

LEBANON THIS WEEK

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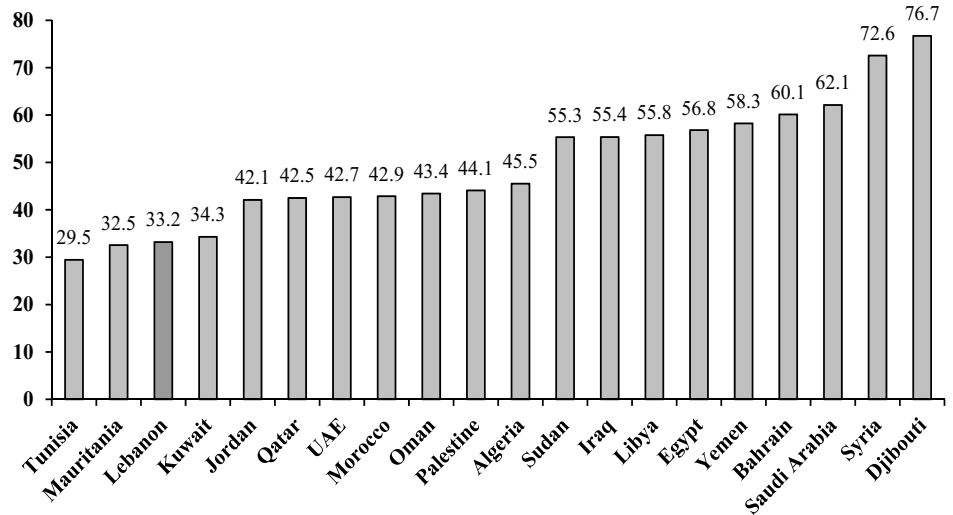
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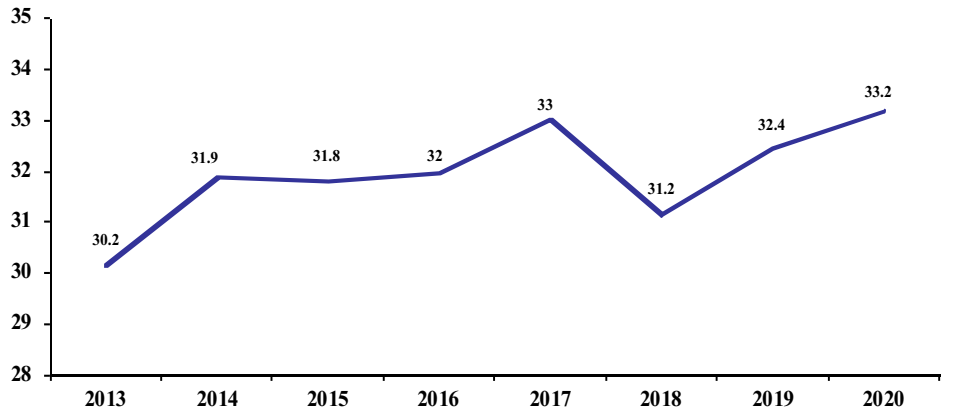
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Charts of the Week

Performance of Arab countries on the 2020 Press Freedom Index*



Performance of Lebanon on Press Freedom Index*



*lower score reflects a higher level of press freedom
Source: Reporters Without Borders, Byblos Research

Quote to Note

"A highly credible policy path to persistent primary surpluses, reform implementation in the electricity sector, and an achievable plan to control the public sector wage bill."

Moody's Investor Services, on some of its prerequisites to upgrade its sovereign rating for Lebanon

Number of the Week

87.1%: Percentage of Lebanese who consider that their personal financial condition was worse off in April than it was six months earlier, according to the April 2020 survey of the Byblos Bank/AUB Consumer Confidence Index

Lebanon in the News

\$m (unless otherwise mentioned)	2019	Jan-Feb 2019	Jan-Feb 2020	% Change*	Feb-19	Jan-20	Feb-20
Exports	3,731	536	676	26.2	300	333	343
Imports	19,239	2,768	2,105	(24.0)	1,364	1,154	951
Trade Balance	(15,508)	(2,232)	(1,428)	(36.0)	(1,064)	(820)	(608)
Balance of Payments	(4,351)	(1,930)	(505)	(73.8)	(550)	(158)	(347)
Checks Cleared in LBP	22,146	3,638	4,502	23.7	1,782	2,281	2,221
Checks Cleared in FC	34,827	6,117	8,023	31.2	3,072	4,412	3,611
Total Checks Cleared	56,973	9,755	12,525	28.4	4,854	6,693	5,832
Fiscal Deficit/Surplus	(5,837)	(658)	-	-	(585)	(670)	-
Primary Balance	(287)	(89)	-	-	(321)	(326)	-
Airport Passengers	8,684,937	1,131,076	977,524	(13.6)	524,292	522,683	454,841
Consumer Price Index	2.9	3.2	-	-	3.1	10.0	-

\$bn (unless otherwise mentioned)	Dec-18	Feb-19	Nov-19	Dec-19	Jan-20	Feb-20	% Change*
BdL FX Reserves	32.51	31.27	30.15	29.55	28.96	28.34	(9.4)
In months of Imports	20.72	22.92	23.54	21.95	25.10	29.80	30.0
Public Debt	85.14	85.25	89.48	91.64	91.99	92.24	8.2
Bank Assets	249.48	250.24	259.69	216.78**	213.80	210.34	(15.9)
Bank Deposits (Private Sector)	174.28	171.97	162.60	158.86	155.10	151.71	(11.8)
Bank Loans to Private Sector	59.39	57.38	52.48	49.77	47.91	46.08	(19.7)
Money Supply M2	50.96	50.23	43.82	42.11	40.82	39.59	(21.2)
Money Supply M3	141.29	139.86	136.44	134.55	132.56	130.95	(6.4)
LBP Lending Rate (%)	9.97	10.55	9.69	9.09	9.86	9.33	(122)
LBP Deposit Rate (%)	8.30	9.16	9.40	7.36	6.62	5.81	(335)
USD Lending Rate (%)	8.57	8.91	10.64	10.84	10.07	9.11	20
USD Deposit Rate (%)	5.15	5.62	6.31	4.62	4.00	3.22	(240)

*year-on-year **The decline in assets in December 2019 is mainly due to the "netting" on the assets and liabilities' sides of the consolidated balance sheet of commercial banks as part of the implementation of international accounting standard IFRS 7

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

Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
Audi Listed	1.00	0.00	193,299	9.85%
Solidere "A"	10.48	3.66	90,512	17.53%
Solidere "B"	10.33	2.18	30,158	11.23%
BLOM Listed	3.29	0.00	-	11.83%
BLOM GDR	3.50	0.00	-	4.33%
Byblos Common	0.64	0.00	-	6.05%
Byblos Pref. 08	49.95	0.00	-	1.67%
Byblos Pref. 09	52.75	0.00	-	1.76%
HOLCIM	10.00	0.00	-	3.26%
Audi GDR	2.00	0.00	-	4.00%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Apr 2021	8.25	17.25	354.86
Oct 2022	6.10	17.75	89.42
Jan 2023	6.00	17.50	77.78
Jun 2025	6.25	17.38	38.02
Nov 2026	6.60	17.38	28.89
Feb 2030	6.65	17.13	18.98
Apr 2031	7.00	17.13	16.88
May 2033	8.20	16.00	14.65
Nov 2035	7.05	17.38	11.68
Mar 2037	7.25	17.50	10.64

Source: Byblos Bank Capital Markets, Refinitiv

	May 27-29	May 18-22	% Change	May 2020	May 2019	% Change
Total shares traded	317,569	4,902,558	(93.5)	6,731,749	2,118,259	217.8
Total value traded	\$1,444,682	\$17,933,125	(91.9)	\$27,765,737	\$11,598,740	139.4
Market capitalization	\$5.98bn	\$5.93bn	0.9	\$5.98bn	\$8.51bn	(29.8)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Mar 20, 2020	May 29, 2020	% Change
CDS 1-year*	24,762	0	-
CDS 3-year*	17,668	0	-
CDS 5-year*	14,717	0	-

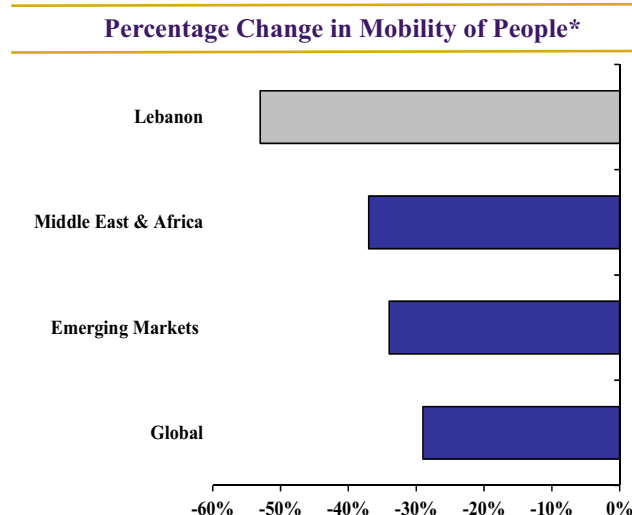
Source: ICE CMA; *mid-spread in bps

CDX EM 30*	May 22, 2020	May 29, 2020	% Change***
CDS 5-year**	279.28	264.78	(5.2)

Source: ICE CMA; * CDX Emerging Market CDS Index-Series 30
mid-spread in bps *week-on-week

Mobility of Lebanese citizens down 53% due to coronavirus-related social distancing measures

Citi Research's Social Distancing Index shows that, as of May 16, 2020, general mobility in Lebanon contracted by 53% relative to the baseline period extending from January 3 to February 6, 2020, as a result of the social distancing measures amid the outbreak of the COVID-19 pandemic. Citi defines general mobility as the movement of individuals in different locations within a geographic area. In comparison, the mobility of the Lebanese retreated by 43% on May 2 from the January 3-February 6 period, which means that residents were under tighter social distancing measures on May 16 than they were two weeks earlier. The tightening of social distancing measures in Lebanon is due to a four-day nationwide lockdown that the government enforced starting on May 13, following the resurgence of new coronavirus cases in the country after the government started to ease confinement under a five-phase plan that started on April 27. The mobility level on May 16 shows that residents of Lebanon have been under tighter social distancing measures than countries globally (-29%), than emerging markets (-34%), and than countries in the Middle East & Africa (ME&A) region (-37%).



*% change from the January 3-February 6 period

Source: Citi Research, Byblos Bank

The index measures the degree of social distancing implemented across countries and regions worldwide in response to the outbreak of the coronavirus. It is based on the results of the Google COVID-19 Mobility Report, which highlights the percentage change in people's visits to different places, such as retail and recreational areas, groceries and pharmacies, parks, transit stations, workplaces, and residential locations. It then compares these trends to the baseline period, which is the median mobility level between January 3 and February 6, 2020. The index is the simple average of four factors that are Retail & Recreation, Transit Stations, Workplace, and Grocery & Pharmacy. A lower score on the index implies more social distancing, while a higher score reflects less social distancing.

The mobility of the residents of Lebanon for the Retail & Recreation category declined by 63% on May 16 from the baseline period, compared to retreats of 42% globally, of 50% among emerging markets, and of 49% in the ME&A region. This category measures the movement of people to places like restaurants, cafés, shopping centers, theme parks, museums, libraries, and movie theaters.

Further, the movement of the residents of Lebanon under the Grocery & Pharmacy category, which includes places like grocery markets, food warehouses, farmers markets, specialty food shops, drug stores, and pharmacies, dropped by 34% from the January 3-February 6 period. In comparison, the movement of residents under this category contracted by 11% worldwide, by 16% in emerging markets, and by 22% in the ME&A region.

Also, the mobility of the residents of Lebanon under the Transit Stations sector, which includes the usage of public transportation, contracted by 71% from the baseline period, compared to retreats of 42% worldwide, of 45% in emerging markets, and of 51% in the ME&A region. In addition, the mobility of Lebanese residents to the Workplace shrank by 42% from the January 3-February 6 period, compared to contractions of 24% globally, of 25% in emerging markets, and of 23% in the ME&A region.

In parallel, the mobility of Lebanese residents to parks, including marinas and public gardens, decreased by 29% from the baseline period, relative to contractions of 1% globally, of 37% in emerging markets, and of 43% in the ME&A region. In contrast, the movement of Lebanese residents to places of residence rose by 14% on May 16 from the January 3-February 6 period, compared to increases of 12% globally, of 16% in emerging markets, and of 17% in the ME&A region.

Percentage Change in Mobility of Residents in Lebanon*			
	May 16, 2020	May 2, 2020	April 11, 2020
Social Distancing Index	-53%	-43%	-56%
Retail & Recreation	-63%	-51%	-65%
Transit Stations	-71%	-68%	-78%
Workplace	-29%	-34%	-48%
Grocery & Pharmacy	-42%	-20%	-31%
Parks	-34%	-19%	-45%
Residential	14%	11%	16%

*% change from the January 3-February 6 period

Source: Citi Research, Byblos Bank



Association of Banks' plan to support capitalization of commercial banks

Bank of America indicated that the Association of Banks in Lebanon's (ABL) contribution to the Lebanese Government's Financial Recovery Plan highlights the divergence of views between the government and the financial sector about the country's economic and financial recovery, as well as about the consequent sharing of losses. It considered that such diverging views could hinder the Lebanese authorities' ongoing negotiations with the International Monetary Fund.

It pointed out that the ABL plan minimizes the impact of the overall adjustment on the banks' balance sheet, as it stipulates a "gradual flow adjustment" compared to the "stock adjustment approach" of the government's plan. It said that the ABL plan suggests the use of state assets to retire the government's debt through the setup of a Government Debt Defeasance Fund (GDDF) that will hold public assets valued at \$40bn, equivalent to about 80% of 2019 GDP. It noted that the fund will issue \$40bn in long-dated, interest-bearing, covered securities in exchange for the settlement of domestic government debt held by Banque du Liban (BdL). It added that the fund will pay dividends to the government and disburse interest to BdL. However, it pointed out that some public assets that will be included in the GDDF usually transfer their surpluses to the state's budget, which means that the government will divert some of these revenues to the fund. It considered that the net impact on the budget of diverting GDDF interest payments to BdL is unclear. Further, it said that BdL will take ownership of the underlying state assets in case the GDDF fails to honor its debt obligations at maturity. It noted that, in such a scenario and unless these assets are sold off, BdL would have substituted liquid impaired assets, which consist of Lebanese Treasury securities, for illiquid local assets. In addition, it expected the GDDF to reduce future losses from any face-value cuts to the government's debt.

In parallel, BofA indicated that the ABL proposes a re-profiling of the public debt held by non-residents, as well as of the domestic debt, excluding the debt settled between the government and BdL. It noted that the ABL plan does not entail face-value cuts on the principal of the debt and suggests reductions in coupon rates instead. It expected this approach to support the banks' capitalization and to allow existing banks to absorb losses on their private sector loans portfolio, which will avoid a bail-in by the banks' shareholders and depositors. However, it considered that the benefit of not reducing the principal face-value of Eurobonds will result in large maturity extensions and low coupons. Further, it anticipated that the public debt level will remain vulnerable to macroeconomic shocks following the restructuring process.

BdL provides foreign currency for industrialists, and for food importers and manufacturers

Banque du Liban (BdL) issued on May 27, 2020 Intermediate Circulars 556 and 557 that amends Basic Circular 23 about the facilities that BdL can provide to commercial banks and financial institutions. The circulars allow banks operating in Lebanon to source foreign currency from BdL to finance the imports of basic food products and raw materials that are used in the agro-food and industrial sectors. The financing mechanisms under the two circulars will be valid for one year.

Intermediate Circular 556 stipulated that BdL will provide the industrial sector with access to \$100m in financing for the import of raw materials that are utilized in the production process. Under this mechanism, banks can request from BdL 90% of the foreign currency that a licensed industrial firm needs to import raw materials, provided that each firm can benefit from facilities of up to \$300,000 or its equivalent in other foreign currencies per transaction. Further, the circular stressed that industrialists that benefit from this financing scheme and that export their products must transfer to Lebanon an amount of foreign currency receipts that is equivalent to at least the amount of foreign currency utilized to finance their raw material imports. It added that the Ministry of Industry will detail the mechanism and conditions related to these facilities.

In parallel, Intermediate Circular 557 stipulated that BdL will supply banks with the foreign currency needed by the importers and manufacturers of basic food items and raw materials that are used in the production of specific food products. It said that the financing mechanism will use the exchange rate that will be set through BdL's electronic platform.

On May 28, the Ministry of Economy & Trade published the list of food products that qualify for financing under BdL's Intermediate Circular 557. The list includes food items such as sugar, rice, sesame, yeast, canned tuna, powdered milk for individual consumption, and items used in the manufacturing of oils and grains. It also covers raw materials used in the processing of food products, including feed, veterinary medicines and vaccines for livestock and poultry, fertilizers, seeds and seedlings, among other items.

The ministry indicated that the initiative aims to contain the surge in food prices amid the depreciation of the Lebanese pound on the parallel market, as well as to maintain food security during the ongoing challenging conditions. It stressed that the importers of food products through BdL's financing scheme are not allowed to re-export such items. It added that importers are required to price their products strictly in Lebanese pounds, as well as to set a ceiling for the retail price of the products in advance. Further, it noted that the volume of food imports must not exceed the average annual quantities imported in the previous two years.

In parallel, the two circulars stressed that banks should abide by BdL's requirements and conditions, and added that non-compliant banks will be penalized by placing at BdL the equivalent of the funds extended to importers in a blocked non-interest bearing account.



Parliament suspends settlement of loan installments for six months

The Lebanese Parliament enacted on April 21, 2020, Law 177 that suspends the settlement of loan installments and financial obligations at banks and specialized lending institutions (*comptoirs*) for a period of six months starting from April 1, 2020. Under the law, eligible borrowers will benefit from a six-month grace period on their loan payments. The law covers the settlement of loan installments of clients whose monthly income does not exceed the minimum wage, as well as clients who suffered from a salary cut of 50% or more, and customers who lost their jobs. In addition, the law covers all sectors that are directly impacted by the coronavirus and lockdown measures, which include the industry, agriculture, tourism, recreation and transportation sectors, especially small- and medium-sized enterprises.

In parallel, Banque du Liban had issued Intermediate Circular 552 on April 22, 2020, which asked banks and financial institutions operating in the country to extend, exceptionally, loans in Lebanese pounds or US dollars to clients that already have credit facilities and that are unable to meet their obligations during March, April, May and June 2020, because of the prevailing challenging conditions. It noted that the exceptional loans will only be extended to pay the monthly settlements of existing loans, and/or to cover the salaries, operating expenditures, or production-related spending of enterprises. Also, it stipulated that the exceptional loans will not be subject to any fee, commission, or interest rate, while the beneficiary will pay the loan over a period of five years.

Loans extended to the private sector reached \$45bn at the end of March 2020, regressing by 9.6% from end-2019 and by 21.5% from a year earlier. Utilized credits for trade & services accounted for 33% of aggregate credit at the end of 2019, while personal credit represented 31.3% of the total, including mortgages with 20.4% of total utilized credits. The construction sector followed with 16.6%, the industry (10.8%); then financial intermediaries with (4.1%); and agriculture (1.3%); while other sectors represented the remaining 2.9%. Also, the distribution of utilized credits in trade & services shows that wholesale trade accounted for 50.2% of overall trade & services credits at the end of 2019, followed by retail with 17%; real estate, rent & employment services with 14.1%; hotels & restaurants with 7.6%; transport & storage with 6.7% and educational services with 4.4%. According to the most recent figures from the International Monetary Fund, non-performing loans reached 12.4% of total loans at the end of September 2019.

Parliament suspends legal, judicial and contractual deadlines between October 18, 2019 and July 30, 2020

The Lebanese Parliament enacted on April 22, 2020, Law 160 that suspended legal, judicial and contractual deadlines between October 18, 2019 and July 30, 2020. The law's annex attributed the extension to the exceptional conditions, or "*force majeure*", that Lebanon has been facing since October 2019 and that were exacerbated by the spread of the coronavirus. It added that this has prevented the state and the people from exercising their rights within the legal, judicial and contractual deadlines. The suspension covers administrative, civil and commercial deadlines, as well as legal deadlines for the convening of public bodies of trade unions, associations and cooperatives, among other organizations. However, the law exempted the judicial deadlines that are determined by the judge or that are related to criminal cases, as well as the deadlines determined by the rental law, and the deadlines related to the convening of the general bodies of trade unions and cooperatives that were held before this decision, among others.

Lebanese Parliament approves LBP1,200bn to support economy amid coronavirus pandemic

Parliament enacted the draft law that allows the Lebanese government to open a line of credit in the amount of LBP1,200bn, equivalent to about 1.2% of GDP, to supplement the 2020 budget. The credit line will finance a stimulus package and social security plan, which aim to alleviate the impact of the coronavirus outbreak on the economy. The law stipulates that 50% of the funds, or LBP600bn, will provide a safety net to support about 200,000 low-income families through a monthly cash allowance of LBP400,000 throughout the remainder of 2020. The stimulus package prioritizes people with disabilities, victims of landmines and explosions, as well as parents of children in public schools.

According to press reports, about 7,000 small- and medium-sized enterprises will receive a one-off cash payment of between LBP15m and LBP20m, while more than 30,000 farmers and 6,600 vocational workers will get LBP4.5m each.

On March 15, 2020, and in an attempt to contain the spread of the coronavirus in Lebanon, the Council of Ministers declared a general mobilization, which it repeatedly extended since then. The lockdown measures that authorities enforced on companies and individuals have weighed on demand and negatively impacted most sectors of the economy. Authorities started to gradually ease the lockdown measures on April 27, 2020, and will allow activity to normalize in five stages, in order to alleviate financial and economic hardship on citizens.

Lebanon ranks 114th globally, last among Arab countries in energy transition

The World Economic Forum (WEF) ranked Lebanon in 114th place among 115 countries and in last place among 12 Arab countries on its Energy Transition Index for 2020. It also ranked Lebanon in last place among 35 upper middle-income countries (UMICs) included in the survey. Lebanon's global rank regressed by eight spots from 2019, while its regional rank was unchanged year-on-year.

The index evaluates the performance of the energy systems of 115 economies, as well as the countries' level of readiness to transition towards a more secure, sustainable, affordable, inclusive and reliable energy system. The index score is based on 40 indicators grouped in two equally-weighted sub-indices, which are the System Performance Sub-Index and the Transition Readiness Sub-Index. The WEF scores a country on a scale from zero to 100%, with 100% representing the best possible performance.

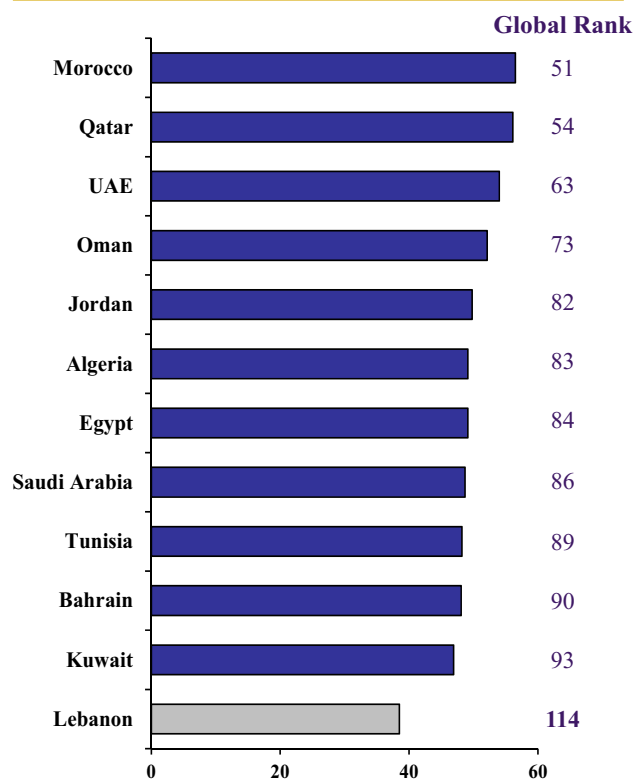
Globally, Lebanon's energy system performs better and has a higher transition readiness than only Haiti. Lebanon received a score of 38.5%, which is lower than the global average score of 55.1%, the UMICs' average score of 52.8% and the Arab average score of 49.8%. Also, Lebanon's score was lower than the Gulf Cooperation Council (GCC) countries' average score of 51% and the non-GCC Arab countries' average score of 48.5%.

In parallel, Lebanon ranked ahead of only Haiti globally, and in last place regionally on the System Performance Sub-Index. This category measures a country's performance in promoting an energy system that supports inclusive economic development and growth, secure and reliable access to energy, and environmental sustainability.

In addition, Lebanon ranked ahead of Bosnia & Herzegovina and Serbia, and came behind Nicaragua and Cameroon on the Transition Readiness Sub-Index. This category provides an assessment of the future preparedness of a country to transition towards a more secure and affordable energy system. It covers the availability of investments and capital, effective regulations and political commitment, stable institutions and governance, supportive infrastructure and an innovative business environment, human capital and consumer participation, and the ability and the structure of the current energy system. Also, Lebanon ranked ahead of only Algeria among Arab economies on this category.

Further, the WEF placed Lebanon among 41 economies that came in the "emerging" energy system category, which indicates that the performance of the country's energy system and its readiness to transition towards a secure, affordable, inclusive and reliable energy system are below the global mean levels.

**Energy Transition Index for 2020
Scores & Rankings of Arab Countries**



Source: World Economic Forum, Byblos Research

Components of the 2020 Energy Transition Index for Lebanon

	Global Rank	UMICs Rank	Arab Rank	Lebanon Score	Global Average	UMICs Average	Arab Average
System Performance	114	35	12	36.1%	59.4%	59.2%	52.6%
Transition Readiness	102	27	11	41.0%	50.9%	46.3%	46.9%

Source: World Economic Forum, Byblos Research

Banks to pay 0.5 per thousand of deposits to National Institute for the Guarantee of Deposits

The Ministry of Finance issued Decree 6341 that determines the banks' contribution to the National Institute for the Guarantee of Deposits (NIGD) for 2019. The decree set each bank's contribution at 0.5 per thousand of the bank's total deposits as at the 2018. The government is supposed to pay a yearly contribution to the NIGD that is equivalent to the total fees paid by the banks, but the government has been in arrears on its dues for at least 10 years.

The 2020 Budget Law that the Lebanese Parliament enacted on February 2, 2020 included a clause that increases from LBP5m to a maximum of LBP75m the guarantee that the NIGD provides on bank deposits. The guarantee covers deposits in local and foreign currencies, and calculates the amount in foreign currency based on the exchange rate on the date of the bank's suspension of payment or the seizure of the deposit.



Lebanon extends bidding deadline for second licensing round for offshore oil & gas exploration

The Ministry of Energy and Water extended, for the third time, the deadline for interested companies to participate in the second licensing round for offshore oil & gas exploration in Lebanon. It delayed the deadline from the end of January to the end of April 2020, in response to requests from international oil companies to allow them to complete their administrative, technical and financial preparations. It then extended the deadline from the end of April 2020 to June 1, 2020, citing the outbreak of the coronavirus pandemic.

The ministry attributed the current decision to the coronavirus crisis, which continues to significantly impact oil companies worldwide amid reduced oil demand and the sharp fall in oil prices. It noted that the coronavirus shock negatively affected the financial and logistics capabilities of oil companies, which have reduced their investments and delayed exploration projects. It added that several countries have postponed or frozen their licensing rounds that they launched before the pandemic. The ministry will fix a new deadline for the bidding process, following the recommendation of the Lebanese Petroleum Administration, in order to complete the second licensing round before the end of 2021.

The Council of Ministers approved in April 2019 the launch of the second licensing round for offshore oil & gas exploration and production in Lebanon's territorial waters. Five blocks are open for bidding for the second licensing round, including Block 1 and Block 2, which are located in the north of Lebanon's offshore Exclusive Economic Zone, Block 5 is in the center, and Block 8 and Block 10 are in the south of Lebanon's territorial waters.

Lebanese Parliament lifts banking secrecy on public sector employees

The Lebanese Parliament enacted on May 28, 2020 a draft law that amends the banking secrecy law by lifting banking secrecy on the accounts of public sector employees. The amendments allow the investigation of the bank accounts of all public sector employees, as well as of the bank accounts of top public sector officials, including ministers and members of Parliament, and any third parties that get contractual agreements with the State. The new legislation specifies that the authorities that are authorized to lift banking secrecy are solely Banque du Liban's Special Investigation Commission against money laundering and terrorism financing and the recently-created National Anti-Corruption Commission.

The Council of Ministers approved on March 5, 2020 a draft law that intends to lift the secrecy on the bank accounts of all elected or appointed public servants. The government indicated that the draft law to lift banking secrecy on designated persons or entities falls within its efforts to fight corruption and improve transparency.

Byblos Bank launches tender offer to repurchase \$300m notes due in 2021

Byblos Bank sal launched on May 28, 2020 a tender offer and consent solicitation to repurchase its \$300m notes that are due in 2021. It said that the repurchase is subject to specific terms set in the Tender Offer and Consent Solicitation Memorandum dated May 28, 2020. It also noted that the transaction is subject to a vote by noteholders to approve an amendment to the terms and conditions of the notes, in order to allow for the early redemption. The Bank will pay the outstanding nominal principal amount of the notes and all unpaid and accrued interest until the settlement date. It will also settle all related payments to noteholders in bank accounts in Lebanon.

Byblos Bank issued a 10-year \$300m US dollar-denominated note in September 2011. The Bank had to double the size of the issue to \$300m in order to meet the high demand for the bond. Retail investors accounted for 59% of subscriptions, while institutional investors subscribed to 41% of the total. The bond carries an annual coupon rate of 7% that is paid semi-annually.

Stock market capitalization down 30% to \$6bn at the end of May 2020

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 25,799,222 shares in the first five months of 2020, constituting a decline of 86.1% from 185,805,126 shares traded in the same period last year; while aggregate turnover amounted to \$95.1m, down by 88% from a turnover of \$793.8m in the first five months of 2019. The sharp decline in trading volume and turnover in the first five months of 2020 came from a high base in the same period last year, which saw eight block trades in the shares of three listed companies. The market capitalization of the BSE regressed by 29.8% from \$8.5bn at the end of May 2019 to \$6bn at end-May 2020, with banking stocks accounting for 67% of the total, followed by real estate equities (28.8%), industrial shares (3.7%), and trading firms' equities (0.6%). The market liquidity ratio was 1.6% in the covered period compared to 9.3% in the first five months of 2019.

Banking stocks accounted for 74.6% of the aggregate trading volume in the first five months of 2020, followed by real estate equities with 25%, industrial shares with 0.2% and trading firms' equities with 0.1%. Also, real estate equities accounted for 62.5% of the aggregate value of shares traded, followed by banking stocks with 37.2%, industrial stocks with 0.2%, and trading firms' equities with 0.1%. The average daily traded volume for the period was 277,411 shares for an average daily value of \$1m. The figures reflect a year-on-year decrease of 85.5% in average daily traded volume, and an annual drop of 87.5% in the average value in the first five months of the year. In parallel, the Capital Markets Authority's (CMA) Market Value-Weighted Index for stocks traded on the BSE rose by 41.8% in the first five months of 2020, while the CMA's Banks Market Value-Weighted Index regressed by 17.3% in the covered period.

Parliament clears \$165m soft loan from Kuwait-based fund to finance affordable mortgages

The Lebanese Parliament enacted a draft law that allows the government to accept a loan of KWD50m, or the equivalent of \$165m, from the Kuwait-based Arab Fund for Economic and Social Development (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. The new funding will reportedly enable Banque de l'Habitat to provide more than 1,000 housing loans.

The Council of Ministers approved on February 20, 2020 a draft law that allows the Lebanese government to accept the loan from the AFESD. Also, it called on the Council for Development and Reconstruction to secure from the AFESD a new loan with the same conditions for the Public Housing Corporation by the end of 2020. The AFESD's total contribution to development projects in Lebanon reaches KWD595m, or about \$1.95bn when including the loan.

EFG Hermes writes down investment in Crédit Libanais

Regional investment bank EFG Hermes indicated in its financial results for the first quarter of 2020 that it implemented a "write-down" of 100% on its remaining investment in Crédit Libanais sal (CL). This follows the investment bank's decision in the fourth quarter of 2019 to implement a haircut of 36% on its investment in CL after it conducted a fair value assessment of its stake in the bank. It said that economic conditions in Lebanon have continued to deteriorate in the first quarter of 2020, with potential additional defaults on the sovereign debt and an economy that is contracting by double digits even prior the ongoing public health crisis caused by the coronavirus pandemic, which all required a fair value reassessment of the bank's stake in CL.

EFG Hermes indicated that its stake in CL stood at 2,062,242 shares at the end of 2019, equivalent to 8.8% of CL's shares. It pointed out that the fair value of the shares was EGP753.5m, or about \$47m as at the end of 2019 compared to EGP1.2bn, or about \$76m as at end-2018. In 2010, EFG Hermes purchased a 63.74% controlling stake in CL, or 14,914,883 shares for a total of \$577.8m, but has started to gradually divest from CL in 2016.

Ratio Highlights

(in % unless specified)	2017	2018	2019	Change*
Nominal GDP (\$bn)	53.1	55.0	56.8	1.85
Public Debt in Foreign Currency / GDP	57.2	60.9	59.4	(1.54)
Public Debt in Local Currency / GDP	92.5	94.0	101.9	7.94
Gross Public Debt / GDP	149.7	154.9	161.3	6.40
Total Gross External Debt / GDP**	139.2	137.0	128.4	(8.62)
Trade Balance / GDP	(31.5)	(31.0)	(27.3)	3.69
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	257.1	236.7	(20.33)
Commercial Banks Assets / GDP	413.7	453.9	381.6	(72.37)***
Private Sector Deposits / GDP	317.4	317.1	279.6	(37.48)
Private Sector Loans / GDP****	112.3	108.1	87.6	(20.45)
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 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; **** in January 2018, Lebanese banks started reporting their financials based on international accounting standard IFRS 9, and revised the 2017 figures accordingly
Source: Association of Banks in Lebanon, Institute of International Finance, 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

Risk Metrics

Lebanon	Feb 2018	Jan 2019	Feb 2019	Change**	Risk Level
Political Risk Rating	55.0	54.0	54.0	▲	High
Financial Risk Rating	33.0	31.5	31.5	▲	Moderate
Economic Risk Rating	28.5	24.0	24.0	▲	Very High
Composite Risk Rating	58.25	54.75	54.75	▲	High

MENA Average*	Feb 2018	Jan 2019	Feb 2019	Change**	Risk Level
Political Risk Rating	58.2	58.1	58.2	➔	High
Financial Risk Rating	37.9	39.1	39.2	▼	Low
Economic Risk Rating	31.4	33.8	33.8	▼	Moderate
Composite Risk Rating	63.8	65.5	65.6	▼	Moderate

*excluding Lebanon

**year-on-year change in risk

Source: The PRS Group, Byblos Research

Note: Political & Composite Risk Ratings range from 0 to 100 (where 100 indicates the lowest risk)

Financial & Economic Risk ratings range from 0 to 50 (where 50 indicates the lowest risk)

Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's Investors Service	Ca	NP	Stable	Ca		Stable
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

Banking Sector Ratings	Outlook
Moody's Investors Service	Negative

Source: Moody's Investors Service



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