

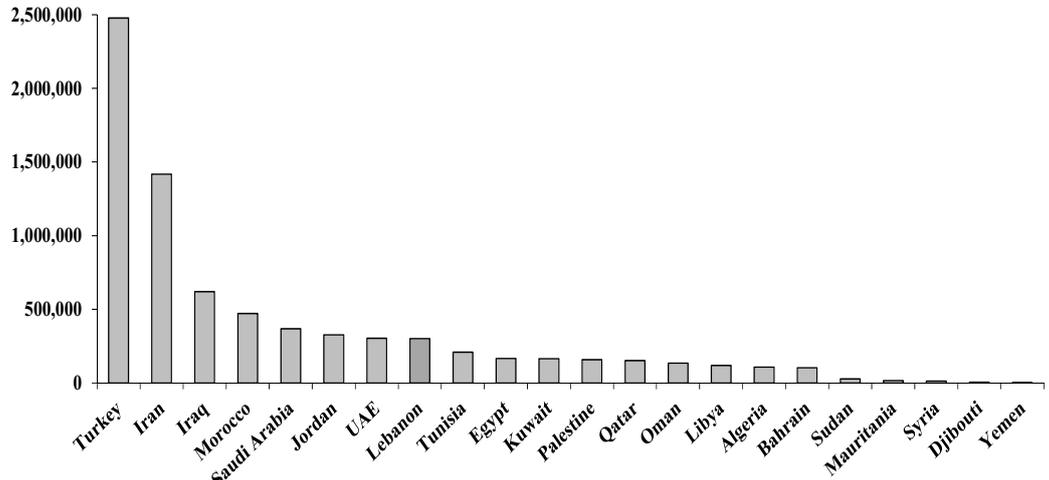
LEBANON THIS WEEK

In This Issue

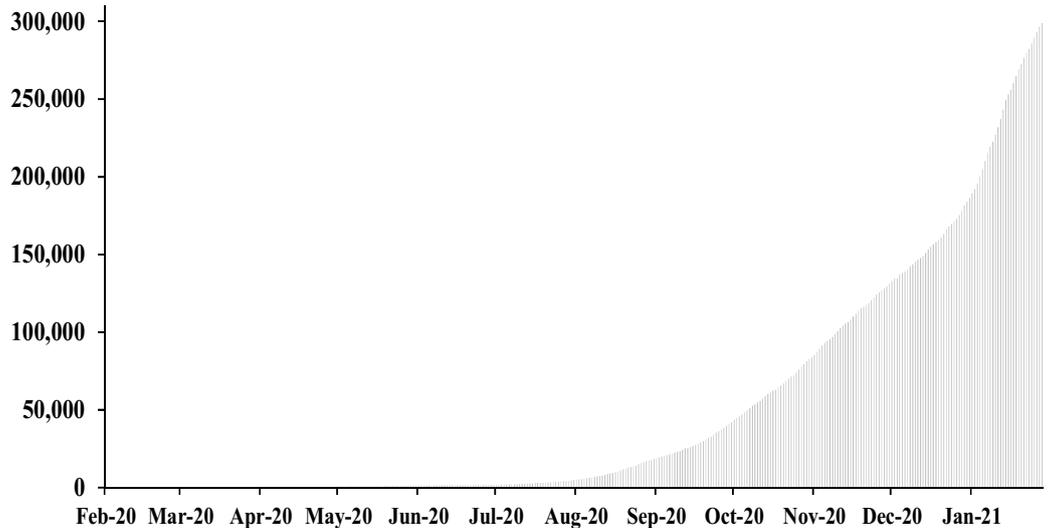
Economic Indicators	1
Capital Markets	1
Lebanon in the News	2
Draft budget forecasts deficit equivalent to 31% of expenditures for 2021	
Gross public debt at \$95.5bn at end-November 2020	
Revenues through Port of Beirut down 46% to \$100m in first 11 months of 2020	
Lebanon ranks 149 th globally, 14 th among Arab countries on corruption index	
Amount of cleared checks down 6%, returned checks down 41% in 2020	
Government announces national plan for the rollout of COVID-19 vaccines	
Official external financial support conditional on economic and fiscal reforms	
Lebanon ranks 167 th globally, 16 th in Arab region in terms of country risk in fourth quarter of 2020	
Tourism revenues down 68% to \$1.3bn in first half of 2020	
Commercial activity deteriorates in third quarter of 2020	
Increase in food prices in Lebanon is highest in MENA region	
Privatization of some state-owned assets could generate \$6bn to \$13bn in revenues to the Treasury	
Corporate Highlights	10
Utilized credits by private sector at \$45bn at end-September 2020, advances against real estate at 47% of total	
Import activity of top five shippers and freight forwarders down 45% in first 11 months of 2020	
Ratio Highlights	11
National Accounts, Prices and Exchange Rates	11
Ratings & Outlook	11

Charts of the Week

Total Number of COVID-19 Cases in MENA Countries*



Evolution of the Number of COVID-19 Cases in Lebanon*



*as of January 31, 2021

Source: Worldometer; Ministry of Public Health, Byblos Bank

Quote to Note

"The international community is committed to contribute to 'building back a better' Lebanon, in a process to be led by the Lebanese people."

The World Bank, on the readiness of foreign donors to support Lebanon, in case there is local will to implement structural reforms

Number of the Week

2.9%: Weighted average interest rate on Lebanese pound deposits at Lebanese banks in November 2020, according to Banque du Liban

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	2,806	2,632	(6.2)	309	-	-
Imports**	19,239	15,304	7,878	(48.5)	1,281	-	-
Trade Balance**	(15,508)	(12,498)	(5,246)	(58.0)	(972)	-	-
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	-	-	-
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 nine months of each year ***figures for the period reflect the first eight months of each year ****The annual decline in assets in December 2019 is mainly due to the "netting" on the assets and liabilities' sides of the consolidated balance sheet of commercial banks as part of the implementation of international accounting standard IFRS 7

Source: Association of Banks in Lebanon, Banque du Liban, Ministry of Finance, Central Administration of Statistics, Byblos Research

Capital Markets

Most Traded Stocks on BSE*	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "A"	18.98	1.2	49,747	28.1%
Solidere "B"	18.57	0.9	7,686	17.9%
Audi Listed	1.21	0.8	5,098	10.6%
Byblos Common	0.50	0.0	-	4.2%
Audi GDR	1.20	0.0	-	2.1%
BLOM GDR	2.12	(3.6)	-	2.3%
HOLCIM	13.13	0.0	-	3.8%
BLOM Listed	2.07	0.0	-	6.6%
Byblos Pref. 08	43.00	0.0	-	1.3%
Byblos Pref. 09	40.00	0.0	-	1.2%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Apr 2021	8.25	13.50	3295.24
Oct 2022	6.10	13.38	164.98
Jan 2023	6.00	12.88	135.08
Jun 2025	6.25	12.50	53.85
Nov 2026	6.60	12.50	39.12
Feb 2030	6.65	12.50	24.30
Apr 2031	7.00	12.38	21.52
May 2033	8.20	12.63	17.57
Nov 2035	7.05	12.50	14.61
Mar 2037	7.25	12.50	13.31

Source: Refinitiv

	Jan 11-13	Jan 4-8	% Change	Dec 2020	Dec 2019	% Change
Total shares traded	64,532	106,202	(39.2)	3,480,130	1,527,358	128
Total value traded	\$1,173,009	\$1,200,920	(2.3)	\$29,046,630	\$24,640,092	18
Market capitalization	\$6.75bn	\$6.71bn	0.5	\$6.72bn	\$7.76bn	(13.3)

*BSE was closed between January 14 and 29 due to national lockdown

Source: Beirut Stock Exchange (BSE)



Draft budget forecasts deficit equivalent to 31% of expenditures for 2021

The draft budget for 2021 that the Ministry of Finance submitted to the Council of Ministers shows budget expenditures at LBP19,759bn or \$13.1bn and revenues at LBP13,572bn or \$9bn, leading to a budget deficit of LBP6,187bn or \$4.1bn, which would be equivalent to 31.3% of expenditures. The dollar figures are converted at the official exchange rate of the Lebanese pound against the US dollar, as the ministry prepared the budget based on the official rate of the national currency. The ministry did not provide the macroeconomic indicators and assumptions that it used in the draft budget, such as real GDP growth, the inflation rate, and nominal GDP. In comparison, fiscal expenditures totaled LBP19,732bn (\$13.1bn) in the 2020 budget law, while revenues amounted to LBP13,396bn (\$8.9bn), resulting in a target deficit of LBP6,336bn (\$4.2bn) that is equivalent to 33.3% of spending. As such, the ministry maintained a similar level of public expenditures and revenues in the 2021 draft budget to the 2020 budget law.

The breakdown of budgetary spending for 2021, excluding Treasury outlays, shows that current expenditures amount to LBP19,024bn (\$12.6bn), equivalent to 96.3% of such spending. Also, capital spending, which includes investing in infrastructure, land expropriation and the purchase of equipment, reaches LBP735bn (\$488m), or 3.7% of total outlays in 2021. The compensation of public-sector personnel, which covers salaries, wages and related benefits, as well as retirement, end-of-service indemnities, and transfers to public institutions to cover salaries, amounts to LBP10,444bn, or \$6.9bn, and represents 53% of total budget spending in 2021. It is followed by interest payments on debt denominated in Lebanese pounds and on multilateral and bilateral debt at LBP3,106bn, or \$2.1bn (15.7% of total budget spending), and Transfers to Electricité du Liban (EdL) at LBP1,500bn, or \$1bn (7.6% of total budget spending). In comparison, the compensation of public-sector personnel stood at \$6.6bn or 50% of total spending in the 2020 budget law, while interest payments reached \$3.1bn (23.8%), and transfers to EdL amounted to \$1bn (7.6%). Also, the 2020 budget targeted capital spending of \$327m, equivalent to 2.5% of total expenditures.

On the revenues side, the 2021 draft budget forecast tax receipts at LBP10,493bn (\$7bn), compared to LBP9,966bn (\$6.6bn) in the 2020 budget law. The ministry estimates receipts from the tax on income, profits & capital gains would generate 47% of total tax revenues, followed by revenues from the value-added tax and the excise tax on goods & services (36%), income from property taxes (8.8%), and receipts from custom duties (4.5%), while other taxes would generate the remaining 3.9%. Also, the draft budget projects non-tax revenues at LBP3,080bn (\$2bn) relative to LBP3,430bn (\$2.3bn) in the 2020 budget.

The 2021 draft budget includes random tax and non-tax measures that are not part of any medium-term fiscal framework or a plan to address the crises that Lebanon is facing. For instance, it imposes a one-time "solidarity" tax of up to 2% on deposits of \$1m or LBP1,500m or higher, citing the "need for revenues". It also imposes a 30% surplus tax on all interest rates that exceed 3% on deposits, Treasury bills, Certificates of Deposits, interbank deposits, and interest income on assets management, among others. Revenues from interest rates on these instruments are already subject to a 10% tax. Further, it exempted "fresh dollar" deposits from the tax on interest rates for three years to encourage the inflows of such deposits, while it suggested that Lebanon extends residency to any foreigner who buys real estate in the district of Beirut for a minimum of \$350,000 in "fresh dollars" or in any other district for a minimum of \$200,000. In addition, it plans to increase the limit on the deposit guarantees from LBP75m currently to LBP300m on existing deposits in all currencies, and sets at \$50,000 the deposit guarantees on "fresh accounts" in US dollars or in any other foreign currency. In addition, it intends to gradually increase electricity tariffs in order to help eliminate the financial losses at Electricité du Liban. Further, it exempts technology startups from paying the income tax for 2021, 2022 and 2023, while it exempts new projects in tourism and industry from paying 75% of the income tax in 2021, 2022 and 2023, provided that at least 80% of the employees in these projects are Lebanese citizens. Also, it provides new industrial and commercial companies a 10-year exemption on paying income tax, provided that they are established in regions that the government intends to develop, that their capital is \$5m or more, and that 85% of their workforce consists of Lebanese citizens. Moreover, it exempts the remuneration that employees receive from layoffs or resignations from the tax on wages and salaries and allows companies to consider these remunerations as deductibles from the company's revenues.

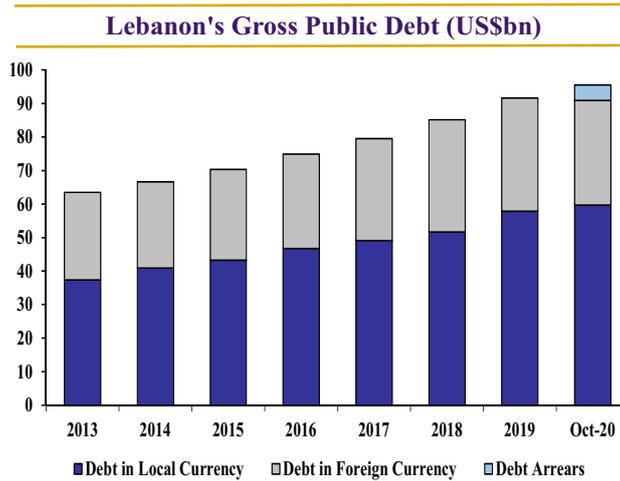
Projected Revenues & Expenditures			
	2021 Draft Budget	2020 Budget Law	Change
	(US\$m)	(US\$m)	(%)
Budget Revenues	9,003	8,886	1.3%
Tax Revenues	6,960	6,611	5.3%
Non-Tax Revenues	2,043	2,275	(10.2%)
Budget Expenditures	13,107	13,089	0.1%
Current Spending, of which	12,620	12,762	(1.1%)
<i>Wages, salaries & transfers to cover salaries</i>	3,363	3,392	(0.9%)
<i>Retirement salaries</i>	1,970	1,879	4.8%
<i>End of service indemnities</i>	299	100	200%
<i>Interest payments</i>	2,060	3,114	(33.8%)
<i>Transfers to EdL</i>	995	995	-
Capital Spending	488	327	49.1%
Budget Deficit	(4,104)	(4,203)	(2.3%)

Source: Ministry of Finance, Byblos Research

Gross public debt at \$95.5bn at end-November 2020

Lebanon's gross public debt reached \$95.5bn at the end of November 2020, constituting an increase of 4.2% from \$91.6bn at the end of 2019 and a rise of 6.7% from \$89.5bn at end-November 2019. The dollar figures are converted at the official exchange rate of the Lebanese pound against the US dollar. The gross public debt grew by \$3.9bn in the first 11 months of 2020 relative to a rise of \$4.3bn in the same period of 2019. Debt denominated in Lebanese pounds totaled \$59.7bn at the end of November 2020, and expanded by 3.1% from the end of 2019 and by 6.7% from end-November 2019; while debt denominated in foreign currency stood at \$35.8bn and grew by 6.2% from end-2019 and by 6.7% from a year earlier.

On March 7, 2020, the Lebanese government decided to default on the \$1.2bn Eurobond that matures on March 9, 2020. It also announced on March 23, 2020 that Lebanon will discontinue payments on all of its outstanding Eurobonds. The Ministry of Finance (MoF) indicated that \$4.6bn of the debt stock in foreign currency are in arrear as at end-November 2020.



Source: Ministry of Finance, Byblos Research

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

Local currency debt accounted for 62.5% of the gross public debt at the end of November 2020 and foreign currency-denominated debt represented the balance of 37.5%, both unchanged from a year earlier. The weighted interest rate on outstanding Treasury bills was 6.44% in November 2020, while the weighted life of Treasury bills and bonds was 1,679 days.

BdL held 43.3% of the public debt at the end of November 2020, followed by commercial banks (26.7%), and non-bank resident financial institutions (8.1%); while other investors, including foreign investors, held 19.8% of the debt, and multilateral institutions and foreign governments accounted for the remaining 2.1%. BdL held 61% of the Lebanese pound-denominated public debt at the end of November 2020 compared to 56.4% a year earlier, while commercial banks accounted for 26.2% of the local debt relative to 30.3% at end-November 2019. Also, public agencies, financial institutions and the public held 12.9% of the local debt at end-November 2020 relative to 13.4% a year earlier. Further, holders of Eurobonds and special T-bills in foreign currencies accounted for 94.3% of foreign currency-denominated debt at the end of November 2020, followed by multilateral institutions with 4.1% and foreign governments with 1.6%.

In addition, the net public debt, which excludes public sector deposits at BdL and at commercial and investment banks from overall debt figures, stood at \$85.4bn at the end of November 2020 and grew by 6% from a year earlier. Further, the gross market debt accounted for about 54% of the public debt. The gross market debt is the total public debt less the portfolios of BdL, the National Social Security Fund, as well as bilateral and multilateral loans.

Revenues through Port of Beirut down 46% to \$100m in first 11 months of 2020

Figures released by the Port of Beirut show that the port's revenues reached \$99.8m in the first 11 months of 2020, constituting a decline of 46% from \$184.6m in the same period of 2019. The Beirut Port processed 4.1 million tons of freight in the covered period, down by 33.7% from 6.2 million tons in the first 11 months of 2019. Imported freight amounted to 3.4 million tons in the first 11 months of 2020, as they regressed by 37.6% from 5.4 million tons in the same period of 2019 and accounted for 82.6% of total freight. In addition, export cargo reached 712,000 tons in the covered period and declined by 5.6% from 754,000 tons in the first 11 months of 2019. It represented 17.4% of total freight in the first 11 months of 2020. A total of 1,261 vessels docked at the port in the first 11 months of the year, representing a decrease of 22.4% from 1,625 ships in the same period of 2019. The decrease in revenues and the contraction in activity at the Beirut Port in the covered period are mainly due to the deterioration of economic and financial conditions in Lebanon, to the coronavirus pandemic, as well as to the August 4 explosion at the port that led to substantial damages and to its closure for more than eight days. Further, revenues generated through the Beirut Port reached \$7.4m in November 2020 and decreased by 2.1% from \$7.5m in October. The port handled 415,000 tons of freight in November, constituting a marginal decline of 0.5% from 417,000 tons in October. In addition, 108 vessels docked at the port in November, down by 16.3% from 129 ships in October 2020.

In parallel, revenues generated through the Port of Tripoli reached \$12.5m in the first 11 months of 2020, constituting a decrease of 9.3% from \$13.8m in the same period of 2019. The port processed 1.9 million tons of freight in the covered period, up by 2.3% from 2 million tons in the first 11 months of 2019. Imported freight amounted to 1.5 million tons in the first 11 months of 2020 and increased by 1.4% from 1.46 million tons in the same period of 2019. It accounted for 74.7% of total freight in the covered period. In parallel, exported cargo reached 502,000 tons, or 25.3% of total freight, constituting an expansion of 5% from 478,000 tons in the first 11 months of 2019. A total of 553 vessels docked at the port in the covered period, decreasing by 4.2% from 577 ships in the same period of 2019. Further, revenues generated through the Port of Tripoli increased by 16% from \$1.4m in October to \$1.6m in November 2020. The port handled 223,607 tons of freight in November, nearly unchanged from the previous month. In contrast, 52 vessels docked at the port in November, decreasing by 32.5% from 77 ships in October 2020.

Lebanon ranks 149th globally, 14th among Arab countries on corruption index

Transparency International's 2020 Corruption Perceptions Index ranked Lebanon in 149th place among 180 countries around the world and in 14th place among 19 countries in the Arab region. Also, Lebanon came in 42nd place among 49 upper middle-income countries (UMICs) included in the 2020 survey. Lebanon's global rank deteriorated by 12 spots year-on-year, the fourth steepest decline globally.

Transparency International uses data sources from independent institutions specializing in governance and business climate analysis, in order to assess the degree of corruption in the public sector of each country. The rankings are based on scores that range between zero and 100, with lower scores showing a high level of corruption.

Globally, Lebanon is perceived to have the same level of corruption as Cameroon, Guatemala, Iran, Madagascar, Mozambique, Nigeria and Tajikistan. It is also considered to be less corrupt than Bangladesh, the Central African Republic and Uzbekistan, and more corrupt than Honduras, Zimbabwe and Nicaragua.

Lebanon received a score of 25 points, constituting its lowest score since the organization changed its methodology for the index in 2012. In comparison, Lebanon posted a score of 28 points in the 2015, 2016 and 2017, 2018 and 2019 surveys. Lebanon's score came below the global average score of 43.3 points, the UMICs' average score of 38.7 points and the Arab region's average score of 36.4 points. Also, Lebanon's score was lower than the Gulf Cooperation Council (GCC) countries' average score of 54.2 points and the average score of non-GCC Arab countries of 28.2 points. The survey indicated that the COVID-19 pandemic and the blast at the Port of Beirut constitute major challenges to the country's anti-corruption efforts.

Lebanon was among 31 countries globally that received a score between 20 and 29 points, a category that Transparency International classified as the third worst globally in terms of corruption perception. Denmark and New Zealand were perceived as the least corrupt countries worldwide, while the survey found Somalia and South Sudan to be the most corrupt countries in the world.

Amount of cleared checks down 6%, returned checks down 41% in 2020

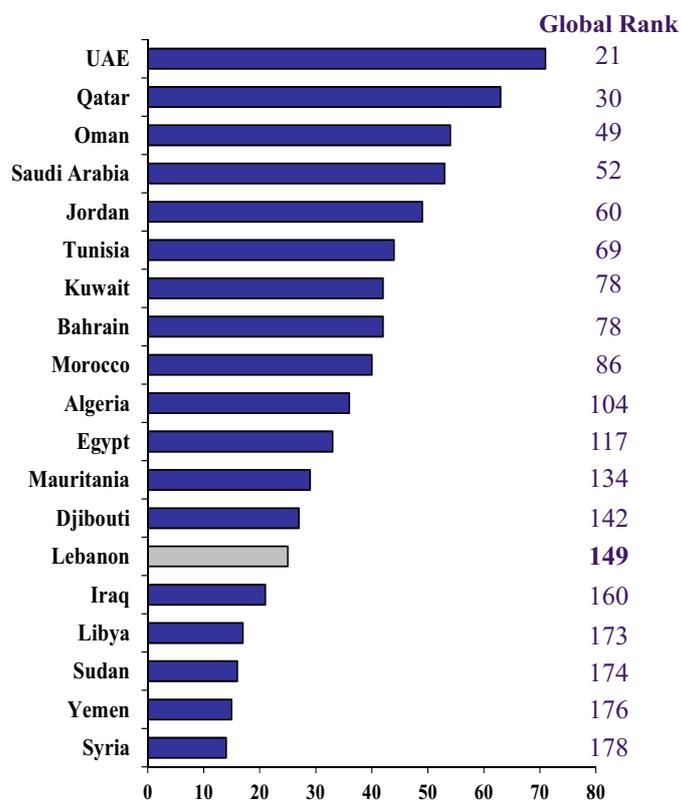
The amount of cleared checks reached \$53.8bn in 2020, constituting a decrease of 5.5% from \$57bn in 2019. In comparison, the amount of cleared checks dropped by 14.4% in 2019 and by 2.5% in 2018. The dollar figures are converted at the official exchange rate of the Lebanese pound against the US dollar.

The amount of cleared checks in Lebanese pounds reached the equivalent of \$20bn in 2020 and regressed by 10% from 2019, while the amount of cleared checks in foreign currencies was \$33.9bn and declined by 2.7% in the covered period. The dollarization rate of cleared checks expanded from 61.1% in 2019 to 63% in 2020. There were 5.9 million cleared checks in 2020, down by 41.1% from 9.9 million cleared checks in 2019. The number of checks denominated in foreign currencies accounted for 51.2% of total cleared checks in 2020.

In addition, the amount of cleared checks reached \$4.7bn in December 2020, constituting an increase of 21% from \$3.9bn in the preceding month and a decline of 24.7% from \$6.3bn in December 2019. Also, the amount of cleared checks in Lebanese pounds reached the equivalent of \$1.9bn in December, increasing by 15.4% from \$1.7bn in November 2020 and declining by 19% from \$2.4bn in December 2019; while the amount of cleared checks in foreign currencies expanded by 25% month-on-month and dropped by 28% year-on-year to \$2.8bn in December 2020. There were 468,100 cleared checks in December 2020 relative to 427,496 cleared checks in the preceding month and to 800,314 cleared checks in December 2019.

In parallel, the amount of returned checks in local and foreign currencies was \$1bn in 2020 compared to \$1.64bn in 2019 and to \$1.62bn in 2018. This constitutes a decline of 41.5% in 2020 relative to an increase of 1% in 2019. The amount of returned checks in Lebanese pounds and in foreign currencies reached \$309.1m and \$650m, respectively, in the previous year, and decreased by 35% and 44% year-on-year, respectively. Also, there were 109,329 returned checks in 2020, down by 67% from 331,046 returned checks in 2019. The number of returned checks in foreign currencies and in Lebanese pounds reached 59,634 and 49,695, respectively, in 2020, and dropped by 71% and 60.4%, respectively, from 2019. Further, the amount of returned checks in domestic and foreign currencies stood at \$59m in December 2020 compared to \$57m in the previous month and to \$179.1m in December 2019. Also, there were 4,216 returned checks in December 2020, relative to 4,121 returned checks in November 2020 and to 36,684 checks in December 2019.

Corruption Perceptions Index 2020
Scores & Rankings of Arab States



Source: Transparency International, Byblos Research

Government announces national plan for the rollout of COVID-19 vaccines

The Ministry of Public Health published the National Plan for COVID-19 Vaccine on January 27, 2021, which organizes the vaccination process in Lebanon, including the delivery of the vaccines to the country, the storing procedures, the registration process and the distribution of the vaccine, among others.

The plan aims to vaccinate 70% of the population in Lebanon throughout 2021 and 2022, in order to limit the spread of the virus, to help decrease the number of infections, to lower the cases that require intensive care, and to reduce the mortality rate from the coronavirus. The plan stipulates that high-risk healthcare workers will be vaccinated first, followed by individuals who are 65 years or older, residents in the 55 to 64 year-old age bracket with “co-morbidities”, individuals in the 16 to 54 year-old age bracket with “co-morbidities”, and other healthcare workers, among others. According to the ministry, these groups consist of about 2.3 million individuals, equivalent to 35% of the population in Lebanon. According to the plan, vaccination is not mandatory and is free of charge through the Ministry of Public Health.

The plan indicated that the government ordered 2.1 million doses of the Pfizer vaccine, and will work on procuring more doses and vaccines from other manufacturers. It pointed out that every person needs two doses of the Pfizer vaccine, which means that the vaccine will cover the full vaccination of about one million persons. It said that the doses of the Pfizer vaccine will be distributed in four stages, with 249,000 doses in the first quarter of 2021, 350,000 doses in the second quarter, 800,175 doses in the third quarter, and 699,750 doses in the fourth quarter of the year. Also, the government reserved 2.73 million doses of vaccine through the COVAX platform, and is currently negotiating with multinational pharmaceutical company AstraZeneca to get 1.5 million doses of its vaccine.

Further, the plan indicated that the Pfizer vaccine will cost about \$18m and will be financed by a loan from the World Bank. It added that the ministry paid \$4m to the COVAX platform through the United Nations International Children's Emergency Fund (UNICEF) and made arrangements to make the second payment of \$18m to the platform. Also, the plan will manage the procedures through which the private sector or individuals can receive and distribute the vaccines. In addition, it stipulated that the national vaccination plan will be funded by other international organizations, such as the World Health Organization, the UNICEF, the United Nations High Commissioner for Refugees, and the United Nations Relief and Works Agency for Palestine Refugees in the Near East, as well as by the pharmaceutical sector in Lebanon.

Official external financial support conditional on economic and fiscal reforms

In an update to its May 2020 assessment of Lebanon's sovereign creditworthiness, Moody's Investors Service indicated that Lebanon's 'C' government bond rating reflects the agency's expectations that the losses incurred by the holders of Lebanese Eurobonds from the government's decision in March 2020 to default on its foreign obligations are likely to exceed 65%. It said that the country is going through an economic, financial and social crisis, and that the very weak institutions and poor governance constitute obstacles to address the mounting challenges. It did not expect any form of official external funding support or a debt restructuring plan, in the absence of plausible economic and fiscal policy reforms.

The agency said that Lebanon's Economic Strength level of 'b2' reflects the small size of the economy, weak growth potential and its eroded competitiveness. It projected real GDP to shrink by 6.6% in 2021 and by 3.4% in 2022, following an estimated contraction of 25% in 2020. It added that the country is facing a significant economic adjustment in order to transition towards a more sustainable growth model. It also noted that Lebanon's score of 'caa3' on the Strength of Institutions and Governance reflects the country's weak governance framework, with very weak fiscal policy effectiveness, as well as a "severely constrained" effectiveness of monetary and financial policy amid rising economic and external challenges.

In addition, Moody's indicated that Lebanon's Fiscal Strength level of 'ca' points to the country's elevated public debt burden, which it forecast at 171.3% of GDP at end-2021 and at 146.1% of GDP at the end of 2022. It added that the debt trajectory is sensitive to a contraction in economic activity and to interest rate shocks, while it considered that a potential adjustment to the peg of the Lebanese pound to the US dollar will entail a significant increase in the debt burden. However, it expected this ratio to increase further over time if authorities do not restructure the debt.

Further, the agency noted that Lebanon's score of 'ca' on the Susceptibility to Event Risk category, which assesses a country's vulnerability to sudden events that would materially impact the government's creditworthiness, is driven by the government's liquidity risk and its impact on other drivers of event risk. It said that the country's Government Liquidity Risk score of 'ca' shows the government's limited traditional funding sources, such as deposits at commercial banks, as well as the country's closed access to international capital markets and the authorities' ongoing drawdown of usable foreign currency reserves at Banque du Liban. Also, it noted that the External Vulnerability Risk score of 'ca' points to the depreciation of the pound on the parallel market, due in part to declining foreign currency buffers to support the exchange rate, while authorities are trying simultaneously to provide the necessary funding of key imports at subsidized exchange rates. It added that the Banking Sector Risk level of 'caa' denotes the link between the sovereign and the banking system, which increases the reliance of the government on the financial health of the banking sector.

Lebanon ranks 167th globally, 16th in Arab region in terms of country risk in fourth quarter of 2020

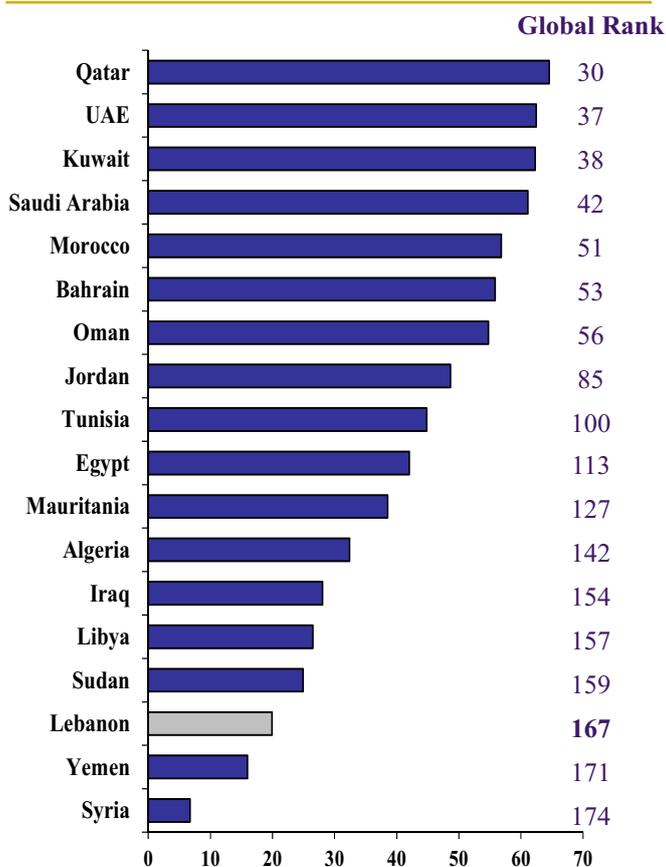
In its quarterly survey of the country risk level in 174 countries, the Euromoney Group ranked Lebanon in 167th place worldwide and in 16th place among 18 Arab countries in the fourth quarter of 2020. Also, Lebanon came in last place among 49 upper middle-income countries (UMICs) included in the survey. In comparison, Lebanon ranked in 127th place worldwide and in 11th place among Arab countries in the fourth quarter of 2019. As such, Lebanon's global rank deteriorated by 40 spots, the fifth steepest decline in the covered quarter; while its regional rank regressed by five notches from the fourth quarter of 2019. The survey evaluates individual country risk by assigning a weight to five categories that cover Political Assessment, Economic Assessment, Structural Assessment, Access to International Capital Markets, and Debt Indicators. A higher score reflects a lower country risk level.

Globally, Lebanon had a lower country risk level than only Mali, Zimbabwe, Yemen, North Korea and Syria among economies with a GDP of \$10bn or more. Lebanon's global rank declined by 91 spots on the Access to International Capital Markets category, by 59 notches on the Structural Assessment indicator, by 30 spots on the Economic Assessment category and by 23 notches on the Political Assessment indicator, while it was unchanged year-on-year on the Debt Indicators category.

Lebanon received a score of 19.93 points in the fourth quarter of 2020 relative to 35.23 points in the fourth quarter of 2019. Lebanon's score came well below the global average score of 48.25 points, the average score of 45 points for UMICs and of 41.47 for Arab countries. Also, its score was lower than the Gulf Cooperation Council (GCC) countries' average score of 60.17 points and the average score of non-GCC Arab countries of 32.12 points. Further, Lebanon's score dropped by 73% on the Economic Assessment indicator, by 63.5% on the Access to International Capital Markets category, by 52.4% on the Structural Assessment indicator and by 51.1% on the Political Assessment category; while it was unchanged on the Debt Indicators category from the fourth quarter of 2019.

In parallel, Lebanon ranked ahead of only Yemen, Zimbabwe, Syria and North Korea worldwide on the Economic Assessment indicator. Also, it preceded only Libya, Zimbabwe, Mali, Yemen, North Korea and Syria globally on the Political Assessment category. In addition, Lebanon fared better than Mozambique and worse than Bangladesh worldwide; while it ranked ahead of Libya and trailed Algeria regionally on the Structural Assessment indicator. Further, it preceded Myanmar and came behind the Democratic Republic of the Congo globally; while it ranked ahead of only Sudan, Yemen, Libya and Syria among Arab countries on the Access to International Capital Markets indicator. Finally, Lebanon preceded Mozambique and trailed Equatorial Guinea worldwide, while it ranked ahead of only Syria regionally on the Debt Indicators category.

Country Risk in Arab World in Fourth Quarter of 2020 Arab Countries' Scores & Rankings



Source: Euromoney Group, Byblos Research

Country Risk Indicators for Lebanon - Fourth Quarter of 2020

	Weighting (%)	Score	Arab Rank	Global Rank	Arab Avg Score	Global Avg Score
Economic Assessment	35	17.07	16	169	13.97	15.61
Political Assessment	35	14.71	15	166	13.94	17.37
Structural Assessment	10	4.72	12	133	4.57	4.96
Access to Int'l Capital Mkts	10	2.25	14	141	4.55	5.02
Debt Indicators	10	2.12	17	168	4.44	5.30

Source: Euromoney Group, Byblos Research

Tourism revenues down 68% to \$1.3bn in first half of 2020

Figures released by Banque du Liban (BdL) show that revenues generated by tourism activity in Lebanon, defined by BdL as "Travel Services", totaled \$1.3bn in the first half of 2020, constituting a decrease of 67.8% from \$4.2bn in the same period of 2019. Tourism receipts in the first half of 2020 reached their lowest semi-annual level since BdL started publishing detailed figures about the balance of payments in 2002. Tourism receipts in Lebanon averaged \$3.2bn during the first half of each year between 2002 and 2020. BdL's figures are the only official data on receipts from tourism activity in Lebanon and on tourism spending abroad by Lebanese citizens.

Tourism receipts reached \$1.1bn and \$286m in the first and second quarters of 2020, respectively, constituting declines of 42.5% and 87.7%, respectively, from the same quarters of the previous year. The figures of the first quarter of 2020 constitute their seventh lowest quarterly level on record, while the second quarter results represent their lowest quarterly outcome on record.

In parallel, tourism spending abroad by Lebanese citizens amounted to \$1.1bn in the first half of 2020, constituting a drop of 60.6% from \$2.9bn in the first half of 2019. Outbound tourism expenditures in the first half of 2020 posted their lowest semi-annual level on record. They totaled \$978.8m and \$145m in the first and second quarters of 2020, respectively, representing decreases of 25.4% and 90.6%, respectively, from the same quarters of the previous year. The figures of the first quarter of 2020 are their lowest since the first quarter of 2013, while the results of the second quarter reached their lowest on record. Tourism spending abroad by Lebanese citizens averaged \$2.1bn during the first half of each year between 2002 and 2020.

As such, net revenues generated by tourism activity in Lebanon totaled \$216.4m in the first half of 2020, constituting a decrease of 83.4% from \$1.3bn in the same period of 2019, and registering their lowest semi-annual level on record. They reached \$75.6m and \$140.8m in the first and second quarters of 2020, respectively, showing declines of 85.5% and 82% from the same periods of 2019. Net tourism revenues averaged \$1.1bn during the first half of each year between 2002 and 2020.

Commercial activity deteriorates in third quarter of 2020

Banque du Liban's quarterly business survey about the opinions of business managers shows that the balance of opinions for the volume of commercial sales reached -68 in the third quarter of 2020, relative to -74 in the second quarter of 2020 and -34 in the third quarter of 2019. The plunge reflects the disruptions to economic activity following the worsening of economic and financial conditions in the country, as well as the lockdown measures that the government imposed since March to contain the outbreak of the COVID-19 pandemic, in addition to the impact of the explosion of the Beirut Port on August 4. The balance of opinions for the volume of commercial sales in the third quarter of 2020 reached its fourth lowest quarterly level during the 2004-20 period, after posting -74 in the second quarter of 2020, -73 in the third quarter of 2006 due to the Israeli war on Lebanon, and -70 in the first quarter of 2005 following the assassination of Prime Minister Rafic Hariri.

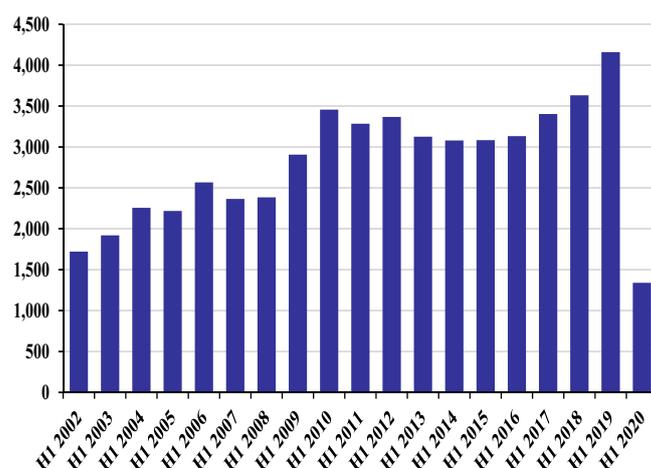
The survey reflects the opinions of enterprise managers about their business activity in order to depict the evolution of a number of key economic variables. The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in an indicator and the proportion of those who reported a decline in the same indicator. The balance of opinions was the lowest in the South at -96, followed by Beirut & Mount Lebanon (-75), the Bekaa (-71), and the North (-34). The survey shows that the balance of opinions about the sales of food items was -44 in the third quarter of 2020 relative to -48 in the preceding quarter and to -20 in the first quarter of the previous year. Also, the balance of opinions about the sales of non-food products was -86 in the covered quarter, compared to -92 in the previous quarter and to -84 in the first quarter of 2020; while it was -65 for inter-industrial goods relative to -67 in the second quarter and -72 in the first quarter last year. Further, the balance of opinions for inventory levels in all commercial sub-sectors was -42 in the third quarter of 2020, compared to -47 in the previous quarter and to -12 in the third quarter of 2019. Opinions about the level of inventories were the lowest in the North region as they reached -78, followed by the south (-65), the Bekaa area (-44), and Beirut and Mount Lebanon (-13).

Commercial Activity: Year-on-Year Evolution of Opinions

Aggregate results	Q3-17	Q3-18	Q3-19	Q3-20
Sales volume	-1	-31	-34	-68
Number of employees	-3	-7	-16	-44
Inventories of finished goods	+1	0	-12	-42
Q3-19 Regional results	Beirut / Mount Lebanon	North	South	Bekaa
Sales volume	-75	-34	-96	-71
Inventories of finished goods	-13	-78	-65	-44

Source: Banque du Liban business survey for third quarter of 2020

Tourist Receipts (US\$m)



Source: Banque du Liban, Byblos Research

Increase in food prices in Lebanon is highest in MENA region

In its assessment of the impact of the COVID-19 pandemic on food-price inflation in the Middle East & North Africa (MENA) region, the World Bank indicated that prices in Lebanon have surged across all food categories between February 14, 2020 and January 20, 2021. It assessed the change in food prices in 19 countries in the MENA region across five main food categories that are carbohydrates, dairy, fruits, meats and vegetables.

The prices of fresh or frozen cattle meat in Lebanon rose by 103.4% between February 14, 2020 and January 20, 2021, constituting the highest increase in the price of this item in the region. In contrast, the price of fresh or frozen cattle meat grew by an average of 10.6% in the region.

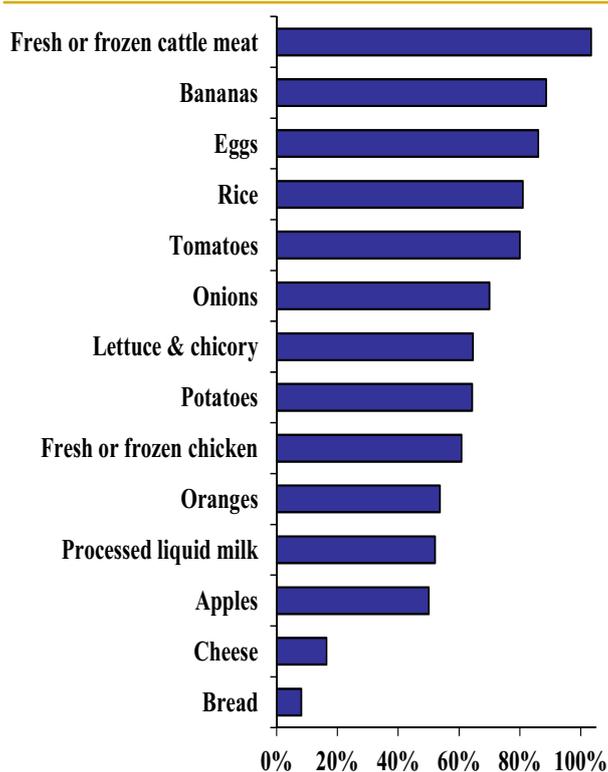
Also, the price of bananas in Lebanon surged by 88.6% in the covered period, representing the highest growth rate in the price of this fruit regionally, relative to an average increase of 10.5% among MENA countries. Lebanon, along with Djibouti and Yemen, were the only countries in the region that posted increases of above 20% in the price of bananas.

In parallel, the price of eggs in Lebanon jumped by 86% between February 14, 2020 and January 20, 2021, the highest price increase for this product among MENA countries. Lebanon, Djibouti, Iran, Syria and Yemen were the only countries in the region that posted a rise of more than 20% in the price of eggs. In comparison, the price of eggs increased by an average of 6.7% in the region.

In addition, the prices of rice and tomatoes in Lebanon climbed by 81% and by 80%, respectively, in the covered period, the highest surge in the prices of these food products regionally. Also, the prices of onions and lettuce jumped by 70% and by 64.6%, respectively, the highest price leap in the region for such products. The prices of potatoes in Lebanon grew by 64.3% in the covered period, the highest rise among MENA countries relative to an average increase of 4.4% in the region. Also, the prices of fresh or frozen chicken surged by 61% in the covered period, the second highest increase, after Djibouti, among MENA countries and compared to an average growth of 16.6% regionally. Lebanon, along with Djibouti and Saudi Arabia, were the only countries in the region that posted increases of above 20% in the price of fresh or frozen chicken.

Further, the prices of apples and oranges in Lebanon soared by 50% and 53.7%, respectively, between February 14, 2020 and January 20, 2021, the most significant price increases for such fruits among MENA countries. Lebanon, along with Morocco and Yemen, were the only countries in the region that posted increases of above 20% in the price of oranges. Also, the price of processed liquid milk in Lebanon grew by 52%, the second highest price rise regionally, after Djibouti. Further, the price of cheese surged by 16.4%, the fifth highest price increase regionally for this category; while the price of bread in Lebanon expanded by 8% in the covered period, representing the ninth highest increase in bread prices among MENA countries.

**Change in Food Prices in Lebanon
Between February 14, 2020 and January 20, 2021 (%)**



Source: World Bank, Byblos Research

Privatization of some state-owned assets could generate \$6bn to \$13bn in revenues to the Treasury

In a study conducted about the privatization of Lebanon's publicly-held assets (PHAs), the Issam Fares Institute for Public Policy and International Affairs (IFI) indicated that any decision about the privatization of state-owned assets must factor in the long-term impact of such process on the economy and on the provision of public services, and should aim to improve the socioeconomic conditions of Lebanese citizens. It added that any privatization program must have a strategy that evaluates adequately the privatization potential of the PHAs and that specifies how gains from the process will be used to benefit citizens. As such, it weighed the risks and benefits of privatizing selected PHAs by assessing the competitiveness and efficiency that private sector participation will bring to the relevant sector, the citizens' access to the public goods and services, and the revenues that the Treasury will generate from the sale of the PHAs. It said that the selected PHAs consist of Middle East Airlines (MEA), Casino du Liban, the Régie Libanaise de Tabacs et Tombacs (RLTT), as well as Lebanon's airports and ports, state-owned real estate, fixed and mobile telecommunications companies, Electricité du Liban (EdL), and the water authorities.

The study found that the selected PHAs have different levels of “feasibility and attractiveness for privatization”, provided that the necessary conditions and prerequisites are met. It considered that MEA and Casino du Liban are assets that have a “high readiness and attractiveness for privatization” and can be fully or partially privatized in the short term, given that they are corporatized, present conflicts of interest to the State, and do not pose risks to the national interest. It said that RLTT, state-owned real estate, and the telecommunications companies are assets with “high privatization potential” that can be partially and progressively sold, but that have to be subject to a national strategy and to sectoral frameworks and regulations. It pointed out that EdL, the airports, the ports, and the water authorities are assets that can be developed through concessions, lease contracts, or other public-private partnership arrangements, given their strategic interest, and have the potential to generate long-term benefits to the country.

Further, the IFI estimated the aggregate valuation of Lebanon's selected PHAs at between \$11.7bn and \$22bn based on a conservative and optimistic valuation, respectively. It valued the state-owned real estate at between \$7.1bn and \$14.4bn, followed by telecommunications firms (\$2.2bn-\$4.3bn), RLTT (\$1.4bn-\$1.7bn), MEA (\$600m-\$740m) and Casino du Liban (\$320m-\$420m). It did not provide valuations for the remaining assets, as it classified them as eligible for potential concessions. Based on its valuation of the assets, it anticipated that the Treasury could generate from the privatization of the selected state-owned assets between \$6bn under a realistic scenario and \$13bn in case of an optimistic scenario.

Moreover, the IFI noted that Lebanon does not currently have the necessary prerequisites and conditions to conduct “a proper and transparent privatization process”. It explained that the recently ratified anti-corruption laws are poorly implemented, the country’s procurement process is outdated, has structural deficiencies and lacks transparency, and regulatory bodies in key sectors are either ineffective due to political interference, or do not even exist. It added that the Capital Markets Authority has not yet established a Sanctions Committee that protects investors in case of fraud or other offenses, and that the judiciary is heavily politicized.

Estimation of Gross Revenues Generated from Privatization of Selected PHAs*

Realistic Privatization Program		Optimistic Privatization Program	
Assets	Value (US\$m)	Assets	Value (US\$m)
MEA	670	MEA	670
Casino du Liban	370	Casino du Liban	370
Telecommunications Firms (50% of Assets)	1,615	Telecommunications Firms (100% of Assets)	3,230
Real Estate (30% of Assets)	3,225	Real Estate (70% of Assets)	7,525
		RLTT	1,570
Total Revenues	5,880		13,365

*excluding assets eligible for potential concessions

Source: Issam Fares Institute for Public Policy and International Affairs

Corporate Highlights

Utilized credits by private sector at \$45bn at end-September 2020, advances against real estate at 47% of total

Figures issued by Banque du Liban show that utilized credits by the private sector totaled \$45.3bn at the end of September 2020, constituting a decline of \$14.3bn, or 24%, from \$59.6bn at end-2019 and a decrease of \$20.1bn (-30.8%) from \$65.4bn at end-September 2019. The drop in lending is mostly due to clients' decision to settle their loans prior to maturity, to limited demand for new loans amid political and economic uncertainties, and to lenders' risk aversion amid the challenging conditions in the country.

Utilized personal credits reached \$16.2bn and accounted for 35.8% of the total at the end of September 2020, followed by credits for trade & services with \$13.9bn (30.8%), construction with \$6.8bn (15%), industry with \$4.6bn (10%), financial intermediaries with \$1.9bn (4.3%), and agriculture with \$591.6m (1.3%), while other sectors represented the remaining \$1.3bn (2.8%). The distribution of utilized credits by type of collateral shows that advances against real estate totaled \$21.8bn and accounted for 47% of private sector utilized credits at the end of September 2020. Advances against personal guarantees followed with \$7.1bn (15.3%), then advances against cash collateral or bank guarantees with \$2.6bn (5.5%), advances against other real guarantees with \$1.1bn (2.3%), and advances against financial values with \$917.3m (2%), while overdrafts totaled \$13bn or 28% of the total.

Also, the distribution of utilized credits in trade & services shows that wholesale trade accounted for 48% of overall trade & services credits, followed by retail with 16.7%; real estate, rent & employment services with 14%; hotels & restaurants with 8.7%; transport & storage with 7.8%; and educational services with 4.8%.

Further, utilized credits for construction declined by 31.4% in the first nine months of 2020, followed by utilized credits for trade & services (-29%), for industry (-28.8%), financial intermediaries (-21.8%), agriculture (-21.5%), and for personal credits (-13.2%) that include mortgages (-12%), while utilized credits for other sectors fell by 25% from end-2019. Personal loans beneficiaries represented 86% of total loan beneficiaries, followed by trade & services with 10.6% of beneficiaries, industry with 2.8%, construction with 1.3%, agriculture with 1.1% and financial intermediaries with 0.5%, while other sectors accounted for the remaining 3.6% of loan beneficiaries.

The aggregate number of loan beneficiaries declined by 18.2% from the end of 2019 to 471,640 at end-September 2020; while 63.7% of beneficiaries had loans ranging from LBP5m to LBP100m at the end of September 2020. Beirut and its suburbs accounted for 73.6% of bank credits and for 53.3% of beneficiaries. Mount Lebanon followed with 13.4% of credits and 18% of beneficiaries, then North Lebanon with 5% of credits and 11.5% of beneficiaries, South Lebanon with 4.6% of credits and 10.2% of beneficiaries, and the Bekaa region with 3.6% of credits and 7% of beneficiaries.

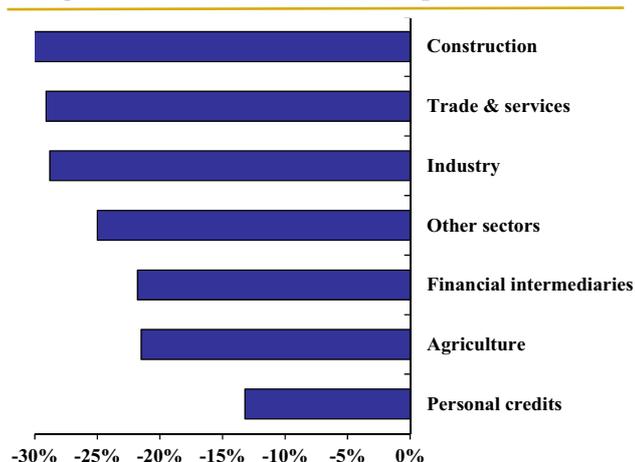
In parallel, the off-balance sheet liabilities of banks and financial institutions totaled \$92bn at the end of September 2020, constituting declines of 12.8% from end-2019 and of 15.5% from the end of September 2019. They include endorsement & guarantees of \$87.8bn, or 95.5% of the total, followed by letters of undertaking with \$1.9bn (2.1%), and commitments on notes with \$1.6bn (1.7%).

Import activity of top five shippers and freight forwarders down 45% in first 11 months of 2020

Figures released by the Port of Beirut show that overall import shipping operations by the top five shipping companies and freight forwarders through the port reached 141,276 20-foot equivalent units (TEUs) in the first 11 months of 2020, constituting a decrease of 44.5% from 254,547 TEUs in the same period of 2019. The five shipping and freight-forwarding firms accounted for 78.7% of imports to the Lebanese market for local use, and for 42.6% of the total import freight market, which includes transshipments to other ports, in the covered period. Mediterranean Shipping Company (MSC) handled 42,980 TEUs in imports in the first 11 months of 2020, or 13% of the total import freight market. Merit Shipping followed with 37,963 TEUs (11.4%), then MAERSK with 27,458 TEUs (8.3%), Gezairy Transport with 18,520 TEUs (5.6%) and Tourism & Shipping Services with 14,355 TEUs (4.2%). The five shipping and freight forwarding companies registered year-on-year decreases in import shipping in the first 11 months of 2020, with MSC posting a decline of 58.2%, the steepest among the top five firms. The import shipping operations of the five companies through the port increased by 9.3% in November 2020 from the preceding month, following a rise of 30.6% in October 2020.

In parallel, export-shipping operations by the top five shipping and freight-forwarding firms through the Port of Beirut reached 63,850 TEUs in the first 11 months of 2020, and increased by 6% from 60,195 TEUs in the same period of 2019. The five shipping companies and freight forwarders accounted for nearly 90% of exported Lebanese cargo and for 19% of the total export freight market that includes transshipments through Lebanese ports. Merit Shipping handled 35,895 TEUs of freight, equivalent to 50.5% of the Lebanese cargo export market. MAERSK followed with 13,081 TEUs (18.4%), then Sealine Group with 6,349 TEUs (9%), Tourism & Shipping Services with 4,792 TEUs (6.7%), and Metz Group with 3,733 TEUs (5.3%). Merit Shipping registered a year-on-year increase of 20% in export shipping in the first 11 months of 2020, the highest growth rate among the top five shipping and freight forwarding companies; while Metz Group posted a drop of 48%, the steepest decline among the remaining top four firms. The export-shipping operations of the top five companies decreased by 29.5% in November 2020 from the previous month, following a drop of 7% in October.

Change in Utilized Credits at End-September 2020* (%)



*from end-September 2019

Source: Banque du Liban

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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