

LEBANON THIS WEEK

In This Issue

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

Remittance inflows to Lebanon down 20% to \$3.1bn in first half of 2020

Council of Ministers to start easing lockdown measures in four stages

Full-time employment in key private-sector industries down 23% in 2020

Banque du Liban's foreign assets at \$23.5bn, gold reserves at \$17bn at end-January 2021

Number of airport passengers down 61% in January 2021

Iraq to supply Lebanon with fuel oil for Electricité du Liban

Construction activity continues to deteriorate in third quarter of 2020

Trade deficit narrows by 55% annually to \$6.1bn in first 10 months of 2020

Lebanon ranks 108th globally, third among Arab countries on democracy index

Growth forecast at 1.4% in 2021 on low base effects

Banque du Liban introduces exchange rate for humanitarian aid

Corporate Highlights9

Stock market capitalization down 3% to \$6.7bn at end of January 2021

Burgan Insurance's net income at \$0.4m in 2019

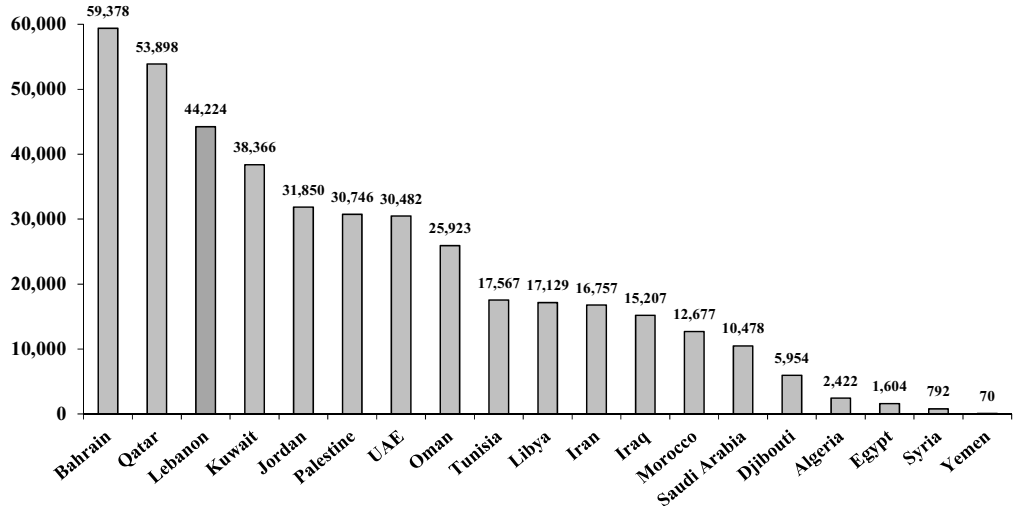
Ratio Highlights.....10

National Accounts, Prices and Exchange Rates10

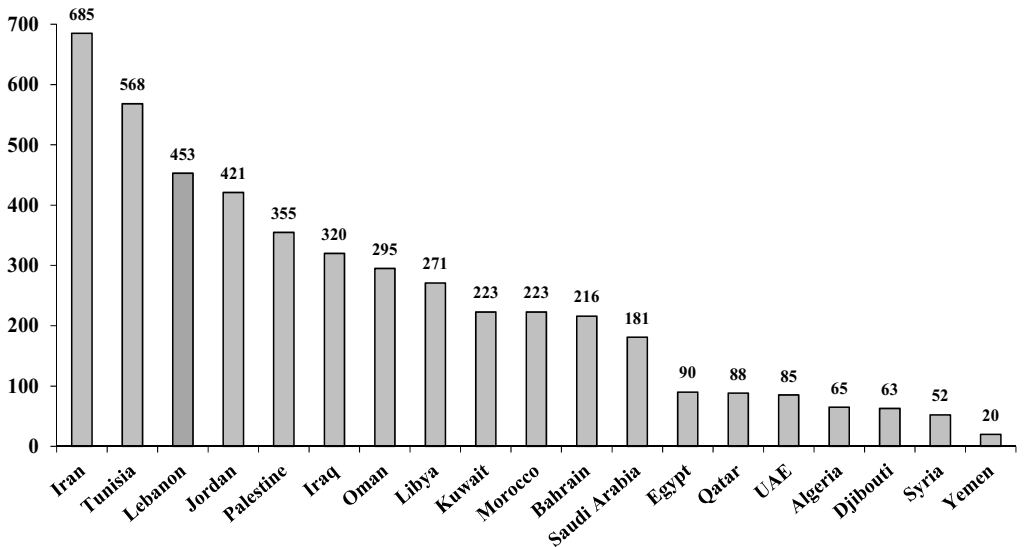
Ratings & Outlook.....10

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 January 31, 2021

Source: Worldometer; Ministry of Public Health, Byblos Bank

Quote to Note

"Such concrete actions remain absolutely crucial for the engagement of France, the United States and their regional and international partners to provide longer-term structural support to Lebanon."

U.S. Secretary of State Antony Blinken and French Foreign Minister Jean-Yves Le Drian, on the need to form a credible and effective government, and to pave the way for the implementation of necessary reforms

Number of the Week

6: Number of months that Lebanon has been without a functioning government

Lebanon in the News

\$m (unless otherwise mentioned)	2019	Jan-Nov 2019	Jan-Nov 2020	% Change*	Nov-19	Oct-20	Nov-20
Exports**	3,731	3,098	2,967	(4.2)	309	351	-
Imports**	19,239	16,612	9,071	(45.4)	1,281	1,193	-
Trade Balance**	(15,508)	(13,514)	(6,104)	(54.8)	(972)	(842)	-
Balance of Payments	(5,851)	(5,010)	(10,203)	103.6	1,143	(380)	(214)
Checks Cleared in LBP	22,146	19,743	17,995	(8.9)	2,232	1,855	1,683
Checks Cleared in FC	34,827	30,928	31,079	0.5	2,946	2,626	2,242
Total Checks Cleared	56,973	50,671	49,074	(3.2)	5,178	4,481	3,925
Fiscal Deficit/Surplus***	(5,837)	(2,952)	(2,535)	(14.1)	(892)	-	-
Primary Balance***	(287)	368	(1,136)	-	17	-	-
Airport Passengers	8,683,719	8,138,752	2,219,845	(72.7)	438,674	242,817	220,333
Consumer Price Index (%)	2.9	2.5	79.0	7650	3.2	136.8	133.5

\$bn (unless otherwise mentioned)	Dec-19	Nov-19	Aug-20	Sep-20	Oct-20	Nov-20	% Change*
BdL FX Reserves	29.55	30.15	22.76	20.00	19.46	19.03	(36.9)
In months of Imports	21.95	23.54	28.48	20.95	16.31	-	-
Public Debt	91.64	89.48	94.27	94.81	95.04	95.51	6.7
Bank Assets	216.78****	259.69	195.71	192.57	191.09	190.31	(26.7)
Bank Deposits (Private Sector)	158.86	162.60	143.04	142.18	140.96	139.91	(14.0)
Bank Loans to Private Sector	49.77	52.48	39.64	38.60	37.68	37.11	(29.3)
Money Supply M2	42.11	43.82	40.21	40.94	42.06	43.32	(1.1)
Money Supply M3	134.55	136.44	130.53	130.92	131.20	131.92	(3.3)
LBP Lending Rate (%)	9.09	9.69	7.14	7.89	7.61	7.92	(177)
LBP Deposit Rate (%)	7.36	9.40	3.47	3.35	3.14	2.91	(649)
USD Lending Rate (%)	10.84	10.64	7.54	7.54	7.46	6.63	(401)
USD Deposit Rate (%)	4.62	6.31	1.28	1.15	1.04	0.97	(534)

*year-on-year **figures for the period reflect the first 10 months of each 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
Solidere "A"	18.98	1.2	49,747	28.1%
Solidere "B"	18.57	0.9	7,686	17.9%
Audi Listed	1.21	0.8	5,098	10.6%
Byblos Common	0.50	0.0	-	4.2%
Audi GDR	1.20	0.0	-	2.1%
BLOM GDR	2.12	(3.6)	-	2.3%
HOLCIM	13.13	0.0	-	3.8%
BLOM Listed	2.07	0.0	-	6.6%
Byblos Pref. 08	43.00	0.0	-	1.3%
Byblos Pref. 09	40.00	0.0	-	1.2%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Apr 2021	8.25	13.50	3661.38
Oct 2022	6.10	13.25	168.62
Jan 2023	6.00	13.13	135.15
Jun 2025	6.25	13.25	52.42
Nov 2026	6.60	13.25	38.07
Feb 2030	6.65	13.25	23.64
Apr 2031	7.00	13.25	20.82
May 2033	8.20	12.75	17.51
Nov 2035	7.05	13.25	14.20
Mar 2037	7.25	13.63	12.75

Source: Refinitiv

	Jan 11-13	Jan 4-8	% Change	Jan 2021	Jan 2020	% Change
Total shares traded	64,532	106,202	(39.2)	170,734	2,048,141	(91.7)
Total value traded	\$1,173,009	\$1,200,920	(2.3)	\$2,373,929	\$16,307,968	(85.4)
Market capitalization	\$6.75bn	\$6.71bn	0.5	\$6.75bn	\$6.96bn	(3.1)

*BSE was closed between January 14 and February 5 due to national lockdown

Source: Beirut Stock Exchange (BSE)



Remittance inflows to Lebanon down 20% to \$3.1bn in first half of 2020

Figures released by Banque du Liban (BdL) show that the inflows of expatriates' remittances to Lebanon totaled \$3.1bn in the first half of 2020, constituting a decrease of 20% from \$3.9bn in the same period of 2019 and a decline of 12% from \$3.5bn in the second half of 2019. Remittance inflows in the first half of 2020 reached their lowest semi-annual level since 2007, compared to a semi-annual average of \$3.6bn in the 2008-2020 period. The figures include workers' remittances and the compensation of employees, according to the World Bank's definition of remittances. Banque du Liban's figures are the only official data on remittance flows to and from Lebanon.

Remittance inflows to Lebanon reached \$1.5bn and \$1.6bn in the first and second quarters of 2020, respectively, constituting declines of 19.3% and 20.8%, respectively, from the same quarters of the previous year. The figures of the first and second quarters of 2020 constitute their lowest and second-lowest quarterly levels since the fourth quarter of 2007.

In parallel, remittance outflows from Lebanon amounted to \$1.6bn in the first half of 2020, and decreased by 32% from \$2.4bn in the first half of 2019 and by 18.8% from \$2bn in the second half of 2019. Remittance outflows in the first half of the year reached their fourth lowest semi-annual level since BdL started publishing detailed figures about the balance of payments in 2002. They posted a semi-annual average of \$2.2bn between 2008 and 2020. Remittance outflows totaled \$847.8m and \$751.8m in the first and second quarters of 2020, respectively, representing decreases of 29% and 36%, respectively, from the same quarters of the preceding year. The figures of the first and second quarters of 2020 reached their lowest levels since the third quarter of 2007.

As such, net remittance inflows to Lebanon totaled \$1.5bn in the first half of 2020, constituting a decline of 0.8% from \$1.51bn in the first half of 2019 and a decrease of 3.7% from \$1.6bn in the second half of 2019. But they represented an increase of 31.2% from the semi-annual average of \$1.1bn during the 2017-18 period. Net remittance flows posted a semi-annual average of \$1.3bn between 2008 and 2020.

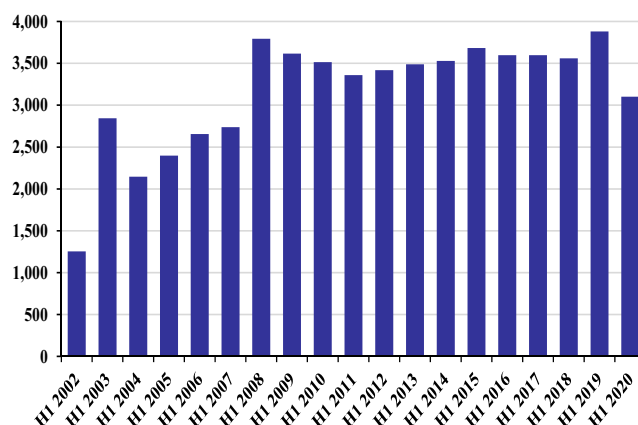
Council of Ministers to start easing lockdown measures in four stages

The Council of Ministers announced on February 5, 2021 that it will start easing the nationwide lockdown that it imposed since January 14 after the spike in the number of COVID-19 infections in the aftermath of the holiday season in December 2020. It noted that it will allow activity to normalize in four stages, provided that residents abide by social distancing measures. However, it kept in place the 24-hour curfew, and noted that residents still require permits through the government's electronic platforms to commute.

The first phase, which starts on February 8, will allow the reopening of supermarkets, mini-markets and bakeries for the public. It will also allow some operations to resume in the agricultural and industrial sectors, such as enabling factories to work at 30% of their employee capacity provided that workers undertake PCR tests every 14 days, and that employees who are over 60 years old do not work from their employer's premises. Further, banks, non-governmental organizations (NGOs) specialized in the food and healthcare sectors, the public sector, as well as UN agencies, will resume operations at 20% of their employee capacity. It will also enable public buses and vans to operate at 30% of their passenger capacity.

The second stage, which will start on February 22, will result in the reopening of construction sites, car rental agencies and dealerships, as well as travel agencies, among other businesses. It also increases the capacity of factories to 40%, with mandatory PCR tests for employees every 30 days. It will also allow taxis to operate but with a maximum of three passengers per cab. The third phase, which will start on March 8, will allow the rest of the sectors to resume their operations. It will also authorize banks, NGOs specialized in the food and healthcare sectors, the public sector, as well as UN agencies, to increase their operating capacity to 50% of their workers and employees. Further, it will allow factories to operate at 50% of their employee capacity, will require PCR tests every 45 days for their workers, and will clear employees who are over 60 years old to resume work at the companies' premises. The fourth stage, which will start on March 22, will result in the reopening of beaches and indoor pools, cafés and restaurants, Casino du Liban, religious sites, sports centers, as well as touristic and historic sites. The Cabinet will continue to impose a ban on pubs and nightclubs, on ski resorts, and on holding conferences and large gatherings, until further notice.

Remittance Inflows to Lebanon (US\$m)



Source: Banque du Liban, Byblos Research

Full-time employment in key private-sector industries down 23% in 2020

The United Nations Economic and Social Commission for Western Asia (ESCWA) indicated that the Lebanese economy is in recession, which has resulted in higher unemployment and poverty rates. It indicated that the explosion at the Port of Beirut on August 4, 2020 has led to a significantly slower pace of private sector activity, which, in turn, weighed on overall economic activity. It anticipated a further contraction in private sector activity in 2021, in case of delays in the roll-out of the COVID-19 vaccine and if authorities do not implement political and economic reforms.

First, the survey indicated that private sector activity in Lebanon reached a significantly low level, as the pandemic led to a 45% drop in private sector sales in 2020 relative to 2019. It noted that sales in the wholesale & retail sector fell by 48% during the covered period, followed by sales in the transportation sector (-47%), the construction sector (-45%), manufacturing (-44.7%), and at hotels & restaurants (-41%). Second, it said that full-time employment in key sectors declined by an average of 23% in 2020 from the previous year. It pointed out that the construction sector lost 40% of its full-time employees, followed by the hotel & restaurants sector (-31%), and the manufacturing sector (-27%). It added that firms that were affected by the August 4 blast suffered higher job losses than companies that were not directly impacted by the explosion.

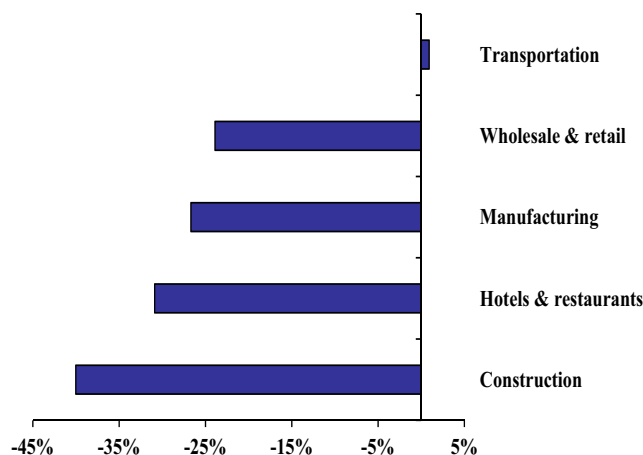
Third, it noted that the COVID-19 pandemic resulted in lower demand for full-time employees in micro and small enterprises, as it estimated that micro enterprises and small firms laid off 50% and 20% of their full-time employees, respectively, in 2020. Fourth, it said that non-exporting companies registered lower sales and laid-off twice as many full-time workers as exporting firms. It noted that non-exporting firms lost more than 30% of their full-time jobs last year, while exporting firms laid off only 14% of their full-time employees in 2020 due to better-than-expected external demand. Finally, it indicated that tax revenues from all forms of private sector contributions declined by 17% in the first nine months of 2020, and expected this decrease to be significantly higher for full year 2020 due in part to the most recent tax deferrals granted by the government.

In parallel, ESCWA suggested several policy measures to boost the performance of the private sector in Lebanon, as well as to promote sales and incentivize employment. It encouraged Lebanese authorities to grant tax deferrals, tax relief, as well as access to concessional loans and credit guarantees in order to reduce the vulnerability of firms to the prevailing recession. It pointed out that such measures will weigh on public revenues, but that the recovery of the private sector in the medium and long terms will outweigh the short-term decline in tax receipts. It added that authorities should also consider developing a national rescue plan for micro-, small- and medium-sized enterprises that includes debt rescheduling, providing concessional loans for urgent cashflow needs, and extending payment deadlines for all utility bills and taxes.

In addition, it indicated that authorities should develop and enact employment protection plans to reduce the impact of the pandemic and of the August 4 blast on employment. However, it pointed out that, given the limited fiscal capacity of the Lebanese government, social and employment programs require international and regional financing. Also, it called on authorities to facilitate favorable financing options for exporting firms, to ratify free trade agreements and set free trade zones, and to simplify bureaucratic and administrative procedures in order to support production, to boost output and employment growth, as well as to increase exports and the inflow of foreign currencies.

Further, ESCWA encouraged authorities to facilitate "upskilling" and reskilling programs for individuals who lost their jobs, through the prioritization of online trainings from top tier education programs in order to meet the employment requirements of both domestic and global markets. Finally, it called on the government to improve the Lebanese business environment and investment climate, upgrade the infrastructure and combat corruption, which would raise the competitiveness of the Lebanese economy. It expected such reforms to lead to financial support from the international community and to put Lebanon on a more credible path to attract investment opportunities.

Change in Employment by Sector
Between October 2019 and December 2020



Source: ESCWA, Byblos Research

Banque du Liban's foreign assets at \$23.5bn, gold reserves at \$17bn at end-January 2021

Banque du Liban's (BdL) interim balance sheet reached \$149.9bn at the end of January 2021, constituting increases of 0.8% from \$148.6bn at end-2020 and of 5.1% from \$142.6bn at the end of January 2020. Assets in foreign currency totaled \$23.5bn at end-January 2021, representing a drop of \$13.2bn, or of 36%, from \$36.7bn a year earlier, and a decrease of \$621.3m, or 2.6%, from the end of 2020. Assets in foreign currency include \$5.03bn in Lebanese Eurobonds.

BdL's assets in foreign currency, excluding Lebanese Eurobonds, stood at \$18.4bn at end-January 2021, and fell by \$12.5bn, or by 40.4%, from end-January 2020. 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, external debt servicing until early March 2020, as well as to BdL's intervention in the currency market and to the banks' repayment of their foreign currency loans to BdL, mostly in September 2020.

In parallel, the value of BdL's gold reserves reached \$17.1bn at the end of January 2021 and increased by 17.1% from \$14.6bn a year earlier, but it regressed by 1.5% from \$17.3bn at end-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 end-January 2021, nearly unchanged from \$40bn at end-2020 and up by 5.3% from \$38.1bn at end-January 2020. In addition, loans to the local financial sector regressed by 4.5% from end-January 2020 and by 0.6% from end-2020, and reached \$14.2bn at end-January 2021. Further, deposits of the financial sector stood at \$108.4bn at end-January 2021 and declined by \$4bn from a year earlier and by \$433.7m in January 2021. In addition, public sector deposits at BdL totaled \$4.1bn at end-January 2021 and regressed by \$1.2bn from end-January 2020 and by \$477.3m from the end of 2020.

Number of airport passengers down 61% in January 2021

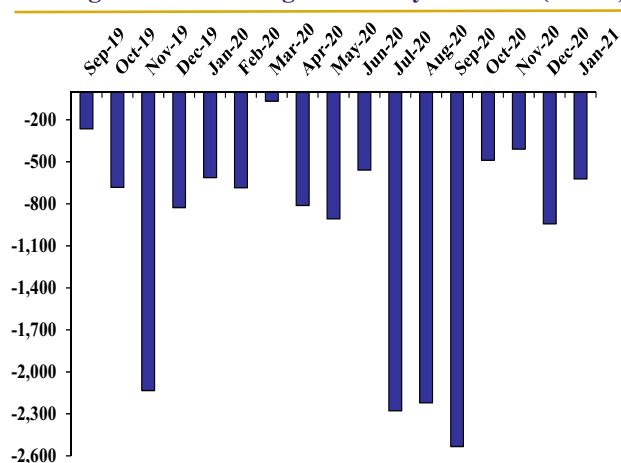
Figures released by the Beirut-Rafic Hariri International Airport (HIA) show that 206,281 passengers utilized the airport (arrivals, departures and transit) in January 2021, constituting a decline of 27% from 282,130 passengers in December 2020 and a decrease of 60.5% from 522,683 passengers in January 2020. The number of arriving passengers dropped by 71% year-on-year to 67,076 in the first month of 2021, compared to a decline of 14.2% in January 2020 and a retreat of 1.3% in the same month of 2019. Also, the number of departing passengers fell by 52.2% to 135,246 in January 2021, relative to a decrease of 14.7% in the same month of 2020 and to an increase of 2.3% in January 2019.

In parallel, the airport's aircraft activity totaled 2,521 take-offs and landings in January 2021, representing a decline of 9.4% from 2,783 take-offs and landings in December 2020 and a drop of 46.6% from 4,723 takeoffs and landings in January 2020. In comparison, aircraft activity regressed by 16.1% in January 2020 and increased by 5% in the same month of 2019.

In addition, the HIA processed 4,911 metric tons of freight in January 2021 that consisted of 2,116 tons of import freight and 2,795 tons of export freight. Middle East Airlines had 946 flights in the covered month and accounted for 37.5% of HIA's total aircraft activity.

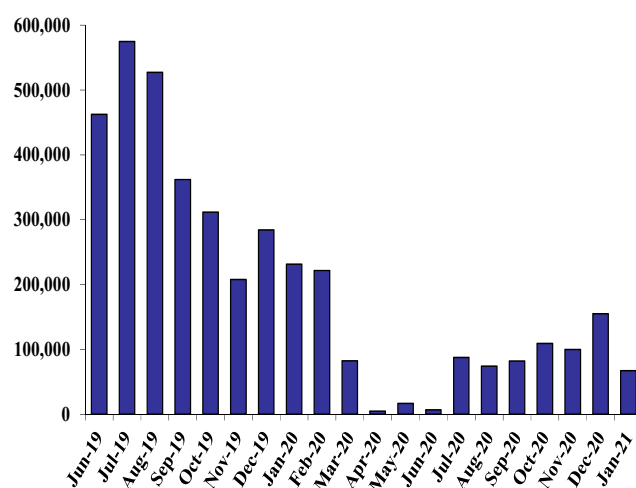
The significant year-on-year decline in the number of airport passengers and aircraft activity in January 2021 is mainly due to the lockdown measures, travel restrictions, and the closure of airports in several countries in response to the outbreak of the coronavirus worldwide.

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



Source: Banque du Liban

Number of Arriving Passengers



Source: Beirut-Rafic Hariri International Airport

Iraq to supply Lebanon with fuel oil for Electricité du Liban

The Ministry of Energy and Water announced that Iraq will supply Lebanon with fuel oil for electricity generation. The agreement between the Lebanese authorities and their Iraqi counterparts stipulates that Iraq will export 500,000 tons of heavy fuel oil to Lebanon in 2021.

The agreement between Lebanon and Iraq came after the contract between the Lebanese State and the Algerian energy conglomerate Sonatrach to supply fuel oil to Lebanon expired on December 31, 2020, which raised concerns about sourcing fuel oil for electricity production in Lebanon.

The ministry did not provide details about the quality of the imported fuel from Iraq. But it said that Iraq's heavy fuel oil does not match Lebanon's specific needs, and noted that an Iraqi company could arrange a swap for refined fuel that is more compatible with the needs of the market. In addition, payments to Iraq will reportedly consist of opening a special account at Banque du Liban that can be used by the Iraqi authorities to pay for local services, such as covering the cost of healthcare for Iraqi nationals at Lebanese hospitals.

Electricité du Liban (EdL) imported 1.8 million tons of fuel oil in the first nine months of 2020, down from 5.4 million in the same period of 2019. However, the substantial decline in EdL fuel imports masks discrepancies related to the accounting of such imports in 2019. At the time, the Ministry of Energy & Water claimed that the elevated imports of mineral fuel and oil in 2019 were due to a surge in fuel imported on behalf of EdL, which reflected quantities that were imported in the past few years but that were officially registered as imports in 2019. The ministry claimed that actual fuel imports in the first 10 months of 2019 totaled 2.25 million tons, while 3.63 million tons that were additionally registered to EdL during the same period constituted fuel imports from previous years.

In parallel, losses at EdL have constituted a burden on public finances for more than 20 years, requiring regular transfers from the Treasury and leading to wide fiscal deficits. The latest available figures show that 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, due to the drop in global energy prices. They constituted the third largest expenditures item, or 7.3% of overall fiscal spending after wages, salaries and benefits of public sector workers and debt servicing. Treasury transfers to EdL 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. Overall, transfers from the Treasury to cover EdL's losses totaled \$23.1bn from 2001 to the end of August 2020.

Construction activity continues to deteriorate in third quarter of 2020

Banque du Liban's quarterly business survey about the opinions of business managers shows that the balance of opinions for construction activity reached -75 in the third quarter of 2020, relative to -81 in the second quarter of 2020 and to -46 in the third quarter of 2019. The balance of opinions for general construction activity in the third quarter of 2020, along with the results of the first quarter of 2020, constitute the second lowest quarterly levels since the first quarter of 2004. Also, the balance of opinions outcome for the second quarter of the year is the lowest since the first quarter of 2004. The results are attributed to the disruptions to economic activity mainly as a result of the lockdown measures that the government imposed since March to contain the outbreak of the COVID-19 pandemic, and to the explosion at the Port of Beirut.

The business survey reflects the opinions of enterprise managers about the evolution of their businesses, in order to depict the trend 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 increase and the proportion of those who reported a decline in a particular indicator. The balance of opinions about construction activity was -74 in the third quarter of 2020 compared to -78 in the preceding quarter and to -47 in the third quarter of 2019. It reached its third lowest quarterly level since the first quarter of 2004. The balance of opinions about construction activity was the lowest in Beirut & Mount Lebanon at -94, followed by the Bekaa (-88), the South (-53), and the North (-44). Also, the balance of opinions about public works stood at -68 in the third quarter of 2020 compared to -76 in the second quarter of 2020 and to -51 the third quarter of 2019, and reached its third lowest level since the first quarter of 2004. Opinions about the level of public works were the lowest in Beirut & Mount Lebanon at -94, followed by the South (-80), the Bekaa (-78), and the North (-31).

In parallel, the balance of opinions about the portfolio of projects was -92 in the third quarter of 2020 relative to -96 in the preceding quarter and to -61 in the third quarter of 2019, and reached its second lowest quarterly level since the first quarter of 2004. The balance of opinions about the portfolio of projects was the lowest in the Bekaa and the South at -100 each, followed by Beirut & Mount Lebanon (-98), and the North (-75). Further, the balance of opinions about construction costs reached +79 in the third quarter of 2020, compared to +56 in the preceding quarter and +11 in the third quarter of 2019.

Construction and Public Work Activity: Evolution of Opinions				
Aggregate results	Q3-17	Q3-18	Q3-19	Q3-20
General activity	-21	-52	-46	-75
Construction	-21	-51	-47	-74
Public works	-4	-42	-51	-68
Portfolio of projects	-39	-59	-61	-92
Construction costs	13	4	11	79
Investments (% of yes)	29%	20%	17%	-15%

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

Trade deficit narrows by 55% annually to \$6.1bn in first 10 months of 2020

Total imports reached \$9.1bn in the first 10 months of 2020, constituting a decrease of 45.4% from \$16.6bn in the same period of 2019; while aggregate exports declined by 4.2% to \$3bn in the covered period. As such, the trade deficit narrowed by 54.8% year-on-year to \$6.1bn in the first 10 months of 2020 due to a decline of \$7.54bn in imports, which was marginally offset by a reduction of \$131.4m in exports.

Non-hydrocarbon imports dropped by \$4.65bn to \$6.4bn in the first 10 months of 2020, while imports of oil & mineral fuels fell by \$2.9bn to \$2.7bn and accounted for 29.4% of total imports in the covered period. Lebanon imported 7.08 million tons of mineral fuel & oil in the first 10 months of 2020 relative to 10.88 million tons in the same period of 2019.

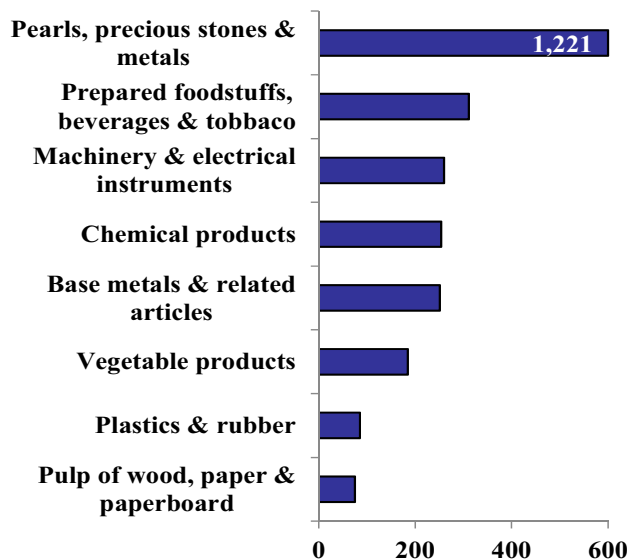
The exports of chemical products regressed by \$60.2m, or by 19%; followed by a decline of \$57.8m (-18.2%) in the exports of machinery & electrical instruments; a decrease of \$45.9m (-35%) in the exports of plastics & rubber; a contraction of \$44.5m (-37.1%) in the exports of pulp of wood; a downturn of \$36.5m (-66%) in exported mineral products; and a reduction of \$4.5m (-9.7%) in the exports of animal or vegetable fats & oils. The drop in exports was offset in part by a growth of \$50.3m (+37.4%) in the exports vegetable products, a rise of \$39.7m (+180.2%) in exported vehicles, aircraft & vessels; an expansion of \$12.5m (+59.5%) in the exports of animal products; a growth of \$9.6m (+0.8%) in the exports of pearls, precious stones; and an increase of \$8.3m (+2.7%) in the exports of prepared foodstuff, beverages & tobacco.

Exports to Turkey jumped by 41.6% in the first 10 months of 2020, those to the U.S. rose by 27.5%, exports to Egypt expanded by 27%, those to Qatar grew by 11%, exports to Switzerland increased by 10.5%, and those to Kuwait improved by 7%. In contrast, exported goods to Syria dropped by 47.6% in the covered period, those to Iraq fell by 14%, exports to Saudi Arabia decreased by 11.8%, and those to the UAE regressed by 3.6%. Also, re-exports totaled \$216.6m in the first 10 months of 2020 compared to \$450.1m in the same period of 2019. The Hariri International Airport was the exit point for 48.6% of Lebanon's exports in the first 10 months of 2020, followed by the Port of Beirut (39.6%), the Port of Tripoli (4.8%), the Masnaa crossing point (4.4%), the Port of Saida (1.6%), and the Arida crossing point (0.7%).

Lebanon's main non-hydrocarbon imports were chemical products that reached \$1.36bn in the first 10 months of 2020 and that declined by 20.2% from the same period of 2019. Imports of machinery & electrical instruments followed with \$732m (-50%); then imported jewelry with \$710m (-13.8%); imports of vegetable products with \$636.8m (-19.3%); prepared foodstuff with \$620.5m (-41%); animal products with \$475.5m (-34.7%); vehicles, aircraft & vessels with \$350.2m (-66.6%); and base metals with \$290.2m (-61.2%). The Port of Beirut was the entry point for 62.3% of Lebanon's merchandise imports in the first 10 months of 2020, followed by the Hariri International Airport (25.3%), the Port of Tripoli (7.8%), the Port of Saida (3.2%), the Masnaa crossing point (1%), the Abboudieh crossing point (0.2%), and the Arida crossing point (0.1%).

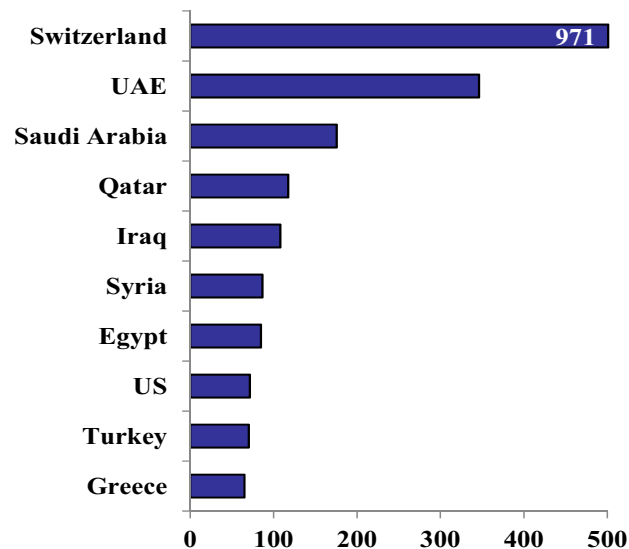
The United States was the main source of imports with \$781.5m and accounted for 8.6% of the total in the first 10 months of 2020, followed by Greece with \$721.3m (8%), Turkey with \$594m (6.5%), Italy with \$580.5m (6.4%), China with \$568.5m (6.3%), the UAE with \$516m (5.7%), Russia with \$461m (5.1%), Germany with \$453.2m (5%), France with \$297.7m (3.3%), and Switzerland with \$259m (2.9%). Imported goods from Russia dropped by 62.2%, those from China fell by 60.3%, imports from France declined by 56.2%, those from Italy decreased by 49%, imported goods from Germany contracted by 45.2%, those from the U.S. fell by 44.8%, imports from Greece dropped by 38.3%, and those from Turkey declined by 19% year-on-year in the first 10 months of 2020. In contrast, imported goods from the UAE expanded by 6.3% and those from Switzerland grew by 1% in the covered period.

Main Lebanese Exports in First 10 Months of 2020 (US\$m)



Source: Lebanese Customs Administration, Byblos Research

Main Destinations of Lebanese Exports in First 10 Months of 2020 (US\$m)



Source: Lebanese Customs Administration, Byblos Research

Lebanon ranks 108th globally, third among Arab countries on democracy index

The Economist Intelligence Unit's (EIU) 2020 Democracy Index ranked Lebanon in 108th place among 167 countries worldwide and in third place among 20 Arab countries. Also, Lebanon came in 30th place among 44 upper middle-income countries (UMICs) included in the survey. Lebanon's global rank dropped by two notches, while it was unchanged among Arab countries from the 2019 survey.

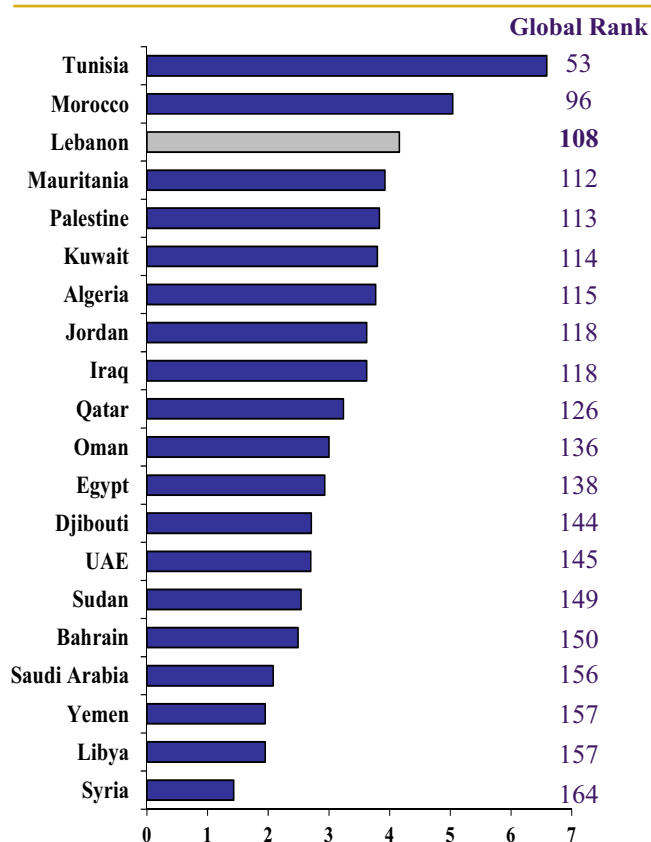
The index measures 60 indicators that are grouped in five categories that are the Electoral Process & Pluralism, Civil Liberties, the Functioning of Government, Political Participation, and Political Culture. Each category is rated on a scale from zero to 10, with the index score calculated as a simple average of the five sub-indices. The survey also placed countries in four categories of political freedoms that are full democracies, flawed democracies, hybrid regimes, and authoritarian regimes.

Globally, Lebanon has a more democratic system than Côte d'Ivoire, Nigeria and Mali, but is considered to be less democratic than Pakistan, Haiti, and the Kyrgyz Republic. Lebanon received a score of 4.16 points in the 2020 survey, its lowest score since the 2006 survey when the EIU started to issue the index, and compared to 4.36 points on the 2019 index. Lebanon posted its highest score on record in the 2006 and 2010 surveys, with a score of 5.82 points in each of those years. Lebanon's score in the 2020 survey was lower than the global average score of 5.37 points and the UMICs' average score of 5.11 points, but it was higher than the Arab region's score of 3.27 points.

Further, Lebanon's score decreased by 12.5% on the Civil Liberties category and by 10.7% on the Electoral Process & Pluralism category, while it was unchanged on the remaining three indicators from the 2019 survey. Lebanon, along with Morocco, came in the "Hybrid Regimes" category, and Tunisia was the only Arab country to qualify as a "Flawed Democracy", while the rest of the Arab countries were classified as having "Authoritarian" regimes.

The EIU considered that the political elite in Lebanon is using intimidation and oppression towards civil rights activists and individuals who are opposing the government, in order to maintain its hold on power in the face of widespread popular anger amid the prevailing political and economic crisis.

**EIU Democracy Index for 2020
Arab Countries' Scores & Rankings**



Source: Economist Intelligence Unit, Byblos Research

Components of the 2020 Democracy Index for Lebanon

	Global Rank	UMICs' Rank	Arab Rank	Lebanon Score	Global Avg Score	UMICs' Avg Score	Arab Avg Score
Electoral Process & Pluralism	110	30	5	3.50	5.75	5.67	2.10
Functioning of Government	149	40	14	1.50	4.68	4.38	2.51
Political Participation	33	5	3	6.67	5.39	5.53	4.28
Political Culture	88	13	5	5.00	5.55	4.66	4.69
Civil Liberties	107	29	3	4.12	5.49	5.29	2.76

Source: Economist Intelligence Unit, Byblos Research

Growth forecast at 1.4% in 2021 on low base effects

The UAE-based Emirates NBD Bank (ENBD) expected the Lebanese economy to grow by 1.4% in 2021, relative to an estimated contraction of 27.3% in 2020. It attributed its growth forecast for 2021 entirely to statistical base effects following the steep contraction in 2020, as it anticipates minor improvements in Lebanon's overall economic and financial conditions in the first half of the year. It indicated that the inflation rate has eroded households' purchasing power, and expected the extended lockdown measures to further weigh on economic activity. It added that the ongoing political deadlock reduces the prospects of imminent financial assistance from the International Monetary Fund or the international community.

It pointed out that Lebanon has been facing a financial crisis since the fourth quarter of 2019, amid diminishing deposit inflows and the government's decision to default on its Eurobonds in March 2020. It added that the Lebanese pound depreciated from LBP1,507.5 against the US dollar to LBP8,000 per dollar on the parallel market, leading to a surge in the inflation rate. It said that the disruptions to logistics operations from the coronavirus pandemic and the explosion at the Port of Beirut exacerbated the impact of the currency depreciation on the purchasing power of households and reduced real wages. It did not expect this trend to reverse in the near term. It anticipated the hospitality and tourism sectors to continue to struggle throughout the year, partly due to the extension of lockdown measures.

In parallel, Emirates NBD considered that the prospects for an economic recovery in Lebanon depend on significant external financial support. It pointed out that the country needs a strong and stable government to implement reforms, in order to have access to any financial support package from the IMF and international donors. However, it noted that the prospects of reforming the energy sector or government subsidies are currently weak.

Banque du Liban introduces exchange rate for humanitarian aid

Banque du Liban (BdL) issued Intermediate Circular 579 on January 29, 2021 that amends Basic Circular 147 dated September 6, 2019 about the opening of bank accounts in Lebanon. Specifically, BdL asked banks that receive foreign grants in the form of bank deposits or transfers in US dollars or any other foreign currency from international organizations or donors to inform the Banking Control Commission of Lebanon about the amounts received as well as the exchange rate that the banks used to convert these amounts to Lebanese pounds.

BdL indicated that it is currently the only source of foreign currency for the economy in Lebanon, and is providing foreign currency subsidies for the import of essential commodities and basic goods. As such, it considered that there is a "profound need" to channel the inflows of foreign currency to Lebanon through BdL. It proposed a new "humanitarian exchange rate" to the US dollar that is 60% above the rate of LBP3,900 per dollar, which is set through BdL's "Sayrafa" electronic platform for foreign currency trading. It noted that the "humanitarian rate" is currently LBP6,240 per dollar and that it will be subject to frequent revisions.

In parallel, the \$246m loan agreement between the Lebanese government and the World Bank to support the social safety net in the country stipulates that the funds will be disbursed to the needy families in Lebanese pounds at the "humanitarian rate" of LBP6,240 per US dollar.

Stock market capitalization down 3% to \$6.7bn at end of January 2021

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 170,734 shares in January 2021, constituting a decline of 91.7% from 2,048,141 shares traded in January 2020; while aggregate turnover amounted to \$2.4m and decreased by 85.4% from a turnover of \$16.3m in January 2020. The sharp decline in the volume and turnover in the covered month is due in part to the closure of the BSE starting on January 14, 2021, in line with the national lockdown measures that the government imposed to contain the spread of the coronavirus. The market capitalization of the BSE reached \$6.75bn on the last trading day of January 2021, nearly unchanged from \$6.7bn at the end of 2020 and regressed by 3.1% from \$6.96bn at the end of January 2020, with banking stocks accounting for 49.1% of the total, followed by real estate equities (46%), industrial shares (4.3%), and trading firms' equities (0.5%). The market liquidity ratio was 0.04% in the first month of 2021 compared to 0.2% in January 2020.

Real estate equities accounted for 70.3% of the trading volume in January 2021, while banking stocks represented 29.7%. Also, real estate equities accounted for 94.8% of the aggregate value of shares traded, while banking stocks represented 5.2%. The average daily traded volume for January 2021 was 24,391 shares for an average daily amount of \$0.3m. The figures reflect a decrease of 75% in the average daily traded volume and a drop of 56.3% in the average daily value in January 2021. In parallel, the Capital Markets Authority's (CMA) Market Value-Weighted Index for stocks traded on the BSE increased by 4% in January 2021. The uptick in the Market Value-Weighted Index is mainly due to the growth in the prices of Solidere A and of Solidere B shares by 2.6% and 1.5%, respectively, from end-2020, which, in turn, led to a rise in their market weights to 28% and 18%, respectively, on January 13, 2021, the highest among listed companies on the BSE.

Burgan Insurance's net income at \$0.4m in 2019

Burgan Insurance Co. sal declared net profits of \$0.4m in 2019, constituting an increase of 49.4% from net earnings of \$0.3m in 2018. The firm's audited balance sheet shows aggregate assets of \$16.7m at the end of 2019, relative to \$16.4m a year earlier. On the assets side, general company investments totaled \$5m and grew by 17.3% from end-2018. They included \$1.9m in cash & cash equivalents and \$1m in fixed income investments. Also, the firm blocked \$2m as bank deposits and deposits with maturity of more than three months, of which \$1.3m, or 63.8%, were blocked in favor of the Ministry of Economy & Trade as guarantees. Further, the reinsurance's share in technical reserves for the life category amounted to \$0.22m at the end of 2019 and declined by 76.3% from a year earlier, while the share of the non-life segment stood at \$0.93m and decreased by 4.4% from end-2018.

On the liabilities side, technical reserves for the life segment regressed by 77.6% to \$0.26m from end-2018, while technical reserves for the non-life category reached \$7.5m at end-2019 and expanded by 6.6% from a year earlier. Non-life technical reserves included outstanding claims reserves of \$3.4m that rose by 13.7%, unearned premium reserves of \$2.7m that regressed by 4%, and "incurred but not enough reported" reserves of \$0.69m that increased by 24.4% from end-2018. Provisions for risks and charges reached \$0.2m at the end of 2019, nearly unchanged from a year earlier. Also, the firm's shareholders' equity was \$4.7m at the end of 2019, and grew by 8.7% from end-2018.

Figures released by the Insurance Control Commission show that Burgan Insurance ranked in 20th and in 27th place in 2019 in terms of life and non-life premiums, respectively. The firm's non-life premiums reached \$10m in 2019, up by 5.8% from the previous year; while its life premiums amounted to \$2.6m, down by 2% from 2018. Burgan Insurance had a 0.9% share of the local non-life insurance market and a 0.6% share of the life insurance market. It ranked in 30th place in terms of life and non-life premiums in 2019, with a 0.8% market share.

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	99.4
Nominal GDP (US\$ bn)	55.0	51.3	25.8
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- December 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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