

LEBANON THIS WEEK

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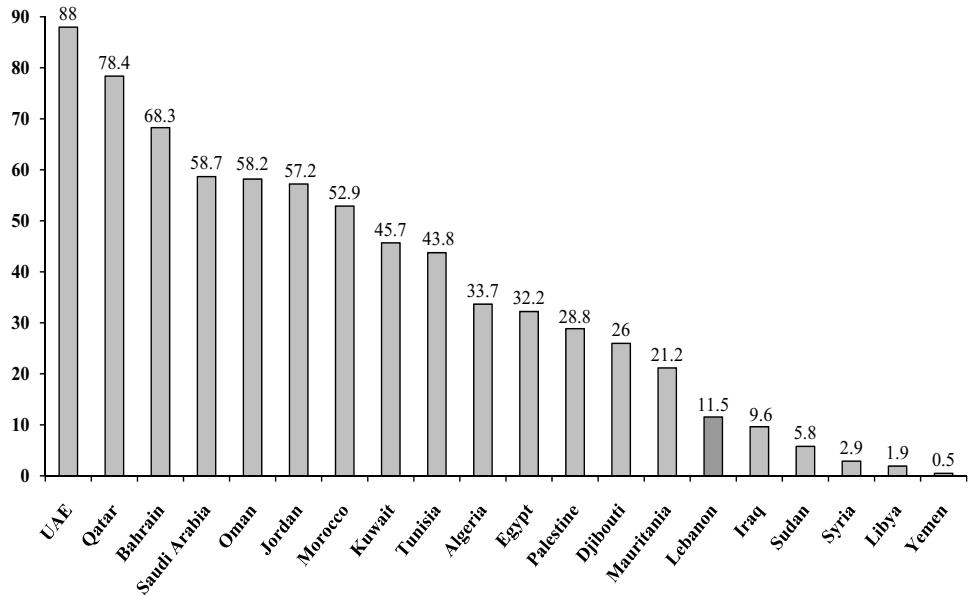
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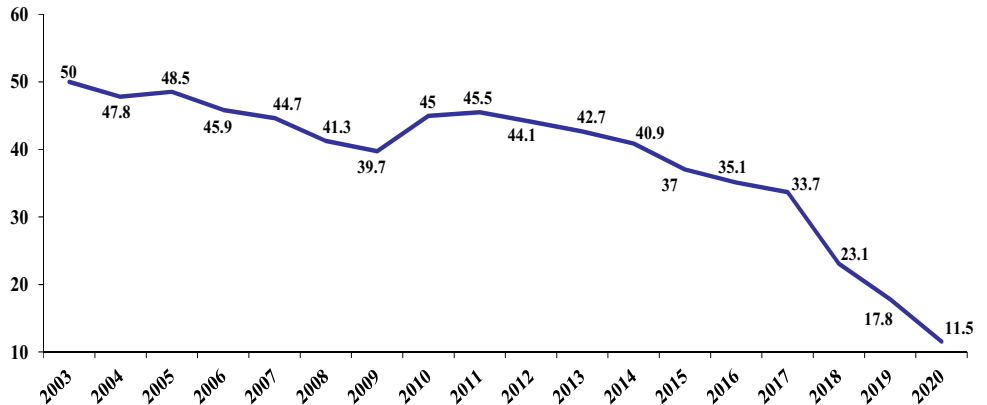
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Charts of the Week

Percentile Rank of Arab Countries in terms of Government Effectiveness in 2020 (%)



Percentile Rank of Lebanon on the Government Effectiveness Indicator (%)



Source: World Bank Governance Indicators for 2020, Byblos Research

Quote to Note

"To get out of the current crisis, a comprehensive reforms program is needed to address macroeconomic imbalances and structural bottlenecks."

The Institute of International Finance, on the priority of the new Lebanese government

Number of the Week

26.2%: Percentage of the resident population of Lebanon that has received two doses of the anti COVID-19 vaccine as of October 3, 2021, according to the Ministry of Public Health

Lebanon in the News

\$m (unless otherwise mentioned)	2020	Jan-May 2020	Jan-May 2021	% Change*	May-20	Apr-21	May-21
Exports**	3,544	914	699	-23.6%	251	-	-
Imports**	11,310	2,931	3,329	13.6%	674	-	-
Trade Balance**	(7,765)	(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 %
Audi GDR	2.48	9.7%	74,971	2.8%	Oct 2022	6.10	15.75	305.25
Solidere "A"	33.35	(4.7%)	48,524	31.0%	Jan 2023	6.00	15.75	204.72
Solidere "B"	33.97	(1.3%)	33,259	20.5%	Apr 2024	6.65	15.75	87.47
BLOM GDR	3.47	9.8%	5,120	2.4%	Jun 2025	6.25	15.75	56.99
Byblos Common	0.93	0.0%	-	4.9%	Nov 2026	6.60	15.75	39.36
Audi Listed	2.40	(4.0%)	-	13.1%	Feb 2030	6.65	15.75	23.28
Byblos Pref. 09	38.38	0.0%	-	0.7%	Apr 2031	7.00	15.75	20.33
BLOM Listed	3.20	0.0%	-	6.4%	May 2033	8.20	15.75	16.56
HOLCIM	20.95	0.0%	-	3.8%	Nov 2035	7.05	16.63	13.16
Byblos Pref. 08	34.99	0.0%	-	0.7%	Mar 2037	7.25	18.00	11.40

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

Source: Refinitiv

	Sep 27- Oct 1	Sep 20-24	% Change	September 2021	September 2020	% Change
Total shares traded	467,081	1,098,041	(57.5)	3,142,850	5,962,048	(47.3)
Total value traded	\$3,248,077	\$9,445,432	(65.6)	\$52,497,394	\$26,011,896	101.8
Market capitalization	\$10.02bn	\$10.03bn	(0.08)	\$10.04bn	\$6.25bn	60.6

Source: Beirut Stock Exchange (BSE)



Lebanon ranks 169th globally, 16th in Arab region in terms of country risk in second quarter of 2021

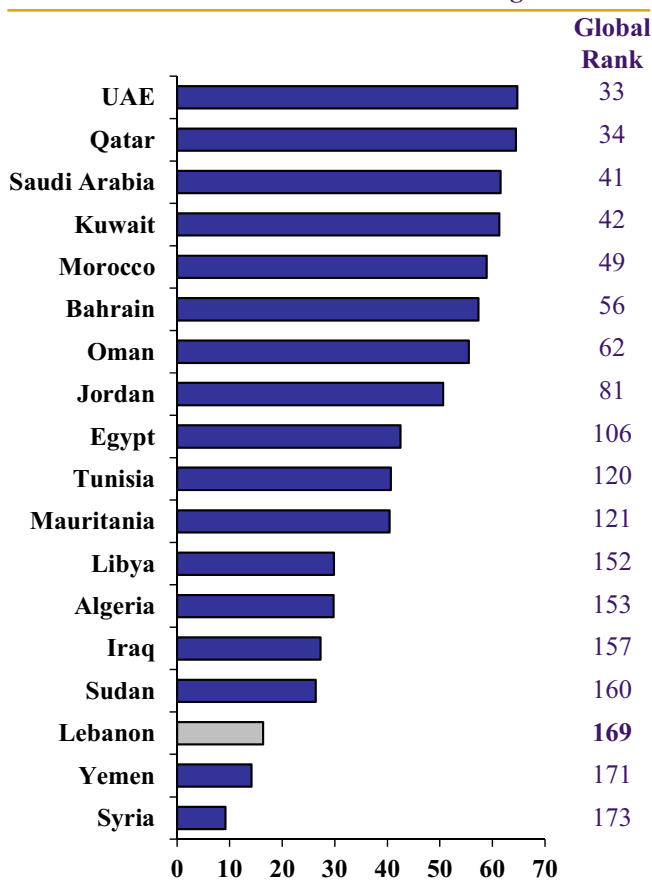
In its quarterly survey of the country risk level in 174 countries, the Euromoney Group ranked Lebanon in 169th place worldwide and in 16th place among 18 Arab countries in the second quarter of 2021, unchanged from the first quarter of the year. In comparison, Lebanon came in 162nd place worldwide and in 15th place among Arab countries in the second quarter of 2020. As such, Lebanon's global rank dropped by seven spots year-on-year, while its regional rank deteriorated by one notch from the second quarter of 2020. The survey evaluates the country risk level of economies by assigning a weight to five categories that cover Political Assessment, Economic Assessment, Structural Assessment, Access to International Capital Markets, and Debt Indicators. A higher score reflects a lower country risk level.

Globally, Lebanon had a lower country risk level than Somalia, Yemen, Zimbabwe, Syria and North Korea among economies with a GDP of \$10bn or more. Lebanon's global rank on the Structural Assessment category dropped by 34 spots from the same quarter of 2020, declined by 29 notches on the Access to International Capital Markets indicator, decreased by seven spots on the Political Assessment category, and regressed by three notch on the Economic Assessment indicator, while it was unchanged year-on-year on the Debt Indicators category.

Lebanon received a score of 16.34 points in the second quarter of 2021, constituting a decline of 10.3% from 18.22 points in the first quarter of 2021 and a drop of 28.7% from 22.91 points in the second quarter of 2020. Lebanon's score came lower than the global average score of 49.05 points and the Arab countries' average of 41.72 points. Also, its score was lower than the Gulf Cooperation Council (GCC) countries' average score of 60.83 points and the average score of non-GCC Arab countries of 32.17 points. Further, Lebanon's score dropped by 48% on the Access to International Capital Markets indicator, by 32.8% on the Political Assessment category, by 28.3% on the Economic Assessment indicator, by 17.7% on the Structural Assessment category and by 11.3% on the Debt Indicators category from the second quarter of 2020. The survey attributed the drop in the scores of most categories to the government's decision to default on its Eurobond obligations in March 2020, to the prevailing political deadlock at the time of the survey, and to the lack of structural reform measures to address the prevailing crises.

In parallel, Lebanon ranked ahead of only Yemen, North Korea, Syria and Zimbabwe worldwide on the Economic Assessment indicator. Also, it preceded only Zimbabwe, Syria, Yemen, and North Korea globally on the Political Assessment category. In addition, Lebanon fared better than Cameroon and worse than Kyrgyzstan worldwide, while it ranked ahead of Iraq and trailed Mauritania regionally on the Structural Assessment indicator. Further, it preceded Libya and came behind Myanmar globally, while it ranked ahead of only Libya, Syria and Yemen among Arab countries on the Access to International Capital Markets indicator. Finally, Lebanon preceded only Mozambique, Mongolia, Cuba, Venezuela, North Korea and Syria worldwide on the Debt Indicators category.

Country Risk in Arab World in Second Quarter of 2021 Arab Countries' Scores & Rankings



Source: Euromoney Group, Byblos Research

Country Risk Indicators for Lebanon - Second Quarter of 2021

	Weighting (%)	Score	Arab Rank	Global Rank	Arab Avg Score	Global Avg Score
Economic Assessment	35	4.65	16	170	14.13	16.30
Political Assessment	35	4.90	16	169	14.31	17.53
Structural Assessment	10	3.45	14	147	4.53	5.04
Access to Int'l Capital Mkts	10	1.46	15	161	4.68	5.23
Debt Indicators	10	1.88	17	168	4.08	4.94

Source: Euromoney Group, Byblos Research

Lebanese government to engage with International Monetary Fund on a funded reforms program

The Ministry of Finance announced that the Lebanese government has resumed discussions with the International Monetary Fund, with the aim to reach an agreement on an appropriate IMF-supported recovery program that would gather broad support from the international financial community. It added that the newly-formed government is fully aware of the urgency of Lebanon's social and economic crises and of the challenges that the country will face in the near to medium terms.

The ministry considered that an IMF-supported program is essential to revive the economy and will ensure that the recovery is associated with the implementation of necessary and long overdue reforms, which would restore confidence in the Lebanese economy. It added that authorities are fully committed to engage in a constructive, transparent and equitable debt restructuring process with all other stakeholders, and welcomes the interest of bondholders, including the "Ad Hoc Lebanon Bondholder Group", to participate in this debt restructuring process.

In May 2020, the Lebanese government entered into negotiations with the International Monetary Fund over a funded program that would provide a framework for fiscal consolidation, debt restructuring, and other structural reforms to address deficiencies in the Lebanese economy. However, the resignation of the government on August 11, 2020, following the explosion at the Port of Beirut, halted the negotiations between the two sides. Still, the IMF indicated in September 2020 that it stands ready to engage with a new Lebanese government, as well as to redouble the Fund's efforts to help Lebanon overcome the prevailing social and economic crises. It reiterated the need to embark on comprehensive reforms to restore confidence and address challenges in many areas, in order to bring back stability and enhance investment prospects.

In August 2021, the IMF called on Lebanese authorities to address "head-on" the fundamental problem of weak governance in the public sector; to strengthen the anti-corruption framework for the public sector; to improve the performance of public functions, in particular the management of state-owned enterprises, especially in the energy sector, as well as to complete an audit of the state-owned and money-losing *Électricité du Liban* and of *Banque du Liban*. Also, it urged authorities to put in place a fiscal strategy that includes the restructuring of the public debt, social spending to the most vulnerable segments of society, as well as reforms to restore investors' confidence in the country. Finally, it stressed the need to restructure the financial sector, as well as for a credible monetary policy and exchange rate system that would be supported by the unification of the prevailing multiple exchange rates in the country.

Banque du Liban modifies clauses of Circular 158

Banque du Liban (BdL) issued Intermediate Circular 597 dated September 29, 2021 that modifies certain clauses of Basic Circular 158 dated June 8, 2021 about exceptional measures related to the gradual disbursement of funds from deposit accounts in foreign currency that clients opened prior to October 31, 2019.

First, it indicated that an "account owner" who qualifies to benefit from the terms of Circular 158, based on the methodology to calculate the eligible amounts, can utilize for this purpose a joint account that was converted to an individual account at the same bank, or an individual account that became a joint account, or a term deposits account that becomes a current account, or an account that is transferred to the heirs of the original account owner after the latter's death or to the trustees.

Second, it stated that an "account holder" cannot benefit from Circular 151 and Circular 158 simultaneously from accounts at the same bank. It added that this applies to individual, joint and collective accounts. But it noted that depositors can benefit from Circular 151 and Circular 158 at the same time, on the condition that they utilize accounts at different banks for each of the circulars. Further, it stated that, in case one the co-owners of a joint account benefiting from the terms of Circular 158, the other co-owner cannot utilize the same account to benefit from Circular 151. Instead, he or she can benefit from the terms of Circular 151 from his or her other accounts if he or she is not benefiting from Circular 158. Also, it said that workers and employees who receive their salaries in US dollars or other foreign currencies can continue to benefit from Circular 151 by withdrawing their salaries at the LBP 3,900 exchange rate, and that they can still benefit from Circular 158 on their other accounts if they meet the eligibility criteria.

Third, the circular extended until the end of October 2021 the deadline for eligible depositors to request the opening of the "Special Sub Account" in order to benefit from the terms of Circular 158. It added that the eligible depositor can benefit retroactively from the terms of the circular starting on July 1, 2021 and until the date of the opening of the "Special Sub Account", and that he or she can receive the cumulative due amounts covering this period for the months where the account holder did not utilize Circular 151. It added that, after October 31, 2021 and within the timeframe of Circular 158, the depositor can start benefiting from the circular during the month when he or she opened the "Special Sub Account", as long as he or she did not benefit from the terms of Circular 151 during the month of the account opening.

Circular 158 stipulates that eligible depositors can withdraw up to \$400 in foreign currency banknotes per month for a 12-month period, and up to the equivalent of \$400 converted to Lebanese pounds at the rate of LBP 12,000 per US dollar, with half of the amount disbursed in cash and the other half to be used through a payment card.

Banque du Liban's foreign assets at \$18.8bn, gold reserves at \$16bn at end-September 2021

Banque du Liban's (BdL) interim balance sheet reached \$159.3bn at the end of September 2021, constituting increases of 7.2% from \$148.6bn at end-2020 and of 3.9% from \$153.3bn a year earlier. Assets in foreign currency totaled \$18.8bn at the end of September 2021, representing a decrease of \$5.3bn, or of 22%, in the first nine months of the year and a drop of \$7.1bn (-27.5%) from \$25.9bn at end-September 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 \$13.76bn at end-September 2021 and fell by \$5.3bn, or by 27.8%, in the first nine months of the year and by \$7.1bn (-34.1%), from \$20.9bn at end-September 2020. However, BdL's assets in foreign currency increased by \$863.3m in the second half of September as a result of the International Monetary Fund allocating to Lebanon the equivalent of about \$1.13bn in Special Drawing Rights that the IMF transferred to BdL's account on September 16 of this year. 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 \$16bn at end-September 2021, constituting decreases of \$1.36bn (-7.9%) in the first nine months of the year and of \$1.4bn (-8.1%) from \$17.4bn at end-September 2020. The value of gold reserves reached a peak of \$18.13bn at mid-September 2020. Also, the securities portfolio of BdL totaled \$40.9bn at end-September 2021, increasing by \$881m (+2.2%) from the end of 2020 and by \$1.5bn (+3.8%) from \$39.3bn from a year earlier. In addition, loans to the local financial sector totaled \$13.9bn, regressing by 2.9% from the end of 2020 and by 5.2% from end-September 2020. Further, the deposits of the financial sector stood at \$106.4bn at end-September 2021 and declined by \$1.2bn from a year earlier. In addition, public sector deposits at BdL reached \$6.4bn at end-September 2021, increasing by \$1.82bn in the first nine months of the year and by \$1.81bn from a year earlier.

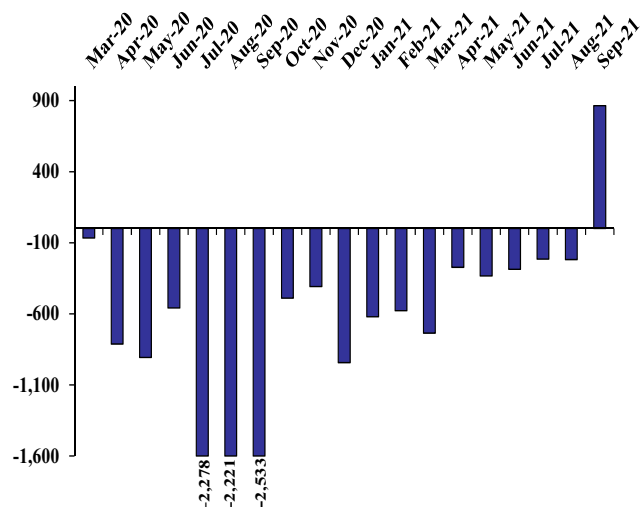
Net foreign assets of financial sector down \$2.4bn in first eight months of 2021

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 \$2.4bn in the first eight months of 2021, compared to decreases of \$7.5bn in the same period of 2020 and of \$5.9bn in the first eight months of 2019.

The cumulative deficit in the first eight months of 2021 was caused by a drop of \$4.4bn in the net foreign assets of BdL, which was partly offset by a rise of \$2.1bn in those of banks and financial institutions. Further, the net foreign assets of the financial sector decreased by \$592.8m in August 2021, compared to a rise of \$38.7m in July 2021 and to a decline of \$2bn in August 2020. The August decrease was caused by a dip of \$489.1m in the net foreign assets of BdL and a decrease of \$103.7m in those of banks and financial institutions.

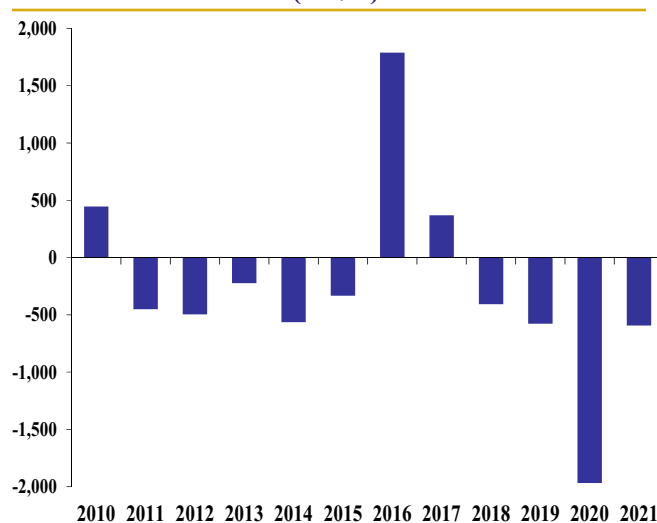
The cumulative increase in the banks' net foreign assets is mostly due to a decline in their foreign liabilities. The decrease in foreign liabilities was driven mainly by the contraction in liabilities to the non-resident financial sector and in non-resident customer deposits. In parallel, the drop in 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.

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



Source: Banque du Liban, Byblos Research

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



*in August of each year

Source: Banque du Liban, Byblos Research

Tourism receipts down 73% to \$2.4bn in 2020

Figures released by Banque du Liban show that tourism receipts in Lebanon totaled \$2.4bn in 2020, constituting a decline of 72.6% from \$8.6bn in 2019 and representing their lowest level during the 2002-2020 period. Tourism revenues amounted to \$1.04bn in the first quarter of 2020, \$279.3m in the second quarter, \$470m in the third quarter, and \$559m in the fourth quarter of last year. They decreased by 43% in the first three months of the year from the same quarter of 2019, contracted by 88% in the second quarter, regressed by 83.7% in the third quarter, and dropped by 64% in the fourth quarter of 2020 from the same period of the previous year.

The subdued level of tourism revenues mirrors the low number of tourist arrivals in 2020, as a result of the outbreak of the coronavirus worldwide and the related closure and lockdown measures in Lebanon and most countries around the world. Tourism revenues in Lebanon averaged \$5.37bn annually in the 2002-2008 period and \$6.9bn annually between 2009 and 2020. Tourism receipts were equivalent to 10.4% of GDP in 2020, relative to 16% of GDP in 2019 and to 17.3% of GDP during the 2002-2020 period.

In parallel, outbound tourism spending from Lebanon reached \$1.67bn in 2020, and decreased by 73.6% from \$6.34bn in 2019. It totaled \$961.4m in the first quarter, \$137.2m in the second quarter, \$259.2m in the third quarter, and \$312.7m in the fourth quarter of 2020. They decreased by 26.7% in the first three months of the year from the same quarter of 2019, dropped by 91% in the second quarter, regressed by 87.7% in the third quarter, and contracted by 77.3% in the fourth quarter of 2020 from the same period of the previous year. The drop in outbound tourist spending is in line with the decline in the number of Lebanese tourists abroad. The latter decreased due to the lockdown measures and closure of airports in several countries, including Lebanon, in response to the outbreak of the coronavirus worldwide, as well as to restrictions on the withdrawals of foreign currency banknotes from Lebanese banks and to the reduced spending limits on credit cards in foreign currencies. In addition, outbound tourism spending in 2020 reached its lowest level during the 2002-2020 period. In comparison, it averaged \$4.7bn annually between 2002 and 2020. Outbound tourism expenditures were equivalent to 7.4% of GDP last year compared to 11.8% of GDP in 2019 and to 11.2% of GDP in the 2002-2020 period.

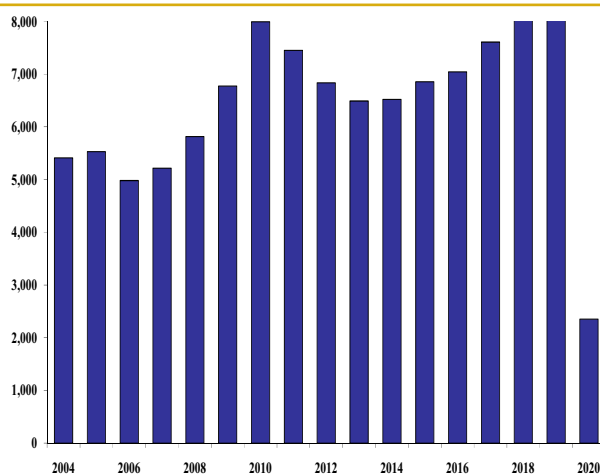
As such, net tourism receipts totaled \$682.2m last year and dropped by 69.8% from \$2.26bn in 2019. Net tourism receipts in Lebanon in 2020 constituted their lowest level between 2002 and 2020. They averaged \$2.3bn annually between 2002 and 2008, and \$2.22bn yearly during the 2009-2020 period. They were equivalent to 3% of GDP in 2020, down from 4.2% of GDP in 2019, and compared to 6.2% of GDP during the 2002-2020 period.

Banque du Liban extends terms of Circular 151 until end of January 2022

Banque du Liban (BdL) issued Intermediate Circular 596 on September 29, 2021 addressed to banks that modifies Basic Circular 151 dated April 21, 2020 about exceptional measures related to cash withdrawals from foreign currency accounts at banks in Lebanon. The circular indicated that, given that the current political stability constitutes a key factor for the stability of the exchange rate of the US dollar, and given that the fluctuations of the exchange rate on the parallel market do not reflect the true value of the dollar exchange rate, and in order to prevent any negative impact from a significant increase in money supply in the country, and in light of the ongoing preparations of a comprehensive economic recovery plan and the expected negotiations with the International Monetary Fund, BdL decided to extend for a four-month period ending January 31, 2022 the terms of Basic Circular 151.

Circular 151 allowed clients who have accounts in US dollars, or in any other foreign currency, at banks in Lebanon to withdraw banknotes in Lebanese pounds from these accounts at a fixed exchange rate of LBP3,900 per US dollar for a period of six months. BdL extended the terms of the circular for another six-month period that expired at the end of March 2021 and extended it once again until the end of September 2021. In parallel, BdL issued on May 10, 2021 Intermediate Circular 582 that fixed at LBP3,900 against the US dollar the exchange rate of the Lebanese pound that is used for cash withdrawals from foreign currency accounts at banks in Lebanon, as well as for other transactions. Prior to the amendment, the exchange rate for these operations was linked to the exchange rate of BdL's Sayrafa electronic platform.

Tourism Receipts (US\$m)



Source: Banque du Liban, Byblos Research

Nearly 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 LBP90,245bn or the equivalent of \$59.9bn, at the end of August 2021, compared to LBP87,282bn, or \$57.9bn, at end-August 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 6.58% in August 2021 compared to 6.49% August 2020.

The distribution of outstanding Treasury securities shows that 10-year Treasury bonds accounted for 38% or LBP34,409bn, five-year Treasury securities had a share of 25.4% (LBP22,949bn), and seven-year Treasury bonds represented 22.3% (LBP20,137bn) of aggregate securities denominated in Lebanese pounds at the end of August 2021. Also, the share of three-year Treasury bonds was 5.3% (LBP4,771bn), 12-year Treasury securities represented 3.4% of the total (LBP3,076bn), the share of two-year Treasury bonds was 2.3% (LBP2,099bn), 15-year Treasury securities represented 1.6% of the total (LBP1,417bn), one-year Treasury bills had a share of 1.3% (LBP1,197bn), six-month T-bills represented 0.16% (LBP144bn) and the share of three-month T-bills was 0.05% (LBP46bn) of the total. As such, 65.4% of outstanding Treasury securities have seven-year maturities or longer and 90.8% have five-year maturities or more.

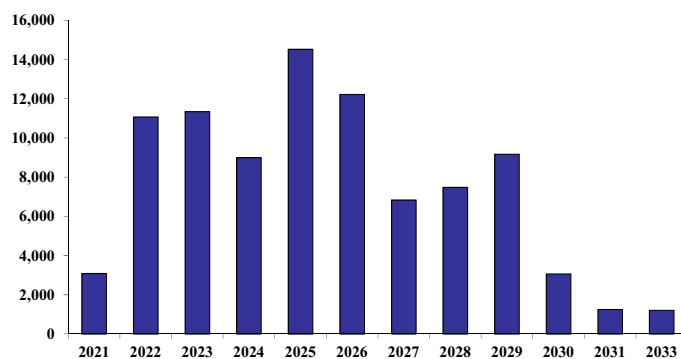
In parallel, LBP529m in outstanding Treasury securities denominated in Lebanese pounds matured in August 2021, of which 56% were five-year Treasury bonds, 24.4% consisted of one-year Treasury bills, 9.5% were three-year Treasury bonds, 3.8% consisted of two-years Treasury securities; while six-month Treasury bills and three-month Treasury securities accounted for 3.2% each. According to ABL, LBP3,079bn of outstanding Treasury bonds in Lebanese pounds will mature in the remainder of 2021, while LBP11,068bn will come due in 2022.

Number of new construction permits up 105% in first seven months of 2021

The Orders of Engineers & Architects of Beirut and of Tripoli issued 10,609 new construction permits in the first seven months of 2021, constituting a surge of 105% from 5,176 permits in the same period of 2020. The jump in the number of construction permits in the covered period is due in part to low base effects related to activity in the first seven 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 declined by 25.1% in the first seven months of 2020 from the same period of the preceding year. Also, the orders of engineers issued 2,061 permits in July 2021, representing an increase of 4.2% from 1,978 permits in June 2021 and a rise of 19.2% from 1,729 permits in July 2020. Mount Lebanon accounted for 30.4% of the number of newly-issued construction permits in the first seven months of 2021, followed by the South with 24.4%, the North with 18.8%, the Nabatieh area with 15.2%, the Bekaa region with 7.5%, and Beirut with 1.4%. The remaining 2.2% 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 128.2% in the first seven months of 2021 from the same period last year, followed by permits in the Nabatieh region (+125.7%), the South (+120%), regions outside northern Lebanon (+115.5%), the Bekaa region (+110.8%), and Mount Lebanon (+86%). In contrast, the number of permits issued for Beirut decreased by 20% in the covered period.

Further, the surface area of granted construction permits reached 5.47 million square meters (sqm) in the first seven months of 2021, constituting a rise of 152.7% from 2.16 million sqm in the same period of 2020. In comparison, the surface area of granted construction permits decreased by 47.4% in the first seven months of 2020 from the same period of the preceding year. Also, the surface area of granted construction permits reached 976,690 sqm in July 2021, increasing by 13% from 864,567 sqm in June 2021 and by 36% from 176,220 sqm in July 2020. Mount Lebanon accounted for 1.72 million sqm, or 31.4% of the total in the first seven months of 2021. The North followed with 1.26 million sqm (23%), then the South with 1.1 million sqm (20.2%), the Nabatieh area with 641,511 sqm (11.7%), the Bekaa region with 563,396 sqm (10.3%), and Beirut with 65,586 sqm (1.2%). The remaining 117,765 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 211.7% in the first seven months of 2021 from the same period last year, followed by surface areas in the North (+181.2%), Nabatieh region (+161.2%), Mount Lebanon (+145.5%), the South (+143.7%), Beirut (+41.5%), and regions located outside northern Lebanon (+29.2%). In parallel, the latest available figures show that cement deliveries totaled 515,077 tons in the first five months of 2021, constituting a decline of 7.3% from 555,822 tons in the same period of 2020.

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



*As at end-August 2021

Source: Association of Banks in Lebanon, Byblos Research

Private sector loans down \$28.5bn since start of 2019

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets stood at \$180.3bn at the end of August 2021, constituting declines of 4.1% from \$188bn at the end of 2020 and of 8% from \$195.7bn at end-August 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 \$30.9bn at the end of August 2021 and decreased by 14.7% in the first eight months of 2021 and by 22% from a year earlier. Loans to the resident private sector totaled \$27.1bn, constituting declines of 15.4% from the end of 2020 and of 23% from end-August 2020. Also, credit to the non-resident private sector amounted to \$3.8bn at end-August 2021, and contracted by 8.8% from end-2020 and by 16.4% from a year earlier. In nominal terms, credit to the private sector regressed by \$5.3bn in the first eight months of 2021 relative to a decrease of \$10.1bn in the same period of 2020, as lending to the resident private sector declined by \$4.9bn and credit to the non-resident private sector retreated by \$363.4m in the covered period. Also, loans extended to the private sector dropped by \$28.5bn since the start of 2019.

The dollarization rate of private sector loans regressed from 62% at end-August 2020 to 58.1% at the end of August 2021. The average lending rate in Lebanese pounds was 7.52% in August 2021 compared to 7.14% a year earlier, while the same rate in US dollars was 5.87% relative to 7.54% in August 2020.

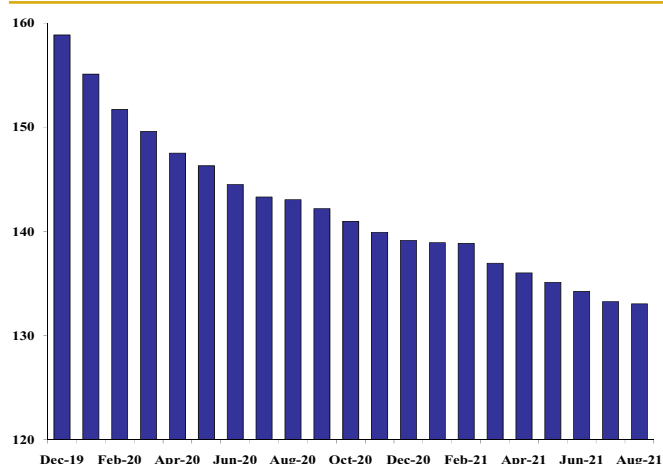
In addition, claims on non-resident financial institutions reached \$5.1bn at the end of August 2021, constituting an increase of \$405.4m (+8.6%) in the first eight months of 2021 and a rise of \$736.4m (+16.8%) from a year earlier. Also, claims on non-resident financial institutions decreased by \$4bn (-44%) from the end of August 2019 and by \$6.9bn (-57.3%) since the start of 2019. Also, deposits at foreign central banks totaled \$886.5m, constituting increases of \$309m (+53.5%) in the first eight months of 2021 and of \$303.5m (+52.1%) from a year earlier. In addition, the banks' claims on the public sector stood at \$19bn at end-August 2021, down by \$2.1bn (-10%) in the first eight months of the year and by \$4.4bn (-18.7%) from the end of August 2020. The banks' holdings of Lebanese Treasury bills stood at \$11bn, while their holdings of Lebanese Eurobonds reached \$7.7bn at end-August 2021. Further, the deposits of commercial banks at Banque du Liban (BdL) totaled \$108.3bn at the end of August 2021, and declined by 2% from \$110.4bn at the end of 2020 and by 3.8% from \$112.6bn at the end of August 2020.

In parallel, private sector deposits totaled \$133bn at the end of August 2021 and regressed by 4.4% in the first eight months of 2021 and by 7% from end-August 2020. Deposits in Lebanese pounds reached the equivalent of \$26.5bn at end-August 2021, as they decreased by 3.1% from the end of 2020 and by 6.7% from a year earlier; while deposits in foreign currency reached \$106.6bn, and declined by 4.7% from end-2020 and by 7.1% from the end of August 2020. Resident deposits totaled \$107bn at the end of August 2021 and retreated by \$4.8bn (-4.3%) from the end of 2020 and by \$8.3bn (-7.2%) from a year earlier. Also, non-resident deposits reached \$26.1bn at end-August 2021, down by \$1.3bn (-4.6%) from end-2020 and by \$1.7bn (6%) from the end of August 2020.

Private sector deposits declined by \$6.1bn in the first eight months of 2021, with deposits in Lebanese pounds decreasing by \$858.2m and foreign currency deposits shrinking by \$5.2bn. Private sector deposits regressed by \$227.1m in January, by \$60.7m in February, by \$1.9bn in March, by \$928.2m in April, by \$914.8m in May, by \$870.5m in June, by \$982m in July and by \$208.6m in August 2021. In comparison, private sector deposits declined by \$3.8bn in January, by \$3.4bn in February, by \$2.1bn in March, by \$2.1bn in April, by \$1.22bn in May, by \$1.8bn in June, by \$1.2bn in July and by \$258.2m in August 2020. In addition, private sector deposits dropped by \$15.4bn in 2019 and by \$19.7bn in 2020, including a decrease of \$10.7bn between September and December 2019. As such, aggregate private sector deposits contracted by \$41.2bn since the start of 2019, with deposits in Lebanese pounds shrinking by \$24.7bn and foreign currency deposits declining by \$16.5bn. 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 80.1% at end-August 2021, relative to 80.4% at the end of 2020 and to 80.2% a year earlier.

Further, the liabilities of non-resident financial institutions reached \$5.3bn at the end of August 2021 and fell by 29.7% from the end of August 2020. Also, the average deposit rate in Lebanese pounds was 1.62% in August 2021 compared to 3.47% a year earlier, while the same rate in US dollars was 0.3% relative to 1.28% in August 2020. The ratio of private sector loans to deposits in foreign currency stood at 16.8% at the end of August 2021 compared to 21.4% a year earlier, well below BdL's limit of 70%. The same ratio in Lebanese pounds reached 48.8% at end-August 2021, down from 53.1% at end-August 2020. As such, the total private sector loans-to-deposits ratio reached 23.2% at end-August 2021 compared to 27.7% a year earlier. The banks' aggregate capital base stood at \$16.9bn at the end of August 2021, down by 9.6% from \$18.7bn at the end of August 2020.

Private Sector Deposits (US\$b)



Source: Banque du Liban, Byblos Research

Stock market capitalization up 61% to \$10bn at end of September 2021

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 25,393,635 shares in the first nine months of 2021, constituting a decrease of 42.4% from 44,059,211 shares traded in the same period of 2020; while aggregate turnover amounted to \$269m and increased by 42% from a turnover of \$189.4m in the first nine months of 2020. The market capitalization of the BSE reached \$10bn at the end of September 2021, representing a surge of 60.6% from \$6.2bn at the end of September 2020, with real estate equities accounting for 48% of the total, followed by banking stocks (47.7%), industrial shares (4%), and trading firms' equities (0.3%). The market liquidity ratio was 2.7% in the first nine months of 2021 compared to 3% in the same period of 2020.

Banking stocks accounted for 57.3% of the trading volume in the first nine months of 2021, followed by real estate equities (41.7%), trading firms' equities (0.7%), and industrial shares (0.3%). Also, real estate equities accounted for 99.3% of the aggregate value of shares traded, followed by banking stocks (10%), industrial shares (0.4%), and trading firms' equities (0.2%). The average daily traded volume for the first nine months of 2021 was 159,708 shares for an average daily amount of \$1.7m. The figures reflect a decline of 37.3% in the average daily traded volume and a rise of 54.5% 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 136.2% in the first nine months of 2021, while the CMA's Banks Market Value-Weighted Index regressed by 3.7% 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 59.5% and 56%, respectively, in the first nine months of the year, which, in turn, led to a rise in their market weights to 29.4% and 18.5%, respectively, at the end of September 2021, the highest among listed companies on the BSE.

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



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