

# LEBANON THIS WEEK

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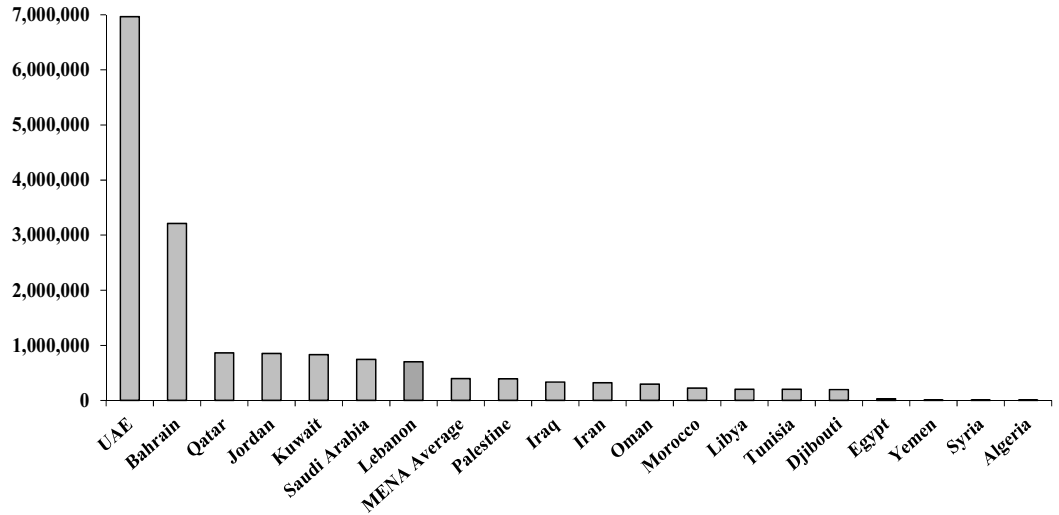
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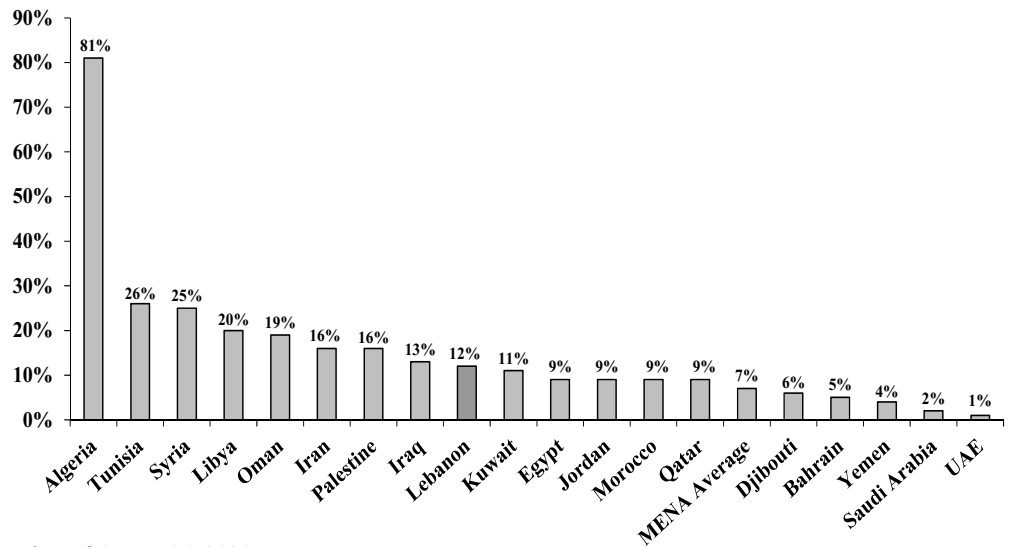
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## Charts of the Week

Number of Total COVID-19 Tests per One Million Persons in MENA Countries\*



Number of COVID-19 Cases Relative to the Number of Tests in MENA Countries\* (%)



\*as of August 16, 2021

Source: World Bank Group, Byblos Bank

## Quote to Note

"The fast-accelerating crisis underscores the utmost urgency of forming a government capable of taking the situation in hand, meeting the immediate needs of the people of Lebanon, initiating the needed reforms, and paving the way for international support."

*The International Support Group for Lebanon, calling on political parties to remove the obstacles for the formation of a government*

## Number of the Week

**\$40bn:** Decline in private sector deposits at commercial banks between the start of 2019 and the end of June 2021, according to Banque du Liban

## Lebanon in the News

\$m (unless otherwise mentioned)	2020	Jan-May 2020	Jan-May 2021	% Change*	May-20	Apr-21	May-21
Exports**	3,250	914	699	-23.6%	251	-	-
Imports**	10,078	2,931	3,329	13.6%	674	-	-
Trade Balance**	(6,828)	(2,017)	(2,631)	30.5%	(423)	-	-
Balance of Payments	(10,551)	(2,191)	(1,574)	-28.2%	(888)	(546)	(181)
Checks Cleared in LBP	19,937	7,748	7,481	-3.5%	1,105	1,719	1,611
Checks Cleared in FC	33,881	13,845	9,456	-31.7%	1,467	2,108	1,501
Total Checks Cleared	53,828	21,597	16,941	-21.6%	2,572	3,828	3,112
Fiscal Deficit/Surplus	(2,535)	(1,998)	-	-	(247)	-	-
Primary Balance	(1,136)	(716)	-	-	(120)	-	-
Airport Passengers	2,501,975	1,191,376	1,052,191	-11.7%	20,253	216,344	286,371
Consumer Price Index	84.9	28.6	138.0	10940	56.5	121.7	119.8

\$bn (unless otherwise mentioned)	Dec-20	May-20	Feb-21	Mar-21	Apr-21	May-21	% Change*
BdL FX Reserves	18.60	26.44	17.49	16.75	16.23	15.71	(40.6)
In months of Imports	15.10	39.24	16.94	-	-	-	-
Public Debt	95.59	93.15	96.83	-	-	-	-
Bank Assets	188.04	203.84	188.13	186.26	184.53	183.35	(10.1)
Bank Deposits (Private Sector)	139.14	146.30	138.85	136.95	136.02	135.11	(7.6)
Bank Loans to Private Sector	36.17	42.91	35.49	34.20	33.11	32.53	(24.2)
Money Supply M2	44.78	38.78	47.50	47.96	48.59	49.30	27.1
Money Supply M3	132.70	129.67	134.60	134.11	134.34	134.49	3.7
LBP Lending Rate (%)	7.77	8.45	7.59	8.02	8.00	7.86	(59)
LBP Deposit Rate (%)	2.64	4.63	2.11	1.96	2.01	1.85	(278)
USD Lending Rate (%)	6.73	7.90	6.92	7.14	6.88	6.61	(129)
USD Deposit Rate (%)	0.94	1.99	0.54	0.52	0.49	0.42	(157)

\*year-on-year; \*\*figures for the period reflect the first quarter 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	(5.1%)	116,310	4.8%	Oct 2022	6.10	12.00	320.52
Solidere "A"	35.01	2.0%	80,970	32.1%	Jan 2023	6.00	12.00	221.46
BLOM GDR	3.16	(2.8%)	42,000	2.1%	Apr 2024	6.65	12.00	98.01
Audi GDR	2.26	4.6%	23,571	2.5%	Jun 2025	6.25	12.00	64.41
Solidere "B"	34.43	0.5%	10,479	20.5%	Nov 2026	6.60	12.00	44.70
Audi Listed	2.50	0.0%	-	13.5%	Feb 2030	6.65	12.00	26.56
Byblos Pref. 09	38.38	0.0%	-	0.7%	Apr 2031	7.00	12.00	23.20
BLOM Listed	3.20	0.0%	-	6.3%	May 2033	8.20	12.00	18.92
HOLCIM	20.95	0.0%	-	3.7%	Nov 2035	7.05	12.00	15.52
Byblos Pref. 08	34.99	0.0%	-	0.6%	Mar 2037	7.25	12.38	13.87

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

Source: Refinitiv

	Aug 16-20	Aug 10-13	% Change	July 2021	July 2020	% Change
Total shares traded	273,330	864,822	(68.4)	1,814,751	2,315,343	(21.6)
Total value traded	\$3,476,840	\$9,482,711	(63.3)	\$30,622,302	\$29,362,347	4.0
Market capitalization	\$10.92bn	\$10.86bn	0.53	\$9.81bn	\$6.20bn	58.2

Source: Beirut Stock Exchange (BSE)



### **Sovereign rating affirmed at Restricted Default**

Fitch Ratings affirmed Lebanon's long-term foreign currency Issuer Default Rating (IDR) at 'Restricted Default' and the country's long-term local currency IDR at 'CC'. It also affirmed the Country Ceiling at 'CCC'. It indicated that Lebanon remains in 'Restricted Default' on its foreign currency-denominated debt, following the government's decisions to suspend payments of the principle and interest on the Eurobond that matured in March 2020 and to stop payments on its outstanding stock of Eurobonds pending a restructuring of the public debt. It added that the government continues to pay interest to private creditors on its Lebanese pounds-denominated debt. It pointed out that Lebanese authorities have yet to agree on the restructuring of the public debt or on a financial and economic reforms package, which would be key to reach a deal with the International Monetary Fund (IMF), as well as to unlock other multilateral and international support. It added that domestic political divisions, challenged vested interests, and geopolitical dynamics have blocked the formation of a new government and, therefore, hindered any subsequent action on debt restructuring and reforms.

The agency noted that macroeconomic and humanitarian conditions in the country have significantly deteriorated, amid foreign-currency shortages and rampant inflation that have severely affected economic activity and the provision of basic public services. It added that there are currently multiple exchange rates in the market, and estimated the average effective exchange rate of the US dollar at about LBP 7,300 in 2021. It considered that this could reduce the dollar value of the country's nominal GDP to 35% of its 2018 level, and that the authorities will have to take into consideration the rapid deterioration in economic conditions in any plan for reforms and recovery.

In this context, Fitch pointed out that the initiation of fiscal reforms has become more challenging. It said that the suspension of the servicing of Lebanon's external debt and the monetization of the debt denominated in Lebanese pounds resulted in the narrowing of the fiscal deficit from 11% of GDP in 2019 to an estimated 4% of GDP in 2020. It projected the fiscal deficit to widen to 8% of GDP and the primary deficit to reach 6% of GDP in 2021, as it anticipated deteriorating governance and economic conditions to undermine the collection of public revenues, which would outweigh the positive effects of higher inflation rates on public receipts. Also, it noted that Lebanon's current account deficit narrowed from 21% of GDP in 2019 to an estimated 10% of GDP in 2020, primarily due to 40% contraction in imports, higher net remittance inflows and the suspension of external debt servicing costs. It forecast the current account to be almost balanced in 2021 due to BdL's recent decision to stop providing foreign currency to fuel importers at preferential rates, which would reduce pressure on BdL's foreign currency reserves. It added that the IMF's allocation of Special Drawing Rights of about \$900m to Lebanon will also support foreign currency reserves. Still, it noted that Lebanon's international partners have made reforms a precondition to provide financial support beyond emergency humanitarian assistance, such as improving governance in the public sector, formalizing capital controls, tackling losses at the state-owned *Électricité du Liban*, restructuring the public debt, as well as expanding the social safety net.

In parallel, the agency indicated that it could downgrade the ratings in case authorities formally announce plans to restructure the debt denominated in Lebanese pounds, or in case the government defaults on the Lebanese-pound debt before the announcement of any restructuring. In contrast, it said that it would upgrade the ratings if Lebanon reaches an agreement with bondholders on restructuring its long-term foreign-currency debt and completes the restructuring process.

### **Banque du Liban issues circular about cash operations**

Banque du Liban (BdL) issued Basic Circular 159 on August 17, 2021 about exceptional measures related to restrictions on some operations of commercial banks.

First, the circular prohibits banks from calculating any incoming transfers from abroad, or any foreign currency that they receive in cash from their clients or to their benefit, at more than their real value. The decision aims to stop what is known as the “multiplier” effect that some banks have implemented on foreign currency deposits in “fresh money”. It exempted from this decision the “fresh money” deposits in foreign currency that clients use to settle their debt in full, on the condition that banks inform the Banking Control Commission of Lebanon (BCCL) of this settlement.

Second, the circular forbids banks from buying foreign currency from the parallel market. But it allows banks to purchase foreign currency at the market rate for clients who transfer money from abroad for medium and long-term investments, or to improve liquidity ratios, or to settle external obligations, on the condition that banks register the operation on BdL's *Syarafa* electronic platform. It also prohibited banks from buying or selling directly or indirectly checks in foreign currency for their own account.

Third, it asked banks to report to the BCCL by September 15, 2021 all the transactions related to the above operations that they may have conducted between the start of 2019 and the date of the issuance of this circular.

### Banque du Liban's foreign assets at \$19.8bn, gold reserves at \$16.2bn at mid-August 2021

Banque du Liban's (BdL) interim balance sheet reached \$158.4bn at mid-August 2021, constituting increases of 6.5% from \$148.6bn at end-2020 and of 2.2% from \$154.9bn a year earlier. Assets in foreign currency totaled \$19.8bn at mid-August 2021, representing a decrease of \$4.3bn, or of 17.8%, from the end of 2020 and a drop of \$10.2bn (-34%) from \$30bn at mid-August 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 \$14.8bn at mid-August 2021 and fell by \$4.3bn, or by 22.6%, from the end of 2020 and by \$10.2bn, or by 40.8%, from 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 mid-August 2021, constituting decreases of \$1.1bn (-6.5%) from the end of 2020 and of \$1.8bn (-9.8%) from \$18bn at mid-August 2020. The value of gold reserves reached a peak of \$18.1bn at mid-September 2020. Also, the securities portfolio of BdL totaled \$40.6bn at mid-August 2021, increasing by \$652.4m (+ 1.6%) from the end of 2020 and by \$1.6bn, (+4.2%) from \$39bn a year earlier. In addition, loans to the local financial sector totaled \$13.9bn, regressing by 2.6% from the end of 2020 and by 4.9% from mid-August 2020. Further, deposits of the financial sector stood at \$107.1bn at mid-August 2021 and declined by \$2.7bn from a year earlier. In addition, public sector deposits at BdL reached \$6.9bn at mid-August 2021, and increased by \$2.4bn from the end of 2020 and by \$2.2bn from a year earlier.

### Government raises prices of hydrocarbon products, to lift subsidies by end-September

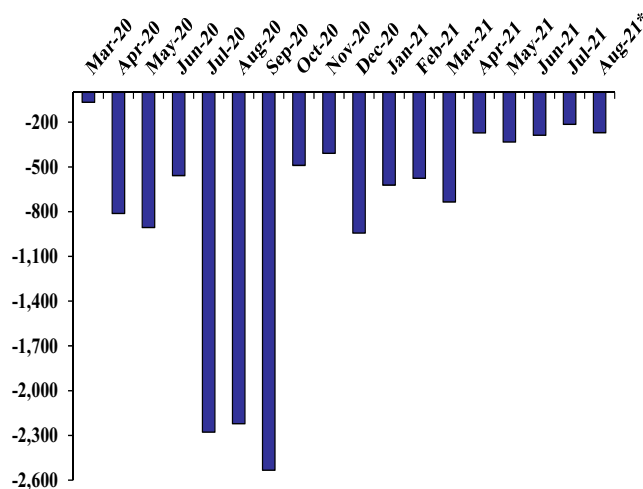
The caretaker government announced that it will adjust upwards the retail selling prices of subsidized gasoline and diesel oil until the end of September 2021. The decision came after Banque du Liban (BdL) announced last week that it will start selling US dollars to the importers of hydrocarbons at the market exchange rate of the dollar on BdL's Sayrafa electronic platform, rather than at the exchange rate of LBP 3,900 per dollar that it has used so far, which effectively would end the mechanism to subsidize imported hydrocarbons. BdL's decision came as a result of the steady depletion of its foreign currency reserves, in large part due to the financing of the imports of subsidized hydrocarbon products, as well as of basic consumer goods, medicine, and medical equipment.

In parallel, the government asked BdL to open a temporary account of up to \$225m to cover the cost of subsidies on hydrocarbons, as well as payments to third-party providers and the maintenance cost of power plants until the end of September 2021. The amount is supposed to represent the difference between the exchange rate of the US dollar on the Sayrafa platform, which is currently LBP16,500 per dollar, and the new rate of LBP 8,000 that the Ministry of Energy & Water will use starting this week to set the retail price of hydrocarbons. The amount in the account will be financed by an advance from the Treasury and will be part of the government's budget for 2022.

In parallel, the government declared that it will provide an emergency social assistance to public sector workers, employees and retirees that is equivalent to one full month of their basic salary or wage to be disbursed in two equal payments. The assistance, which aims to offset in part the new increase in hydrocarbon prices, covers employees and contractual workers in the public sector, members of the army and security forces, judges, the public education sector in all its categories, and retirees who benefit from monthly pension payments. In addition, it adjusted the transportation stipend for workers and employees from LBP 8,000 per day to LBP 24,000 per day. The total assistance amounts to LBP 600bn.

According to figures issued by Lebanese Customs, Lebanon imported 12.83 million tons of hydrocarbon products in 2019, 8.66 million tons in 2020 and \$1.85 million tons in the first quarter of 2021. The value of these imports was \$6.61bn in 2019, \$3.25bn in 2020 and \$853m in the first quarter of 2021.

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



\*at mid-August 2021

Source: Banque du Liban, Byblos Research

## Registered real estate transactions down 1% to \$7bn in first seven months of 2021

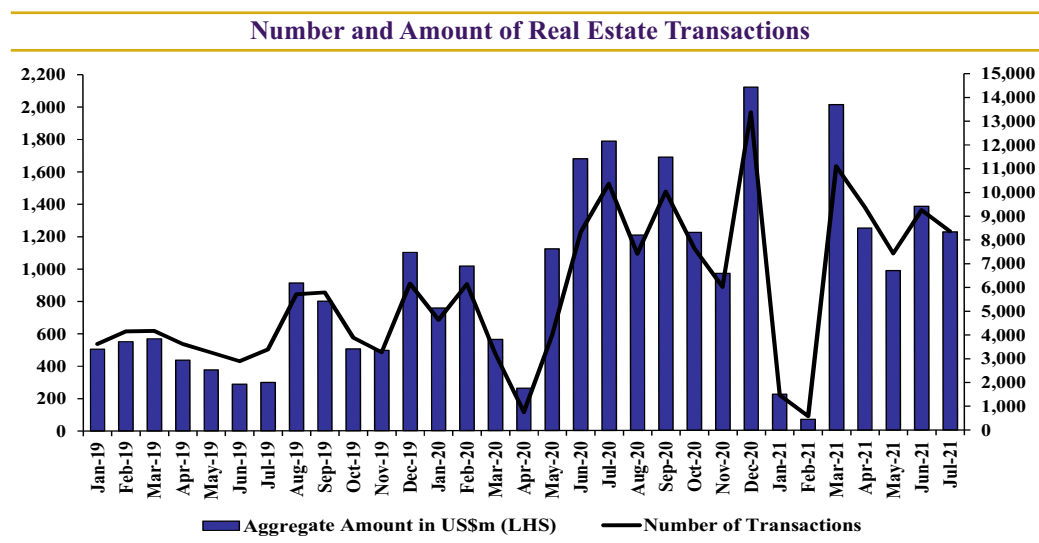
Figures released by the Ministry of Finance show that the ministry registered 47,640 real estate transactions took place in the first seven months of 2021, constituting an increase of 26.7% from 37,609 in the same period of 2020. In comparison, it registered 25,384 real estate transactions in the first seven months of 2019 and 33,199 real estate deals in the same period of 2018. The increase in the number of registered transactions in the covered period is due in part to the easing of the national lockdown measures that the government imposed to contain the spread of COVID-19, which led to the reopening of many public agencies and departments starting in March 2021 and to the resumption of the processing and official registration of real estate transactions. More specifically, the increase reflects the normalization of real estate activity in the five-month period ending July 2021 following closures in the first two months of the year, as well as the higher number of registered of transactions relative to March, April and May 2020, when Lebanon witnessed the first round of coronavirus-related lockdown measures. Moreover, the ministry registered 8,366 real estate transactions in July 2021, constituting a decline of 9.7% from 9,260 in June 2021, compared to 10,393 transactions in July 2020.

Further, there were 9,635 real estate transactions in the Baabda region in the first seven months of 2021, representing 20.2% of the total. The North followed with 7,086 deals (14.9%), then the South with 5,730 transactions (12%), the Keserwan area with 5,321 transactions (11.2%), the Metn district with 5,118 deals and the Zahlé region with 5,113 deals (10.7% each), the Nabatieh area with 4,544 transactions (9.5%), and Beirut with 3,508 deals (7.4%).

The aggregate amount of registered real estate transactions reached \$7.14bn in the first seven months of 2021 and regressed by 0.7% from \$7.18bn in the same period of 2020. In comparison, the amount of real estate deals surged by 137.5% in the first seven months of 2020 and decreased by 33.6% in the same period of 2019 from the first seven months of 2019 and 2018, respectively. Further, the value of registered real estate transactions in Beirut amounted to \$1.91bn and accounted for 26.7% of the total in the first seven months of 2021. The Baabda area followed with \$1.41bn (19.7%), then the Metn district with \$1.14bn (16%), the Keserwan area with \$841.5m (11.8%), the South with \$699.2m (9.8%), the North with \$559.2m (7.8%), the Zahlé area with \$276.8m (4%), and the Nabatieh region with \$224.2m (3%). The amount of registered real estate transactions in the North rose by 67.6% in the first seven months of 2021 from the same period of 2020, followed by the amount of deals in the Nabatieh region (+35.7%), the Zahlé area (+23.8%), the South (+20.4%), the Baabda district (+15.6%), and the Keserwan region (+2.7%). In contrast, the amount of registered real estate transactions in Beirut dropped by 26% in the first seven months of 2021 and those in the Metn district regressed by 7.3% from the same period last year. In addition, the aggregate amount of real estate transactions reached \$1.22bn in July 2021, constituting a decline of 11.5% from \$1.38bn in June 2021 and compared to \$1.79bn in July 2020.

In parallel, the average amount per registered real estate transaction was \$149,779 in the first seven months of 2021, down by 21.6% from an average of \$191,001 in the same period of 2020. Further, there were 724 real estate transactions executed by foreigners in the first seven months of 2021, compared to 533 deals in the same period of 2020 and to 553 transactions in the first seven months of 2019. The number of real estate deals by foreigners accounted for 1.5% of the registered real estate transactions in the covered period, down from 1.4% in the first seven months of 2020 and from 2.2% in the same period of 2019.

Further, 29.4% of real estate transactions executed by foreigners in the first seven months of 2021 were in the Baabda area, followed by the South (16.3%), the Metn district (14.1%), Beirut (13.1%), the Keserwan region (12.2%), the North (8%), the Zahlé area (5.1%), and the Nabatieh region (1.8%). The latest available figures show that Syrian citizens accounted for 28.6% of the amount of real estate transactions executed by foreigners in April 2021, followed by Saudi citizens (26%), Iraqi nationals (18%), Qatari citizens (5.3%), and Kuwaiti nationals (2.3%).



Source: Ministry of Finance, Byblos Research

### Fiscal deficit equivalent to 58% of expenditures in January 2021

Figures released by the Ministry of Finance show that the fiscal deficit reached \$688.2m in January 2021 and widened by 2.6% from a deficit of \$670.4m in the same month of 2020, based on the official exchange rate of the Lebanese pound to the US dollar. The deficit was equivalent to 57.8% of total budget and Treasury expenditures relative to 39.6% of spending in the same month of 2020. Government spending reached \$1.2m in January 2021 and decreased by 29.6% from the same month of 2020, while revenues stood at \$501.7m and dropped by 51% year-on-year. The widening of the deficit was caused by a fall of \$519.2m in revenues, which more than offset the decline of \$501.4m in spending from lower debt servicing cost and Treasury transfers to Electricité du Liban (EdL).

On the revenues side, tax receipts declined by 48% year-on-year to \$421.3m in January 2021, of which 24%, or \$217m, were in VAT receipts that fell by 53.4% annually. Tax receipts accounted for 89.7% of budgetary revenues and for 84% of Treasury and budgetary income in the covered month. The distribution of other tax receipts shows that revenues from taxes on income, profits & capital gains declined by 50.2% to \$211.33m in the covered month; receipts from customs decreased by 4% to \$63.6m; revenues from property taxes dropped by 43.5% to \$26.1m; while proceeds from stamp fees retreated by 61.6% to \$16m and revenues from taxes on goods & services plunged by 73.5% to \$3.3m.

The distribution of income tax receipts shows that the tax on interest income accounted for 76.8% of income tax revenues in January 2021, followed by the tax on wages & salaries with 13.3%, the tax on profits with 5.2%, and the capital gains tax with 4.5%. Proceeds from the tax on wages & salaries dropped by 77.6%, revenues from the tax on profits fell by 66.1%, receipts from the tax on interest income declined by 36%, and revenues from the tax on capital gains decreased by 24% in the covered month. Also, receipts from the built property tax contracted by 61.7% to \$3m and revenues from the inheritance tax declined by 57.2% to \$1.4m in January 2021, while proceeds from real estate registration fees regressed by 38% to \$21.7m.

Further, non-tax budgetary receipts dipped by 66.2% year-on-year to \$48.6m in the covered month. They mainly included \$23.8m in revenues generated from government properties that contracted by 70.2%, as well as \$8.9m in receipts from administrative fees and charges that decreased by 79.6% annually. The government did not collect proceeds from telecommunication services in January 2021 while it generated \$66.3m in revenues in the same month of 2020. In parallel, Treasury receipts declined by 54% to \$31.8m in the covered month.

On the expenditures side, total budgetary spending, which includes general expenditures and debt servicing, declined by 17% to \$1.3bn in January 2021. General spending regressed by 15% to \$1.06bn in the covered month, and included \$28.7m in transfers to EdL that fell by 85% year-on-year, and \$323.8m in outlays from previous years that contracted by 48.6% annually, among other general spending items. Also, debt servicing totaled \$260.8m in the covered month and decreased by 24.2% from January 2020. Interest payments on Lebanese pound-denominated debt declined by 13.7% to \$246m in January 2021, while debt servicing on foreign currency debt fell by 89.5% to \$4.3m, due to the government's decision to suspend all payments on its outstanding Eurobonds starting in March 2020. Further, the primary budget balance posted a deficit of \$593.3m in January 2021, equivalent to 44.8% of budgetary expenditures, while the overall primary balance registered a deficit of \$427.4m, or 36% of spending.

Fiscal Results in January of Each Year			
	2020 (US\$m)	2021 (US\$m)	Change (%)
Budget Revenues	952	470	-50.6%
Tax Revenues	808	421	-47.9%
Non-Tax Revenues	144	49	-66.2%
<i>of which Telecom revenues</i>	66	-	
Budget Expenditures	1,597	1,324	-17.1%
<b>Budget Surplus/Deficit</b>	<b>(645)</b>	<b>(854)</b>	<b>32.3%</b>
<i>In % of budget expenditures</i>	<i>-40.4%</i>	<i>-64.5%</i>	
<b>Budget Primary Surplus//Deficit</b>	<b>(301)</b>	<b>(593)</b>	<b>96.9%</b>
<i>In % of budget expenditures</i>	<i>-18.9%</i>	<i>-44.8%</i>	
Treasury Receipts	69	32	-54.0%
Treasury Expenditures	94	(134)	
Total Revenues	1,021	502	-50.9%
Total Expenditures	1,691	1,190	-29.6%
<b>Total Surplus/Deficit</b>	<b>(670)</b>	<b>(688)</b>	<b>2.6%</b>
<i>In % of total expenditures</i>	<i>-39.6%</i>	<i>-57.8%</i>	
<b>Total Primary Surplus/Deficit</b>	<b>(326.4)</b>	<b>(427.4)</b>	<b>31.0%</b>
<i>In % of total expenditures</i>	<i>-19.3%</i>	<i>-35.9%</i>	

Source: Ministry of Finance, Byblos Research

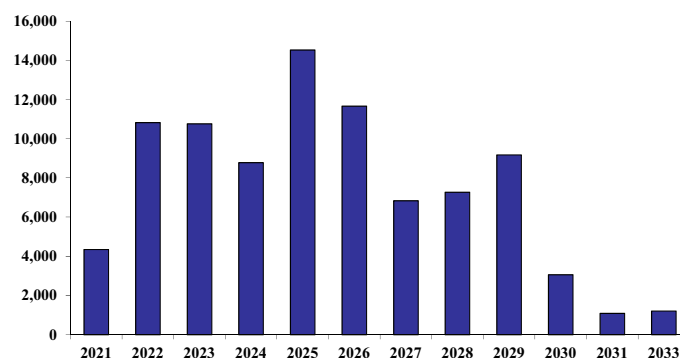
### More than 91% of Treasury securities in Lebanese pounds have five-year maturities or longer

Figures released by the Association of Banks in Lebanon show that the face value of outstanding Treasury securities denominated in Lebanese pounds reached LBP89,532bn, or the equivalent of \$59.4bn, at the end of June 2021, compared to LBP86,726bn, or \$57.5bn, at end-June 2020. The dollar figures are converted at the official exchange rate of the Lebanese pound against the US dollar. The weighted interest rate on Lebanese Treasury securities denominated in Lebanese pounds was 6.6% in June 2021 compared to 6.5% June 2020.

The distribution of outstanding Treasury securities shows that 10-year Treasury bonds accounted for 38.2% or LBP34,245bn, five-year Treasury securities had a share of 25.8% (LBP23,089bn), and seven-year Treasury bonds represented 22.3% (LBP19,927bn) of aggregate securities denominated in Lebanese pounds at the end of June 2021. Also, the share of three-year Treasury bonds was 5.2% (LBP4,652bn), 12-year Treasury securities represented 3.4% of the total (LBP3,076bn), the share of two-year Treasury bills was 2% (LBP1,787bn), 15-year Treasury bonds accounted for 1.6% (LBP1,417bn), one-year T-bills had a share of 1.3% (LBP1,178bn), six-month T-bills accounted for 0.12% (LBP107bn) and the share of three-month T-bills was 0.06% (LBP54bn), of the total. As such, 65.5% of outstanding Treasury securities have seven-year maturities or longer and 91.3% have five-year maturities or more.

In parallel, LBP2,980bn in outstanding Treasury securities denominated in Lebanese pounds matured in June 2021, of which 68.8% were three-year Treasury bonds, 23.4% consisted of five-year Treasury securities, 3.8% were two-years Treasury bonds, 1.9% consisted of one-year Treasury bills, 1.1% were three-month Treasury bills, 1% were six-month Treasury bills and 0.2% were eight-year Treasury securities. According to ABL, LBP4,350bn of outstanding Treasury bonds in Lebanese pounds will mature in the remainder of 2021, while LBP10,827bn will come due in 2022.

### Projected Maturities of Treasury Securities in LBP\* (LBP billions)



\*As at end-June 2021

Source: Association of Banks in Lebanon, Byblos Research

### Term deposits account for 67% of customer deposits at end-June 2021

Figures issued by Banque du Liban about the distribution of bank deposits at commercial banks in Lebanon show that aggregate deposits, which include demand deposits and term deposits, stood at \$144.8bn at the end of June 2021, constituting a decrease of \$6.4bn, or 4.2% from \$151.2bn the end of 2020. Total deposits include private sector deposits that reached \$134.2bn, deposits of non-resident financial institutions that amounted to \$5.26bn, and public sector deposits that stood at \$5.3bn at the end of June 2021.

Term deposits in all currencies reached \$97.1bn at the end of June 2021 and declined by \$12.1bn, or by 11.1%, from \$109.2bn at end-2020; while they accounted for 67% of total deposits in Lebanese pounds and in foreign currency as at end-June 2021 relative to a share of 72.2% at the end of 2020.

The decline in term deposits is due to a drop of 22% in the term deposits of the non-resident financial sector, a decrease of 13.2% in the term deposits in Lebanese pounds of the resident private sector, a dip of 11% in the foreign currency-denominated term deposits of the resident private sector, a 7.9% decline in the term deposits of non-residents, and a decrease of 8.5% in the term deposits in Lebanese pounds of the public sector. This was partly offset by an increase of 2.5% in foreign currency-denominated term deposits of the public sector. The decline in term deposits is due to cash withdrawals and to the migration of funds from term to demand deposits, amid the confidence crisis that started in September 2019. Aggregate term deposits declined by \$69.4bn since the end of September 2019.

Further, foreign currency-denominated term deposits of the resident private sector reached \$54.5bn and accounted for 37.6% of aggregate deposits at the end of June 2021. Term deposits of non-residents followed with \$19bn (13.1%), then term deposits in Lebanese pounds of the resident private sector with \$15.4bn (10.7%), term deposits of the public sector in Lebanese pounds with \$3.8bn and term deposits of the non-resident financial sector with \$3.7bn (2.6% each), and term deposits of the public sector in foreign currency with \$682.3m (0.5%).

In parallel, demand deposits in all currencies at commercial banks stood at \$47.72bn at the end of June 2021 and increased by \$5.7bn, or by 13.6%, from \$42bn at end-2020. They accounted for 33% of total deposits at end-June 2021 relative to a share of 27.8% at end-2020. The increase in demand deposits was mainly due to a growth of \$3.4bn in foreign currency-denominated demand deposits of the resident private sector, a rise of \$1.72bn in demand deposits in Lebanese pounds of the resident private sector, and an increase of \$685.8m in demand deposits of non-residents.

Also, demand deposits in foreign currency of the resident private sector totaled \$28.92bn and represented 20% of deposits at end-June 2021. Demand deposits in Lebanese pounds of the resident private sector followed with \$9bn (6.2%), then demand deposits of non-residents with \$7.42bn (5.1%), demand deposits of the non-resident financial sector with \$1.54bn (1.1%), demand deposits in Lebanese pounds of the public sector with \$656.3m (0.5%), and demand deposits in foreign currency of the public sector with \$181.8m (0.1%).

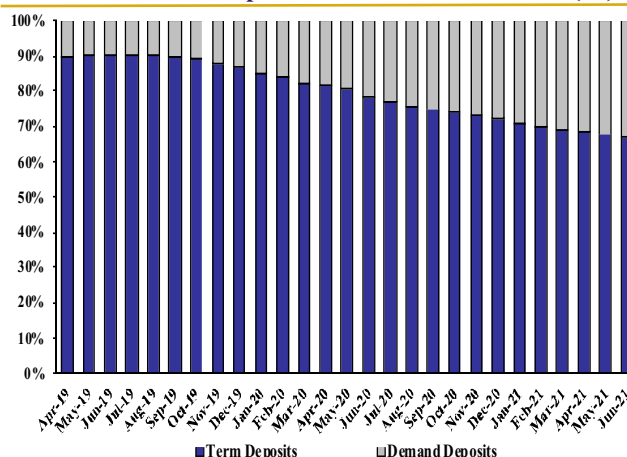
### LIA Insurance and Assurex announce merger

LIA Insurance sal and Assurex Insurance and Reinsurance sal, the sixth and 13<sup>th</sup> largest insurers in Lebanon in 2020, respectively, announced that they are merging their operations to form a new entity named LIA Assurex sal. The firms indicated that the merger aims to form an integrated insurance platform and to leverage the synergies between the two entities. They also pointed out that the Insurance Control Commission of Lebanon (ICC), which operates under the Ministry of Economy & Trade, approved the merger on July 27, 2021.

LIA Insurance's main shareholder is SANLAM Pan Africa, a member of the SANLAM Group, the largest insurance group in Africa; while Assurex's shareholders consist of Saradar Capital Holding (SCH) that has a 51% stake in the firm and Fattal Holding that owns a 49% share in the insurer. SCH is a diversified financial services and real estate group and the Fattal Group is a leading regional distributor of premium brands that operates in the Middle East and North Africa. SANLAM Group will have a 70% stake in LIA Assurex and Sardar Insurance Holding, which is jointly owned by the Saradar and Fattal groups, will hold 30% of the new entity.

LIA Insurance generated \$34m in life premiums and \$58m in non-life premiums in 2020, and ranked in sixth place in terms of life premiums and in eighth place in non-life premiums in the Lebanese market. LIA's aggregate premiums of \$92m accounted for 5.8% of total premiums in the Lebanese market in 2020. In parallel, Assurex generated \$1.4m in life premiums and \$40.5m in non-life premiums in 2020, and ranked in 24<sup>th</sup> place in terms of life premiums and in 10<sup>th</sup> place in terms of non-life premiums last year. Assurex's aggregate premiums of \$41.9m in represented 2.6% of total premiums in the local market in 2020. The merged entity, which would have \$133.9m in total premiums, would be the third largest insurer in Lebanon, and would account for 8.4% of total premiums in the Lebanese market in 2020.

Breakdown of Deposits at Commercial Banks (%)



Source: Banque du Liban



### **Balance sheet of financial institutions down 4% in first half of 2021**

Figures released by Banque du Liban show that the consolidated balance sheet of financial institutions in Lebanon totaled LBP1,700.2bn, or \$1.13bn, at the end of June 2021, constituting a decrease of 3.8% from LBP1,767.5bn (\$1.17bn) at the end of 2020, and a decline of 7.8% from LBP1,844.7bn (\$1.22bn) at the end of June 2020. The dollar figures are based on the official exchange rate of the Lebanese pound to the US dollar.

On the assets side, claims on resident customers amounted to \$433.8m at the end of June 2021 and declined by 9.6% in the first half of 2021 and by 19.5% from the end of June 2020, while claims on non-resident customers stood at \$44m at end-June 2021 and jumped by 236.5% from the end of 2020 and by 135.4% from a year earlier. In addition, claims on the resident financial sector reached \$296.5m at end-June 2021, down by 8.4% from end-2020 and by 1% from end-June 2020; while claims on the non-resident financial sector totaled \$26.3m at the end of June 2021 and grew by 2.5% from end-2020 and by 5% from a year earlier. Also, claims on the public sector stood at \$4.8m at end-June 2021, constituting increases of 6.2% in the first half of the year and of 3.6% from the end of June 2020; while the securities portfolio, which includes Lebanese Treasury bills and Eurobonds, amounted to \$76m at end-June 2021 and declined by 13% from a year earlier. In parallel, currency and deposits with local and foreign central banks reached \$62.1m at the end of June 2021 and increased by 21.6% from a year earlier.

On the liabilities side, deposits of resident customers stood at \$183.4m at the end of June 2021, constituting increases of 18.3% in the first half of the year and of 25.3% from the end of June 2020; while deposits of non-resident customers reached \$8.6m at the end of June 2021 and surged by 66.3% from end-2020 and by 80.7% from a year earlier. Liabilities to the resident financial sector amounted to \$91.1m at end-June 2021 and dropped by 42% in the first half of the year and by 48.7% from end-June 2020; while liabilities to the non-resident financial sector regressed by 7% from end-2020 to \$72.8m. Also, public sector deposits regressed by 3.4% in the first half of 2021 to \$5.1m, while issued debt securities totaled \$90.8m at end-June 2021 and dropped by 18% from the end of June 2020. Further, the aggregate capital account of financial institutions was \$449.2m at the end of June 2021, and decreased by 3.1% from the end of 2020 and by 4% from the end of June 2020.

### **Import activity of top five shipping firms and freight forwarders up 11% in first five months of 2021**

Figures released by the Port of Beirut show that the port's revenues reached \$43.1m in the first five months of 2021, constituting a decline of 6% from \$45.8m in the same period of 2020. The Beirut Port processed 2.06 million tons of freight in the covered period, up by 10.3% from 1.87 million tons in the first five months of 2020. Imported freight amounted to 1.76 million tons, as it increased by 11.6% from 1.57 million tons in the same period of 2020 and accounted for 85% of the total freight volume processed through the port. In addition, export cargo reached 307,000 tons in the covered period and increased by 3.4% from 297,000 tons in the first five months of 2020. It represented 15% of aggregate freight in the first five months of 2021. A total of 525 vessels docked at the port in the first five months of the year, representing a decrease of 23% from 682 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 on the economy of the coronavirus pandemic and the August 4 explosion at the port. Further, revenues generated through the Beirut Port reached \$7.7m in May 2021 and grew by 1.1% from \$7.6m in April. The port handled 401,000 tons of freight in May, constituting an increase of 2.6% from 391,000 tons in April. In addition, 107 vessels docked at the port in May, unchanged from April 2021.

In parallel, revenues generated through the Port of Tripoli reached \$9.8m in the first five months of 2021, constituting a surge of 136% from \$4.2m in the same period of 2020. The port processed 1,134,807 tons of freight in the covered period, up by 69.7% from 668,596 tons in the first five months of 2020. Imported freight amounted to 795,152 tons in the first five months of 2021 and increased by 57.5% from 504,954 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 339,655 tons, or 28% of total freight, constituting a jump of 107.6% from 163,642 tons in the first five months of 2020. A total of 315 vessels docked at the port in the covered period, representing a surge of 61.5% from 195 ships in the same period of 2020. Further, revenues generated through the Port of Tripoli amounted to \$2.1m in May 2021 and increased by 7.5% from \$1.9m in the preceding month. The port handled 235,597 tons of freight in May, down by 12.8% from 270,272 tons in April 2021. Also, 74 vessels docked at the port in May, regressing by 6.3% from 79 ships in April 2021.

## Ratio Highlights

(in % unless specified)	2018	2019	2020	Change*
Nominal GDP (\$bn)	55.0	51.3	33.4	(17.88)
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)	(12.0)	16.93
Exports / Imports	14.8	19.4	31.3	11.95
Fiscal Revenues / GDP	20.9	20.7	15.8	(4.90)
Fiscal Expenditures / GDP	32.2	31.6	20.0	(11.60)
Fiscal Balance / GDP	(11.3)	(10.9)	(4.2)	6.70
Primary Balance / GDP	(1.1)	(0.5)	(1.0)	(0.47)
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



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