

LEBANON THIS WEEK

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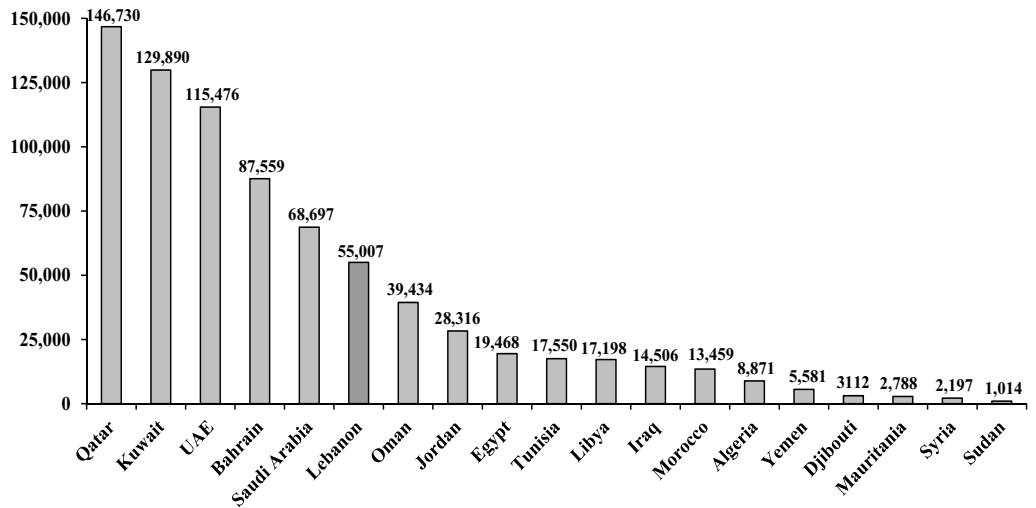
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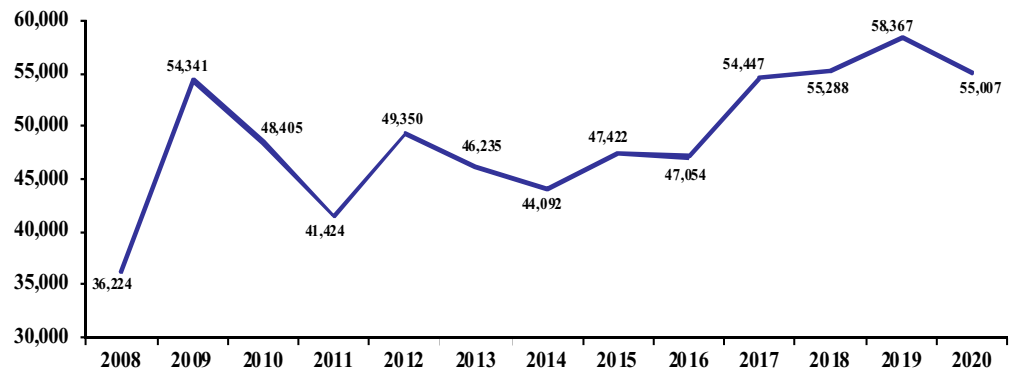
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Charts of the Week

Net Wealth* per Adult in Arab Countries at the end of 2020 (US\$)



Net Wealth* per Adult in Lebanon (US\$)



*sum of a country's adult population's marketable value of financial and non-financial assets, less aggregate personal debt

Source: Credit Suisse

Quote to Note

"We stand ready to engage with the new government in the period ahead."

Dr. Gerry Rice, Director of the Communications Department at the International Monetary Fund, on the IMF's readiness to begin discussions with Lebanese authorities

Number of the Week

109%: Compensation of public sector workers and employees as a percentage of government revenues in January 2021, according to the Ministry of Finance

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	15.25	295.64
Solidere "A"	33.35	(4.7%)	48,524	31.0%	Jan 2023	6.00	15.25	201.35
Solidere "B"	33.97	(1.3%)	33,259	20.5%	Apr 2024	6.65	15.25	87.70
BLOM GDR	3.47	9.8%	5,120	2.4%	Jun 2025	6.25	15.25	57.43
Byblos Common	0.93	0.0%	-	4.9%	Nov 2026	6.60	15.25	39.78
Audi Listed	2.40	(4.0%)	-	13.1%	Feb 2030	6.65	15.25	23.60
Byblos Pref. 09	38.38	0.0%	-	0.7%	Apr 2031	7.00	15.25	20.61
BLOM Listed	3.20	0.0%	-	6.4%	May 2033	8.20	15.25	16.80
HOLCIM	20.95	0.0%	-	3.8%	Nov 2035	7.05	16.0	13.41
Byblos Pref. 08	34.99	0.0%	-	0.7%	Mar 2037	7.25	17.0	11.76

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

Source: Refinitiv

	Sep 13-17	Sep 6-10	% Change	August 2021	August 2020	% Change
Total shares traded	1,059,450	365,402	189.9	2,166,545	941,951	130.0
Total value traded	\$23,806,615	\$9,263,213	157.0	\$24,370,670	\$10,392,324	134.5
Market capitalization	\$9.68bn	\$10.84bn	10.75	\$10.57bn	\$6.20bn	70.4

Source: Beirut Stock Exchange (BSE)



Ministerial Statement of new government pledges economic and financial reforms

The new Lebanese government issued its Ministerial Statement that includes multiple pledges on the economic, financial and social fronts.

First, it pledged to resume negotiations with the International Monetary Fund with the aim to reach with it an agreement on a program that is based on a short- and medium-term economic recovery plan that the government intends to develop and implement in cooperation with Banque du Liban. Second, it aims to draft a plan to reform the banking system and to restructure it where necessary, to stimulate economic activity through providing financing to the private sector at preferential rates, and to give priority to protect bank deposits and the rights of depositors.

Third, it stipulated the need to enact the capital controls law and to draft a law to address the financial and banking developments that emerged since October 17, 2019, especially those related to the transfer of funds abroad, as well as to implement Law 214 about recovering ill-gotten funds. Fourth, it intends to start negotiations with bondholders and to agree on a framework to restructure the public debt. Fifth, it plans to utilize the IMF's allocation of Special Drawing Rights in a sustainable way.

Sixth, it pledged to abide by the terms of the French initiative and by the recommendations of the Reforms, Recovery and Reconstruction initiative (3RF), to complete the economic reform policy that Lebanon submitted at the CEDRE Conference after reviewing the list of projects in the related Capital Investment Plan, and to take into consideration the recommendations of consulting firm McKinsey to support productive sectors.

Seventh, it intends to adjust public sector wages and salaries at all levels based on a report to be prepared by the Finance Ministry that would take into consideration the government's resources and the state of public finances. It plans in parallel to take the necessary measures to adjust salaries in the private sector.

Eighth, it pledged to contain tax evasion, modify the public accounting law, draft a new law for customs, approve a new strategy to reform customs, and draft a law to modernize real estate formalities.

Ninth, it plans to complete work on the 2022 budget with an emphasis on including reforms measures to public finances, and to close illegal border crossing points and strengthen the supervision of official crossing points by utilizing modern equipment.

Tenth, it intends to work on diversifying energy sources while giving priority to natural gas and renewable energy, to implement the electricity reforms plan and building the power plants that the country needs in partnership with the private sector, and to complete the plan to transport gas through Floating Storage Regasification Units. It also pledged to resume offshore oil and gas drilling and to launch the second round of licensing for such drilling in Lebanon's territorial waters.

Eleventh, it will seek to develop an economic, social and healthcare safety net; to expand all social services; to implement the electronic cash card; to target the existing subsidies policy to needy resident Lebanese citizens; and to resume housing loans through the Public Housing Corporation.

Twelfth, it pledged to upgrade and rehabilitate the fixed and mobile phone networks and to put together a new vision for the telecommunications sector that takes into consideration public-private partnerships. It also plans to issue the executive decrees for telecom Law 341 of 2002 to regulate the sector, to appoint members of the Telecommunications Regulatory Authority, and to corporatize the sector by establishing Liban Telecom.

Thirteenth, it plans to activate the Higher Council for Privatization and PPP, and expand its human and financial capacity, as well as to modify the PPP law and develop an investment climate that would attract foreign investors.

Fourteenth, it aims to restore the confidence of Lebanese expatriates in the country's future and to set a mechanism to track emigration, in order to strengthen ties with the Diaspora and attract its capital and know-how.

Fifteenth, it seeks to enact the draft law about administrative decentralization; to issue executive decrees for existing laws about fighting corruption, especially for the public procurement law; and to appoint the members of the National Authority to Fight Corruption.

Structural reforms to lift economic activity and reduce public finance imbalances

The Institute of International Finance (IIF) considered that the new Lebanese government needs to develop a comprehensive reform program to address the prevailing macroeconomic imbalances and structural bottlenecks, in order to stop the deterioration in economic activity and to lay the foundation for the recovery.

It expected the government to resume negotiations with the International Monetary Fund (IMF) soon and to implement the necessary reforms to eliminate a wide range of distortions in the economy, despite a difficult political, social and economic context. But it expressed concerns about the prospects of reaching an agreement with the IMF to lift the economy out of its current crisis, in case the government's efforts are constrained by the political class. As such, it presented two scenarios with a 50% chance for each one of them.

Under its optimistic scenario, it assumes that the government will be able to implement the urgent economic reforms, and that they will be fully endorsed by Parliament and lead to an IMF agreement before the end of the current year. It added that this scenario would facilitate access to additional financial aid from other multilateral sources. As such, it projected real GDP growth to recover to around 4% in 2022 and to average 6.7% annually in the 2023-25 period and for the inflation rate to recede gradually to single digits by 2025. Further, it forecast the fiscal primary balance to shift from a deficit of 1.6% of GDP in 2021 to a surplus of 2.7% in 2022 and to improve to a surplus of 4.9% of GDP by 2025, and for the fiscal deficit to narrow from 4.7% of GDP in 2021 to 0.2% of GDP in 2025. It noted that an IMF program could put the country's high public debt level on a firm downward path through the implementation of fiscal measures. It said that it is likely that an IMF program would be accompanied by some form or combination of debt rescheduling and restructuring, given that Lebanon is in default on its external debt. It estimated that, under certain debt restructuring scenarios, combined with fiscal reforms, the government's debt level could decline from 300% of GDP in 2021 to 126% of GDP in 2022 and 84% of GDP by 2025. In addition, it estimated the current account deficit to average 7.5% of GDP in the 2022-25 period.

In parallel, the IIF's pessimistic scenario assumes the partial implementation of reforms or the resignation of the government, failure to reach an agreement with the IMF, and the lack of adequate external financing. As such, it forecast the economy to contract again, the parallel exchange rate to depreciate, the inflation would remain well above 170% for several years, the official available reserves would be depleted, and the public debt level to remain well above 300% of GDP.

Main Macroeconomic and Financial Indicators					
	2021e	2022p	2023p	2024p	2025p
Nominal GDP (LBP trillion)	182.3	412.9	613.2	732.9	822.0
Nominal GDP (US\$ bn)	23.2	29.7	38.4	41.7	44.5
Real GDP Growth, % Change	-8.3	4.1	5.5	6.8	7.9
GDP Deflator, % Change	112.5	117.5	40.7	11.9	3.9
Consumer Prices, Avge, % Change	140.2	114.0	44.0	20.0	8.0
Consumer Prices, EoP, % Change	204.1	67.4	27.3	11.0	4.0
Official Exchange Rate, Avge, LBP/\$	1,508	13,900	15,985	17,584	18,463
Parallel Exchange Rate, Avge, LBP/\$	13,569	13,900	15,985	17,584	18,463
Parallel Exchange Rate, EoP, LBP/\$	12,000	13,900	15,985	17,584	18,463
Current Account Balance, % of GDP	-10.3	-8.5	-7.7	-7.5	-6.4
Official FX Reserves (US\$ bn)	15.1	18.7	23.0	28.1	34.6
Fiscal Balance, % of GDP	-4.7	-2.2	-1.3	-0.9	-0.2
Primary Balance, % of GDP	-2.1	2.7	3.3	4.1	4.9
Public Debt, % of GDP	299.5	125.8	106.5	95.7	84.4

*Official reserves exclude gold and BdL holdings of government Eurobonds

Source: Institute of International Finance

Finance Ministry clarifies mechanism for disbursement of emergency social assistance to public sector personnel

The Ministry of Finance issued Decision 549/1, on September 16, 2021 that clarifies the mechanism for the disbursement of LB600bn in emergency social assistance to public sector workers, employees and retirees. It indicated that the individuals who will benefit from the assistance are the employees, contractual workers and wage earners 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. Also, it said that the amount of the social assistance would be equivalent to the value of the beneficiaries' basic salary or wage in August 2021, or to one month of pension payments for retirees. It added that the assistance will be disbursed in two equal payments.

In parallel, the ministry indicated that all involved public sector administrations will prepare payment ledgers in line with payroll ledgers, after verifying the accuracy of the information related to the beneficiaries' name, the level of their basic salary, the consequent amount of the social assistance, as well as their income tax dues. It added that the Treasury will organize with Banque du Liban the disbursement of the first payment on September 30, 2021 and the second payment before October 31, 2021. It noted that the amount will come from an advance from the Treasury.

Banque du Liban's forensic audit set to start

The Ministry of Finance (MoF) announced that Minister Youssef el Khalil signed the agreement with U.S.-based financial services firm Alvarez & Marsal Middle East Limited (A&M) to carry out a forensic audit of Banque du Liban (BdL) and other public institutions. The ministry said that the firm will submit its preliminary report within 12 weeks of the start of its work.

In July 2020, the Council of Ministers approved the proposal of the Ministry of Finance to retain A&M, KPMG and Oliver Wyman, in order to audit BdL. At the time, it indicated that the three firms may take between three to six months to complete the audit. In August 2020, A&M signed a \$2.1m contract with the MoF and began its work, but in November of the same year it informed the ministry that it decided to terminate its contract. The firm attributed its decision at the time to the fact that it did not receive all the needed information and documents to carry out the forensic audit and that it does not expect to receive them within the additional three-month extension that the Finance Ministry gave to BdL to submit the documents. The forensic audit of BdL has been subject to a public debate between BdL, government officials, political parties and experts, mostly about BdL's ability to submit the requested documents to A&M without breaching laws, particularly the banking secrecy law.

As a result, the Lebanese Parliament passed on December 21, 2020 Law 200 that lifts banking secrecy on the accounts of all ministries, public institutions and administrations, as well as of public bodies, agencies, councils and funds, and of all accounts at BdL. The law lifted the banking secrecy on these accounts for one year starting from the effective date of the law. On February 12, 2021 BdL announced that, in accordance with legal principles, it sent a letter to the MoF confirming its compliance with the full provisions of Law 200 and affirmed its cooperation with A&M on the questions that the firm addressed to BdL. In addition, it stressed the need for A&M to comply with the laws about data protection and the privacy of information, as well as with the European Union's General Data Protection Regulation (GDPR) in order to avoid any leakage of data or information, similar to the previous leakage to an international newspaper.

Under its contract agreement with the Ministry of Finance (MoF), A&M will conduct a preliminary forensic audit of BdL's activities and accounts. It will validate that the funds related to the financial transactions that occurred in or through BdL's accounts in the last five years have been used for their intended purposes. It will also examine if there were any amounts in these transactions that were inflated or unsubstantiated, and if any payments were made to 'fictitious' companies. Further, it will assess, review and analyze any potential "red flags that could indicate inappropriate financial reporting schemes, misappropriations, embezzlement, or the inappropriate use of funds". In addition, it will examine how the assets and liabilities of BdL have accumulated over time, as well as the composition of BdL's foreign currency reserves. It will also assess the conditions surrounding the issuance of government debt and BdL's subscription to debt instruments, and will examine the financial engineering transactions of the last five years, among other tasks.

New government faces substantial challenges

The UAE-based Emirates NBD Bank considered that the formation of the new Lebanese government and the authorities' vocal commitment to resume constructive talks with the International Monetary Fund (IMF) could pave the way for a new reform program and much-needed international financial support. However, it did not expect that the implementation of economic and financial reforms and the inflows of foreign funds to mitigate the impact of the multiple shocks that Lebanon has suffered over the past 18 months, and considered that risks to the outlook are significantly tilted to the downside.

It said that the explosion at the Port of Beirut on August 4, 2020, the COVID-19 outbreak, as well as the depreciation of the exchange rate and elevated inflation rates have significantly weighed on the economy, and that authorities have not made any tangible efforts to mitigate the impact of these factors. It considered that authorities will need substantial time and efforts to restart economic activity even if they manage to halt the economic contraction, and anticipated that the size of the economy will remain smaller than it was in 2019 for the next several years. It noted that the elevated inflation rates, the rising unemployment rate and the measures that authorities put in place to mitigate the impact of the pandemic, have substantially constrained private consumption. It added that fuel shortages have exacerbated Lebanon's long-standing power generation challenges, which has further weighed on private sector activity.

Further, it pointed out that the IMF is requiring the new government to step up efforts on a number of recommendations for the provision of any substantial support, beyond the urgent funding needs that it has recently provided through the allocation of \$1.13bn in Special Drawing Rights. It said that these recommendations include improving the weak governance in the public sector, strengthening the anti-corruption framework, restructuring the financial sector, and implementing a fiscal strategy. It noted that these measures are in line with those that the international community expected for the release of the funds that it pledged at the CEDRE conference in 2018, and that they have proved challenging for previous governments to implement given structural issues and vested interests.



Government formation offers opportunity to stabilize the economy

Bank of America (BofA) considered that the formation of a new Lebanese government after 13 months of institutional vacuum is an opportunity to stabilize the economy and initiate talks with the International Monetary Fund and official lenders. However, it anticipated that the country's weak track record of reforms and complex socio-political setup, as well as the approaching parliamentary elections and the continued influence of the political class, could hinder the authorities' efforts to pursue any substantial economic reforms in the near term.

Also, it expected that a change in the political landscape after the elections could improve the momentum for reforms, while it anticipated that a delay in the elections could signify sustained broad economic policy inaction.

In addition, it considered that the Ministerial Statement and the subsequent parliamentary vote of confidence in the government will shape the latter's economic priorities. It expected authorities to focus on the stabilization of the economy in the near term, the management of the cash card program, the solicitation of funds from international and regional donors, and the resumption of negotiations with the IMF.

In parallel, BofA indicated that Lebanon has been suffering from multiple and simultaneous crises, including a balance-of-payments crisis, a public finances and debt crisis, a banking crisis, as well as a humanitarian crisis. It added that the status quo of the past 18 months has resulted in an economic recession, and estimated that the economy contracted by more than 20% during the period. It also said that the economic contraction has been accompanied by hyperinflation, a significant depreciation of the exchange rate on the parallel market, shortages in essential goods, as well as by the emigration of young Lebanese. It expected that the introduction of the cash card program could alleviate the humanitarian crisis, but noted that authorities have not secured funding for the program beyond the first year.

It noted that the current account deficit has substantially narrowed, and expected the lifting of subsidies to start to limit the decline in foreign currency reserves at Banque du Liban (BdL). It also attributed the narrower nominal fiscal deficit in 2020 mainly to lower primary expenditures, and to the authorities' decision to suspend all payments on its outstanding Eurobonds starting in March 2020, as well as to the government's decision to ask BdL to reimburse to the Treasury all interest payments on its holdings of domestic debt.

Upgrade of sovereign ratings contingent on reforms and public debt sustainability

Moody's Investors Service considered that the formation of a new Lebanese government is only the first step for the authorities to contain the country's economic crisis, to restructure the public debt and the liabilities of the financial sector, as well as to implement a more sustainable growth model that is geared towards domestic production.

Also, it said that the sustained drawdown of foreign currency reserves at Banque du Liban (BdL) has exacerbated the economic crisis in the absence of financial support from official lenders. It noted that emergency funding from the International Monetary Fund is conditional on the significant improvement of governance in the public sector, that include the auditing of public institutions, particularly BdL and the state-owned and money losing *Eléctricité du Liban*, a comprehensive debt restructuring that would ensure the solvency of public finances and of the banking system, the unification of the multiple exchange rates, and formal capital controls.

Further, the agency considered that the country's track record of missed opportunities to implement reforms despite external support, due to political deadlock, raises the risk that the new government will not be able to step up the required efforts to turn around the economy. As such, it said that it would upgrade its rating on the sovereign from 'C' currently, in case authorities implement reforms that would put the public debt on a sustainable path, lead to sustained primary surpluses, reduce the inflation rate, and support a return to economic growth.

Banque du Liban's foreign assets at \$17.9bn, gold reserves at \$16.6bn at mid-September 2021

Banque du Liban's (BdL) interim balance sheet reached \$159bn on September 15, 2021, constituting increases of 7% from \$148.6bn at end-2020 and of 2.3% from \$155.5bn a year earlier. Assets in foreign currency totaled \$17.9bn at mid-September 2021, representing a decrease of \$6.2bn, or of 25.6%, from the end of 2020 and a drop of \$10.2bn (-36.3%) from \$28.2bn at mid-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 \$12.9bn at mid-September 2021 and fell by \$6.2bn, or by 32.3%, from the end of 2020 and by \$10.2bn (-44.3%), from \$23.1bn at mid-September 2020. 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 \$16.6bn at mid-September 2021, constituting decreases of \$711m (-4.1%) from the end of 2020 and of \$1.5bn (-8.4%) from \$18.13bn a year earlier. The value of gold reserves reached its peak in mid-September 2020. Also, the securities portfolio of BdL totaled \$40.8bn at mid-September 2021, increasing by \$808m (+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% from mid-September 2020. Further, deposits of the financial sector stood at \$106.2bn at mid-September 2021 and declined by \$2.3bn from a year earlier. In addition, public sector deposits at BdL reached \$7.2bn at mid-September 2021, and increased by \$2.7bn from the end of 2020 and by \$1.9bn from a year earlier.

Amount of cleared checks down 28%, returned checks down 53% in eight months of 2021

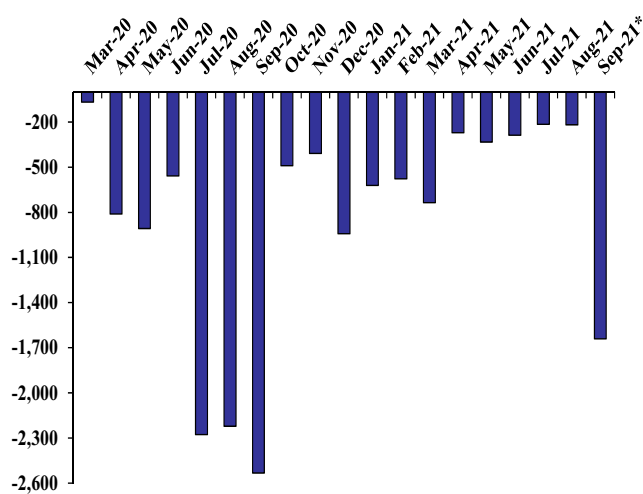
The amount of cleared checks reached \$26.1bn in the first eight months of 2021, constituting a drop of 27.6% from \$36.1bn in the same period of 2020. In comparison, the amount of cleared checks decreased by 3.6% in the first eight months of 2020 and declined by 15.2% in the same period of 2019 from the corresponding periods of the preceding year. The dollar figures are converted at the official exchange rate of the Lebanese pound against the US dollar. The amount of cleared checks in Lebanese pounds reached the equivalent of \$12.3bn in the first eight months of 2021 and regressed by 3.7% from the same period last year, while the amount of cleared checks in foreign currencies was \$13.8bn and contracted by 40.7% in the covered period. Also, there were 2.35 million cleared checks in the first eight months of 2021, down by 41% from 4 million checks in the same period last year. The dollarization rate of cleared checks regressed from 64.5% in the first eight months of 2020 to 52.7% in the same period of 2021, while the number of checks denominated in foreign currencies accounted for 53.3% of total cleared checks in the covered period compared to 50% a year ago.

In addition, the amount of cleared checks totaled \$2.2bn in August 2021, constituting a contraction of 32.6% from \$3.3bn in the preceding month and a decrease of 42% from \$3.8bn in August 2020. Also, the amount of cleared checks in Lebanese pounds reached the equivalent of \$1.3bn in August 2021, as it declined by 31.4% from \$1.8bn in July 2021 and regressed by 11.4% from \$1.4bn in August 2020. Further, the amount of cleared checks in foreign currencies was \$955m in August 2021, as it dipped by 34% from the previous month and dropped by 60.4% from August 2020. There were 192,282 cleared checks in August 2021 relative to 276,802 cleared checks in the preceding month and to 402,752 cleared checks in August 2020.

In parallel, the amount of returned checks in local and foreign currencies was \$331m in the first eight months of 2021 compared to \$701.2m in the same period of 2020 and to \$926m in the first eight months of 2019. This constituted a drop of 52.8% in the first eight months of 2021 relative to decreases of 24.3% and 8.9% in the first eight months of 2020 and 2019, respectively. The amount of returned checks in Lebanese pounds and in foreign currencies reached \$107.5m and \$224m, respectively, in the first eight months of 2021, and declined by 53.4% and 52.4% year-on-year, respectively. Also, there were 18,759 returned checks in the first eight months of 2021, down by 79.4% from 91,046 checks in the same period of 2020. The number of returned checks in foreign currencies reached 11,348 in the first eight months of 2021 and fell by 76.7% from the first eight months of 2020, while the number of returned checks in Lebanese pounds totaled 7,411 and retreated by 82.5% year-on-year.

Further, the amount of returned checks in domestic and foreign currencies stood at \$23.9m in August 2021 compared to \$32.5m in the previous month and to \$54.4m in August 2020. Also, there were 1,535 returned checks in August 2021, relative to 1,863 returned checks in July 2021 and to 4,698 checks in August 2020.

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



*at mid-September 2021

Source: Banque du Liban, Byblos Research

Registered real estate transactions up 2% to \$9bn in first eight months of 2021

Figures released by the Ministry of Finance show that the ministry registered 58,053 real estate transactions in the first eight months of 2021, constituting an increase of 29% from 45,047 in the same period of 2020. In comparison, it registered 31,131 real estate transactions in the first eight months of 2019 and 38,102 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 six-month period ending August 2021 following closures in the first two months of the year, as well as the higher number of registered transactions relative to March, April and May 2020, when Lebanon witnessed the first round of coronavirus-related lockdown measures. Moreover, the ministry registered 10,413 real estate transactions in August 2021, constituting a rise of 24.5% from 8,366 in July 2021, compared to 7,438 transactions in August 2020.

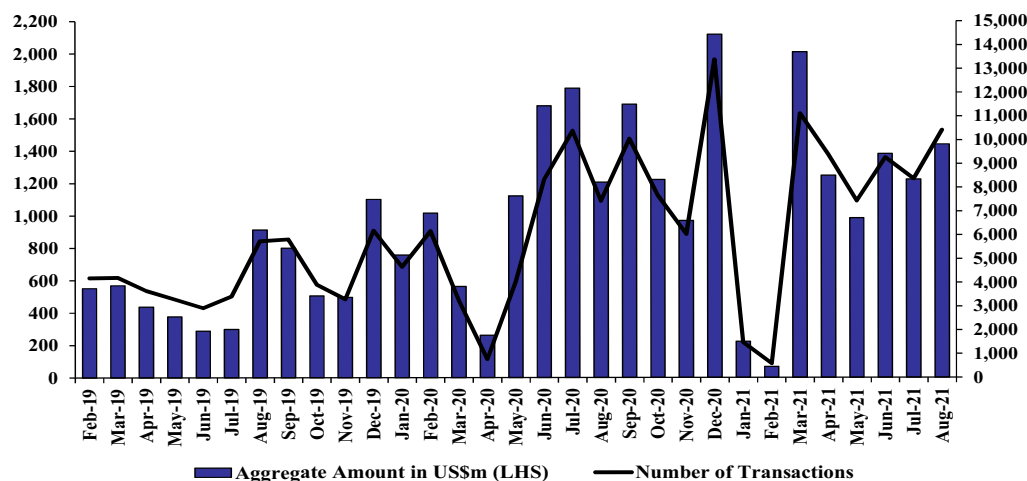
Further, there were 12,294 real estate transactions in the Baabda region in the first eight months of 2021, representing 21.2% of the total. The North followed with 8,134 deals (14%), then the South with 6,894 transactions (12%), the Keserwan area with 6,686 transactions (11.5%), the Metn district with 6,394 deals (11%), the Zahlé region with 5,712 deals and the Nabatieh area with 5,674 transactions (9.8% each), and Beirut with 4,456 deals (7.7%).

The aggregate amount of registered real estate transactions reached \$8.58bn in the first eight months of 2021 and increased by 2.2% from \$8.39bn in the same period of 2020. In comparison, the amount of real estate deals surged by 113% in the first eight months of 2020 and decreased by 23.5% in the same period of 2019 from the first eight months of 2019 and 2018, respectively. Further, the value of registered real estate transactions in Beirut amounted to \$2.36bn and accounted for 27.5% of the total in the first eight months of 2021. The Baabda area followed with \$1.67bn (19.4%), then the Metn district with \$1.37bn (16%), the Keserwan area with \$1.03bn (12%), the South with \$829.9m (9.7%), the North with \$624.5m (7.3%), the Zahlé area with \$319.1m (3.7%), and the Nabatieh region with \$281.8m (3.3%). The amount of registered real estate transactions in the North rose by 53.4% in the first eight months of 2021 from the same period of 2020, followed by the amount of deals in the Zahlé area (+22.2%), the Nabatieh region (+20.5%), the South (+19.6%), the Baabda district (+17.7%), and the Keserwan region (+5.2%). In contrast, the amount of registered real estate transactions in Beirut dropped by 18% in the first eight months of 2021 and those in the Metn district regressed by 6.4% from the same period last year. In addition, the aggregate amount of real estate transactions reached \$1.44bn in August 2021, constituting an uptick of 17.8% from \$1.22bn in July 2021 and compared to \$1.21bn in August 2020.

In parallel, the average amount per registered real estate transaction was \$147,724 in the first eight months of 2021, down by 20.7% from an average of \$186,230 in the same period of 2020. Further, there were 833 real estate transactions executed by foreigners in the first eight months of 2021, compared to 620 deals in the same period of 2020 and to 646 transactions in the first eight months of 2019. The number of real estate deals by foreigners accounted for 1.4% of the registered real estate transactions in the covered period, unchanged from the first eight months of 2020 and down from 2.1% in the same period of 2019.

Further, 29.2% of real estate transactions executed by foreigners in the first eight months of 2021 were in the Baabda area, followed by the South (17%), the Metn district (14.5%), Beirut (13.3%), the Keserwan region (12%), the North (7.4%), the Zahlé area (5%), and the Nabatieh region (1.6%). 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%).

Number and Amount of Real Estate Transactions



Consumer Price Index up 123% year-on-year in July 2021

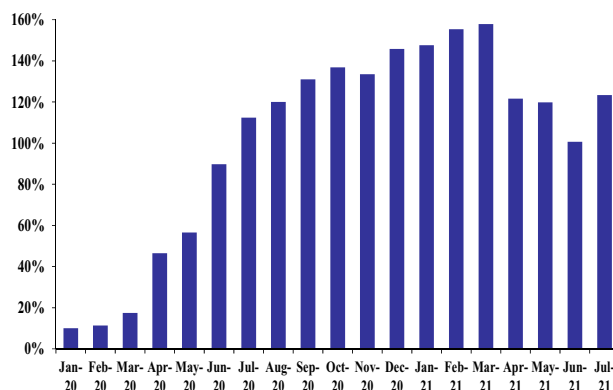
The Central Administration of Statistics' Consumer Price Index increased by 128.2% in the first seven months of 2021 from the same period of 2020. In comparison, it grew by 49.3% and by 3% in the first seven months of 2020 and 2019, respectively.

The CPI rose by 123.4% in July 2021 from the same month of 2020, while it registered its 13th consecutive triple-digit increase since July 2020. The cumulative surge in inflation is due in part to the inability of authorities to monitor and contain prices, as well as to the deterioration of the Lebanese pound's exchange rate on the parallel market, which has encouraged opportunistic wholesalers and retailers to raise the prices of consumer goods disproportionately. In addition, the smuggling of subsidized imported goods has resulted in shortages of these products locally, which contributed to the rise in prices. Further, the recent emergence of an active black market for gasoline has put upward pressure on prices and on inflation. According to the International Monetary Fund, the CPI averaged 487.2% in 1987 and ended the year at 741.2%, constituting the highest inflation rates on record.

Prices at restaurants & hotels surged by 4.5 times in July 2021 from the same month last year, followed by the prices of food & non-alcoholic beverages (+4.3 times), transportation costs (+3.7 times), prices of alcoholic beverages & tobacco (+3.6 times), prices of furnishings & household equipment (+3.4 times), prices of clothing & footwear (+3.1 times), healthcare costs (+2.9 times), and the cost of miscellaneous goods & services (+2.7 times). In addition, the cost of recreation & entertainment increased by 115.2% year-on-year in July 2021, followed by the prices of water, electricity, gas & other fuels (+111.3%), communication costs (+33.6%), the cost of education (+10.5%), actual rent (+8.5%), and imputed rent (+4.8%). Also, the distribution of actual rent shows that new rent grew by 9.2% and old rent increased by 7.7% in July 2021 from the same month last year.

In parallel, the CPI increased by 24.1% in July 2021 from the previous month, compared to a month-on-month uptick of 9.7% in June 2021 and of 6.1% in May 2021. The cost of healthcare jumped by 139.5% month-on-month in July 2021, followed by prices of food & non-alcoholic beverages (+34.5%), prices at restaurants & hotels (33%), prices of alcoholic beverages & tobacco (+27%), transportation costs (+24.6%), prices of water, electricity, gas and other fuels (+24%), the cost of miscellaneous goods & services (+20.7%), prices of clothing & footwear (+14.8%), prices of furnishings & household equipment (+13.5%), the cost of recreation & entertainment (+7.2%), communication costs (+2.5%), actual rent (+0.9%) and imputed rent (+0.6%). Also, the cost of education were unchanged in July 2021 from the preceding month. Further, the CPI increased by 32.2% in Nabatieh, by 27.1% in the Bekaa, by 25.8% in the North, by 24.8% in Beirut, by 23.8% in the South, and by 21.8% in Mount Lebanon, during July 2021 from the previous month. In parallel, the Education Price Index was unchanged, while the Fuel Price Index increased by 58.3% month-on-month in July 2021.

Annual Change in CPI (%)



Source: Central Administration of Statistics, Byblos Research

CMA CGM ratings upgraded with 'positive' outlook

Moody's Investors Service upgraded the corporate family rating of the Lebanese-owned and France-based container-shipping firm CMA CGM from 'B1' to 'Ba3', as well as its probability of default rating from 'B1-PD' to 'Ba3-PD', and its senior unsecured bond ratings from 'B3' to 'B2'. Also, it maintained the 'positive' outlook on the ratings.

It attributed its decision to the firm's strong operating performance and to the decline of its debt level in recent quarters, as a result of a significantly better operating environment in the shipping market, as well as due to the implementation of efficiency measures and financial policies that focused on debt reduction and on maintaining a good liquidity profile. It added that the 'positive' outlook reflects the improvement in the firm's credit and debt metrics, as well as its liquidity management strategy from 2022 onwards.

The agency pointed out that the company's credit metrics have continued to improve following the acquisition of CEVA Logistics in 2019. It said that the firm's debt was equivalent to 1.5 times its earnings before interest, taxes, depreciation and amortization (EBITDA) in June 2021, down from 5.1 times in 2019. It added that the company's debt declined by more than \$3bn since the beginning of 2019, mainly due to large asset sales and strong free cash flow generation. However, it considered that the firm's ratings are constrained by the absence of a formal financial plan that includes a dividend policy and leverage target.

Further, it indicated that the ongoing disruptions in global supply chains due to the coronavirus outbreak pushed the profitability of container shipping companies to record highs in the first half of 2021. It noted that very strong demand for goods, a shortage of containers and container ships, as well as infrastructure bottlenecks, led to a surge in freight rates. In parallel, Moody's expected that the robust demand for transportation will support freight rates, amid an increase in the industry's capacity. As such, it anticipated trade volumes to expand despite the rise in freight rates.

CMA CGM is one of the largest container shipping companies in the world and operates a fleet of 566 vessels, with a capacity of 3 million TEUs that serves over 420 commercial ports.

Bank Audi posts losses of \$159m in first half of 2021

Bank Audi sal, one of six listed banks on the Beirut Stock Exchange, declared unaudited consolidated net losses of \$159m in the first half of 2021 compared to losses of \$51m in the same period of 2020. The bank's net interest income reached \$529.6m in the first half of 2021, constituting an increase of 33.8% from \$396m in the same period of 2020; while it posted losses of \$16.9m on its net fees and commissions receipts in the covered period relative to losses of \$114.1m in the first half of 2020. Further, the bank's net operating income totaled \$78.5m in the first half of 2021 and decreased by 64.2% from \$219.3m in the same period of 2020. In addition, the bank's operating expenditures reached \$233m in the first half of 2021, down by 7.1% from \$250.7m in the same period last year, with personnel cost accounting for 59.5% of the total.

In parallel, the bank's aggregate assets amounted to \$28bn at the end of June 2021 and declined by 21% from \$35.4bn at end-2020. Net loans & advances to customers totaled \$5.5bn at end-June and decreased by 9% from \$6.1bn at end-2020. Further, customer deposits reached \$20.6bn and regressed by 4% from \$21.4bn at end-2020. Also, net loans & advances to related parties amounted to \$53.3m, while deposits from related parties stood at \$125.6m at end-June 2021. In parallel, the bank's shareholders' equity was \$2.75bn at the end of June and declined by 6.8% in the first half of 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 2019

Ratings & Outlook

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

*for downgrade

**CreditWatch negative

Source: Rating agencies

Banking Sector Ratings

	Outlook
Moody's Investors Service	Negative

Source: Moody's Investors Service



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