

LEBANON THIS WEEK

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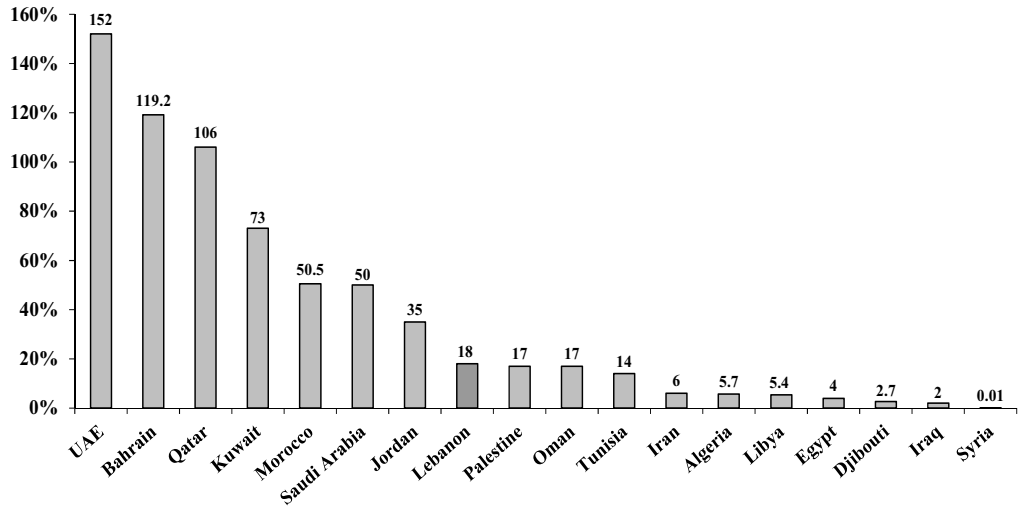
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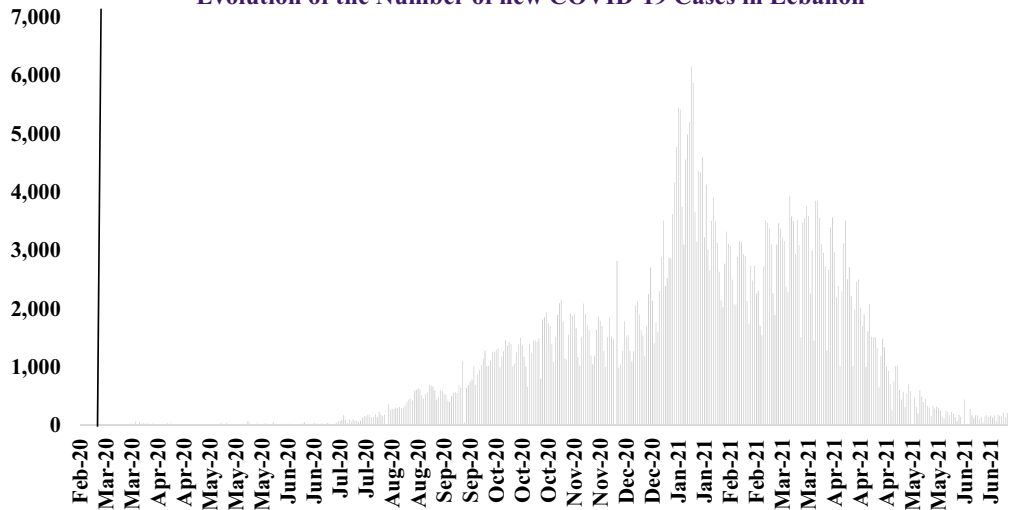
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Charts of the Week

Percentage of Population in MENA Countries that received COVID-19 Vaccines (%)*



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



*as of June 27, 2021

Source: World Bank Group, Byblos Bank

Quote to Note

"Parliament adopting a public procurement law in line with international standards, drafted in an inclusive and transparent manner, is a crucial step in the reform process. We hope that this law will be implemented without further delays."

Ralph Tarraf, the Ambassador of the European Union to Lebanon, on the need to implement the public procurement law that the Lebanese Parliament enacted on June 31, 2021

Number of the Week

20%: Lebanon's rank worldwide in terms of official gold reserves as at April 2021, according to the World Gold Council

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" | 24.83 | 0.1 | 1,510,417 | 27.5% | Oct 2022 | 6.10 | 12.75 | 258.38 |
| Solidere "B" | 24.69 | (0.2) | 539,028 | 17.8% | Jan 2023 | 6.00 | 12.75 | 187.74 |
| Byblos Common | 0.93 | 1.1 | 214,146 | 5.8% | Apr 2024 | 6.65 | 12.75 | 89.23 |
| Audi Listed | 2.19 | 1.4 | 50,000 | 14.3% | Jun 2025 | 6.25 | 12.5 | 60.56 |
| BLOM GDR | 3.20 | 0.0 | 5,000 | 2.6% | Nov 2026 | 6.60 | 12.5 | 42.56 |
| Byblos Pref. 08 | 33.09 | 9.9 | 2,000 | 0.7% | Feb 2030 | 6.65 | 12.5 | 25.59 |
| Audi GDR | 2.00 | 1.0 | 1,085 | 2.6% | Apr 2031 | 7.00 | 12.5 | 22.41 |
| BLOM Listed | 3.38 | 0.0 | - | 8.0% | May 2033 | 8.20 | 12.5 | 18.32 |
| Byblos Pref. 09 | 38.50 | 0.0 | - | 0.9% | Nov 2035 | 7.05 | 12.5 | 15.06 |
| HOLCIM | 17.00 | 0.0 | - | 3.7% | Mar 2037 | 7.25 | 12.875 | 13.48 |

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

Source: Refinitiv

| | Jun 28-Jul 2 | Jun 21-25 | % Change | June 2021 | June 2020 | % Change |
|-----------------------|--------------|-------------|----------|--------------|--------------|----------|
| Total shares traded | 2,321,676 | 359,916 | 545.1% | 3,027,735 | 9,040,647 | (66.5) |
| Total value traded | \$51,491,496 | \$3,032,156 | 1598.2% | \$55,006,201 | \$28,524,807 | 92.8 |
| Market capitalization | \$9.03bn | \$9.00bn | 0.3% | \$9.02bn | \$6.36bn | 41.9 |

Source: Beirut Stock Exchange (BSE)



Arab Greenfield foreign direct investment in Lebanon at \$78m in 2020

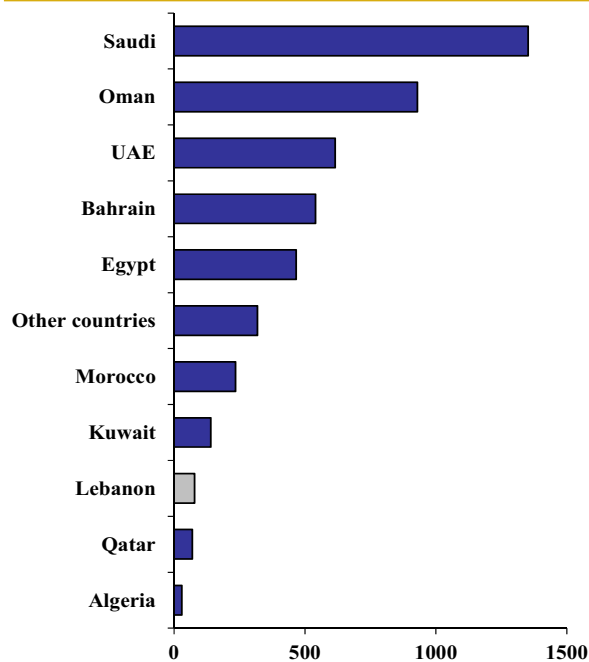
Figures compiled by fDi Markets and published by Arab Investment & Export Credit Guarantee Corporation (Dhahran) show that the cumulative amount of Arab Greenfield foreign direct investments (FDI) in Lebanon totaled \$78.3m in 2020. Lebanon was the third smallest recipient of inter-Arab Greenfield FDI among 13 Arab countries last year, ahead of Qatar (\$69.8m) and Algeria (\$30m).

The amount of Arab Greenfield FDI in Lebanon accounted for 1.6% of total inter-Arab investments and for 93.2% of total Greenfield FDI in the country in 2020. Also, the cumulative amount of Arab Greenfield FDI in Lebanon was equivalent to 0.23% of the country's aggregate GDP last year.

Further, Arab countries were the source of two Greenfield FDI projects in Lebanon last year, constituting the smallest number of such projects in the region. Algeria and Qatar also were the recipients of two Greenfield FDI projects from Arab countries last year.

The FDI figures cover cross-border Greenfield projects that lead to the direct creation of jobs and capital investment. They include joint ventures when these transactions lead to a new physical Greenfield operation, but 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.

Inter-Arab Greenfield FDI Inflows in 2020 (US\$m)



Source: fDi Markets, Byblos Research

In parallel, Lebanese Greenfield foreign direct investments (FDI) in Arab countries totaled \$15.6m in 2020. Lebanon was the smallest source of inter-Arab Greenfield FDI among nine Arab countries last year, and trailed the UAE (\$2.8bn), Saudi Arabia (\$867.5m), Bahrain (\$500.7m), Qatar (\$242.6m), Kuwait (\$217.5m), Egypt (\$46.7m), Tunisia (\$46.3m), and Jordan (\$22.5m).

The amount of outward Greenfield FDI from Lebanon to Arab countries accounted for 0.3% of total inter-Arab Greenfield FDI in 2020. Also, the cumulative amount of Lebanese Greenfield FDI in Arab countries was equivalent to 0.05% of the country's aggregate GDP last year. As such, net inter-Arab Greenfield FDI in Lebanon reached \$62.7m, and was equivalent to 0.19% of GDP in 2020. Further, Lebanon was the source of three projects last year, constituting the second smallest number of projects regionally in 2020.

Surveyed economists expect Lebanon's real GDP to contract by 5.6% in 2021

Bloomberg's quarterly survey of economists and analysts about the outlook on the Lebanese economy projected economic activity to retreat by 5.6% in 2021, compared to an earlier forecast of a contraction of 2% in the March 2021 survey. The individual forecasts for 2021 ranged from a contraction of 10% to an expansion of 2% for the current year, with a median real GDP contraction of 5% for 2021. Also, the poll indicates that the consensus forecast among 91% of participants is that real GDP will shrink by 2.5% to 10% this year. The results of the survey are based on the opinions of 11 economists and analysts based in Lebanon and abroad. Bloomberg conducted the survey in the second half of June 2021.

Further, participants forecast the average inflation rate in Lebanon at 92.3% in 2021 compared to a projection of 58.6% in the March 2021 survey. The opinions of surveyed analysts differed on the magnitude of the increase in consumer prices in 2021, with expectations ranging from 55% to 144%, with a median inflation rate of 90% for 2021. Also, 72.7% of participants predicted that the inflation rate would range between 80% and 144% this year.

In addition, surveyed analysts projected Lebanon's fiscal deficit at 7.4% of GDP in 2021 compared to a previous forecast of 9.4% of GDP in the March 2021 survey. The projections of polled economists for the fiscal deficit ranged from 3.8% of GDP to 12.4% of GDP in 2021, with a median deficit of 6.5% of GDP, while 45.5% of participants anticipated the fiscal deficit at between 6.4% of GDP and 12.4% of GDP. Further, the survey's participants forecast the current account deficit at 15.4% of GDP in 2021 compared to a previous forecast of a deficit of 15% of GDP in March 2021. The polled analysts expected the current account deficit to range from 9.2% of GDP to 25% of GDP in 2021, with a median deficit of 13.6% of GDP for the year; while 91% of surveyed analysts anticipated a current account deficit from 10% of GDP to 25% of GDP.

In parallel, respondents assigned a median probability of 65% for Lebanon to enter into a recession in the next 12 months. The analysts forecast at between 50% and 80% the probability of an economic recession in Lebanon in the next 12 months.

Banque du Liban clarifies implementation of Circular 158

Banque du Liban (BdL) provided clarifications about the implementation of Circular 158 concerning exceptional measures related to the gradual disbursement of deposits in foreign currency from accounts that clients opened prior to October 31, 2019.

First, BdL indicated that resident and non-resident natural persons, including minors, can benefit from the circular, as long as the depositor had a bank account in foreign currencies as of October 31, 2019 and still had an account in foreign currencies as of the effective implementation date of the circular. It stated that non-eligible entities consist of commercial companies, sole proprietorships, non-government organizations, public sector entities, resident and non-resident banks and financial institutions, as well as individuals who did not meet the second clause of Circular 154 about repatriating a portion of the amounts that they transferred abroad since July 2017.

Second, BdL said that joint accounts among natural persons can qualify for the circular, and that the ceiling per account for benefiting from the circular is \$50,000, while the account owners have to decide among each other how to share the cash withdrawals. It added that, in case the persons have more than one joint account, they will have to choose which account to use to benefit from the circular. Further, it noted that, in case a natural person who has a joint account has also an individual account that qualifies for the circular, the latter can utilize his or her individual account for the withdrawals under the circular, while the other person can benefit from withdrawals from the joint account.

Third, BdL stated that banks have to calculate the amount that each account holder can transfer to the new "Special Sub Account" that the client has to open in order to benefit from Circular 158. It added that banks have to calculate the amount of the client's aggregate foreign currency deposit balance as at October 31, 2019 net of existing cash collateral and cash margins, including contingent liabilities; as well as the client's deposits in foreign currencies as at March 31, 2021 net of existing cash collateral and cash margins, including contingent liabilities; net of the amounts that the depositor converted from Lebanese pounds to foreign currencies after the end of October 2019; and net of the amount in new accounts according to Circular 150 dated April 9, 2020. Further, the bank has to select the smaller amount from the above two calculations, and subtract from it the aggregate balance of any retail and housing loans installments in foreign currencies that the depositor has paid in Lebanese pounds at the official exchange rate as per BdL Circular 568, in addition to the retail and housing loans instalments in Lebanese pounds that are still due according to the same circular.

Fourth, BdL indicated that banks have to keep detailed records and information about each account, in case a bank has to explain to a client the selection process of accounts that are eligible for Circular 158. It added that banks can use these records in case of a client's complaint to the Banking Control Commission of Lebanon.

Fifth, it indicated that, in case a depositor has a joint account and decides to benefit from Circular 158, the other account holder cannot use the same account to benefit from Circular 151 that allows clients to withdraw dollar deposits in Lebanese pounds at the rate of LBP 3,900 per dollar. Instead, he or she can use an individual account to benefit from Circular 151. It noted that depositors can revert to withdrawing dollar deposits at the rate of LBP 3,900 per dollar once the amounts in the "Special Sub Account" are fully utilized.

Banque du Liban authorizes electronic wallets

Banque du Liban issued Intermediate Circular 588 dated June 21, 2021 to banks, financial institutions and companies operating in Lebanon that offer electronic transactions. The circular amended Basic Circular 7548 dated March 30, 2000 about electronic banking and financial transactions.

The circular doubled the amounts that users of electronic applications can send electronically from LBP500,000 to LBP 1 million per day and from LBP 5 million to LBP 10 million per month. It also doubled the amount that users can receive electronically from LBP 1 million originally to LBP 2 million per day and from LBP 10 million earlier to LBP 20 million per month.

The circular stipulated that the providers of banking and financial services transactions through applications on mobile or fixed devices can include an Electronic Wallet to these services, based on several conditions. First, the service provider has to maintain a minimum capital of LBP 50 million. Second, it has to deposit the full amounts in the E-Wallets in a special bank account that is open specifically for this purpose in the name of the service provider. Third, the provider of the E-Wallet has to verify the identity of each person who intends to benefit from this service by using the sources of funds of the E-Wallet. Fourth, the circular placed a ceiling on the amounts in the E-Wallet so as they do not exceed LBP 10 million or \$1,000 at any point in time. Fifth, the service provider has to allow the user to fill his or her E-Wallet in cash, or by using payment cards, or from bank accounts, or from another E-Wallet. Sixth, it has to provide the user with the option to transfer the funds in the E-Wallet to his or her bank account or to withdraw them in cash. Seventh, it provides the user with the option to decline any incoming transfer operation and to block any other user. Eighth, it forbids foreign exchange operations, given that all transactions have to be conducted in the original currency of the E-Wallet. Ninth, it stipulated that the commission of the E-Wallet service provider should not exceed 0.5% of the amount of a transaction. Tenth, the provider has to send a notification to the user about any E-Wallet transaction that he or she conducts. Eleventh, the service provider has to submit to BdL's Payment Systems Department the number of these transactions and their amount on a monthly basis.

In parallel, the circular forbids banks and financial institutions from issuing electronic money and prohibited the usage of this money under any form. The current electronic payment systems in Lebanon consist of edfa3ly, PinPay, CMO, and Areeba.

Net foreign assets of financial sector down \$1.6bn in first five months of 2021

Figures issued by Banque du Liban (BdL) show that the net foreign assets of the financial sector, which are a proxy for Lebanon's balance of payments, declined by \$1.6bn in the first five months of 2021, compared to decreases of \$2.2bn in the same period of 2020 and of \$5.2bn in the first five months of 2019.

The cumulative deficit in the first five months of 2021 was caused by a drop of \$2.9bn in the net foreign assets of BdL, which was partly offset by an increase of \$1.3bn in those of banks and financial institutions. Further, the net foreign assets of the financial sector regressed by \$180.7m in May 2021 compared to declines of \$546m in April 2021 and of \$887.7m in May 2020. The May decrease was caused by a drop of \$543.6m in the net foreign assets of BdL which was partly offset by an increase of \$362.9m in those of banks and financial institutions.

The cumulative increase in the banks' net foreign assets is mostly due to a decline of their foreign liabilities. The decrease in foreign liabilities was driven mainly by the contraction in liabilities to the non-resident financial sector and in non-resident customer deposits. In parallel, the drop in BdL's net foreign assets was due in part to the financing of the imports of hydrocarbons, wheat, medicine, medical equipment, a large number of food and non-food items, and raw materials for agriculture and industry.

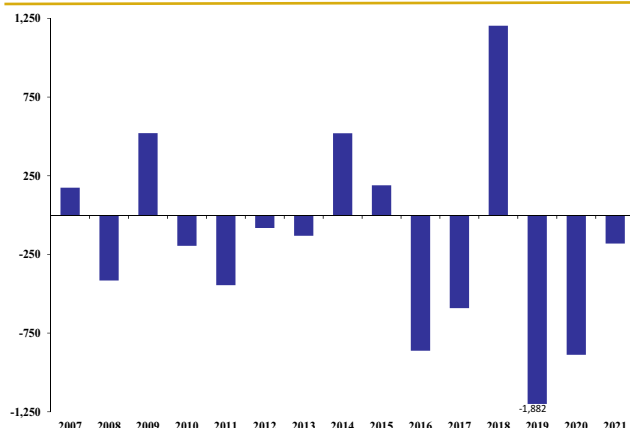
Banque du Liban's foreign assets at \$20.6bn, gold reserves at \$16.2bn at end-June 2021

Banque du Liban's (BdL) interim balance sheet reached \$156.7bn at the end of June 2021, constituting increases of 5.5% from \$148.6bn at end-2020 and of 3.1% from \$152bn a year earlier. Assets in foreign currency totaled \$20.6bn at end-June 2021, representing a decrease of \$3.5bn, or of 14.7%, in the first half of 2020 and a drop of \$12.4bn (-37.6%) from \$32.9bn at the end of June 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 \$15.5bn at the end of June 2021 and fell by \$3.5bn, or by 18.5%, in the first half of 2021 and by \$12.4bn, or by 44.4%, from \$27.9bn 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, and 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 \$16.2bn at end-June 2021 and decreased by \$1.1bn or by 6.4%, in the first half of the year. It also declined by \$117.1m, or by 0.7%, from \$16.3bn from the end of June 2020. The value of gold reserves reached a peak of \$18.1bn at mid-September 2020. Also, the securities portfolio of BdL totaled \$40.4bn at end-June 2021, increasing by \$426.5m (+ 1.1%) from the end of 2020 and by \$1.7bn, or (+4.4%) from \$38.7bn a year earlier. In addition, loans to the local financial sector totaled \$14bn, regressing by 2.1% in the first half of the year and by 4.7% from end-June 2020. Further, deposits of the financial sector stood at \$107bn at end-June 2021 and declined by \$5.2bn from a year earlier. In addition, public sector deposits at BdL reached \$6bn at the end of June 2021, and increased by \$1.5bn in the first half of the year and by \$1.8bn from a year earlier.

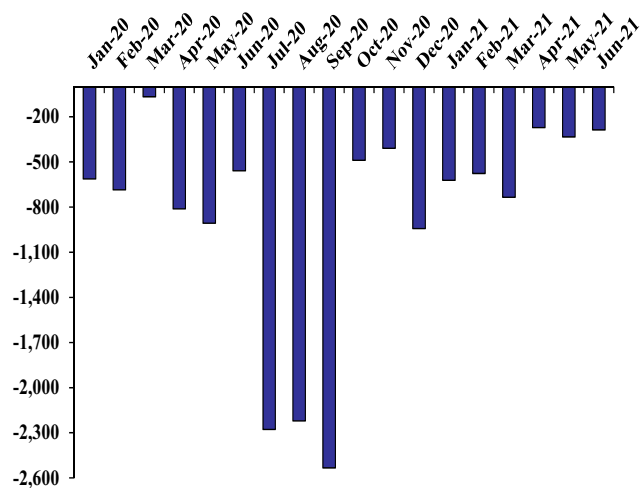
Change in Net Foreign Assets of Financial Sector* (US\$m)



*in May of each year

Source: Banque du Liban, Byblos Research

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



Source: Banque du Liban, Byblos Research

Number of airport passengers up 20% in first half of 2021

Figures released by the Beirut-Rafic Hariri International Airport (HIA) show that 1.44 million passengers utilized the airport (arrivals, departures and transit) in the first half of 2021, constituting an increase of 19.6% from 1.2 million passengers in the same period of 2020, and relative to 3.98 million passengers in the first half of 2019. The number of passengers reached 549,476 in the first quarter and 893,296 in the second quarter of 2021. Also, the number of passengers that utilized the airport dropped by 52.8% in the first quarter, while it jumped by 21.5 times in the second quarter of the year.

The increase in the number of airport passengers in the first half of 2021 is mainly due to the gradual relaxation of lockdown measures and travel restrictions in Lebanon and in many country-sources of travelers to Lebanon, and to the resumption of travel activity in many countries.

The number of arriving passengers amounted to 730,794 in the first half of 2021, and expanded by 29.6% from 563,930 passengers in the same period of 2020, and compared to 2 million passengers in the first half of 2019. Also, the number of departing passengers totaled 684,205 in the first half of 2021 and grew by 9% from 627,697 passengers in the same period last year, relative to nearly 1.94 million departures in the first half of 2019.

In parallel, the airport's aircraft activity totaled 15,052 take-offs and landings in the first half of 2021, representing an increase of 18.5% from 12,704 takeoffs and landings in the same period of 2020. In comparison, aircraft activity dropped by 62% in the first half of 2020 and increased by a marginal 0.7% in the same period of 2019. In addition, the HIA processed 35,764 metric tons of freight in the first half of 2021 that consisted of 13,262 tons of import freight and 22,501 tons of export freight. Middle East Airlines had 5,051 flights in the covered period and accounted for 33.6% of HIA's total aircraft activity.

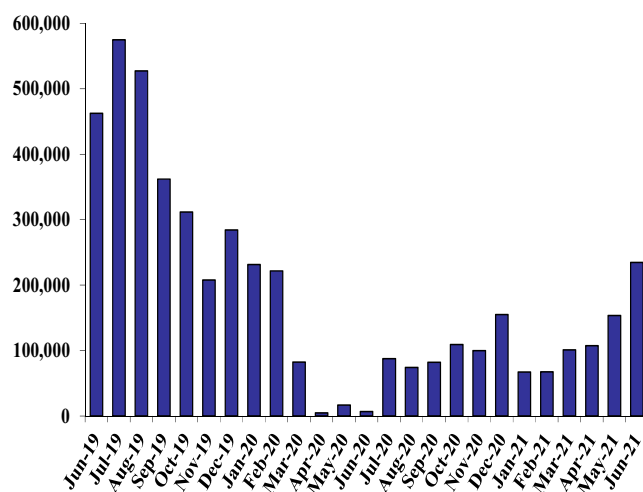
Revenues through Port of Beirut down 6% to \$35m in first four months of 2021

Figures released by the Port of Beirut show that the port's revenues reached \$35.4m in the first four months of 2021, constituting a decline of 6.2% from \$37.8m in the same period of 2020. The Beirut Port processed 1.66 million tons of freight in the covered period, up by 12.8% from 1.47 million tons in the first four months of 2020. Imported freight amounted to 1.4 million tons, as it increased by 15.4% from 1.2 million tons in the same period of 2020 and accounted for 85.5% of the total freight volume processed through the port. In addition, export cargo reached 241,000 tons in the covered period and regressed by a marginal 0.4% from 242,000 tons in the first four months of 2020. It represented 14.5% of aggregate freight in the first four months of 2021. A total of 418 vessels docked at the port in the first four months of the year, representing a decrease of 18.4% from 512 ships in the same period of 2020.

The decline in revenues at the Beirut Port is mainly due to the deterioration of economic and financial conditions in Lebanon, as well as to the impact of the coronavirus pandemic, and the August 4 explosion at the port on the economy. Further, revenues generated through the Beirut Port reached \$7.6m in April 2021 and decreased by 30% from \$10.8m in March. The port handled 391,000 tons of freight in April, constituting a decrease of 11% from 440,000 tons in March. In addition, 107 vessels docked at the port in April, down by 8.5% from 117 ships in March 2021.

In parallel, revenues generated through the Port of Tripoli reached \$7.7m in the first four months of 2021, constituting a surge of 121.5% from \$3.5m in the same period of 2020. The port processed 899,210 tons of freight in the covered period, up by 76.6% from 509,208 tons in the first four months of 2020. Imported freight amounted to 657,122 tons in the first four months of 2021 and increased by 76.3% from 372,742 tons in the same period of 2020. It accounted for 72% of the freight processed through the port in the covered period. In parallel, exported cargo reached 242,088 tons, or 28% of total freight, constituting a jump of 77.4% from 136,466 tons in the first four months of 2020. A total of 241 vessels docked at the port in the covered period, and surged by 50.6% from 160 ships in the same period of 2020. Further, revenues generated through the Port of Tripoli amounted to \$1.92m in April 2021 and increased by 3.4% from \$1.86m in the preceding month. The port handled 270,272 tons of freight in April, up by 24.7% from 216,823 tons in March 2021. Also, 79 vessels docked at the port in April, expanding by 43.6% from 55 ships in March 2021.

Number of Arriving Passengers



Source: Beirut-Rafic Hariri International Airport

Increase in food prices in Lebanon still 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 June 20, 2021. It assessed the change in food prices in 19 countries in the MENA region for five main food categories that are carbohydrates, dairy products, fruits, meats and vegetables. For comparative purposes, the average price increases of food items in the MENA region exclude the price increase of these products in Lebanon.

The prices of fresh or frozen cattle meat in Lebanon surged by 162% in the covered period, 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 11.8% in the MENA region excluding Lebanon.

In addition, the price of rice in Lebanon climbed by 145.2% between February 14, 2020 and June 20, 2021, representing the highest growth rate in the price of rice regionally, relative to an average increase of 9.2% among MENA countries ex Lebanon. Also, the price of eggs in Lebanon jumped by 139% 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 6.8% in MENA countries.

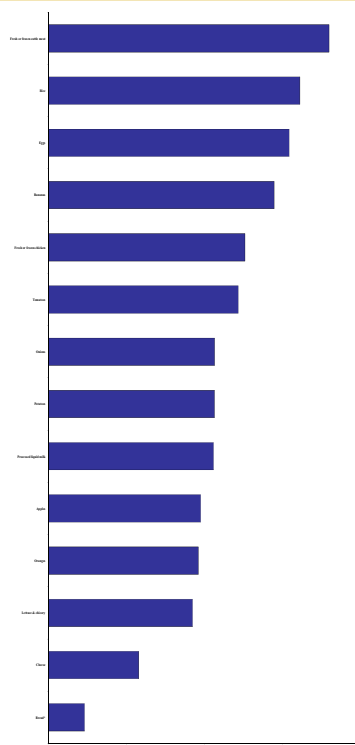
In parallel, the prices of bananas and tomatoes in Lebanon rose by 130.3% and 109.6%, respectively, in the covered period, the highest increase in the prices of these food products regionally. Also, the prices of fresh or frozen chicken surged by 113.5% in the covered period, the second highest upturn after Djibouti among MENA countries and compared to an average growth of 14.2% regionally. Lebanon, along with Djibouti and Saudi Arabia, were the only countries in the region that posted increases of above 20% in the prices of fresh or frozen chicken.

In addition, the prices of onions and potatoes in Lebanon jumped by 96% and by 96%, 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.

Further, the price of processed liquid milk in Lebanon rose by 95.4% between February 14, 2020 and June 20, 2021, the highest price rise regionally in the region. Moreover, the prices of apples and oranges in Lebanon grew by 88% and 86.6%, respectively, the most significant price increases for such fruits among MENA countries. Lebanon, along with Morocco and Yemen, were the only countries in the region that posted hikes of more than 20% in the prices of oranges. Also, the prices of lettuce in Lebanon soared by 83.3% between February 14, 2020 and June 20, 2021, the highest rise among MENA countries and relative to an average increase of 1.6% in the region.

Also, the price of cheese surged by 52.3%, the highest price increase regionally for this category, while the prices of bread and other manufactured articles sold at bakeries in Lebanon expanded by 21% in the covered period, representing the fourth highest increase in bread prices among MENA countries, behind prices in Syria (+92%), Iran (+42.7%), and Tunisia (+41%). In comparison, the price of bread rose by an average of 15% in MENA countries ex Lebanon.

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



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

Lebanese Parliament enacts public procurement law

The Lebanese Parliament enacted on June 30, 2021 a general procurement law, which aims to limit the proliferation of public transactions and establish a central mechanism for public procurement. The law, when implemented, is expected to usher a modern and transparent procurement system in the public sector.

In May 2021, the World Bank conducted a comprehensive assessment of the public procurement system in Lebanon, and concluded that the existing process is not at par with internationally-recognized benchmarks. It said that Lebanon has an outdated and fragmented public procurement system with considerable capacity and technology gaps, resulting in inefficiencies and high risks of corruption. It added that Lebanon did not meet at all 57% of the 210 specific criteria used in the assessment, while it partially met 34% of them. Also, it found major shortcomings in the system's regulatory, institutional and operational frameworks, and considered that there is considerable room for improving the accountability, integrity and transparency criteria.

First, it said that there is no unified, coherent, clear and simple legal, regulatory and policy framework that covers all essential aspects of the public procurement of goods and services in the country. Also, it considered that open tendering is the only approach for competitive award procedures, and that contracting entities cannot optimize their procurement approach since existing laws and regulations do not provide clear and comprehensive guidance on key elements of the procurement process. In addition, the assessment found that the institutional framework of public procurement in Lebanon lacks a policymaking and regulatory function, a review and complaints mechanism, and an enabling environment for electronic procurement. It added that the authorities' management capacity is weak, as the links between public procurement and other aspects of public financial management are ineffective. Also, it pointed out that financial regulations do not allow procurement to be carried out in a timely manner over the fiscal year. It added that procuring entities are not clearly defined, while the latter's role, responsibilities and organization are not comprehensively regulated.

In parallel, the assessment indicated that the public procurement operations and market practices in Lebanon are extremely vague. It added that the procurement methods are limited, with open and restricted tendering being the only fully competitive procedures ratified by legislation. It added that budgetary constraints often require delaying or accelerating procurement at the beginning and/or the end of the fiscal year. Also, it noted that the private sector faces a number of obstacles to participate in public procurement, which results in a lack of trust in the system and a lower level of participation. Further, it pointed out that there are significant gaps and overlaps in the controls and audits function, and that the applied procedures often add considerably to the time and cost of carrying out procurement, as well as increase the risks of fraud and corruption.

Private sector loans down \$27bn since start of 2019

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets stood at \$183.4bn at the end of May 2021, constituting declines of 2.5% from \$188bn at the end of 2020 and of 10% from \$203.8bn at end-May 2020. The dollar figures are based on the official exchange rate of the Lebanese pound to the US dollar.

Loans extended to the private sector reached \$32.5bn at the end of May 2021 and decreased by 10% in the first five months of 2021 and by 24.2% from a year earlier. Loans to the resident private sector totaled \$28.8bn, constituting declines of 10% from the end of 2020 and of 23.4% from end-May 2020. Also, credit to the non-resident private sector amounted to \$3.7bn at end-May 2021, and contracted by 11% from end-2020 and by 29.5% from a year earlier. In nominal terms, credit to the private sector regressed by \$3.6bn in the first five months of 2021 relative to a decrease of \$6.9bn in the same period of 2020, as lending to the resident private sector contracted by \$3.2bn and credit to the non-resident private sector retreated by \$451.6m in the covered period. Also, loans extended to the private sector dropped by \$26.86bn since the start of 2019.

The dollarization rate of private sector loans regressed from 64.7% at end-May 2020 to 59% at the end of May 2021. The average lending rate in Lebanese pounds was 7.86% in May 2021 compared to 8.45% a year earlier, while the same rate in US dollars was 6.61% relative to 7.9% in May 2020.

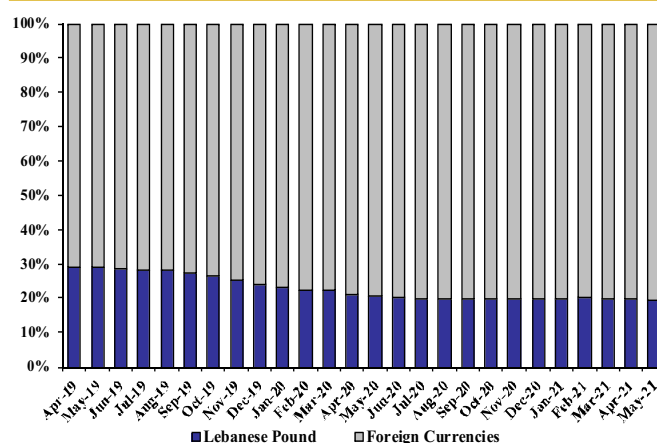
In addition, claims on non-resident financial institutions reached \$4.9bn at the end of May 2021 and increased by \$164.9m (+3.5%) in the first five months of 2021 and from a year earlier. But they decreased by \$4.25bn (-46.6%) from the end of August 2019 and by \$7.1bn (-59.3%) from the start of 2019. Also, deposits at foreign central banks totaled \$796.7m, constituting increases of \$219.1m (+38%) in the first five months of 2021 and of \$290m (+57.2%) from a year earlier. In addition, the banks' claims on the public sector stood at \$19.7bn at end-May 2021, down by \$1.4bn (-6.5%) in the first five months of the year and by \$5bn (-20.3%) from the end of May 2020. The banks' holdings of Lebanese Treasury bills stood at \$11.2bn, while their holdings of Lebanese Eurobonds reached \$8.2bn at end-May 2021. Further, the deposits of commercial banks at Banque du Liban (BdL) totaled \$109.3bn at the end of May 2021, and declined by 1.1% from \$110.4bn at the end of 2020 and by 5.6% from \$115.7bn at the end of May 2020.

In parallel, private sector deposits totaled \$135.1bn at the end of May 2021 and regressed by 2.9% in the first five months of 2021 and by 7.6% from end-May 2020. Deposits in Lebanese pounds reached the equivalent of \$26.3bn at end-May 2021, as they decreased by 3.6% from the end of 2020 and by 11.8% from a year earlier; while deposits in foreign currency reached \$108.8bn, and declined by 2.7% from end-2020 and by 6.6% from the end of May 2020. Resident deposits totaled \$108.4bn at the end of May 2021 and retreated by \$3.4bn (-3%) from the end of 2020 and by \$8.8bn (-7.5%) from a year earlier. Also, non-resident deposits reached \$26.7bn at end-May 2021, down by \$650.3m (-2.4%) from end-2020 and by \$2.4bn (-8.2%) from the end of May 2020.

Private sector deposits declined by \$4bn in the first five months of 2021, with deposits in Lebanese pounds decreasing by \$971.4m and foreign currency deposits shrinking by \$3.06bn. Private sector deposits regressed by \$227.1m in January, by \$60.7m in February, by \$1.9bn in March, by \$928.2m in April, and by \$914.8m in May 2021. In comparison, private sector deposits declined by \$3.8bn in January, by \$3.4bn in February, by \$2.1bn in March, by \$2.07bn in April, and by \$1.22bn in May 2020. In addition, private sector deposits declined by \$15.4bn in 2019, including a drop of \$10.7bn between September and December 2019, and by \$19.7bn in 2020. As such, aggregate private sector deposits dropped by \$39.2bn since the start of 2019. The decrease is due largely to the repayment of loans by companies and individuals, to the hoarding of cash at households, to banks and companies paying their foreign obligations, and to deposit outflows. The dollarization rate of private sector deposits was 80.5% at end-May 2021, relative to 80.4% at the end of 2020 and to 79.6% a year earlier.

Further, the liabilities of non-resident financial institutions reached \$5.3bn at the end of May 2021 and dropped by 32.6% from a year earlier. Also, the average deposit rate in Lebanese pounds was 1.85% in May 2021 compared to 4.63% a year earlier, while the same rate in US dollars was 0.42% relative to 1.99% in May 2020. The ratio of private sector loans to deposits in foreign currency stood at 17.6% at the end of May 2021 compared to 23.8% a year earlier, well below BdL's limit of 70%. The same ratio in Lebanese pounds reached 50.7% at end-May 2021, unchanged from a year earlier. As such, the total private sector loans-to-deposits ratio reached 24.1% compared to 29.3% at end-May 2020. The banks' aggregate capital base stood at \$17bn at the end of May 2021, down by 16.3% from \$20.3bn a year earlier.

Private Sector Deposits (US\$bn)



Source: Banque du Liban, Byblos Research

Stock market capitalization up 42% to \$9bn at end of June 2021

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 18,269,489 shares in the first half of 2021, constituting a decrease of 47.6% from 34,839,869 shares traded in the same period of 2020; while aggregate turnover amounted to \$187.9m and increased by 52% from a turnover of \$123.6m in the first half of 2020. The market capitalization of the BSE reached \$9bn at the end of June 2021, representing a surge of 42% from \$6.4bn at the end of June 2020, with banking stocks accounting for 50.2% of the total, followed by real estate equities (45.3%), industrial shares (4.1%), and trading firms' equities (0.4%). The market liquidity ratio was 2.1% in the first half of 2021 compared to 1.9% in the same period of 2020.

Banking stocks accounted for 60.4% of the trading volume in the first half of 2021, followed by real estate equities (39%) and industrial shares (0.3%). Also, real estate equities accounted for 89.8% of the aggregate value of shares traded, followed by banking stocks (9.7%) and industrial shares (0.4%). The average daily traded volume for the first half of 2021 was 180,886 shares for an average daily amount of \$1.9m. The figures reflect a decline of nearly 40% in the average daily traded volume and a rise of 74.6% in the average daily value in the covered period.

In parallel, the Capital Markets Authority's (CMA) Market Value-Weighted Index for stocks traded on the BSE jumped by 73% in the first half of 2021, while the CMA's Banks Market Value-Weighted Index regressed by 2.4% in the covered period. The increase in the Market Value-Weighted Index is mainly due to the surge in the prices of Solidere 'A' and of Solidere 'B' shares by 34.1% and 34.8%, respectively, in the first half of the year, which, in turn, led to a rise in their market weights to 27.5% and 17.8%, respectively, at the end of June 2021, the highest among listed companies on the BSE.

Import activity of top five shipping firms and freight forwarders up 44% in first four months of 2021

Figures released by the Port of Beirut show that the aggregate volume of imports by the top five shipping companies and freight forwarders through the port reached 68,588 20-foot equivalent units (TEUs) in the first four months of 2021, constituting an increase of 44.3% from 47,534 TEUs in the same period of 2020. The five shipping and freight forwarding firms accounted for 85.8% of imports to the Lebanese market and for 64.2% of the total import freight market in the first four months of 2021. Merit Shipping handled 23,125 TEUs in the covered period, equivalent to 21.6% of the total import freight market. Mediterranean Shipping Company (MSC) followed with 17,659 TEUs (16.5%), then MAERSK with 13,001 TEUs (12.2%), Lotus Shipping with 7,449 TEUs (7%), and Gezairi Transport with 7,354 TEUs (6.9%). The five shipping and freight forwarding firms registered year-on-year increases in import shipping in the first four months of 2021, with Lotus Shipping posting an expansion of 116.6%, the highest among the top five companies. The import shipping operations of the five firms through the port increased by 22.3% in April 2021 from the preceding month.

In parallel, the aggregate volume of exports by the top five shipping and freight forwarding firms through the Port of Beirut reached 21,577 TEUs in the first four months of 2021, constituting an increase of 12% from 19,256 TEUs in the same period of 2020. The five shipping companies and freight forwarders accounted for 90.6% of exported Lebanese cargo and for 23.5% of the total export freight market in the first four months of 2021. Merit Shipping handled 14,726 TEUs of freight in the covered period, equivalent to 62% of the Lebanese cargo export market. MAERSK followed with 2,939 TEUs (12.3%), then Tourism & Shipping with 1,398 TEUs (5.9%), Sealine Group with 1,356 TEUs (5.7%), and MSC with 1,158 TEUs (4.9%). Merit Shipping registered a rise of 56.2% in exports in the first four months of 2021, the highest growth rate among the top five shipping and freight forwarding companies, while MSC posted a drop of 30%, the steepest decline among the five firms. The export-shipping operations of the top five companies increased by 13% in April 2021 from the previous month.

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 2020

Ratings & Outlook

| Sovereign Ratings | Foreign Currency | | | Local Currency | | |
|------------------------------|------------------|----|---------|----------------|----|----------|
| | LT | ST | Outlook | LT | ST | Outlook |
| Moody's Investors Service | C | NP | - | C | | - |
| Fitch Ratings | RD | C | - | CC | C | - |
| S&P Global Ratings | SD | SD | - | CC | C | Negative |
| Capital Intelligence Ratings | SD | SD | - | C- | C | Negative |

*for downgrade

**CreditWatch negative

Source: Rating agencies

Banking Sector Ratings

| | Outlook |
|---------------------------|----------|
| Moody's Investors Service | Negative |

Source: Moody's Investors Service



Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut – Lebanon
Tel: (961) 1 338 100
Fax: (961) 1 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com

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BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605 Riad El Solh - Beirut 1107 2811- Lebanon
Phone: (+ 961) 1 335200
Fax: (+ 961) 1 339436

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60, Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457/8/9 - 2560017/9
E-mail: erbilbranch@byblosbank.com.lb

Sulaymaniyah Branch, Kurdistan, Iraq
Salem street, Kurdistan Mall - Sulaymaniyah
Phone: (+ 964) 773 042 1010 / (+ 964) 773 041 1010

Baghdad Branch, Iraq
Al Karrada - Salman Faeq Street
Al Wahda District, No. 904/14, Facing Al Shuruk Building
P.O.Box: 3085 Badalat Al Olwiya – Iraq
Phone: (+ 964) 770 6527807 / (+ 964) 780 9133031/2
E-mail: baghdadbranch@byblosbank.com.lb

Basra Branch, Iraq
Intersection of July 14th, Manawi Basha Street, Al Basra – Iraq
Phone: (+ 964) 770 4931900 / (+ 964) 770 4931919
E-mail: basrabranch@byblosbank.com.lb

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Al Reem Island - Sky Tower - Office 2206
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336050 - 2 6336400
Fax: (+ 971) 2 6338400
E-mail: abudhabirepoffice@byblosbank.com.lb

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryan Street - Area 0002
Yerevan - Republic of Armenia
Phone: (+ 374) 10 530362 Fax: (+ 374) 10 535296
E-mail: infoarm@byblosbank.com

NIGERIA

Byblos Bank Nigeria Representative Office
161C Rafu Taylor Close - Off Idejo Street
Victoria Island, Lagos - Nigeria
Phone: (+ 234) 706 112 5800
(+ 234) 808 839 9122
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

BELGIUM

Byblos Bank Europe S.A.
Brussels Head Office
Boulevard Bischoffsheim 1-8
1000 Brussels
Phone: (+ 32) 2 551 00 20
Fax: (+ 32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

UNITED KINGDOM

Byblos Bank Europe S.A., London Branch
Berkeley Square House
Berkeley Square
GB - London W1J 6BS - United Kingdom
Phone: (+ 44) 20 7518 8100
Fax: (+ 44) 20 7518 8129
E-mail: byblos.london@byblosbankeur.com

FRANCE

Byblos Bank Europe S.A., Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+33) 1 45 63 10 01
Fax: (+33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

CYPRUS

Limassol Branch
256 Archbishop Makariou III Avenue, Eftapaton Court
3105 Limassol - Cyprus
Phone: (+ 357) 25 341433/4/5
Fax: (+ 357) 25 367139
E-mail: byblosbankcyprus@byblosbank.com.lb

ADIR INSURANCE

Dora Highway - Aya Commercial Center
P.O.Box: 90-1446
Jdeidet El Metn - 1202 2119 Lebanon
Phone: (+ 961) 1 256290
Fax: (+ 961) 1 256293