

LEBANON THIS WEEK

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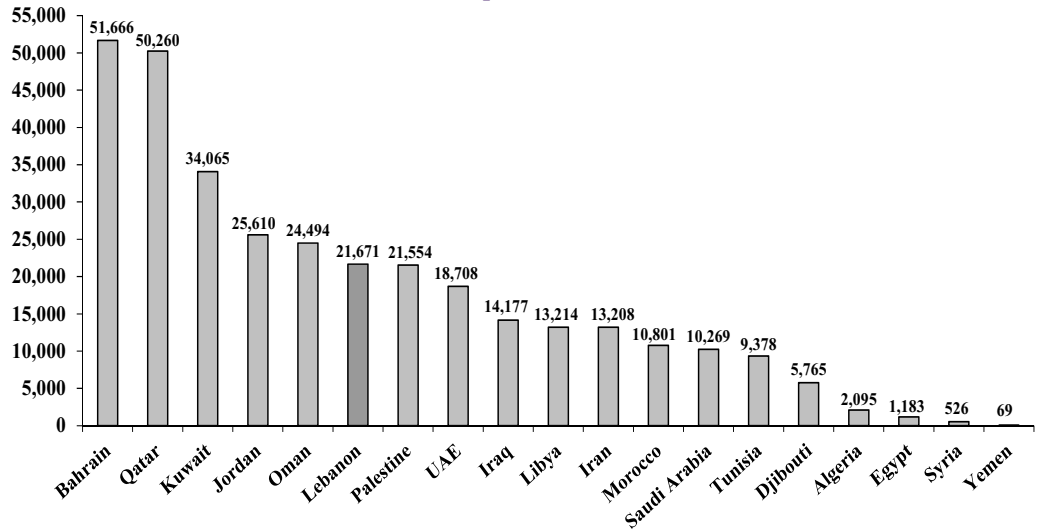
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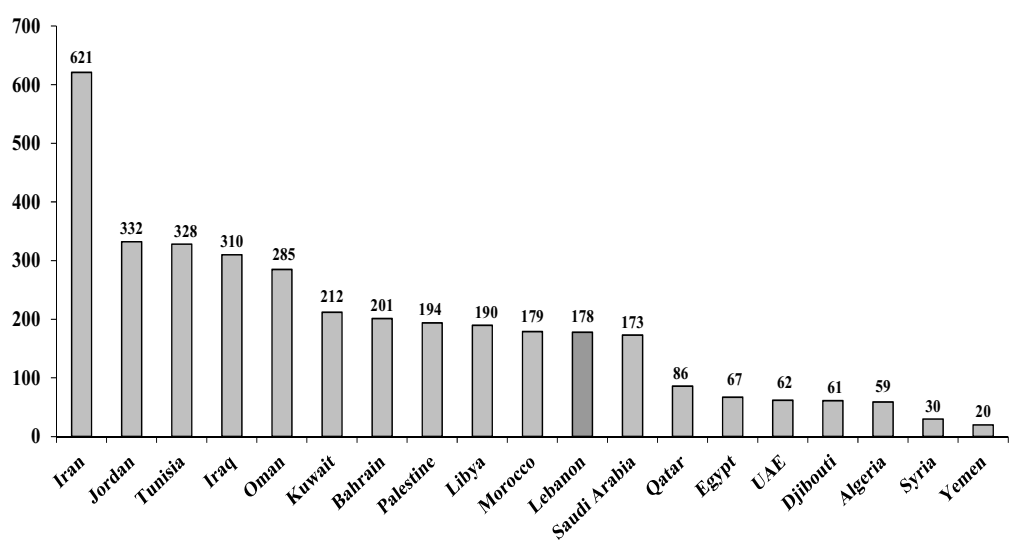
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Charts of the Week

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



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



*as of December 14, 2020

Source: World Bank Group, Byblos Bank

Quote to Note

"Pervasive political gridlock has so far prevented the swift formulation of policies and reform agendas to ameliorate the fallout of the compounded crises that Lebanon is facing."

The United Nations, the World Bank and the European Union, on the cost of the delays in forming a government of independent experts

Number of the Week

1.04%: Average interest rate on deposits in foreign currency at Lebanese commercial banks as at October 2020, according to Banque du Liban

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 %
Solidere "A"	16.25	0.9	242,577	25.8%	Apr 2021	8.25	13.875	2031.5
Byblos Common	0.52	0.0	80,618	4.7%	Oct 2022	6.10	14.375	144.5
Solidere "B"	16.21	(1.6)	62,331	16.7%	Jan 2023	6.00	12.750	126.8
Audi GDR	1.02	(12.1)	20,168	1.9%	Jun 2025	6.25	13.500	50.2
BLOM GDR	2.00	(1.5)	11,000	2.3%	Nov 2026	6.60	13.375	37.0
HOLCIM	13.65	4.2	10,060	4.2%	Feb 2030	6.65	13.125	23.4
BLOM Listed	2.05	13.9	1,000	7.0%	Apr 2031	7.00	13.375	20.4
Audi Listed	1.21	0.0	-	11.3%	May 2033	8.20	13.250	17.0
Byblos Pref. 09	40.00	0.0	-	1.3%	Nov 2035	7.05	13.375	14.0
Byblos Pref. 08	40.00	0.0	-	1.3%	Mar 2037	7.25	13.375	12.8

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

Source: Refinitiv

	Dec 14-18	Dec 7-11	% Change	Nov 2020	Nov 2019	% Change
Total shares traded	427,754	1,190,462	(64.1)	1,428,230	321,620	344
Total value traded	\$5,068,595	\$5,087,784	(0.4)	\$12,541,379	\$3,555,692	253
Market capitalization	\$6.30bn	\$6.18bn	0.7	\$6.14bn	\$7.54bn	(18.6)

Source: Beirut Stock Exchange (BSE)



Economic activity to contract by 27% in 2020, outlook depends on formation of credible government and implementation of reforms

The Institute of International Finance projected Lebanon's real GDP to contract by 26.5% in 2020, following contractions of 6.7% in 2019 and 1.9% in 2018. It estimated that Lebanon's nominal GDP could shrink from \$51.3bn in 2019 to \$25.8bn in 2020, due to the steep contraction in output and the significant depreciation of the Lebanese pound exchange rate on the parallel market. The IIF said that its projection for nominal GDP in 2020 is significantly different than the International Monetary Fund's estimate of \$18.7bn due to differences in the exchange rates that each institution used to convert the nominal GDP in Lebanese pounds to US dollars. The IIF estimated the weighted average exchange rate of the dollar at LBP3,853 for this year compared to the IMF's average of LBP5,009 per dollar.

The IIF forecast the current account deficit to narrow from \$11bn or 21.4% of GDP in 2019, to \$3bn or 11.4% of GDP in 2020 due to an expected decline of 50% in imports. However, it anticipated net capital inflows to drop significantly, which would more than offset the narrowing of the current account deficit this year and, in turn, weigh on Banque du Liban's (BdL) foreign currency reserves. It noted that BdL's gross foreign currency reserves reached \$17.8bn at end-November 2020, of which BdL can only use \$800m to continue financing the imports of essential goods at the official exchange rate for about six weeks. It added that the remaining \$17bn are the reserve requirements of commercial banks on their foreign currency deposits that BdL is not willing to tap. It considered that authorities need to design a social safety net that includes cash transfers to the poor, if the government decides to remove subsidies or starts to gradually increase the prices of subsidized goods and services. Also, it projected the fiscal deficit to narrow from 12% of GDP in 2019 to 9% of GDP in 2020, as it expected the sharp decline in the public spending-to-GDP ratio to more than offset the collapse in government revenues.

In parallel, it considered that the IMF, the World Bank, and other official donors have been holding back financial support to Lebanon, mainly due to the repeated failure of the political class to implement much-needed reforms, including the approval by Parliament of the law that formalizes capital controls, reforming the electricity sector, conducting a full audit of BdL accounts, unifying the multiple exchange rates, and restructuring the financial sector, among other measures.

The IIF developed two scenarios that assess Lebanon's economic prospects for the 2021-24 period, given the prevailing uncertainties. It indicated that the optimistic scenario takes into account the formation of a credible government soon, the implementation of the necessary reforms, as well as reaching an agreement with the IMF on a funded program and unlocking external financial aid. Under this scenario, it projected economic growth to average 7% annually between 2021 and 2024, while it expected BdL to be able to unify the multiple exchange rates in 2021, and for capital inflows to rebound. It also forecast the fiscal and external balances to improve, and the public debt level to start to decline and reach 94% of GDP by the end of 2024. It pointed out that authorities could start easing capital control measures in 2022, if balance of payments developments allow such easing and after the stabilization of the financial sector. It noted that BdL may consider taking an overdraft against part of its gold reserves, which are currently valued at \$17bn, in order to inject foreign currency liquidity into the banking system.

In parallel, it said that the pessimistic scenario assumes the continuation of the prevailing status quo, including political paralysis, the absence of real reforms, and the lack of access to external financing. Under this scenario, it anticipated the economy to contract by an average rate of 3% in 2021 and 2022 and to post subdued growth rates afterwards. It also expected the Lebanese pound to further depreciate on the parallel market, inflationary pressures to persist, and BdL's foreign currency reserves to be depleted. It estimated that, in this case, the authorities may opt to use most of the banks' reserve requirements at BdL. As a result, it expected the fiscal deficit at about 8% of GDP between 2021 and 2024 and for the public debt level at nearly 190% of GDP by end-2024.

Medium-Term Scenarios for the Lebanese Economy										
	Optimistic Scenario						Pessimistic Scenario			
	2019	2020	2021	2022	2023	2024	2021	2022	2023	2024
Nominal GDP (LBP trillion)	80.8	99.6	177	236	292	344	178	283	419	607
Nominal GDP (US\$ bn)	51.3	25.9	32.2	42.9	47.0	51.3	18.8	18.3	19.2	20.6
Real GDP Growth, % Change	-6.7	-26.4	5.0	7.2	7.5	8.2	-4.8	-3.7	0.9	2.0
Private Consumption	-7.3	-23.4	5.3	4.5	5.0	5.0	-4.0	-3.5	-1.5	-1.0
Public Consumption	2.5	-64.7	-10	-5.0	0.0	0.0	-6.1	4.9	0.0	0.0
Gross Fixed Capital	-11.1	-32.2	3.7	5.2	5.2	5.0	-6.0	-4.0	-1.5	-0.8
Current Account Balance, % of GDP	-21.4	-11.4	-15.3	-11.5	-9.8	-7.0	-30.3	-29.8	-25.5	-20.7
Official FX Reserves (US\$ bn)	29.6	17.3	19.8	25.2	31.1	37.2	11.9	7.7	3.8	0.5
Fiscal Balance, % of GDP	-12.1	-9.0	-8.2	-2.5	-0.9	0.8	-8.2	-7.8	-7.6	-7.6
Public Debt, % of GDP	177	221	127	114	104	94	197	188	182	190
Consumer Prices, Avge, % Change	2.9	85.2	69.7	25.0	16.0	10.0	109.7	71.0	50.0	45.0
Official Exchange Rate, Avge, LBP/\$	1,508	1,508	5,500	6,215	6,712	7,048	7,534	12,593	18,814	29,468
Parallel Exchange Rate, Avge, LBP/\$	1,620	5,528	5,500	6,215	6,712	7,048	10,764	16,791	22,668	29,468

Source: Institute of International Finance, December 2020



Banque du Liban's foreign assets at \$25bn, gold reserves at \$17bn at mid-December 2020

Banque du Liban's (BdL) interim balance sheet reached \$158.2bn as of December 15, 2020, constituting an increase of 12% from \$141.4bn at the end 2019, and an expansion of 1.3% from \$156.2bn at end-November 2020. Assets in foreign currency totaled \$24.9bn at mid-December 2020, representing a drop of \$12.4bn, or 33.3%, from \$37.3bn at end-2019; and a decrease of \$152m, or 0.6% from end-November 2020. Assets in foreign currency include \$5.03bn in Lebanese Eurobonds relative to \$5.7bn at the end of 2019.

BdL's assets in foreign currency, excluding Lebanese Eurobonds, stood at \$19.8bn at mid-December 2020, and fell by \$11.7bn, or by 37.1%, from the end of 2019. They declined by \$613.3m in January 2020, by \$684.6m in February, by \$67m in March, by \$812m in April, by \$907m in May, by \$558m in June, by \$2.3bn in July, by \$2.2bn in August, by \$2.5bn in September, by \$489m in October, by \$409m in November and by \$152m in the first half of December.

The cumulative decline in BdL's assets in foreign currency, excluding Lebanese Eurobonds, is largely due to the financing of the imports of hydrocarbons, wheat, medicine, medical equipment, a basket of about 300 food and non-food items, and raw materials for agriculture and industry. It is also due to the fact that BdL has paid, at the request of the government, maturing Eurobonds and external debt servicing until early March 2020, as well as to deposit outflows and to BdL's intervention in the currency market. In addition, the decrease in BdL's assets in foreign currency in September was mainly driven by the banks' repayment of their foreign currency loans to BdL.

In parallel, the value of BdL's gold reserves reached \$17bn at mid-December 2020, and increased by 22.2% from \$14bn at end-2019 and by 4% from \$16.4bn at the end of November 2020. The value of gold reserves reached a peak of \$18.1bn at mid-September 2020. Also, the securities portfolio of BdL totaled \$40.1bn at mid-December and grew by 5.6% from end-2019. In addition, loans to the local financial sector regressed by 4.4% from the end of 2019 and reached \$14.3bn at mid-December 2020. Further, deposits of the financial sector stood at \$107.7bn at mid-December 2020 and declined by \$4.3bn from end-2019. In addition, public sector deposits at BdL totaled \$4.9bn at mid-December 2020 and regressed by \$543.8m from the end of 2019.

Lebanon signs World Bank loan of \$246m for social safety net

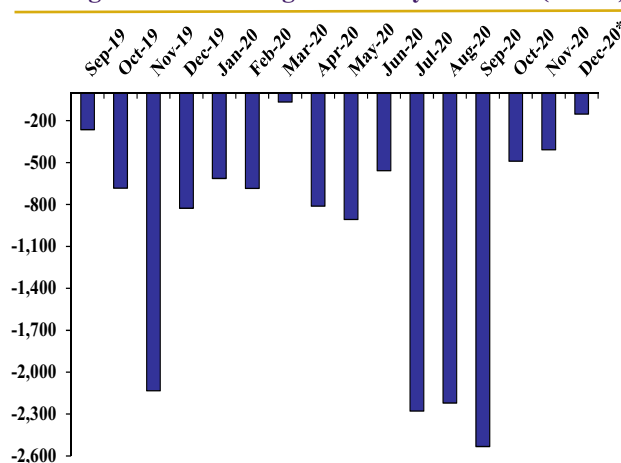
The Ministry of Finance signed a \$246m draft loan agreement with the World Bank for the Lebanon Emergency Crisis and COVID-19 Response Social Net project (ESSN). The project will be implemented in coordination with the Presidency of the Council of Ministers, the Ministry of Social Affairs, and the Ministry of Education and Higher Education. The World Bank's Board of Directors still needs to approve the loan agreement, and the Lebanese Parliament has to ratify the loan before the disbursement of the funds.

The ESSN aims to provide cash transfers and access to social services to extremely poor and vulnerable segments of the Lebanese population who have been affected by the economic crisis and the COVID-19 shock. The project, which will be executed over three years, consists of five components. It will provide cash transfers for basic income support to 147,000 extremely poor Lebanese households, as well as additional cash transfers for students from extremely poor Lebanese households who are at risk of dropping out of school. It will also provide social services to vulnerable households, enhance the delivery of social safety nets in the country, and introduce a contingent emergency response.

The Ministry of Social Affairs indicated that the cash transfers to eligible households will be in Lebanese pounds and will be disbursed on a monthly basis. The ministry added that it will collaborate with two firms to update the details of the 43,000 families who are registered under the National Poverty Targeting Program (NPTP), and will later update the details of the 200,000 families in its database.

According to the World Bank, the NPTP currently provides healthcare and education benefits to 43,000 households, or to 4.5% of all Lebanese households. Also, 15,000 out of the 43,000 households, or 1.5% of Lebanese households, receive food assistance through an electronic prepaid card. The Bank considered that the coverage of the NPTP is insufficient to protect poor households against the prevailing crises in Lebanon. It noted that the ESSN will build on the achievements of the NPTP and will learn from its challenges of the past 10 years by introducing new features and improvements to ensure a sustainable national social safety net system. It estimated that the poverty rate in Lebanon increased from 25.6% in 2012 to 37% in 2019, while the extreme poverty rate grew from 10% in 2012 to 16.2% in 2019.

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



*Mid-December 2020

Source: Banque du Liban

Lebanon ranks 54th worldwide, fifth in Arab region in terms of global connectedness

The DHL's 2020 Global Connectedness Index (GCI) ranked Lebanon in 54th place among 169 countries around the world and in fifth place among 16 Arab countries. Lebanon also came in sixth place among 47 upper middle-income countries (UMICs) included in the survey. Lebanon's global rank deteriorated by four spots, while its regional rank was unchanged from the 2018 survey.

The index measures the level of globalization of countries based on the international flow of trade, capital, information and people to and from a country. The index is a composite of two sub-indicators that are the Depth Sub-Indicator and the Breadth Sub-Indicator. A country's overall score on the index ranges from zero to 100, with a higher score reflecting a better performance in terms of global connectedness.

Globally, the Lebanese economy is more connected than the economies of Turkey, Kuwait and South Africa, and is less connected than Serbia, Ukraine and Russia among economies with a GDP of \$10bn or more. It is also less connected than the economies of only Malaysia, Thailand, Bulgaria, Serbia and Russia among UMICs. Lebanon received a score of 57.8 points, down from 59.4 points in the 2018 survey. Lebanon's score is higher than the global average score of 49.5 points, the UMICs' average score of 47.8 points and the Arab average score of 50.1 points. Also, Lebanon's score came lower than the Gulf Cooperation Council (GCC) countries' average score of 64.4 points, but it is higher than the average score of non-GCC Arab countries of 41.6 points. The Netherlands is the most globally connected country with a score of 90.8 points, while Burundi has the least connected economy in the world with a score of 16.3 points.

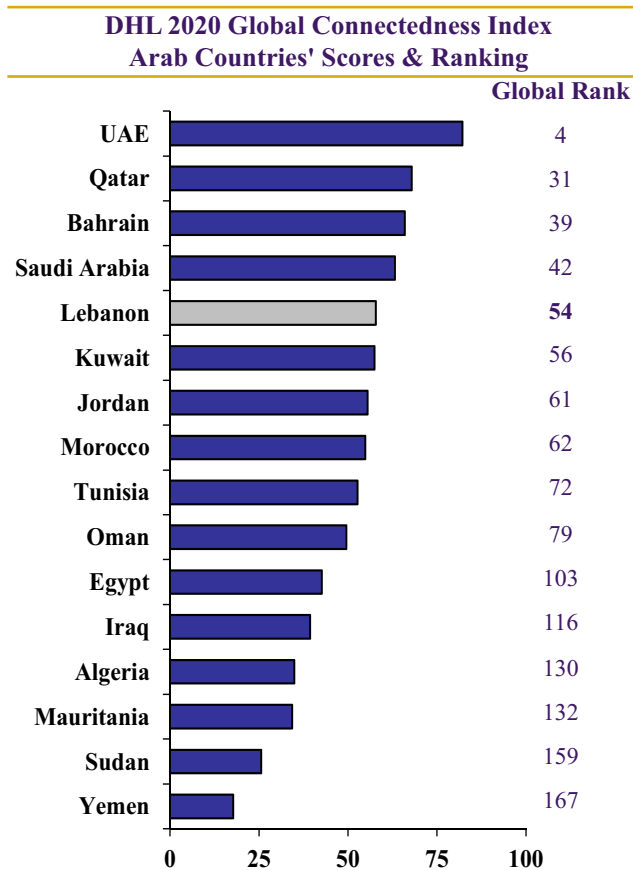
Lebanon ranks in 68th place globally, in 19th place among UMICs and in sixth place regionally on the Depth Sub-Indicator. This category measures a country's international flows of products and services, capital, information and people, relative to the size of its domestic economy. Globally, Lebanon ranked ahead of France and Armenia, and came behind Moldova and Jamaica on this category. It also ranked ahead of Armenia and came behind Jamaica among UMICs. It was preceded by the UAE, Bahrain, Oman, Qatar and Kuwait in the Arab region. Lebanon received a score of 28.8 points on this category, higher than the global average score of 25.4 points, the UMICs' average score of 25.1 points and the Arab region's average score of 25 points.

Also, Lebanon ranks in 62nd place globally, in 16th place among UMICs and in seventh place regionally on the Breadth Sub-Indicator. This category measures the geographical distribution of a country's international flows of trade, capital, information and people. Globally, Lebanon preceded Ukraine and Cameroon, and trailed Bahrain and Nigeria on this category. It also ranked ahead of Mexico and behind Jordan among UMICs. Regionally, Lebanon was preceded by Saudi Arabia, the UAE, Qatar, Morocco, Jordan and Bahrain on this category. Lebanon received a score of 29 points on this category, higher than the global average score of 24.1 points, the UMICs' average score of 22.7 points and the Arab average score of 25.2 points.

Compensation of public-sector personnel at \$4.3bn in first eight months of 2020, absorbs 71% of revenues

Figures issued by the Ministry of Finance show that the compensation of public-sector personnel totaled \$4.3bn in the first eight months of 2020, constituting a decrease of 2.3% from \$4.4bn in the same period of 2019. Salaries, wages and related benefits accounted for 62.4% of the total in the first eight months of 2020, followed by retirement benefits (29%), transfers to public institutions to cover salaries (4.5%), and end-of-service indemnities (4.1%). The compensation of public-sector personnel represented the largest component of current primary spending and accounted for 71.5% of such expenditures in the first eight months of 2020, compared to 73.1% in the same period of 2019. Also, the compensation of public-sector personnel absorbed 70.6% of total fiscal receipts in the covered period relative to 57.6% in the first eight months of 2019. It accounted for 50% of overall fiscal spending in the first eight months of 2020 compared to 41.7% in the same period of 2019.

Salaries, wages & related benefits paid to public-sector workers and employees reached \$2.7bn in the covered period, unchanged from the first eight months of 2019. This category includes basic salaries, employment benefits, allowances, contributions to civil servants' cooperatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly civil and religious judges, and employees at the Parliament. In addition, retirement benefits grew by 8% annually to \$1.3bn in the first eight months of 2020, and transfers to public institutions to cover salaries expanded by 3% year-on-year to \$196.4m, while end-of-service indemnities declined by 55.2% annually to \$177.1m in the covered period.

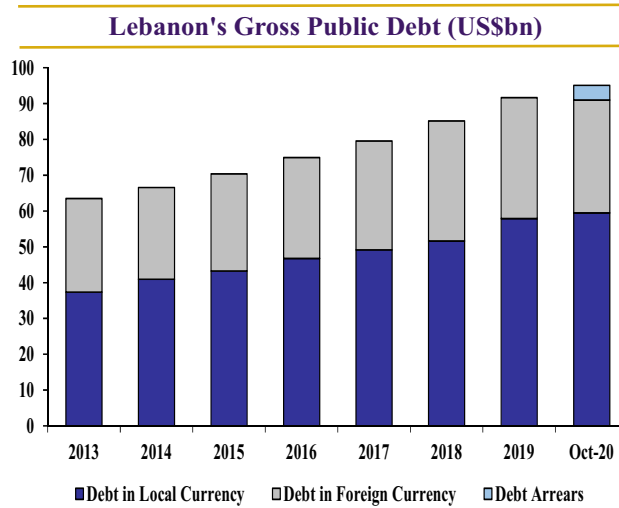


Source: DHL, Byblos Research

Gross public debt at \$95bn at end-October 2020

Lebanon's gross public debt reached \$95bn at the end of October 2020, constituting an increase of 3.7% from \$91.6bn at the end of 2019, and a rise of 9.1% from \$87.1bn at the end of October 2019, based on the official exchange rate of the Lebanese pound against the US dollar. The gross public debt grew by \$3.4bn in the first 10 months of 2020 relative to an increase of \$2bn in the same period of 2019. Debt denominated in Lebanese pounds totaled \$59.4bn at the end of October 2020, and expanded by 2.6% from end-2019 and by 9% from end-October 2019; while debt denominated in foreign currency stood at \$35.6bn and grew by 5.5% from end-2019 and by 9.5% from a year earlier.

On March 7, 2020, the Lebanese government decided to withhold all payments on the \$1.2bn Eurobond that matures on March 9, 2020. It further announced on March 23, 2020 that Lebanon will discontinue payments on all of its outstanding Eurobonds. About \$4bn of the debt stock denominated in foreign currency are in arrear as at the end of September.



Source: Ministry of Finance, Byblos Research

The year-on-year increase of the local-currency debt was mostly due to the MoF's issuance in November and December 2019 of LBP1,500bn and LBP3,000bn 10-year Treasury bonds, respectively, at a rate of 1%, which were entirely subscribed by Banque du Liban (BdL). The two issuances were part of a deal between the MoF and BdL, which stipulated that the MoF issues \$3bn worth of Eurobonds to BdL to cover external debt payments that BdL made on behalf of the government throughout 2019, in exchange for BdL subscribing to LBP4,500bn worth of Treasury bonds.

Local currency debt accounted for 62.5% of the gross public debt at the end of October 2020 and foreign currency-denominated debt represented the balance of 37.5%, both unchanged from a year earlier. The weighted interest rate on outstanding Treasury bills was 6.45% in October 2020, while the weighted life of Treasury bills and bonds was 1,700 days.

BdL held 43.3% of the public debt at the end of October 2020, followed by commercial banks (27%), and non-bank resident financial institutions (8%); while other investors, including foreign investors, held 19.6% of the debt, and multilateral institutions and foreign governments accounted for the remaining 2.1%.

BdL held 60.8% of the Lebanese pound-denominated public debt at the end of October 2020 compared to 54.7% a year earlier, while commercial banks accounted for 26.4% of the local debt relative to 31.7% at end-October 2019. Also, public agencies, financial institutions and the public held 12.8% of the local debt at end-October 2020 relative to 13.7% at end-October 2019. Further, holders of Eurobonds and special T-bills in foreign currencies accounted for 94.3% of foreign currency-denominated debt holders at the end of October 2020, followed by multilateral institutions with 4% and foreign governments with 1.7%.

In addition, the net public debt, which excludes public sector deposits at BdL and at commercial and investment banks from overall debt figures, grew by 8.4% annually to \$85.3bn at the end of October 2020. Further, the gross market debt accounted for about 54% of the public debt. The gross market debt is the total public debt less the portfolios of BdL, the National Social Security Fund, as well as bilateral and multilateral loans.

Treasury transfers to Electricité du Liban down 37% to \$632m in first eight months of 2020

Figures released by the Ministry of Finance show that Treasury transfers to Electricité du Liban (EdL) totaled \$631.5m in the first eight months of 2020, constituting a drop of 37% from \$1bn in the same period of 2019. Reimbursements for the purchase of natural gas, fuel and gas oil reached \$629.5m, or 99.7% of transfers, in the covered period; while EdL's debt servicing represented the balance of around \$1.3m, or 0.3% of the total.

The decline in transfers is mainly due to a decrease of \$371.5m in reimbursements for the purchase of natural gas, fuel and gas oil, which mostly consists of payments to the Kuwait Petroleum Corporation and to the Algerian energy conglomerate Sonatrach. Reimbursements regressed by 37% year-on-year in the first eight month of 2020, while debt servicing decreased by 31% from the same period last year. Treasury transfers to EdL accounted for 8.7% of budgetary primary expenditures in the first eight months of 2020 relative to 13.7% in the same period of 2019. They constituted the third largest expenditures item, or 7.3% of overall fiscal spending. EdL transfers were equivalent to 5.1% of GDP in 2012, 4.3% of GDP in 2013, 4.4% of GDP in 2014, 2.3% of GDP in 2015, 1.8% of GDP in 2016, 2.5% of GDP in 2017, 3.2% of GDP in 2018, and 2.8% of GDP in 2019.

Number of new construction permits up 9% in first 11 months of 2020

The Orders of Engineers & Architects of Beirut and of Tripoli issued 11,198 new construction permits in the first 11 months of 2020, constituting a rise of 8.9% from 10,282 permits in the same period of 2019. In comparison, new construction permits decreased by 19.4% year-on-year in the first 11 months of 2019. The figures do not include the number of permits and related details for the month of April, due to the closure of public-sector departments during the month amid the outbreak of COVID-19 in the country. Also, the orders of engineers issued 1,261 permits in November 2020, representing a decrease of 19.6% from 1,568 permits in October 2020 and a jump of 95% from 647 permits in November 2019.

Mount Lebanon accounted for 31.6% of the number of newly-issued construction permits in the first 11 months of 2020, followed by the South with 24.4%, the Nabatieh area and the North with 16% each, the Bekaa region with 7.4%, and Beirut with 2.6%. The remaining 2% were permits issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon.

The number of new construction permits issued for Beirut dropped by 50% and permits issued for the Bekaa region fell by 15% in the first 11 months of 2020 from the same period last year. In contrast, the number of permits issued for regions outside northern Lebanon increased by 48% in the covered period, followed by permits in the Nabatieh region (+27.7%), the North (+27%), the South (+21.3%), and Mount Lebanon (+1%).

Further, the surface area of granted construction permits reached 4,810,425 square meters (sqm) in the first 11 months of 2020, constituting a decrease of 16.1% from 5,735,505 sqm in the same period of 2019. In comparison, the surface area of granted construction permits regressed by 32% year-on-year in the first 11 months of 2019. Also, the surface area of granted construction permits reached 615,174 sqm in November 2020, decreasing by 9.3% from 678,606 sqm in October 2020 and rising by 86.6% from 329,737 sqm in November 2019. Mount Lebanon accounted for 1,506,567 sqm, or 31.3% of the total in the first 11 months of 2020. The South followed with 1,070,176 sqm (22.2%), then the North with 937,665 sqm (19.5%), the Nabatieh area with 591,388 sqm (12.3%), the Bekaa region with 427,165 sqm (8.9%), and Beirut with 89,150 sqm (1.9%). The remaining 188,314 sqm, or 4% of the total, represent the surface area of permits that the Order of Engineers & Architects of Tripoli issued for regions located outside northern Lebanon.

The surface area of new construction permits issued for Beirut dropped by 75.3% in the first 11 months of 2020 from the same period last year, followed by surface areas in Mount Lebanon (-24.8%), the Bekaa region (-24%), the North (-7.7%), and the South (-3%); while the surface area of new construction permits in the Nabatieh region expanded by 15% and grew by 7.6% for regions located outside northern Lebanon. In parallel, the latest available figures show that cement deliveries totaled 1.02 million tons in the first eight months of 2020, constituting a drop of 54.4% from 2.24 million tons in the same period of 2019.

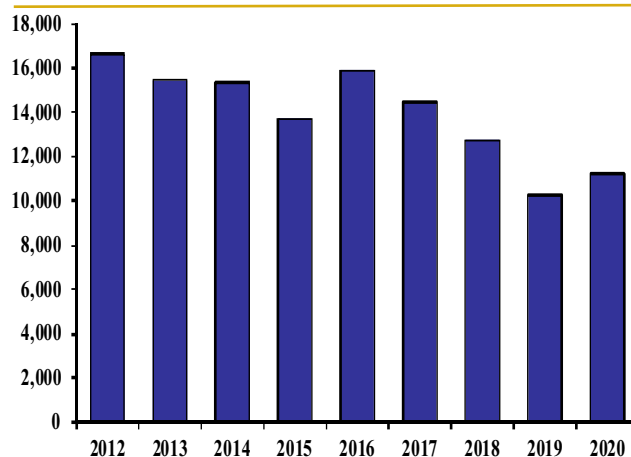
International contributions to Lebanon Crisis Response Plan at \$1bn in first nine months of 2020

The United Nations indicated that international contributions to the Lebanon Crisis Response Plan (LCRP) reached \$999.2m in the first nine months of 2020 and represented 37% of the \$2.7bn that the LCPR appealed for to cover the needs in 2020. It also noted that \$215.7m were carried over from funding received in 2019, which is equivalent to 8% of the total appealed funds. As such, it said that international contributions covered 45% of the funds appealed, resulting in a funding gap of 55% for the year. The Lebanon Crisis Response Plan 2017-2020 is a joint initiative between the Lebanese government and international and national partners that aims to address challenges posed by the large presence of Syrian refugees in the country.

The UN pointed out that financial disbursements to food security reached \$273m in the first nine months of 2020, or 22.5% of available funds, followed by basic assistance with \$202m (16.6%), support to social protection with \$172m (14.2%), the education sector with \$162m (13.3%), healthcare with \$129m (10.6%), livelihoods with \$84m (7%), the water sector \$79m (6.5%), social stability with \$72m (6%), shelter with \$27m (2.2%), and the energy sector with \$1m (0.1%). It noted that \$14.4m have not yet been allocated. It added that 78 organizations reported to the UN the funds they received in the first nine months of 2020.

The UN indicated that 611,923 individuals benefited from basic assistance out of 1.1 million targeted persons. It added that 91.4% of individuals who received basic assistance were displaced Syrians, 7.8% were Palestinian refugees and 0.8% were vulnerable Lebanese citizens. According to the LCPR, basic assistance consists of strengthening the ability of vulnerable households to meet their basic survival needs, providing in-kind assistance in support of populations affected by seasonal hazards and emergencies, and developing a national social safety net strategy. Further, the UN noted that the international community provided \$96.5m in the form of monthly multipurpose cash assistance to 93,751 Syrian households, 8,450 Palestinian families and 878 Lebanese households. The figures show that 100% of targeted Palestinian households, 64% of targeted Syrian families, and 2% of targeted Lebanese households received cash assistance during the covered period.

Number of Construction Permits issued in Lebanon*



*in first 11 months of each year

Source: Orders of Engineers & Architects of Beirut and Tripoli

UN-Habitat provides rent assistance to households affected by Beirut Port explosion

The United Nations Human Settlements Programme (UN-Habitat) announced that it will provide cash-for-rent assistance to 800 households, including 4,000 beneficiaries, for a minimum period of three months. It noted that the initiative is part of a wider humanitarian response to the August 4 explosion at the Port of Beirut. It said that the project targets families who need temporary shelter close to the area they used to reside in, until the damage the blast caused to their houses is fixed. It added that many individuals remain displaced, or continue to live in their damaged homes, despite the risk of collapse of the building. It pointed out that the initiative is funded by the United Nations' Central Emergency Relief Fund (UN CERF) and is in collaboration with the Polish Centre for International Aid (PCPM).

In addition, UN-Habitat indicated that vulnerability and socioeconomic criteria will determine the eligibility of households for the rent support and said that it will prioritize vulnerable groups such as female-headed households, the elderly and people living with disabilities. It added that the amount of the assistance for each household will be mainly based on the location of the temporary shelter, as well as on the number of members in each household and their needs.

Further, it pointed out that the project is based on the findings of the "Rapid Building-Level Damage Assessment" it conducted in collaboration with the Municipality of Beirut. The assessment found that a total of 10,280 buildings were damaged by the explosion within a two kilometer radius of the blast. The results show that 66.4% of the surveyed buildings suffer from minor damage, 5.1% are vacant plots, 4.7% suffer from considerable damages to their architectural components but are eligible for "restricted use", 2% are unsafe and require evacuation, and 0.1% have totally collapsed. It added that the remaining 21.8% are unclassified or consist of "buildings that are not visually surveyed yet". UN-Habitat is the agency within the United Nations system that is responsible for coordinating activities in the field of human settlement development.

Industrial activity at record low in second quarter of 2020

Banque du Liban's quarterly survey on the opinions of business managers shows that the balance of opinions about industrial production was -66 in the second quarter of 2020 compared to -55 in the first quarter of 2020 and to -27 in the second quarter of 2019.

The balance of opinions for the level of industrial production in the second quarter of 2020 reached its lowest quarterly level during the 2004-2019 period, after posting -64 in the third quarter of 2006 due to the Israeli war on Lebanon. The current decline 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 negatively affected the performance of the industrial sector during the covered quarter.

The business survey reflects the opinions of managers of industrial enterprises about their businesses, 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 a particular indicator and the proportion of those who reported a decline in the same indicator. The balance of opinions was at -100 in the South, followed by the Bekaa (-73), Beirut & Mount Lebanon (-71), and the North (-20).

The balance of opinions about overall demand for industrial goods stood at -68 in the second quarter of 2020 compared to -58 in the preceding quarter and to -30 in the second quarter of 2019. It reached its lowest quarterly level during the 2004-2019 period, after posting -60 in the third quarter of 2006. The balance of opinions about demand for industrial goods was the lowest in the South at -100, followed by the Bekaa (-83), Beirut & Mount Lebanon (-70), and the North (-20).

In parallel, the balance of opinions about the volume of investments in the industrial sector stood at -37 in the second quarter of 2020 compared to -35 in the preceding quarter and to -11 in the second quarter of 2019. The balance of opinions about the volume of investments was the lowest in the South at -94, followed by Beirut & Mount Lebanon (-48), the Bekaa (-21), and the North (zero).

Also, the balance of opinions for foreign demand of industrial goods stood at -37 during the second quarter of 2020 compared to -33 in the previous quarter and to -19 in the second quarter of 2019. The balance of opinions for foreign demand of industrial goods was the lowest in the South at -71, followed by Beirut & Mount Lebanon (-47), and the Bekaa (-33). In contrast, the balance of opinion for foreign demand of industrial goods was at +1 in the North.

Industrial Activity: Evolution of Opinions				
Aggregate results	Q2-17	Q2-18	Q2-19	Q2-20
Production	-9	-19	-27	-66
Total demand	-15	-22	-30	-68
Foreign demand	-20	-13	-19	-37
Volume of investments	-5	-11	-11	-37
Inventories of finished goods	-10	-5	-9	-49
Inventories of raw material	-9	-7	-12	-56
Registered orders	-13	-23	-30	-72

Source: Banque du Liban Business Survey for Second Quarter of 2020

Lebanon ranks 108th globally, 12th among Arab countries in terms of property rights

The Property Rights Alliance ranked Lebanon in 108th place among 129 countries around the world and in 12th place among 14 Arab countries on its 2020 International Property Rights Index. Lebanon also came in 30th place among 34 upper middle-income countries (UMICs) included in the survey. Based on the same set of countries in the 2019 and 2020 surveys, Lebanon's rank improved by three spots, while its regional rank was unchanged year-on-year.

The index measures the strength and protection of physical and intellectual property rights in a given country. It is a composite of 10 factors grouped into three equally weighted sub-indices that are the Legal & Political Environment Sub-Index, the Physical Property Rights Sub-Index and the Intellectual Property Rights Sub-Index. The index rates the property rights level of each country on a scale from zero to 10, with a score of 10 reflecting the highest level of property rights.

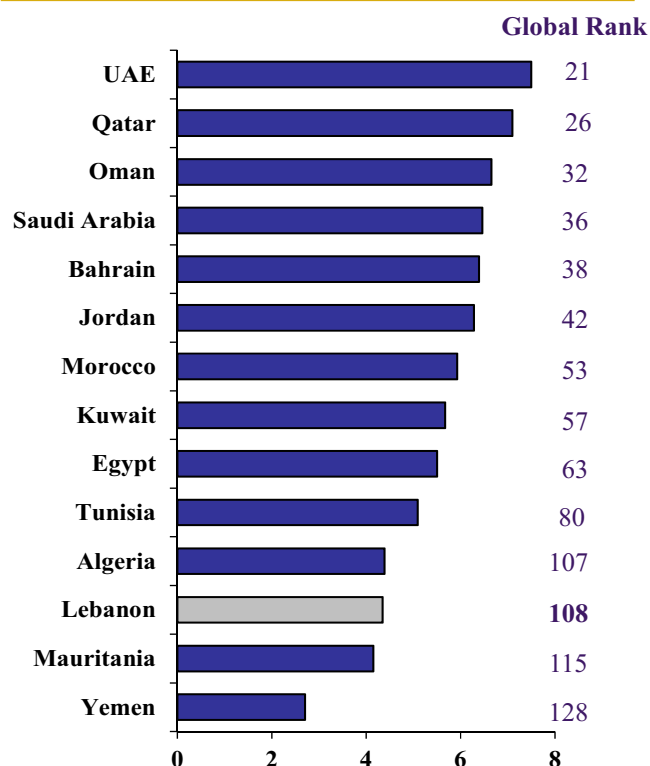
Globally, Lebanon has a more adequate level of property rights than Mozambique, Bosnia & Herzegovina and Moldova, while it has a weaker level of property rights than Zambia, Ukraine and Algeria among economies with a GDP of \$10bn or more. Also, Lebanon ranked ahead of Bosnia & Herzegovina, Albania, Iran and Venezuela among UMICs. Lebanon received a score of 4.35 points compared to a score of 4.39 points on the 2019 Index. Lebanon's score in 2020 came below the global average of 5.73 points, the Arab average of 5.58 points and the UMICs' average of 5.2 points. Finland has the most advanced level of property rights worldwide, while Haiti has the lowest level globally.

In parallel, Lebanon preceded India, Kazakhstan and Colombia, while it trailed Latvia, the Philippines and Nepal globally on the Physical Property Rights Sub-Index. This component examines the quality of the judicial protection of private property, the complexity of registering a property, and the ease of access to loans. Lebanon ranked ahead of Kazakhstan and behind North Macedonia among UMICs, while it preceded Egypt, Tunisia, Algeria, Yemen and Mauritania in the Arab region on this category.

Also, Lebanon came ahead of Armenia, Georgia and Moldova, and ranked behind Zambia, Algeria and Bosnia & Herzegovina globally on the Intellectual Property Rights Sub-Index. This category examines the level of protection of intellectual property, the strength of a country's patent laws, and the prevailing piracy rates. Lebanon preceded only Armenia, Georgia, Albania and Venezuela among UMICs, and came ahead of only Yemen regionally on this category.

Further, Lebanon ranked ahead of Mali, Bolivia and Cameroon, and came behind Mozambique, Ukraine and Zimbabwe globally on the Legal & Political Environment Sub-Index. This category examines the judiciary's independence from the influence of political and business groups, the extent that residents have confidence in and abide by the rules of society, the stability of the political system, and the control of corruption. Lebanon ranked ahead of Venezuela among UMICs, and came last among Arab countries on this category.

**International Property Rights Index 2020
Arab Countries Scores & Rankings**



Source: Property Rights Alliance, Byblos Research

Components of the 2020 International Property Rights Index for Lebanon

	Global Rank	Arab Rank	UMICs Rank	Lebanon Score	Global Average	Arab Average	UMICs Average
Physical Property Rights	62	9	14	6.53	6.50	6.78	6.43
Intellectual Property Rights	120	13	30	3.47	5.54	5.13	4.79
Legal and Political Environment	119	14	33	3.05	5.16	5.11	4.36

Source: Property Rights Alliance, Byblos Research

Increase in food prices in Lebanon is highest in MENA region

In its assessment of the impact of the COVID-19 pandemic on food-price inflation in the Middle East & North Africa (MENA) region, the World Bank indicated that prices in Lebanon have surged across all food categories between February 14 and December 15, 2020. The Bank assessed the change in food prices in 20 countries in the MENA region across five main food categories that are carbohydrates, dairy, fruits, meats and vegetables.

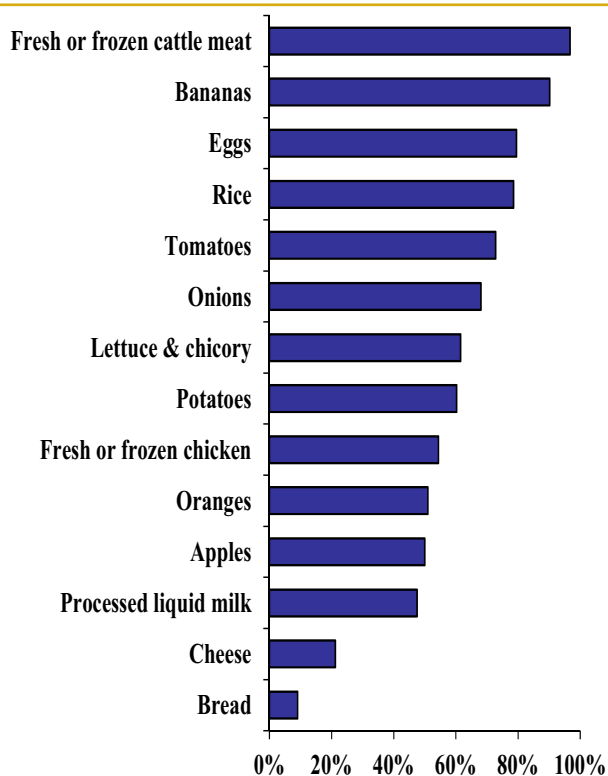
The price of fresh or frozen cattle meat in Lebanon rose by 96.7% between February 14 and December 15, constituting the highest increase in the price of this item in the MENA region. In comparison, the price of fresh or frozen cattle meat posted an average growth of 14.3% in the region. Also, the price of bananas in Lebanon surged by 90.2% in the covered period, representing the highest growth rate in the price of this fruit regionally, relative to an average increase of 10.2% among MENA countries. Lebanon, along with Djibouti and Yemen, were the only countries in the region that posted increases of above 15% in the price of bananas.

In parallel, the price of eggs in Lebanon jumped by 79.5% in the covered period, the highest price increase of this product in the MENA region. Lebanon, Djibouti, Syria and Yemen were the only countries in the region that posted a rise of more than 25% in the price of eggs. In comparison, the price of eggs increased by an average of 10.9% in the region.

In addition, the price of rice in Lebanon surged by 78.6% and the price of tomatoes rose by 72.8% since February 14, the highest growth rates in the price of these food products regionally. Also, the price of onions grew by 68% and that of lettuce rose by 61.5%, the highest price surge in the region for such products. Further, the prices of potatoes in Lebanon rose by 60.2% during the covered period, the highest price increase regionally relative to an average increase of 11.2% in the MENA region. Also, the price of fresh or frozen chicken surged by 54.4% between February 14 and December 15, 2020, the second highest increase among MENA countries and compared to an average increase of 16.2% regionally. Lebanon, along with Djibouti and Saudi Arabia, were the only countries in the region that posted increases of above 20% in the price of fresh or frozen chicken.

Further, the price of oranges and apples in Lebanon rose by 51% and 50%, respectively, between February 14 and December 15, 2020, the highest price increase for such fruits among MENA countries; while the price of processed liquid milk grew by 47.5%, the second highest price increase regionally. Further, the price of cheese surged by 21.2%, the highest price increase regionally for this category; while the price of bread grew by 9.1% since February 14, representing the eighth highest increase in bread prices among MENA countries.

**Change in Food Prices in Lebanon
Between February 14 and December 15, 2020 (%)**



Source: World Bank, Byblos Research

Solidere's consolidated net profits down 10% to \$38m in first half of 2020

Solidere, the Lebanese Company for the Development and Reconstruction of Beirut Central District sal, announced consolidated unaudited net profits of \$38.1m in the first half of 2020, constituting a decline of 9.7% from \$42.1m in the same period of 2019. The consolidated results include Solidere's standalone financials and those of its subsidiaries (the Group), which mainly include Solidere International Limited, and other subsidiaries such as Solidere Management Services sal, BCD Cinemas sal, Beirut Waterfront Development sal, and Beirut Hospitality Company Holding sal.

The Group posted consolidated revenues of \$228.7m from land sales in the first half of 2020 relative to receipts of \$151.1m in the same period of 2019. Also, consolidated revenues from rented properties regressed by 54% to \$12.5m in the first half of 2020, while receipts from services rendered declined by 3% year-on-year to \$3.8m.

In parallel, the Group's cost of revenues stood at \$157m in the first half of 2020 relative to \$80.8m in the same period of 2019, while its net operating income reached \$92.5m compared to \$101.5m in the first half of 2019. The general and administrative expenses of the Solidere Group rose by 1% to \$12.7m in the first six months of 2020. In addition, net provisions for impairment stood at \$17.6m in the covered period relative to \$0.9m in the first half of 2019.

Further, Solidere stated that its consolidated assets reached \$2.2bn at the end of June 2020 and decreased by 1.8% from \$2.25bn at the end of 2019, with the inventory of land and projects in progress regressing by 12% to \$979m, or 44.3% of total assets. Also, cash and bank balances totaled \$187m at end-June 2020, up by 9 times from \$20.45m at the end of 2019, while accounts and notes receivables stood at \$65.5m and declined by 49.6% from end-2019. Also, the firm's consolidated liabilities, including bank overdrafts, term bank loans and accounts payable, regressed by 19% from the end of 2019 to \$338m at the end of June 2020, with term bank loans dropping by 92.6% to \$11.5m. The Group's consolidated shareholders' equity was \$1.87bn at the end of June 2020, up by 2.1% from \$1.83bn at end-2019.

Solidere is Lebanon's largest listed firm on the Beirut Stock Exchange in terms of market capitalization as at December 18, 2020. The price of "Solidere A" shares closed at \$16.25 per share on December 18, 2020, up by 122.6% from \$7.3 per share at end-2019, while the price of "Solidere B" shares closed at \$16.21 and increased by 122.4% from \$7.29 per share at end-2019.

Banque de l'Habitat launches affordable housing loan

Banque de l'Habitat sal announced that it launched a LBP640bn package that aims to provide Lebanese pound-denominated loans for the purchase, construction and rehabilitation of houses.

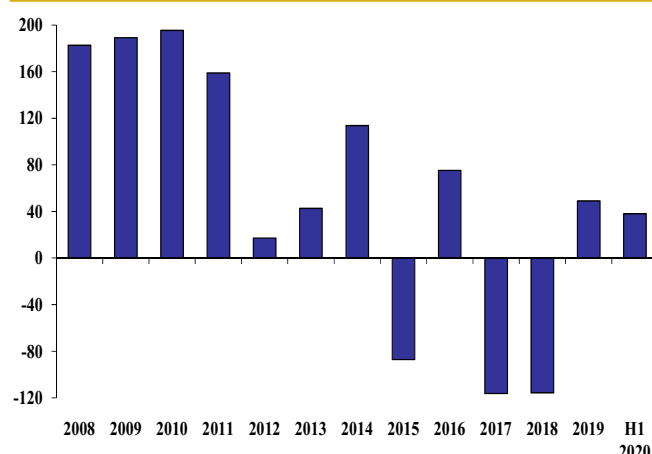
The bank will extend soft loans of up to LBP300m to beneficiaries whose household income does not exceed 10 times the minimum wage, and of up to LBP450m for those whose family income is between 10 times and 15 times the minimum wage. It indicated that loans will carry an annual interest rate of 4.5% and a maturity of up to 30 years. The bank pointed out that it intends to increase at a later stage the loans' cap to LBP450m and LBP600m, respectively, pending the approval of Parliament.

The program is funded by a \$165m soft loan from the Kuwait-based Arab Fund for Economic and Social Development (AFESD). The Lebanese Parliament enacted on May 28, 2020 a law that allows the government to accept a loan of KWD50m, or the equivalent of \$165m, from the AFESD to finance affordable mortgages in the country through Banque de l'Habitat. The loan carries a 2.5% interest rate and will be repaid over a period of 30 years with a five-year grace period. The AFESD's total contribution to development projects in Lebanon reaches KWD595m, or about \$1.95bn when including the loan.

Banque de l'Habitat launched on August 26, 2020, a LBP60bn package that aims to provide Lebanese pound-denominated loans for the rehabilitation and reconstruction of houses that were damaged in the August 4 explosion at the Port of Beirut. It noted that the package is from the bank's own funds and constituted the first stage of financing that it planned to allocate to low- and middle-income households and to displaced families that were impacted by the explosion. It said that loans can reach up to LBP150m each, and will carry an annual interest rate of 3% and a maturity of up to 15 years. Based on the size of the package, the bank can extend a minimum of 400 loans.

Banque de l'Habitat is a Lebanese joint-stock company that provides loans in Lebanese pounds to individuals, especially those with low incomes, in order to buy, build, renovate or enlarge a house. The private sector owns 80% of Banque de l'Habitat, and the Lebanese State owns the remaining 20%.

Earnings of Solidere Group (US\$m)



Source: Solidere, Byblos Research

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	99.6
Nominal GDP (US\$ bn)	55.0	51.3	25.9
Real GDP growth, % change	-1.9	-6.7	-26.4
Private consumption	-1.3	-7.3	-23.4
Public consumption	6.7	2.5	-64.7
Gross fixed capital	-1.8	-11.1	-32.2
Exports of goods and services	0.5	-4.0	-31.6
Imports of goods and services	1.1	-4.9	-39.5
Consumer prices, %, average	6.1	2.9	85.2
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	5,528
Weighted average exchange rate LBP/US\$	1,507.5	1,575	3,853

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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