



In memory of the victims of the Beirut Port explosion

LEBANON THIS WEEK

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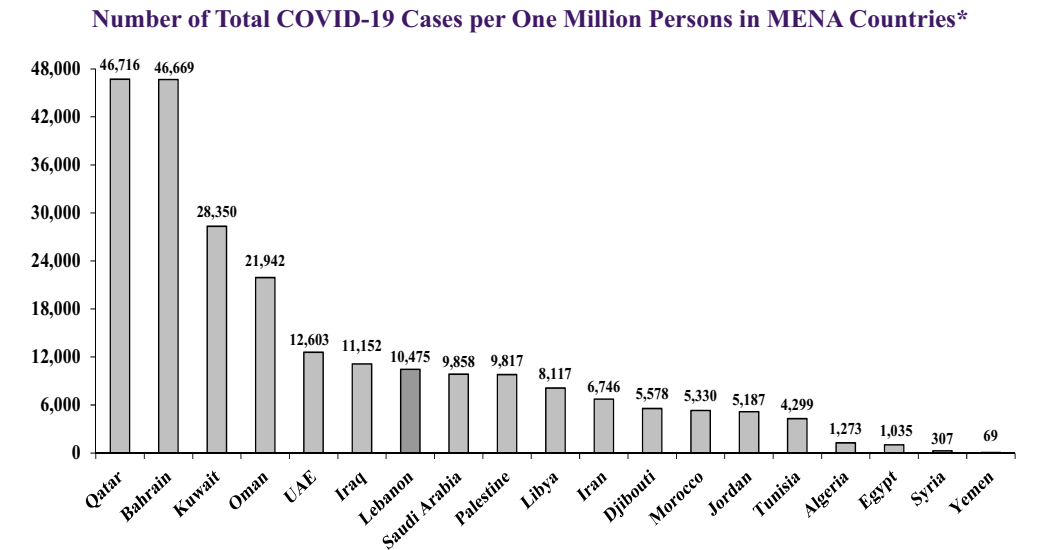
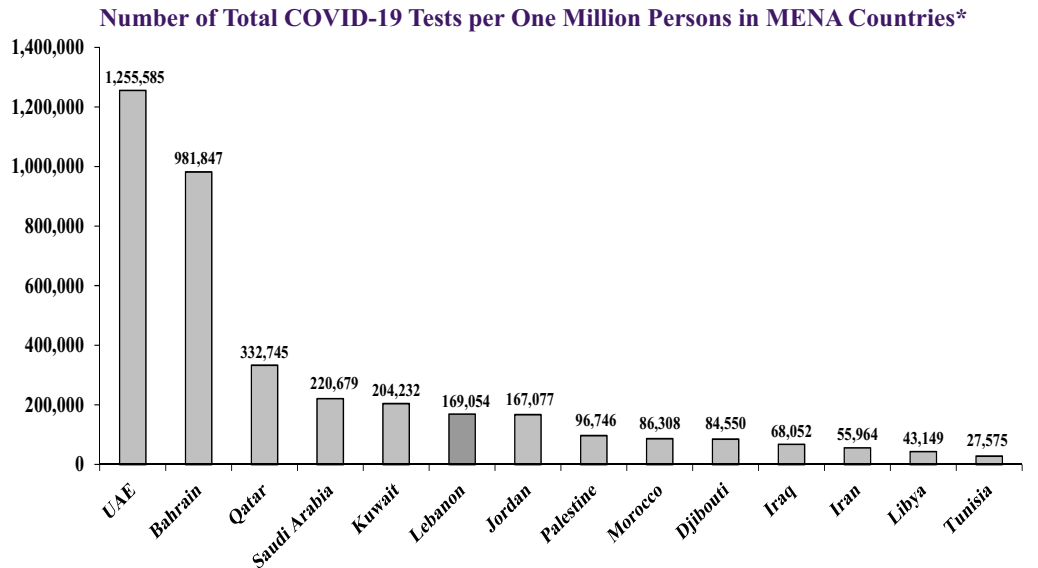
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Charts of the Week



*as of October 25, 2020
Source: World Bank Group, Byblos Bank

Quote to Note

"The impasse in discussions between the Lebanese authorities and the International Monetary Fund could be overcome by the formation of a competent and independent government, which could start to implement fiscal and structural reforms."

The Institute of International Finance, on the key to unlock international financial support for Lebanon

Number of the Week

75%: Percentage of Lebanese who either "disagree" or "strongly disagree" of the Lebanese Parliament's performance in its oversight of the government, according to the Arab Center for Research & Policy Studies' Arab Opinion Index for 2019-20

Lebanon in the News

\$m (unless otherwise mentioned)	2019	Jan-Jul 2019	Jan-Jul 2020	% Change*	Jul-19	Jun-20	Jul-20
Exports	3,731	2,089	1,986	(4.9)	365	277	374
Imports	19,239	12,334	6,125	(50.3)	2,196	854	922
Trade Balance	(15,508)	(10,245)	(4,139)	(59.6)	(1,831)	(577)	(549)
Balance of Payments	(5,851)	(5,318)	(5,533)	4.0%	72	(296)	(3,046)
Checks Cleared in LBP	22,146	12,214	11,378	(6.8)	1,900	1,766	1,865
Checks Cleared in FC	34,827	20,346	20,851	2.5	3,168	3,097	3,909
Total Checks Cleared	56,973	32,560	32,229	(1.0)	5,068	4,863	5,774
Fiscal Deficit/Surplus**	(5,837)	(2,420)	(2,223)	(8.1)	10	(225)	-
Primary Balance**	(287)	308	(876)	-	268	(160)	-
Airport Passengers	8,684,937	5,036,237	1,356,905	(73.1)	1,059,267	15,295	150,234
Consumer Price Index	2.9	3.0	49.3	4630	1.4	89.7	112.4

\$bn (unless otherwise mentioned)	Dec-19	Jul-19	Apr-20	May-20	Jun-20	Jul-20	% Change*
BdL FX Reserves	29.55	31.06	27.37	26.44	25.87	23.56	(24.2)
In months of Imports	21.95	14.15	36.77	39.24	30.30	25.54	80.5%
Public Debt	91.64	86.01	92.87	93.14	93.40	93.70	8.9%
Bank Assets	216.78***	259.18	205.75	203.84	201.09	198.08	(23.6)
Bank Deposits (Private Sector)	158.86	172.35	147.52	146.30	144.50	143.30	(16.9)
Bank Loans to Private Sector	49.77	55.30	43.90	42.91	41.42	40.30	(27.1)
Money Supply M2	42.11	48.91	38.64	38.78	39.02	39.25	(19.7)
Money Supply M3	134.55	140.34	129.52	129.67	129.51	129.48	(7.7)
LBP Lending Rate (%)	9.09	11.13	9.29	8.45	6.84	7.15	(398)
LBP Deposit Rate (%)	7.36	8.81	5.06	4.63	4.16	3.76	(505)
USD Lending Rate (%)	10.84	9.90	7.79	7.90	7.49	7.42	(248)
USD Deposit Rate (%)	4.62	6.01	2.32	1.99	1.64	1.49	(452)

*year-on-year **figures for the period reflect the first half of each year ***The annual 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"	15.79	(0.32)	179,282	24.49%
Solidere "B"	15.63	(0.45)	80,646	15.76%
HOLCIM	13.02	0.08	17,868	3.94%
Audi GDR	0.95	(5.94)	5,000	1.76%
BLOM GDR	2.45	(7.20)	1,000	2.81%
Byblos Common	0.44	0.00	-	3.86%
Audi Listed	1.15	0.00	-	10.50%
BLOM Listed	2.81	0.00	-	9.37%
Byblos Pref. 09	48.85	0.00	-	1.52%
Byblos Pref. 08	39.99	0.00	-	1.24%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Apr 2021	8.25	16.00	1,188.68
Oct 2022	6.10	14.63	130.00
Jan 2023	6.00	14.00	110.60
Jun 2025	6.25	13.88	47.80
Nov 2026	6.60	14.00	35.18
Feb 2030	6.65	13.63	22.59
Apr 2031	7.00	14.00	19.69
May 2033	8.20	13.63	16.55
Nov 2035	7.05	14.00	13.55
Mar 2037	7.25	14.00	12.36

Source: Byblos Bank Capital Markets, Refinitiv

	Oct 26-30	Oct 19-23	% Change	Oct 2020	Oct 2019	% Change
Total shares traded	304,280	214,668	41.7	933,600	5,199,421	(82)
Total value traded	\$4,428,508	\$1,978,007	124	\$11,588,882	\$34,989,893	(67)
Market capitalization	\$6.45bn	\$6.48bn	(0.5)	\$6.45bn	\$7.55bn	(14.6)

Source: Beirut Stock Exchange (BSE)



Expatriates' remittances to Lebanon projected to decline by 6.6% to \$7bn in 2020

The World Bank projected the inflows of expatriates' remittances to Lebanon at \$6.9bn in 2020, which would constitute a decrease of 6.6% from \$7.4bn in 2019, following an increase of 6.2% in 2019. In comparison, it forecast remittance inflows to developing countries to decline by 7.2%, those to upper middle-income countries (UMICs) to regress by 8.4%, and inflows to Arab countries to contract by 8.5% in 2020. It indicated that the anticipated drop in remittance inflows to developing markets will be the steepest on record and will exceed the 5% retreat recorded during the global recession of 2009. It attributed the decrease to the challenging economic conditions, including subdued economic growth, job uncertainties, low global oil prices and weaker currencies in several migrant-hosting countries, especially the United States, European countries and Gulf Cooperation Council economies. The World Bank forecast in April a drop of 20% in remittance inflows to developing economies for 2020.

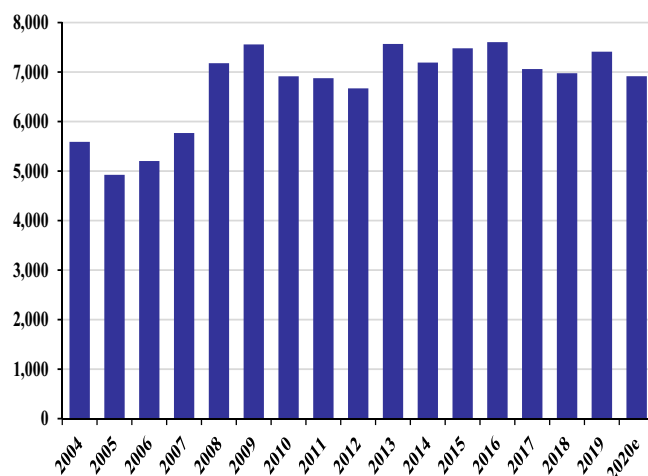
Lebanon would be the 22nd largest recipient of remittances in the world and the 16th largest among developing economies in 2020. Lebanon would receive more remittances than Sri Lanka (\$6.7bn), Colombia (\$6.5bn), and Morocco (\$6.4bn), and less remittances than Russia (\$8.8bn), the Dominican Republic (\$7.9bn), and Nepal (\$7.4bn) among developing economies. Also, Lebanon would be the seventh largest recipient of remittances among 51 UMICs, after China (\$59.5bn), Mexico (\$40.5bn), Guatemala (\$10.8bn), Indonesia (\$9.8bn), Russia and the Dominican Republic; and the second largest recipient among 17 Arab countries behind Egypt (\$24.4bn).

Remittance inflows to Lebanon would account for 1% of the global flow of remittances in 2020, unchanged from 2018 and 2019. They would represent 1.4% of aggregate remittances to developing economies this year, unchanged from 2019; while they would account for 12.6% of remittance inflows to Arab countries in 2020, up from 12.4% in 2019 and 12% in 2018. In addition, remittance inflows to Lebanon would represent 3.5% of such flows to UMICs in 2020, unchanged from 2019 and relative to 3.4% in 2018.

Further, the World Bank expected expatriates remittances to Lebanon to be equivalent to 36.2% of GDP in 2020, as it used the International Monetary Fund's forecast for nominal GDP of about \$19bn for 2020, which would constitute the third highest such ratio in the world, behind Tonga (40.2% of GDP) and Haiti (38.2% of GDP). However, when using the Institute of International Finance's estimate of nominal GDP of \$30.4bn for this year, expatriates remittances to Lebanon would be equivalent to 22.8% of GDP, the sixth highest ratio globally behind Tonga, Haiti, South Sudan (35.5% of GDP), Tajikistan (26.2% of GDP), and the Kyrgyz Republic (25.1% of GDP).

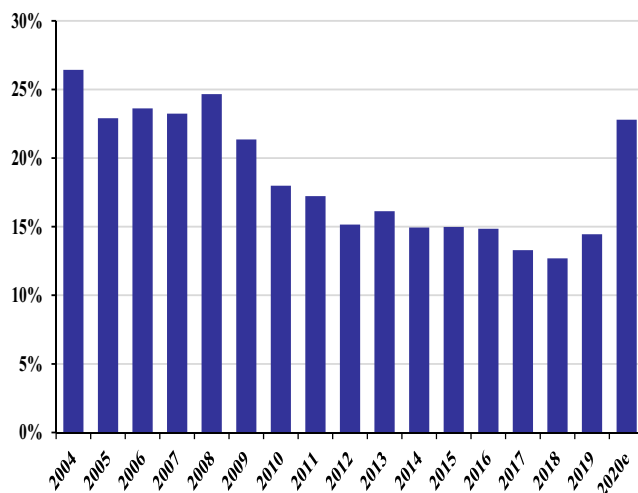
Expatriates' remittances to Lebanon were equivalent to 12.7% of GDP in 2018 and 14.4% of GDP in 2019. The World Bank estimated remittance inflows to Arab countries, excluding Syria, at \$53.2bn in 2020, down from \$58.1bn in 2019, and equivalent to about 2.7% of the region's GDP this year.

Remittance Inflows to Lebanon (US\$m)



Source: Banque du Liban, World Bank, Byblos Research

Remittance Inflows to Lebanon* (% of GDP)



*the ratio for 2020 is based on the IIF nominal GDP

Source: Banque du Liban, World Bank, National Accounts, IIF, Byblos Research

Tourist spending down 73%, number of refunds down 81% in first nine months of 2020

Figures issued by Global Blue, the value-added tax (VAT) refund operator for international shoppers, show that spending by visitors in Lebanon declined by 73% year-on-year in the first nine months of 2020. The figures cover purchases on which visitors claimed VAT refunds. Spending above LBP10m accounted for 48% of total spending by visitors, followed by expenditures between LBP2m and LBP5m (15%), outlays of less than LBP1m (14%), spending between LBP5m and LBP10m (12%), and expenditures of between LBP1m and LBP2m (10%).

Visitors from the UAE accounted for 15% of total tourist expenditures in the first nine months of 2020, followed by visitors from Saudi Arabia with 10%, Syria with 8%; Egypt with 7%; Kuwait with 4%; and Qatar with 3%; while visitors from other countries represented the remaining 54%. Spending by visitors from Qatar fell by 90% in the covered period, followed by expenditures by tourists from Kuwait (-88%), Saudi Arabia (-81%), Syria (-73%), Egypt (-66%), and the UAE (-60%).

Further, Beirut attracted 75% of aggregate expenditures in the first nine months of 2020, followed by the Metn area with 17%, and the Baabda district and the Keserwan region with 3% each. In parallel, fashion & clothing accounted for 54% of total expenditures in the first nine months of 2020, followed by watches & jewelry with 30%, spending at department stores and outlays on home & garden products with 4% each, and sports equipment & clothing with 3%. Expenditures on fashion & clothing fell by 78%, outlays on home & garden products declined by 69%, spending at department stores decreased by 68%, expenditures on sports equipment & clothing fell by 60%, and spending on watches & jewelry decreased by 59% in the covered period.

Also, the total number of refund transactions by visitors dropped by 81% in the first nine months of 2020. Visitors from the UAE accounted for 12% of total refund transactions in the covered period, followed by those from Saudi Arabia and Syria (10% each), Egypt (8%), and Kuwait and Qatar (3% each), while other countries accounted for the remaining 54%. Refunded transactions for amounts of less than LBP1m accounted for 68% of the total number of transactions, followed by spending between LBP1m and LBP2m (15%), then outlays of between LBP2m and LBP5m (11%), expenditures of between LBP5m and LBP10m (4%), and payments of more than LBP10m (3%).

Banking Control Commission details mechanism for banks' recapitalization plan

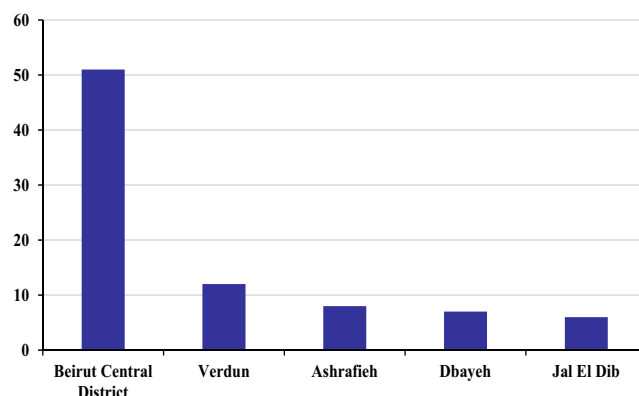
The Banking Control Commission of Lebanon (BCCL) issued on October 22, 2020 memo 15/2020 about the banks' recapitalization plan. It said that banks need to specify their recapitalization needs in order to abide by the minimal capital ratios, including the capital conservation buffer, that Banque du Liban (BdL) set for banks earlier this year. It noted that each bank needs to reach the minimum Common Equity Tier One and Tier One ratios for each year between 2020 and 2024, and to achieve a Total Capital Ratio of 8% at the end of 2020 and 2021, of 8.75% at end-2022, of 9.5% at end-2023 and of 10.5% at the end of 2024.

It pointed out that each bank must take into account several factors when computing its recapitalization needs. First, the bank needs to have a business strategy and plan for the next five years, including the development of its financial position and profitability. Second, the bank has to factor in the minimum provisions required on its holdings of government debt, as well as the provisions on its exposure to BdL through Certificate of Deposits and long-term placements, and on loans it extended to public sector entities. Third, the bank has to take into account the expected provisions on its private sector loans portfolio under International Accounting Standards IFRS 9, as well as any additional provisions that the BCCL could request or the bank may deem necessary.

The BCCL asked banks to provide the supporting documents for their recapitalization plan, as well as the assumptions, methodology and indicators that they used. It added that banks have until November 5 to provide BdL and the BCCL with all supporting documents. In addition, it requested that each bank clearly specifies the options it has to increase its stock of capital, such as transferring profits to the capital account, reevaluating its real estate holdings, and issuing shares and bonds, among others. It also asked each bank to provide the options it has to reduce its risk-weighted assets, such as disposing of a subsidiary abroad or selling part of its loan portfolio to a foreign party, among others. It said that banks need to update their plan on a semi-annual basis or in case of major events.

The BCCL memo provides the implementation mechanism for BdL's Intermediate Circular 567 dated August 26, 2020 about the capital adequacy regulatory framework for banks in Lebanon. Circular 567 amended the Regulatory Expected Credit Losses requirements that banks must apply on their exposure to the government and to BdL in order to book provisions and, in turn, to compute the capital ratios. It also provided a timeframe for banks to abide by the minimum capital ratios and asked each bank to develop a comprehensive plan that would allow it to meet BdL's new requirements, including the strategy that it will adopt and the time it will need to comply with the measures.

Spending Distribution by Town in First Nine Months of 2020 (% of total)



Source: Global Blue, Byblos Research

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

Figures released by the Association of Banks in Lebanon (ABL) show that the face value of outstanding Treasury securities denominated in Lebanese pounds reached LBP87,757bn, or the equivalent of \$58.2bn, at the end of September 2020, compared to LBP80,306bn, or \$53.3bn, at the end of September 2019. The dollar figures are converted at the official exchange rate of the Lebanese pound against the US dollar. The weighted interest rate on Lebanese Treasury securities denominated in Lebanese pounds was 6.48% in September 2020 compared to 6.5% in September 2019.

The distribution of outstanding Treasury securities shows that 15-year Treasury bonds accounted for 1.6%, or LBP1,417bn, of aggregate securities denominated in Lebanese pounds at the end of September 2020; 12-year Treasury securities represented 3.5% of the total (LBP3,076bn); and 10-year Treasury bonds had a share of 37.8% (LBP33,141bn). Also, the share of eight-year Treasury securities was 2.1% (LBP1,832bn), seven-year Treasury bonds represented 19% (LBP16,616bn), five-year Treasury securities accounted for 23% (LBP20,225bn), the share of three-year Treasury bonds was 9.7% (LBP8,513bn), two-year Treasury bills represented 1.9% (LBP1,698bn), one-year T-bills accounted for 1.2% (LBP1,072bn), the share of six-month T-bills was 0.1% (LBP92bn), and three-month T-bills represented 0.1% (LBP75bn) of the total. As such, 64% of outstanding Treasury securities have seven-year maturities or longer and 87% have five-year maturities or more.

In parallel, LBP526bn in outstanding Treasury securities denominated in Lebanese pounds matured in September 2020, of which 50% were three-year Treasury bonds, 33% were five-year Treasury securities, 9.5% were two-year Treasury bonds, 3.6% were one-year T-bills, 2.7% were three-month Treasury bills, and 1.3% were six-month T-bills. According to ABL, LBP4,712bn of outstanding Treasury bonds in Lebanese pounds will mature in the remainder of 2020, while LBP9,812bn will come due in 2021 and LBP9,899bn will mature in 2022.

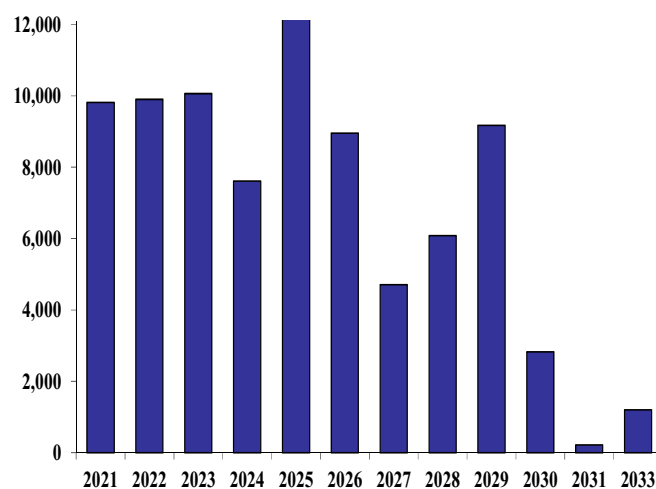
State completes takeover of mobile phone networks

The Ministry of Telecommunications indicated that the Ordinary General Assembly of the state-owned mobile phone network Mobile Interim Company 2 (MIC 2), which was held on October 30, 2020, did not renew the management contract of Zain Group, and completed the transfer of the company's management to the telecom ministry. It added that the General Assembly elected a new Board of Directors for a one-year term. The decision of MIC 2 follows a previous similar action by the other state-owned cellular phone network Mobile Interim Company 1 (MIC 1), which transferred the management from Orascom Telecom to the ministry. Consequently, the ministry fully executed the Council of Ministers' decision of May 5, 2020, which approved the transfer of the two management contracts to the ministry following their expirations, and instructed the ministry to maintain the legal entities of both companies in order to preserve their economic and market values.

At the time, the Council of Ministers asked the Ministry of Telecommunications to prepare, within three months, new tender documents to award new contracts for the management of MIC 1 and MIC 2, as well as to set the terms to participate in and to qualify for the international tender. It added that the tender will take place in coordination with the Administration of Public Tenders, once all of the related documents and terms and conditions are finalized. It is unclear when the new tender will take place, but Zain Group expressed interest in participating in the tender given the potential of the Lebanese market, "on the condition that a clear business plan is developed within an agreement by the Lebanese Ministry of Telecommunications".

Mobile networks in Lebanon are owned and regulated by the Ministry of Telecommunications, and have managed by two private operators. Orascom Telecom has been managing MIC 1 since 2009 under the Alfa brand, while Zain has been managing MIC 2 since 2004 under the brand Touch. The contracts of the two management companies have been repeatedly renewed since 2008. The most recent contracts expired at the end of 2019, but the government asked the companies to continue to operate the networks until authorities decide on how to proceed.

Projected Maturities of Treasury Securities in LBP* (LBP billions)



*As at end September

Source: Association of Banks in Lebanon, Byblos Research

Fiscal deficit equivalent to 28% of expenditures in first seven months of 2020

Figures released by the Ministry of Finance show that the fiscal deficit reached \$2.1bn in the first seven months of 2020 and narrowed by 13% from a deficit of \$2.4bn in the same period of 2019, based on the official exchange rate of the Lebanese pound. The deficit was equivalent to 27.6% of total budget and Treasury expenditures relative to 25.7% of spending in the same period last year. Government spending reached \$7.6bn in the first seven months of 2020 and decreased by 19% from the same period of 2019, while revenues stood at \$5.5bn and regressed by 21.2% year-on-year. The widening of the deficit was caused by a drop of \$1.79bn in spending due to lower debt servicing cost and Treasury transfers to Electricité du Liban (EdL), which was partly offset by a decline of \$1.48bn in revenues.

On the revenues side, tax receipts decreased by 27.4% year-on-year to \$4.03bn in the first seven months of 2020, of which 16.5%, or \$664m, were in VAT receipts that dropped by 55.2% annually. Tax receipts accounted for 84.5% of budgetary revenues and for 73.3% of Treasury and budgetary income in the covered period. The distribution of other tax revenues shows that revenues from taxes on income, profits & capital gains declined by 20.5% to \$1.98bn in the first seven months of 2020; revenues from customs dropped by 33% to \$501.3m; receipts from property taxes rose by 29.2% to \$447.3m; while revenues from taxes on goods & services grew by 2% to \$263.2m, and proceeds from stamp fees fell by 23.2% to \$173m.

The distribution of income tax receipts shows that the tax on interest income accounted for 70.2% of income tax revenues in the first seven months of 2020, followed by the tax on wages & salaries with 15.8%, the tax on profits with 10.8%, and the capital gains tax with 2.7%. Receipts from the tax on interest income surged by 42.5%, while revenues from the tax on profits dropped by 75%, revenues from the tax on capital gains fell by 73.8%, and proceeds from the tax on wages & salaries dipped by 28%, in the covered period. Also, revenues from real estate registration fees grew by 83.5% to \$338.8m, while receipts from the built property tax contracted by 33.7% to \$77.7m and revenues from the inheritance tax shrank by 31% to \$30.7m in the first seven months of 2020.

Further, non-tax budgetary receipts declined by 34.3% year-on-year to \$738.5m in the covered period. They mainly included \$342.2m in revenues generated from government properties that fell by 51.2%, as well as \$263.6m in receipts from administrative fees and charges that decreased by 16.7% annually. Receipts from telecommunication services dropped by 56.5% to \$199m in the first seven months of 2020, and accounted for 58.2% of income from government properties and for 27% of non-tax budgetary revenues. In parallel, Treasury receipts surged by 144.2% to \$727m in the covered period, due to Banque du Liban's repayment to the Ministry of Finance of interest payments on its holdings of debt-denominated in Lebanese pounds for the first quarter of this year.

On the expenditures side, total budgetary spending, which includes general expenditures and debt servicing, declined by 23.2% to \$6.64bn in the first seven months of 2020. General spending regressed by 7.3% to \$5.25bn in the covered period, and included \$535.2m in transfers to EdL that dropped by 36.2% year-on-year, and \$1.26bn in outlays from previous years that declined by 2.3% annually, among other general spending items. Also, debt servicing totaled \$1.39bn in the first seven months of 2020 and dropped by 53.4% from the first seven months of 2019. Interest payments on Lebanese pound-denominated debt regressed by 33% year-on-year to \$1.16bn in the first seven months of 2020, while debt servicing on foreign currency debt fell by 87.6% to \$139.7m, due to the government's decision to suspend all payments on its outstanding Eurobonds starting in March 2020. In addition, Treasury expenditures, excluding transfers to EdL, grew by 29.3% year-on-year to \$956.7m in the covered period. Further, the primary budget balance posted a deficit of \$477.2m in the first seven months of 2020, equivalent to 7.2% of budgetary expenditures, while the overall primary balance registered a deficit of \$706.8m, or 9.3% of spending.

Fiscal Results in First Seven Months of Each Year			
	2019 (US\$m)	2020 (US\$m)	Change (%)
Budget Revenues	6,678	4,769	-28.6%
Tax Revenues	5,554	4,030	-27.4%
Non-Tax Revenues	1,125	739	-34.3%
<i>of which Telecom revenues</i>	458	199	-56.5%
Budget Expenditures	8,646	6,638	-23.2%
Budget Surplus/Deficit	(1,968)	(1,869)	-5.0%
<i>In % of budget expenditures</i>	-22.8%	-28.2%	
Budget Primary Surplus	1,018	(477)	
<i>In % of budget expenditures</i>	11.8%	-7.2%	
Treasury Receipts	298	727	144.2%
Treasury Expenditures	740	957	29.3%
Total Revenues	6,976	5,496	-21.2%
Total Expenditures	9,386	7,594	-19.1%
Total Deficit	(2,410)	(2,099)	-12.9%
<i>In % of total expenditures</i>	-25.7%	-27.6%	
Total Primary Surplus/Deficit	576.2	(706.8)	
<i>In % of total expenditures</i>	6.1%	-9.3%	

Source: Ministry of Finance, Byblos Research

Nearly 78% of startups in Lebanon have some form of involvement by owner's family members

The Global Entrepreneurship Monitor's 2019-2020 Family Entrepreneurship Report about the degree of involvement of family members and the type of their involvement in startups and mature businesses in 48 countries worldwide, shows that 77.8% of activity in startups in Lebanon, or what the survey calls total early-stage entrepreneurial activity (TEA), involves family members as co-managers and/or as co-owners.

The survey shows that family involvement in TEA in Lebanon is the 18th highest among 48 economies worldwide, and the third highest among 11 countries in the Middle East & African region, after Madagascar (95.4%) and Israel (80.8%). Family involvement in TEA in Lebanon exceeds the global average of 75%.

The TEA takes into account entrepreneurs who are actively engaged in starting a business or who are running a new business. The findings of the survey are based on the responses of 150,000 adults between the age of 18 and 64 years across 48 countries.

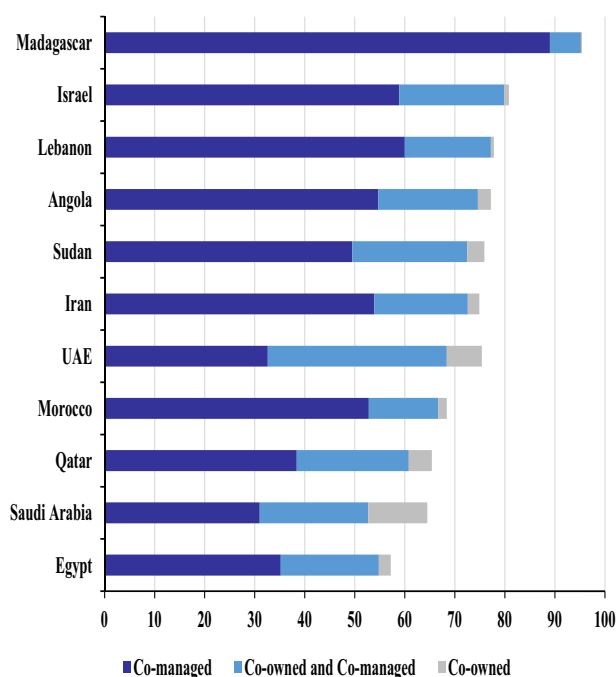
The results show that family involvement in startups in Lebanon was mostly in the form of co-management, which accounted for 60% of TEA in the country. In addition, family involvement through both co-management and co-ownership accounted for 17.2% of TEA in Lebanon, while family involvement in the form of co-ownership was marginal at 0.6% of TEA. It noted that the most common form of family involvement in Lebanese startups, which is co-management, is in line with global trends.

Further, the report shows that family involvement in co-managing and/or co-owning companies in Lebanon declines marginally as the business matures, but that it still exists in 69.7% of established firms. It defined established businesses as companies that have been operating for more than three and a half years. It noted that co-management is the dominant form of family involvement in established businesses in Lebanon, as it is prevalent in 53.5% of established firms, while co-management and co-ownership are present in 16.2% of mature businesses in the country. In comparison, family involvement exists in 81.3%, on average, of established firms in the 48 covered countries, with co-management present in 61.5% of matured businesses, followed by co-management and co-ownership (18.1% of firms), and co-ownership (1.7% of companies).

In parallel, the report indicates that 74.8% of the owners of established businesses and 55% of entrepreneurs in Lebanon stated that the majority of their employees are family members, compared to 62% of owners of mature businesses and 57% of startup owners in the 48 economies who said that the majority of their staff consists of family members. Moreover, only 0.8% of Lebanese startups with family involvement have more than five employees, constituting the third lowest share among the 48 economies, and compared to a global average of 7.8% of startups where family members are involved. In addition, 1.3% of family-established businesses in Lebanon have more than five employees, the second lowest share among the 48 economies, after Brazil (0.2%), and compared to an average of 20% globally.

In parallel, the report showed that 57.6% of family entrepreneurs and 41% of family-established businesses in Lebanon offer innovative products or services, relative to a global average of 41.6% of startups and 30.6% mature businesses that provide such product or services. It defined innovative products and services as those that are new to customers in the market. It pointed out that Lebanon was the only country in the Middle East & Africa region where more than 50% of entrepreneurs with family involvement had market innovations.

Type of Family Involvement in Startups in the Middle East & Africa



Source: Global Entrepreneurship Monitor; Byblos Research

Byblos Bank extends deadline for cash contributions to capital

Byblos Bank announced that it has extended until November 30, 2020 the period for the Bank's shareholders to participate in the cash contributions to capital (CCC). The Bank had previously invited common shareholders who are willing to participate in the CCC transaction to submit an application between September 21, 2020 and November 1, 2020. Byblos Bank intends to raise its Tier One Capital through cash contributions to capital by a maximum of \$270m. It noted that the cash contributions are perpetual and can be converted, in full or in part, into shares each year in the next five years, at a conversion rate of LBPI,210 per share. The Bank added that it could pay interest annually on the cash contributions.

Byblos Bank's capital increase is in line with Banque du Liban's (BdL) Intermediate Circular 567 dated August 26, 2020 that requested banks to increase their capital base by the equivalent of 20% of their Common Equity Tier One (CET1) as at the end of 2018. Byblos Bank's CET1 stood at \$1.3bn at the end of 2018. The aggregate CET1 of banks operating in Lebanon stood at \$18.7bn at the end of 2018, which means that banks should increase their capital by an aggregate of \$3.7bn by the end of 2020.

Stock market capitalization down 15% to \$6.4bn at end of October 2020

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 44,992,811 shares in the first 10 months of 2020, constituting a decline of 77.2% from 197,742,013 shares traded in the same period last year; while aggregate turnover amounted to \$201m, down by 77% from a turnover of \$873.4m in the first 10 months of 2019. The sharp decline in the volume and turnover during the first 10 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 \$6.4bn at the end of October 2020 and regressed by 17% from \$7.8bn at the end of 2019 and by 14.6% from \$7.5bn at end-October 2019, with banking stocks accounting for 54.8% of the total, followed by real estate equities (40.3%), industrial shares (4.4%), and trading firms' equities (0.5%). The market liquidity ratio was 3.1% in the covered period compared to 11.6% in the first 10 months of 2019.

Banking stocks accounted for 70.6% of the trading volume in the first 10 months of 2020, followed by real estate equities with 29%, industrial shares with 0.3%, and trading firms' equities with 0.1%. Also, real estate equities accounted for 74.7% of the aggregate value of shares traded, followed by banking stocks with 24.8%, industrial stocks with 0.5%, and trading firms' equities with 0.1%. The average daily traded volume for the period was 230,732 shares for an average daily amount of \$1.1m. The figures reflect a decrease of 78% in the average daily traded volume and a drop of 77.8% in the average amount in the first 10 months of the year. In parallel, the Capital Markets Authority's (CMA) Market Value-Weighted Index for stocks traded on the BSE rose by 159.4% in the first 10 months of 2020, while the CMA's Banks Market Value-Weighted Index regressed by 35.3% 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, given that the shares have market weights of 24.5% and 15.8%, respectively, at end-October 2020, the highest among listed companies on the BSE.

Import activity of top five shippers and freight forwarders down 49% in first eight 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 99,453 20-foot equivalent units (TEUs) in the first eight months of 2020, constituting a decrease of 48.5% from 193,064 TEUs in the same period of 2019. The five shipping and freight-forwarding firms accounted for 77.2% of imports to the Lebanese market for local use and for 40.2% of the total import freight market, which includes transshipments to other ports, in the covered period. Mediterranean Shipping Company (MSC) handled 32,874 TEUs in imports in the first eight months of 2020, or 13.3% of the total import freight market. Merit Shipping followed with 25,034 TEUs (10.1%), then MAERSK with 17,882 TEUs (7.2%), Gezairy Transport with 12,429 TEUs (5%) and Metz Group with 11,234 TEUs (4.5%). The five shipping and freight forwarding companies registered year-on-year decreases in import shipping in the first eight months of 2020, with MSC posting a decline of 57.3%, the steepest among the top five firms. The import shipping operations of the five firms through the port decreased by 31.7% in August 2020 from the preceding month, due to the August 4 explosion at the port, which led to its closure for more than a week.

In parallel, export-shipping operations by the top five shipping and freight-forwarding firms through the Port of Beirut reached 41,453 TEUs in the first eight months of 2020, constituting a decrease of 2.4% from 42,461 TEUs in the same period of 2019. The five shipping companies and freight forwarders accounted for 88.4% of exported Lebanese cargo and for 16.6% of the total export freight market that includes transshipments through Lebanese ports. Merit Shipping handled 21,980 TEUs of freight in the first eight months of 2020, equivalent to 47% of the Lebanese cargo export market. MAERSK followed with 8,736 TEUs (18.6%), then Sealine Group with 3,878 TEUs (8.3%), Metz Group with 3,733 TEUs (8%), and Tourism & Shipping Services with 3,126 TEUs (6.7%). MAERSK registered a year-on-year increase of 11% in export shipping in the first eight months of 2020, the highest growth rate among the top five shipping and freight forwarding companies; while Tourism & Shipping Services posted a drop of 29.5%, the steepest decline among the remaining top four firms. The export-shipping operations of the top five companies through the port declined by 25.4% in August 2020 from the previous month.



BLOM Bank to de-list GDSs from London and Luxembourg stock exchanges

BLOM Bank sal announced on October 23, 2020 that it has applied to de-list its Global Depository Shares (GDSs) from trading on the International Order Book of the London Stock Exchange effective from November 24, 2020.

It attributed its decision to the significant adverse impact on the bank of the severe deterioration of the financial, economic and fiscal conditions in Lebanon. It added that the resulting elevated uncertainties for the bank and its shareholders are "incompatible" with the maintenance of the listing of its GDSs on the International Order Book. In addition, it noted that the cost and administrative burden of maintaining the listing on the London Stock Exchange outweigh the benefits, given the low traded volume and the limited liquidity of the GDSs. Further, the bank indicated that it also intends to remove its GDSs from the EuroMTF market of the Luxembourg Stock Exchange, but pointed out that the GDSs and the shares underlying the GDSs will still be listed and traded on the Beirut Stock Exchange. Also, it indicated that it is not terminating its Global Deposit Receipts Program, which means that the GDRs will remain outstanding following their de-listing from the London and Luxembourg stock markets.

BLOM Bank is the third Lebanese bank to de-list its shares from the London Stock Exchange, after Byblos Bank and Bank Audi. The bank currently has 215,000,000 common shares and 73,896,010 GDRs listed on the Beirut Stock Exchange.

Bank of Beirut's posts net profits of \$13m in first nine months of 2020

Bank of Beirut sal, one of six listed banks in Lebanon, announced unaudited consolidated net profits of \$12.9m in the first nine months of 2020, compared to net earnings of \$118m in the same period of 2019. The bank's net operating income dropped by 40% year-on-year to \$184.5m in the first nine months of 2020, mainly due to a rise in losses on financial investments from \$0.7m in the first nine months of 2019 to \$329m in the covered period of 2020. Net interest income amounted to \$282m in the first nine months of 2020 and increased by 39% year-on-year, while net fees and commission totaled \$26m and declined by 67.7% from the same period last year. Also, total operating expenditures regressed by 5.3% to \$155.7m in the first nine months of 2020, with staff expenses declining by 2.2% to \$88.7m, and administrative & other operating expenditures decreasing by 12.8% to \$53m.

In parallel, the bank's total assets reached \$14.1bn at the end of September 2020 and declined by 13.4% from end-2019, while loans & advances to customers, excluding those to related parties, decreased by 18% from end-2019 to \$4.04bn. Also, customer deposits, excluding those from related parties, totaled \$10.8bn at the end of September and regressed by 10.5% from end-2019. Deposits from related parties stood at \$180.6m and decreased by 32.3% in the first nine months of 2020, while net loans & advances to related parties reached \$15.7m at end-September and declined by 61.8% in the same period of the year. Further, the bank's equity reached \$1.6bn at the end of September and increased by 2.4% from the end of 2019.

Arope's net income up 9% to \$22m in 2019

Arope Insurance sal announced audited net profits of \$21.7m in 2019, constituting an increase of 9% from \$19.9m in 2018. The company's audited balance sheet shows total assets of \$422.3m at the end of 2019 relative to \$406m at end-2018. On the assets side, general company investments reached \$330.6m at the end of 2019 and grew by 8.8% from \$304m a year earlier. They included \$194.3m in cash & cash equivalents, \$24.2m investments in subsidiaries and associates, \$10.2m in fixed income investments and \$2.8m in investment funds. Also, blocked bank deposits and deposits with maturity of more than three months stood at \$97.5m, of which \$0.6m, or 0.6%, were blocked in favor of the Ministry of Economy & Trade as guarantees. Further, the reinsurance share in technical reserves for the life category decreased by 79% to \$1.3m, while the reinsurance share for the non-life category increased by 21.8% to \$16.9m in 2019.

On the liabilities side, technical reserves for the life segment increased by 7% to \$126.2m at end-2019, while technical reserves for the non-life category reached \$77.2m and decreased by 10% from the preceding year. Non-life technical reserves included unearned premium reserves of \$49.8m that dropped by 19.4% in 2019, and outstanding claims' reserves of \$21m that expanded by 13.5% year-on-year. Provisions for risks and charges amounted to \$16.3m in 2019 and increased by 86.2% from a year earlier. Also, the firm's shareholders' equity was \$161.6m at the end of 2019 and grew by 7.8% from end-2018.

Figures released by the Insurance Control Commission show that Arope Insurance ranked in fifth and ninth places in 2019 in terms of life and non-life premiums, respectively. The firm's non-life premiums totaled \$51m in 2019 and dropped by 15.4% from the previous year, while life premiums were nearly unchanged at \$32.6m last year. Arope Insurance had a 7.7% share of the life market and a 4.5% share of the local non-life market in 2019. It ranked in eighth place in terms of life and non-life premiums in 2019, with a 5.4% market share.

Twelve Lebanese universities among top 160 universities in Arab world

The QS University Rankings for 2021 included 12 Lebanese universities among 160 ranked universities in the Arab region. The American University of Beirut (AUB) was the highest ranked institution in Lebanon and the second highest in the Arab world, with an overall score of 97.2 points out of a maximum of 100 points. The Lebanese American University (LAU) followed in 14th place (69.3 points), then Université Saint-Joseph de Beyrouth (USJ) in 19th place (62.4 points), the Lebanese University in 21st place (61.8 points), the University of Balamand in 26th place (52.3 points), Notre Dame University (NDU) in 27th place (50 points), the Holy Spirit University of Kaslik (USEK) in 30th place (49.4 points), and the Beirut Arab University in 50th place (38.8 points). Also, the survey ranked the Islamic University of Lebanon (IUL) in the 51-60 range, Université Antonine (UA) in the 101-110 range, the American University of Science & Technology (AUST) in the 111-120 range and the Rafik Hariri University (RHU) in the 131-160 range.

The ranking of the University of Balamand improved by 10 spots year-on-year, the largest increase among ranked universities in Lebanon, while the rank of Lebanese University increased by four spots, and the rankings of LAU and of NDU improved by one spot each from 2020. In contrast, the rankings of USJ and of the Beirut Arab University deteriorated by one and two spots, respectively, from 2020. In parallel, the rankings of AUB and USEK were unchanged from last year. Also, the rank of Université Antonine improved year-on-year from the 121-130 range, while the ranking of AUST regressed from the 91-100 range last year. The Islamic University of Lebanon and Rafik Hariri University were not included in the QS University Rankings of 2020.

Saudi Arabia and the UAE accounted each for three of the top 10 universities in the Arab world; while Jordan, Lebanon, Oman and Qatar had one university each among the top 10. The rankings are based on a weighted average of 10 factors that are academic reputation with a 30% weight, followed by employer reputation with 20%, faculty-to-student ratio (15%), international research network (10%), papers per faculty (5%), citations per paper (5%), proportion of staff with PhDs (5%), and web impact (5%), as well as the ratio of international faculty to the total number of faculty members and the ratio of international students to the overall number of students (2.5% each). The QS University Rankings are compiled by Quacquarelli Symonds Limited, a company specializing in education and study abroad. QS assessed 160 institutions from 16 Arab countries.

Outlook on CMA CGM ratings revised to 'positive' on improved operating performance

Moody's Investors Service affirmed at 'B2' the corporate family rating of the Lebanese-owned and France-based container-shipping firm CMA CGM, as well as its probability of default rating at 'B2-PD', and its senior unsecured bond ratings at 'Caa1'. It also revised the outlook on all the ratings from 'negative' to 'positive'.

It attributed the outlook revision to the firm's strong operating performance, improving credit metrics and liquidity profile, as well as to a decline in its refinancing risks. It said that the company has strengthened significantly its liquidity profile amid good market fundamentals, which translated into very high profitability and positive free cash flow generation in the first half of 2020. It added that the shipping firm secured a €1.05bn syndicated loan that is 70% guaranteed by the French state, which reflects the latter's support to the company. It noted that loan helped improve the firm's liquidity profile.

The agency considered that the container shipping market has performed very strongly during the COVID-19 pandemic, as all carriers have adjusted their capacity to the decline in demand during the first half of 2020. It noted that carriers recorded double-digit growth rates in their earnings before interest, taxes, depreciation and amortization, due to an increase in shipping volumes and lower bunker prices amid subdued oil prices. Further, it expected the performance of the container shipping market to improve in the second half of 2020 and to be stable in 2021.

However, Moody's considered that CMA CGM's credit profile is constrained by the operating performance of its key subsidiary CEVA Logistics AG. It noted that the firm has injected a total of \$730m in the equity of CEVA Logistics, of which \$521m were in the form of cash that could have been used instead to improve CMA CGM's own liquidity.

It indicated that downside risks to the outlook persist, and include a larger second wave of the coronavirus outbreak or an increase in trade tensions between the U.S. and China.



Ratio Highlights

(in % unless specified)	2017	2018	2019	Change*
Nominal GDP (\$bn)	53.1	55.0	51.3	(3.70)
Public Debt in Foreign Currency / GDP	57.2	60.9	65.8	4.89
Public Debt in Local Currency / GDP	92.5	93.9	112.9	18.96
Gross Public Debt / GDP	149.7	154.8	178.6	23.85
Total Gross External Debt / GDP**	190.3	192.8	196.3	3.50
Trade Balance / GDP	(31.5)	(31.0)	(30.2)	0.73
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	256.9	262.2	5.29
Commercial Banks Assets / GDP	413.7	453.6	422.6	(31.04)***
Private Sector Deposits / GDP	317.4	316.9	309.7	(7.21)
Private Sector Loans / GDP	112.3	108.0	97.0	(10.96)
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 incorporates 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, International Monetary Fund, 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)	82.9	80.8	127.6
Nominal GDP (US\$ bn)	55.0	51.3	30.4
Real GDP growth, % change	-1.9	-6.8	-26.6
Private consumption	-1.3	-7.3	-25.3
Public consumption	6.7	-43.6	-45.2
Gross fixed capital	-1.8	-11.3	-41.1
Exports of goods and services	0.5	-4.0	-35.3
Imports of goods and services	1.1	-4.9	-39.3
Consumer prices, %, average	6.1	2.9	91.3
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	5,662
Weighted average exchange rate LBP/US\$	1,507.5	1,575	4,201

Source: Institute of International Finance- October 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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