

## LEBANON THIS WEEK

### In This Issue

Economic Indicators.....	1
Capital Markets.....	1
Lebanon in the News.....	2

Lebanon ranks in seventh place on Arab fin-tech index

Coincident Indicator down 38% in 2020

Banque du Liban launches initiative for gradual withdrawal of bank deposits

Banque du Liban fixes conversion rate for withdrawals of dollar deposits

Finance Ministry clarifies exemptions from fiscal stamp duty

Banque du Liban's foreign assets at \$21.4bn, gold reserves at \$16.9bn at mid-May 2021

Banque du Liban details banks' operations on electronic platform

Broad money supply up 1% in first quarter of 2021, currency in circulation up 18%

Opened letters of credit at \$14m for imports and \$46m for exports in first quarter of 2021

Compensation of public-sector personnel at \$5.45bn in first 10 months of 2020, absorbs 68% of revenues

Banque du Liban details access mechanism of money dealers to electronic platform

International contributions to Lebanon Crisis Response Plan at \$1.4bn in 2020

Increase in food prices in Lebanon remains highest in MENA region

### Corporate Highlights .....8

New car sales down 63% in first four months of 2021

Balance sheet of financial institutions down 5% in first quarter of 2021

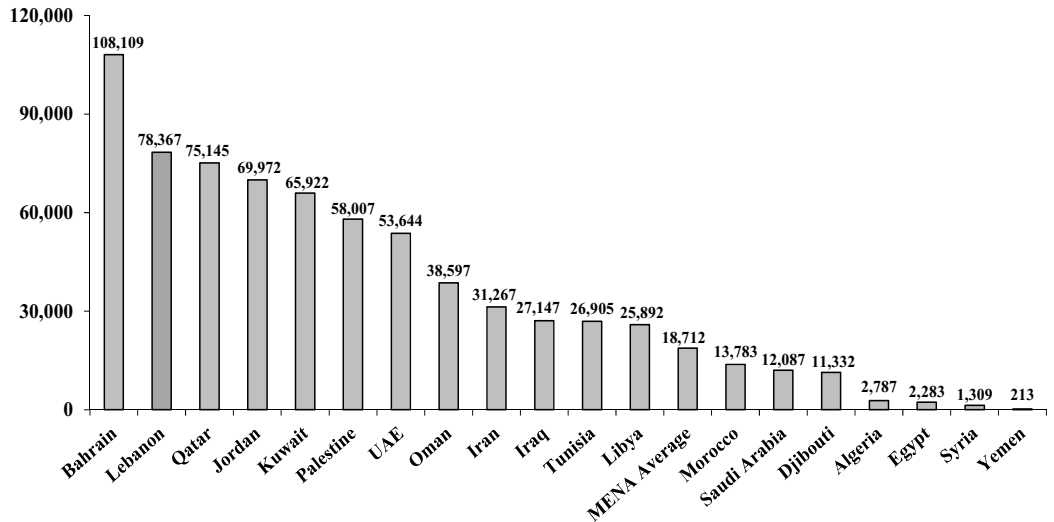
BLC Bank's net losses at \$18.2m in 2020

Bank Audi posts net losses of \$145m in 2020

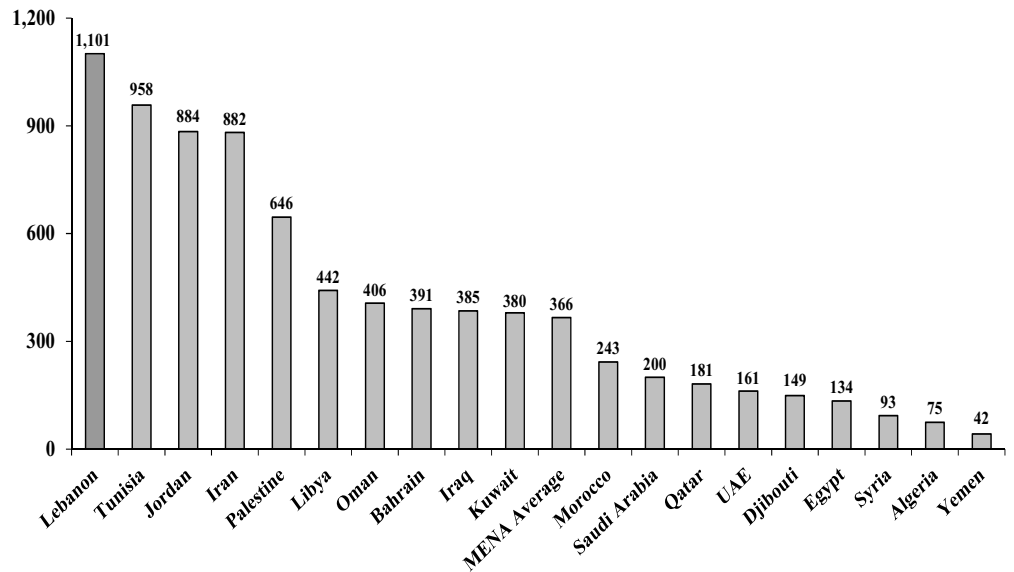
Ratio Highlights.....	10
National Accounts, Prices and Exchange Rates .....	10
Ratings & Outlook.....	10

### 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 10, 2021

Source: World Bank Group, Byblos Bank

### Quote to Note

"There is no unified, coherent, clear and simple set of laws and regulations that covers all essential aspects of public procurement, and that are applicable to all contracting entities and to all types of public contracts for goods, works and services."

*The World Bank, on the shortcomings of the legal and regulatory framework for public procurement in Lebanon*

### Number of the Week

**79%:** Percentage of countries around the world that have a lower cost of mobile data than the cost in Lebanon, according to Cable.co.uk's Worldwide Mobile Data Pricing survey for 2021

## Lebanon in the News

\$m (unless otherwise mentioned)	2020	Jan-Mar 2020	Jan-Mar 2021	% Change*	Mar-20	Feb-21	Mar-21
Exports	3,250	914	-	-	238	-	-
Imports	10,078	2,931	-	-	826	-	-
Trade Balance	(6,828)	(2,017)	-	-	-	-	-
Balance of Payments	(10,551)	(1,062)	(847)	(20.2)	(557)	(341)	(96)
Checks Cleared in LBP**	19,937	4,501	2,107	(53.2)	1,144	1,307	-
Checks Cleared in FC**	33,881	8,023	2,833	(64.7)	2,407	1,384	-
Total Checks Cleared**	53,828	12,527	4,942	(60.5)	3,552	2,692	-
Fiscal Deficit/Surplus	(2,535)	(1,655)	-	-	(498)	-	-
Primary Balance	(1,136)	(676)	-	-	(138)	-	-
Airport Passengers	2,501,975	1,165,094	549,476	(52.8)	187,570	141,260	-
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 \*\*figures for the period reflect the first two months of each year

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	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Byblos Common	0.93	0.0	120,113	5.6%	Oct 2022	6.10	12.50	225.37
Solidere "A"	25.10	1.5	79,618	27.0%	Jan 2023	6.00	12.88	166.57
Solidere "B"	24.86	(0.3)	49,453	17.4%	Apr 2024	6.65	12.88	83.83
Audi Listed	2.41	(8.7)	20,640	15.2%	Jun 2025	6.25	12.75	62.78
Audi GDR	2.00	1.5	12,500	2.6%	Nov 2026	6.60	13.25	40.14
HOLCIM	17.94	12.1	2,000	3.8%	Feb 2030	6.65	12.75	24.91
BLOM GDR	3.50	0.0	-	2.8%	Apr 2031	7.00	12.63	21.97
BLOM Listed	3.70	0.0	-	8.5%	May 2033	8.20	12.50	18.11
Byblos Pref. 09	38.50	0.0	-	0.8%	Nov 2035	7.05	13.25	14.48
Byblos Pref. 08	35.00	0.0	-	0.8%	Mar 2037	7.25	13.63	12.98

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

Source: Refinitiv

	May 10-12	May 4-7	% Change	Apr 2021	Apr 2020	% Change
Total shares traded	285,213	848,346	(66.4)	1,917,215	10,769,186	(82.2)
Total value traded	\$3,480,582	\$13,716,298	(74.6)	\$32,181,843	\$23,969,907	34.3
Market capitalization	\$9.31bn	\$9.41bn	(1.0)	\$9.4bn	\$6.5bn	44.1

Source: Beirut Stock Exchange (BSE)



### Lebanon ranks in seventh place on Arab fintech index

The Arab Monetary Fund ranked Lebanon in seventh place among 15 Arab countries on the first edition of its Index of Modern Financial Technologies in Arab Countries (FinxAr).

The FinxAr Index aims to identify developments in the financial technology (Fintech) industry and digital financial services in Arab countries, as well as the governments' efforts in enabling and promoting the adoption of fintech during the 2018-20 period. The index is based on six sub-indices that represent the main pillars of financial technologies and that consist of Policies & Legislation, the Demand Side, Access to Finance, Financial Markets Infrastructure, Talent Development to Support Innovations, and Collaboration & Partnerships. Each category is rated on a scale from zero to 100%, with the general index score calculated as a simple average of the six sub-indices.

Lebanon had a more advanced level of fintech development than Kuwait, Qatar, and Morocco, and a lower level than Tunisia, Egypt and Palestine. Lebanon received a score of 0.398 points on the general index, compared to the Arab average of 0.43 points. The UAE ranked first with a score of 0.747 points, while Sudan came in last place with a score of 0.091 points.

Lebanon ranked in 11<sup>th</sup> place on the Policies & Legislation Sub-Index. This category reflects the governments' initiatives and regulatory frameworks that promote financial technologies. As such, Lebanon ranked higher than only Yemen, Iraq, Morocco, and Sudan. Lebanon scored 0.305 points, compared to the Arab average of 0.44 points.

Also, Lebanon ranked in 10<sup>th</sup> place among Arab countries on the Demand Side Sub-Index. This factor takes into account the incentives given by the authorities to individuals and the private sector to use financial technologies. Lebanon came ahead of only Jordan, Iraq, Kuwait, Sudan and Yemen, and received a score of 0.341 points, relative to the Arab average of 0.44 points.

Further, Lebanon came in third position among Arab states on the Access to Finance Sub-Index. Lebanon trailed only the UAE and Saudi Arabia, while it had a higher level of access to finance than Tunisia, Bahrain, and Qatar. Lebanon received a score of 0.314 points, compared to the Arab average of 0.18 points.

In addition, Lebanon ranked in fifth place on the Talent Development Sub-Index and trailed only Egypt, the UAE, Saudi Arabia, and Morocco. Lebanon scored 0.667 points on this category, relative to the Arab average of 0.5 points.

Moreover, Lebanon came in sixth place on the Financial Market Infrastructure Sub-Index. This factor reflects the authorities' efforts to develop the infrastructure necessary to improve financial markets. It preceded Oman, Jordan and Kuwait, while it trailed Saudi Arabia, Tunisia and Morocco. Lebanon received a score of 0.464 points, compared to the regional average of 0.39 points.

Finally, Lebanon ranked in ninth place on the Collaboration & Partnerships Sub-Index. This category takes into account the degree of collaboration between parties involved in the fintech industry domestically, and with regional and/or global counterparts, in addition to partnerships between financial institutions and fintech firms. It preceded Oman, Yemen and Morocco, and trailed Tunisia, Kuwait and Palestine on this category. Further, Lebanon received a score of 0.342 points, relative to the Arab average of 0.49 points.

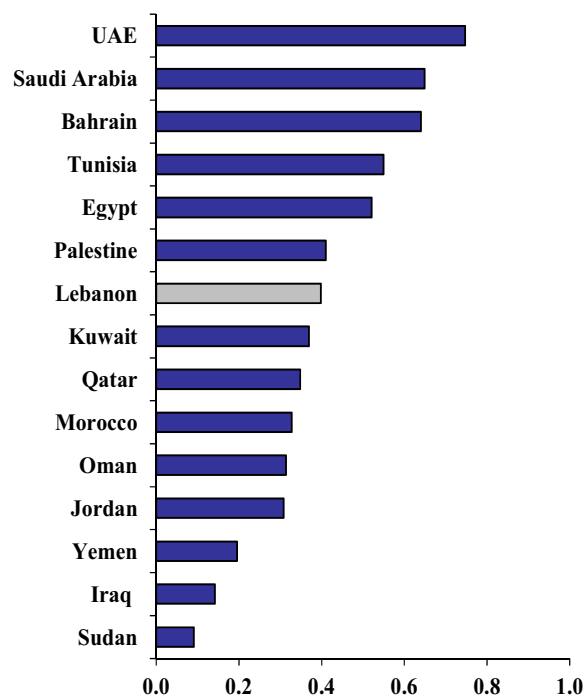
### Coincident Indicator down 38% in 2020

Banque du Liban's Coincident Indicator, an index of economic activity in Lebanon, stood at 173.8 in December 2020 compared to 164.5 in the previous month and to 265.9 in December 2019. The Coincident Indicator, an average of eight weighted economic indicators, regressed by 34.6% in December 2020 from the same month of the previous year, constituting the steepest annual decline on record in the month of December and reflecting the deterioration of economic and financial conditions in the country. In contrast, it improved by 5.7% from November 2020.

The indicator averaged 180.2 in 2020, constituting a decline of 38.4% from an average of 292.6 in 2019 and representing its lowest annual level since the 180 mark it recorded in 2007. Also, the percentage drop in 2020 is the steepest on record since BdL launched the indicator in 1993.

In parallel, the indicator declined 15 times and improved 13 times in the month of December since 1993. It averaged 256.6 in 2012, 264.7 in 2013, 273.2 in 2014, 278.6 in 2015, 289.5 in 2016, 305.9 in 2017, and 307.7 in 2018.

### Index of Modern Financial Technologies for 2021 Scores & Rankings of Arab Countries



Source: Arab Monetary Fund, Byblos Research

### **Banque du Liban launches initiative for gradual withdrawal of bank deposits**

Banque du Liban (BdL) indicated that banks operating in Lebanon have abided by Basic Circular 154 dated August 27, 2020 that aimed, among other objectives, to strengthen the banks' liquidity profiles. In this context, BdL pointed out that it is preparing an initiative that aims to ease the pressure on citizens amid the prevailing crisis that has been exacerbated by the absence of a functioning government that would implement the necessary reforms, reestablish Lebanon's regional and international relations, and restore domestic confidence.

First, BdL said that it is negotiating with Lebanese banks on a mechanism that allows the gradual payment in all currencies of bank deposits that existed prior to October 17, 2019, based on their balance at the end of March 2021. It asked banks to provide it with the necessary data in order to draft a plan that would allow the disbursement of up to \$25,000 either in dollars or in any foreign currency, in addition to their equivalent in Lebanese pounds. It added that the disbursement will be gradual over a period of time that BdL will determine. It expected the payments to start at the end of June 2021 provided that BdL receives the required legal coverage.

Second, BdL stated that it will launch the Sayrafa electronic platform with the participation of banks and licensed money dealers, which will provide a transparent setting for the exchange rate and for the participants in the platform. It added that market dynamics will help determine the exchange rate on the platform and that BdL will intervene when needed to control fluctuations in the exchange rate.

Third, BdL affirmed that it is still providing foreign currency at the official exchange rate for the import of basic goods that the government decided to subsidize last year, and that it is committed to sell dollars at the official exchange rate to finance the related import transactions. It also noted that it informed the relevant ministries of the need to rationalize the subsidies in order to preserve its foreign currency reserves, and that it awaits an action plan that it can legally enforce.

BdL pointed out that its plan, along with the cut in subsidies, are temporary solutions for Lebanon's problems and do not constitute a substitute for the implementation of the needed structural reforms for the economic and financial recovery of the country.

### **Banque du Liban fixes conversion rate for withdrawals of dollar deposits**

Banque du Liban (BdL) issued on May 10, 2021 Intermediate Circular 582 that fixed at LBP3,900 against the US dollar the exchange rate of the Lebanese pound that is used for cash withdrawals from foreign currency accounts at banks in Lebanon, as well as for other transactions. Prior to the amendment, the exchange rate for these operations was linked to the exchange rate of BdL's Sayrafa electronic platform.

The circular amended Basic Circular 151 dated April 21, 2020 that allows clients who have accounts in US dollars, or in any other foreign currency, at banks in Lebanon to withdraw banknotes in Lebanese pounds from these accounts at a fixed exchange rate of LBP3,900 per US dollar. The terms of Basic Circular 151 expire at the end of September 2021.

Further, the circular amended the third clause of Basic Circular 152 dated August 6, 2020 that asked banks and financial institutions operating in the country to extend exceptional loans in US dollars to individuals and businesses that have been affected by the explosion at the Port of Beirut on August 4, 2020. Accordingly, banks can disburse in Lebanese pounds, for one time only and upon the client's request, the equivalent of up to \$15,000 from the exceptional loan at a fixed exchange rate of LBP3,900 per dollar. Prior to the modification, the exchange rate for the disbursement was based on the rate of BdL's Sayrafa platform.

Finally, the circular amended Basic Circular 23 about the facilities that BdL can extend to commercial banks and financial institutions. Specifically, it fixed at LBP3,900 per US dollar the exchange rate for the imports of basic food products and raw materials that are used in the agro-food industry, instead of the exchange rate that was determined through BdL's Sayrafa electronic platform.

### **Finance Ministry clarifies exemptions from fiscal stamp duty**

The Ministry of Finance issued Decision 267/1, which was published in the Official Gazette on April 22, 2021, to clarify the implementation of Article 2 of Legislative Decree 5439/1982 and its amendments about exemptions from the fiscal stamp duty in order to develop the Lebanese financial markets.

It indicated that the securities that are exempt from the fiscal tax duty consist of certificates of deposits issued by commercial banks operating in Lebanon, bonds issued by a joint stock company or société anonyme libanaise (s.a.l.) and any contracts that cover the transfer of shares of such companies, as well as Lebanese Treasury bills and any contracts that cover the buying and selling of the latter. It added that, in order to benefit from the exemption of the fiscal stamp duty, beneficiaries need to trade the aforementioned securities solely on the Lebanese financial market.

Also, the decision stipulated that the bonds that any joint stock company issues, and contracts that pertain to the trading of such bonds, are exempt from the fiscal stamp duty if they are tradable with one face value, and in case the value of such bonds does not exceed twice the amount of the disclosed capital position of the company.

Further, it said that the securities would not be exempt from the fiscal stamp duty in case they are subject to divestment, or if the beneficiaries utilize the securities for the repayment of loans or any other liabilities.

### Banque du Liban's foreign assets at \$21.4bn, gold reserves at \$16.9bn at mid-May 2021

Banque du Liban's (BdL) interim balance sheet reached \$156.1bn on May 15, 2021, constituting increases of 5% from \$148.6bn at end-2020 and of 4.7% from \$149.1bn a year earlier. Assets in foreign currency totaled \$21.4bn at mid-May 2021, representing a decrease of \$2.7bn, or of 11%, from \$24.1bn at the end of 2020 and a drop of \$12.8bn (-37.4%) from \$34.2bn at mid-May 2020. Assets in foreign currency include \$5.03bn in Lebanese Eurobonds, unchanged from a year earlier.

BdL's assets in foreign currency, excluding Lebanese Eurobonds, stood at \$16.4bn at mid-May 2021 and fell by \$12.8bn, or by 43.8%, from \$29.2bn a year earlier. The cumulative decline in BdL's assets in foreign currency, excluding Lebanese Eurobonds, is largely due to the financing of the imports of hydrocarbons, wheat, medicine, medical equipment, a large number of food and non-food items, as well as raw materials for agriculture and industry. It is also due to the steep drop in capital flows to Lebanon since September 2019, and to the near halt of inflows after the government decided to default on its Eurobonds obligations in March 2020.

In parallel, the value of BdL's gold reserves amounted to \$16.9bn at mid-May 2021 and regressed by \$415.7m, or by 2.4%, from the end of 2020, while it increased by 7.8% from \$15.7bn from mid-May 2020. The value of gold reserves reached a peak of \$18.1bn at mid-September 2020. Also, the securities portfolio of BdL totaled \$41bn at mid-May 2021, increasing by 2.4% from \$40bn at the end of 2020 and by 6.3% from \$38.5bn a year earlier. In addition, loans to the local financial sector totaled \$14bn, regressing by 1.7% from end-2020 and by 4.8% from mid-May 2020. Further, deposits of the financial sector stood at \$107.5bn at mid-May 2021 and declined by \$5bn from a year earlier. In addition, public sector deposits at BdL reached \$5.6bn at mid-May 2021, increasing by \$1bn from the end of 2020 and by \$951.1m from a year earlier.

### Banque du Liban details banks' operations on electronic platform

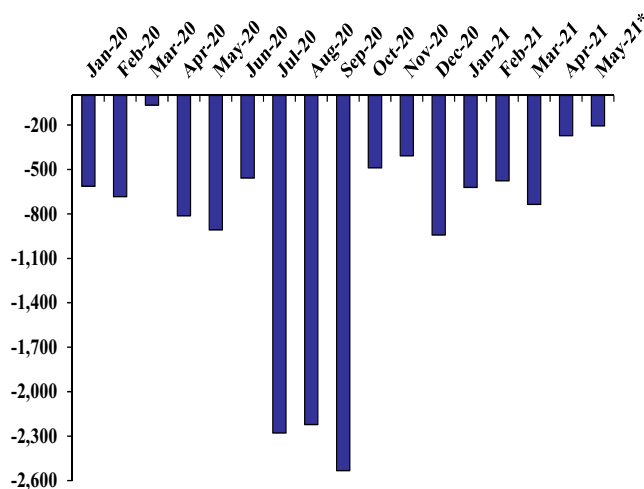
Banque du Liban (BdL) issued on May 10, 2021 Basic Circular 157 for banks operating in Lebanon about exceptional measures related to foreign exchange operations.

The circular allows banks to conduct foreign exchange operations as per Law 347 dated August 8, 2001, including the buying and selling of foreign currencies in exchange for other foreign currencies or Lebanese pounds, through BdL's Sayrafa electronic platform. It noted that the banks' foreign exchange operations should cover the needs of their clients, whether they are individuals or companies, based on a market-determined exchange rate, and provided that the spread between the buying and selling exchange rates, and any additional fees, do not exceed 1% of the buying exchange rate. Specifically, it allows banks to purchase Lebanese pound banknotes from their clients and settle the counter value in foreign currency either in a "fresh account" in Lebanon or in a bank account abroad. It also allows banks to purchase foreign currencies from clients either in physical form or from their "fresh accounts", in exchange for Lebanese pounds that can be disbursed either in cash or in the clients' bank accounts in Lebanon.

Further, the circular stipulates that, based on the prevailing laws and regulations, BdL may intervene in the platform if it deems necessary and in case it has the capacity to do so, in order to maintain the stability of the exchange rate. It noted that BdL will record its interventions under "funds to stabilize the exchange rate".

Also, the circular asks the Banking Control Commission of Lebanon (BCCL) to verify the information about the transactions conducted through the platform and to monitor the banks' compliance with the circular's clauses. It noted that banks have to register the operations conducted on the platform and to provide the date and value of each transaction, the name and contact details of the client, the purpose of the transaction, as well as any other documents or information that the platform might request. It pointed out that the client must sign a document that lifts the banking secrecy on every transaction conducted through the platform.

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



\*at mid-May 2021

Source: Banque du Liban, Byblos Research

### Broad money supply up 1% in first quarter of 2021, currency in circulation up 18%

Figures released by Banque du Liban show that money supply M1, which includes currency in circulation and demand deposits in Lebanese pounds, reached LBP46,753bn at the end of March 2021, constituting an increase of 16.4% from LBP40,156bn at the end of 2020 and a rise of 113.2% from LBP21,929bn at end-March 2020. Currency in circulation stood at LBP34,421bn at the end of March 2021, and surged by 17.7% in the first quarter of the year and by 160.5% from LBP13,213bn at end-March 2020. Also, demand deposits in local currency stood at LBP12,332bn at the end of March 2021, representing an increase of 13% from end-2020 and a rise of 41.5% from the end of March 2020. Money supply M1 grew by 3.2% in March from LBP45,298bn at the end of the previous month, with currency in circulation expanding by 5.2% and demand deposits in local currency regressing by 2% month-on-month. The increase in money supply largely reflects the migration of term deposits to demand deposits, as well as the shift to a cash-based economy.

In addition, money supply M2, which includes M1 and term deposits in Lebanese pounds, reached LBP72,300bn at the end of March 2021, constituting an increase of 7.1% in the first quarter of the year and an expansion of 21% from LBP59,688bn a year earlier. Term deposits in Lebanese pounds totaled LBP25,547bn at the end of March 2021, and decreased by 6.6% from LBP27,354bn at end-2020 and by 32.3% from LBP37,758bn at end-March 2020. Money supply M2 grew by 1% in March from the previous month, with term deposits in local currency regressing by 2.9% month-on-month.

Further, broad money supply M3, which includes M2, deposits in foreign currency and debt securities issued by the banking sector, reached LBP202,175bn at the end of March 2021, constituting an increase of 1.1% in the first quarter of the year and an upturn of 3% from LBP196,444bn at end-March 2020. Deposits in foreign currency totaled LBP129,555bn at the end of March 2021, down by 2% from end-2020 and by 5% from a year earlier. Also, debt securities issued by the banking sector amounted to LBP320bn at the end of March 2021 compared to LBP519bn at the end of 2020 and to LBP475bn at end-March 2020. Money supply M3 regressed by a marginal 0.4% the preceding month, with deposits in foreign currency regressing by 1.1% and debt securities issued by the banking sector increasing by 4% month-on-month. In parallel, M3 expanded by LBP2,123bn in the first quarter of 2021 due to a surge of LBP7,289bn in other items and an increase of LBP1,273bn in the net claims on the public sector, which were partly offset by a drop of LBP3,957bn in the net foreign assets of deposit-taking institutions and a decline of LBP2,481bn in the claims on the private sector.

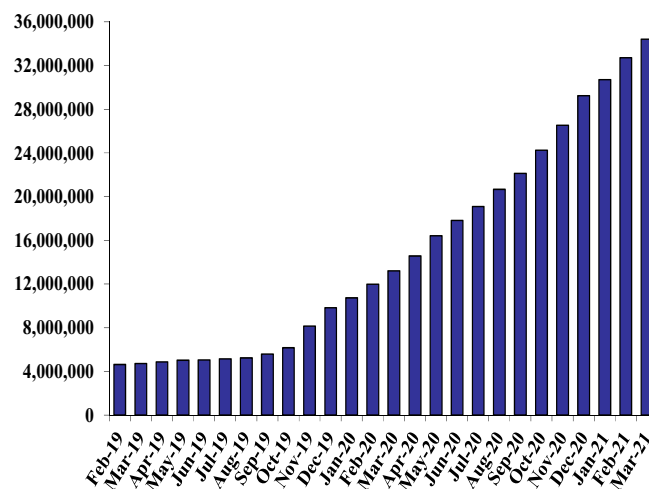
### Opened letters of credit at \$14m for imports and \$46m for exports in first quarter of 2021

Figures released by Banque du Liban show that the amount of letters of credit (LCs) opened to finance imports to Lebanon totaled \$13.6m in the first quarter of 2021, constituting a decrease of 94% from \$228m in the same quarter of 2020. The significant decline in the amount of LCs last year is due to stricter requirements imposed by correspondent banks following the repeated downgrades of Lebanon's sovereign ratings and to the challenges that importers have faced in meeting these requirements.

Further, utilized credits for imports totaled \$18.1m in the covered quarter, constituting a decline of 93.7% from \$287m in the first quarter of 2020, and were equivalent to 133.2% of opened LCs for imports in the first quarter of 2021. Also, outstanding import credits stood at \$54.2m at the end of March 2021 compared to \$244.6m a year earlier. In addition, the aggregate amount of inward bills for collection reached \$73.4m in the covered quarter, down by 20.3% from \$92m in the first quarter of 2020. The outstanding amount of inward bills for collection was \$44.5m at the end of March 2021 relative to \$39m at end-March 2020.

In parallel, the amount of documentary LCs opened to finance exports from Lebanon totaled \$46m in the first quarter of 2021, constituting a decrease of 50% from \$91.5m in the same quarter of 2020. Further, utilized credits for exports reached \$10.3m in the covered quarter, down by 95.2% from \$213.4m in used credits the first quarter of 2020, and were equivalent to 22.3% of opened LCs for exports in the first quarter of 2021. Also, outstanding export credits stood at \$154.2m at the end of March 2021 compared to \$376.8m a year earlier. In addition, the aggregate amount of outward bills for collection amounted to \$41.2m in the first quarter of 2021 and dropped by 53% from \$87.2m in the same quarter of 2020. The outstanding amount of outward bills for collection reached \$212.8m at the end of March 2021 relative to \$271.3m at end-March 2020.

Currency in Circulation (LBP Millions)



Source: Banque du Liban, Byblos Research

### **Compensation of public-sector personnel at \$5.45bn in first 10 months of 2020, absorbs 68% of revenues**

Figures issued by the Ministry of Finance show that the compensation of public-sector personnel totaled \$5.45bn in the first 10 months of 2020, constituting an increase of 1% from \$5.4bn in the same period of 2019. Salaries, wages and related benefits accounted for 61.7% of the total in the first 10 months of 2020, followed by retirement benefits (29%), and transfers to public institutions to cover salaries and end-of-service indemnities (4.7% each).

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 10 months of 2020, compared to 71.5% in the same period of 2019. Also, the compensation of public-sector personnel absorbed 68.3% of total fiscal receipts in the covered period relative to 57.5% in the first 10 months of 2019. It accounted for 50.5% of overall fiscal spending in the first 10 months of 2020 compared to 40.3% in the same period of 2019.

Salaries, wages & related benefits paid to public-sector workers and employees reached \$3.4bn in the covered period, up by 2.8% from \$3.3bn in the first 10 months 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. In addition, retirement benefits grew by 6.8% annually to \$1.6bn in the first 10 months of 2020, and transfers to public institutions to cover salaries expanded by 9.2% year-on-year to \$257.4m, while end-of-service indemnities declined by 38.7% annually to \$256.1m in the covered period.

### **Banque du Liban details access mechanism of money dealers to electronic platform**

Banque du Liban (BdL) issued on May 10, 2021 Intermediate Circular 583 that amends Basic Circular 5 dated June 10, 2020 about the access of money exchange firms to BdL's upcoming electronic platform. The circular allows licensed money dealers to buy and sell foreign currency on the platform based on the prevailing demand and supply in the market, provided that the spread between the buying and selling exchange rates and any additional fees do not exceed 1% of the buying exchange rate.

Prior to the amendment, Basic Circular 5 required money dealers to abide by any exchange rate ceiling that BdL introduces, and to maintain a normal spread between the buying and selling rates. BdL had fixed the exchange rate for money dealers at LBP3,900 per dollar. But market dynamics resulted in the emergence of a parallel market where the exchange rate is currently at about LBP12,700 against the US dollar. BdL continues to prohibit licensed dealers from conducting any foreign currency transaction outside its Sayrafa electronic platform.

### **International contributions to Lebanon Crisis Response Plan at \$1.4bn in 2020**

The United Nations indicated that international contributions to the Lebanon Crisis Response Plan (LCRP) reached \$1.4bn in 2020 and represented 54% of the \$2.7bn that the LCPR appealed for to assist the affected Lebanese and non-Lebanese individuals in the country in 2020. It also noted that \$246m were carried over from funding received in 2019, which is equivalent to 9% of the total appealed funds. As such, it said that international contributions covered 63% of the funds appealed, the highest share since 2017. However, it noted that shortages in funding constitute a major challenge for many sectors, including the Livelihoods, Shelter and Basic Assistance segment. The Lebanon Crisis Response Plan 2017-2020 is a joint initiative between the Lebanese government and international and national partners that aims to address challenges posed by the large presence of Syrian refugees in the country.

It pointed out that financial disbursements for food security reached \$391.1m in 2020, or 23.5% of available funds, followed by the education sector with \$241.1m (14.5%), basic assistance and support to social protection with \$203m each (12.2% each), healthcare with \$190.3m (11.4%), the water sector \$176.5m (10.6%), livelihoods with \$117.6m (7.1%), social stability with \$110.3m (6.6%), shelter with \$33.1m (2%), and the energy sector with \$1.2m (0.1%).

In parallel, the UN indicated that the LCRP assistance reached 2.7 million individuals across Lebanon in 2020, which consist of 1.5 million displaced Syrians, or 55.4% of the total, followed by one million vulnerable Lebanese citizens (37%), and 207,700 Palestinian refugees (7.7%). It estimated that cash-based interventions supporting vulnerable households exceeded \$429m last year. It said that 1.46 million individuals benefited from food assistance in 2020, which is 38% higher than the target for the year. It added that total investments in agricultural worksites reached \$806,396 last year and about 3,300 small-scale Lebanese farmers received technical and operational support to help them weather Lebanon's economic crisis. Also, it indicated that projects under the LCRP employed more than 51,000 individuals through cash-for-work activities, which benefited about 255,000 people.

In addition, it pointed out that 497,119 persons benefited from education-related assistance. It noted that interventions under the LCRP supported the enrollment of 432,500 non-Lebanese and vulnerable Lebanese children in public schools in the 2019-20 school year. It indicated that 700,000 vulnerable Lebanese and non-Lebanese individuals benefited from about 1.4 million subsidized healthcare consultations, while 84,000 refugees received financial support for hospital care. It added that projects in the water sector improved access to safe water to more than 1.4 million persons. It pointed out that about 1.41 million individuals benefited from social protection services, and that around \$5.67m was provided to more than 32,000 persons with specific needs to address urgent protection risks.

### Increase in food prices in Lebanon remains highest in MENA region

In its periodic 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 May 10, 2021. It assessed the change in food prices in 19 countries in the MENA region across five main food categories that are carbohydrates, dairy products, fruits, meats and vegetables.

The prices of fresh or frozen cattle meat in Lebanon surged by 121.4% between February 14, 2020 and May 10, 2021, constituting the highest increase in the price of this item in the region. Lebanon, along with Djibouti, were the only countries in the region that posted a rise of more than 60% in the price of fresh or frozen cattle meat. In comparison, the price of fresh or frozen cattle meat grew by an average of 16.5% in the region.

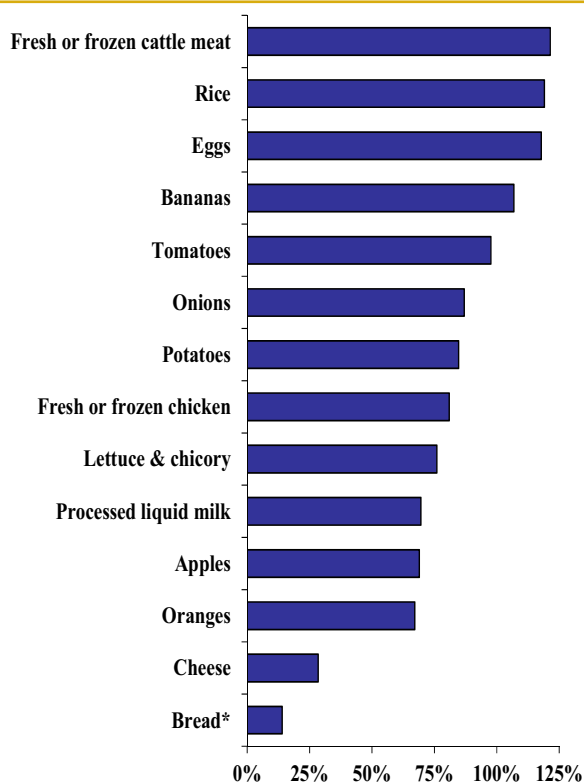
In addition, the price of rice in Lebanon climbed by 119% between February 14, 2020 and May 10, 2021, representing the highest growth rate in the price of rice regionally, relative to an average increase of 14.5% among MENA countries. Also, the price of eggs in Lebanon jumped by 117.8% in the covered period, the highest price increase for this product in the MENA region. 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 12% in MENA countries.

In parallel, the prices of bananas and tomatoes in Lebanon rose by 106.8% and 97.6%, respectively, in the covered period, the highest increase in the prices of these food products regionally. Also, the prices of onions and potatoes jumped by 87% and by 84.7%, respectively, the most significant price leap in the region for such products. Lebanon, along with Djibouti, were the only countries in the region that posted increases of more than 25% in the price of potatoes.

In addition, the prices of fresh or frozen chicken surged by 81% in the covered period, the second highest upturn after Djibouti among MENA countries and compared to an average growth of 17.5% regionally. Lebanon, along with Djibouti and Saudi Arabia, were the only countries in the region that posted increases of above 25% in the prices of fresh or frozen chicken. Also, the prices of lettuce in Lebanon soared by 76% between February 14, 2020 and May 10, 2021, the highest rise among MENA countries and relative to an average increase of 6.8% in the region.

Further, the price of processed liquid milk in Lebanon rose by 69.6%, between February 14, 2020 and May 10, 2021, the highest price expansion regionally in the region. Moreover, the prices of apples and oranges in Lebanon grew by 69% and 67.1%, respectively, the most significant price increases for such fruits among MENA countries. Lebanon, along with Egypt, Morocco and Yemen, were the only countries in the region that posted hikes of more than 20% in the price of oranges. Also, the price of cheese surged by 28.4%, the second highest price increase regionally for this category, while the prices of bread and other manufactured articles sold at bakeries in Lebanon expanded by 14% in the covered period, representing the fifth highest increase in bread prices among MENA countries.

**Change in Food Prices in Lebanon (%)  
(between February 14, 2020 and May 10, 2021)**



\*bread and other manufactured articles sold at bakeries  
Source: World Bank, Byblos Research



### New car sales down 63% in first four months of 2021

Figures released by the Association of Automobile Importers (AIA) in Lebanon show that dealers sold 947 new passenger cars in the first four months of 2021, constituting a drop of 62.6% from 2,532 cars sold in the same period of 2020 and a decline of 88.3% from 8,102 in the first four months of 2019.

Individuals and institutional clients purchased 61 new cars in January, one new vehicle in February, 512 new automobiles in March, and 373 cars in April 2021; compared to 979 new cars in January, 897 new vehicles in February, 468 new automobiles in March, and 188 cars in April 2020.

The AIA indicated that the drop in the sales of new cars in the covered period came as a result of the closure of companies and of car registration centers due to the lockdown measures that the government imposed during the first quarter of 2021, in addition to the fluctuations of the exchange rate on the parallel market.

The market for new passenger cars in Lebanon has been facing increasing challenges in the past few years, including the contraction in economic activity, job insecurity and, more recently, the shortage of foreign currency liquidity in the local market, the emergence of a parallel exchange rate market, as well as the reduced purchasing power of consumers and a very low level of household confidence.

Further, the AIA indicated that car dealers incurred damages in the tens of millions of dollars as a result of the explosion at the Port of Beirut on August 4, 2020, as well as due to the national lockdown measures that the government imposed to contain the spread of the coronavirus. It considered that a large number of car dealerships could close down and lay off their employees, and that car sales could further deteriorate in the coming months. Also, it estimated that car dealers paid less than \$33m in taxes to the Treasury in 2020, down from \$265m in 2018. The AIA stopped releasing its monthly data on car sales by brand, distributor and source country since January 2020.

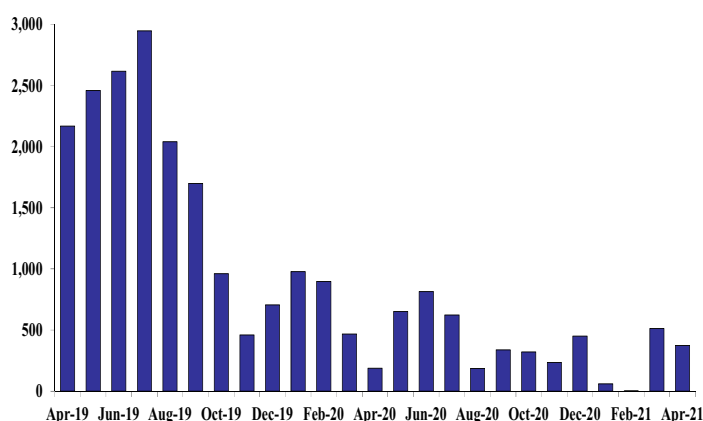
### Balance sheet of financial institutions down 5% in first quarter of 2021

Figures released by Banque du Liban show that the consolidated balance sheet of financial institutions in Lebanon totaled LBP1,676bn, or \$1.11bn, at the end of March 2021, constituting a decrease of 5.2% from LBP1,767bn (\$1.17bn) at the end of 2020, and a decline of 11.6% from LBP1,895bn (\$1.26bn) at the end of March 2020.

On the assets side, claims on resident customers amounted to \$452.5m at the end of March 2021, and declined by 5.7% in the first quarter of 2021 and by 22% from the end of March 2020; while claims on non-resident customers stood at \$12m at end-March 2021 and decreased by 7.7% from the end of 2020 and by 47.5% from a year earlier. In addition, claims on the resident financial sector reached \$297.4m at end-March 2021, down by 8.2% from end-2020 and up by 3.5% from end-March 2020; while claims on the non-resident financial sector totaled \$24.6m at the end of March 2021 and regressed by 4.2% from end-2020 and by 3.1% from a year earlier. Also, claims on the public sector stood at \$5m at end-March 2021, constituting an increase of 10% from end-2020 and of 4% from the end of March 2020; while the securities portfolio, which includes Lebanese Treasury bills and Eurobonds, amounted to \$75.6m at end-March 2021 and grew by 2.6% from end-2020 but declined by 10.8% from a year earlier. In parallel, currency and deposits with local and foreign central banks reached \$63.7m at the end of March 2021 and increased by 16% from a year earlier.

On the liabilities side, deposits of resident customers stood at \$145.3m at the end of March 2021, constituting a decrease of 6.3% from end-2020 and of 5.2% from the end of March 2020; while deposits of non-resident customers reached \$8m at the end of March 2021 and surged by 53% from end-2020 and by 36.3% from a year earlier. Liabilities to the resident financial sector amounted to \$101.6m at end-March 2021 and dropped by 35.4% in the first quarter of the year and by 43.3% from end-March 2020; while liabilities to the non-resident financial sector regressed by 4.5% from end-2020 to \$74.6m. Also, public sector deposits expanded by a marginal 0.4% in the first quarter of 2021 to \$5.3m, while issued debt securities totaled \$99m at end-March 2021 and increased by 8.7% from end-2020 but decreased by 8.6% from the end of March 2020. Further, the aggregate capital account of financial institutions was \$440m at the end of March 2021, and decreased by 5% from the end of 2020 and by 6.3% from the end of March 2020.

Number of New Passenger Cars Sold



Source: Association of Automobile Importers

### **BLC Bank's net losses at \$18.2m in 2020**

BLC Bank, one of six listed banks in Lebanon, announced unaudited consolidated net losses of \$18.2m in 2020 compared to net losses of \$31.85m in 2019. It attributed the losses mainly to impairments for credit losses that amounted to \$35.3m in the previous year. The bank's net interest income reached \$88.7m in 2020 and increased by 67.4% from \$53m in 2019; while its net fees & commissions income stood at \$16.5m last year, down by 7% from \$17.7m in 2019. Further, the bank's net operating income totaled \$84.8m in 2020 and expanded by 15.5% from \$73.4m in 2019. In parallel, the bank's operating expenditures reached \$66.3m in 2020 relative to \$68.1m in 2019, with personnel cost accounting for 66.6% of the total.

In addition, total assets reached \$3.9bn at the end of 2020, constituting a decline of 11.4% from \$4.45bn end-2019, with loans and advances to customers decreasing by 33.7% from end-2019 to \$910.8m in the previous year. Also, customer deposits totaled \$3.1bn at the end of 2020 and regressed by 12.7% from \$3.5bn at end-2019. Further, the bank's total equity reached \$517m at end-2020 and increased by 5.5% from the end of 2019.

### **Bank Audi posts net losses of \$145m in 2020**

Bank Audi sal's consolidated audited financial statement shows that the bank posted losses of \$144.8m in 2020 relative to losses of \$602.1m in 2019. The bank attributed its losses to the accounting for impairments and adjustments related to the ongoing economic and financial crisis in the country. The bank's net interest income reached \$881.1m in 2020, down by 5.4% from \$932m in 2019; while its net fees and commissions were at -\$520m last year relative to +\$142.5m in 2019. Further, the bank's net operating income totaled \$338m in 2020 compared to net operating losses of \$130.7m in 2019. In addition, the bank's operating expenditures reached \$480.4m in 2020 and decreased by 9.7% from \$532.1m in 2019, with personnel cost accounting for 56.3% of the total.

In parallel, the bank's aggregate assets amounted to \$35.4bn at the end of 2020 and declined by 10.4% from \$39.5bn at end-2019, as net loans and advances to customers totaled \$6.1bn at end-2020 and dropped by 41% from \$10.3bn at end-2019. Further, customer deposits reached \$21.4bn and fell by 27.2% from \$29.4bn at end-2019. Net loans & advances to related parties amounted to \$71.8m, while deposits from related parties stood at \$108.1m at end-2020. In parallel, the bank's shareholders' equity was \$2.95bn at the end of 2020 and regressed by 0.6% from \$3bn at end-2019. The bank indicated that it has increased its core capital by \$209m in February 2020 through US dollar-denominated cash contributions from the bank's shareholders, according to Banque du Liban's (BdL) Intermediary Circular 567 that requires banks operating in Lebanon to raise their capital by 20%. In addition, it said that the aggregate proceeds of \$841m from the sale of its operations in Egypt, Iraq, Jordan and Syria will largely cover the remaining capital requirements of \$303m as per BdL's circular, and support its Common Equity Tier One and capital adequacy ratio.

## 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 2019

## 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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