline period, followed by the movement of residents of Mount Lebanon (-20%), the South (-18%), Nabatieh (-6%), and the North (-4%). In contrast, the mobility of the Baalbek-Hermel area increased by 30% from the January 3-February 6 period, followed by the movement of residents of the Bekaa region (+22%), and Akkar (+9%).

Also, the mobility of residents under the Transit Stations sector, which includes the usage of public transportation, decreased by 53% from the baseline period relative to a contraction of 54% six weeks earlier. In addition, the mobility of Lebanese residents to the Workplace shrank by 18% from the January 3-February 6 period, compared to a retreat of 8% on July 17. The mobility of Beirut residents for this category regressed by 28% on August 28 from the baseline period, followed by residents of Mount Lebanon (-19%), the South (-18%), Nabatieh (-17%), the North (-16%), Akkar (-13%), and the Bekaa (-8%); while the movement of residents of the Baalbek-Hermel area grew by 1% on August 28 from the January 3-February 6 period.

Percentage Change in Mobility of Residents in Lebanon*

	April 11, 2020	May 16, 2020	June 12, 2020	July 17, 2020	Aug 28, 2020
Social Distancing Index	**-56%**	**-53%**	**-25%**	**-19%**	**-26%**
Retail & Recreation	-65%	-63%	-23%	-17%	-23%
Transit Stations	-78%	-71%	-56%	-54%	-53%
Parks	-45%	-29%	15%	43%	26%
Workplace	-48%	-42%	-25%	-8%	-18%
Grocery & Pharmacy	-31%	-34%	4%	-9%	-15%
Residential	16%	14%	6%	-4%	-1%

**% change from the January 3-February 6 period*
Source: Citi Research, Byblos Research

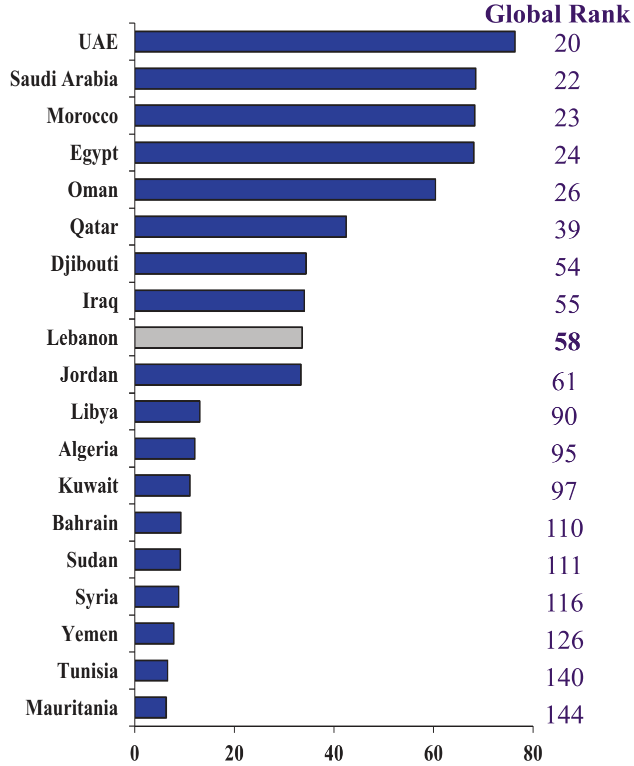
Lebanon ranks 58th globally, ninth among Arab countries on liner shipping connectivity in second quarter of 2020

The United Nations Conference on Trade & Development's (UNCTAD) Liner Shipping Connectivity Index (LSCI) ranked Lebanon in 58th place among 182 countries and territories around the world and in ninth place among 19 Arab countries for the second quarter of 2020. Lebanon also came in 16th place among 46 upper middle-income countries (UMICs) included in the survey. Lebanon's global rank regressed by 18 spots from the first quarter of 2020, while its rank among Arab countries deteriorated by three notches quarter-on-quarter. Lebanon's rank had improved from 45th place globally in the third quarter of 2019 to 40th place in each of the fourth quarter of 2019 and first quarter of 2020.

The LSCI assesses the level of a country's integration into global liner shipping networks. The index is a composite of six components that capture the deployment of container ships by liner shipping firms to a country's ports. The components are the number of scheduled ship calls per week in a country, the total deployed capacity offered by a country's fleet, the number of liner shipping firms that provide services from and to the country, the number of regular liner shipping services from and to a country, as well as the largest average vessel size of the ships deployed by the scheduled service, and the number of direct shipping routes to and from a given country. A country's score is a composite of the six indicators, with a higher score reflecting a better performance on the index. Starting in 2020, UNCTAD started publishing the index as a quarterly series, and revised all previous data that had been generated from 2004 onwards.

Globally, Lebanon has a higher connectivity to global shipping networks than Argentina, Croatia and Jordan, and a lower connectivity than Iraq, Russia and Jamaica. It also has a higher connectivity to global shipping networks than Argentina, Jordan and Guatemala, and a lower connectivity than Iraq, Russia and Jamaica among UMICs.

Liner Shipping Connectivity Index for Second Quarter Arab Countries' Scores & Rankings



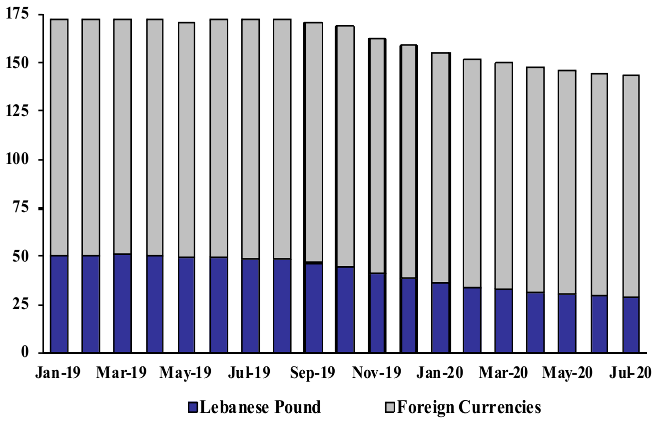
Source: UNCTAD, Byblos Research

Further, Lebanon received a score of 33.62 points in the second quarter of 2020, down by about 22.2% from a score of 43.2 in each of the fourth quarter of 2019 and the first quarter of 2020, and relative to a score of 36.4 in the third quarter of 2019. Lebanon's score is higher than the global average score of 26.53 points, the Arab average of 31.78 points, and the UMICs' average score of 25.36 points. Also, it is lower than the Gulf Cooperation Council (GCC) countries' average score of 44.68 points, but higher than that of non-GCC Arab countries of 25.82 points.

Private sector deposits down $29.2bn in 11-month period ending July 2020

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets stood at $198.1bn at the end of July 2020, constituting a decrease of 8.6% from $216.8bn at the end of 2019 and a decline of 23.6% from $259.2bn at end-July 2019. The figures are based on the official exchange rate of the Lebanese pound. 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.

Private Sector Deposits (US$bn)



Source: Banque du Liban, Byblos Research

Loans extended to the private sector reached $40.3bn at the end of July 2020, regressing by 19% from end-2019 and by 27.1% from a year earlier. Loans to the resident private sector totaled $35.6bn, constituting a decrease of 19.4% from the end of 2019 and of 27% from end-July 2019. Also, credit to the non-resident private sector reached $4.7bn at end-July 2020, declining by 16.5% from end-2019 and by 28.3% from a year earlier. In nominal terms, credit to the private sector contracted by $9.5bn in the first seven months of 2020 relative to a decrease of $4.1bn in the same period of 2019, as lending to the resident private sector declined by $8.6bn and credit to the non-resident private sector regressed by $917.8m in the covered period. The dollarization rate of private sector loans fell from 70% at end-July 2019 to 62.3% at end-July 2020.

In addition, claims on non-resident financial institutions reached $4.4bn at the end of July 2020 and declined by $2.3bn (-34.6%) from end-2019, by $4.7bn (-51.6%) from the end of August 2019, and by $5bn (-53%) from a year earlier. Also, deposits at foreign central banks totaled $510.3m, constituting a decrease of 13.3% from end-2019 and a drop of 46% from end-July 2019. In addition, claims on the public sector stood at $24bn at end-July 2020, down by $4.7bn (-16.3%) from end-2019 and by $8bn (-25%) from the end of July 2019. The banks' holdings of Lebanese Treasury bills stood at $13.5bn at the end of July 2020 while their holdings of Lebanese Eurobonds reached $10.3bn at end-July 2020. The average lending rate in Lebanese pounds was 7.15% in July 2020 compared to 11.13% a year earlier, while the same rate in US dollars was 7.42% relative to 9.9% in July 2019. Further, the deposits of commercial banks at BdL totaled $113.7bn at the end of July 2020, down by 3.4% from $117.7bn at the end of 2019 and by 23.1% from $147.8bn at the end of July 2019, following the netting operation.

In parallel, private sector deposits totaled $143.3bn at the end of July 2020, and decreased by 9.8% from the end of 2019 and by 17% from end-July 2019. Deposits in Lebanese pounds reached the equivalent of $28.4bn at end-July 2020, down by 25.4% from the end of 2019 and by 41.7% from a year earlier; while deposits in foreign currency totaled $114.9bn, as they regressed by 5% from end-2019 and by 7.1% from end-July 2019. Resident deposits totaled $115.3bn at the end of July 2020 and decreased by $11.1bn (-8.8%) from the end of 2019 and by $20.2bn (-15%) from a year earlier. Also, non-resident deposits reached $28bn at end-July 2020, as they regressed by $4.5bn (-13.8%) from end-2019 and by $8.9bn (-24.1%) from the end of July 2019. In nominal terms, private sector deposits declined by $3.8bn in January, by $3.4bn in February, by $2.1bn in March, by $2.1bn in April, by $1.2bn in May, by $1.8bn in June, and by $1.2bn in July 2020. As such, aggregate private sector deposits regressed by $15.6bn in the first seven months of 2020 relative to a decrease of $1.9bn in the same period of 2019, with deposits in Lebanese pounds dropping by $9.7bn and foreign-currency deposits declining by $5.9bn. 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 $29.2bn in the 11-month period ending in July 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 80.2% at end-July 2020, up from 76% at the end of 2019, and compared to 71.7% a year earlier.

In parallel, the liabilities of non-resident financial institutions reached $7.6bn at the end of July 2020 and decreased by 14.1% from end-2019. Further, the average deposit rate in Lebanese pounds was 3.76% in July 2020 compared to 8.81% a year earlier, while the same rate in US dollars was 1.49% relative to 6.01% in July 2019. The ratio of private sector loans to deposits in foreign currency stood at 21.8% at the end of July 2020 compared to 31.3% a year earlier, well below BdL's limit of 70%. The same ratio in Lebanese pounds reached 53.5% at end-July 2020 relative to 34.2% from a year earlier. As such, the total private sector loans-to-deposits ratio reached 28.1% compared to 32.1% at end-July 2019. The banks' aggregate capital base stood at $19.4bn at end-July 2020, down by 6.3% from $20.7bn a year earlier.

Corporate Highlights

Stock market capitalization down 21% to $6.2bn at end of August 2020

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 38,097,163 shares in the first eight months of 2020, constituting a decline of 80% from 190,553,313 shares traded in the same period last year; while aggregate turnover amounted to $163.4m, down by 80% from a turnover of $818m in the first eight months of 2019. The sharp decline in trading volume and turnover in the first eight months of 2020 came from a high base in the same period of 2019, which saw eight block trades in the shares of three listed companies. The market capitalization of the BSE reached $6.2bn at the end of August 2020, and regressed by 20% from $7.8bn at the end of 2019 and by 21.2% from $7.9bn at end-August 2019, with banking stocks accounting for 56.4% of the total, followed by real estate equities (38.6%), industrial shares (4.4%), and trading firms' equities (0.6%). The market liquidity ratio was 2.6% in the covered period compared to 10.4% in the first eight months of 2019.

Banking stocks accounted for 71% of trading volume in the first eight months of 2020, followed by real estate equities with 28.7%, industrial shares with 0.2%, and trading firms' equities with 0.1%. Also, real estate equities accounted for 72.2% of the aggregate value of shares traded, followed by banking stocks with 27.5%, industrial stocks with 0.2%, and trading firms' equities with 0.1%. The average daily traded volume for the period was 250,639 shares for an average daily amount of $1.1m. The figures reflect a year-on-year decrease of 79.5% in average daily traded volume, and an annual drop of 79.5% in the average amount in the first eight months of the year. In parallel, the Capital Markets Authority's (CMA) Market Value-Weighted Index for stocks traded on the BSE rose by 133% in the first eight months of 2020, while the CMA's Banks Market Value-Weighted Index regressed by 20.5% in the covered period. The increase in the Market Value-Weighted Index is mainly due to the surge in the prices of Solidere A and of Solidere B shares in the covered period, and given that the shares have market weights that reached 23.4% and 15.2%, respectively, at end-August 2020, the highest among listed companies on the BSE.

Moody's completes a periodic review of CMA CGM's ratings

Moody's Investors Service completed on August 28, 2020 a periodic review of the ratings of the Lebanese-owned and France-based container-shipping group CMA CGM. It indicated that the firm's 'B2' corporate family rating reflects its leading market position, as the company accounts for about 12% of the global shipping market. It added that the rating is supported by the company's operational efficiency that helps it maintain a strong earnings before interest and taxes (EBIT) margin. In addition, it pointed out that more than 70% of the firm's fleet consists of chartered vessels, which also supports the rating.

In parallel, the agency said that the company's 'B2' corporate family rating is constrained by the extremely competitive operating environment in the commoditized container liner industry, by the firm's large debt maturities in the next three years, as well as by the risk of having to inject additional liquidity into its subsidiary CEVA Logistics AG. Further, it indicated that the impact of the coronavirus crisis on the firm's business and market share also weighs on the rating.

Moody's had affirmed on July 6, 2020, 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.

CMA CGM declared consolidated net profits of $55.6m in the first quarter of 2020 relative to net losses of $53.3m in the same quarter of 2019. The company's earnings before interest and taxes (EBIT), excluding disposals & equipment and subsidiaries, reached $973.2m in the first quarter of 2020, and grew by 25% from $779m in the same quarter of 2019. Further, its revenues regressed by 3% annually to $7.2bn in the covered period, mainly due to the slowdown in global trade and the decline in carried volumes. In parallel, its operating expenditures declined by 6.3% year-on-year to $6.2bn in the first quarter of 2020, mainly due to operational efficiency, which allowed the company to reduce most of its operating expenses. Further, the firm's consolidated assets reached $31.7bn at the end of March 2020, constituting a decline of 3.2% from $32.7bn at end-2019. CMA CGM is one of the largest container shipping companies in the world and operates a fleet of 502 vessels, with a capacity of 2.71 million TEUs that serves over 420 commercial ports.

Ratio Highlights

(in % unless specified)	2017	2018	2019	Change*
Nominal GDP ($bn)	53.1	55.0	51.7	(3.3)
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 trillion)	82.8	81.4	142.0
Nominal GDP (US$ bn)	55.0	51.7	32.7
Real GDP growth, % change	-1.9	-7.3	-23.5
Private consumption	-1.3	-7.1	-17.1
Public consumption	6.7	1.5	-47.7
Gross fixed capital	-1.8	-10.7	-33.3
Exports of goods and services	0.5	-5.0	-35.1
Imports of goods and services	1.1	-4.5	-36.3
Consumer prices, %, average	6.1	2.9	95.4
Official exchange rate, average, LBP/US$	1,507.5	1,507.5	1,507.5
Parallel exchange rate, average, LBP/US$	n/a	1,620	5,587
Weighted average exchange rate LBP/US$	1,507.5	1,575	4,283

Source: Institute of International Finance- August 9, 2020

Ratings & Outlook

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