

# LEBANON THIS WEEK

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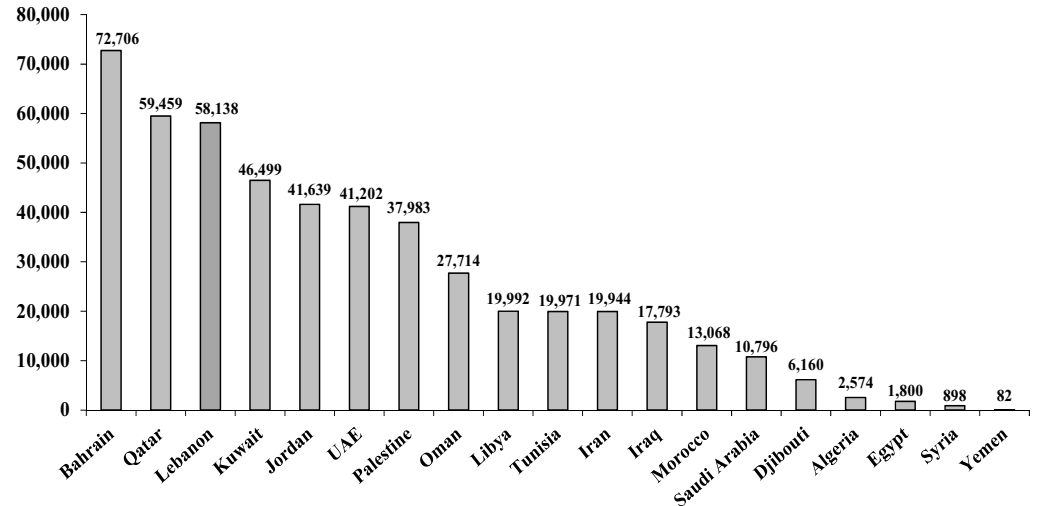
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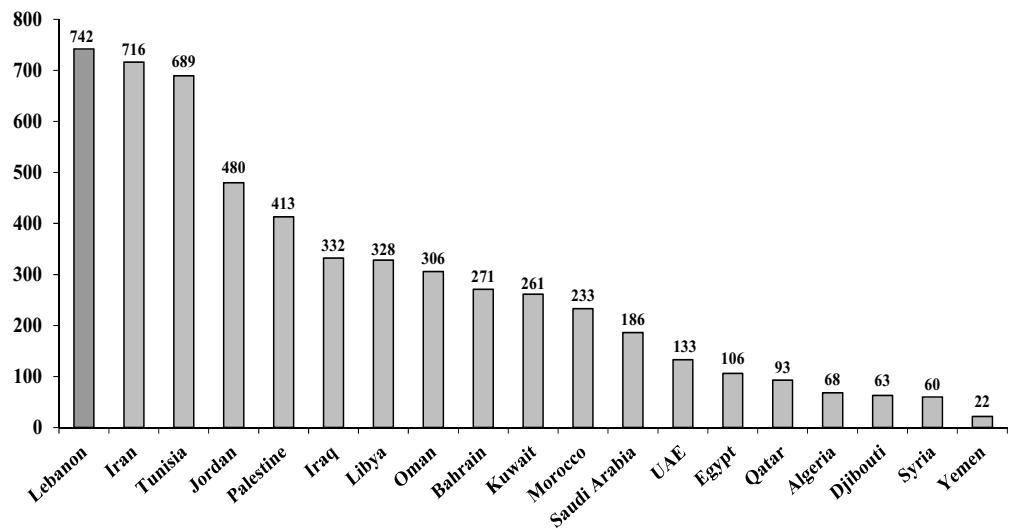
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## Charts of the Week

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



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



\*as of March 7, 2021

Source: World Bank Group, Byblos Bank

## Quote to Note

"Lebanon has not made substantial progress on negotiating debt restructuring with investors or on obtaining funding support from official lenders such as the International Monetary Fund since the government defaulted on its foreign currency obligations in March 2020."

*S&P Global Ratings, on the lack of political commitment to implement structural reforms*

## Number of the Week

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

## Lebanon in the News

| \$m (unless otherwise mentioned) | 2018      | 2019      | 2020      | % Change* | Dec-19  | Nov-20  | Dec-20  |
|----------------------------------|-----------|-----------|-----------|-----------|---------|---------|---------|
| Exports**                        | 2,952     | 3,731     | 2,967     | (20.5)    | 324     | -       | -       |
| Imports**                        | 19,980    | 19,239    | 9,073     | (52.8)    | 1,346   | -       | -       |
| Trade Balance**                  | (17,028)  | (15,508)  | (6,106)   | (60.6)    | (1,022) | -       | -       |
| Balance of Payments              | (4,823)   | (5,851)   | (10,551)  | 80.3      | (841)   | (214)   | (348)   |
| Checks Cleared in LBP            | 22,133    | 22,145    | 19,937    | (10.0)    | 2,402   | 1,683   | 1,942   |
| Checks Cleared in FC             | 44,429    | 34,826    | 33,881    | (2.7)     | 3,898   | 2,242   | 2,802   |
| Total Checks Cleared             | 66,570    | 56,982    | 53,828    | (5.5)     | 6,300   | 3,926   | 4,744   |
| Fiscal Deficit/Surplus***        | (6,246)   | (5,837)   | (2,535)   | (56.6)    | (920)   | -       | -       |
| Primary Balance***               | (636)     | (287)     | (1,136)   | 295.7     | (521)   | -       | -       |
| Airport Passengers               | 8,842,442 | 8,683,719 | 2,501,975 | (71.2)    | 544,967 | 220,333 | 282,130 |
| Consumer Price Index             | 6.1       | 2.9       | 84.9      | 8,200     | 7.0     | 133.5   | 145.8   |

| \$bn (unless otherwise mentioned) | Dec-19     | Aug-20 | Sep-20 | Oct-20 | Nov-20 | Dec-20 | % Change* |
|-----------------------------------|------------|--------|--------|--------|--------|--------|-----------|
| BdL FX Reserves                   | 29.55      | 22.76  | 20.00  | 19.46  | 19.03  | 18.60  | (18.3)    |
| In months of Imports              | 21.95      | 28.48  | 20.95  | 16.31  | -      | -      | -         |
| Public Debt                       | 91.64      | 94.29  | 94.84  | 95.06  | 95.51  | 95.59  | 1.4%      |
| Bank Assets                       | 216.78**** | 195.71 | 192.57 | 191.09 | 190.31 | 188.04 | (3.9)     |
| Bank Deposits (Private Sector)    | 158.86     | 143.04 | 142.18 | 140.96 | 139.91 | 139.14 | (2.7)     |
| Bank Loans to Private Sector      | 49.77      | 39.64  | 38.60  | 37.68  | 37.11  | 36.17  | (8.7)     |
| Money Supply M2                   | 42.11      | 40.21  | 40.94  | 42.06  | 43.32  | 44.78  | 11.4%     |
| Money Supply M3                   | 134.55     | 130.53 | 130.92 | 131.20 | 131.92 | 132.70 | 1.7%      |
| LBP Lending Rate (%)              | 9.09       | 7.14   | 7.89   | 7.61   | 7.92   | 7.77   | 63        |
| LBP Deposit Rate (%)              | 7.36       | 3.47   | 3.35   | 3.14   | 2.91   | 2.64   | (83)      |
| USD Lending Rate (%)              | 10.84      | 7.54   | 7.54   | 7.46   | 6.63   | 6.73   | (81)      |
| USD Deposit Rate (%)              | 4.62       | 1.28   | 1.15   | 1.04   | 0.97   | 0.94   | (34)      |

\*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"               | 21.50           | 9.1       | 170,806      | 27.8%                           |
| Byblos Common              | 0.60            | 11.1      | 89,000       | 4.4%                            |
| Solidere "B"               | 21.53           | 8.8       | 83,294       | 18.1%                           |
| BLOM GDR                   | 2.44            | (0.8)     | 37,599       | 2.3%                            |
| Audi Listed                | 1.73            | 4.2       | 34,000       | 13.2%                           |
| BLOM Listed                | 2.66            | 19.8      | 2,995        | 7.4%                            |
| HOLCIM                     | 13.82           | (7.2)     | 2,170        | 3.5%                            |
| Audi GDR                   | 1.44            | 20.0      | 2,000        | 2.2%                            |
| Byblos Pref. 08            | 35.00           | 0.0       | -            | 0.9%                            |
| Byblos Pref. 09            | 39.55           | 0.0       | -            | 1.0%                            |

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

| Sovereign Eurobonds | Coupon % | Mid Price \$ | Mid Yield % |
|---------------------|----------|--------------|-------------|
| Apr 2021            | 8.25     | 12.50        | 9692.31     |
| Oct 2022            | 6.10     | 12.50        | 191.16      |
| Jan 2023            | 6.00     | 12.13        | 152.24      |
| Jun 2025            | 6.25     | 12.38        | 55.90       |
| Nov 2026            | 6.60     | 12.38        | 40.25       |
| Feb 2030            | 6.65     | 12.38        | 24.78       |
| Apr 2031            | 7.00     | 12.25        | 21.91       |
| May 2033            | 8.20     | 12.38        | 17.93       |
| Nov 2035            | 7.05     | 12.25        | 14.88       |
| Mar 2037            | 7.25     | 12.50        | 13.41       |

Source: Refinitiv

|                       | Mar 8-12    | Mar 1-5     | % Change | Feb 2021*    | Feb 2020     | % Change |
|-----------------------|-------------|-------------|----------|--------------|--------------|----------|
| Total shares traded   | 421,864     | 255,778     | 64.9     | 8,583,833    | 1,729,973    | 396      |
| Total value traded    | \$5,443,876 | \$2,165,058 | 151.4    | \$24,114,080 | \$11,322,149 | 113      |
| Market capitalization | \$7.73bn    | \$7.26bn    | 6.5      | \$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 has 20<sup>th</sup> highest level of gold reserves globally, second highest among Arab countries

Figures released by the World Gold Council show that Lebanon holds 286.8 tons in gold reserves. As such, Lebanon ranks in 20<sup>th</sup> place in terms of gold holdings among 96 countries, as well as the International Monetary Fund, the West African Economic Monetary Union, the European Central Bank and the Bank for International Settlements. It also ranks in eighth place among 66 non-OECD countries and in second place among 15 Arab countries included in the survey. The World Gold Council compiled the data from the International Monetary Fund's International Financial Statistics. The figures for gold holdings are reported for January 2021 for most countries and for December 2020 or earlier for countries with delayed reporting.

Globally, Lebanon has more gold reserves than Spain (281.6 tons), Austria (280 tons) and Poland (228.7 tons); while it holds fewer reserves than Uzbekistan (340.6 tons), Saudi Arabia (323.1 tons) and the United Kingdom (310.3 tons). Also, Lebanon holds more gold than the Philippines and less than Saudi Arabia among non-OECD countries. The United States is the top holder of gold in the world with 8,133.5 tons, while Yemen ranks in last place with 1.6 tons in gold reserves. Lebanon's gold holdings accounted for about 21% of the Arab region's aggregate gold reserves, for nearly 3.1% of the holdings of non-OECD countries, and for about 0.8% of global gold reserves.

Further, the value of Lebanon's gold reserves was \$17.2bn at the end of January 2021, based on a price of \$1,863.8 per troy ounce as published by the London Bullion Market Association.

In addition, Lebanon's gold holdings were equivalent to 39.8% of the country's official assets in foreign currency plus gold reserves as of January 2021, which ranks Lebanon in 17<sup>th</sup> place globally, in eighth place among non-OECD countries and in first place among Arab countries. Globally, Lebanon's share of gold reserves out of its official foreign assets is higher than that of Turkey (37%), the Kyrgyz Republic (36.5%), and the European Central Bank (35%); while it is smaller than the share of Ecuador (43.2%), Belgium (41.7%), and Belarus (40.4%). Also, Lebanon's share of gold holdings out of its official foreign assets is higher than the share of the Kyrgyz Republic and lower than that of Belarus among non-OECD countries. The gold reserves of Venezuela are equivalent to 83.3% of its total foreign exchange reserves, the highest share in the world, while Hong Kong's gold holdings account for 0.03% of its total foreign assets, the lowest such share globally.

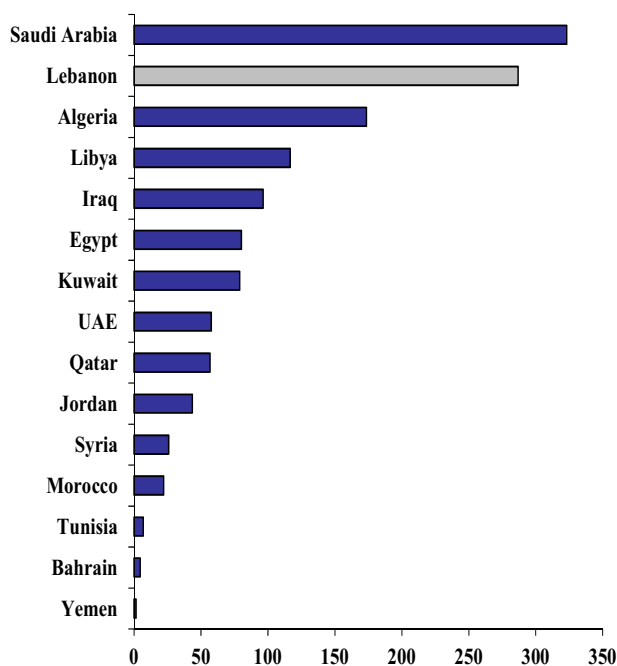
### International Support Group calls for the urgent formation of a government

The International Support Group for Lebanon (ISG) reiterated its call for the urgent need to form a credible and effective government that can meet the citizens' vital needs, as well as implement highly-needed economic reforms. The group consists of China, France, Germany, Italy, Russia, the United Kingdom, the United States, as well as the United Nations, the European Union and the League of Arab States.

The ISG urged authorities to stop delaying the formation of a new government, as it considered that the prevailing vacuum at the executive branch is hindering the country's ability to address the increasing political, social, financial, economic and institutional challenges, and is weighing on the citizens' needs and aspirations. It expressed concerns about the rising tensions and social discontent, as the COVID-19 pandemic exacerbated the deterioration of socio-economic conditions in the country.

In parallel, the U.S. Department of State indicated that Lebanese politicians showed inaction amid the multiple crises that the country is facing. It called on politicians to put aside their differences and to prioritize the common interests of the Lebanese citizens. It stressed the urgent need to form a government that will implement the needed reforms to stop the economy from deteriorating further. In addition, the French Ministry of Europe and Foreign Affairs declared that Lebanese politicians did not take action in the past seven months to help their country, and urged them to form a new government in order to prevent the country from falling into economic and financial turmoil that would affect Lebanese citizens as well as the Syrian and Palestinian refugees that Lebanon hosts.

Gold Reserves in Arab Countries (in tons)\*



\*as of January 2021

Source: World Gold Council, Byblos Research

### **Lebanon to receive about \$0.5bn in Special Drawing Rights from International Monetary Fund**

Barclays Capital estimated that Lebanon will receive about \$0.5bn in Special Drawing Rights (SDRs) allocations from the International Monetary Fund. It attributed the increase in Lebanon's SDRs to the Group of 20's (G20) recent decision to raise the IMF's funding by \$500bn through new allocations of SDRs, so that the Fund could provide more financing to countries in need, given the impact of the COVID-19 pandemic on the global economy. It noted that Lebanon's current SDR holdings are at about \$0.3bn, and its quota at the IMF is at around 0.1% of the general allocation of SDRs.

It considered that the decision will increase Lebanon's foreign currency reserves, but in a limited way. It estimated that the new allocation would allow Banque du Liban to raise its foreign currency reserves by 2.6% from their current level. The SDR serves as the unit of account of the IMF and some other multilateral organizations, but it is neither a currency nor a claim on the IMF. The SDR is a potential claim on the freely usable currencies of IMF members, which means that SDRs can be exchanged for these currencies. Also, SDR allocations can play a role in providing liquidity and supplementing the official foreign currency reserves of member countries of the IMF. The value of the SDR is based on a basket of five currencies that consist of the US dollar, the euro, the Chinese renminbi, the Japanese yen, and the British pound sterling.

In parallel, it estimated the share of emerging market countries at \$206bn of the total new SDR allocations, with low-income economies receiving \$16bn in SDRs. Also, it expected that more than 33% of new SDR allocations to EMs would go to Brazil, China, India, Russia and Saudi Arabia. It added that Eastern Europe, the Middle East and Africa (EEMEA) would receive \$81bn in SDR allocations, the largest share across EMs, with Poland, Russia, Saudi Arabia and Turkey as the top beneficiaries in the region. It estimated Lebanon's share to account for 0.6% of the EEMEA region's allocation.

Barclays indicated that the IMF has a lending capacity of \$1 trillion (tn), including \$458bn from quotas, \$409bn from the New Agreements to Borrow (NAB) and \$145bn from Bilateral Borrowing Agreements (BBAs). It said that the last increase in quotas was in 2016, but noted that NAB resources almost doubled and a new round of three-year BBAs came into effect in January 2021. The IMF considered that these new agreements will help keep its lending capacity at \$1tn in the next few years and maintain its ability to respond to its members' needs.

### **Number of COVID-19 cases among highest in Central & Eastern Europe, the Middle East & Africa region**

Goldman Sachs indicated that the number of coronavirus cases in Lebanon has been among the highest across 15 countries in the Central & Eastern Europe, Middle East & Africa (CEEMEA) region so far in 2021. It noted that the number of new daily cases in Lebanon averaged 502.2 cases per million persons in the first week of March, relative to 389.5 cases per million individuals in the third week of February, as authorities have been easing lockdown measures. The average number of daily cases reached 818.8 per million persons in the second week of January 2021, the highest level since the start of the pandemic. It said that Lebanon had the strictest lockdown measures among the 15 CEEMEA economies since early January 2021, but noted that authorities started to ease the measures moderately since early February 2021.

It indicated that Lebanon had the third highest average number of daily cases in the first week of March 2021, after the Czech Republic and Hungary, among the 15 covered countries. It added that the number of new COVID-19-related deaths in Lebanon has declined from more than 10 deaths per million persons per day towards mid-January 2021 to slightly less than 10 deaths per million residents per day at end-February. It noted that the number of coronavirus-related deaths per million residents in Lebanon is the third highest after the Czech Republic and Hungary among the 15 CEEMEA countries at the beginning of March.

In parallel, Goldman Sachs indicated that about 0.9% of the residents of Lebanon received one dose of the COVID-19 vaccines as of March 7, 2021. In comparison, it said that 3.1% of the population in Hungary has been fully vaccinated and that 6.9% received the first dose of the vaccine; 3.7% of Poland's population has been vaccinated twice and 2.9% received the first dose; while 3.9% of Saudi Arabia's population received one dose of the vaccine as of March 7. It added that the share of vaccinated individuals in Egypt and in Ukraine was near zero percent as of March 7. It noted that Lebanon signed contracts with suppliers for 4.4 million doses of the vaccine for an estimated population of 6.9 million.

In parallel, the Ministry of Public Health indicated that 937,433 persons registered on the IMPACT electronic platform to receive the COVID-19 vaccine as of March 15, 2021, but it added that the figure is still low compared to the target of 4.7 million persons needed to vaccinate 70% of the population of Lebanon and reach herd immunity. It noted that the share of those who registered in Mount Lebanon accounted for 49% of the total number of registered residents on the platform, followed by 15% in Beirut, 10% in the North, 8.3% in the South, 6.8% in Nabatieh, 6% in the Bekaa, 2.7% in the Baalbek-Hermel region, and 2% in Akkar. It added that only 2% of Palestinians and 0.5% of Syrian refugees in Lebanon have registered on the platform.

### Lebanon ranks 75<sup>th</sup> globally, sixth among Arab countries in terms of work-from-home environment

The United Kingdom-based technology firm CircleLoop ranked Lebanon in 75<sup>th</sup> place among 85 countries worldwide and in sixth place among nine Arab countries on its Digital Nomad Index (DNI) in 2021. Also, Lebanon ranked last among 22 upper-middle-income countries included in the survey. The firm launched the index in 2021 to evaluate how suitable a country is for "work-from-home" for non-residents and measures the attractiveness of a country to "digital nomads". "Digital nomads" are defined as individuals who extensively rely on information and communication technology in their work, and who often work remotely.

The DNI is based on eight indicators, which are a country's average speed for fixed broadband and mobile Internet, its average monthly cost of fixed broadband, the availability of working holiday visas, the average rental cost for a one-bedroom apartment, its scores on the World Happiness Index, the average annual number of online searches for remote jobs per country, as well as the acceptance level of migrants. A country's score ranges from zero to 100 with a higher score reflecting a better suitability for "digital nomads".

Globally, Lebanon preceded Honduras, Tunisia, Egypt, Algeria, Cambodia, Sri Lanka, Kenya, Ghana, Myanmar and Nigeria as an attractive destination to "digital nomads". Lebanon received a score of 34.6 on the index, below the global average score of 49.12 points, the UMICs average score of 46.99 points, and the Arab average of 39.76 points. Further, Lebanon's score came lower than the Gulf Cooperation Council (GCC) countries' average score of 46.59 points and higher than the average score of non-GCC Arab countries of 34.29 points. Canada has the most favorable "work-from-home" environment with a score of 74.35 points, followed by the United Kingdom (63.43), Romania (62.28), Sweden (61.54), Denmark (61.49), France (60.8), Netherlands (60.27), Australia (60.16), Switzerland (60.15) and Germany (60).

Lebanon had the fourth lowest broadband Internet speed among the countries in the survey and preceded only Algeria, Tunisia and Pakistan; the ninth lowest performance on the Happiness Index, the 24<sup>th</sup> most expensive monthly rent, the 36<sup>th</sup> highest cost of fixed broadband, as well as the 40<sup>th</sup> highest mobile Internet speed. Also, Lebanon does not offer working holidays visas. However, Lebanon has the 10<sup>th</sup> highest ratio of migrants to population globally, reflecting a high acceptance of migrants and a welcoming community, according to the survey.

### Amount of cleared checks down 66%, returned checks down 79% in January 2021

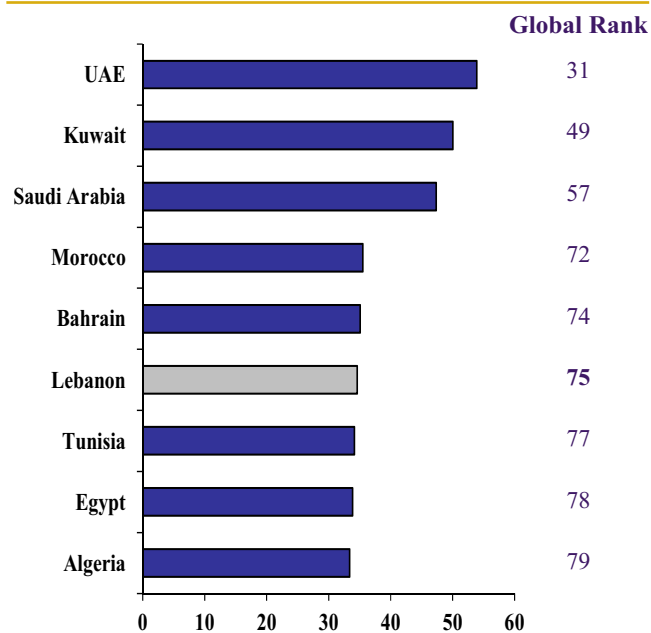
The amount of cleared checks reached \$2.3bn in January 2021, constituting a decrease of 66.4% from \$6.7bn in the same month of 2020. In comparison, the amount of cleared checks increased by 36.5% in January 2020 from the same month in 2019 and declined by 17.2% in January 2019 from the same month of 2018. The dollar figures are converted at the official exchange rate of the Lebanese pound against the US dollar.

The amount of cleared checks in Lebanese pounds reached the equivalent of \$0.8bn in January 2021 and regressed by 65% from January 2020, while the amount of cleared checks in foreign currencies was \$1.5bn and declined by 67.2% in the covered month. The dollarization rate of cleared checks regressed from 66% in January 2020 to 64.4% in January 2021. There were 223,116 cleared checks in January 2021, down by 70.6% from 757,824 cleared checks in the same month of 2020. The number of checks denominated in foreign currency accounted for 58.6% of the checks that were cleared in January 2021.

The amount of cleared check in January 2021 was 49.8% lower than the average monthly value of cleared checks in 2020, while the number of checks was 54.2% lower than the average monthly number of checks in 2020.

In parallel, the amount of returned checks in domestic and foreign currency was \$32.5m in January 2021, compared to \$153.2m in January 2020 and to \$130.7m in January 2019. This constituted a decline of 78.8% in January 2021 relative to increases of 17.3% and 7.7% in the same month of 2020 and 2019, respectively. Also, there were 2,291 returned checks in January 2021, down by 91% from 25,531 returned checks in the same month of 2020. The number of returned checks in foreign currencies and in Lebanese pounds reached 1,375 and 916, respectively, in January 2021, and dropped by 90.7% and 91.5%, respectively, in the covered month.

**Digital Nomad Index for 2021**  
Scores & Rankings of Arab Countries



Source: CircleLoop, Byblos Research

### **Political developments could divert attention from macroeconomic stabilization**

Barclays Capital considered that the current political deadlock in Lebanon is putting pressure on the country's still available financial buffers, especially on the foreign currency reserves at Banque du Liban. It pointed out that the main reason for the recent popular protests is the depreciation of the Lebanese pound's exchange rate beyond the psychological limit of LBP10,000 per US dollar, as it reflects the deterioration in the purchasing power of citizens whose income is in the local currency.

It noted that the steady weakening of the purchasing power of citizens and the prevailing protracted political impasse in the formation of a new government have triggered the recent protests, with civilian protests recurring since the popular uprising of October 17, 2019. It added that the rapid deterioration in real wages has considerably increased risks to social stability in the country. It noted that if the formation of the government continues to face roadblocks and delays, the worsening of economic conditions could turn the protests into a major social crisis.

In parallel, it pointed out that, even if a government is formed in the coming weeks, political developments will continue to hinder the focus on macroeconomic stabilization. It considered that political parties are increasingly focusing on the legislative and presidential elections that are scheduled for 2022, which is partly complicating the formation of a new government. It said that the short period of time before next year's elections could divert attention from the most pressing issues, such as negotiations with the International Monetary Fund, reforming the electricity sector, and stabilizing the exchange rate, among other issues.

### **Parliament ratifies \$246m World Bank loan for social safety net**

The Lebanese Parliament enacted on March 12, 2021 a \$246m loan from the World Bank for the Lebanon Emergency Crisis and COVID-19 Response Social Net Project (ESSN). The ESSN aims to provide cash transfers and access to social services to more than 160,000 extremely poor and vulnerable households who have been affected by the economic crisis and the COVID-19 shock. The project will be implemented in coordination with the Presidency of the Council of Ministers, the Ministry of Social Affairs, and the Ministry of Education & Higher Education. The World Bank Group's Executive Directors approved the loan on January 12, 2021, but it took the Lebanese Parliament two months to convene and ratify the urgent loan.

The project, which will be implemented over three years, consists of four components. First, it will provide cash transfers for basic income support to extremely poor Lebanese households. Second, it will extend additional cash transfers to more than 85,000 students from extremely poor Lebanese households who are at risk of dropping out of school. Third, it allocates funds to strengthen the capacity and systems of the Ministry of Social Affairs and its social development centers, and to increase access to quality social services for poor and vulnerable households, including refugees. Fourth, it provides financing to create and strengthen social safety net delivery systems, including building a National Social Registry. Members of Parliament made some amendments to the original terms of the project, which made it unclear if the third and fourth components of the project will be executed in full.

The World Bank indicated that eligible households will receive a monthly transfer of LBP100,000 per household member for a maximum of six members, in addition to a flat amount of LBP200,000 per household. It said that beneficiary households can cash out the amount at automated teller machines (ATMs) through pre-paid cards, or use the cards to make electronic payments at a network of pre-approved food outlets. It also noted that each student will receive between LBP1,235,000 and LBP1,921,920 for the academic year 2021/22, depending on the grade and type of education. It added that cash transfers for students will cover school textbooks costs, transportation and school uniform expenses, as well as computer equipment and/or Internet connectivity to enable remote learning, while school fees will be paid directly to the respective schools. The Bank pointed out that it will review, in coordination with other related entities, the benefits disbursed in Lebanese pounds on a quarterly basis, or at more frequent intervals if needed, to mitigate for foreign exchange and inflation risks and preserve the purchasing power of the cash transfers.

According to the World Bank, the Lebanese government preferred to disburse the payments under the ESSN in Lebanese pounds and not in US dollars as the Bank initially envisaged, in order to ensure the project's alignment with existing government and humanitarian programs in the country. It added that it negotiated with Lebanese authorities a preferential rate to convert the amount of the loan to the local currency, and reached a conversion rate of 1.6 times the exchange rate that is set through Banque du Liban's "Sayrafa" electronic platform for foreign currency trading. It noted that the conversion rate, which currently is LBP6,240 per dollar, is the highest exchange rate obtained for any internationally financed program in Lebanon.

The World Bank estimated that the poverty rate in Lebanon increased from 25.6% in 2012 to 45% currently based on the contraction in GDP and the inflation rate in the first half of 2020, while the extreme poverty rate grew from 10% in 2012 to 22% currently. Consequently, it estimated that 1.7 million persons, or 350,000 households, are under the poverty line, and include 841,000 persons or 156,000 households that are under the food poverty line.

### Lebanon ranks 129<sup>th</sup> globally, second in the Arab world in political freedoms

In its annual survey on political freedoms in 195 countries, non-profit organization Freedom House ranked Lebanon in 129<sup>th</sup> place worldwide and in second place among 19 Arab countries in the 2021 survey. In comparison, Lebanon came in 130<sup>th</sup> place globally and in second place regionally in 2020. The survey rates each country on political rights and civil liberties on a scale of zero to 100 points, with 100 points representing the highest degree of freedom and a score of zero points reflecting the lowest level. The combined average of the ratings determines a country's status as politically "Free", "Partly Free", or "Not Free".

Globally, Lebanon has the same level of political freedoms as Mozambique and Togo, while it has a higher level than the Comoros and the Maldives, and a lower level of political freedoms than Guinea-Bissau and Honduras. Also, Lebanon came in the "Partly Free" category, unchanged since 2005 when it was upgraded from the "Not Free" category. Further, Lebanon's political freedom score stood at 43 points, below the global average of 58.6 points and the average of 54.3 points of the "Partly Free" category, but significantly higher than the Arab countries' average rating of 25.4 points.

Lebanon tied with Afghanistan, Morocco and Myanmar, preceded Tanzania and Jordan, and trailed Kuwait and Mauritania on the Political Rights sub-index, which reflects the citizens' ability to participate freely in the political process. Lebanon, along with Morocco, came in fifth place in the Arab region on this category, and ranked behind Tunisia, Iraq, Kuwait, and Mauritania. Also, Lebanon received a rating of 13 points out of a maximum of 40 points on this indicator, compared to the global average of 23.2 points and to the Arab average of 8.2 points.

In addition, Lebanon tied with Malaysia, came ahead of Indonesia and Kenya, and ranked behind Kosovo and Guatemala on the Civil Liberties sub-index. This category reflects the freedoms of expression and belief, associational and organizational rights, the rule of law, and personal autonomy. Lebanon came in second place in the Arab region on this category behind Tunisia. Further, Lebanon received a rating of 30 points out of a maximum of 60 points on this sub-index, relative to the global and Arab averages of 35.4 points and 17.2 points, respectively.

In parallel, the survey classified 82 countries in the "Free" category, 59 countries in the "Partly Free" category and 54 countries in the "Not Free" category. It also concluded that 42% of the global population lives under political systems that are "Free", whereas 30% are in systems that are "Partly Free", and 28% live under political systems that are "Not Free".

### Parliament approves reallocation of \$5.5m to support small- and medium-sized enterprises

The Lebanese Parliament enacted a law that allows authorities to use \$5.5m from an existing loan from the World Bank that finances the Supporting Innovation in Small- and Medium-Sized Enterprises (SMEs) Project for Lebanon in order to provide broader support to SMEs during the COVID-19 pandemic.

Parliament ratified in November 2013 the \$30m loan agreement with the World Bank to finance the project, which aimed to provide financially viable, new, and existing innovative SMEs with access to early stage financing. It consisted of establishing a fund with a capital of \$27.5m to support innovation at SMEs, with \$25m earmarked for equity investments to finance qualified seed- and early growth-stage firms and \$2.5m for entrepreneurs to develop new business ideas. The remaining \$2.5m is supposed to support the program's management, strategic training activities, and promotional and marketing efforts.

The project has been implemented through the Kafalat Corporation, a state-sponsored organization that provides financial guarantees SMEs in productive sectors. The World Bank loan is for 17 years and has a six-year grace period. According to the World Bank, \$23m were disbursed as at the end of February 2021, while the Lebanese government repaid \$4.3m from the principal and \$1.5m in interest, charges and fees.

#### Freedom in the World Index 2021 Arab Countries' Scores & Rankings

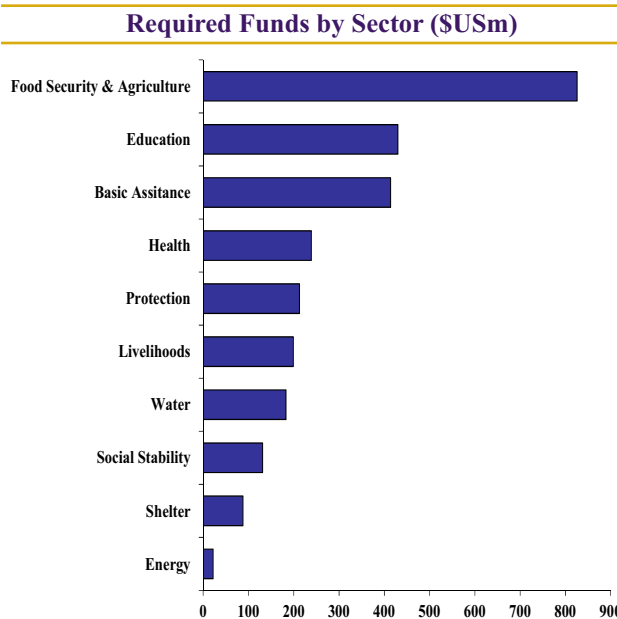
| Country        | Freedom Rating | Arab Rank | Global Rank | Category           |
|----------------|----------------|-----------|-------------|--------------------|
| Tunisia        | 71             | 1         | 82          | Free               |
| <b>Lebanon</b> | <b>43</b>      | <b>2</b>  | <b>129</b>  | <b>Partly Free</b> |
| Morocco        | 37             | 3         | 136         | Partly Free        |
| Kuwait         | 37             | 3         | 136         | Partly Free        |
| Mauritania     | 35             | 5         | 140         | Partly Free        |
| Jordan         | 34             | 6         | 141         | Not Free           |
| Algeria        | 32             | 7         | 145         | Not Free           |
| Iraq           | 29             | 8         | 150         | Not Free           |
| Qatar          | 25             | 9         | 156         | Not Free           |
| Djibouti       | 24             | 10        | 157         | Not Free           |
| Oman           | 23             | 11        | 159         | Not Free           |
| Egypt          | 18             | 12        | 169         | Not Free           |
| UAE            | 17             | 13        | 170         | Not Free           |
| Sudan          | 17             | 13        | 170         | Not Free           |
| Bahrain        | 12             | 15        | 179         | Not Free           |
| Yemen          | 11             | 16        | 180         | Not Free           |
| Libya          | 9              | 17        | 184         | Not Free           |
| Saudi Arabia   | 7              | 18        | 188         | Not Free           |
| Syria          | 1              | 19        | 195         | Not Free           |

Source: Freedom House, Byblos Research

### Lebanon Crisis Response Plan appeals for \$2.75bn to cover needs in 2021

The United Nations indicated that the Lebanon Crisis Response Plan (LCRP) appealed for \$2.75bn to cover the urgent needs of the segments of the population that are affected by the Syrian crisis in 2021 and to mitigate the impact of the crisis on Lebanon's infrastructure, economy and public institutions. It said that the food security and agriculture sector accounted for \$826m, or 30% of the total amount that the Lebanese government and its national and international partners appealed for in 2021. The education sector followed with \$430m (15.7%), then basic assistance with \$414m (15.1%), healthcare with \$239m (8.7%), support for social protection with \$213m (7.8%), livelihoods with \$199m (7.2%), the water sector with \$183m (6.7%), social stability with \$131m (4.8%), shelter with \$88m (3.2%), and the energy sector with \$22m (0.8%).

The Lebanon Crisis Response Plan 2017-2021 is a joint initiative between the Lebanese government and international and national partners that aims to address challenges posed by the large presence of Syrian refugees in the country. The LCRP includes more than 112 partner organizations and targets 3 million crisis-affected people living in Lebanon in 2021, that consist of about 1.5 million displaced Syrian, 1.25 million vulnerable Lebanese citizens and 207,700 Palestinian refugees.



Source: United Nations' Lebanon Crisis Response Plan

The UN noted that international contributions to the LCRP reached \$1.4bn in 2020 and represented 54% of the \$2.7bn that the LCRP appealed for to assist the affected population in 2020, in addition to \$246m carried over from 2019. It pointed out that financial disbursements to food security reached \$391m in 2020, or 23.8% of available funds, followed by the education sector with \$241m (14.6%), basic assistance and support to social protection with \$203m each (12.3% each), healthcare with \$190m (11.5%), the water sector \$177m (10.8%), livelihoods with \$118m (7.2%), social stability with \$110m (6.7%), shelter with \$50m (3%), and the energy sector with \$1m (0.1%). It noted that \$1.5m have not yet been allocated. It added that 107 organizations reported to the UN the funds they received in 2020.

The UN indicated that projects under the LCRP in 2020 provided subsidized primary healthcare consultations to 967,000 persons, food assistance to 929,000 individuals, access to safe water to 350,000 persons, and legal aid and life-saving sexual and gender-based violence services to 100,000 individuals, as well as supported the enrollment of more than 400,000 Lebanese and Syrian children in public schools. However, it noted that critical needs in Lebanon have increased significantly, as a result of the multiple crises that the country is facing. It cautioned that tensions between and within communities are rising due to higher competition over resources and services, as vulnerable people are struggling to meet their basic needs.



### **Parliament increases ceilings for subsidized housing loans**

The Lebanese Parliament enacted a law that increases the ceilings on housing loans extended through Banque de l'Habitat sal. Specifically, it raised the loans' cap from LBP300m to LBP450m for beneficiaries whose household income does not exceed 10 times the minimum wage, and from LBP450m to LBP600m for those whose family income is between 10 times and 15 times the minimum wage.

Bank de L'Habitat announced in December 2020 a LBP640bn package that aims to provide Lebanese pound-denominated loans for the purchase, construction and rehabilitation of houses. It indicated that the loans will carry an annual interest rate of 4.5% and a maturity of up to 30 years. It said at the time that it intends to increase the loans' cap to LBP450m and LBP600m pending the approval of Parliament. The program is funded by a \$165m soft loan from the Kuwait-based Arab Fund for Economic and Social Development (AFESD). Parliament enacted on May 28, 2020 a law that allows the government to accept a loan of KWD50m, or the equivalent of \$165m, from the AFESD to finance affordable mortgages in the country through Banque de l'Habitat. The loan carries a 2.5% interest rate and will be repaid over a period of 30 years with a five-year grace period.

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

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

### **Agency upgrades CMA CGM ratings with 'positive' outlook**

Moody's Investors Service upgraded the corporate family rating of the Lebanese-owned and France-based container-shipping firm CMA CGM from 'B2' to 'B1', as well as its probability of default rating from 'B2-PD' to 'B1-PD', and its senior unsecured bond ratings from 'Caa1' to 'B3'. It kept the 'positive' outlook on the ratings.

It attributed the ratings' upgrade to the firm's strong performance and to the decline of its debt level in recent quarters, as a result of a significantly better operating environment in the shipping market, as well as of the implementation of efficiency measures and financial policies that focused on debt reduction and on maintaining a good liquidity profile. It added that the 'positive' outlook reflects the prospects for the ongoing strong performance of the company and improvements in the firm's debt metrics from 2022 onwards.

It said that the company's credit metrics have continued to improve following the debt-financed purchase of CEVA Logistics in 2019. It added that the firm's debt was equivalent to 3.8 times of its earnings before interest, taxes, depreciation and amortization (EBITDA) in September 2020, compared to 5.6 times in September 2019. It added that the company's strong operating performance led to positive free cash flow generation that it used to reduce its debt level and improve its liquidity. The agency noted that CMA CGM's recent efforts to extend debt maturities reduced the share of debt coming due in the next 12 months to 13% from a share of 25% in June 2020. However, it considered that the company's ratings are constrained by the firm's policies that have weighed on its capital structure and liquidity profile.

The agency indicated that the container shipping market has performed very strongly during the COVID-19 pandemic, as all carriers have adjusted their capacity to the decline in demand during the first half of 2020. It noted that shipping activity registered a double-digit growth rate on main routes, due to a recovery in demand, which led freight rates to reach unprecedented levels. Further, it expected the current freight rates to fall back from current levels in the coming quarters, but it anticipated CMA CGM to sustain its strong performance.

CMA CGM is one of the largest container shipping companies in the world and operates a fleet of 502 vessels, with a capacity of 2.71 million TEUs that serves over 420 commercial ports.

## 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    | 25.9    |
| Real GDP growth, % change                 | -1.9    | -6.7    | -26.4   |
| Private consumption                       | -1.3    | -7.3    | -23.4   |
| Public consumption                        | 6.7     | 2.5     | -64.7   |
| Gross fixed capital                       | -1.8    | -11.1   | -32.2   |
| Exports of goods and services             | 0.5     | -4.0    | -31.6   |
| Imports of goods and services             | 1.1     | -4.9    | -39.5   |
| Consumer prices, %, average               | 6.1     | 2.9     | 85.2    |
| Official exchange rate, average, LBP/US\$ | 1,507.5 | 1,507.5 | 1,507.5 |
| Parallel exchange rate, average, LBP/US\$ | n/a     | 1,620   | 5,528   |
| Weighted average exchange rate LBP/US\$   | 1,507.5 | 1,575   | 3,853   |

Source: Institute of International Finance- 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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