

LEBANON THIS WEEK

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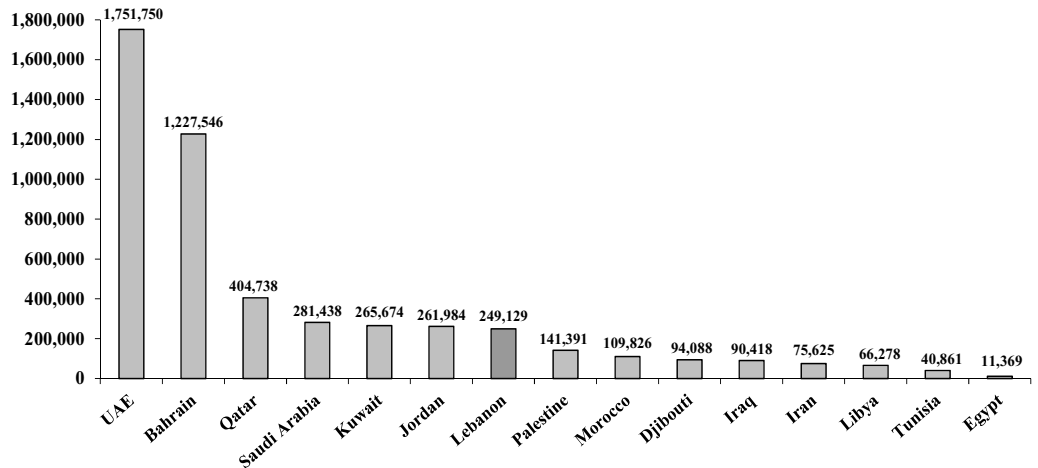
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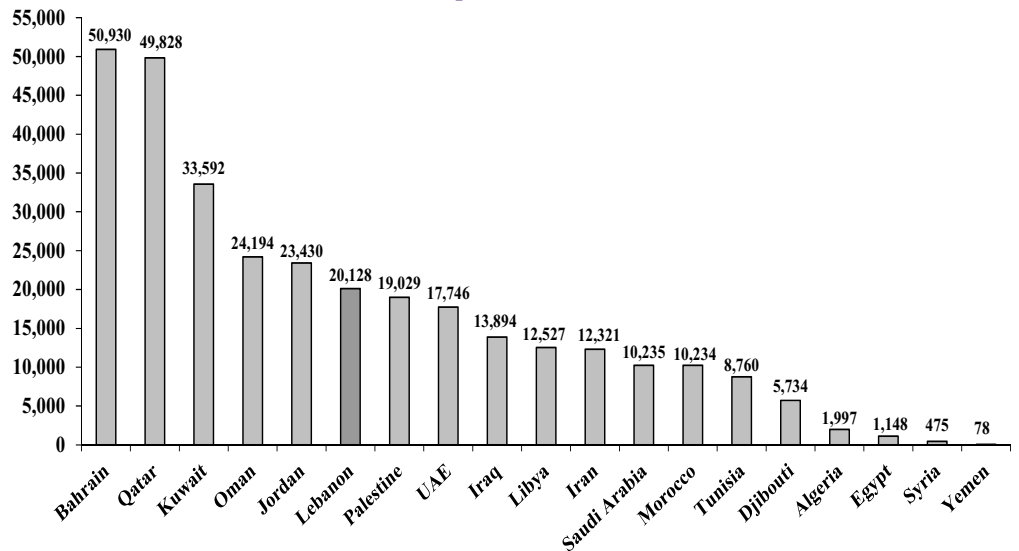
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Charts of the Week

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



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



*as of December 6, 2020

Source: World Bank Group, Byblos Bank

Quote to Note

"Implement Law 462 without amendments to establish and staff the Electricity Regulatory Authority, and ensure transparency in public procurement in the electricity sector."

The World Bank, the United Nations and the European Union, on two key demands by the international community to unlock financial support for Lebanon

Number of the Week

4: Number of months that Lebanon has spent without a functioning government

Lebanon in the News

\$m (unless otherwise mentioned)	2019	Jan-Sep 2019	Jan-Sep 2020	% Change*	Sep-19	Aug-20	Sep-20
Exports**	3,731	2,464	2,261	(8.3)	342	274	-
Imports**	19,239	13,839	6,923	(50.0)	1,466	799	-
Trade Balance**	(15,508)	(11,374)	(4,663)	(59.0)	(1,124)	(525)	-
Balance of Payments	(5,851)	(5,955)	(9,608)	61.3	(59)	(1,968)	(2,108)
Checks Cleared in LBP	22,146	16,133	14,456	(10.4)	2,060	1,433	1,645
Checks Cleared in FC	34,827	26,265	26,211	(0.2)	2,940	2,411	2,949
Total Checks Cleared	56,973	42,407	40,675	(4.1)	5,000	3,844	4,594
Fiscal Deficit/Surplus**	(5,837)	(2,952)	(2,535)	(14.1)	(542)	(436)	-
Primary Balance**	(287)	368	(1,136)	-	(208)	(430)	-
Airport Passengers	8,684,937	7,040,341	1,756,664	(75.0)	818,339	200,368	199,391
Consumer Price Index (%)	2.9	2.6	66.2	6360	1.1	120	131

\$bn (unless otherwise mentioned)	Dec-19	Sep-19	Jun-20	Jul-20	Aug-20	Sep-20	% Change*
BdL FX Reserves	29.55	29.30	25.87	23.56	22.76	20.00	(31.7)
In months of Imports	21.95	19.48	30.30	25.55	28.48	-	-
Public Debt	91.64	86.79	93.40	93.70	94.27	94.81	9.2
Bank Assets	216.78***	262.20	201.09	198.08	195.71	192.57	(26.6)
Bank Deposits (Private Sector)	158.86	170.30	144.50	143.30	143.04	142.18	(16.5)
Bank Loans to Private Sector	49.77	54.50	41.42	40.30	39.64	38.60	(29.2)
Money Supply M2	42.11	46.73	39.02	39.25	40.21	40.94	(12.4)
Money Supply M3	134.55	138.83	129.51	129.48	130.53	130.92	(5.7)
LBP Lending Rate (%)	9.09	10.92	6.84	7.15	7.14	7.89	(303)
LBP Deposit Rate (%)	7.36	9.13	4.16	3.76	3.47	3.35	(578)
USD Lending Rate (%)	10.84	10.26	7.49	7.42	7.54	7.54	(272)
USD Deposit Rate (%)	4.62	6.57	1.64	1.49	1.28	1.15	(542)

*year-on-year **figures for the period reflect the first eight months 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	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Audi Listed	1.21	10.0	466,604	11.4%	Apr 2021	8.25	14.00	1,890.1
BLOM Listed	1.80	(10.0)	219,102	6.2%	Oct 2022	6.10	13.75	146.8
Solidere "A"	16.11	0.9	182,012	25.7%	Jan 2023	6.00	13.63	120.3
Audi GDR	1.16	5.5	126,557	2.2%	Jun 2025	6.25	13.50	49.9
BLOM GDR	2.03	1.5	87,712	2.4%	Nov 2026	6.60	13.38	36.8
Byblos Common	0.52	0.0	54,007	4.7%	Feb 2030	6.65	13.38	23.1
Solidere "B"	16.47	4.6	42,885	17.1%	Apr 2031	7.00	13.50	20.3
HOLCIM	13.10	0.4	1,546	4.1%	May 2033	8.20	13.00	17.1
Byblos Pref. 09	40.00	(18.1)	1,456	1.3%	Nov 2035	7.05	13.50	13.9
Byblos Pref. 08	40.00	0.0	281	1.3%	Mar 2037	7.25	13.38	12.8

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

Source: Refinitiv

	Dec 7-11	Nov 30-Dec 4	% Change	Nov 2020	Nov 2019	% Change
Total shares traded	1,190,462	921,344	29.2	1,428,230	321,620	344
Total value traded	\$5,087,784	\$8,948,295	(43.1)	\$12,541,379	\$3,555,692	253
Market capitalization	\$6.26bn	\$6.18bn	1.3	\$6.14bn	\$7.54bn	(18.6)

Source: Beirut Stock Exchange (BSE)



Lebanon ranks 76th globally, eighth among Arab countries on Knowledge Index

The 2020 Global Knowledge Index (GKI) ranked Lebanon in 76th place among 138 countries around the world and in eighth place among 14 Arab countries. Lebanon also came in 19th place among 34 upper middle-income countries (UMICs) included in the survey. Based on the same set of countries included in the 2019 and 2020 surveys, Lebanon's global rank improved by five spots from 81st place in the 2019 survey, while its regional rank rose by one notch year-on-year. The GKI is a joint initiative between the United Nations Development Program and the Dubai-based Mohammed Bin Rashid Al Maktoum Knowledge Foundation.

The index measures the multidimensional concept of knowledge, and aims to provide a comprehensive approach to "knowledge-based development". It is composed of seven sub-indices that are Pre-University Education (15%); Technical Vocational Education & Training (15%); Higher Education (15%); Research, Development & Innovation (15%); Information & Communications Technology (15%); the Economy (15%); and the General Enabling Environment (10%). The index aims to guide policymakers and the private sector in fostering a development process that seeks to equip individuals with the necessary skills for the labor market of the future. It rates the knowledge level in each country on a scale from zero to 100, with a score of 100 reflecting the most knowledgeable economy.

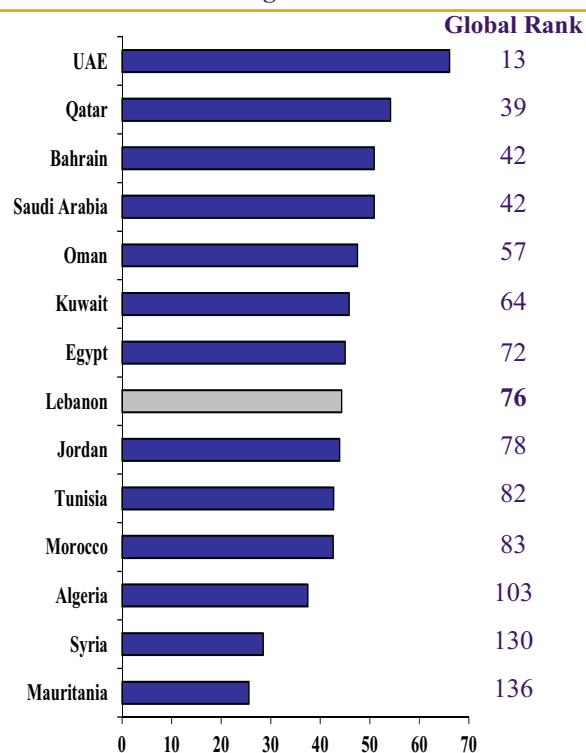
Globally, the knowledge level in Lebanon is better than the knowledge level in Panama, Moldova and Jordan, and lower than the level of knowledge in Colombia, North Macedonia and India. Also, Lebanon ranked ahead of Jordan and Iran, while it trailed Colombia and North Macedonia among UMICs. Lebanon received a score of 44.3 points in 2020 compared to 42.6 points in the 2019 survey. Lebanon's score was lower than the global average score of 46.7 points, the UMICs' average score of 44.8 points, and the Arab region's average score of 44.7 points.

Lebanon ranked ahead of Zimbabwe and Albania, and came behind Pakistan and Azerbaijan on the Higher Education Sub-Index. This category measures the level of education among the youth, as well as the development of their qualifications, knowledge and skills, in order to improve a country's productivity and competitiveness in global markets. Lebanon ranked ahead of Albania and Thailand, while it trailed China and Azerbaijan among UMICs. Regionally, it came ahead of Oman, Syria and Mauritania.

Also, Lebanon ranked ahead of Algeria and Pakistan, and came behind Kyrgyzstan and Botswana on the Information & Communications Technology (ICT) Sub-Index. This category assesses how ICT supports the advancement of knowledge across all sectors based on ICT inputs and outputs. Lebanon ranked ahead of Belize and Venezuela among UMICs; while it came ahead of Algeria, Syria and Mauritania among Arab countries.

Further, Lebanon preceded Serbia and Guyana, and trailed Mongolia and Barbados on the Research, Development & Innovation (RDI) Sub-Index. This category assesses how RDI contributes to increasing knowledge at the national and regional levels based on research and development, innovation in production, as well as on social innovation. Lebanon ranked ahead of Guyana and Jordan, and came behind Albania and Serbia among UMICs; while it trailed the UAE, Saudi Arabia, Qatar and Oman in the Arab region.

**Global Knowledge Index for 2020
Scores & Rankings of MENA Countries**



Source: Knowledge4all, Byblos Research

Components of the 2020 Global Knowledge Index for Lebanon

	Global Rank	MENA Rank	UMICs Rank	Lebanon Score	Global Avg Score	MENA Avg Score	UMICs Avg Score
Pre-University Education	66	4	13	61.8	58.0	54.0	58.7
The Economy	69	10	15	41.2	42.7	43.9	40.5
General Enabling Environment	111	11	33	48.2	59.9	54.4	58.2
Higher Education	75	10	19	38.6	40.3	40.8	38.3
Technical & Vocational Education and Training	21	3	3	62.2	50.8	49.8	48.3
Research, Development & Innovation	68	5	15	21.0	26.0	20.6	21.4
Information & Communications Technology	105	11	32	38.3	53.8	52.5	52.4

Source: Knowledge4all, Byblos Research

Lebanon could reach agreement with IMF in early 2021

Citi Research indicated that the sustained deterioration in Lebanon's economic conditions did not create a sense of urgency among the country's political leaders to form a government and reach an agreement with the International Monetary Fund over a funded program, before the depletion of Banque du Liban's (BdL) usable reserves. It said that BdL has about \$20bn in foreign currency reserves, but it noted that its usable reserves are reportedly less than \$2bn. It added that the inflation rate exceeded 130% and could rise further in case BdL is forced to suspend subsidizing imports of basic necessities at the official exchange rate.

It pointed out that its baseline scenario assumes that Lebanon will reach an agreement with the IMF in early 2021. It noted that the probability of reaching such an agreement is not necessarily higher than a scenario where BdL runs out of reserves and the economy feels the latter's impact. But Citi said that it used the more optimistic scenario for its forecasts. Under its baseline scenario, it projected Lebanon's real GDP to grow by 4.8% in 2021 and by 5.4% in 2022, following an estimated contraction of 28.3% in 2020.

It anticipated Lebanon's public debt level to increase in the short term due to the contraction in economic activity, the depreciation of the exchange rate and the foreign borrowing from the IMF and other external sources, following a deal with the Fund. However, it expected the debt level to start to fall sharply afterwards, as the elevated inflation rate that will result from the depreciation of the Lebanese pound will erode the value of the public debt denominated in local currency and push the effective real interest rate deeply into negative territory. It noted that its baseline scenario assumes a 70% haircut on Eurobonds and a 20% haircut on debt in local currency. It considered that the haircuts on the debt stock, as well as the gradual privatization of state-owned enterprises, would further reduce the debt burden. It estimated that, under this scenario, the public debt level could reach 110% of GDP by 2025.

Further, it anticipated that the unification of the multiple exchange rates and the end of BdL's financing of the fiscal deficit would eventually help reduce the inflation rate, which is crucial to lowering borrowing rates to an affordable level.

Beirut Port explosion exacerbates deteriorating socioeconomic conditions

The United Nations Development Programme (UNDP) conducted a rapid assessment to examine the socioeconomic impact of the August 4 explosion at the Port of Beirut on households, business owners and on the workforce in the affected areas. It said that it outsourced the field work and assessment to the Consultation and Research Institute (CRI), which conducted interviews with households, business owners, employees, and civil society organizations, among others, between August 14 and August 16, 2020. The CRI noted that, in order to better determine the socioeconomic conditions of the victims, their needs and the State's capacity to support them, it had to take into account the challenges that local residents have been facing prior to the blast due to the "structural dysfunction of the political system", the economic downturn and the coronavirus crisis. It added that the social cost of the economic crisis in the country is significant given underdeveloped and underfinanced social safety system.

The assessment found that the explosion exacerbated the deterioration in socioeconomic conditions of the people living in the affected areas. It said that, along with the physical destruction, residents were left with healthcare bills to treat their injuries, and some victims even lost their jobs due to their temporary incapacity to work. In addition, it pointed out that some persons have faced temporary displacement, or even the permanent loss of their home, due to their inability to afford the cost of restoration given the current economic and financial conditions. It added that some landlords in the affected areas have delayed restoration works to force tenants who are benefiting from low rent to relocate elsewhere. As a result, it noted that some persons have resorted to selling their assets or borrowing money from relatives to rehabilitate their homes, amid uncertainties about insurance coverage. It said that households in the surveyed areas were in need at the time of the survey of direct cash assistance for restoration works in order to make their homes safe and livable again before winter. It added that people need support to pay schooling fees, job opportunities, and psycho-social support in the medium term.

Moreover, the results of the survey showed that the explosion forced the majority of businesses in the affected areas, which were already facing economic challenges, to shut down due to destruction and the loss of equipment and supplies, and, as a result, lost their source of income. The survey said that most business owners had to lay off part of their staff as they were unable to pay their salaries. It added that, similarly to households, businesses have also faced a high likelihood of eviction. It found that a share of business owners primarily needs cash assistance to rehabilitate and revive their businesses. In parallel, the assessment considered that some of the employed people in the affected areas have not received their salaries and have become increasingly concerned about losing their jobs following the explosion.

The assessment indicated that the recovery process should be based on a "participatory approach" and has to be "neighborhood-centered" in order to preserve the cultural characteristics and uniqueness of the affected areas. It said that the government alone does not have the means to achieve recovery, which is why the participation of citizens and the private sector is also needed. However, it noted that the government should try to gain the trust of the people and implement the reforms that it promised to put in place. It stressed that the recovery process should also be an opportunity to address the "structural dysfunction and durable inequalities" in Lebanon, instead of providing only short-term relief.

Lebanon has seventh highest branch penetration rate world-wide, 12th highest ATM penetration rate at end-2019

Figures issued by the International Monetary Fund show that there were 108 branches of commercial banks per 1,000 square kilometers in Lebanon at the end of 2019, compared to 110.4 branches per 1,000 square kilometers at end-2018 and to 91.7 branches per 1,000 square kilometers at the end of 2009. As such, Lebanon had the seventh highest branch penetration rate among 143 countries and jurisdictions world-wide at the end of 2019, the second highest penetration rate among 40 upper middle-income countries (UMICs) and the highest rate among 11 Arab countries. Globally, Lebanon had a lower penetration rate than only Macao, Hong Kong, Singapore, Malta and Luxembourg among economies with a GDP of \$10bn or more; while it had the highest rate among UMICs with a GDP of \$10bn or more. Lebanon's branch penetration rate at the end of 2019 was higher than the global rate of 86.4 branches per 1,000 square kilometers, and significantly higher than the UMICs' rate of 20.4 branches per 1,000 square kilometers, and the Arab countries' rate of 23.6 branches per 1,000 square kilometers.

Further, there were 21.7 bank branches per 100,000 adults in Lebanon at the end of 2019, relative to 22.3 branches at end-2018 and to 26.5 branches per 100,000 adults at end-2009. As such, Lebanon had the 41st highest branch penetration rate globally, the 11th highest among UMICs and the second highest among Arab countries. Lebanon's branch penetration rate was higher than the global rate of 17.1 branches per 100,000 adults, the UMICs' penetration rate of 17.4 branches per 100,000 adults, and the Arab rate of 12.9 branches per 100,000 adults.

In parallel, there were 195.8 automated teller machines (ATMs) per 1,000 square kilometers in Lebanon at the end of 2019 compared to 195.3 ATMs per 1,000 square kilometers at end-2018 and to 118 ATMs per 1,000 square kilometers at end-2009. The ATM penetration rate in Lebanon ranks the country in 12th place among 152 countries and jurisdictions worldwide, in second place among 42 UMICs and in first place among 13 Arab countries. Globally, Lebanon had a higher ATM penetration rate than Switzerland, the Netherlands and Portugal, and a lower rate than the United Kingdom, Luxembourg and Mauritius among economies with a GDP of \$10bn or more. It also had the highest penetration rate among UMICs with a GDP of \$10bn or more. Lebanon's ATM penetration rate was lower than the global average penetration rate of 526 ATMs per 1,000 square kilometers, but was significantly higher than the UMICs' rate of 52.4 ATMs per 1,000 square kilometers and the Arab region's rate of 65 ATMs per 1,000 square kilometers.

Further, there were 39.25 ATMs per 100,000 adults in Lebanon at the end of 2019 relative to 39.47 ATMs per 100,000 adults at end-2018 and to 34.1 ATMs per 100,000 adults at end-2009. The ATM penetration rate ranks Lebanon in 83rd place globally, in 30th place among UMICs and in fifth place among Arab countries. Lebanon had a lower penetration rate in this category than the global rate of 55.2 ATMs per 100,000 adults and the UMICs' average rate of 57.9 ATMs per 100,000 adults, while it had a higher rate than the Arab penetration rate of 39.3 ATMs per 100,000 adults.

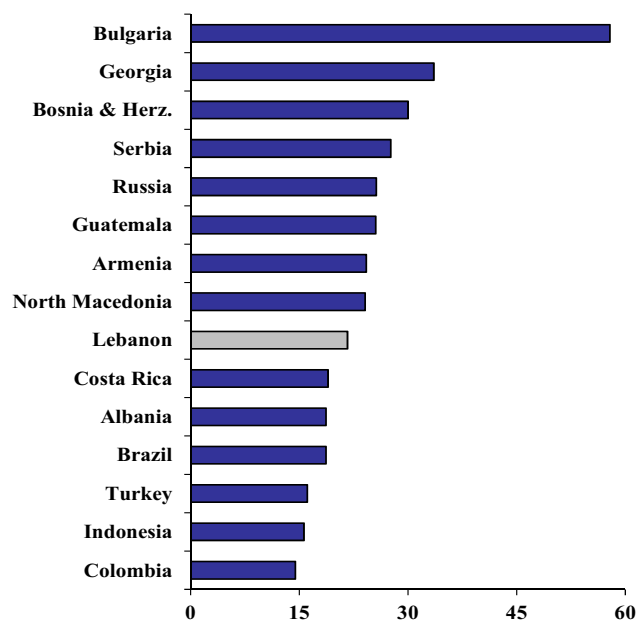
Banque du Liban cancels limit on banks' loans-to-deposits ratio in Lebanese pounds

Banque du Liban (BdL) issued Intermediate Circular 577 on December 9, 2020 that amends Basic Circular 81 dated February 21, 2001 about the operations of financial institutions that are related to credit, investment, shareholding and participation. It specifically cancels the clause that asks banks to comply with the ceiling of 25% on their loans-to-deposits ratio in Lebanese pounds starting in 2021.

In August 2018, BdL issued Intermediate Circular 503 that introduced the ceiling of 25% on the loans-to-deposits ratio in local currency, and gave banks until the end of 2019 to comply with the new measure. At the time, the circular imposed a fine on non-compliant banks. Specifically, it noted that banks that exceed the 25% limit should deposit at BdL at a zero percent interest rate the equivalent of the amount that breaches the ceiling until they settle their position. In November 2019, BdL issued Intermediate Circular 534 that extended from the end of 2019 to end-2020 the deadline for banks to comply with the ceiling. It added that banks that were unable at the time to meet the new deadline had to inform BdL before the end of 2020.

Loans extended in Lebanese pounds to the private sector reached the equivalent of \$14.8bn at the end of October 2020, and declined by 5% from end-2019 and by 7.7% from a year earlier, while deposits in Lebanese pounds reached the equivalent of \$27.9bn at end-October 2020, and regressed by 26.8% from the end of 2019 and by 37.7% from the end of October 2019. In nominal terms, loans in local currency decreased by \$1.9bn in the 12 months ending October 2020, while deposits in the same currency dropped by \$25.4bn in the same period. As such, the ratio of private sector loans to deposits in Lebanese pounds reached 53% at end-October 2020 relative to 41% at the end of 2019, and compared to a ratio of 35.8% at end-October 2019 and at the end of August 2018.

Branch Penetration Rate at End-2019*
(Number of branches per 100,000 adults)



*Top 15 upper middle-income countries, excluding economies with a GDP of less than \$10bn

Source: International Monetary Fund, Byblos Research

Banque du Liban issues implementation mechanism for law about expenses of Lebanese students abroad

Banque du Liban (BdL) issued on December 9, 2020 Basic Circular 155 about the implementation of Law 193 dated October 16, 2020, which addresses bank transfers to cover the expenses of Lebanese students at universities abroad. The law allows the transfer of up to \$10,000 for the students who have been enrolled in a foreign academic institution prior to the academic year 2020-21. It stipulated that the transfers can be made from the accounts of the students, their parents or their guardians at banks in Lebanon, or can be executed even if the sender does not have a bank account. Students who are eligible to benefit from the law can use existing accounts in US dollars at Lebanese banks, or convert from Lebanese pounds the equivalent of up to \$10,000 based on the official exchange rate of LBP1,515 per US dollar and transfer them abroad.

The circular indicated that banks have to start receiving the applications from the concerned parties, and need to source the foreign currency to execute the foreign transfers for eligible students from their accounts at correspondent banks. It noted that banks need to establish a centralized database at the Association of Banks in Lebanon (ABL) about the transfers for students abroad, in order to verify that the transfers are not duplicated or repeated through several banks or accounts. It added that the ABL will have the sole responsibility to verify such information.

Further, it pointed out that each bank needs to have the signed consent of the client executing the transfer to lift the banking secrecy on the transfer operation, in order to allow access to information through the centralized database.

In parallel, the ABL has started to take measures to establish a centralized database for information related to the involved parties in the transaction, in application of the circular.

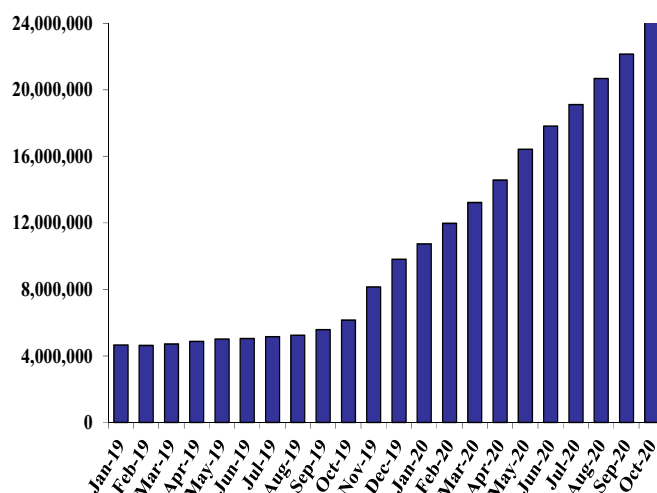
Broad money supply down 2.5% in first 10 months of 2020, currency in circulation up 147%

Figures released by Banque du Liban show that money supply M1, which includes currency in circulation and demand deposits in Lebanese pounds, reached LBP34,932bn at the end of October 2020, constituting an increase of 110.2% from LBP16,620bn at the end of 2019 and a rise of 176% from LBP12,657bn at end-October 2019. Currency in circulation stood at LBP24,251bn at the end of October 2020, and grew by 147% from LBP9,818bn at end-2019 and by 294% from LBP6,155bn at end-October 2019. Also, demand deposits in local currency stood at LBP10,681bn at the end of October 2020, and expanded by 57% from end-2019 and by 64.3% from end-October 2019. Money supply M1 rose by 7% in October from LBP32,655bn at end-September 2020, with currency in circulation growing by 9.6% and demand deposits in local currency expanding by 1.5% month-on-month. The increase in money supply largely reflects the migration of term deposits to demand deposits, as well as the shift to a cash-based economy.

In addition, money supply M2, which includes M1 and term deposits in Lebanese pounds, reached LBP63,410bn at the end of October 2020, nearly unchanged from LBP63,484bn at the end of 2019 and constituting a decline of 8.1% from LBP69,005bn a year earlier. Term deposits in Lebanese pounds totaled LBP28,478bn at the end of October 2020, and declined by 39.2% from LBP46,864bn at end-2019 and by 49.5% from LBP56,348bn at end-October 2019. Money supply M2 grew by 2.7% in October from LBP61,723bn at end-September 2020, with term deposits in local currency declining by 2% month-on-month.

Further, broad money supply M3, which includes M2, deposits in foreign currency and debt securities issued by the banking sector, reached LBP197,791bn at the end of October 2020, constituting a decrease of 2.5% from LBP202,831bn at the end of 2019 and a decline of 5.2% from LBP208,590bn at end-October 2019. Deposits in foreign currency totaled LBP133,869bn at the end of October 2020, regressing by 3.6% from end-2019 and by 3.8% from a year earlier. Also, debt securities issued by the banking sector amounted to LBP512bn at the end of October 2020, compared to LBP437bn at the end of 2019 and to LBP438bn at end-October 2019. Money supply M3 grew by a marginal 0.2% from LBP197,367bn at the end of September 2020, with deposits in foreign currency regressing by 1% and debt securities issued by the banking sector rising by 1% month-on-month. In parallel, M3 regressed by LBP5,040bn in the first 10 months of 2020, due to a drop of LBP16,408bn in claims on the private sector, a decline of LBP11,293bn in net claims on the public sector and a decrease of LBP9,998bn in the net foreign assets of deposit-taking institutions, which were partly offset by a rise of LBP32,659bn in other net items.

Currency in Circulation (LBP Millions)



Source: Banque du Liban, Byblos Research

Utilized credits by private sector at \$49bn at end-June 2020, advances against real estate at 47.5% of total

Figures issued by Banque du Liban show that utilized credits by the private sector totaled \$48.8bn at the end of June 2020, constituting a decline of \$10.8bn, or 18% from \$59.6bn at end-2019 and a decrease of \$17.3bn (-26.2%) from \$66.1bn at end-June 2019. The drop in lending to the private sector is mostly due to clients' decision to settle their loans prior to maturity, to limited demand for new loans amid political and economic uncertainties, and to lenders' risk aversion amid the challenging conditions in the country. The figures cover loans extended by commercial banks and financial institutions.

Utilized personal credits reached \$17.3bn and accounted for 35.5% of the total at the end of June 2020, followed by credit for trade & services with \$15bn (30.6%), construction with \$7.5bn (15.4%), industry with \$5bn (10.1%), financial intermediaries with \$2.1bn (4.2%), and agriculture with \$632.3m (1.3%), while other sectors represented the remaining \$1.4bn (2.8%).

The distribution of utilized credits by type of collateral shows that advances against real estate totaled \$23.2bn and accounted for 47.5% of private sector utilized credits at the end of June 2020. Advances against personal guarantees followed with \$7.6bn (15.6%), then advances against cash collateral or bank guarantees with \$2.8bn (5.8%), advances against other real guarantees with \$1.2bn (2.4%), and advances against financial values with \$883.1m (1.8%), while overdrafts totaled \$13.2bn or 27% of the total.

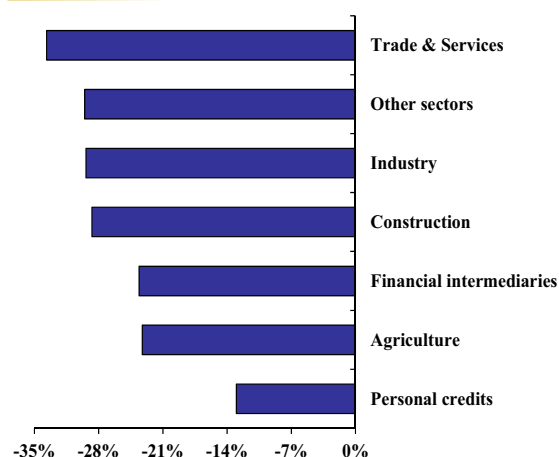
Also, the distribution of utilized credits in trade & services shows that wholesale trade accounted for 48% of overall trade & services credits, followed by retail with 16.8%; real estate, rent & employment services with 13.8%; hotels & restaurants with 9%; transport & storage with 7.5%; and educational services with 4.8%.

Further, utilized credits for trade & services and for construction declined by 24% each in the first half of 2020, followed by utilized credits for industry (-23.2%), for financial intermediaries (-16.8%), agriculture (-16%), and for personal credits (-7.3%) that include mortgages (-7.5%), while utilized credits for other sectors decreased by nearly 20% from the end of 2019. Personal loans beneficiaries represented 85.5% of total loan beneficiaries, followed by trade & services with 10.5% of beneficiaries, industry with 2.8%, construction with 1.4%, agriculture with 1.1% and financial intermediaries with 0.5%, while other sectors attracted the remaining 3.7% of loan beneficiaries.

The aggregate number of loan beneficiaries declined by 12.5% from the end of 2019 to 504,529 at end-June 2020; while 65.2% of beneficiaries had loans ranging from LBP5m to LBP100m at the end of June 2020. Beirut and its suburbs accounted for 73.2% of bank credits and for 53% of beneficiaries. Mount Lebanon followed with 13.5% of credits and 18% of beneficiaries, then North Lebanon with 5% of credits and 11.5% of beneficiaries, South Lebanon with 4.7% of credits and 10.4% of beneficiaries, and the Bekaa region with 3.6% of credits and 7.1% of beneficiaries.

In parallel, the off-balance sheet liabilities of banks and financial institutions totaled \$95.7bn at the end of June 2020, constituting declines of 9.3% from end-2019 and of 13.3% from the end of June 2019. They include endorsement & guarantees of \$91.1bn, or 95.2% of the total, followed by letters of undertaking with \$2bn (2.1%), and commitments on notes with \$1.7bn (1.8%).

Change in Utilized Credits at End-June 2020* (%)



*from end-September 2019

Source: Banque du Liban

Banque du Liban extends timeframe for paying part of interest income in Lebanese pounds, maintains cap on interest deposits

Banque du Liban (BdL) issued Intermediate Circular 578 on June 1, 2020 that extends until the end of June 2021 Intermediate Circulars 536 and 544 that it issued on December 4, 2019 and February 13, 2020, respectively. The two circulars were originally effective for a period of six months, but BdL extended in June 2020 the terms of the two circulars until the end of the year.

Intermediate Circular 536 stipulates that BdL pays 50% of the interest income in US dollars on term deposits that banks placed in US dollars at BdL and on the Certificates of Deposits that it issued in US dollars, while it will settle the other 50% in Lebanese pounds. In addition, it capped the interest rates at 5% on bank deposits in foreign currency and at 8.5% on deposits in Lebanese pounds. It noted that the new cap on interest rates will apply on customer deposits placed at banks after December 4, 2019 or on blocked deposits that will mature after the date of the circular. It pointed out that the interest rates on bank deposits blocked prior to December 5, 2019 will not be amended before maturity. However, it noted that banks will pay 50% of the interest income on foreign currency deposits in Lebanese pounds, while they will disburse the other 50% in the same currency as the deposit accounts.

In parallel, intermediate Circular 544 capped the interest rates on bank deposits placed at banks or blocked after February 13, 2020. It capped the interest rates on deposits in foreign currency with a maturity of one month at 2%, the rates on deposits with a maturity of six months at 3%, and the interest rates on deposits with a maturity of one year or more at 4%. Further, the circular capped the interest rates on Lebanese pounds deposits with a maturity of one month at 5.5%, the rates on deposits with a maturity of six months at 6.5%, and the interest rates on deposits with a maturity of one year or more at 7.5%.

The average deposit rate in Lebanese pounds was 3.14% in October 2020 compared to 9.03% a year earlier, while the same rate in US dollars was 1.04% relative to 6.61% in October 2019.

Commercial activity at record low in second quarter of 2020

Banque du Liban's quarterly business survey about the opinions of business managers shows that the balance of opinions for the volume of commercial sales reached -74 in the second quarter of 2020, relative to -63 in each of the first quarter of 2020 and the fourth quarter of 2019. The plunge reflects the disruptions to economic activity following the worsening of economic and financial conditions in the country, as well as the lockdown measures that the government imposed in March to contain the outbreak of the COVID-19 pandemic, which affected demand. The balance of opinions for the volume of commercial sales in the second quarter of 2020 reached its lowest quarterly level during the 2004-20 period, compared to -73 in the third quarter of 2006 during the Israeli war on Lebanon and -70 in the first quarter of 2005 following the assassination of Prime Minister Rafic Hariri. The survey reflects the opinions of enterprise managers about their business activity in order to depict the evolution of a number of key economic variables. The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in an indicator and the proportion of those who reported a decline in the same indicator. The balance of opinions was the lowest in the Bekaa and in the South at -84, followed by Beirut & Mount Lebanon (-75), and the North (-47).

The survey shows that the balance of opinions about the sales of food items was -48 in the second quarter of 2020 relative to -20 in the preceding quarter and to -52 in the fourth quarter of 2019. Also, the balance of opinions about the sales of non-food products was -92 in the covered quarter, compared to -84 in the previous quarter and to -67 in the fourth quarter of 2019; while it was -67 for inter-industrial goods relative to -72 in the first quarter of 2020 and to -67 in the fourth quarter of 2019. Further, the balance of opinions for inventory levels in all commercial sub-sectors was -47 in the second quarter of 2020, compared to -34 in the previous quarter and to -19 in the fourth quarter of 2019. Opinions about the level of inventories were the lowest in the North region as they reached -71, followed by the Bekaa region (-54), the South (-37), and Beirut and Mount Lebanon (-36).

Commercial Activity: Year-on-Year Evolution of Opinions				
Aggregate results	Q2-17	Q2-18	Q2-19	Q2-20
Sales volume	-4	-34	-30	-74
Number of employees	-3	-8	-7	-40
Inventories of finished goods	-6	-3	-7	-47
Q2-20 Regional results	Beirut / Mount Lebanon	North	South	Bekaa
Sales volume	-75	-47	-84	-84
Inventories of finished goods	-36	-71	-37	-54

Source: Banque du Liban business survey for second quarter of 2020

Number of real estate transactions up 56% in first 11 months of 2020

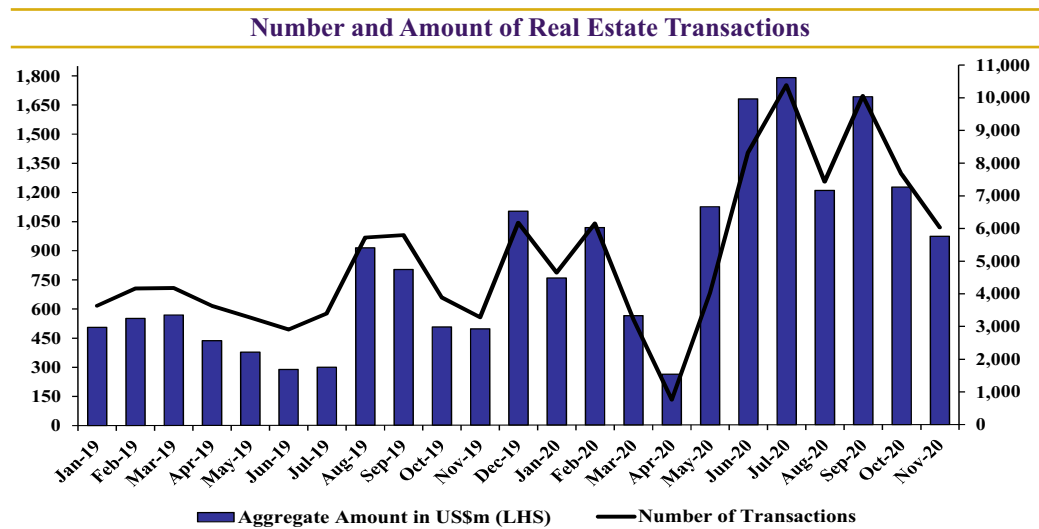
Figures released by the Ministry of Finance show that 68,811 real estate transactions took place in the first 11 months of 2020, constituting an increase of 55.8% from 44,163 deals in the same period of 2019. In comparison, there were 54,687 real estate transactions in the first 11 months of 2018 and 66,458 real estate deals in the same period of 2017. The number of transactions reached 6,038 in November 2020, down from 7,665 in October and relative to 3,300 deals in November 2019. The increase in real estate activity mainly reflects the continuous migration of some deposits out of the banking sector towards real estate.

Further, there were 13,090 real estate transactions in the Baabda area in the first 11 months of 2020, representing 19% of the total. The South followed with 9,371 deals (13.6%), then the North with 8,895 transactions (12.9%), the Metn district with 8,323 deals (12.1%), the Keserwan region with 7,941 transactions (11.5%), the Zahlé area with 7,198 deals (10.5%), the Nabatieh area with 6,381 transactions (9.3%), and Beirut with 5,726 deals (8.3%).

The aggregate amount of real estate transactions reached \$12.27bn in the first 11 months of 2020 and increased by 113.8% from \$5.74bn in the same period of 2019. In comparison, the amount of real estate deals regressed by 21.5% in the first 11 months of 2019 and declined by 19% to \$7.3bn in the same period of 2018. The amount of transactions stood at \$969m in November 2020, compared to \$1.2bn in October 2020 and \$495.8m in November 2019. Further, the value of real estate transactions in Beirut totaled \$4.2bn and accounted for 34% of the total in the first 11 months of 2020. The Baabda district and the Metn region followed with \$2.1bn each (17% each), the Keserwan area with \$1.44bn (11.7%), the South with \$1.03bn (8.4%), the North with \$622.3m (5.1%), the Zahlé area with \$373.6m (3%), and the Nabatieh region with \$354m (2.9%). The amount of real estate transactions in the Keserwan region increased by 162.5% in the first 11 months of 2020, followed by the amount of deals in Beirut (+126%), the South (+111.5%), the Nabatieh region (+105%), the Metn district (+101.5%), the Baabda area (+100.4%), the Zahlé area (+86.6%), and the North (+77.6%).

In parallel, the average amount per real estate transaction was \$178,296 in the first 11 months of 2020, up by 37.2% from an average of \$129,949 in the same period of 2019 and relative to an average of \$133,715 in the first 11 months of 2018. Further, there were 1,016 real estate transactions executed by foreigners in the first 11 months of 2020, compared to 900 deals in the same period of 2019 and to 1,064 transactions in the first 11 months of 2018. The number of real estate deals by foreigners accounted for 1.5% of total real estate transactions in the covered period, down from 2% in the first 11 months of 2019 and from 1.9% in the same period of 2018.

Further, 25% of real estate transactions executed by foreigners during the covered period were in the Baabda area, followed by Beirut (22%), the Metn district (16.4%), the South (11.8%), the Keserwan region (8.3%), the North (8%), the Zahlé area (6.8%), and the Nabatieh region (1.8%). The latest available figures show that Syrian citizens accounted for 30.1% of the amount of real estate transactions executed by foreigners in October 2020, followed by Saudi nationals (19.8%), Kuwaiti citizens (7.2%), Iraqi nationals (5.7%), and Jordanians (5.2%).



Source: Ministry of Finance, Byblos Research

Number of employees in banking sector down 4% to 24,886 individuals in 2019

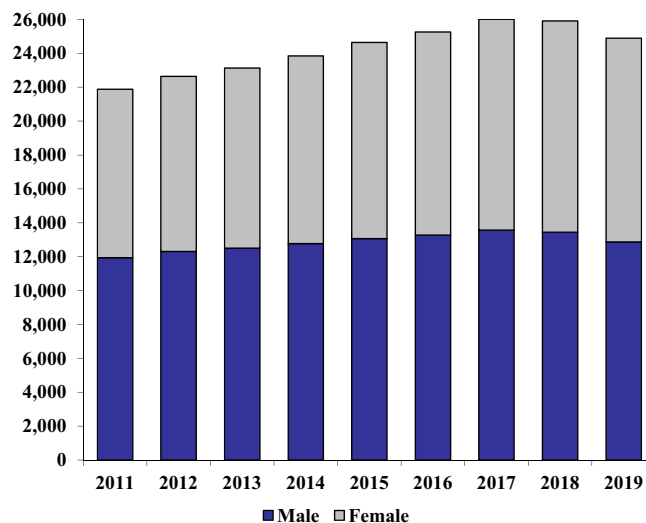
Figures issued by the Association of Banks in Lebanon (ABL) show that there were 24,886 persons employed at banks operating in Lebanon at the end of 2019, constituting a decrease of 1,022 individuals, or 3.9%, from 25,908 persons at end-2018 and an increase of 1% from 24,638 employees at the end of 2015. The ABL noted that the number of bank employees decreased for the second consecutive year, following a contraction of 0.4% in 2018, which was the first annual retreat in the number of employees since 2004.

Also, there were 23,554 employees, or 94.6% of the total, at commercial banks that are majority-owned by Lebanese investors, followed by 842 workers at medium- and long-term banks (3.4%), and 490 persons employed at foreign- and Arab-majority-owned commercial banks operating in the country (2%). In addition, there were 12,021 females employed at banks operating in Lebanon at end-2019, or 48.3% of the total number of employees, up from 47% at end-2015. Further employees that are younger than 40 years old constituted 58.4% of the total workforce in the sector and those in the 40 to 60 year-old bracket accounted for 35.5% of the total at end-2019, while employees who exceed the age of 60 constituted 6.1% of the sector's staff at end-2019.

In addition, there were 20,181 university graduates working in the Lebanese banking sector at the end of 2019, equivalent to 81.1% of the total workforce, nearly unchanged from 79.9% at end-2018 and up from 76% at end-2015. Also, there were 2,807 employees at banks who have a high-school baccalaureate, or 11.3% of the total, at the end of 2019; while 1,898 bank employees, or 7.6% of the total, did not have a baccalaureate or a university degree.

In parallel, the aggregate salaries and benefits of employees at banks operating in Lebanon reached LBP2,040bn, or \$1.35bn, in 2019, constituting a decline of 3.3% from LBP2,110bn, or \$1.4bn, in 2018, and compared to LBP1,795bn, or \$1.19bn, in 2015. Salaries of employees accounted for 66.1% of total salaries and benefits in 2019, followed by end-of-service indemnities (11%), healthcare (5.4%), and family allowances (2%), while other benefits accounted for the remaining 15.6%.

Number of Employees in the Banking Sector

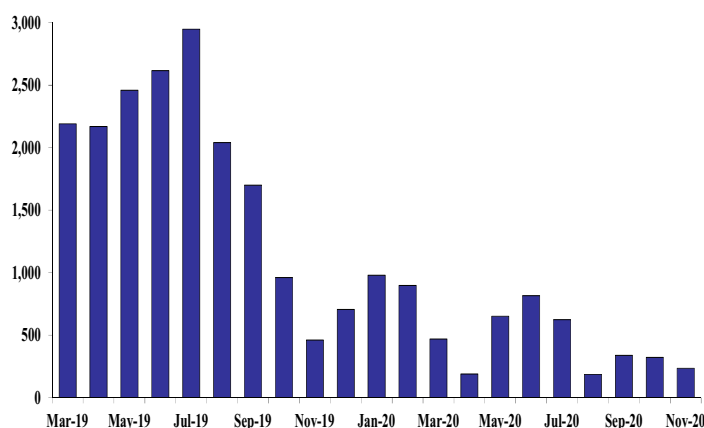


Source: Association of Banks in Lebanon, Byblos Research

New car sales down 73% in first 11 months of 2020

Figures released by the Association of Automobile Importers (AIA) in Lebanon show that dealers sold 5,702 new passenger cars in the first 11 months of 2020, constituting a drop of 73.2% from 21,285 automobiles sold in the same period of 2019. Individuals and institutional clients purchased 979 new cars in January, 897 new vehicles in February, 468 automobiles in March, 188 new cars in April, 651 vehicles in May, 815 new automobiles in June, 624 cars in July, 186 new vehicles in August, 338 automobiles in September, 321 new cars in October, and 235 new vehicles in November 2020. In comparison, clients bought 1,838 new vehicles in January, 1,906 automobiles in February, 2,190 new cars in March, 2,168 vehicles in April, 2,458 new automobiles in May, 2,616 cars in June, 2,948 new vehicles in July, 2,041 automobiles in August, 1,700 new cars in September, 960 vehicles in October, and 460 new automobiles in November 2019.

Number of Passenger Cars Sold



Source: Association of Automobile Importers

The market for new passenger cars in Lebanon has been facing increasing challenges in the past few years, including the contraction in economic activity, job insecurity and, more recently, the shortage of foreign currency liquidity in the local market, the emergence of a parallel exchange rate market, as well as the reduced purchasing power of consumers and a very low level of household confidence. Further, the AIA indicated that car dealers incurred damages in the tens of millions of dollars as a result of the explosion at the Port of Beirut on August 4, 2020. It considered that a number of car dealerships could close down and lay off a large number of their employees, and that car sales could further deteriorate in coming months. The AIA stopped releasing its monthly data on car sales by brand, distributor and source country since January 2020.

Holcim posts net losses of \$0.9m in 2019

Cement producer Holcim (Liban) sal posted unaudited net losses of \$854,066 in 2019 compared to net profits of \$27.4m in 2018, mainly due to lower net sales. The dollar figures are converted at the official exchange rate of the Lebanese pound against the US dollar. The firm's sales reached \$100m in 2019, down by 32.7% from \$148.6m in 2018; while its cost of goods sold totaled \$75.5m in 2019 and declined by 9.2% from \$83.2m in 2018. This resulted in gross profits of \$24.5m in 2019 relative \$65.4m in 2018. As a result, its gross profit margin was 24.5% in 2019 and declined from 44% in 2018.

Holcim's assets reached \$248.4m at the end of 2019, constituting a decrease of 5.7% from \$263.4m at end-2018. The firm's current ratio, which is a measure of the company's ability to meet its short-term obligations, was 2.8x at the end of 2019, up from 1.1x at end-2018. Further, Holcim's shareholders' equity was \$142.7m at end of 2019, down by 3.6% from \$147.9m at the end of 2018. The company's debt-to-equity ratio was 74.1% at the end of 2019 relative to 78% a year earlier. The firm produces and sells cement and other related products. Holcim's share price closed at \$13.07 on December 11, 2020, up by 34.1% from \$9.75 at end-2019.

Confidence Insurance registers net profits of \$0.4m in 2019

Confidence Insurance Group sal announced audited net profits of \$0.4m in 2019, constituting an increase of 3.9 times from net earnings of \$0.1m in 2018. The company's audited balance sheet shows total assets of \$14.7m at the end of 2019, up by 6.5% from \$13.8m at end-2018. On the assets side, general company investments reached \$9.2m at the end of 2019, and grew by 15.2% from \$8m a year earlier. They included \$6.5m in cash and cash equivalents, \$1.5m in land and real estate, and \$0.3m in fixed income investments. Also, the firm blocked \$0.9m as bank deposits and deposits with a maturity of more than three months in favor of the Ministry of Economy & Trade as guarantees. Further, the reinsurance share in technical reserves for the life category decreased by 10.4% to \$0.7m in 2019, while that for the non-life category regressed by 11.2% to \$0.4m last year.

On the liabilities side, technical reserves for the life segment declined by 10% to \$2.1m in 2019, while technical reserves for the non-life category reached \$5.8m at end-2019 and increased by 2.6% from a year earlier. Non-life technical reserves included unearned premium reserves of \$4.2m, "incurred but not enough reported" reserves of \$0.9m, and outstanding claims reserves of \$0.5m. Provisions for risks and charges reached \$0.2m at the end of 2019 and rose by 20.2% from a year earlier. Also, the firm's shareholders' equity totaled \$5.1m at end-2019, and surged by 28.5% from a year earlier.

Figures released by the Insurance Control Commission show that Confidence Insurance Group ranked in 16th and 29th places in 2019 in terms of life and non-life premiums, respectively. The firm's non-life premiums totaled \$8.3m in 2019 and increased by 3.2% from the previous year, while life premiums regressed by 9.2% to \$4m last year. Confidence Insurance Group had a 0.9% share of the life market and a 0.7% share of the local non-life market in 2019. It ranked in 31st place in terms of life and non-life premiums in 2019, with a 0.8% market share.



Term deposits account for 74% of customer deposits at end-October 2020

Figures issued by Banque du Liban about the distribution of bank deposits at commercial banks in Lebanon show that aggregate deposits, which include demand deposits and term deposits, stood at \$153.54bn at the end of October 2020, constituting a decrease of \$19bn, or 11% from the end of 2019.

Term deposits in all currencies reached \$113.7bn at the end of October 2020 and declined by \$36bn, or by 24%, from \$149.7bn at end-2019; while they accounted for 74% of total deposits in Lebanese pounds and in foreign currency as at end-October 2020 relative to a share of 86.7% at the end of 2019. The decline in term deposits is due to a drop of 39% in term deposits in Lebanese pounds of the resident private sector, a 28% contraction in term deposits of non-residents, a 24.5% decrease in term deposits of the non-resident financial sector, an 18.6% decline in foreign currency-denominated term deposits of the resident private sector, and a 0.7% decrease in term deposits in Lebanese pounds of the public sector. This was partly offset by a surge of 98.3% in foreign currency-denominated term deposits of the public sector, mainly due to the fact that the National Social Security Fund has been buying US dollars in an attempt to convert a part of the end-of-service indemnities deposited at banks from Lebanese pounds to dollars in order to hedge against a devaluation of the pound. The drop in term deposits is due to cash withdrawals and to the migration of funds from term to demand deposits, amid the confidence crisis that started in September 2019. Aggregate term deposits declined by \$52.8bn since the end of September 2019.

Further, foreign currency-denominated term deposits of the resident private sector reached \$64.2bn and accounted for 41.8% of aggregate deposits at the end of October 2020. Term deposits of non-residents followed with \$21.1bn (13.8%), then term deposits in Lebanese pounds of the resident private sector with \$18.5bn (12.1%), term deposits of the non-resident financial sector with \$5.2bn (3.4%), term deposits in Lebanese pounds of the public sector with \$4.1bn (2.7%), and term deposits in foreign currency of the public sector with \$636.4m (0.4%).

In parallel, demand deposits in all currencies at commercial banks stood at \$39.8bn and rose by \$16.9bn, or by 74%, from \$22.88bn at end-2019. They accounted for 26% of total deposits at end-October 2020 relative to a share of 13.3% at end-2019. The increase in demand deposits was mainly due to an increase of \$11.2bn in foreign currency-denominated demand deposits of the resident private sector, a rise of \$3bn in demand deposits of non-residents, and an increase of \$2.44bn in demand deposits in Lebanese pounds of the resident private sector.

Also, demand deposits in foreign currency of the resident private sector totaled \$23.76bn and represented 15.5% of deposits at end-October 2020. Demand deposits in Lebanese pounds of the resident private sector followed with \$7.14bn (4.6%), then demand deposits of non-residents with \$6.2bn (4%), demand deposits of the non-resident financial sector with \$2.1bn (1.4%), demand deposits in Lebanese pounds of the public sector with \$394.2m (0.3%), and demand deposits in foreign currency of the public sector with \$216.4m (0.1%).

The latest available figures show that Beirut and its suburbs accounted for 65.8% of private-sector deposits and for 48% of the number of depositors at the end of June 2020. Mount Lebanon followed with 15.2% of deposits and 18.9% of beneficiaries, then South Lebanon with 7.4% of deposits and 12% of depositors, North Lebanon with 6.6% of deposits and 12.4% of beneficiaries, and the Bekaa with 5% of deposits and 8.8% of depositors.

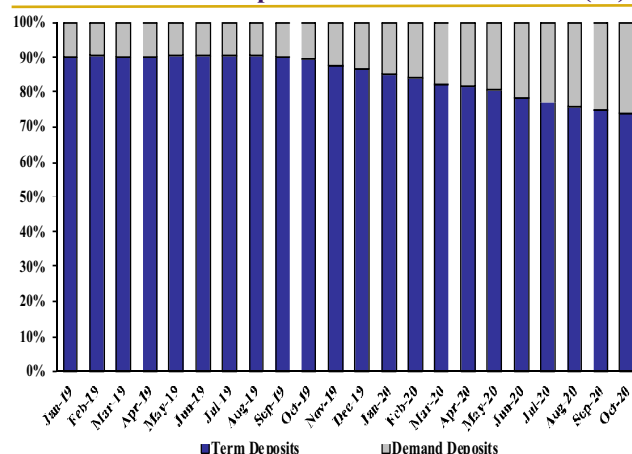
Ciments Blancs' net income down 64% to \$2m in 2019

Société Libanaise des Ciments Blancs sal, an affiliate of Holcim (Liban) sal, declared net profits of \$2.06m in 2019, constituting a decrease of 64.4% from net earnings of \$5.8m in 2018. The company generated total sales of \$9.6m in 2019 compared to \$13.1m in 2018. The cost of goods sold totaled \$7.07m in 2019 and increased by 4.8% from \$6.8m in 2018, resulting in gross profits of \$2.5m, relative to \$6.4m in 2018. As such, the firm's gross profit margin was 26.1% in 2019 relative to 48.6% in 2018. In addition, the firm's gross financial income grew by 33% to \$853,640 in 2019.

Further, the assets of Ciments Blancs totaled \$25.3m at the end of 2019, nearly unchanged from \$25.4m at end-2018. The firm's current ratio, which is a measure of the company's ability to meet its short-term obligations, was 2.2x at the end of 2019, compared to 2.8x at the end of 2018.

The company's total equity reached \$19.7m at the end of 2019, down by 4.2% from \$20.6m at the end of 2018; while its debt-to-equity ratio was 28.4% at the end of 2019 relative to 23.3% a year earlier. The price of Ciments Blancs' nominal shares closed at \$4 on December 11, 2020, up by 53.8% from \$2.6 at end-2019.

Breakdown of Deposits at Commercial Banks (%)



Source: Banque du Liban

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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