

LEBANON THIS WEEK

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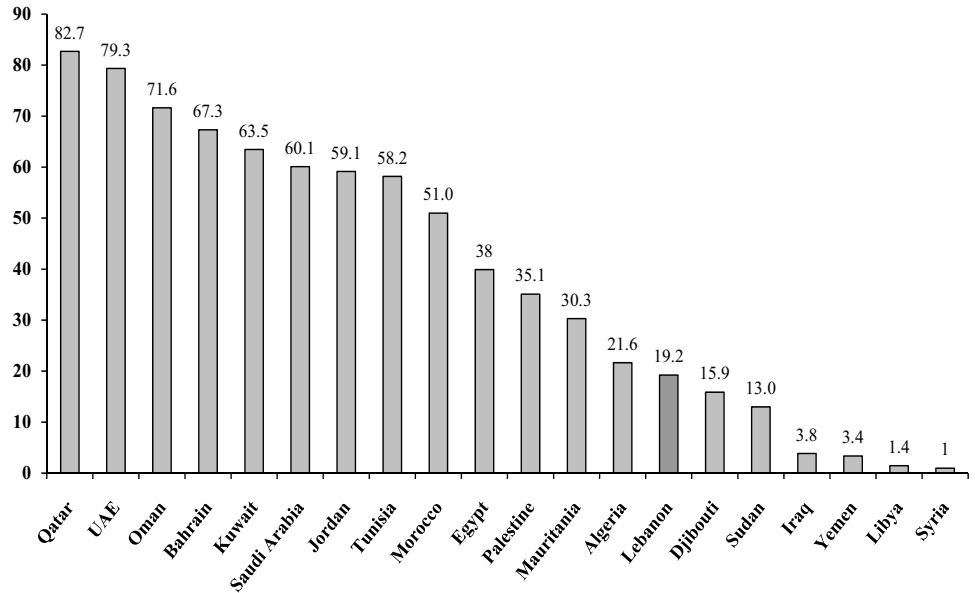
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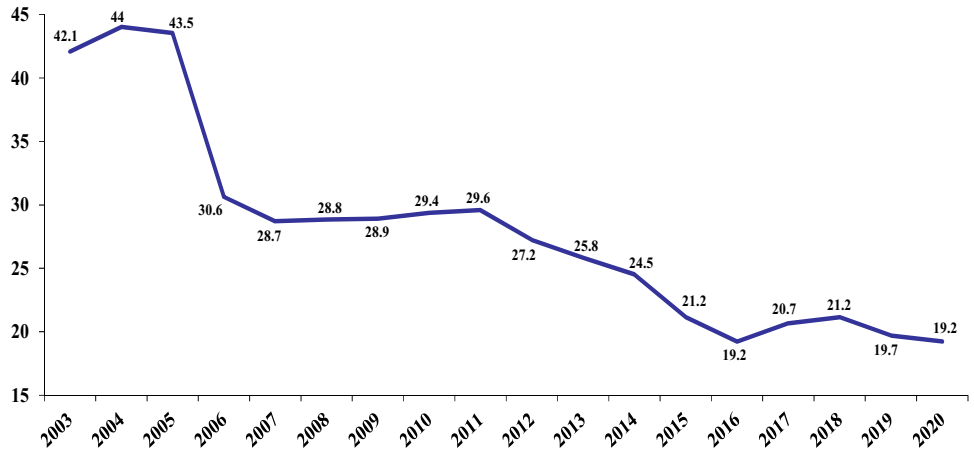
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Charts of the Week

Percentile Rank of Arab Countries in terms of the Rule of Law in 2020 (%)



Percentile Rank of Lebanon on the Rule of Law Indicator (%)



Source: World Bank Governance Indicators for 2020, Byblos Research

Quote to Note

"There is a need to launch negotiations with the International Monetary Fund and to reach an agreement with the IMF before the end of the year."

Mr. Pierre Duquesne, Ambassador of France in charge of coordinating international support to Lebanon, on the existing window of opportunity for Lebanese authorities

Number of the Week

120,000: Number of beneficiaries so far from Circular 158 about exceptional measures related to the gradual disbursement of funds from deposit accounts in foreign currency, 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**	3,544	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 %
Solidere "A"	30.05	1.9	146,577	29.5%	Oct 2022	6.10	15.75	316.04
BLOM Listed	3.50	(0.3)	39,000	7.4%	Jan 2023	6.00	15.75	209.67
Solidere "B"	29.83	1.1	36,588	19.0%	Apr 2024	6.65	15.75	88.39
Audi Listed	2.45	6.5	4,348	14.2%	Jun 2025	6.25	15.75	57.38
Byblos Common	0.92	2.2	4,000	5.1%	Nov 2026	6.60	15.75	39.54
Audi GDR	2.49	9.2	1,700	2.9%	Feb 2030	6.65	15.75	23.35
BLOM GDR	3.55	(9.0)	583	2.6%	Apr 2031	7.00	15.75	20.38
Byblos Pref. 09	37.99	0.0	-	0.7%	May 2033	8.20	15.75	16.59
Byblos Pref. 08	34.99	0.0	-	0.7%	Nov 2035	7.05	16.63	13.18
HOLCIM	18.03	0.0	-	3.5%	Mar 2037	7.25	18.00	11.42

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

Source: Refinitiv

	Oct 4-8	Sep 27- Oct 1	% Change	September 2021	September 2020	% Change
Total shares traded	239,104	467,081	(48.8)	3,142,850	5,962,048	(47.3)
Total value traded	\$5,681,487	\$3,248,077	74.9	\$52,497,394	\$26,011,896	101.8
Market capitalization	\$10.19bn	\$10.02bn	1.66	\$10.04bn	\$6.25bn	60.6

Source: Beirut Stock Exchange (BSE)



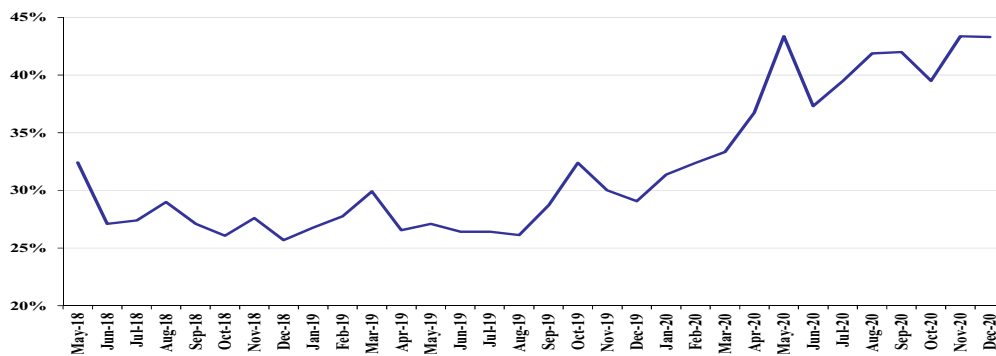
More than 43% of surveyed Lebanese in December 2020 expected real estate prices to increase in coming six months

The Byblos Bank survey about real estate price perception in Lebanon, which has a starting point of May 2018, shows that 42% of surveyed Lebanese in the fourth quarter of 2020 expected the prices of residential units or apartments across the country to increase in the following six months, the highest quarterly average since the start of the time series, compared to 41% of respondents who had the same opinion in the third quarter of 2020, as well as relative to 39.2% in the second quarter of 2020, 32.4% in the first quarter of 2020, 30.5% in the fourth quarter of 2019, and to an average of 27.2% per quarter between May 2018 and the third quarter of 2019.

The share of Lebanese who have expected an increase in the prices of residential real estate has been on an upward trend since September 2019. In fact, 27% of the survey's participants anticipated a rise in prices in the first eight months of 2019, with this share picking up to 30% between September and December 2019. Also, the share of Lebanese who believe that residential real estate prices would increase exceeded 30% consistently on a monthly basis since January 2020, reached a peak of 43.4% in May 2020, stabilized at about 42% in September, and increased again to 43.4% in November and 43.3% in December 2020. Further, the share of Lebanese who expected in December 2020 residential real estate prices to increase was significantly higher than the monthly average of 38.7% for full year 2020, as well as than the monthly average of 28.1% for 2019 and to the average of 27.8% in the May to December 2018 period. In comparison, 31.8% of Lebanese in December 2020 anticipated real estate prices to stay the same in the following six months, while 25% projected a decrease in prices in the next six months.

The perception of Lebanese about the trajectory of residential real estate prices has been tilted towards an increase in prices, with the share of Lebanese who are anticipating a stagnation in prices regressing from nearly 50% in August 2019 to 42% at the end of 2019, 41% in March, 39% in June, 34.4% in September, and 31.8% in December 2020. In parallel, the percentage of Lebanese who are expecting prices to decrease fluctuated between 22.4% and 29% between August 2019 and December 2020.

Share of Respondents Expecting an Increase in Real Estate Prices in Following Six Months

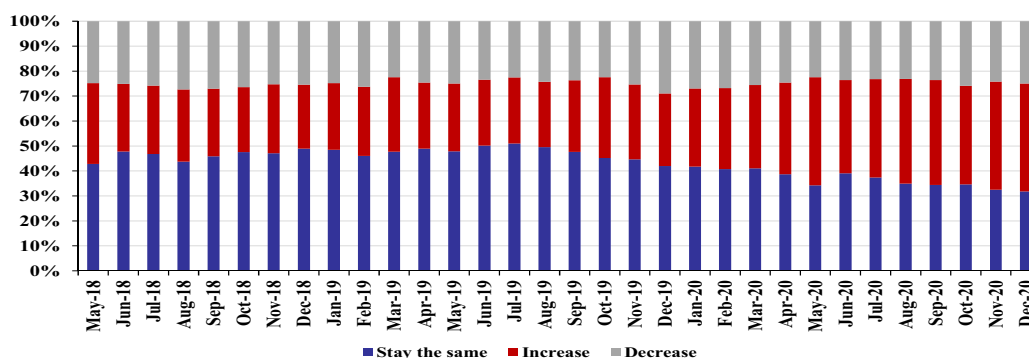


Source: Byblos Bank Economic Research & Analysis Department

The perception about higher real estate prices in Lebanon is due in large part to the rise in demand for residential real estate since the fourth quarter of 2019, after years of stagnation in demand, as a result of the crisis that erupted in October 2019. In fact, the sustained migration of a share of deposits from the banking sector to the real estate sector triggered the increase in demand for real estate in general and for residential units in particular. This trend reinforced the perception that the increase in prices will continue as long as depositors are attempting to redeploy their funds from banks. Further, the different asking prices for the same residential unit, which have depended on the method of payment, have inflated prices disproportionately, with sellers discounting their prices if the transaction is settled in cash in part or in full.

The survey is based on a face-to-face monthly survey of a nationally representative sample of 1,200 males and females living throughout Lebanon. The surveyed persons are asked about their expectations for the prices of residential units or apartments in the following six months. The Byblos Bank Economic Research & Analysis Department has been compiling the survey's monthly data since May 2018. The survey has a margin of error of $\pm 2.83\%$, a confidence level of 95% and a response distribution of 50%. The monthly field survey was conducted by Statistics Lebanon Ltd, a market research and opinion-polling firm.

Respondents' Perception about Real Estate Prices in Coming Six Months



Source: Byblos Bank Economic Research & Analysis Department, based on surveys conducted by Statistics Lebanon

Compensation of public-sector personnel absorbs 66.5% of public revenues in first quarter of 2021

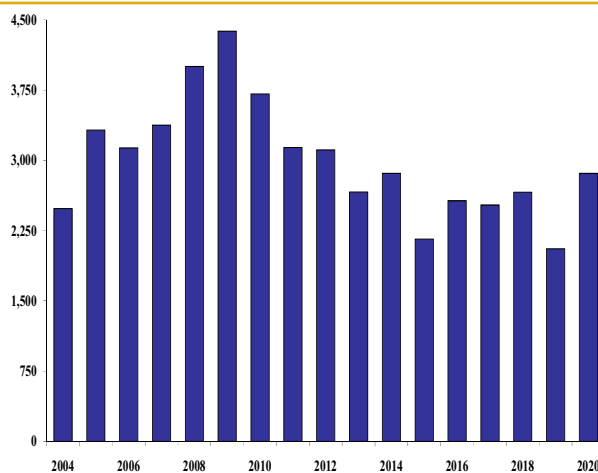
Figures issued by the Ministry of Finance show that the compensation of public-sector personnel totaled LBP2,274bn, or the equivalent of \$1.5bn, in the first quarter of 2021, constituting a decrease of 11% from \$1.7bn in the same period of 2020. Salaries, wages and related benefits accounted for 63% of the total, followed by retirement benefits (31.7%), transfers to public institutions to cover salaries (3.6%), and end-of-service indemnities (1.7%). The dollar figures are based on the official exchange rate of the Lebanese pound to the US dollar. Further, end-of-service indemnities dropped by 64.2%; transfers to public institutions to cover salaries declined by 27%; and salaries, wages and related benefits decreased by 12%; while retirement salaries increased by 2.3% in the covered period. The compensation of public-sector personnel represented the largest component of current primary spending and accounted for 68.6% of such expenditures in the first quarter of 2021 compared to 66% in the same period of 2020. It also represented 48.8% of fiscal spending in the first three months of 2021 relative to 43.7% in the same period of 2020; while it absorbed 66.5% of public revenues in the first three months of 2021 relative to 76.1% of government receipts in the same period of 2020.

In parallel, salaries, wages and related benefits paid to public-sector workers amounted to LBP1,432bn, or the equivalent of \$950m, in the first quarter of 2021 compared to \$1.08bn in the same period of 2020. This category includes basic salaries, employment benefits, allowances, contributions to civil servants' cooperatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly civil and religious judges, and employees at the Parliament. The breakdown of salaries, wages and related benefits paid to public-sector employees shows that allowances decreased by \$86.9m, while basic salaries regressed by \$17.2m, and benefits and other payments given to non-military bodies declined by \$11.3m year-on-year. Benefits include payments for transportation, overtime and family-related benefits, while other payments to non-military bodies consist of the State's contribution to mutual funds and to the National Social Security Fund, as well as bonuses, among others. Basic salaries decreased by 2.3% to \$727.7m in the first three months of 2021, allowances regressed by 38.2% to \$140.6m, and benefits and other payments dropped by 26.2% to \$31.8m from the first three months of 2020. In addition, salaries and benefits of military personnel reached \$661m and accounted for 69.5% of salaries, wages and related benefits paid to public sector employees in the first three months of 2021. The salaries and benefits of personnel in public education followed with \$155.2m (16.3% of the total), then civil staff with \$90.2m (9.5%), government contribution to employees cooperative with \$30.5m (3.2%), and the salaries and benefits of customs employees with \$13.3m (1.4%). Also, the Lebanese Army's salaries and benefits totaled \$410m and represented 62% of the salaries and benefits of military personnel. The salaries of the Internal Security Forces followed with \$184.4m (28%), then those of the General Security Forces with \$51.7m (7.8%), and the salaries of State Security Forces with \$14.6m (2.2%).

Foreign direct investments in Lebanon at \$2.9bn in 2020

Figures released by Banque du Liban show that foreign direct investments (FDI) in Lebanon totaled \$2.86bn in 2020, constituting an increase of 39.2% from \$2.05bn in 2019, relative to a decrease of 22.7% in 2019. FDI in Lebanon reached \$998.6m in the first quarter of 2020, \$555.2m in the second quarter, \$746.6m in the third quarter, and \$560.4m in the fourth quarter of 2020. They grew by 54.5% in the first three months of the year from the same quarter of 2019, rose by 41% in the second quarter, surged by 73.7% in the third quarter, and declined by 4.2% in the fourth quarter of 2020 from the same period of the previous year. FDI figures in 2020 consist largely of the transfer of non-resident deposits at local commercial banks to the real estate sector, according to the IMF's balance of payments methodology to record the movement of non-resident deposits, rather than foreign flows of capital into local projects. FDI inflows during the 2002-2020 period reached a high of \$4.38bn in 2009 and a low of \$1.34bn in 2002. They averaged \$2.9bn annually between 2002 and 2020, but they increased from an annual average of \$2.75bn during the 2002-07 period to a yearly average of \$3bn between 2008 and 2020. Further, FDI inflows were equivalent to 12.7% of GDP in 2020 compared to 3.8% of GDP in 2019.

Foreign Direct Investment Inflows (US\$m)



Source: Banque du Liban, Byblos Research

In parallel, FDI outflows from Lebanon amounted to \$52.9m in 2020, constituting a drop of 82.5% from \$302.5m in 2019 and relative to a decrease of 52% in 2019. FDI outflows from Lebanon totaled \$70.2m in the first quarter of 2020, -\$19.2m in the second quarter, -\$30.2m in the third quarter, and, \$32.1m in the fourth quarter of 2020. They declined by 47.2% in the first quarter of the year from the same quarter of 2019 and contracted by 152.2% annually in the fourth quarter of 2020; while they shifted from FDI inflows in the second and third quarter of 2019 to divestments in the same quarters of 2020. In addition, FDI outflows averaged \$822.5m annually between 2002 and 2020, but they increased from an annual average of \$646.1m during the 2002-07 period to a yearly average of \$904m between 2008 and 2020, with a high of \$1.98bn in 2013 and a low of \$0.2m in 2002. Further, FDI outflows from Lebanon were equivalent to 0.2% of GDP in 2020 compared to 0.6% of GDP in 2019.

As such, according to the IMF's methodology, net FDI inflows to Lebanon totaled \$2.81bn in 2020, constituting a rise of 60.3% from \$1.75bn in 2019, relative to a decrease of 13.6% in 2019. Net FDI inflows to Lebanon averaged \$2.08bn annually between 2002 and 2020, but they decreased from an annual average of \$2.4bn during the 2002-12 period to a yearly average of \$1.65bn between 2013 and 2020. Net FDI inflows to Lebanon were equivalent to 12.4% of GDP in 2020 compared to 3.3% of GDP in 2019.

Lebanon ranks 96th globally, sixth among Arab countries in terms of economic freedom

The Fraser Institute's 2021 Index of Economic Freedom ranked Lebanon in 96th place among 165 countries globally and in sixth place among 21 Arab economies. Based on the same set of countries, Lebanon's global rank regressed by 13 spots from the 2020 survey, while its regional rank deteriorated by two notches year-on-year.

The index measures the extent that a country's policies and institutions support economic freedom. It includes 42 variables distributed into five broad factors of economic freedom that are the Size of Government, the Legal System & Property Rights, Access to Sound Money, Freedom to Trade Internationally, and the Regulation of Credit, Labor & Business. A country's overall score ranges from zero to 10, with a higher score reflecting a higher level of economic freedom.

Globally, Lebanon had a higher level of economic freedom than Tanzania, Kuwait and Russia, and a lower level than Bhutan, Sri Lanka and Namibia. Lebanon received a score of 6.76 points, down from 6.88 points in the 2020 survey. Lebanon's score was lower than the global average of 6.93 points. It also came below the average of Gulf Cooperation Council (GCC) countries of 6.99 points, while it came above the Arab average score of 6.25 points, and the average of non-GCC economies of 5.96 points.

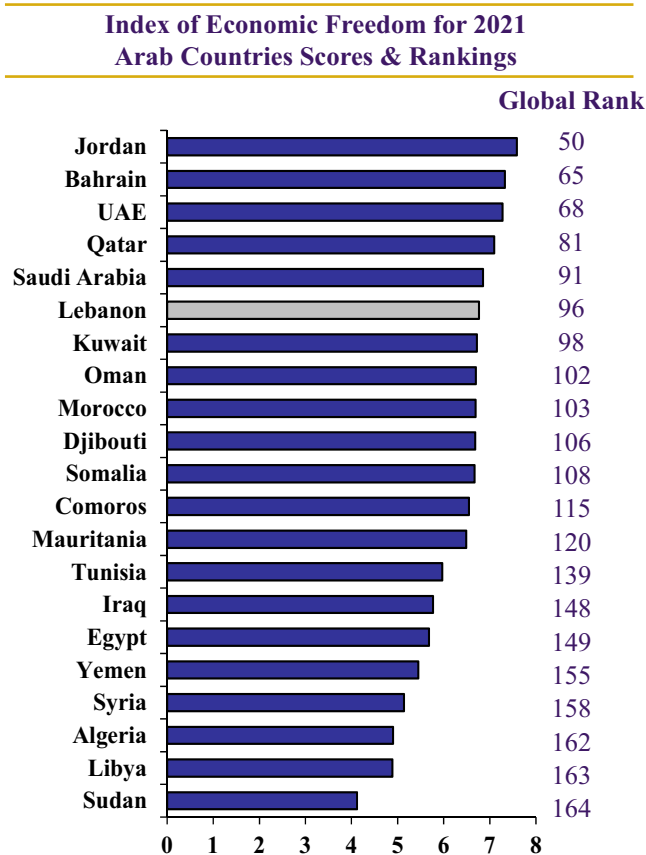
Lebanon's score on the Freedom to Trade Internationally and the Regulation of Credit category dropped by 13%, its score on the Legal System & Property Rights indicator declined by 2.8%, its score on the Size of Government factor regressed by 1.3%, and its score on the Regulation of Credit, Labor & Business indicator decreased by a marginal of 0.2% from the 2020 survey. In parallel, Lebanon's score improved by 1.5% on the Access to Sound Money category.

Lebanon preceded Burundi and Burkina Faso, and trailed Honduras and Algeria on the Legal System & Property Rights category. This category assesses the level of judicial independence, the protection of property rights, the integrity of the legal system and the legal enforcement of contracts, among other factors. The survey noted that this indicator is the most important function of government, and that countries with major deficiencies in this category are unlikely to economically prosper, regardless of their performance in the other four categories.

Further, Lebanon ranked ahead of India and Zimbabwe, and came behind Fiji and Gabon on the Freedom to Trade Internationally category, which assesses how trade takes place across national boundaries. This indicator measures a wide variety of trade restrictions, such as tariffs, quotas, hidden administrative restraints, as well as controls on exchange rates and the movement of capital.

In addition, Lebanon preceded Bangladesh and Albania, and trailed Indonesia and Georgia on the Size of Government indicator. This category assesses the levels of government expenditures, of tax rates and of public investments.

The Fraser Institute is a Canada-based independent research organization whose mission is to study and measure the impact of competitive markets and government intervention on the welfare of individuals.



Source: Fraser Institute, Byblos Research

Components of the 2021 Economic Freedom Index for Lebanon

	Global Rank	Arab Rank	Lebanon Score	Global Avg Score	Arab Avg Score
Size of Government	22	2	8.12	6.77	6.30
Access to Sound Money	73	3	9.19	8.32	7.87
Legal System & Property Rights	129	11	4.14	5.31	4.17
Regulation of Credit, Labor & Business	130	12	6.46	7.13	6.58
Freedom to Trade Internationally	139	13	5.91	7.12	6.34

Source: Fraser Institute, Byblos Research

Broad money supply unchanged in first eight months of 2021, currency in circulation up 30%

Figures released by Banque du Liban show that money supply M1, which includes currency in circulation and demand deposits in Lebanese pounds, reached LBP52,465bn at the end of August 2021, constituting an increase of 30.7% from LBP40,156bn at the end of 2020 and a rise of 70% from LBP30,887bn at end-August 2020. Currency in circulation stood at LBP37,992bn at the end of August, and surged by 30% in the first eight months of the year and by 83.7% from LBP20,677bn at end-August 2020. Also, demand deposits in local currency stood at LBP14,473bn at end-August 2021, representing an increase of 32.6% in the first eight months of the year and a rise of 41.8% from the end of August 2020. Money supply M1 grew by 1.5% in August from LBP51,669bn at the end of the previous month, with currency in circulation decreasing by a marginal 0.3% and demand deposits in local currency expanding by 6.7% month-on-month. The increase in money supply largely reflects the migration of term deposits to demand deposits, as well as the shift to a cash-based economy.

In addition, money supply M2, which includes M1 and term deposits in Lebanese pounds, reached LBP75,147bn at the end of August 2021, constituting increases of 11.3% in the first eight months of the year and of 24% from LBP60,614bn a year earlier. Term deposits in Lebanese pounds totaled LBP22,681bn at the end of August 2021, declining by 17% from LBP27,354bn at end-2020 and by 23.7% from LBP29,728bn at end-August 2020. Money supply M2 expanded by 0.5% in August from the previous month, with term deposits in local currency contracting by 1.7% month-on-month.

Further, broad money supply M3, which includes M2, deposits in foreign currency and debt securities issued by the banking sector, reached LBP200,811bn at the end of August 2021, representing a marginal increase of 0.4% in the first eight months of the year and an upturn of 2% from LBP196,773bn at end-August 2020. Deposits in foreign currency totaled LBP125,337bn at the end of August 2021, down by 5% from end-2020 and by 7.6% from a year earlier. Also, debt securities issued by the banking sector amounted to LBP328bn at the end of August 2021 compared to LBP519bn at the end of 2020 and to LBP503bn at end-August 2020. Money supply M3 decreased by a marginal of 0.2% from the preceding month, while deposits in foreign currency regressing by 0.6% and debt securities issued by the banking sector contracting by 1% month-on-month. In parallel, M3 grew by LBP758.8bn in the first eight months of 2021 due to a surge of LBP18,871bn in other items, which was partly offset by a drop of LBP7,713bn in the claims of the private sector, a decline of LBP5,939bn in net claims on the public sector, and a downturn of LBP4,462bn in the net foreign assets of deposit-taking institutions.

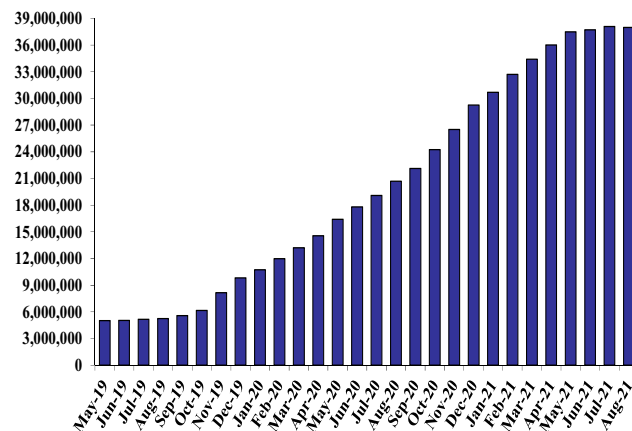
Treasury transfers to Electricité du Liban down 63% to \$73m in first two months of 2021

Figures released by the Ministry of Finance show that Treasury transfers to Electricité du Liban (EdL) totaled \$72.8m in the first two months of 2021, constituting a decline of 62.7% from \$195m in the same period of 2020. Treasury transfers covered reimbursements for the purchase of natural gas, fuel and gas oil, and did not include any debt servicing payments on behalf of EdL.

The decline in transfers is mainly due to a decrease of \$121.3m in reimbursements for the purchase of natural gas, fuel and gas oil, which mostly consists of payments to the Kuwait Petroleum Corporation and to the Algerian energy conglomerate Sonatrach.

Treasury transfers to EdL accounted for 4.6% of budgetary primary expenditures in the first two months of 2021 relative to 8.8% in the same period of 2020. They constituted the fifth largest expenditure item, or 3.8% of overall fiscal spending, after personnel cost with 32.6%, interest payments (17.7%), payments to hospitals (6%), and outlays to the Higher Council of Relief (4.3%). EdL transfers were equivalent to 5.1% of GDP in 2012, 4.3% of GDP in 2013, 4.4% of GDP in 2014, 2.3% of GDP in 2015, 1.8% of GDP in 2016, 2.5% of GDP in 2017, 3.2% of GDP in 2018, 2.8% of GDP in 2019, and 3.2% of GDP in 2020.

Currency in Circulation (LBP Millions)



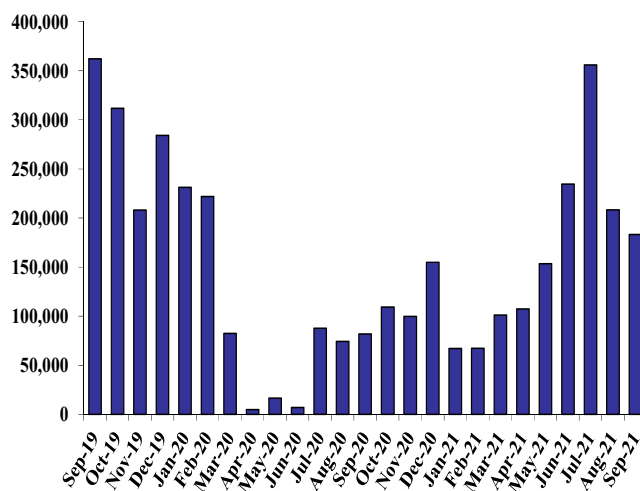
Source: Banque du Liban, Byblos Research

Number of airport passengers up 78% in first nine months of 2021

Figures released by the Beirut-Rafic Hariri International Airport (HIA) show that 3.1 million passengers utilized the airport (arrivals, departures and transit) in the first nine months of 2021, constituting an increase of 77.6% from 1.8 million passengers in the same period of 2020, and relative to 7.04 million passengers in the first nine months of 2019. The increase in the number of airport passengers in the three quarters of 2021 is mainly due to the gradual relaxation of lockdown measures and travel restrictions in Lebanon and in many country-sources of travelers to Lebanon, and to the resumption of travel activity in most countries.

The number of arriving passengers reached 1.5 million in the first nine months of 2021, and increased by 83% from 807,949 passengers in the same period of 2020, and compared to 3.5 million incoming passengers in the first nine months of 2019. Also, the number of departing passengers totaled 1.6 million in the first three quarters of 2021 and grew by 74% from 0.9 million outbound passengers in the same period last year, relative to 3.5 million departures in the first nine months of 2019.

Number of Arriving Passengers



Source: Beirut-Rafic Hariri International Airport

In parallel, the airport's aircraft activity totaled 28,700 take-offs and landings in the first nine months of 2021, representing an increase of 47% from 19,515 takeoffs and landings in the same period of 2020. In comparison, aircraft activity dropped by 65.6% in the first three quarters of 2020 and expanded by a marginal 0.5% in the same period of 2019. In addition, the HIA processed 51,374 metric tons of freight in the first nine months of 2021 that consisted of 19,602 tons of import freight and 31,772 tons of export freight. Middle East Airlines had 9,645 flights in the covered period and accounted for 33.6% of the HIA's total aircraft activity.

Recovery plan requires buy-in from domestic stakeholders

Global investment bank Goldman Sachs considered that the Lebanese Parliament's vote of confidence in the new government represents the first step towards lifting the economy out of its current crisis, but it noted that authorities are likely to face challenges and risks to the implementation of the necessary and long overdue reforms. It said that the government's policy statement stipulated the immediate priority of re-engaging with the International Monetary Fund in order to reach an agreement on an IMF-supported recovery program, which would unlock bilateral and multilateral support, mainly the substantial funds that the international community pledged at the CEDRE conference in 2018. It noted that this would also allow the government to conclude negotiations with creditors and to restructure \$31bn in Eurobonds that the previous government defaulted on in March 2020.

It stressed the need for the government to articulate a detailed recovery plan that includes near-term measures to stabilize the economy and public finances, and longer-term reforms to ensure the sustainability of public finances. It considered that the recovery plan should meet the expectations and requirements of domestic stakeholders and of potential external partners that are likely to provide financing, such as the IMF, other bilateral and multilateral partners, and financial investors.

It anticipated that the agreement among the various stakeholders on potential economic and financial measures, as well as on the distribution of embedded losses in the financial sector, will be the subject of fierce political debate and will constitute a major risk to the economic recovery. But it stressed that reaching an agreement on these issues is a prerequisite for unlocking financial support from Lebanon's external partners.

In addition, it said that the recovery plan should address the economy's underlying weaknesses by implementing fiscal reforms, mainly to the energy sector and the state-owned and money-losing Electricité du Liban, as well as reducing public expenditures and broadening and deepening the public revenues base. It added that the plan needs to incorporate financial and monetary reforms, such as unifying the multiple exchange rates and abandoning the peg of the Lebanese pound to the US dollar. Also, it considered that the plan should contain measures to improve the economy's international competitiveness, to boost exports, and to reduce the economy's dependence on remittance inflows. It added that the plan should introduce political reforms, such as strengthening accountability and reducing corruption in the public sector in order to re-establish confidence in the political system, which it deems crucial for the credibility of the government's commitment to reforms.

In parallel, it considered that authorities need to balance boosting public revenues and stimulating exports against higher public spending and imports, and anticipated that the path to a sustainable equilibrium will take several years. As such, it stressed that international financial support, including from the IMF and the funds pledged at the CEDRE conference in 2018, is critical for the government's near- to medium-term financing needs.

Increase in food prices in Lebanon remains highest in MENA region

In its periodic assessment of the impact of the COVID-19 pandemic on food-price inflation in the Middle East & North Africa (MENA) region, the World Bank indicated that prices in Lebanon have surged across all food categories between February 14, 2020 and September 27, 2021. It assessed the change in food prices in 19 countries in the MENA region across five main food categories that are carbohydrates, dairy products, fruits, meats, and vegetables. For comparative purposes, the average price increases of food items in the MENA region exclude the price increase of these products in Lebanon.

The prices of fresh or frozen cattle meat in Lebanon jumped by 116% in the covered period, constituting the highest increase in the price of this item in the region. Lebanon, along with Djibouti, Yemen, Kuwait and Syria were the only countries in the region that posted a rise of more than 20% in the prices of fresh or frozen cattle meat. In comparison, the price of fresh or frozen cattle meat grew by an average of 12.5% in the MENA region excluding Lebanon.

In addition, the price of potatoes in Lebanon climbed by 60.2% between February 14, 2020 and September 27, 2021, representing the highest increase in the price of this vegetable in the region. Lebanon and Djibouti were the only countries in the MENA region that posted increases above 20% in the price of potatoes, compared to an average growth of 4.2% in MENA countries.

Also, the price of processed liquid milk in Lebanon surged by 57% in the covered period. Lebanon posted the third highest growth rate in the price of this product in the region after Djibouti and Iran, relative to an average increase of 10.5% among MENA countries excluding Lebanon.

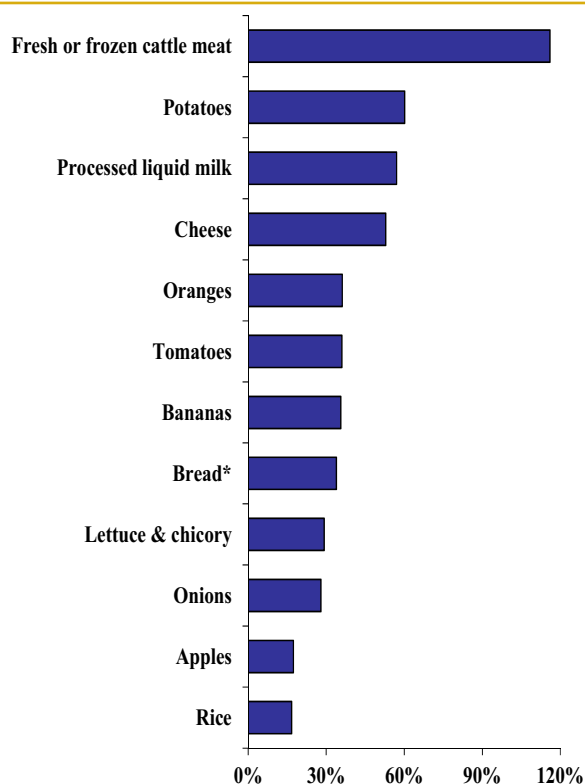
Further, the price of cheese in Lebanon rose by 53% between February 14, 2020 and September 27, 2021, the highest increase in the prices of cheese regionally, relative to an average price expansion of 6.6% among MENA countries, excluding Lebanon. Also, the prices of oranges jumped by 36.2% in the covered period, representing the second most significant price leap in the region after Yemen. In comparison, the prices of oranges expanded by an average of 8% in MENA countries.

Also, the prices of tomatoes in Lebanon rose by 36% in the covered period, constituting the second highest upturn in the price of this vegetable among MENA countries after Syria, and compared to an average growth of 10% regionally. Also, the prices of bananas surged by 35.6% between February 14, 2020 and September 27, 2021, representing the highest increase in the price of this fruit in the MENA region.

In parallel, the price of bread and other manufactured articles sold at bakeries in Lebanon expanded by 34% in the covered period, representing the fourth highest increase in bread prices among MENA countries, behind prices in Syria (+88.5%), Tunisia (+41%) and Iran (+40.2%). In comparison, the price of bread rose by an average of 15.4% in MENA countries excluding Lebanon. Also, the prices of lettuce and onions in Lebanon soared by 29.2% and 28%, respectively, between February 14, 2020 and September 27, 2021.

According to the World Bank, the price of apples in Lebanon surged by 17.4% between February 14, 2020 and September 27, 2021, constituting the third highest uptick in the price of this fruit regionally after Yemen and Syria, and compared to an average price increase of 3.3% in the MENA region excluding Lebanon. Also, the price of rice jumped by 16.7% in the covered period, representing the fourth highest increase in the price of this product among MENA countries, behind prices in Syria (+39.8%), Yemen (+33.6%), Qatar (+27.2%) and Tunisia (+14.1%).

Change in Food Prices in Lebanon (%)
(between February 14, 2020 and September 27, 2021)



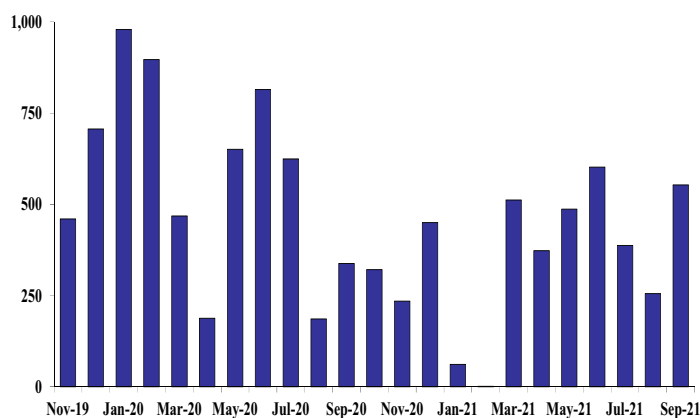
*bread and other manufactured articles sold at bakeries
Source: World Bank, Byblos Research

New car sales down 37% in first nine months of 2021

Figures released by the Association of Automobile Importers (AIA) in Lebanon show that dealers sold 3,231 new passenger cars in the first nine months of 2021, constituting a decline of 37.2% from 5,146 cars sold in the same period of 2020 and a drop of 83.7% from 19,865 in the first nine months of 2019.

Individuals and institutional clients purchased and registered 61 new cars in January, one new vehicle in February, 512 new automobiles in March, 373 cars in April, 487 vehicles in May, 602 new cars in June, 387 new vehicles in July, 255 new automobiles in August and 553 new cars in September 2021. In comparison, clients bought 979 new vehicles in January, 897 automobiles in February, 468 new cars in March, 188 vehicles in April, 651 new automobiles in May, 815 in June, 624 new cars in July, 186 new vehicles in August and 338 automobiles in September 2020.

Number of New Passenger Cars Sold



Source: Association of Automobile Importers

The AIA indicated that the drop in the sales of new cars in the covered period is due to the deterioration of political, economic and financial conditions in the country, to the numerous closing days of the cars registration center during July, August and September of this year due to extensive power shortages, as well as to the fluctuations of the exchange rate of the US dollar on the parallel market.

Also, the market for new passenger cars in Lebanon has been facing increasing challenges in the past few years, including the contraction in economic activity, job insecurity and, more recently, the shortage of foreign currency liquidity in the local market, the emergence of a parallel exchange rate market, the reduced purchasing power of consumers, and a very low level of household confidence. Further, the AIA considered that a large number of car dealerships could close down and lay off their employees, and that car sales could further deteriorate in the coming months.

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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