

LEBANON THIS WEEK

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Stock market capitalization up 14% to \$7.1bn at end of February 2021

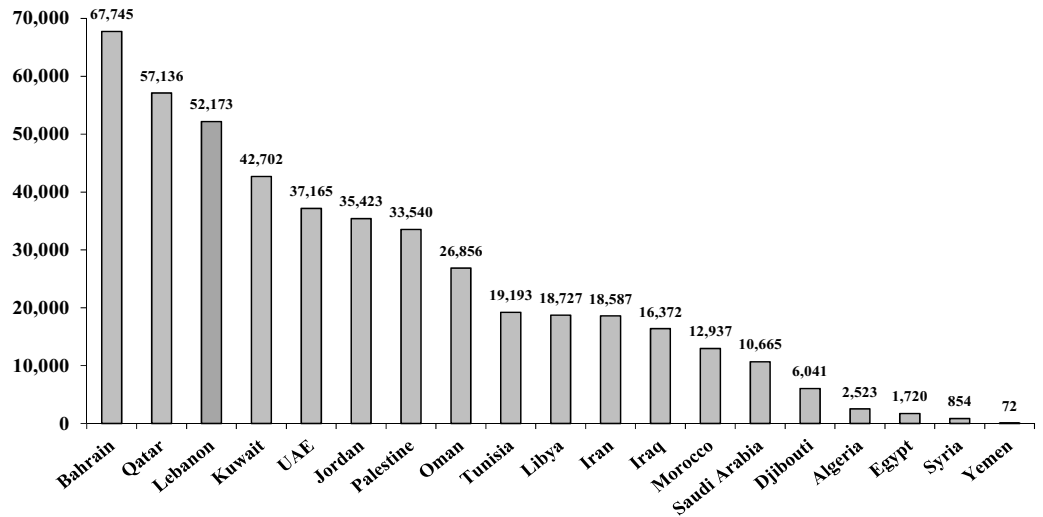
Opened letters of credit at \$343m for imports and \$189m for exports in 2020

Balance sheet of financial institutions down 15% in 2020

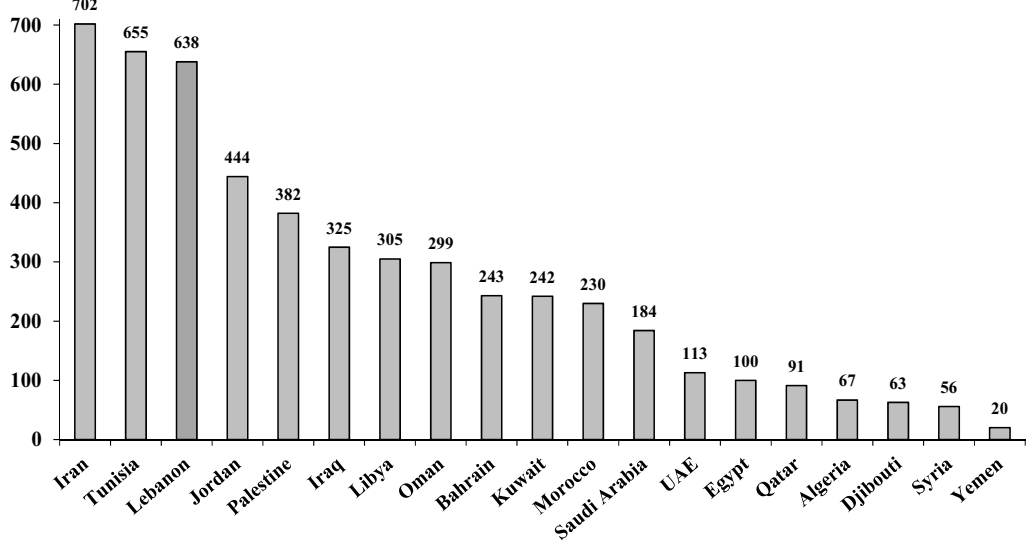
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Charts of the Week

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 February 23, 2021

Source: World Bank Group, Byblos Bank

Quote to Note

"The United Nations hopes that Lebanon's leaders will prioritize the national interest and rapidly overcome their differences to form a new government that addresses the country's numerous challenges, meets the aspirations of the Lebanese people, and implements necessary reforms."

Ms. Najat Roshdi, Officer in Charge of the Office of the UN Special Coordinator for Lebanon and Resident and Humanitarian Coordinator for Lebanon, on the urgent need for Lebanon to have a functioning executive branch

Number of the Week

50,415: Number of persons in Lebanon who received the COVID-19 vaccine since the start of the vaccination campaign on February 13, according to the Ministry of Public Health

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 "B"	19.16	(0.2)	101,198	17.6%
Solidere "A"	19.98	3.8	86,341	28.2%
Byblos Common	0.53	3.9	33,000	4.2%
BLOM GDR	2.15	(7.3)	6,300	2.2%
Audi Listed	1.52	12.6	6,200	12.6%
Audi GDR	1.20	0.0	4,230	2.0%
HOLCIM	13.00	0.0	-	3.6%
Byblos Pref. 08	35.00	0.0	-	1.0%
Byblos Pref. 09	39.55	0.0	-	1.1%
BLOM Listed	2.20	0.0	-	6.7%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Apr 2021	8.25	13.00	6023.08
Oct 2022	6.10	12.50	184.79
Jan 2023	6.00	12.63	144.51
Jun 2025	6.25	12.75	54.44
Nov 2026	6.60	12.75	39.33
Feb 2030	6.65	12.75	24.29
Apr 2031	7.00	12.75	21.38
May 2033	8.20	12.50	17.78
Nov 2035	7.05	12.75	14.55
Mar 2037	7.25	13.00	13.12

Source: Refinitiv

	Feb 22-26	Feb 15-19	% Change	Feb 2021	Feb 2020	% Change
Total shares traded	237,469	7,669,525	(97)	8,583,833	1,729,973	396
Total value traded	\$3,676,994	\$16,722,589	(78)	\$24,114,080	\$11,322,149	113
Market capitalization	\$7.09bn	\$6.92bn	2.5	\$7.09bn	\$6.24bn	13.8

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

Source: Beirut Stock Exchange (BSE)



Lebanon ranks 33rd in emerging markets, 12th in Arab world in terms of logistics infrastructure

Transport Intelligence's 2021 Agility Emerging Markets Logistics Index ranked Lebanon in 33rd place among 50 emerging markets (EMs) and in 12th place among 13 Arab countries included in the survey. Also, Lebanon came in 14th place among 20 upper middle-income countries (UMICs). In comparison, Lebanon came in 30th place globally and in 10th place regionally in the 2020 survey. Transport Intelligence is an analysis and research firm for the logistics industry.

The index compares a country's prevailing operational environment to its current logistics opportunities and potential. The index is an average of three equally weighted sub-indices that are Domestic Logistics Opportunities, International Logistics Opportunities and Business Fundamentals. A higher score reflects a better performance on the index.

Lebanon has a more developed logistics infrastructure than Sri Lanka, Ecuador and Argentina, and a less developed logistics environment than Nigeria, Tunisia, and Algeria among EM countries. It received a score of 4.56 points on the 2021 index compared to 4.64 points on the 2020 index. Lebanon's score came lower than the EM average score of five points, the UMICs' average of 5.15 points and the Arab average score of 5.09 points. It is also lower than the Gulf Cooperation Council (GCC) countries' average score of 5.59 points, but is higher than the non-GCC Arab countries' average score of 4.66 points.

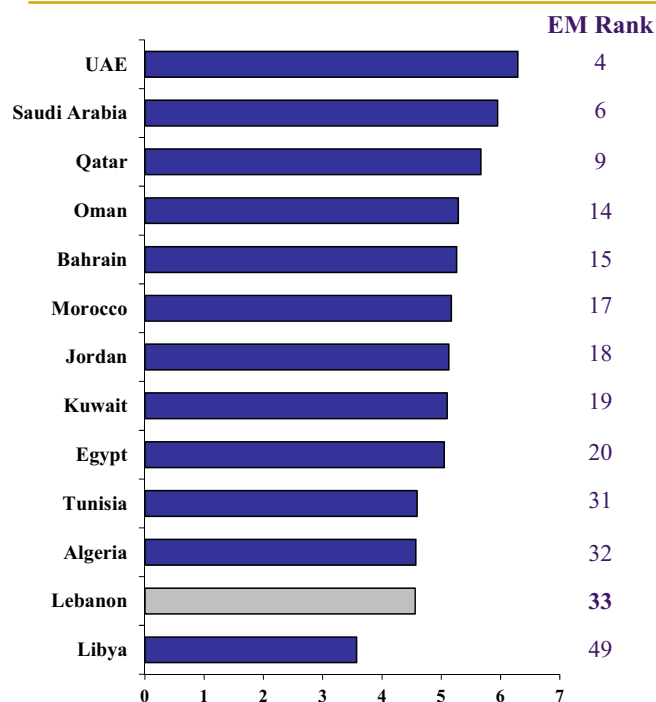
Lebanon ranked ahead of Ukraine, Peru and Kazakhstan, and came behind Uruguay, Argentina and Chile among EMs on the Domestic Logistics Opportunities Sub-Index. This category measures the size and growth of a country's economy, population and logistics markets, as well as income equality, urbanization levels, and the development of business clusters in the country. Lebanon ranked ahead of Morocco, Tunisia and Libya among Arab countries.

In addition, Lebanon preceded Myanmar, Kuwait and Ecuador, and trailed Kenya, Argentina and Pakistan among EMs on the International Logistics Opportunities Sub-Index. This category assesses the internal and external demand for a country's trade-related logistics services and the capacity of individual markets to facilitate cross-border logistics operations. It also measures the connectedness of a country's infrastructure, as well as the time needed and the cost for border procedures. Lebanon came ahead of Kuwait, Tunisia, Libya and Algeria regionally.

Further, Lebanon came ahead of Paraguay, Bolivia and Iran, and lagged behind Brazil, Nigeria and Pakistan among EMs on the Business Fundamentals Sub-Index. This category assesses a country's credit and debt dynamics, contract enforcement and anti-corruption frameworks, inflation and price stability, the cost of crime and violence, as well as a country's market accessibility and domestic stability. Lebanon preceded only Libya among Arab countries.

In parallel, Transport Intelligence's survey of 1,206 professionals in the logistics industry, which it conducted between September and December 2020, shows that Lebanon has the fifth lowest potential to become a logistics hub among emerging economies.

Agility Emerging Markets Logistics Index for 2021 Scores & Rankings of Arab Countries



Source: Transport Intelligence, Byblos Research

Components of the 2021 Agility Emerging Markets Logistics Index

	EM Rank	Arab Rank	UMICs Rank	Lebanon Score	EM Avg Score	Arab Avg Score	UMICs Avg Score
Domestic Logistics Opportunities	28	10	12	4.83	5.00	4.98	5.14
International Logistics Opportunities	30	9	15	4.56	4.99	4.77	5.31
Business Fundamentals	39	12	15	3.99	5.00	5.99	4.86

Source: Transport Intelligence, Byblos Research

Occupancy rate at Beirut hotels at 18%, room yields down 76% in 2020

EY's benchmark survey of the hotel sector in the Middle East indicates that the average occupancy rate at four- and five-star hotels in Beirut was 18% in 2020 relative to 68% in 2019, compared to an average rate of 38% in 14 Arab markets included in the survey. The occupancy rate at Beirut hotels was the lowest in the region last year, while it was the sixth highest in 2019. The occupancy rate at hotels in Beirut regressed by 49.5 percentage points in 2020, representing the steepest decline in the region. In comparison, the average occupancy rate in Arab markets declined by 28.5 percentage points in 2020.

The occupancy rate at Beirut hotels stood at 41% in December 2020, constituting an increase of 10 percentage points from 31% in December 2019. It was the seventh highest rate in the region in the covered month. The occupancy rate at Beirut hotels was 25% in January, 30% in February, 10% in March, 2% in April, 3% in May, 3% in June, 11% in July, 22% in August, 43% in September, 37% in October and 25% in November 2020. In comparison, it stood at 60% in January, 71% in February, 79% in March, 85% in April, 45% in May, 77% in June, 77% in July, 83% in August, 77% in September, 61% in October and 28% in November 2019.

Also, the average rate per room at Beirut hotels was \$171 in 2020, decreasing by 9.5% from \$189 in 2019 and constituting the fifth highest rate in the region. The average rate per room in Beirut was higher than the regional average of \$136 that regressed by 18% from 2019. The average rate per room at Beirut hotels was \$216 in December 2020, up by 134.4% from \$92 in December 2019. It was \$138 in January, \$123 in February, \$122 in March, \$124 in April, \$108 in May, \$170 in June, \$283 in July, \$202 in August, \$157 in September, \$179 in October and \$215 in November 2020.

Further, revenues per available room (RevPAR) were \$31 at Beirut hotels in 2020 compared to \$128 in 2019, and were, along with Makkah, the fourth lowest in the region after the RevPAR of Amman (\$29) and of Cairo and Muscat (\$27 each). Beirut's RevPAR regressed by 76% year-on-year and posted the steepest decrease regionally. Beirut posted a RevPAR of \$88 in December 2020, up by 210.6% from \$28 in December 2019, constituting the third highest RevPAR in the region in the covered month. In comparison, Beirut posted RevPARs of \$35 in January, \$37 in February, \$12 in March, \$2 in April, \$3 in May, \$5 in June, \$32 in July, \$45 in August, \$68 in September, \$67 in October and \$54 in November 2020; while it registered RevPARs of \$118 in January, \$132 in February, \$146 in March, \$174 in April, \$83 in May, \$181 in June, \$164 in July, \$180 in August, \$83 in September, \$65 in October and \$23 in November 2019. Abu Dhabi had the highest hotel occupancy rate in the region at 72% in 2020, while Kuwait City registered the highest average rate per room at \$210, and Dubai generated the highest RevPAR at \$90 last year.

EY indicated that the unfavorable economic and political conditions in Lebanon, as well as the outbreak of the coronavirus pandemic and the August 4 explosion at the Port of Beirut, weighed on the performance of the hospitality sector in Beirut in 2020. However, it attributed the growth in the sector's activity in December mainly to the ease in the coronavirus restrictions and to the inflow of Lebanese expatriates during the Christmas and end-of-year holidays period.

Coincident Indicator down 39% in first 10 months of 2020

Banque du Liban's Coincident Indicator, an index of economic activity in Lebanon, stood at 165.2 points in October 2020 compared to 157.8 in the previous month and to 280.9 in October 2019. The Coincident Indicator, an average of eight weighted economic indicators, regressed by 41.2% in October 2020 from the same month of the previous year, constituting the steepest annual decline on record in the month of October and reflecting the deterioration of economic and financial conditions in the country. However, it increased by 4.7% from September 2020, as it continues to improve from the August low of 144.3 points as a result of the explosion at the Port of Beirut.

The indicator averaged 182.4 in the first 10 months of 2020, constituting a decline of 38.6% from an average of 297.1 in the same period of 2019 and representing its lowest level in the first 10 months of a year since the 278.2 it recorded in 2007. The percentage drop in the indicator is the steepest on record in the first 10 months of a year since BdL launched the indicator in 1993. The indicator averaged 197 in the 12 months ending October 2020, compared to an average of 206.6 in the 12-month period ending September 2020 and to an average of 299.1 in the 12 months ending October 2019. As a result, the 12-month average coincident indicator declined by 4.7% month-on-month and regressed by 34.1% year-on-year.

In parallel, the indicator regressed 3 times, improved 24 times, and remained the same once in the month of November since 1993. It averaged 256.6 points in 2012, 264.7 points in 2013, 273.2 points in 2014, 278.6 points in 2015, 289.5 points in 2016, 305.9 points in 2017, 307.7 points in 2018, and 292.6 points in 2019.

Hotel Sector Performance in 2020

	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Dubai	46	90	(46.8)
Ras Al Khaimah	47	83	(24.8)
Kuwait City	34	72	(47.3)
Riyadh	50	70	(32.7)
Jeddah	38	68	(55.9)
Doha	60	61	(21.9)
Abu Dhabi	72	53	(34.8)
Madina	31	35	(65.6)
Manama	27	34	(60.1)
Makkah	30	31	(72.2)
Beirut	18	31	(75.9)
Amman	26	29	(68.4)
Cairo	30	27	(68.6)
Muscat	25	27	(69.2)

Source: EY, Byblos Research

Broad money supply down 1.4% in 2020, currency in circulation up 200%

Figures released by Banque du Liban show that money supply M1, which includes currency in circulation and demand deposits in Lebanese pounds, reached LBP40,156bn at the end of 2020, constituting a rise of 141.6% from LBP16,620bn at the end of 2019, relative to an upturn of 42.5% in 2019. Currency in circulation stood at LBP29,242bn at the end of 2020 and surged by 198% from LBP9,818bn at end-2019. Also, demand deposits in local currency stood at LBP10,914bn at the end of 2020 and expanded by 60.4% from LBP6,802bn at end-2019. Money supply M1 increased by 7.5% in December from LBP37,372bn at end-November 2020, with currency in circulation growing by 10.3% and demand deposits in local currency expanding by 0.6% month-on-month. The increase in money supply largely reflects the migration of term deposits to demand deposits, as well as the shift to a cash-based economy.

In addition, money supply M2, which includes M1 and term deposits in Lebanese pounds, reached LBP67,510bn at the end of 2020, constituting an increase of 6.3% from LBP63,484bn at the end of 2019, compared to a decrease of 17.4% in 2019. Term deposits in Lebanese pounds totaled LBP27,354bn at the end of 2020, and declined by 41.6% from LBP46,864bn at end-2019. Money supply M2 grew by 3.4% in December from LBP65,312bn at end-November 2020, with term deposits in local currency regressing by 2.1% month-on-month.

Further, broad money supply M3, which includes M2, deposits in foreign currency and debt securities issued by the banking sector, reached LBP200,052bn at the end of 2020, constituting a decrease of 1.4% from LBP202,831bn at the end of 2019, relative to a decline of 4.8% in 2019. Deposits in foreign currency totaled LBP132,022bn at the end of 2020, and regressed by 5% from LBP138,910bn at end-2019. Also, debt securities issued by the banking sector amounted to LBP519bn at the end of 2020 compared to LBP437bn a year earlier. Money supply M3 grew by 0.6% from LBP198,875bn at the end of November 2020, with deposits in foreign currency regressing by 0.7% and debt securities issued by the banking sector declining by 5% month-on-month. In parallel, M3 retreated by LBP2,779bn in 2020 due to a drop of LBP18,850bn in claims on the private sector, including claims in foreign currencies that fell by LBP17,574bn; a decline of LBP10,795bn in the net foreign assets of deposit-taking institutions, and a decrease of LBP12,408bn in net claims on the public sector; which were partly offset by a rise of LBP39,274bn in other net items.

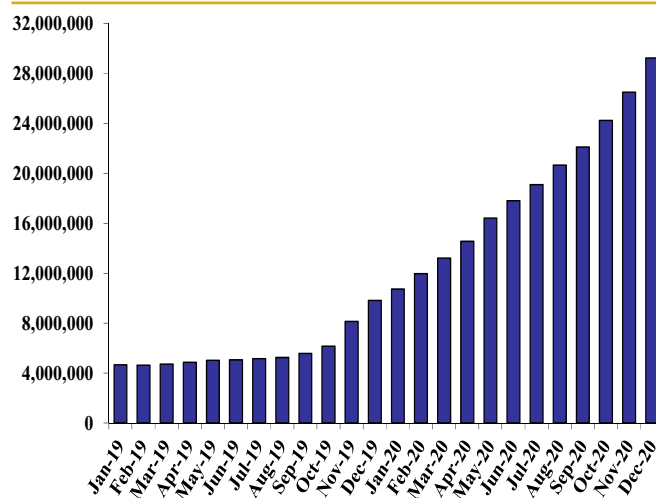
Banque du Liban asks banks to abide by deadlines related to increase in capital position and foreign liquidity

Banque du Liban (BdL) issued a statement on February 25, 2021 that asked banks operating in Lebanon to abide by all the deadlines in the circulars it issued about the increase in the banks' solvency and liquidity in foreign currency. BdL issued its statement in response to news reports that it could extend the end-of-February deadline for the implementation of Basic Circular 154, especially the clause that asked banks to place in a free account at correspondent banks the equivalent to at least 3% of their deposits in foreign currency as at end-July 2020, among other measures.

Specifically, it said that banks need to submit all the requested documents to the Banking Control Commission of Lebanon (BCCL), which will audit each bank's position and recapitalization plan, and then send its assessment to BdL. Banks need to submit their capital and foreign liquidity positions, as well as their recapitalization plan for the coming five years. BdL stressed that it will take the necessary measures to strengthen the banking sector and preserve the depositors' rights and funds, according to Clause 70 of the Code of Money and Credit. It also noted that BdL will coordinate with the BCCL, the Capital Markets Authority and the Higher Banking Commission in order to ensure the proper implementation of Basic Circular 154.

Basic Circular 154 also stipulated that, in order to boost the banks' liquidity profiles, especially at their foreign corresponding banks, Lebanese banks should encourage customers who transferred abroad the equivalent of \$500,000 or more since July 2017 to deposit the equivalent of 15% of the transferred amount in a "special account" with a term maturity of five years. Further, it asked banks to encourage importers to transfer from abroad the equivalent of 15% of the aggregate amount of letters of credits that they opened in any of the past four years, to place these funds in a "special account", and to block them for five years. In addition, it indicated that each bank should also ask its chairman, members of the Board of Directors, major shareholders and senior executives, as well as its customers that are identified as "politically-exposed persons" and who transferred abroad more than \$500,000 or their equivalent in other foreign currencies since July 2017, to repatriate 30% of such funds and block them for five years.

Currency in Circulation (LBP Millions)



Source: Banque du Liban, Byblos Research

Banque du Liban mandates 100% coverage of fresh money at banks

Banque du Liban (BdL) issued Intermediate Circular 580 on February 25, 2021 that adds a clause to Basic Circular 150 dated April 9, 2020 about exceptional exemptions of banks from reserve requirements and from mandatory placements at BdL. The circular asked banks to deposit at BdL or at correspondent banks abroad the equivalent of 100% of the amount of the foreign transfers or of the cash deposits in foreign currency that they receive.

Further, the circular indicated that the deposits that originate from the repatriation of funds under Basic Circular 154 dated August 27, 2020 are exempted from the 100% coverage. Circular 154 circular stipulated that, in order to boost the banks' liquidity profiles, especially at their foreign corresponding banks, Lebanese banks should encourage customers who transferred abroad the equivalent of \$500,000 or more since July 2017, to deposit the equivalent of 15% of the transferred amount in a "special account" with a term maturity of five years. Also, it asked banks to encourage importers to transfer from abroad the equivalent of 15% of the aggregate amount of letters of credits that they opened in any of the past four years, and to place these funds in a "special account", and block them for five years. Further, it indicated that each bank should also ask its chairman, members of the Board of Directors, major shareholders and senior executives, as well as its customers that are identified as "politically-exposed persons" and who transferred abroad more than \$500,000 or its equivalent in other foreign currencies since July 2017, to deposit 30% of such funds and block them for five years. It said that the amounts deposited into the "special accounts" will be exempt from reserve requirements and from mandatory placements at BdL and could bear interest rates.

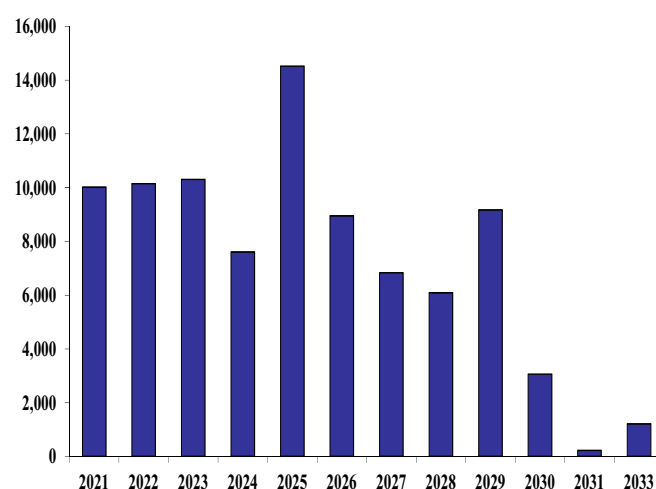
Nearly 89% of Treasury securities in Lebanese pounds have five-year maturities or longer

Figures released by the Association of Banks in Lebanon (ABL) show that the face value of outstanding Treasury securities denominated in Lebanese pounds reached LBP88,141bn, or the equivalent of \$58.5bn, at the end of 2020, compared to LBP85,700bn, or \$56.8bn, at the end of 2019. The dollar figures are converted at the official exchange rate of the Lebanese pound against the US dollar. The weighted interest rate on Lebanese Treasury securities denominated in Lebanese pounds was 6.52% in December 2020 compared to 6.44 % in December 2019.

The distribution of outstanding Treasury securities shows that 15-year Treasury bonds accounted for 1.6%, or LBP1,417bn, of aggregate securities denominated in Lebanese pounds at the end of 2020; 12-year Treasury securities represented 3.5% of the total (LBP3,076bn); and 10-year Treasury bonds had a share of 38% (LBP33,372bn). Also, the share of eight-year Treasury securities was 0.1% (LBP67bn), seven-year Treasury bonds accounted for 21.3% (LBP18,741bn), five-year Treasury securities represented 24.5% (LBP21,631bn), the share of three-year Treasury bonds was 7.6% (LBP6,714bn), two-year Treasury bills represented 2.2% (LBP1,910bn), one-year T-bills accounted for 1.2% (LBP1,039bn), the share of six-month T-bills was 0.2% (LBP137bn), and three-month T-bills represented 0.04% (LBP37bn) of the total. As such, 64.3% of outstanding Treasury securities have seven-year maturities or longer and 88.8% have five-year maturities or more.

In parallel, LBP2,184bn in outstanding Treasury securities denominated in Lebanese pounds matured in December 2020, of which 86.1% were three-year Treasury bonds, 8% were five-year Treasury securities, 2.7% were one-year Treasury bills, and 1.3% were three-month Treasury bonds, while six-month Treasury bills and two-year Treasury securities accounted for 1% each. According to ABL, LBP10,023bn of outstanding Treasury bonds in Lebanese pounds will mature in 2021, while LBP10,153bn will come due in 2022.

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



*As at end-December

Source: Association of Banks in Lebanon, Byblos Research

Banque du Liban's foreign assets at \$22.9bn, gold reserves at \$16.3bn at end-February 2021

Banque du Liban's (BdL) interim balance sheet reached \$151bn at the end of February 2021, constituting an increase of 1.6% from \$148.6bn at end-2020 and of 4.5% from \$144.5bn at end-February 2020. Assets in foreign currency totaled \$22.9bn at end-February 2021, representing a decrease of \$1.2bn, or of 5%, from \$24.1bn at the end of 2020 and a drop of \$12.9bn (-36%) from \$35.8bn at end-February 2020. Assets in foreign currency include \$5.03bn in Lebanese Eurobonds relative to \$5.5bn at end-February 2020.

BdL's assets in foreign currency, excluding Lebanese Eurobonds, stood at \$17.9bn at end-February 2021 and fell by \$12.4bn, or by 41%, from \$30.3bn at end-February 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, maturing Eurobonds and 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 amounted to \$16.3bn at end-February 2021 and regressed by 6.2% from \$17.3bn at end-2020, but it increased by 8.3% from \$15bn at end-February 2020. The value of gold reserves reached a peak of \$18.1bn at mid-September 2020. Also, the securities portfolio of BdL totaled \$40.6bn at end-February 2021, up by 1.6% from \$40bn at end-2020 and by 6.2% from \$38.2bn at end-February 2020. In addition, loans to the local financial sector regressed by 4.5% from end-February 2020 and by 0.7% from the end of 2020 to \$14.2bn at end-February 2021. Further, deposits of the financial sector stood at \$108.2bn at end-February 2021 and increased by \$294.4m in the first two months of the year, while they declined by \$4.4bn from a year earlier. In addition, public sector deposits at BdL totaled \$4.5bn at end-February 2021, decreasing by \$23.5m from the end of 2020 and by \$281m from end-February 2020.

International support contingent on policy reforms

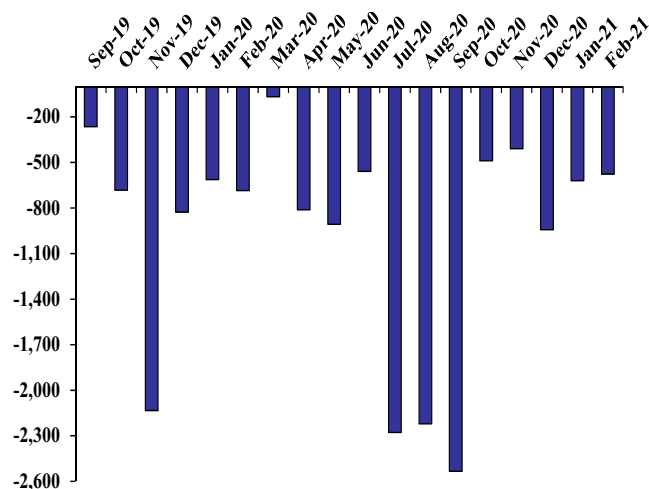
S&P Global Ratings indicated that Lebanese authorities have not made any progress on the negotiations with investors about debt restructuring, or on obtaining funding support from official lenders such as the International Monetary Fund since the current government decided to default on its foreign currency debt obligations in March 2020. It pointed out that the main obstacle to a debt restructuring agreement is that the country is currently functioning under a caretaker government that does not have the authority to agree on terms with creditors. It considered that the pressure on the exchange rate will persist and foreign currency reserves will decrease steadily without a deal with investors. The agency assigned a selective default (SD) rating on Lebanon's foreign currency debt obligations following the government's decision to default on its foreign obligations. It added that its 'negative' outlook on Lebanon's 'CC/C' local currency ratings reflects the possibility that the government may decide to restructure its local currency debt obligations.

It expected financial conditions in Lebanon to remain unstable without strong political commitment to implement structural economic, fiscal, and monetary reforms. It added that a policy anchor through a multilateral support framework could increase confidence in a reforms plan that the Lebanese government announces, given the latter's weak track record of implementing reforms.

S&P considered that Lebanon's institutional and economic profile faces long-term constraints from a fragmented political environment. It added that depositor confidence continued to weaken amid persisting political deadlocks and weak governance, subdued economic activity, and large-scale protests since early October 2019. It noted that the ongoing political impasse is delaying the economic recovery and debt restructuring process. It pointed out that donor support, including the \$11bn pledged at the CEDRE Conference in 2018, is contingent on the formation of a government and on policy reforms. It expected the future recovery plan to be tied to structural reforms that would encourage private sector investments, to reducing losses at state-owned enterprises, to a detailed audit of Banque du Liban (BdL) and other government institutions, as well as to the implementation of formal capital controls.

In addition, it noted that the currency peg to the US dollar has been disrupted by reduced access to external financing and foreign currency deposit inflows, which resulted in a steady decline of foreign currency reserves. It considered that BdL has only limited buffers to counter a sustained deterioration in the balance of payments, as it continues to back the import of critical goods at the official exchange rate and of other essential goods at LBP3,900 per US dollar.

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

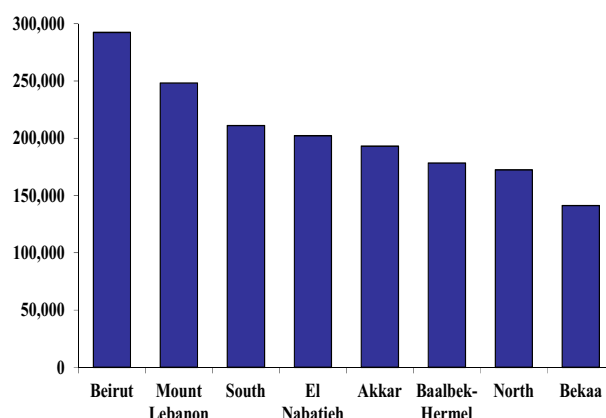


Source: Banque du Liban

Spending per Syrian refugee up 27% to LBP198,981 per month in 2020

A survey commissioned by the United Nations High Commissioner for Refugees (UNHCR), the World Food Program (WFP) and the United Nations Children's Fund (UNICEF) indicated that a Syrian refugee in Lebanon spent an average of LBP198,981 per month in 2020, constituting an increase of 26.7% from LBP156,943 in 2019. It attributed the rise in spending to higher inflation rates. The survey showed that household spending on food accounted for 48% of total monthly expenditures in 2020, followed by rent (10.8%) and healthcare (10.3%), while other categories, such as hygiene, telecommunications, water, transport and electricity, represented the remaining 31%. It noted that the average monthly rent among surveyed refugees across Lebanon was LBP264,642 last year, unchanged from 2019, and that 58% of Syrian refugee households were living in challenging shelter conditions. It said that rent ranged from LBP93,419 per month for non-permanent structures, such as tents at informal settlements, to an average of LBP256,365 and LBP314,230 per month for non-residential and residential accommodations, respectively.

Spending per Syrian Refugee by Governorate (US\$m)



Source: UNHCR, WFP, UNICEF, Byblos Research

Also, the survey revealed that nearly 89% of Syrian refugee households spent less than LBP1,543,613 per month in 2020, compared to 55% in 2019, which is below the Survival Minimum Expenditure Basket (SMEB) that consists of basic items that a household needs for physical survival. It added that the share of households that spent less than the Minimum Expenditure Basket (MEB) of LBP1,751,542 per month rose from 73% in 2019 to 91% last year. The survey noted that it was necessary to increase the SMEB to LBP1,543,613 per household and the MEB to LBP1,751,542 per household in order to factor in the prevailing economic crisis in Lebanon.

In parallel, the survey indicated that 21% of Syrian refugee households cited assistance from the WFP in the form of e-cards as their primary source of income in 2020, 17% revealed that informal credit from shops, friends and family is their main source of income, while 15% of households said that they used ATM cards from humanitarian agencies as their primary source of income. It added that 10% of households said that construction work was their primary source of revenues, while 8% noted that the agriculture sector was their main source of remuneration last year. Also, the survey noted that the level of employment of Syrian refugees in the agriculture sector has nearly doubled from 17% in 2019 to 32% in 2020. It added that construction employed 24% of Syrian refugees in 2020, and considered that the sector might have been negatively affected by the coronavirus-related lockdown measures and the high prices of imported materials as a result of the financial crisis.

In addition, the survey pointed out that 92% of households noted that they were in debt and 71% said that they bought food on credit, while 24% of households noted that they sold household items and 23% said that they spent their savings in times of stress. Further, it showed that 87% of households reported debt in excess of LBP300,000 each and 63% of them have debt in excess of LBP900,000 each. It noted that indebted refugees have accumulated an average of LBP1,835,838 in debt per household in 2020, up by 10% from LBP1,672,602 in 2019. Also, it said that the average amount of debt per capita increased by about 7% to LBP442,634 in 2020. It added that the highest average amount of debt per capita was in the North and Beirut at LBP552,771 and LBP527,879, respectively, while the highest average debt per household was in the North governorate (LBP2,340,550) and in the Bekaa region (LBP1,992,299). It noted that 93% of households reported that they borrowed money to buy food, 48% revealed that they borrowed funds to pay rent, 34% noted that they resorted to debt to cover healthcare expenses or to buy medicine, 6% of households borrowed to buy water, while 5% of households said that they resorted to debt to buy shelter material or for debt repayment. It added that 79% of households cited friends and relatives in Lebanon as their main sources of borrowed money, followed by supermarkets and shops (46%), and landlords (20%). Further, households noted that alternative sources for borrowing money included friends or relatives living outside Lebanon.

The survey's results are part of the 2020 Vulnerability Assessment for Syrian Refugees in Lebanon. The UN collected the data from 4,563 Syrian refugee households in 26 districts across Lebanon. It conducted the survey between August 19 and September 17, 2020 for quantitative analysis, and held discussion groups to gather qualitative information.

Non-life premiums up 2% to \$1.2bn in 2020

The annual survey by *Al-Bayan* magazine of the insurance sector in Lebanon shows that total non-life premiums generated by 38 insurance companies operating in the country reached \$1.16bn in 2020, constituting an increase of 2% from \$1.13bn in 2019. In comparison, non-life premiums regressed by 3% in 2019, compared to growth rates of 3.4% in 2018 and 2.3% in 2017. Trust Insurance and Liberty Insurance suspended their operations in 2019, while three other companies did not publish their results for 2020.

Bankers Assurance ranked in first place with \$126.3m in non-life premiums in 2020, followed by Mediterranean and Gulf Insurance and Reinsurance (MEDGULF) with \$114m, Fidelity Assurance & Reinsurance with \$82.8m, Allianz SNA with \$76.6m, and AXA Middle East with \$76.3m. Byblos Bank's insurance affiliate, Adonis Insurance and Reinsurance Co. (ADIR), ranked in 18th place with non-life premiums of \$22.9m in 2020.

The composition of the top 10 insurers changed from 2019, as the ranking of Assurex improved from 12th place in 2019 to 10th place in 2020, which pushed the ranking of Al Marshrek Insurance & Reinsurance from 10th place to 11th place last year. In addition, the ranking of MEDGULF improved by two spots to second place, and the rank of Libano-Suisse increased by one notch to sixth place in 2020. In contrast, the ranks of Fidelity, Allianz SNA and GroupMed Insurance regressed by one spot each to third, fourth and seventh place, respectively, last year; while the remaining four insurers maintained their rankings in 2020. In addition, six out of the top 10 insurers posted declines in their non-life premiums last year, while the premiums of the remaining four insurers increased in 2020. Also, there were seven declines and six advances in the rankings of the top 20 insurers in Lebanon, while the rankings of seven insurers were unchanged.

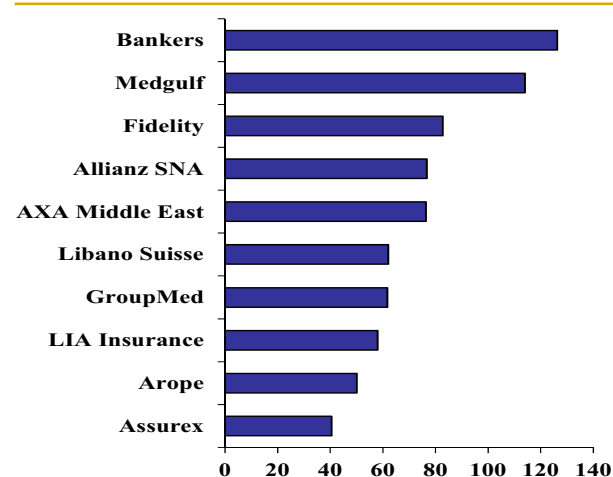
The top 10 insurers accounted for 64.7% of the non-life insurance market in 2020, relative to 64.2% in 2019 and to 63.8% in 2018; while the top 20 insurers represented 89.3% of premiums in 2020 compared to 86.5% in 2019 and 85.7% in 2018.

Stock market capitalization up 14% to \$7.1bn at end of February 2021

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 8,754,567 shares in the first two months of 2021, constituting an increase of 131.7% from 3,778,114 shares traded in the same period of 2020; while aggregate turnover amounted to \$26.5m and decreased by 4.1% from a turnover of \$27.6m in the first two months of 2020. The sharp increase in the trading volume is mainly due to the elevated number of the banks' traded shares, which reached 7,875,744 in February 2021, despite the closure of the BSE between January 14 and February 7, 2021, in line with the national lockdown measures. In parallel, the decline in the turnover in the covered period is the result of the decrease in the prices of the majority of the traded shares on BSE compared to the same period last year. The market capitalization of the BSE reached \$7.1bn at the end of February 2021, increasing by 5.5% from \$6.7bn at the end of 2020 and by 13.8% from \$6.2bn at the end of February 2020, with banking stocks accounting for 49.7% of the total, followed by real estate equities (45.7%), industrial shares (4.1%), and trading firms' equities (0.5%). The market liquidity ratio was 0.4% in the first two months of 2021, unchanged from the same period of 2020.

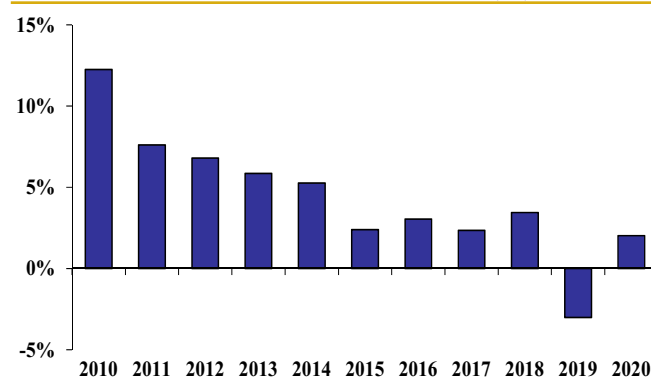
Banking stocks accounted for 90.5% of the trading volume in the first two months of 2021, followed by real estate equities (9.2%) and industrial shares (0.2%). Also, real estate equities accounted for 58.3% of the aggregate value of shares traded, followed by banking stocks (40.7%) and industrial shares (1%). The average daily traded volume for the first two months of 2021 was 416,884 shares for an average daily amount of \$1.3m. The figures reflect an increase of 4.3 times in the average daily traded volume and a rise of 78% in the average daily value in the covered period. In parallel, the Capital Markets Authority's (CMA) Market Value-Weighted Index for stocks traded on the BSE increased by 12.5% in the first two months of 2021, while the CMA's Banks Market Value-Weighted Index regressed by 1.6% in the covered period. 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 8% and 4.8%, respectively, from end-2020, which, in turn, led to a rise in their market weights to 28.2% and 17.6%, respectively, at the end of February 2021, the highest among listed companies on the BSE.

Non-Life Premiums of the Top 10 Insurers in 2020 (US\$m)



Source: Al-Bayan, Byblos Research

Growth in Non-Life Premiums (%)



Source: Al-Bayan, Byblos Research

Opened letters of credit at \$343m for imports and \$189m for exports in 2020

Figures released by Banque du Liban show that the amount of letters of credit (LCs) opened to finance imports to Lebanon totaled \$343m in 2020, constituting a decrease of 94% from \$5.66bn in 2019. The significant decline in the amount of LCs last year is due to stricter requirements imposed by correspondent banks following the repeated downgrades of Lebanon's sovereign ratings and to the challenges that importers have faced in meeting these requirements.

Further, utilized credits for imports totaled \$443.7m in 2020, constituting a decline of 92% from \$5.55bn in 2019, and were equivalent to 129.4% of opened LCs for imports last year. Also, outstanding import credits stood at \$65m at the end 2020 compared to \$413.2m a year earlier. In addition, the aggregate amount of inward bills for collection reached \$307.8m in 2020, down by 62.2% from \$814.1m in 2019. The outstanding amount of inward bills for collection was \$40.5m at the end of 2020 relative to \$43.3m at end-2019.

In parallel, the amount of documentary LCs opened to finance exports from Lebanon totaled \$188.5m in 2020, constituting a decrease of 93.4% from \$2.85bn in 2019. Further, utilized credits for exports reached \$408.6m in 2020, down by 85.7% from \$2.86bn in used credits the previous year, and were equivalent to 216.7% of opened LCs for exports last year. Also, outstanding export credits stood at \$138.1m at the end of 2020 compared to \$549m a year earlier. In addition, the aggregate amount of outward bills for collection amounted to \$272.2m in 2020 and dropped by 70% from \$905.8m in 2019. The outstanding amount of outward bills for collection reached \$213m at the end of 2020 relative to \$292.5m at end-2019.

Balance sheet of financial institutions down 15% in 2020

Figures released by Banque du Liban show that the consolidated balance sheet of financial institutions in Lebanon totaled LBP1,767bn, or \$1.17bn at the end of 2020, constituting a decrease of 15.2% from LBP2,084bn (\$1.38bn) at the end of 2019, and relative to a decline of 10.2% in 2019. The figures are based on the official exchange rate of the Lebanese pound to the US dollar.

On the assets side, claims on resident customers amounted to \$480m at the end of 2020 and declined by 23% from the end of 2019, while claims on non-resident customers stood at \$13m at end-2020 and decreased by 72.4% from the end of 2019. In addition, claims on the resident financial sector reached \$324m at end-2020, up by 5.6% from end-2019; while claims on the non-resident financial sector totaled \$25.7m at the end of 2020 and dropped by 50% from a year earlier. Also, claims on the public sector stood at \$4.6m at end-2020, constituting a decrease of 11.5% from the end of 2019; while the securities portfolio, which includes Lebanese Treasury bills and Eurobonds, amounted to \$73.6m at end-2020 and regressed by 18% from a year earlier. In parallel, currency and deposits with local and foreign central banks reached \$64.2m at the end of 2020 and increased by 16.8% from \$54.9m at end-2019.

On the liabilities side, deposits of resident customers stood at \$155m at the end of 2020, constituting a decrease of 9.4% from end-2019; while deposits of non-resident customers reached \$5.2m at the end of 2020 and dropped by 69.8% from a year earlier. Liabilities to the resident financial sector amounted to \$157.2m at end-2020 and declined by 29.7% from end-2019, while liabilities to the non-resident financial sector regressed by 37.3% from a year earlier to \$78.2m. Also, public sector deposits rose by 33.3% in 2020 to \$5.2m, while issued debt securities totaled \$91m at the end of 2020 and declined by 18.7% from end-2019. Further, the aggregate capital account of financial institutions was \$463.7m at the end of 2020, and decreased by 4.7% from end-2019.

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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