

LEBANON THIS WEEK

In This Issue

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

Lebanon ranks 78th globally, seventh among Arab countries in terms of productive capacity

Consumer Price Index up 85% in 2020

Banque du Liban affirms compliance with Law 200

One third of Lebanese considered emigrating in past 12 months

Banking sector has 1,126 branches at end-September 2020

International Federation of Red Cross and Red Crescent Societies to monitor COVID-19 vaccination campaign

Foreign direct investments at \$1.6bn in first half of 2020

Banque du Liban urges government to adopt a national plan to rationalize subsidies

Deterioration in industrial activity slows down in third quarter of 2020 from previous quarter

Corporate Highlights7

Lebanon downgraded from Frontier to Standalone Market status

Foreign investments of financial sector at \$1.3bn at end-June 2020

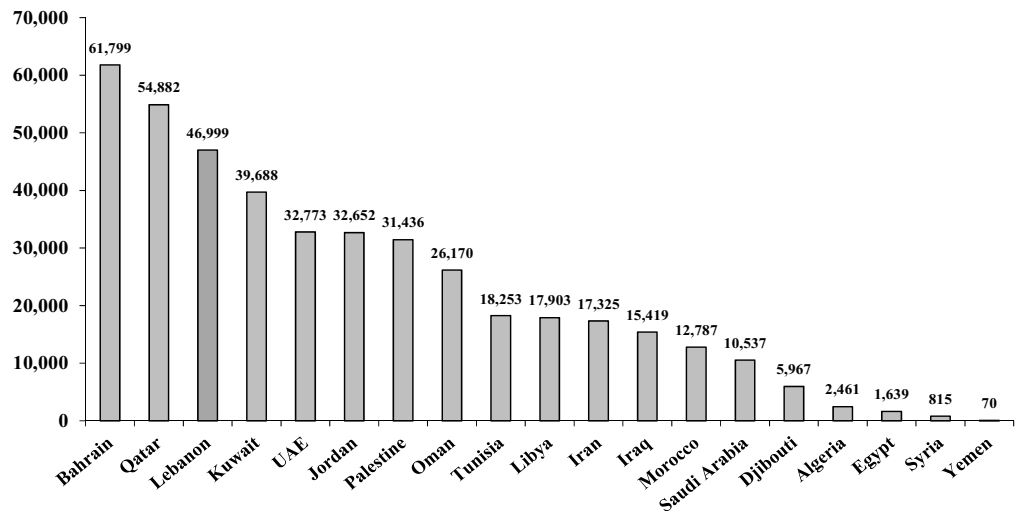
Ratio Highlights.....8

National Accounts, Prices and Exchange Rates8

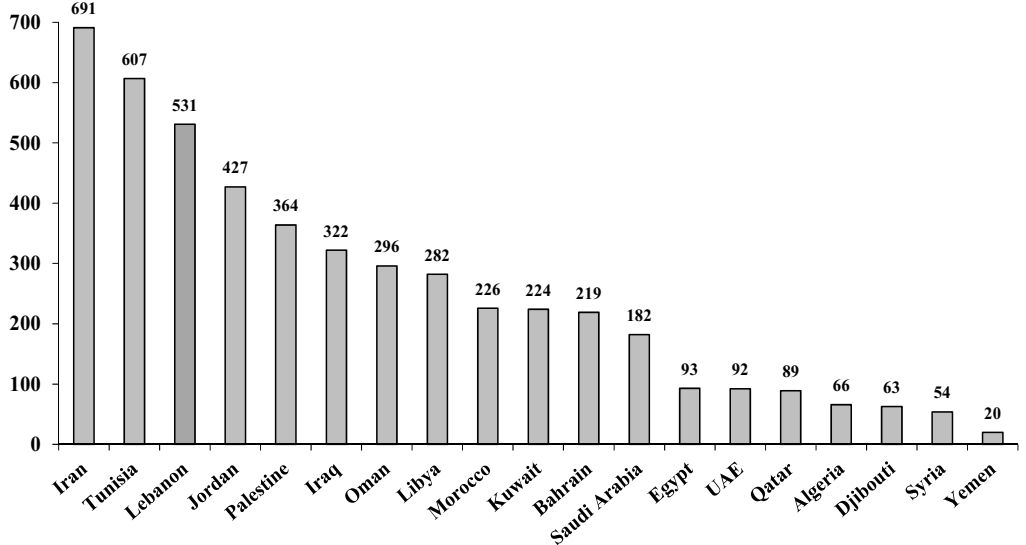
Ratings & Outlook.....8

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 February 7, 2021

Source: Worldometer; Ministry of Public Health, Byblos Bank

Quote to Note

"The six-month anniversary of the Beirut Port explosion underscores the urgent and vital need for Lebanese stakeholders to finally act upon the commitments they have made to form a credible and effective government, and to pave the way for the implementation of necessary reforms."

U.S. Secretary of State Antony Blinken and French Foreign Minister Jean-Yves Le Drian, on the necessary step of the international community to provide long-term structural support to Lebanon

Number of the Week

90%: Percentage of Lebanese who consider that their personal financial conditions deteriorated from six months earlier, according to the December 2020 survey of the Byblos Bank/AUB Consumer Confidence Index

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
Audi GDR	1.20	0.0	421,015	2.1%
Solidere "A"	19.68	3.7	135,158	28.3%
Byblos Common	0.51	2.0	72,747	4.2%
Solidere "B"	19.40	4.5	28,067	18.1%
BLOM GDR	2.12	0.0	11,027	2.3%
Audi Listed	1.32	9.1	5,000	11.2%
HOLCIM	13.50	2.8	3,825	3.8%
BLOM Listed	2.07	0.0	-	6.4%
Byblos Pref. 08	43.00	0.0	-	1.2%
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	4193.94
Oct 2022	6.10	13.00	173.88
Jan 2023	6.00	12.88	138.81
Jun 2025	6.25	13.25	52.72
Nov 2026	6.60	13.25	38.23
Feb 2030	6.65	13.25	23.70
Apr 2031	7.00	13.25	20.87
May 2033	8.20	12.50	17.71
Nov 2035	7.05	13.25	14.22
Mar 2037	7.25	13.63	12.77

Source: Refinitiv

	Feb 8-12	Jan 11-13	% Change	Jan 2021	Jan 2020	% Change
Total shares traded	676,839	64,532	949	170,734	2,048,141	(91.7)
Total value traded	\$3,714,497	\$1,173,009	217	\$2,373,929	\$16,307,968	(85.4)
Market capitalization	\$6.95bn	\$6.75bn	3.0	\$6.75bn	\$6.96bn	(3.1)

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

Source: Beirut Stock Exchange (BSE)



Lebanon ranks 78th globally, seventh among Arab countries in terms of productive capacity

The United Nations Conference on Trade and Development (UNCTAD) ranked Lebanon in 78th place among 193 countries around the world and in seventh place among 20 Arab economies on its Productive Capacities Index for 2021. Also, Lebanon ranked in 18th place among 54 upper middle-income countries (UMICs) included in the survey. Based on the same set of countries, Lebanon's global and regional ranks were unchanged year-on-year. The UN launched the index this year, with the 2021 results based on underlying data for 2018.

UNCTAD defines an economy's productive capacities as "the productive resources, entrepreneurial capabilities and production linkages that determine the capacity of a country to produce goods and services and enable it to grow and develop". The index is based on 46 variables that are grouped in eight categories, which are Energy, Human Capital, Information & Communication Technology (ICT), Institutions, Natural Capital, the Private Sector, Structural Change and Transport. The index is calculated by assigning scores from zero to 100 for the eight categories, with a higher score reflecting a better performance. The overall score of a country is a geometric average of the eight scores on each category.

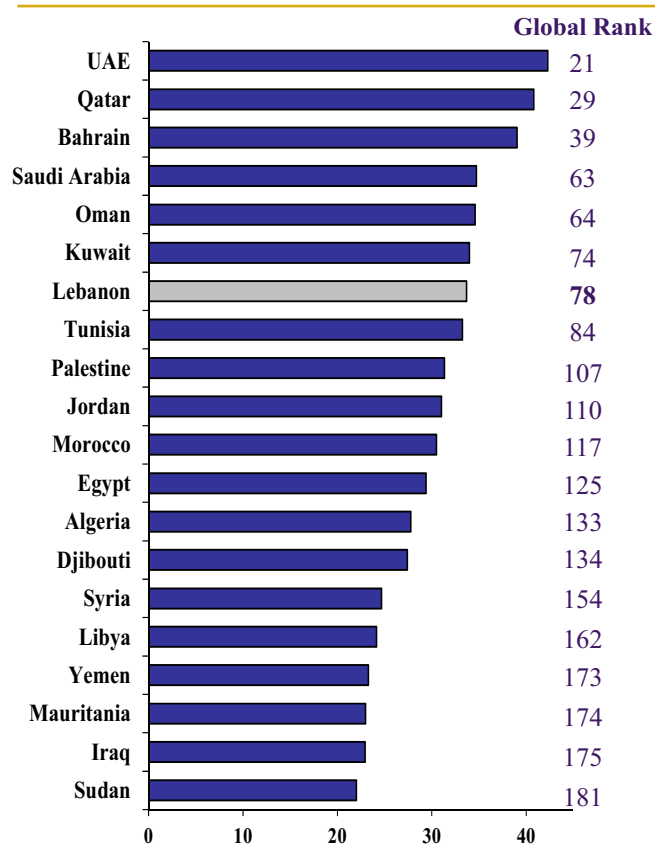
Globally, Lebanon has a higher productive capacity than North Macedonia, Tunisia and Argentina; while its productive capacity fared worse than Kuwait, Georgia and Russia among economies with a GDP of \$10bn or more. Lebanon received a score of 33.68 points on the 2021 index relative to 33.54 points on the 2020 index. Also, Lebanon's score was above the global average score of 32.17 points, the UMICs average score of 31.82 points, and the Arab average of 30.49 points. Further, Lebanon's score came lower than the Gulf Cooperation Council (GCC) countries' average score of 37.58 points and higher than the average score of non-GCC Arab countries of 27.46 points.

In parallel, Lebanon came ahead of the Philippines, the Czech Republic and Canada; while it ranked behind Poland, Cambodia and Hungary globally on the Private Sector category. This indicator examines a country's ease of cross-border trade, which includes the time and cost to export and import goods, as well as the quality of the business environment in terms of the speed of contract enforcement, the time required to start a business, and the availability of domestic credit. Also, Lebanon ranked ahead of Djibouti and Algeria and came behind Saudi Arabia and Egypt regionally on this category.

In addition, Lebanon preceded Greece, Ireland and Serbia, and trailed Brazil, Panama and Slovakia globally on the Structural Change category. This indicator is captured by a country's range of exports and its gross fixed capital formation as a share of GDP, as well as by the share of industry and services in the country's output. Also, Lebanon trailed China, Thailand, Turkey, Bulgaria, South Africa, Mexico and Brazil among UMICs.

Further, Lebanon ranked ahead of Bulgaria, Thailand and Ukraine, while it came behind Hungary, Latvia and Portugal globally on the Energy category. This component assesses the availability, sustainability and efficiency of a country's power resources. It measures the use and access to energy, losses in distribution, and regeneration of energy components and sources. Lebanon ranked behind Qatar, the UAE, Bahrain, Kuwait, Saudi Arabia and Oman in Arab region on this category.

UNCTAD Productive Capacities Index for 2021
Arab Countries' Scores & Rankings



Source: UNCTAD, Byblos Bank

Components of the 2021 UNCTAD Productive Capacities Index for Lebanon

	Lebanon Score	Global Avg Score	UMICs Avg Score	Lebanon Score	Global Rank	UMICs Rank	Arab Rank
Private Sector	81.07	77.75	77.59	78.95	79	26	11
Natural Capital	55.43	52.27	50.26	57.28	64	12	12
Human Capital	50.89	50.64	50.21	46.97	81	25	8
Institutions	38.23	54.06	49.83	40.23	154	48	11
Energy	30.27	26.80	27.80	30.11	54	8	7
Structural Change	23.02	19.62	19.46	18.71	45	8	2
ICT	16.71	13.28	12.66	11.65	56	5	4
Transport	16.27	18.44	18.27	16.43	97	24	7

Source: UNCTAD, Byblos Bank



Consumer Price Index up 85% in 2020

The Central Administration of Statistics' Consumer Price Index increased by 85% in 2020, compared to a growth of 3% in 2019 and a rise of 6.1% in 2018.

The CPI expanded by 145.8% in December 2020 from the same month of 2019, while it registered its sixth consecutive triple-digit increase and its largest rise based on monthly data from December 2007. The cumulative surge in inflation in 2020 is due in part to the inability of authorities to monitor and contain prices, as well as to the deterioration of the Lebanese pound's exchange rate on the parallel market, which has encouraged opportunistic wholesalers and retailers to raise the prices of consumer goods disproportionately. According to the International Monetary Fund, the CPI averaged 487.2% in 1987 and ended the year at 741.2%, constituting the highest inflation rates on record.

The prices of furnishings & household equipment surged by 7.6 times in December 2020 from the same month last year, followed by prices at restaurants & hotels (+7.1 times), clothing & footwear (+6.6 times), prices of food & non-alcoholic beverages, as well as of alcoholic beverages & tobacco (+5 times each), the cost of miscellaneous goods & services (+3.7 times), the cost of recreation & entertainment (+3.3 times), and transportation costs (+3.1 times). In addition, the cost of communication increased by 86.7% year-on-year in December 2020, followed by the prices of water, electricity, gas & other fuels (+33.2%), healthcare costs (+17.4%), actual rent (+13.8%), the cost of education (+10.3%), and imputed rents (+8%). Also, the distribution of actual rents shows that old rents grew by 16.2% and new rents increased by 12.1% year-on-year in December 2020.

In parallel, the CPI grew by 8.1% in December 2020 from the previous month, compared to a month-on-month rise of 0.5% in November 2020. The cost of transportation jumped by 44% month-on-month in December 2020, due to the increase in the prices of new cars, followed by the prices of clothing & footwear (+16.6%), water, electricity, gas & other fuels (+9.5%), prices of alcoholic beverages & tobacco (+7%), the cost of recreation & entertainment (+5%), prices at restaurants & hotels (+3.7%), the cost of miscellaneous goods & services (+2.8%), actual rent (+2.2%), prices of food & non-alcoholic beverages (+2.1%), imputed rent (+1.4%), the cost of furnishings & household equipment (+0.7%), and communication costs (+0.4%). Also, healthcare and education costs were nearly unchanged month-on-month in December 2020.

Further, the CPI increased in the South by 12.5%, the North by 8.3%, Mount Lebanon by 8%, Beirut by 7.2%, Nabatieh by 7.1%, and the Bekaa by 6.4% in December 2020. In parallel, the Education Price Index was unchanged, while the Fuel Price Index increased by 10.5% month-on-month in December 2020.

Banque du Liban affirms compliance with Law 200

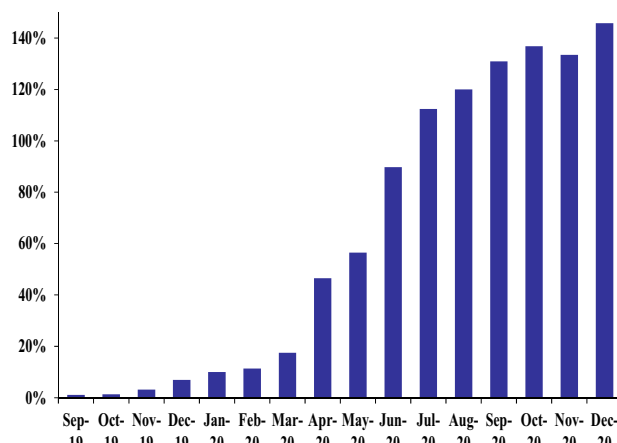
Banque du Liban (BdL) announced on February 12, 2021 that, in accordance with legal principles, it sent a letter to the Minister of Finance confirming BdL's compliance with the full provisions of Law 200 dated December 29, 2020, and affirmed its cooperation with Alvarez & Marsal on the questions that the firm addressed to BdL. The Lebanese government selected the firm in July 2020 to conduct a forensic audit of BdL's accounts and signed with it a \$2.1m contract at the end of August 2020.

In addition, BdL stressed the need for Alvarez & Marsal to comply with the laws about data protection and the privacy of information, as well as with the European Union's General Data Protection Regulation (GDPR) in order to avoid any leakage of data or information, similar to the previous leakage to an international newspaper.

Law 200 lifts banking secrecy on the accounts of all ministries, public institutions and administrations, as well as on the accounts of public bodies, agencies, councils and funds, and on all accounts at BdL. It suspends the banking secrecy law on these accounts for one year starting from December 29, 2020. Parliament enacted Law 200 to facilitate the forensic audit of BdL that the government requested. The forensic audit has been subject to a public debate between BdL, government officials, political parties and experts, mostly about BdL's ability to submit the requested documents to Alvarez & Marsal without breaching any laws, particularly the banking secrecy law.

In November 2020, Alvarez & Marsal decided to terminate its contract with the Lebanese government to conduct a forensic audit of the activities and accounts of BdL. The firm attributed its decision to the fact that it did not receive all the needed information and documents that it requested to carry out the audit, and that it does not expect to receive them within the additional three-month extension that the Finance Ministry gave to BdL to submit the documents at the time. However, the Minister of Finance stated on February 11, 2021 that he would request Alvarez & Marsal to resume its work on the forensic audit once BdL provides answers to some of the questions, without providing details about the nature of the inquiries.

Annual Change in CPI (%)

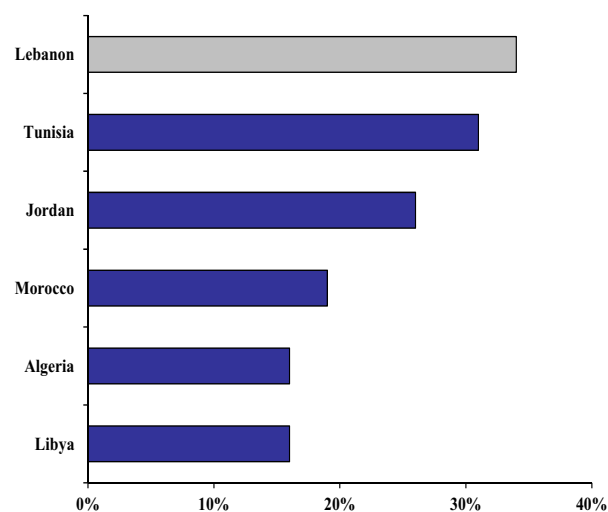


Source: Central Administration of Statistics, Byblos Research

One third of Lebanese considered emigrating in past 12 months

A survey conducted in six Arab countries by the Berlin-based Konrad Adenauer Foundation's Regional Program Political Dialogue South Mediterranean (KAS PolDiMed) indicated that less than 1% of Lebanese consider that the local economy is 'good' or 'very good', compared to 39% of Moroccans, 26% of Algerians and of Libyans, 23% of Jordanians and 3% of Tunisians who share the same view about their economy. In addition, less than 1% of Lebanese respondents believe that the economic situation in Lebanon was better at the time of the survey than it was 12 months earlier, relative to 17% of Moroccans, 14% of Algerians, 12% of Libyans, 9% of Jordanians and 4% of Tunisians who consider that economic conditions in their country improved from 12 months ago. Further, 14% of Lebanese anticipate that their country's economic conditions will improve in the next 12 months, compared to 65% of Jordanians, 64% of Moroccans, 63% of Libyans, 59% of Algerians, and 47% of Tunisians who share the same expectations about their country's economic conditions. The survey showed that young Lebanese are less optimistic about future economic conditions than adults, as 12% of Lebanese in the 18 to 29-year-old bracket expect Lebanon's economic environment to improve, relative to 15% of Lebanese who are 30 years old or more and have the same outlook.

Percentage of Respondents who Considered Emigrating to Another Country in the Past 12 Months



Source: KAS PolDiMed, Byblos Research

In parallel, according to the survey, 34% of Lebanese respondents have considered emigrating to another country in the past 12 months, the highest rate among the six Arab countries. Specifically, the results found that 53% of Lebanese youth and 25% of adults have considered emigrating. Moreover, 89% of Lebanese respondents cited economic considerations as the main reason for emigration. Also, 33% of Lebanese chose Europe and 6% selected the Gulf Cooperation Council countries as their main destination for emigration.

Further, the survey showed that 26% of Lebanese said that they "fully, a lot, or somewhat" trust the government, while 19% expressed the same level of trust in the Parliament, constituting the lowest rates among the six Arab countries. In addition, 28% of Lebanese indicated that they "fully, a lot, or somewhat" trust their political party, the third highest rate among the six Arab countries after Morocco (46%) and Algeria (37%). Also, 38% of Lebanese have a similar trust in civil society organizations, the lowest rate among the six Arab countries. In parallel, 18% of Lebanese respondents believe that the government's response to the coronavirus pandemic is 'good' or 'very good'.

The KAS PolDiMed 2020 survey about the opinions, sentiments and feelings of citizens in Algeria, Jordan, Lebanon, Libya, Morocco and Tunisia was conducted by the Arab Research and Analytics Associates company (ARAA). The firm conducted the survey between October 26 and December 8, 2020 on a sample of about 1,800 in each of the six Arab countries.

Banking sector has 1,126 branches at end-September 2020

Figures issued by Banque du Liban (BdL) show that the Lebanese banking sector had 1,126 branches at the end of September 2020, constituting a decrease of 26 branches, (-2.3%) from 1,152 branches at end-2019 and at end-September 2019. Commercial banks had 1,105 branches in total at the end of September 2020 compared to 1,131 branches at end-2019 and at end-September 2019. Further, medium- and long-term banks had 21 branches in Lebanon at the end of September 2020, unchanged from a year earlier.

The breakdown of commercial banks' branches shows that banks had 1,032 local branches at the end of September 2020, down by 26 branches from 1,058 branches at end-2019 and end-September 2019. There were 548 branches of commercial banks in Beirut & its suburbs, accounting for 53% of total branches in Lebanon, followed by Mount Lebanon with 205 branches (20%), South Lebanon with 107 branches (10.4%), North Lebanon with 106 branches (10.3%), and the Bekaa with 66 branches (6.4%). Moreover, nine foreign commercial banks operating in the country had 22 branches and four Islamic banks had 15 branches at the end of September 2020. In addition, there were 14 e-branches that offer banking services through interactive and automated machines at end-September 2020.

In parallel, commercial banks operating in Lebanon had 73 branches outside the country at the end of September 2020, unchanged from a year earlier. Further, there were 47 commercial banks and 16 medium- and long-term banks operating in Lebanon at the end of September 2020, unchanged from a year earlier.

International Federation of Red Cross and Red Crescent Societies to monitor COVID-19 vaccination campaign

The World Bank signed an agreement with the International Federation of the Red Cross and Red Crescent Societies (IFRC) on February 12, 2020 to independently monitor Lebanon's COVID-19 vaccination campaign. The agreement stipulates that the IFRC will act as a third party monitoring agency (TPMA) and will monitor the compliance of the vaccine's deployment with national plans, international standards and World Bank requirements, in order to ensure the safe handling of the vaccines, as well as the fair and equitable access to residents.

It indicated that the IFRC's oversight and supervision will cover the management of the COVID-19 vaccine supply chain and the administration of the vaccine from technical, environmental and social safeguards perspectives. It noted that the IFRC's supervision includes the storage, stocking and temperature maintenance across the supply chain, service delivery at vaccination sites, the eligibility of vaccine recipients, and capturing patients' feedback. The agreement will last until the end of 2021 and may be extended as needed. Further, the agreement will oversee the rollout of vaccines that the World Bank is financing and that will cover more than two million individuals.

The World Bank indicated that the IFRC will use mixed methods for data collection to oversee the vaccination campaign, including the monitoring of mobile data platforms to ensure real time data collection and analysis, in-person observations and monitoring using checklists, and reporting and reconciliation of daily stock count. In addition, the IFRC teams will monitor social media and analyze the data from the call center of the Ministry of Public Health.

The World Bank has established, in consultation with the World Health Organization and other United Nations agencies, an international Joint Monitoring Committee to oversee the vaccination process, identify measures to enhance the quality of the campaign, and ensure joint advocacy throughout the process.

In parallel, a survey about the opinion of the Lebanese population about the coronavirus vaccines shows that 38% of respondents said they do not want to get vaccinated, 31% intend to receive the vaccine, while the remaining 31% are still undecided. It pointed out that 44% of respondents in the 60 to 64 year-old age bracket want to get vaccinated, 33% of those who are 65 years or older intend to be vaccinated, while only 29% of individuals in the 18 to 29 year-old age bracket plan to receive the vaccine.

In addition, the survey indicated that 41% of respondents cited the side effects of the vaccine as the main reason for hesitating or deciding not to get vaccinated, followed by conflicting information about the vaccine (25%), doubts about the efficacy of the vaccine (17%), and the rapid pace of the vaccine's discovery (7%). The survey was conducted by opinion polling firm Information International sal between January 30 and February 4, 2021 on a sample of 500 individuals in Lebanon.

Foreign direct investments at \$1.6bn in first half of 2020

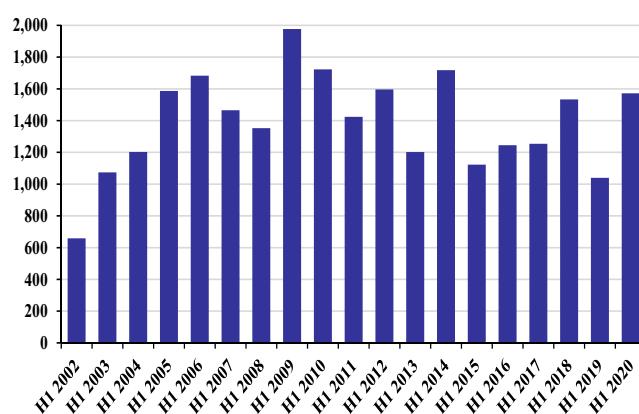
Figures released by Banque du Liban show that foreign direct investments (FDI) in Lebanon totaled \$1.6bn in the first half of 2020, compared to \$1bn in the first half of 2019. FDI inflows in the covered period were in line with the semi-annual average of \$1.5bn between 2002 and 2019, and compared to a high of \$2.6bn in the second half of 2008. FDI figures in the first half of 2020 consist largely of the transfer of non-resident deposits at local commercial banks to the real estate sector, according to the International Monetary Fund's (IMF) balance of payments methodology to record FDI flows.

FDI inflows amounted to \$1bn in the first quarter of 2020 compared to \$646.3m in the same quarter of 2019, their highest level in the first quarter of each year since 2002. They totaled \$565.1m in the second quarter 2020 relative to \$393.4m in the same period of 2019, which is lower than the average of \$787.3m in the second quarter of each year between 2002 and 2019.

In parallel, FDI outflows from Lebanon amounted to \$4.3m in the first half of 2020 compared to \$236m in the same period of 2019. They reached their lowest semi-annual level since 2002. FDI outflows from Lebanon posted a semi-annual average of \$432.6m between 2002 and 2019, with a high of \$1.3bn in the first half of 2013.

As such, net FDI inflows to Lebanon reached \$1.6bn in the first half of 2020, constituting an increase of 95% from \$803.8m in the first half of 2019, according to the IMF's methodology. Net FDI inflows to Lebanon posted their fifth highest semi-annual level between 2002 and 2019. They averaged \$1bn between 2002 and 2019, with a high of \$2.1bn in the first half of 2008.

FDI Inflows to Lebanon (\$USm)



Source: Banque du Liban, Byblos Research

Banque du Liban urges government to adopt a national plan to rationalize subsidies

Banque du Liban (BdL) indicated that it sent a letter to the Minister of Finance pertaining to the performance of its duties under Clause 70 of the Code of Money & Credit. BdL stated that it has been tapping its limited stock of foreign currency in accordance with its national responsibilities, amid the demand for foreign currency from Electricité du Liban (EdL), from ministries to finance subsidized products, and from accredited importers. For instance, the Ministry of Energy & Water recently requested \$1.2bn from BdL to cover its needs.

BdL reiterated the need to immediately adopt a national plan to rationalize subsidies, as well as to identify priority items and their sources of funding. It added that the government should communicate the plan to BdL, given that delays in implementing such a plan will have negative repercussions on the economic and social situation in the country. In addition, it called on the government to identify the measures that it will take in order to secure the necessary foreign currency to finance the government's basic expenditures and imports.

In parallel, BdL suggested that the Ministry of Finance, in collaboration with the Ministry of Energy & Water and EdL, conducts a comprehensive study of all contracts that EdL has signed to explain the selection process for retaining contracting firms and to verify if all means to reduce costs have been exhausted. BdL indicated that it repeatedly proposed the study during previous meetings with the Energy Ministry and with EdL, and added that the findings should be publicly available to allow for a wider participation of stakeholders.

Further, BdL pointed out that the government should establish a centralized unit to approve all the invoices that EdL, ministries and accredited importers submit to the bank for settlement in foreign currency. It noted that the government should set priorities for spending in foreign currency, and should make sure, with the support of the centralized unit, that the payment mechanism with BdL is respected. It added that the government should take responsibility for the cost of the subsidies in foreign currency and for any waste or misuse resulting from it. BdL asked the Finance Ministry to respond as quickly as possible to its request due to the sensitivity of the current situation.

Deterioration in industrial activity slows down in third quarter of 2020 from previous quarter

Banque du Liban's quarterly business survey about the opinions of business managers shows that the balance of opinions for industrial production was -48 in the third quarter of 2020 compared to -66 in the second quarter of 2020 and to -33 in the third quarter of 2019.

The balance of opinions for the level of industrial production in the third quarter of 2020 reached its fifth lowest quarterly level during the 2004-2020 period, after posting -66 in the second quarter of 2020, -64 in the third quarter of 2006 due to the Israeli war on Lebanon, -55 in the first quarter of 2020, and -50 in the fourth quarter of 2019. 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 since March 2020 to contain the outbreak of the COVID-19 pandemic, in addition to the impact of the explosion of the Beirut Port on August 4, that 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 about industrial production was -92 in the South, followed by the Bekaa (-59), Beirut & Mount Lebanon (-39), and the North (-25). The balance of opinions about demand for industrial goods stood at -52 in the third quarter of 2020 compared to -68 in the preceding quarter and to -36 in the third quarter of 2019. It reached its fifth lowest quarterly level during the 2004-2020 period. The balance of opinions about demand for industrial goods was the lowest in the South at -92, followed by the Bekaa (-68), Beirut & Mount Lebanon (-44), and the North (-25).

In parallel, the balance of opinions about the volume of investments in the industrial sector stood at -26 in the third quarter of 2020 compared to -37 in the preceding quarter and to -20 in the third 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 (-51), and the North (zero). In contrast, the balance of opinions about the volume of investments in the Bekaa was +15. Also, the balance of opinions about foreign demand of industrial goods stood at -30 during the third quarter of 2020 compared to -37 in the preceding quarter and to -24 in the third quarter of 2019. The balance of opinions about foreign demand of industrial goods was the lowest in the South at -88, followed by the Bekaa region (-33), Beirut & Mount Lebanon (-26), and the North (zero).

Industrial Activity: Evolution of Opinions				
Aggregate results	Q3-17	Q3-18	Q3-19	Q3-20
Production	-2	-34	-33	-48
Total demand	-7	-36	-36	-52
Foreign demand	-16	-15	-24	-30
Volume of investments	+3	-12	-20	-26
Inventories of finished goods	-8	-4	-13	-45
Inventories of raw material	-8	-10	-22	-50
Registered orders	-18	-29	-44	-61

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

Lebanon downgraded from Frontier to Standalone Market status

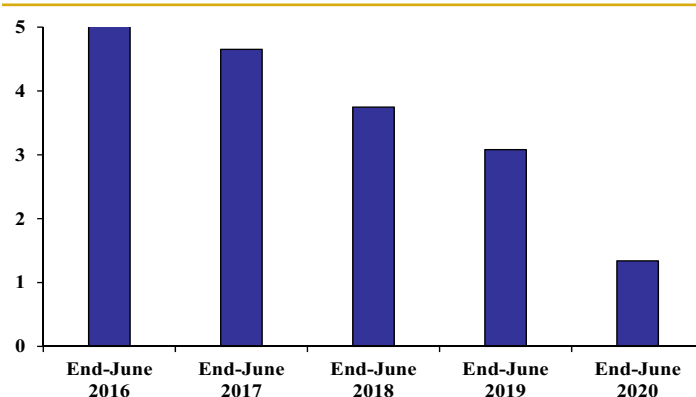
In its February 2021 Quarterly Index Review for its equity indexes, Morgan Stanley Capital International (MSCI), a provider of research-based indexes and analytics, reclassified Lebanon from "Frontier Market" status to "Standalone Market" status'. As a result, it indicated that it will remove the stocks of Solidere "A" and Solidere "B" from the MSCI Frontier Markets Index. It added that it will delete the two Lebanese securities from the MSCI Frontier Markets Index at a value that is 80% below their closing prices on February 26, 2021, in order to facilitate the index's replicability at the time of the reclassification. Index replicability relates to portfolio investments whereby an investor replicates the composition of the index to generate similar returns.

MSCI attributed its reclassification of Lebanon to the implementation of de facto capital controls since October 2019, which led to the deterioration of market access for investors, to problems related to the repatriation of funds from Lebanon, to issues about "index replicability" and to large disparities between the official and the parallel market exchange rates of the Lebanese pound against the US dollar. As a result, it considered that Lebanon did not meet the "ease of capital inflows/outflows" criteria listed under the "Market Accessibility Criteria" in order to remain a Frontier Market.

Foreign investments of financial sector at \$1.3bn at end-June 2020

Figures issued by Banque du Liban (BdL) show that the net investment portfolio of Lebanese banks and financial institutions in foreign debt and equity securities totaled \$1.34bn at the end of June 2020, constituting a decrease of 36.6% from \$2.11bn at the end of 2019 and a decline of 56.5% from \$3.08bn at the end of June 2019. Placements in equities reached \$833.2m at the end of June 2020 and accounted for 62.2% of the total, followed by investments in long-term debt securities at \$502.4m (37.5%), and investments in short-term debt securities at \$4.2m (0.3%). Investments in long-term debt securities dropped by 43.6% in the first half of 2020, while placements in equities declined by 31.7%, and investments in short-term debt securities regressed by 6%. The significant decline in the foreign investments of the financial sector was largely due to divestments and to the restrictions imposed by banks on clients for transfers outside the country. The financial sector's foreign investments have gradually decreased since September 2018.

Foreign Investments of Financial Sector (US\$bn)



Source: Banque du Liban, Byblos Research

According to BdL, the figures cover the net assets of resident banks and financial institutions in foreign tradable debt and equity instruments. They help provide a clearer picture about the flow of funds from Lebanon and, therefore, about the balance of payments.

The net portfolio of commercial banks in long-term debt securities, which consists of the banks' investments for their own account, on behalf of their clients and on a custodial basis, totaled \$203.4m and accounted for 43% of the financial sector's aggregate investments in such securities at the end of June 2020. Insurance companies followed with \$121.8m (25.7%), then medium- and long-term banks with \$107m (22.6%), and financial institutions with \$41.8m (8.8%). In parallel, commercial banks accounted for 64% of investments in short-term debt securities at the end of June 2020, while insurance firms represented the balance of 36%. Further, commercial banks' investments in equities reached \$301m and represented 38.3% of the financial sector's investments in such securities at the end of June 2020. Medium- and long-term banks followed with \$247.4m (31.5%), then financial institutions with \$142.3m (18.1%), insurers with \$95.3m (12.1%), and financial intermediaries with \$0.25m (0.03%).

The distribution of investments by destination shows that the United States was the main recipient of equity investments of banks and financial institutions operating in Lebanon with \$235.3m, or 28.2% of the total at end-June 2020. France followed with equity investments of \$104.1m (12.5%), then Luxembourg with \$77.8m (9.3%), the Cayman Islands with \$59.1m (7%), and Jordan with \$41.2m (5%), while other countries accounted for the remaining 38%. In parallel, the United States received \$95m or 19% of investments in long-term debt securities, followed by France with \$59.3m (11.8%), Belgium with \$33.9m (6.7%), the United Kingdom with \$32.2m (6.4%), and South Africa with \$27m (5.4%), while other countries accounted for the balance of 50.7%. Further, the United States was the recipient of 50% of investments by Lebanese banks and financial institutions in short-term debt securities, followed by Egypt (17.2%), the United Kingdom (15.6%), the European Union (7.8%), and Canada (4.7%), while other countries represented the remaining 6.3% of such investments.

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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