

## LEBANON THIS WEEK

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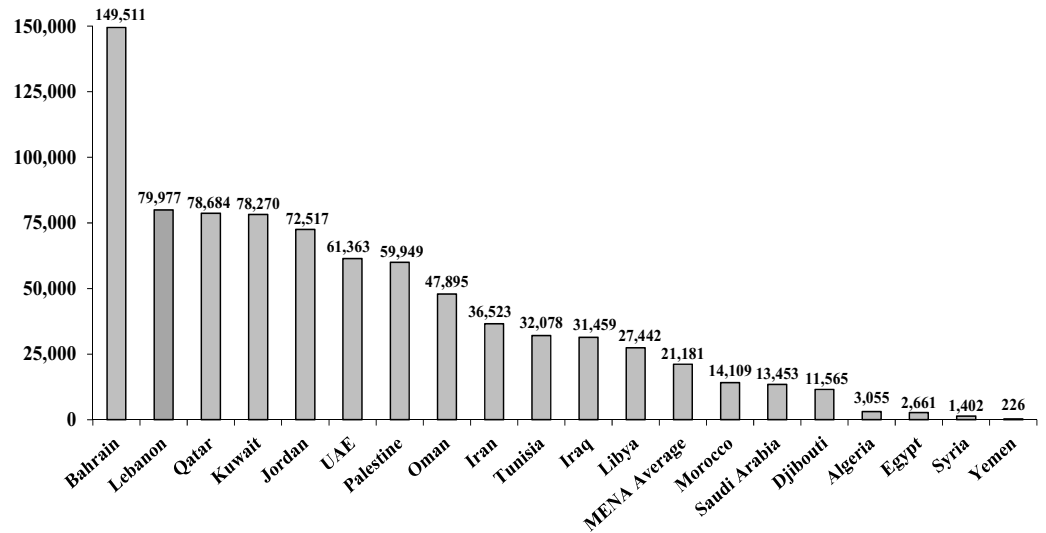
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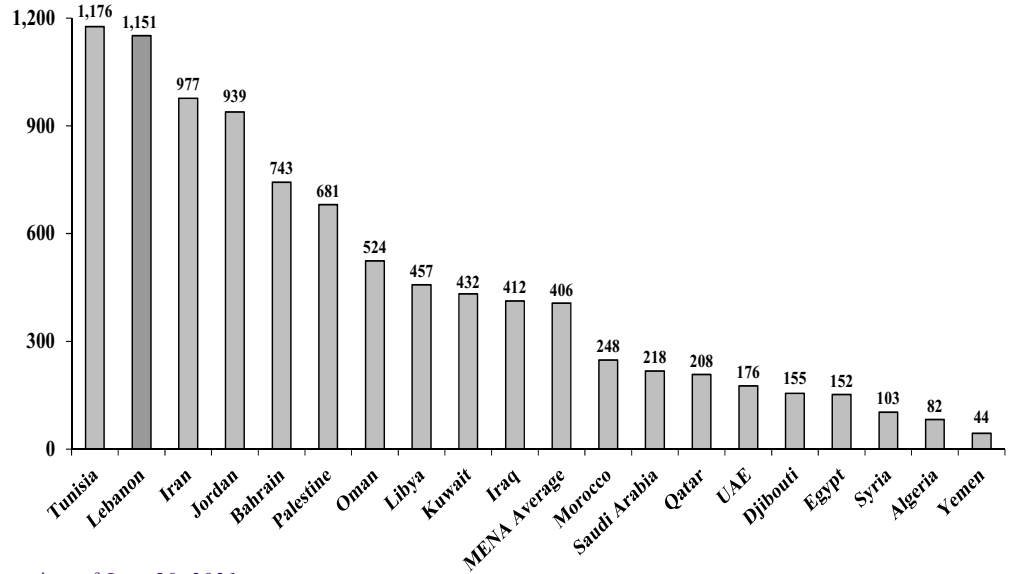
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### Charts of the Week

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 June 20, 2021

Source: World Bank Group, Byblos Bank

### Quote to Note

"The formation of a stable Cabinet that can implement highly unpopular measures remains pressing more than ever."

*Barclays Capital, on the urgent need to form a government with a mandate to implement structural reforms*

### Number of the Week

**8.9%:** Percentage of the resident population of Lebanon that has received two doses of the anti COVID-19 vaccine as of June 26, 2021, according to the Ministry of Public Health.

## 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	200	-
Imports	11,310	2,931	-	-	826	1,033	-
Trade Balance	(7,765)	(2,017)	-	-	(588)	(833)	-
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	(2,709)	(1,655)	-	-	(498)	-	-
Primary Balance	(648)	(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-20	Apr-20	Jan-21	Feb-21	Mar-21	Apr-21	% Change*
BdL FX Reserves	18.60	27.37	17.98	17.49	16.75	16.23	(40.7)
In months of Imports	15.10	36.77	19.61	-	-	-	-
Public Debt	95.59	92.88	95.94	96.83	-	-	-
Bank Assets	188.04	205.75	188.34	188.13	186.26	184.53	(10.3)
Bank Deposits (Private Sector)	139.14	147.52	138.91	138.85	136.95	136.02	(7.8)
Bank Loans to Private Sector	36.17	43.90	35.71	35.49	34.20	33.11	(24.6)
Money Supply M2	44.78	38.64	45.97	47.50	47.96	48.59	25.8
Money Supply M3	132.70	129.52	133.36	134.60	134.11	134.34	3.7%
LBP Lending Rate (%)	7.77	9.29	8.53	7.59	8.02	8.00	(129bps)
LBP Deposit Rate (%)	2.64	5.06	2.31	2.11	1.96	2.11	(295bps)
USD Lending Rate (%)	6.73	7.79	6.52	6.92	7.14	6.88	(91bps)
USD Deposit Rate (%)	0.94	2.32	0.58	0.54	0.52	0.49	(183bps)

\*year-on-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 %
Solidere "A"	24.80	0.9	85,855	27.5%	Oct 2022	6.10	13.00	248.29
Byblos Common	0.92	(1.1)	79,431	5.8%	Jan 2023	6.00	13.00	181.79
Audi GDR	1.98	(2.0)	56,357	2.6%	Apr 2024	6.65	13.00	87.39
BLOM GDR	3.20	4.9	50,000	2.6%	Jun 2025	6.25	12.75	59.52
Audi Listed	2.16	(10.0)	22,850	14.1%	Nov 2026	6.60	13.00	41.49
Solidere "B"	24.75	0.1	11,237	17.9%	Feb 2030	6.65	12.88	25.13
Byblos Pref. 08	30.10	(14.1)	1,631	0.7%	Apr 2031	7.00	12.75	22.13
BLOM Listed	3.38	11.6	1,000	8.1%	May 2033	8.20	12.63	18.20
Byblos Pref. 09	38.50	0.0	685	0.9%	Nov 2035	7.05	13.00	14.74
HOLCIM	17.00	0.0	-	3.7%	Mar 2037	7.25	13.75	13.02

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

Source: Refinitiv

	Jun 21-25	Jun 14-18	% Change	May 2021	May 2020	% Change
Total shares traded	359,916	244,691	47.1	2,276,392	6,731,749	(66.2)
Total value traded	\$3,032,156	\$3,500,907	(13.4)	\$34,870,717	\$27,765,737	25.6
Market capitalization	\$9.00bn	\$9.05bn	(0.6)	\$9.18bn	\$5.98bn	53.5

Source: Beirut Stock Exchange (BSE)



### Greenfield foreign direct investments down 67% to \$96m in 2020, equivalent to 0.3% of GDP

Figures compiled by fDi Markets and released by the United Nations Conference on Trade and Development (UNCTAD) show that Lebanon attracted 21 greenfield foreign direct investment projects for a total of \$95.7m in 2020, compared to 34 projects worth \$289.6m in 2019. The number of greenfield FDI projects decreased by 38.2%, while the amount of greenfield FDI dropped by 67% in 2020. In comparison, Lebanon attracted \$148.8m in greenfield FDI in 2018 (17 projects), \$102.7m in 2017 (12 projects), \$87.6m in 2016 (nine projects), \$77.5m in 2015 (17 projects), \$1.2bn in 2014 (17 projects), and \$131.2m in 2013 (seven projects).

The FDI figures cover cross-border greenfield projects that lead to the direct creation of jobs and to capital investments. They include joint ventures when these transactions result in a new physical greenfield operation. The figures exclude mergers and acquisitions and other equity investments. fDi Markets is a database that tracks cross-border greenfield investments across the world, and is owned by the Financial Times Group.

Lebanon was the 20<sup>th</sup> smallest recipient of greenfield FDI in 2020 among 135 economies with a GDP of \$10bn or more. Also, Lebanon attracted the 20<sup>th</sup> lowest number of greenfield FDI projects globally in 2020, but was the recipient of the third highest number regionally after the UAE (178 projects), and Saudi Arabia (50 projects). Lebanon was among 94 countries globally that registered a decrease in the amount of inward greenfield FDI in 2020, and one of 93 economies that posted a decline in the number of greenfield FDI projects.

Further, the amount of greenfield FDI in Lebanon accounted for 0.02% of global greenfield FDI, as well as for 0.3% of aggregate greenfield FDI in Arab countries and for 0.3% of total flows to West Asian countries. In comparison, greenfield FDI in Lebanon accounted 0.03% of global greenfield FDI, for 0.5% of greenfield FDI to Arab economies, and for 0.7% of such flows to West Asia in 2019. Also, the amount of greenfield FDI in Lebanon was equivalent to 0.3% of GDP in 2020, the fifth lowest such ratio in the Arab world, ahead of only Kuwait (0.2% of GDP), as well as Algeria, Iraq and Mauritania (0.1% of GDP each). In comparison, global greenfield FDI was equivalent to 0.6% of worldwide GDP in 2020, greenfield FDI in Arab countries was equivalent to 1.1% of the region's aggregate GDP, while greenfield FDI in West Asia represented 1% of the region's GDP last year.

### Number of new construction permits up 216% in first five months of 2021

The Orders of Engineers & Architects of Beirut and of Tripoli issued 6,570 new construction permits in the first five months of 2021, constituting a surge of 215.7% from 2,081 permits in the same period of 2020. The jump in the number of construction permits in the covered period is due to low base effects related to activity in the first five months of 2020, as the figures do not include the number of permits for the month of April 2020 given the closure of public-sector departments during the month amid the outbreak of COVID-19 in the country. In comparison, the number of newly-issued construction permits dropped by 80% in the first five months of 2020 from the same period of the preceding year. Also, the orders of engineers issued 1,384 permits in May 2021, representing a decrease of 36% from 2,163 permits in April 2021 and a jump of 262.3% from 382 permits in May 2020. Mount Lebanon accounted for 27.3% of the number of newly-issued construction permits in the first five months of 2021, followed by the South with 25.4%, the North with 20.6%, the Nabatieh area with 15.4%, the Bekaa region with 7.6%, and Beirut with 1.3%. The remaining 2.5% were permits issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon. The number of new construction permits issued for the North surged by 300.3% in the first five months of 2021 from the same period last year, followed by permits in the Nabatieh region (+292.6%), the South (+279%), regions outside northern Lebanon (+274.4%), the Bekaa region (+232.7%), and Mount Lebanon (+137%). In contrast, the number of permits issued for Beirut decreased by 11.6% in the covered period.

Further, the surface area of granted construction permits reached 3.62 million square meters (sqm) in the first five months of 2021, constituting a rise of 341% from 0.82 million sqm in the same period of 2020. In comparison, the surface area of granted construction permits regressed by 73.2% in the first five months of 2020 from the same period of the preceding year. Also, the surface area of granted construction permits reached 596,604 sqm in May 2021, decreasing by 56.8% from 1.38 million sqm in April 2021 and rising by 238.6% from 176,220 sqm in May 2020. Mount Lebanon accounted for 1.04 million sqm, or 28.8% of the total in the first five months of 2021. The North followed with 865,455 sqm (24%), then the South with 770,841 sqm (21.3%), the Nabatieh area with 427,448 sqm (11.8%), the Bekaa region with 400,446 sqm (11.1%), and Beirut with 34,562 sqm (1%). The remaining 78,489 sqm, or 2.2% of the total, represent the surface area of permits that the Order of Engineers & Architects of Tripoli issued for regions located outside northern Lebanon. The surface area of new construction permits issued for the Bekaa region surged by 650.7% in the first five months of 2021 from the same period last year, followed by surface areas in Nabatieh region (+439.1%), the South (+426.5%), the North (+337.1%), Mount Lebanon (+253.5%), regions located outside northern Lebanon (+222%), and Beirut (+40.4). In parallel, the latest available figures show that cement deliveries totaled 42,252 tons in January 2021, constituting a drop of 50.4% from 85,193 tons in January 2020.

### Greenfield FDI in Arab Countries (US\$m)

	2020	2019	Change (%)
Saudi Arabia	10,672.6	12,526.5	-14.8%
UAE	9,531.5	13,556.7	-29.7%
Oman	6,131.4	3,646.9	68.1%
Morocco	2,440.9	3,068.6	-20.5%
Egypt	1,655.4	13,715.3	-88.0%
Qatar	1,113.7	1,580.9	-29.6%
Iraq	1,063.4	2,116.9	-49.8%
Bahrain	993.3	1,050.8	-5.5%
Tunisia	485.3	2,518.6	-80.7%
Sudan	319.4	78.3	308.0%
Kuwait	257.9	695.1	-63.0%
Jordan	257.1	2,290.1	-88.8%
Djibouti	101.3	181.3	-44.1%
<b>Lebanon</b>	<b>95.7</b>	<b>289.6</b>	<b>-67.0%</b>
Algeria	76.9	2,316.4	-96.7%
Mauritania	10.5	158.9	-93.4%
Libya	0.4	70.2	-99.4%
Palestine	-	347.1	-
Syria	-	30.7	-
<b>Total</b>	<b>35,206.6</b>	<b>60,238.7</b>	<b>-41.6%</b>

Source: fDi Markets, UNCTAD, Byblos Research

### Cost of sending remittances from most sources declines in first quarter of 2021

Figures issued by the World Bank show that the cost of sending \$500 in remittances from the United States to Lebanon reached 4.47% in the first quarter of 2021, unchanged from the fourth quarter of 2020 and down from 5.3% in the first quarter of 2020. The cost includes the transaction fee and exchange rate margin, and represents the average cost of transferring money through commercial banks and money transfer operators. In nominal terms, the cost of sending \$500 from the U.S. to Lebanon was \$22.33 in the first quarter of 2021, unchanged from the preceding quarter and compared to \$26.48 in the first quarter of 2020. Lebanon was the 13th most expensive destination for sending \$500 from the U.S. among 42 countries with available data.

Further, the cost of sending remittances from Canada to Lebanon was 5.53% in the first quarter of 2021 for a transfer of CAD500, constituting an increase from 4.04% in the fourth quarter of 2020 and a decrease from 6.45% in the first quarter of 2020. In nominal terms, the cost of sending CAD500 from Canada to Lebanon was CAD27.67 in the first quarter of 2021 relative to CAD20.22 in the previous quarter and to CAD32.23 in the first quarter of 2020. Lebanon was the third costliest destination for sending CAD500 from Canada among 15 countries with available data.

Also, the cost of sending remittances from Australia to Lebanon reached 6.69% in the first quarter of 2021 for a transfer of AUD500, representing a decrease from 7.11% in the fourth quarter of 2020 and from 7.19% in the first quarter of 2020. The cost of sending AUD500 from Australia to Lebanon was AUD33.44 in the first quarter of 2021 relative to AUD35.54 in the preceding quarter and to AUD35.96 in the first quarter of 2020. Lebanon was the fifth most expensive destination for sending AUD500 from Australia among 16 countries with available data.

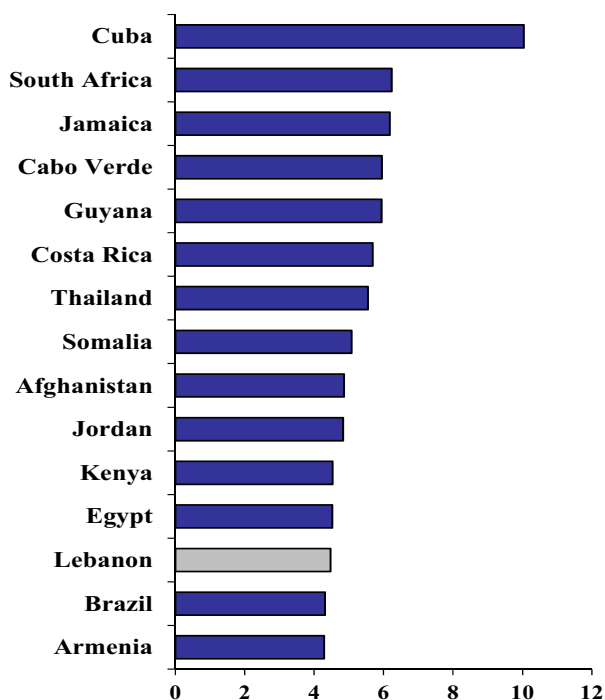
In addition, the cost of sending remittances from France to Lebanon was 8.8% in the first quarter of 2021 for a transfer of €345, constituting an increase from 7.4% in the fourth quarter of 2020 and from 7.87% in the first quarter of 2020. In nominal terms, the cost of sending €345 from France to Lebanon was €30.34 in the first quarter of 2021 relative to €25.54 in the previous quarter and to €27.17 in the first quarter of 2020. Lebanon was the most expensive destination for sending €345 from France among 16 countries with available data.

Further, the cost of sending remittances from the United Kingdom to Lebanon reached 8.12% in the first quarter of 2021 for a transfer of £300, and rose from 7.11% in the fourth quarter of 2020 and from 7.99% in the first quarter of 2020. In nominal terms, the cost of sending £300 from the UK to Lebanon was £24.36 in the first quarter of 2021 relative to £21.34 in the preceding quarter and to £23.97 in the first quarter of 2020. Lebanon was the third most expensive destination for sending £300 from the UK, among 33 countries with available data.

Also, the cost of sending remittances from Germany to Lebanon was 8.25% in the first quarter of 2021 for a transfer of €345, constituting an increase from 6.92% in the fourth quarter of 2020 and a decrease from 8.38% in the first quarter of 2020. In nominal terms, the cost of sending €345 from Germany to Lebanon was €28.47 in the first quarter of 2021 relative to €23.88 in the previous quarter and to €28.91 in the first quarter of 2020. Lebanon was the second most expensive destination for sending €345 from Germany among 24 countries with available data.

Finally, the cost of sending remittances from Saudi Arabia to Lebanon reached 2.69% in the first quarter of 2021 for a transfer of SAR1,870, equivalent to \$500, constituting a drop from 2.9% in the fourth quarter of 2020 and a rise from 1.98% in the first quarter of 2020. In nominal terms, the cost of sending SAR1,870 from Saudi Arabia to Lebanon was SAR50.3 in the first quarter of 2021, relative to SAR54.17 in the preceding quarter and to SAR37.07 in the first quarter of 2020. Lebanon was the sixth most expensive destination for sending SAR1,870 from Saudi Arabia among 17 countries with available data.

**Costliest Destinations for Sending Remittances from the United States\* (%)**



\*cost of sending \$500 from the U.S.

Source: World Bank, Byblos Research

### Cost of living in Beirut is third highest in the world, highest among Arab cities in 2021

The annual Cost of Living Survey in 209 cities around the world by global consulting firm Mercer ranked the cost of living in Beirut as the third highest worldwide and the highest among 17 Arab cities surveyed in 2021. Also, the cost of living in Beirut is the second highest among 48 cities in 35 upper middle-income countries (UMICs) included in the survey. In comparison, Beirut was the 45th most expensive city worldwide and the fourth most expensive in the Arab world in 2021. As such, Lebanon's global rank rose by 42 notches year-on-year, constituting the fifth highest increase globally. The survey attributed the rise in Beirut's ranking to the record-high inflation rates in the country.

The study measures the comparative cost of over 200 items in each location, including the cost of housing, food, clothing and household goods, as well as transportation and entertainment. It uses New York City as the base city for the index and compares all cities against it. The survey is conducted annually to help multinational companies determine compensation allowances for their expatriate workers. As such, Mercer indicated that it compares the cost of high-end items that are important to expatriates and their employers, such as upscale residential areas and entertainment venues. It said that it conducted this year's survey in March 2021. It attributed the rankings to currency fluctuations and changes in the prices of goods and services that affect the purchasing power of expatriate employees.

On a global basis, the cost of living in Beirut is lower than the cost of living in only Ashgabat in Turkmenistan and in Hong Kong. Also, the survey considered Beirut to be less expensive than only Ashgabat in Turkmenistan among UMICs.

The rankings of 10 out of the 17 Arab cities decreased in the 2020 survey, while the rankings of seven countries regressed from last year's survey. Ashgabat in Turkmenistan is the world's most expensive city, while Bishkek in Kyrgyzstan is the least costly city worldwide.

### Compensation of public-sector personnel absorbs 73% of public revenues in 2020

Figures issued by the Ministry of Finance show that the compensation of public-sector personnel totaled LBP9,885bn, or \$6.56bn in 2020, constituting a decline of 2.6% from \$6.73bn in 2019. Salaries, wages and related benefits accounted for 62% of the total, followed by retirement benefits (29%), transfers to public institutions to cover salaries (4.7%), and end-of-service indemnities (4.3%). The dollar figures are based on the official exchange rate of the Lebanese pound to the US dollar.

Further, end-of-service indemnities declined by 56%, last year which was partly offset by an increase of 6% in retirement salaries, an expansion of 3.3% in transfers to public institutions to cover salaries, and a growth of 1.8% in salaries, wages and related benefits. The compensation of public-sector personnel represented the largest component of current primary spending and accounted for 72.1% of such expenditures in 2020 compared to 71.6% in 2019. It also accounted for 51% of fiscal spending in the covered period relative to nearly 40% in 2019; while it absorbed 73.1% of public revenues in 2020 compared to 66.2% of government receipts in 2019.

In parallel, salaries, wages and related benefits paid to public-sector workers amounted to \$4.1bn in 2020, up by 1.8% from \$4bn in 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 \$149.3m; while benefits and other payments given to non-military bodies dropped by \$3.3m and basic salaries regressed by \$73.6m 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 2.4% to \$3.1bn in 2020, allowances rose by 36% to \$565.2m, and benefits and other payments regressed by 1.4% to \$411.3m from 2019.

In addition, salaries and benefits of military personnel reached \$2.65bn and accounted for 65.2% of salaries, wages and related benefits paid to public sector employees in 2020. The salaries and benefits of personnel in public education followed with \$752.2m (18.5% of the total), then civil staff with \$397.3m (9.8%), the government's contribution to the employees' cooperative with \$228.2m (5.6%), and the salaries and benefits of customs employees with \$37.1m (1%). Also, the Lebanese Army's salaries and benefits totaled \$1.7bn and represented 65.6% of the salaries and benefits of military personnel. The salaries of the Internal Security Forces followed with \$685.2m (25.8%), those of the General Security Forces with \$166.5m (6.3%), and the salaries of State Security Forces with \$60.4m (2.3%).

### Cost of Living Rankings in 2021

	Arab Rank	Global Rank	Change in Global Rank*
<b>Beirut</b>	<b>1</b>	<b>3</b>	<b>+42</b>
Riyadh	2	29	+2
Dubai	3	42	-19
Abu Dhabi	4	56	-17
Manama	5	71	-19
Djibouti	6	82	-24
Amman	7	94	-23
Jeddah	8	94	+10
Muscat	9	108	-12
Casablanca	10	114	+7
Kuwait City	11	115	-2
Doha	12	130	-21
Cairo	13	137	-11
Rabat	14	152	+7
Nouakchott	15	176	+8
Algiers	16	198	-4
Tunis	17	206	+3

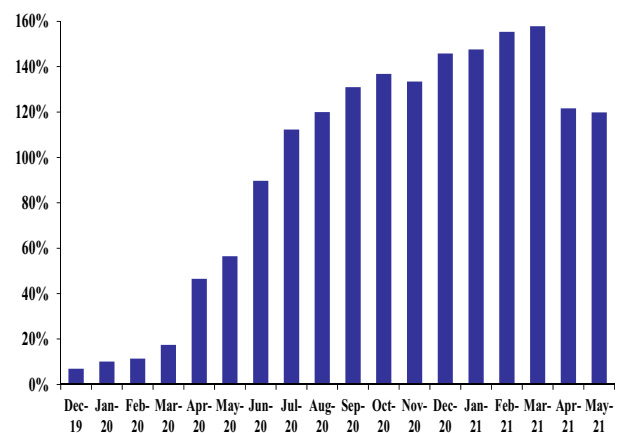
\* (+) reflects a relative increase in the cost of living  
Source: Mercer, Byblos Research

### Consumer Price Index up 120% year-on-year in May 2021

The Central Administration of Statistics' Consumer Price Index increased by 138% in the first five months of 2021 from the same period of 2020. In comparison, it grew by 28.6% and by 3.6% in the first five months of 2020 and 2019, respectively.

The CPI rose by 119.8% in May 2021 from the same month of 2020, while it registered its 11<sup>th</sup> consecutive triple-digit increase since July 2020. The cumulative surge in inflation is due in part to the inability of authorities to monitor and contain prices, as well as to the deterioration of the Lebanese pound's exchange rate on the parallel market, which has encouraged opportunistic wholesalers and retailers to raise the prices of consumer goods disproportionately. In addition, the smuggling of subsidized imported goods has resulted in shortages of these products locally, which contributed to the rise in prices. According to the International Monetary Fund, the CPI averaged 487.2% in 1987 and ended the year at 741.2%, constituting the highest inflation rates on record.

Annual Change in CPI (%)



Source: Central Administration of Statistics, Byblos Research

Prices of furnishings & household equipment surged by 5.5 times in May 2021 from the same month last year, followed by prices of clothing & footwear (+4 times), prices at restaurants & hotels (+3.9 times), transportation costs (+3.6 times), the prices of food & non-alcoholic beverages (+3.3 times), the cost of miscellaneous goods & services (+3.2 times), prices of alcoholic beverages & tobacco (+3 times), and the cost of recreation & entertainment (+2.7 times). In addition, the prices of water, electricity, gas & other fuels increased by 90.7% year-on-year in May 2021, followed by communication costs (+35.1%), healthcare costs (+26.3%), the cost of education (+10.2%), actual rent (+7.5%), and imputed rent (+4.5%). Also, the distribution of actual rent shows that new rents grew by 7.7% and old rent increased by 7.3% in May 2021 from the same month last year.

In parallel, the CPI increased by 6.1% in May 2021 from the previous month, compared to a month-on-month uptick of 7.8% in April 2021 and of 8.3% in March 2021. Prices at restaurants & hotels jumped by 20% month-on-month in May 2021, followed by prices of furnishings & household equipment (+17.1%), prices of food & non-alcoholic beverages (+14%), transportation costs (+8.4%), the cost of miscellaneous goods & services (+7.8%), prices of clothing & footwear (+6.8%), the cost of recreation & entertainment (+6.5%), prices of alcoholic beverages & tobacco (+1.8%), healthcare costs (+1.6%), the prices of water, electricity, gas & other fuels (+0.8%), communication costs (+0.5%), imputed rent (+0.4%), and actual rent (+0.2%). Also, education costs were nearly unchanged in May 2021 from the preceding month.

Further, the CPI increased by 6.8% in the Bekaa, by 6.7% in Beirut, by 6.4% in Nabatieh, by 6.3% in the North, by 5.8% in Mount Lebanon, and by 5.3% in the South, during May 2021 from the previous month. In parallel, the Education Price Index was unchanged, while the Fuel Price Index increased by 2.8% month-on-month in May 2021.

### Treasury transfers to Electricité du Liban down 39% to \$924m in 2020

Figures released by the Ministry of Finance show that Treasury transfers to Electricité du Liban (EdL) totaled \$924m in 2020, constituting a decline of 38.6% from \$1.5bn in 2019. Reimbursements for the purchase of natural gas, fuel and gas oil reached \$922.1m in 2020, or 99.8% of transfers; while EdL's debt servicing represented the balance of around \$2m, or 0.2% of the total.

The decline in transfers is mainly due to the drop in global oil prices last year. This resulted in a decrease of \$580.4m in reimbursements for the purchase of natural gas, fuel and gas oil last year, which mostly consists of payments to the Kuwait Petroleum Corporation and to the Algerian energy conglomerate Sonatrach. Reimbursements regressed by 38.6%, while debt servicing decreased by 24% in 2020.

Treasury transfers to EdL accounted for 8.5% of budgetary primary expenditures in 2020 relative to 13.3% in 2019. They constituted the third largest expenditures item, or 7.2% of overall fiscal spending. EdL transfers 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, 2.8% of GDP in 2019, and 1.4% of GDP in 2020.

### Trade deficit widens by 10% to \$1.6bn in first two months of 2021

Total imports reached \$1.9bn in the first two months of 2021, constituting a decrease of 7.4% from \$2.1bn in same period of 2020; while aggregate exports totaled \$383.5m and dropped by 43.3% from \$676.4m in the first two months of 2020. As such, the trade deficit widened by 9.6% to \$1.6bn in the first two months of 2021, mainly due to a decline of \$292.8m in exports.

Non-hydrocarbon imports increased by \$135.5m to \$1.5bn in the first two months 2021, while imports of oil & mineral fuels fell by \$291m to \$459.3m and accounted for 23.6% of total imports in the covered period. Lebanon imported 1.05 million tons of oil & mineral fuel in the first two months 2021 relative to 1.3 million tons in the first two months of 2020.

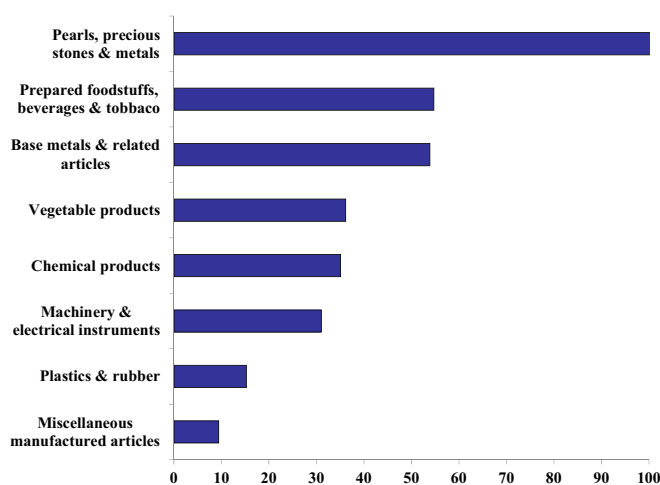
The decline in exports was due to a drop of \$214.4m, or of 68%, in the exports of jewelry during the covered period; followed by a decline of \$19.7m (-39%) in the exports of machinery & electrical instruments; a decrease of \$12.8m (-26.7%) in the exports of chemical products, a retreat of \$11.4m (-17.2%), in exported prepared foodstuff; a dip of \$8.5m (-49%) in the exports of pulp of wood; a contraction of \$6.4m (-10.6%) in exported base metals; and a downturn of \$5.3m (-36%) in miscellaneous manufactured articles.

Exports to Egypt rose by 21.4% in the first two months of 2021, those to Kuwait grew by 13.8%, and exported goods to Qatar increased by 11.6%. In contrast, exported goods to Switzerland dropped by 84.4% in the covered period, those to the UAE declined by 36%, exports to Iraq decreased by 35%, those to Jordan contracted by 30.8%, exports to Saudi Arabia fell by 28.6%, exported goods to Greece retreated by 21.7%, and those to Syria contracted by 11.7%. Also, re-exports totaled \$39.1m in the covered period compared to \$40m in the first two months of 2020. The Port of Beirut was the exit point for 48% of Lebanon's exports in the covered period, followed by the Hariri International Airport (34.3%), the Masnaa crossing point (8%), the Port of Tripoli (6.3%), the Port of Saida (2.3%), the Arida crossing point (0.7%), and the Abboudieh crossing point (0.5%).

Lebanon's main non-hydrocarbon imports were chemical products that reached \$302.8m in the first two months of 2021 and that rose by 15.5% from same period of 2020. Imported vegetable products followed with \$169.2m (+15%); then the imports of jewelry with \$160.4m (-23%); prepared foodstuff with \$137.7m (+10.4%); the imports of vehicles, aircraft & vessels with \$134m (+74%), imports of machinery & electrical instruments with \$127m (-6%); animal products with \$91m (-10.2%); and base metals with \$83.6m (+37%). The Port of Beirut was the entry point for 61.3% of Lebanon's merchandise imports in the first two months of 2021, followed by the Hariri International Airport (24.6%), the Port of Tripoli (9.6%), the Port of Saida (2%), the Masnaa crossing point (1.7%), the Arida crossing point (0.6%), and the Abboudieh crossing point (0.2%).

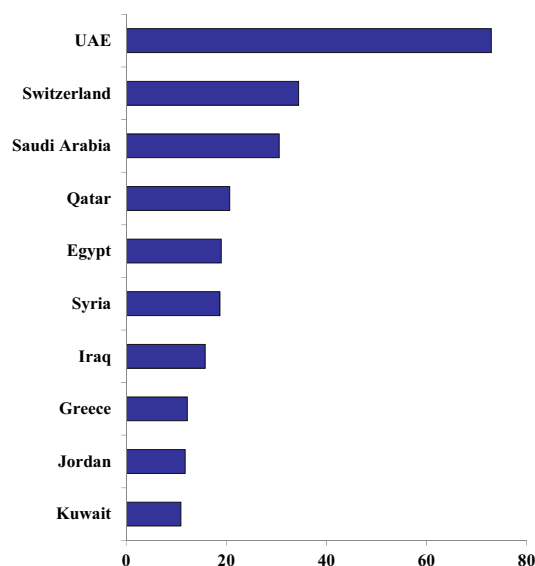
Turkey was the main source of imports with \$194m and accounted for 10% of the total in the first two months of 2021, followed by China with \$166.7m (8.6%), the U.S. with \$140.5m (7.2%), Greece with \$130.5m (6.7%), the UAE with \$112.8m (5.8%), Germany with \$105m (5.4%), France with \$77m (3.9%), Russia with \$72.5m (3.7%), Switzerland with \$65.8m (3.4%), and Ukraine with \$57.8m (3%). Imported goods from Greece dropped by 34.6% in the first two months of 2021, those from Russia fell by 21%, and imports from the UAE declined by 14.7%. In contrast, imported goods from Switzerland surged by 51.6% in the covered period, those from China rose by 39.4%, imports from the U.S. grew by 30%, those from France increased by 28.5%, imported goods from Germany expanded by 15.2%, those from Ukraine improved by 12.2%, and imports from Turkey increased by 6.1%.

### Main Lebanese Exports in First Two Months of 2021 (US\$m)



Source: Lebanese Customs Administration, Byblos Research

### Main Destinations of Lebanese Exports in First Two Months of 2021 (US\$m)



Source: Lebanese Customs Administration, Byblos Research

### **More than 45% of firms across the country affected by Beirut Port explosion**

The World Bank conducted a survey in November 2020 to follow up on the Enterprise Survey that it carried out in July 2020, in order to assess the impact of the financial and economic crisis, as well as of the COVID-19 pandemic and of the explosion at the Port of Beirut on Lebanese firms.

It indicated that almost one in five companies it originally surveyed in July 2020 have either closed down or it "assumed" that they have permanently discontinued their operations. It noted that the firms that it "assumed" to have permanently closed were contacted but did not answer multiple calls, or had non-functioning phone lines. It added that 16% of manufacturing firms and of wholesale & retail companies have either closed down or it "assumed" that they have permanently discontinued their operations, while 21% of businesses in other services went out of business. Also, it said that 19% of small-sized firms, 13% of medium-sized companies, and 4% of large firms have shut down their operations or it "assumed" that they have closed for good.

In parallel, it pointed out that manufacturing firms that remained open were operating at 35% capacity as at November 2020, while 72% of surveyed companies temporarily closed due to the COVID-19 pandemic, with an average closure period of 10 weeks as of last November. It considered that Lebanon's capacity to adapt to the coronavirus is very low, as 6% of firms either started online activities or increased them, while only 8% expanded their online delivery services. It added that 18% of surveyed firms started to increase the access of their employees to remote work.

Also, it said that 46% of surveyed firms across the country were directly or indirectly affected by the explosion at the Port of Beirut, as 22% of the companies that were affected closed temporarily and 17% faced disruptions in their supply chains as a result of the blast.

Further, four in five firms in Lebanon reported a significant decline in demand and in the sales of their goods and services as at November 2020, as 79% of surveyed firms experienced a 69% drop in their sales, while companies reported a 74% decline in demand for their goods and services. Also, 81% of surveyed manufacturing firms reported a drop in their sales.

In parallel, the World Bank considered that Lebanese exporters were significantly affected by the prevailing crises in the country. It stated that one in four firms witnessed a drop of 70% in its exports on average. In contrast, it noted that 5.3% of companies reported an increase in their exports, with half of these companies operating in the manufacturing sector. It noted that the increase in exports could be linked to an improvement in competitiveness as a result of the severe depreciation of the Lebanese pound against the US dollar on the parallel market, or to the drop in domestic demand that encouraged Lebanese companies to expand into foreign markets.

Also, according to the November 2020 survey, more than 50% of participating firms experienced liquidity challenges. As such, 55% of surveyed firms reported a decrease in their cash flow and 75% reduced sales on credit. In addition, 13% of surveyed firms relied on banks to finance their liquidity shortages, while 28% of them financed their liquidity needs through equity, and 8% of them depended on accounts receivables.

Further, the World Bank considered that the outlook on the operations of Lebanese firms is uncertain, since one in four surveyed firms did not expect a full recovery in its business activities. It added that, at the time of the survey, 24% of surveyed companies anticipated to fall into arrears on their loans and/or to default on their loan payments in the next three months, while they expected that they will be able to survive for seven months in case their operating costs as at November 2020 do not decline. Moreover, the survey revealed that one in four surveyed firms expected to exit the market by June 2021.



### **Market accessibility of Beirut Stock Exchange needs improvement in several areas**

In its annual assessment of the market accessibility of 84 developed, emerging and frontier equity markets, global portfolio analytics and indices provider MSCI, Inc. indicated that Lebanon falls in the "Standalone Markets" category, following its reclassification from "Frontier Market" status in February 2020. It evaluated the country's stock market based on five accessibility criteria that are openness to foreign ownership, ease of capital inflows and outflows, efficiency of the operational framework, the availability of investment instruments, and the stability of the institutional framework. It said that the five criteria reflect the views of international institutional investors, which generally put a strong emphasis on the equal treatment of investors, the free flow of capital, the cost of investment, unrestricted use of stock market data, and country-specific risks.

In terms of openness to foreign ownership, MSCI said that there are no constraints on foreign ownership of stocks listed on the Beirut Stock Exchange, except for Israeli nationals who are prohibited from investing in Lebanese companies. It noted that Lebanon could improve equal rights to foreign investors, as company-related information is not always readily available in English. As such, Lebanon is the only standalone market with a "no major issues" rating in terms of investor qualification requirements, as the remaining countries have a "no issues" rating. Also, it is one of five standalone markets with a "no major issues" rating in terms of equal economic and voting rights to foreign investors. Further, Lebanon is one of 11 standalone markets with a "no issues" rating in terms of foreign room level, which mainly reflects the limit to foreign ownership in locally-listed companies. It is also one of 10 markets with a "no issues" rating in terms of foreign ownership limit.

Regarding capital inflows and outflows, the review said that, since October 2019, Lebanese authorities have put in place restrictions on the repatriation of funds outside Lebanon, and added that these measures have impacted the ability of foreign investors to repatriate funds from investments on the local equity market. As such, MSCI indicated that Lebanon's ease of capital flows metric has an "improvements needed" rating. It also noted that there is no offshore currency market and that there are constraints on the onshore currency market, as foreign investors are not allowed to hold accounts denominated in Lebanese pounds. As such, it placed Lebanon among five markets with an "improvements needed" rating in this area.

Regarding the efficiency of the operational framework, the assessment considered that the market entry process needs to improve, as the registration of foreign investors is mandatory and may take up to five days. Further, it said that not all market regulations are available in English, and that the flow of information can be enhanced, as detailed stock market information is not always disclosed in English. Lebanon is among five standalone markets that received a "no major issues" rating in terms of market regulations, and one of six markets to get the same rating in terms of information flow. In addition, the survey noted that almost all market infrastructure indicators need improvement, except for trading where Lebanon has a "no issues" ratings. In terms of clearing and settlement procedures, the review said that there is no functioning nominee status as well as no omnibus structures, while overdraft facilities are prohibited. In terms of custody, it indicated that there is no formal segregation between custody and trading accounts for transactions on the Beirut bourse. It added that foreign investors do not have access to global custodians in the Lebanese market. In terms of registry and depository, it stated that not all listed shares are dematerialized, and that there is no central registry, with some securities registered at the issuer level. In terms of transferability, it said that in-kind transfers and off-exchange transactions are prohibited.

Finally, the review has an "improvements needed" rating on the stability of Lebanon's institutional framework, which reflects the political situation in the country. Lebanon's rating on this category is similar to the ratings of three other standalone markets. But the assessment did not rate Lebanon on the availability of investment instruments category. Lebanon, along with Bosnia & Herzegovina, Botswana, Bulgaria, Jamaica, Malta, Palestine, Panama, Trinidad & Tobago, Ukraine, and Zimbabwe, are the only countries worldwide that fall under MSCI's definition of Standalone Markets.

In November 2007, MSCI included Lebanon in its MSCI Frontier Markets Index, a fully investable index for frontier equity markets. The index contains stocks from 27 developing markets in Asia Pacific, Emerging Europe, the Middle East & Africa, and the Americas.

### **FFA Private Bank to relocate headquarters to Dubai**

The FFA Private Bank Group, a Lebanese financial institution with a presence in Dubai, announced that it is relocating its headquarters from Beirut to Dubai as part of its plan to expand its role as a regional player in the financial sector. The company said that it will move its head office to the Dubai International Financial Center (DIFC), in line with its five year strategic plan that it submitted to Banque du Liban (BdL) in the fall 2020. The firm has been operating from the DIFC since 2006 under FFA Private Bank Dubai Ltd, which is a fully owned subsidiary of the Beirut-based parent company FFA Private Bank sal. It noted that it established FFA Group Holding in the DIFC as part of its plan, with the latter replacing FFA Private Bank sal as the 100% owner of FFA Private Bank Dubai Ltd, after the Dubai Financial Services Authority (DFSA) approved the change of control of the Dubai company. It added that it expects to complete the group's reorganization in the second half of 2021, after obtaining BdL's approval for the change of control for FFA Private Bank sal.

The firm was established in 1994 as Financial Funds Advisors and became regulated by BdL since 1996 as a financial institution. It received a specialized banking license, increased its capital and changed its name to FFA Private Bank in 2007. According to the company, its consolidated shareholders' equity exceeds \$40m and more than \$1bn in assets under management.

## 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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