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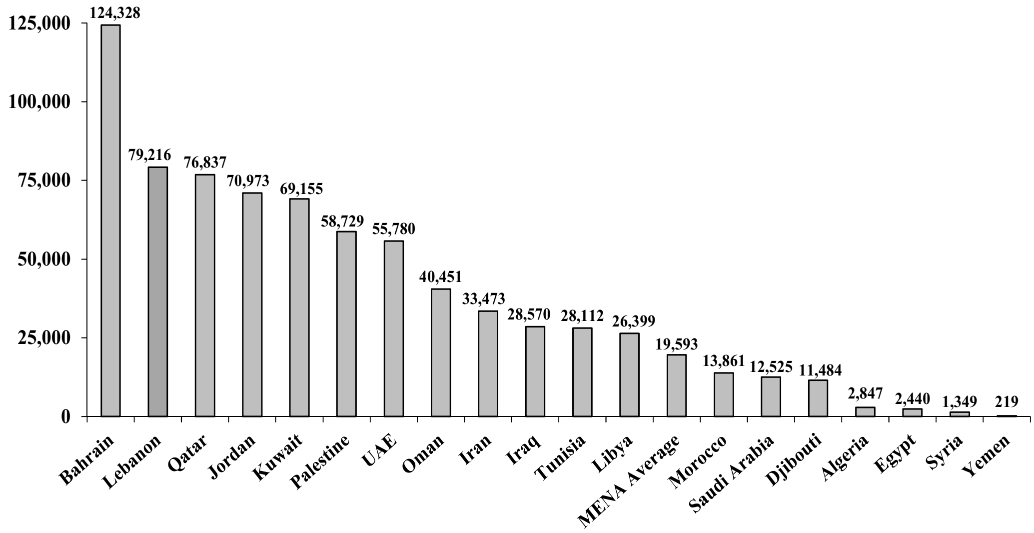
LEBANON THIS WEEK

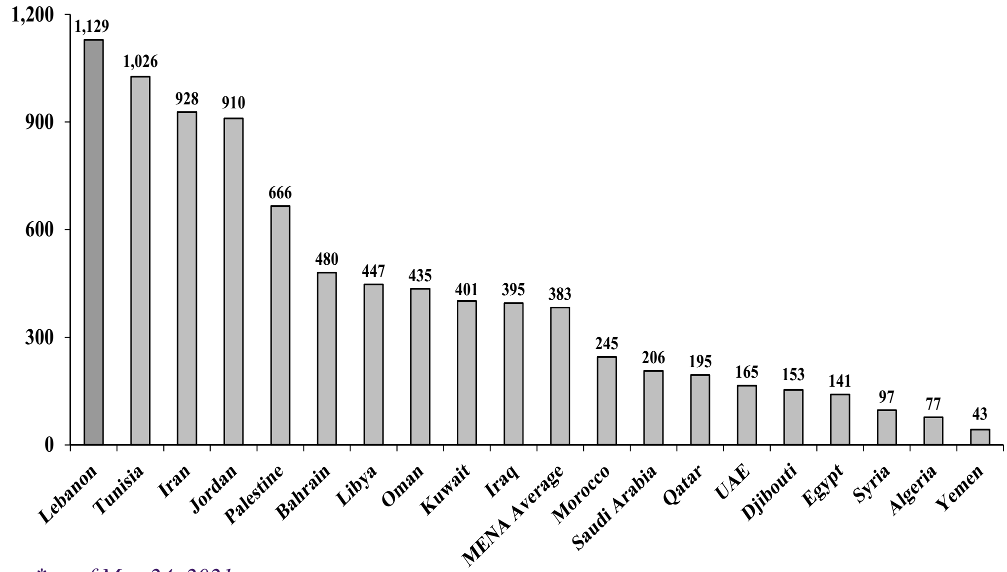
In This Issue

Charts of the Week

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



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



**as of May 24, 2021*
Source: World Bank Group, Byblos Bank

Quote to Note

"The longer Lebanon is without a government, the deeper this crisis becomes."

Ms. Najat Rochdi, Deputy UN Special Coordinator for Lebanon, on the opportunity cost of delaying the formation of a government

Number of the Week

$1.75bn: Cumulative greenfield foreign direct investments in Gulf Cooperation Countries from Lebanon during the 2003-2018 period, according to the Arab Investments & Export Credit Guarantee Corporation

Lebanon in the News

$m (unless otherwise mentioned)	2020	Jan-Mar 2020	Jan-Mar 2021	% Change*	Mar-20	Feb-21	Mar-21
Exports	3,546	914	-	-	238	-	-
Imports	11,310	2,931	-	-	826	-	-
Trade Balance	(7,765)	(2,017)	-	-	(588)	-	-
Balance of Payments	(10,551)	(1,062)	(847)	(20.2)	(557)	(341)	(96)
Checks Cleared in LBP	19,937	5,645	4,150	-26.5%	1,144	1,307	2,043
Checks Cleared in FC	33,881	10,430	5,847	-43.9%	2,407	1,384	3,014
Total Checks Cleared	53,828	16,079	10,001	-37.8%	3,552	2,692	5,059
Fiscal Deficit/Surplus**	(2,679)	(1,655)	-	-	(498)	-	-
Primary Balance**	(912)	(676)	-	-	(138)	-	-
Airport Passengers	2,501,975	1,165,094	549,476	(52.8)	187,570	141,260	201,935
Consumer Price Index	84.9	13.0	153.7	14070	17.5	155.4	157.9

$bn (unless otherwise mentioned)	Dec-19	Mar-20	Dec-20	Jan-21	Feb-21	Mar-21	% Change*
BdL FX Reserves	29.55	28.23	18.60	17.98	17.49	16.75	(40.7)
In months of Imports	21.95	34.18	-	-	-	-	-
Public Debt	91.64	92.40	95.59	95.94	96.83	-	-
Bank Assets	216.78	208.55	188.04	188.34	188.13	186.26	(10.7)
Bank Deposits (Private Sector)	158.86	149.59	139.14	138.91	138.85	136.95	(8.5)
Bank Loans to Private Sector	49.77	45.02	36.17	35.71	35.49	34.20	(24.0)
Money Supply M2	42.11	39.59	44.78	45.97	47.50	47.96	21.1
Money Supply M3	134.55	130.31	132.70	133.36	134.60	134.11	2.9
LBP Lending Rate (%)	9.09	9.41	7.77	8.53	7.59	8.02	(139)
LBP Deposit Rate (%)	7.36	5.13	2.64	2.31	2.11	1.96	(317)
USD Lending Rate (%)	10.84	8.55	6.73	6.52	6.92	7.14	(141)
USD Deposit Rate (%)	4.62	2.53	0.94	0.58	0.54	0.52	(201)

*year-on-year; **in the first 11 months of 2020*
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"	24.91	(0.6)	208,675	27.3%
Byblos Common	0.95	(6.9)	85,787	5.9%
Audi GDR	2.00	(1.5)	72,100	2.6%
Audi Listed	2.35	(1.3)	42,500	15.2%
Solidere "B"	24.94	(0.3)	37,598	17.8%
BLOM GDR	3.29	0.0	3,000	2.7%
BLOM Listed	3.16	(9.5)	2,800	7.4%
HOLCIM	17.00	(2.8)	73	3.6%
Byblos Pref. 09	38.50	0.0	-	0.8%
Byblos Pref. 08	35.00	0.0	-	0.8%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Oct 2022	6.10	13.13	226.94
Jan 2023	6.00	13.13	169.68
Apr 2024	6.65	13.00	84.70
Jun 2025	6.25	13.13	57.34
Nov 2026	6.60	13.13	40.66
Feb 2030	6.65	13.13	24.66
Apr 2031	7.00	12.88	21.84
May 2033	8.20	12.50	18.16
Nov 2035	7.05	13.13	14.59
Mar 2037	7.25	13.88	12.89

Source: Refinitiv

	May 24-28	May 17-21	% Change	Apr 2021	Apr 2020	% Change
Total shares traded	452,533	641,194	(29.4)	1,917,215	10,769,186	(82.2)
Total value traded	$6,452,617	$10,374,120	(37.8)	$32,181,843	$23,969,907	34.3
Market capitalization	$9.12bn	$9.29bn	(1.8)	$9.4bn	$6.5bn	44.1

Source: Beirut Stock Exchange (BSE)

Finance Ministry requests from Electricité du Liban timetable to repay $25bn in arrears

The Ministry of Finance requested from the state-owned and money-losing Electricité du Liban (EdL) to provide the ministry with the mechanism that EdL intends to follow in order to pay back Treasury advances and other transfers it has received from the Lebanese Treasury between 1997 and 2020. The Finance Ministry estimated that such advances and transfers totaled about LBP37,000bn, or $24.54bn in the covered period.

Losses at EdL have constituted a burden on public finances for more than 20 years, which has required regular transfers from the Treasury and has led to wide fiscal deficits. The latest available figures show that Treasury transfers to EdL constituted 7% of overall fiscal spending in the first 11 months of 2020 relative to 9% in the same period of 2019, and constituted the third largest expenditures item after public sector personnel costs and debt servicing. Treasury transfers to EdL were equivalent to 5.1% of GDP in 2012, 4.3% of GDP in 2013, 4.4% of GDP in 2014, 2.3% of GDP in 2015, 1.8% of GDP in 2016, 2.5% of GDP in 2017, 3.2% of GDP in 2018, and 2.8% of GDP in 2019.

Lebanon receives 17.2% of IMF regional technical assistance between February and April 2021

The International Monetary Fund's Middle East Technical Assistance Center (METAC) indicated that Lebanon received 17.2% of the center's delivery of technical assistance to member countries during the fourth quarter of the fiscal year that ends in April 2021, or between February and April 2021. In comparison, Lebanon received 10.7% of the center's technical assistance to member countries during the first quarter of FY2020/21, or between May and July 2020, and 3.8% of the total in the second quarter or during the August-October 2020 period, while it did not receive assistance in the third quarter of FY2020/21. METAC provided two technical assistance projects in public financial management, two projects in revenue administration, and one project in statistics to Lebanon in the fourth quarter of FY2020/21. In comparison, the center provided two projects in public financial management and one in statistics in the first quarter, as well as one technical assistance project in statistics in the second quarter of the fiscal year. It indicated that there are 10 technical assistance projects planned for Lebanon in FY2020/21, the second highest number of such projects among member countries, behind Egypt (12 projects).

In terms of public financial management, METAC delivered with the Institut des Finances Basil Fuleihan a training session to the staff of the Ministry of Finance and of state-owned enterprises (SOEs) on how to strengthen the oversight of SOEs. It indicated that the training offered practical tools to better analyze and to report the financial performance of SOEs, and on the risks that the latter face, as well as on good practices from comparable countries and peers. Also, it said that the training provided an opportunity for all parties to discuss a roadmap that improves the availability of financial data from SOEs in order to strengthen the Finance Ministry's surveillance and internal reporting.

In addition, the center collaborated with the United Nations Office for the Coordination of Humanitarian Affairs (OCHA) to provide input to the latter's monthly crisis-monitoring dashboard for Lebanon. It said that it provided help to the OCHA to implement public financial management practices and to identify other key economic indicators, along with the associated risks that would feed into the monthly crisis-monitoring dashboard. It pointed out that the dashboard is a tool that aims to monitor recent developments in Lebanon based on selected risks and associated indicators by using available public data and information received from partners.

In parallel, in terms of revenue administration, METAC assisted the Lebanese Tax Authority (LTA) in how to collect tax arrears, which stood at 173% of annual tax revenues collected by the LTA in 2019. It noted that it developed strategies based on a segmentation of debtors and a classification of debts. It added that the assistance included an analysis of the impact of the COVID-19 outbreak and the on-going economic crisis on the stock of tax arrears. Also, it recommended several priority actions, including the prioritization of follow-up on the most recent debt; the profiling of large debtors; the launch of a new instalment scheme for all taxes; as well as the extension of the role of tax auditors to assess the taxpayers' net financial position and their capacity to pay.

Also, the center assisted the LTA in how to identify, assess and prioritize compliance risks. It said that the LTA established a compliance committee with the responsibility to adopt a Compliance Risk Management approach. It added that, given the recent economic turmoil from the ongoing financial and foreign currency crises, the center extended assistance to develop specific compliance treatment strategies for previously compliant taxpayers who now pose challenges to the LTA.

Further, METAC assisted the Central Administration for Statistics in compiling institutional sector accounts for the government and other foreign countries.

In parallel, the center indicated that it has one project planned in Lebanon in the first quarter of FY2021/22, which extends from May to July 2021. It noted that the project consists of the public financial assessment of fiscal risks from private public partnerships.

The IMF established METAC in Beirut in October 2004 to serve Afghanistan, Algeria, Djibouti, Egypt, Iraq, Jordan, Lebanon, Libya, Morocco, Sudan, Syria, Tunisia, the West Bank & Gaza, and Yemen. The center's mandate is to assist in capacity-building, facilitate the reform process in member countries, and support the region's integration in the world economy.

Current account deficit narrows by 76% to $2.2bn in first nine months of 2020 on lower trade deficit

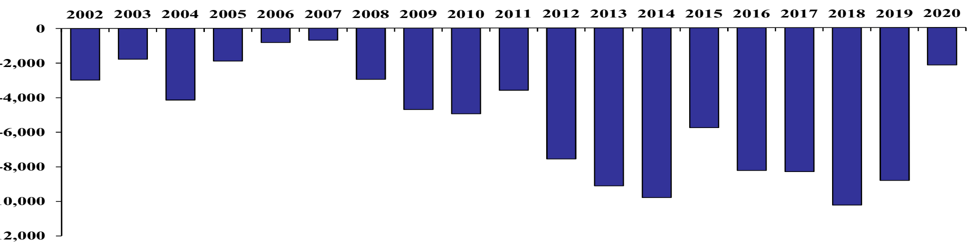
Figures released by Banque du Liban (BdL) show that the current account deficit reached $2.2bn in the first nine months of 2020, constituting a decline of 75.6% from a deficit of $8.8bn in the first nine months of 2019. The deficit was $1.2bn in the first quarter, $640m in the second quarter and $278.2m in the third quarter of 2020, constituting declines of 57.2%, 79% and 90.5%, respectively, from the same quarters of 2019. The current account balance consists of the trade balance, which is the exports and imports of merchandise, as well as the services balance that covers the export and import of transportation services, tourism, insurance and other services. The current account balance also includes remittance inflows, investment income and general government transfers.

The trade deficit reached $4.3bn in the first nine months of 2020, narrowed by 60% from $10.8bn in the same period of 2019, and posted its lowest level for the first nine months of the year since 2006. Imported goods fell by 49.2% to $7.4bn in the covered period, their lowest level for the first nine months of the year since 2006, while exports decreased by 17% year-on-year to $3bn, their lowest level since the first nine months of 2018.

Further, the inflows of expatriates' remittances to Lebanon stood at $4.7bn in the first nine months of 2020, constituting a decline of 19.2% from $5.8bn in the same period of 2019 and reaching their lowest level for the period since the first nine months of 2007. In addition, remittance outflows from Lebanon amounted to $2.3bn in the first nine months of the year, down by 33.5% from $3.5bn in the same period of 2019 and constituting their lowest level for the period since the first nine months of 2007. As such, net remittance inflows to Lebanon reached $2.4bn in the first nine months of 2020, constituting an increase of 2.1% from $2.3bn in the same period of 2019. Net remittance inflows posted an average of $2bn for the first nine months of each year between 2008 and 2020.

In addition, tourism receipts decreased by 74.2% to $1.8bn in the first nine months of 2020, while outbound tourism spending declined by 72% to $1.4bn in the covered period. Tourism receipts and outbound tourism spending dropped each to their lowest level for the period since BdL started publishing data about the external sector in 2002. As such, net tourism receipts decreased by 79.7% to $422m in the covered period, their lowest level for the first nine months of the year on record.

Current Account Balance* (US$m)



**in the first nine months of each year*
Source: Banque du Liban, Byblos Research

The other components of the balance of payments show that Lebanon's capital account balance, which includes foreign grants, posted a surplus of $1.1bn in the first nine months of 2020, up by 42.3% from a surplus of $786.2m in the same period of 2019, constituting the highest surplus since the first nine months of 2018. The capital account posted an average surplus of $1.2bn between the first nine months of 2013 and the first nine months of 2018 due to the inflow of foreign grants to support Syrian and non-Syrian refugees, and host communities in the country. But the surplus regressed in the first nine months of 2019 due to the decline in financial grants.

In addition, Lebanon's financial account balance, which includes net foreign direct investments (FDI), net portfolio investments and other investments, posted a deficit of $853.6m in the first nine months of 2020, relative to a surplus of $6.9bn in the same period of 2019. It registered a surplus of $2.2bn in the first quarter of 2020 due to higher net portfolio and FDI inflows, and a deficit of $1.7bn in the second quarter and of $1.4bn in the third quarter of 2020, as FDI inflows did not offset net portfolio and deposit outflows. Net portfolio inflows totaled $1.3bn in the first nine months of 2020 compared to outflows of $118m in the same period of 2019. They amounted to $3.1bn in the first quarter of the year, largely due to the purchasing of Eurobonds by non-residents, while they shifted to outflows of $1.3bn and of $460.8m in the second and third quarters of 2020 following the government's decision to default on its sovereign Eurobonds. Also, FDI inflows reached $2.3bn in the first nine months of 2020 and grew by 56.5% year-on-year due to the transfer of non-resident deposits to the real estate sector, while FDI outflows dropped by 93% to $20.7m in the first nine months of 2020. As such, net FDI inflows reached $2.28bn the first nine months of 2020 relative to $1.2bn in the same period of 2019. Further, other investments, which is are the component of the financial account balance that includes deposit flows to the banking sector, as well as debt arrears starting in March 2020,, shifted from inflows of $5.9bn in the first nine months of 2019 to outflows of $4.5bn in the first nine months of 2020, mostly due to the decline in foreign currency-denominated bank deposits.

In parallel, unrecorded transactions, or errors and omissions, were at -$9.4bn in the first nine months of 2020 relative to -$22m in the first nine months of 2019, their highest level on record. According to BdL, unrecorded transactions are in part due to the inadequate sources of data on some economic sectors. They include time and other adjustments for external trade, insurance services, migrants' transfers, travel services, transportation services, private sector direct investments, and portfolio investments. Finally, BdL's net foreign assets regressed by $11.3bn in the first nine months of 2020 relative to a decline of $1.1bn in the same period of 2019.

Banque du Liban to finance 90% of value of imported raw materials and industrial equipment for manufacturers

Banque du Liban (BdL) issued on May 28, 2021 Intermediate Circular 585 that allows banks operating in Lebanon to request from BdL financing in foreign currency for the import of raw materials and industrial equipment that local manufacturers utilize 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 and industrial equipment, provided that each firm can benefit from facilities of up to $300,000 or their equivalent in other foreign currencies per transaction. It added that each firm can benefit from up to $3m in total. BdL said that banks can request the amounts for up to the balance of the original $100m that it extended to the industrial sector starting in 2020.

Further, the circular stipulated that exporting firms that benefit from such facilities should place their export receipts in a "fresh account" at the bank in Lebanon that facilitated the transaction. It added that the client can benefit from all the services related to "fresh accounts" that the bank provides, including transfers abroad and cash withdrawal. BdL noted that the provisions of the circular will be implemented for a period of six months from the date of the circular.

In May 2020, BdL issued Intermediate Circular 556 that stipulated that it will provide the industrial sector with access to $100m in financing for the import of raw materials that are utilized in the production process. 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.

Banque du Liban extends timeline for debt reclassification

Banque du Liban (BdL) issued on May 28, 2021 Intermediate Circular 585, that amends Basic Circular 143 about the implementation of International Financial Reporting Standard 9 (IFRS 9) at banks operating in Lebanon. The circular allowed banks and financial institutions operating in Lebanon to extend until June 30, 2021 the reclassification of the debt of clients that has been negatively affected by the COVID-19 outbreak, in case they delayed the repayment of their debt, including the principal amount and interest, and/or if they exceeded the ceiling of previously approved credit facilities. It also requested from banks to refrain from considering their clients' situation as an indicator of a significant increase in credit risk, or as a credit-impairment or default. It said that, in such cases, the installments of the credit facilities that are due but unpaid may be rescheduled, without entailing a reclassification of the debt.

Further, the circular asked banks and financial institutions to continue the assessment of their clients' financial situation, provided this assessment is completed by June 30, 2021. It also said that banks should calculate the provisions against expected credit losses (ECLs) according to the categories determined by the assessment of their clients at the end of June of this year, and that the ECLs should be disclosed in full in the banks' profits or loss statements for 2021.

Government plan suggests lifting subsidies and issuing cash cards to 750,000 families

The Lebanese government indicated that the issue of rationalizing subsidies on basic imported goods has become very urgent due to the significant increase in the prices of consumer goods as a result of the misuse of subsidized consumer products and basic items that distorted the aim of the subsidies, the depreciation of the Lebanese pound’s exchange rate on the parallel market, and the decline in Banque du Liban’s (BdL) foreign currency reserves to the point of touching the banking sector’s reserve requirements at BdL. As such, it suggested the lifting of subsidies on most subsidized items and to issue cash cards to 750,000 affected families. The initiative specifies that each family will receive $154 on average per month through the card, with a minimum of $69 and a maximum of $210 per family. It added that the basic amount will be $29.6 per family per month, in addition to $29.6 for each member of the family, based on an average of 4.2 persons per family.

The government’s plan stipulates the lifting of 100% of subsidies on gasoline, which will save BdL $96m monthly or $1.15bn annually; the removal of 100% of subsidies on Diesel oil, which will result in savings of $118m monthly or $1.42bn annually for BdL; and the elimination of subsidies on gas, which will lead to savings of about $132m per year. In addition, the plan will suspend subsidies on the entire basket of subsidized consumer goods, which will result in monthly savings of $71.5m and in annual savings of $858m for BdL. Further, the government will reduce subsidies on medicine by 54%, which will lower the cost of subsidizing this item from $108m to nearly $50m per month, and from $1.3bn to $598m per year. In parallel, the plan raises subsidies on bread by 12%, which will increase the cost on BdL from $15m to $16.4m per month, or from $187.6m to $180m annually.

It said that the current subsidy system is costing BdL $420m monthly or $5.04bn annually, and estimated that rationalizing subsidies will reduce the cost to $66.3m monthly and $796m yearly, which will result in savings of $4.25bn per year to BdL. However, it estimated that the cash card will cost $115.3m per month or $1.38bn annually. As such, it estimated the combined cost of the remaining subsidies and of the cash card at $181.6m monthly and $2.18bn on a yearly basis. The plan does not specify the sources of financing of the payment card.

According to the government’s proposal, the plan will not replace the Lebanon Emergency Crisis and COVID-19 Response Social Safety Net (ESSN) project and the National Poverty Targeting Program (NPTP). The ESSN covers about 269,000 families and the NPTP benefits 74,167 families and provide them with monthly payments of LBP750,000 on average, depending on the size of the family. But the new initiative will replace the LBP400,000 in monthly support that currently goes to about 300,000 families. It claimed that the initiative will reach 750,000 families, including the most impoverished families that currently benefit from the ESSN and the NPTP.

Occupancy rate at Beirut hotels at 27%, room yields up 141% in first quarter of 2021

EY's benchmark survey of the hotel sector in the Middle East indicates that the average occupancy rate at four- and five-star hotels in Beirut was 27% in the first quarter of 2021 relative to 30% in the same period of 2020, and compared to an average rate of 42% in 14 Arab markets included in the survey. The occupancy rate at Beirut hotels was the third lowest in the region in the covered period, while it was the lowest in the first quarter of 2020. The occupancy rate at hotels in Beirut regressed by 2.6 percentage points in the first quarter of 2021, representing the smallest decline in the region from an already low base. In comparison, the average occupancy rate in Arab markets declined by 12.8 percentage points in the covered period.

Also, the average rate per room at Beirut hotels was $220 in the first quarter of 2021, increasing by 163.7% from $83 in the same period of 2020 and constituting the second highest rate in the region after Dubai ($253). The average rate per room in Beirut was higher than the regional average of $137.4 that regressed by 3.2% from the first quarter of 2020.

Hotel Sector Performance in First Quarter of 2021

	Occupancy Rate (%)	RevPAR (US$)	RevPAR % change
Dubai	60	152	0.4
Jeddah	45	94	23.8
Ras Al Khaimah	49	88	(6.2)
Kuwait City	38	71	(37.5)
Doha	77	70	(2.5)
Riyadh	48	67	(35.7)
Beirut	**27**	**59**	**140.5**
Abu Dhabi	70	49	(34.2)
Madina	37	37	(43.0)
Manama	33	37	(36.2)
Cairo	36	25	(61.7)
Muscat	32	23	(66.7)
Makkah	18	20	(67.7)
Amman	18	19	(69.3)

Source: EY, Byblos Research

Further, revenues per available room (RevPAR) were $59 at Beirut hotels in the covered period compared to $25 in the first quarter of 2020, and were the seventh highest in the region after the RevPAR of hotels in Dubai ($152), Jeddah ($94), Ras Al Khaimah ($88), Kuwait ($71), Doha ($70), and Riyadh ($67). Beirut's RevPAR grew by 140.5% year-on-year and posted the largest increase regionally. Doha had the highest hotel occupancy rate in the region at 77% in the first quarter of 2021, while Dubai registered the highest average rate per room at $253 and the highest RevPAR at $152 in the covered period.

EY attributed the improvement in the performance of the hospitality sector in Beirut in the first quarter of 2021 mainly to the increase in hotel bookings during the end-of-year holidays that extended into the start of the new year, as well as to obligatory quarantines at hotels for travelers and the relaxation of coronavirus-related restrictions at the time. It added that the Beirut International Airport remained operational and that vaccinated travelers were allowed to enter the country without quarantine requirements.

Compensation of public-sector personnel absorbs 66% of public revenues in first 11 months of 2020

Figures issued by the Ministry of Finance show that the compensation of public-sector personnel totaled $5.93bn in the first 11 months of 2020, constituting an increase of 1% from $5.88bn in the same period of 2019. Salaries, wages and related benefits accounted for 61.6% of the total, followed by retirement benefits (29.2%), transfers to public institutions to cover salaries (4.8%), and end-of-service indemnities (4.4%). Further, end-of-service indemnities declined by 37%, which was partly offset by an increase of 7.3% in transfers to public institutions to cover salaries, an expansion of 6.4% in retirement salaries, and a growth of 2.3% in salaries, wages and related benefits. The compensation of public-sector personnel represented the largest component of current primary spending and accounted for 72.3% of such expenditures in the first 11 months of 2020 compared to 71.8% in the same period of 2019. It also accounted for 51% of fiscal spending in the covered period relative to 39% in the same period of 2019; while it absorbed 66.2% of public revenues in the first 11 months of 2020 compared to 58% of government receipts in the same period of 2019.

In parallel, salaries, wages and related benefits paid to public-sector workers amounted to $3.7bn in the first 11 months of 2020, up by 2.3% from $3.6bn in the same period of 2019. This category includes basic salaries, employment benefits, allowances, contributions to civil servants' cooperatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly civil and religious judges, and employees at the Parliament. The breakdown of salaries, wages and related benefits paid to public-sector employees shows that allowances increased by $124.7m, and benefits and other payments given to non-military bodies rose by $37.1m; while basic salaries regressed by $82.9m year-on-year. Benefits include payments for transportation, overtime and family-related benefits, while other payments to non-military bodies consist of the State's contribution to mutual funds and to the National Social Security Fund, as well as bonuses, among others. Basic salaries declined by 2.9% to $2.78bn in the first 11 months of 2020, allowances rose by 37.8% to $454.4m, and benefits and other payments grew by 10.8% to $380.8m from the same period of the previous year.

In addition, salaries and benefits of military personnel reached $2.34bn and accounted for 64% of salaries, wages and related benefits paid to public sector employees in the first 11 months of 2020. The salaries and benefits of personnel in public education followed with $707.1m (19.3% of the total), then civil staff with $367.5m (10%), the government's contribution to the employees' cooperative with $208.3m (5.7%), and the salaries and benefits of customs employees with $35.2m (1%). Also, the Lebanese Army's salaries and benefits totaled $1.5bn and represented 65.5% of the salaries and benefits of military personnel. The salaries of the Internal Security Forces followed with $597m (25.5%), those of the General Security Forces with $154.6m (6.6%), and the salaries of State Security Forces with $55.7m (2.4%).

Trade deficit narrows by 50% to $7.8bn in 2020

Total imports reached $11.3bn in 2020, constituting a decrease of 41.2% from $19.2bn in 2019; while aggregate exports totaled $3.5bn and regressed by 5% from $3.7bn in 2019. As such, the trade deficit narrowed by 50% to $7.8bn in 2020 due to a decline of $7.9bn in imports.

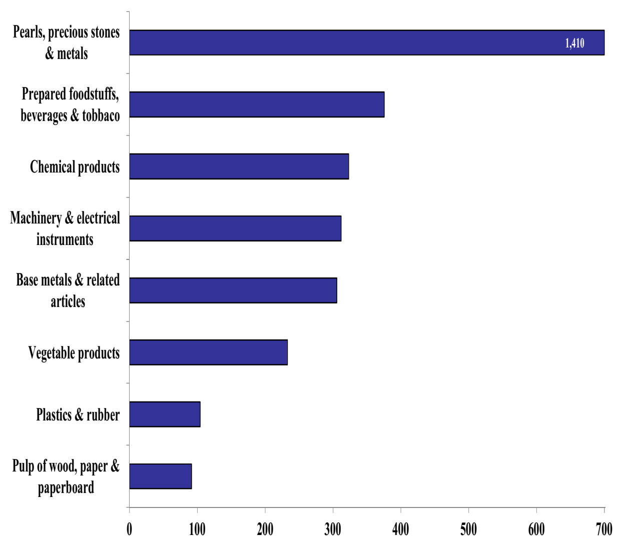
Non-hydrocarbon imports dropped by $4.6bn to $8.1bn in 2020, while imports of oil & mineral fuels fell by $3.4bn to $3.2bn and accounted for 28.7% of total imports in the previous year. Lebanon imported 8.66 million tons of mineral fuel & oil in 2020 relative to 12.83 million tons in 2019.

The exports of machinery & electrical instruments regressed by $70m or by 18.3%, followed by a decline of $52.4m (-36.4%) in pulp of wood, a decrease of $48.5m (-31.8%) in exports of plastics & rubber, a drop of $46m (-12.5%) in the exports of chemical products, and a contraction of $45.1m (-3.1%) in the exports of pearls, precious stones & metals. The drop in exports was offset in part by a growth of $57.8m (+33%) in the exports vegetable products, a rise of $43.6m (+156.2%) in exported vehicles, aircraft & vessels; and an increase of $17.8m (+76%) in the exports of animal products.

Exports to the U.S. surged by 42.3% in 2020, those to Turkey rose by 40.6%, exports to Egypt expanded by 25%, those to Greece grew by 21.2%, exports to Qatar picked up by 11%, and those to the UAE improved by 5%. In contrast, exported goods to Syria dropped by 43.5% the previous year, those to Saudi Arabia contracted by 11.5%, exports to Iraq decreased by 9.3%, and exports to Switzerland regressed by 0.7%. Also, re-exports totaled $263.1m in 2020 compared to $527.8m in 2019. The Hariri International Airport was the exit point for 47.7% of Lebanon's exports in 2020, followed by the Port of Beirut (40.1%), the Port of Tripoli (5.1%), the Masnaa crossing point (4.7%), the Port of Saida (1.6%), the Arida crossing point (0.7%), and the Abboudieh crossing point (0.3%).

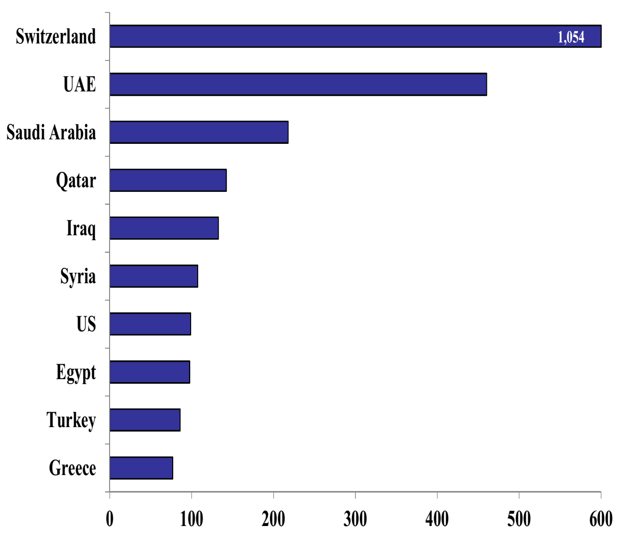
Lebanon's main non-hydrocarbon imports were chemical products that reached $1.7bn in 2020 and that declined by 15.5% from 2019. Imports of machinery & electrical instruments followed with $897.3m (-46%); then imported jewelry with $894.1m (-4%); imports of vegetable products with $796.8m (-14.5%); prepared foodstuff with $755.3m (-37.8%); animal products with $619m (-26.4%); vehicles, aircraft & vessels with $472.2m (-59.8%); base metals with $381.6m (-55%); and plastics & rubber with $344.8m (-46.4%). The Port of Beirut was the entry point for 62.3% of Lebanon's merchandise imports in 2020, followed by the Hariri International Airport (25.3%), the Port of Tripoli (7.9%), the Port of Saida (3%), the Masnaa crossing point (1.1%), and the Abboudieh crossing point and the Arida crossing point (0.2% each).

Main Lebanese Exports in 2020 (US$m)



Source: Lebanese Customs Administration, Byblos Research

Main Destinations of Lebanese Exports in 2020 (US$m)



Source: Lebanese Customs Administration, Byblos Research

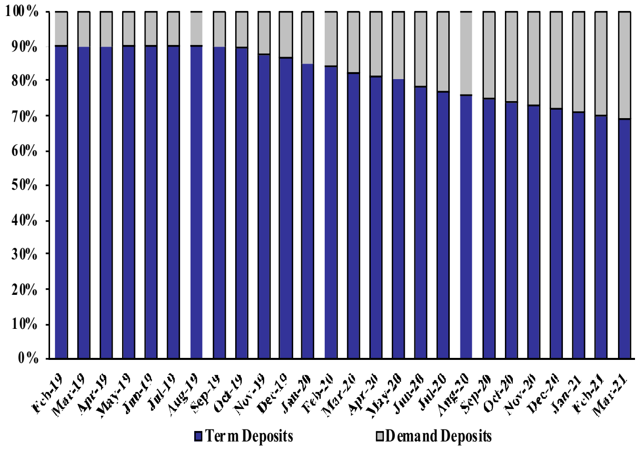
The United States was the main source of imports with $936.1m and accounted for 8.3% of the total in 2020, followed by Greece with $857.6m (7.6%), Turkey with $811m (7.2%), China with $747.6m (6.6%), Italy with $679m (6%), the UAE with $632.4m (5.6%), Germany with $570.8m (5%), Russia with $519.6m (4.6%), France with $379.8m (3.4%), and Switzerland with $323.2m (2.9%). Imported goods from Russia dropped by 61.3%, those from China fell by 54%, imports from France declined by 50.6%, those from Italy decreased by 49%, imports from the U.S. fell by 45%, imported goods from Germany contracted by 40.2%, imports from Greece plunged by 39%, and those of Turkey declined by 13.7%. In contrast. Imported goods from the UAE increased by 12.2%, while those from Switzerland expanded by 2.6% in 2020.

Term deposits account for 69% of customer deposits at end-March 2021

Figures issued by Banque du Liban about the distribution of bank deposits at commercial banks in Lebanon show that aggregate deposits, which include demand deposits and term deposits, stood at $148.65bn at the end of March 2021, constituting a decrease of $2.56bn, or 1.7% from $151.2bn the end of 2020. Total deposits include private sector deposits that reached $137bn, deposits of non-resident financial institutions that amounted to $6bn, and public sector deposits that stood at $5.8bn at the end of March 2021.

Term deposits in all currencies reached $103.1bn at the end of March 2021 and declined by $6.1bn, or by 5.6%, from $109.2bn at end-2020; while they accounted for 69.4% of total deposits in Lebanese pounds and in foreign currency as at end-March 2021 relative to a share of 72.2% at the end of 2020.

Breakdown of Deposits at Commercial Banks (%)



Source: Banque du Liban

The decline in term deposits is due to a drop of 11.6% in the term deposits of the non-resident financial sector, a decrease of 6.5% in the term deposits in Lebanese pounds of the resident private sector, a dip of 6% in the foreign currency-denominated term deposits of the resident private sector, and a 4.3% decline in the term deposits of non-residents. This was partly offset by increases of 2.7% in the term deposits in Lebanese pounds of the public sector and of 1.8% in foreign currency-denominated term deposits of the public sector. The decline in term deposits is due to cash withdrawals and to the migration of funds from term to demand deposits, amid the confidence crisis that started in September 2019. Aggregate term deposits declined by $63.4bn since the end of September 2019.

Further, foreign currency-denominated term deposits of the resident private sector reached $57.6bn and accounted for 38.7% of aggregate deposits at the end of March 2021. Term deposits of non-residents followed with $19.7bn (13.3%), then term deposits in Lebanese pounds of the resident private sector with $16.6bn (11.2%), term deposits of the public sector in Lebanese pounds with $4.3bn (2.9%), term deposits of the non-resident financial sector with $4.3bn (2.8%), and term deposits of the public sector in foreign currency with $677.4m (0.4%).

In parallel, demand deposits in all currencies at commercial banks stood at $45.6bn at the end of March 2021 and increased by $3.55bn, or by 8.4%, from $42bn at end-2020. They accounted for 30.6% of total deposits at end-March 2021 relative to a share of 27.8% at end-2020. The increase in demand deposits was mainly due to a growth of $2.1bn in foreign currency-denominated demand deposits of the resident private sector, a rise of $941.6m in demand deposits in Lebanese pounds of the resident private sector, and an increase of $430m in demand deposits of non-residents.

Also, demand deposits in foreign currency of the resident private sector totaled $27.6bn and represented 18.6% of deposits at end-March 2021. Demand deposits in Lebanese pounds of the resident private sector followed with $8.2bn (5.5%), then demand deposits of non-residents with $7.2bn (4.8%), demand deposits of the non-resident financial sector with $1.74bn (1.2%), demand deposits in Lebanese pounds of the public sector with $547.1m (0.4%), and demand deposits in foreign currency of the public sector with $245.5m (0.2%).

The latest available figures show that Beirut and its suburbs accounted for 66% of private-sector deposits and for 48.4% of the number of depositors at the end of September 2020. Mount Lebanon followed with 15.2% of deposits and 18.8% of beneficiaries, then South Lebanon with 7.3% of deposits and 11.9% of depositors, North Lebanon with 6.6% of deposits and 12.4% of beneficiaries, and the Bekaa with 5% of deposits and 8.5% of depositors.

Sovereign rating reflects government default, delays in implementing reforms

In its periodic review of the rating of Lebanon, Moody's Investors Service indicated that Lebanon's 'C' issuer rating is constrained by a score of 'b3' on the country's economic strength indicator, a score of 'caa3' on the institutional framework category, as well as a score of 'ca' on each of the fiscal strength and the susceptibility to event risk categories. It noted that the 'b3' score on the economic strength indicator is driven by the rapidly deteriorating economic and financial conditions in the country. In parallel, it stated that the score of 'caa3' on the strength of institutions and governance underscores the very low effectiveness of fiscal policy, along with deteriorating monetary and financial policy capabilities. It added that Lebanon's score of 'ca' on the financial strength category reflects its unsustainable debt trajectory, as well as the agency's expectations that domestic and external private creditors will incur substantial losses in case the caretaker government's debt restructuring plan is implemented. Further, it pointed out that the 'ca' score on the susceptibility to event risk is due to the government's liquidity risk and its impact on other drivers of event risk.

Lebanon's 'C' rating is the lowest rating on Moody's rating scale and is 11 notches below investment grade. The agency downgraded the country's sovereign ratings from 'Ca' to 'C' in July 2020, given the recurring delays in the implementation of fiscal and economic policy reforms, which stalled discussions with the International Monetary Fund and with other international official donors.

Corporate Highlights

Byblos Bank invites shareholders to Ordinary General Assembly

Byblos Bank sal invited its common and preferred shareholders to attend an Ordinary General Assembly that will be held on June 18, 2021. The agenda of the meeting consists of hearing and approving the Board of Directors' and the auditors' general and special reports for fiscal year 2020, and approving the accounts and the results of fiscal year 2020, among other items. The Bank indicated that the meeting will also include the election of a new Board of Directors.

Further, the Bank invited common shareholders to appoint the auditors for 2021, 2022 and 2023, and to determine the compensation of auditors, of members of the Board of Directors, and of the members of board committees for fiscal year 2021, among other tasks.

Byblos Bank sal declared unaudited net losses of $61.5m in 2020 relative to losses of $121.5m in 2019. The Bank's net interest income reached $547m in 2020 compared to $239.8m in 2019; while revenues from net fees & commissions stood at $84.5m in 2020 relative to $95.6m in the previous year. The Bank's net operating income totaled $224.2m in 2020 relative to $129m in 2019. Further, operating expenditures amounted to $209.4m in 2020 relative to $218.1m in 2019, with personnel cost accounting for 61.2% of the total.

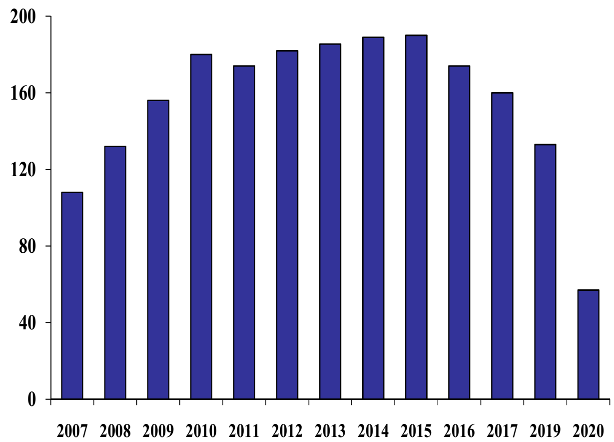
Also, the Bank's aggregate assets reached $18.8bn at the end of 2020 and declined by 14% from $21.9bn at end-2019, with net loans & advances to customers totaling $2.6bn at the end of 2020 compared to $4.5bn at end-2019, and net loans & advances to related parties reaching $7.1m. Further, customer deposits amounted to $14.7bn and deposits from related parties stood at $250.2m at the end of 2019. As a result, aggregate deposits stood at $14.9bn at end-2020, down by 14% from $17.4bn at end-2019. In parallel, the Bank's equity was $1.6bn at the end of 2020, down by 6.4% from end-2019.

Advertising spending in Lebanon down 57% to $57m in 2020

The annual survey of the advertising market in the Arab world by *ArabAd* magazine and research firm Ipsos shows that real advertising expenditures in Lebanon totaled an estimated $57m in 2020, constituting a decline of 57% from $133m in 2019.

Television attracted $25m and accounted for 44% of real advertising expenditures, followed by online media with $22m (38.6%), outdoor billboards with $5m (8.8%), radio stations with $3m (5.3%), newspapers with $2m (3.5%), and magazines with $1m (1.8%). Spending on outdoor billboards fell by 85% from 2019, followed by expenditures on magazines that dropped by 75%, advertising outlays at cinemas (-70%), advertising expenditures on televisions and radio stations (-60% each), newspaper adverts (-47%), and spending on online media outlets (-12%). It attributed the steep decline in advertising expenditures mainly to the impact of the COVID-19 pandemic on the economy, to the explosion at the Port of Beirut on August 4, 2020, and to the prevailing economic crisis.

Real Advertising Expenditures in Lebanon ($m)*



**figures for 2018 are not available*
Source: ArabAd, Byblos Research

The breakdown of offline advertising by media outlet shows that Sakr Real Estate was the largest spender on television commercials last year, KFC spent the most on outdoor billboard advertising, BLOM Bank was the biggest spender on print advertisements, and the Lebanese Canadian Establishment for Pest Control was the largest advertiser on radio stations. In parallel, Samsung was the biggest corporate spender on online advertising in Lebanon, followed by Burger King, Spinneys, Roadster, Dettol, Pepsi, Salma, Netflix.com, Cyberia and Skin Society.

Further, the breakdown of offline advertising by sector shows that the food sector was the top advertised sector on television, banking & finance was the most frequently promoted sector in the printed press, and entertainment & leisure was the top advertised sector on billboards and radio stations. In parallel, entertainment & leisure was the top advertised sector in online media, followed by hygiene & beauty care, telecommunications, websites, food, non-alcoholic drinks, automobiles, the distribution sector, clothing & accessories, and upkeep products.

The percentage drop in advertising expenditures in Lebanon last year was the steepest among 14 Arab economies covered in the survey, as well as relative to the declines in pan Arab and pan Asia advertising. Further, the decreases in expenditures by media category in Lebanon came steeper that the decline per segment in the MENA region last year. Also, advertising expenditures in Lebanon accounted for 1.8% of ad spending regionally in 2020 compared to 3.3% in 2019. When excluding pan-Arab and Pan Asia expenditures, advertising spending in Lebanon represented 2.2% in 2020 of such expenditures in Arab countries compared to nearly 4% in 2019.

Ratio Highlights

(in % unless specified)	2018	2019	2020	Change*
Nominal GDP ($bn)	55.0	51.3	25.2	(26.06)
Public Debt in Foreign Currency / GDP	60.6	63.0	55.8	(7.17)
Public Debt in Local Currency / GDP	93.4	108.1	92.2	(15.87)
Gross Public Debt / GDP	154.0	171.1	148.1	(23.04)
Trade Balance / GDP	(30.8)	(29.0)	-	-
Exports / Imports	14.8	19.4	-	-
Fiscal Revenues / GDP	20.9	20.7	-	-
Fiscal Expenditures / GDP	32.2	31.6	-	-
Fiscal Balance / GDP	(11.3)	(10.9)	-	-
Primary Balance / GDP	(1.1)	(0.5)	-	-
Gross Foreign Currency Reserves / M2	63.8	70.2	41.5	(28.63)
M3 / GDP	255.6	251.2	205.6	(45.67)
Commercial Banks Assets / GDP	451.3	404.8	291.3	(113.50)
Private Sector Deposits / GDP	315.3	296.6	215.5	(81.10)
Private Sector Loans / GDP	107.4	92.9	56.0	(36.91)
Private Sector Deposits Dollarization Rate	70.6	80.3	80.4	0.08
Private Sector Lending Dollarization Rate	69.2	68.7	59.6	(9.12)

**change in percentage points 20/19;*
Source: Banque du Liban, Central Administration of Statistics, Institute of International Finance, Byblos Research Estimates & Calculations
Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

National Accounts, Prices and Exchange Rates

	2018	2019e	2020f
Nominal GDP (LBP trillion)	82.9	80.8	99.4
Nominal GDP (US$ bn)	55.0	51.3	25.9
Real GDP growth, % change	-1.9	-6.7	-26.4
Private consumption	-1.3	-7.3	-23.4
Public consumption	6.7	2.5	-64.7
Gross fixed capital	-1.8	-11.1	-32.2
Exports of goods and services	0.5	-4.0	-31.6
Imports of goods and services	1.1	-4.9	-39.5
Consumer prices, %, average	6.1	2.9	85.2
Official exchange rate, average, LBP/US$	1,507.5	1,507.5	1,507.5
Parallel exchange rate, average, LBP/US$	n/a	1,620	5,528
Weighted average exchange rate LBP/US$	1,507.5	1,575	3,853

Source: Institute of International Finance- December 2

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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