

# LEBANON THIS WEEK

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Stock market capitalization up 59% to \$10bn at end of October 2021

Term deposits account for 66% of customer deposits at end-August 2021

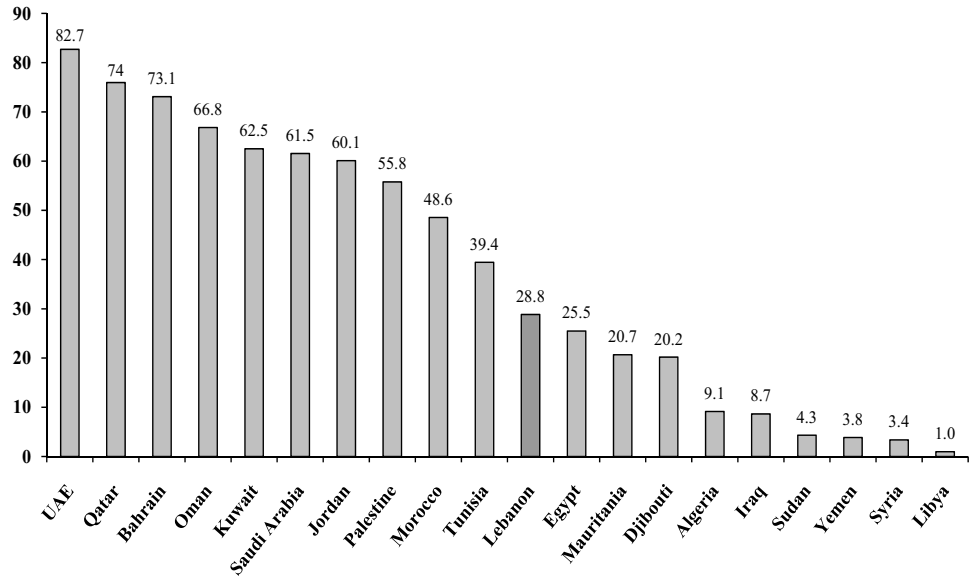
Banking sector has 1,058 branches at end-March 2021

Import activity of top five shipping firms and freight forwarders up 29% in first eight months of 2021

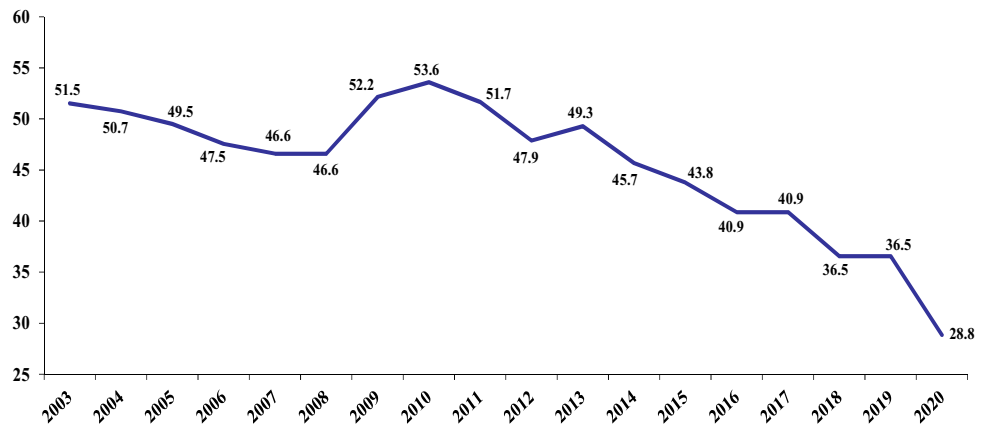
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## Charts of the Week

Percentile Rank of Arab Countries in terms of Regulatory Quality in 2020 (%)



Percentile Rank of Lebanon on the Regulatory Quality Indicator (%)



Source: World Bank Governance Indicators for 2020, Byblos Research

## Quote to Note

"The passage of a capital controls law, which was sent to Parliament in late July, would be a sign of a gathering reform momentum."

*Bank of America, on one of the reasons for the Lebanese Parliament to enact a capital controls law*

## Number of the Week

**69:** Lebanon's rank among 134 countries in terms of talent retention, according to the INSEAD Global Competitiveness Index for 2021

## 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	97.24	97.77	98.15	5.4
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"	29.51	-1.7%	98,567	28.9%	Oct 2022	6.10	15.00	359.41
Byblos Common	0.91	1.1%	34,442	5.0%	Jan 2023	6.00	15.00	230.82
Solidere "B"	29.45	-4.6%	24,793	18.7%	Apr 2024	6.65	15.00	93.54
BLOM GDR	3.55	0.0	23,683	2.6%	Jun 2025	6.25	15.00	60.08
Audi Listed	2.62	6.9%	13,577	15.1%	Nov 2026	6.60	15.00	41.15
BLOM Listed	3.61	0.3%	12,000	7.6%	Feb 2030	6.65	15.00	24.16
Audi GDR	2.40	7.1%	11,000	2.8%	Apr 2031	7.00	15.00	21.07
HOLCIM	18.03	0.0	1,177	3.4%	May 2033	8.20	15.00	17.13
Byblos Pref. 08	34.99	0.0	-	0.7%	Nov 2035	7.05	15.00	14.02
Byblos Pref. 09	37.99	0.0	-	0.7%	Mar 2037	7.25	15.00	12.71

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

Source: Refinitiv

	Oct 25-29	Oct 19-22	% Change	October 2021	October 2020	% Change
Total shares traded	220,819	430,749	(48.7)	1,964,896	933,600	110.5
Total value traded	\$3,944,826	\$7,281,338	(45.8)	\$21,414,837	\$11,588,882	84.8
Market capitalization	\$10.21bn	\$10.23bn	(0.17)	\$10.21bn	\$6.45bn	58.5

Source: Beirut Stock Exchange (BSE)



### Fiscal deficit equivalent to 17% of expenditures in first four months of 2021

Figures released by the Ministry of Finance show that the fiscal deficit reached LBP993bn, or \$658.7m, in the first four months of 2021 and narrowed by 62.4% from a deficit of LBP2,640bn, or \$1.75bn in the same period of 2020. The dollar figures are based on the official exchange rate of the Lebanese pound to the US dollar. The deficit was equivalent to 16.6% of total budget and Treasury expenditures relative to 35.8% of spending in the first four months of 2020. Government spending reached \$3.96bn in the first four months of 2021 and dropped by 19% from the same period of 2020, while revenues stood at \$3.31bn and grew by 5% year-on-year. The narrowing of the deficit was caused by a contraction of \$930.8m in spending from lower debt servicing cost and Treasury transfers to Electricité du Liban (EdL), as well as by an increase of \$161.6m in revenues.

On the revenues side, tax receipts rose by 11.7% year-on-year to LBP3,669bn, or \$2.43bn in the first four months of 2021, of which 26%, or LBP958.6m (\$636m) were in VAT receipts that surged by 66.3% annually due in large part to accelerating inflation. Tax receipts accounted for 79.6% of budgetary revenues and for 73.6% of Treasury and budgetary income in the covered period. The distribution of other tax receipts shows that revenues from taxes on income, profits & capital gains declined by 12% to \$1.02bn in the covered period; receipts from customs grew by 21.8% to \$313m; revenues from property taxes rose by 90% to \$310.2m; proceeds from stamp fees increased by 34% to \$106.2m; while revenues from taxes on goods & services plunged by 64.4% to \$50.3m.

The distribution of income tax receipts shows that the tax on interest income accounted for 50.3% of income tax revenues in the first four months of 2021, followed by the tax on wages & salaries with 24.5%, the tax on profits with 20%, and the capital gains tax with 4.6%. Revenues from the tax on capital gains jumped by 108%, receipts from the tax on profits surged by 94.5% and proceeds from the tax on wages & salaries increased by 39%, while revenues from the tax on interest income fell by 39.3% in the covered period. Also, revenues from the inheritance tax surged by 215.5% to \$43.7m, proceeds from the built property tax jumped by 96.3% to \$67.7m and receipts from real estate registration fees expanded by 73% to \$198.7m and in the first four months of 2021.

Further, non-tax budgetary receipts grew by 60.3% year-on-year to \$623.5m in the covered period. They mainly included \$437m in revenues generated from government properties that rose by 106%, as well as \$111.4m in receipts from administrative fees and charges that grew by 2% annually. Receipts from telecommunication services jumped by 185% to \$377.8m in the first four months of 2021, and accounted for 86.4% of income from government properties and for 60.6% of non-tax budgetary revenues. In parallel, Treasury receipts decreased by 57% to \$248.6m in the covered period.

On the expenditures side, total budgetary spending, which includes general expenditures and debt servicing, declined by 22.2% to \$3.53bn in the first four months of 2021. General spending regressed by 14.8% to \$2.88bn in the covered period, and included \$256.8m in transfers to EdL that fell by 33.6% year-on-year, and \$641.5m in outlays from previous years that shrank by 41.7% annually, among other general spending items. Also, debt servicing totaled \$650.3m in the covered period and contracted by 43.7% from the first four months of 2020. Interest payments on Lebanese pound-denominated debt declined by 39% to \$604m in the first four months of 2021, while debt servicing on foreign currency debt fell by 91% to \$11.1m, following the government's decision to suspend all payments on its outstanding Eurobonds starting in March 2020. In addition, Treasury expenditures, excluding transfers to EdL, increased by 20.5% year-on-year to \$438m in the covered period. Further, the primary budget balance posted a surplus of \$181m in the first four months of 2021, equivalent to 5% of budgetary expenditures, while the overall primary balance registered a deficit of \$8.5m, or 0.2% of spending.

Fiscal Results in First Four Months of Each Year			
	2020 (US\$m)	2021 (US\$m)	Change (%)
Budget Revenues	2,568	3,057	19.1%
Tax Revenues	2,179	2,434	11.7%
Non-Tax Revenues	389	623	60.3%
<i>of which Telecom revenues</i>	133	378	184.8%
Budget Expenditures	4,532	3,527	-22.2%
<b>Budget Surplus/Deficit</b>	<b>(1,964)</b>	<b>(469)</b>	<b>-76.1%</b>
<i>In % of budget expenditures</i>	<i>-43.3%</i>	<i>-13.3%</i>	
<b>Budget Primary Surplus/Deficit</b>	<b>(809)</b>	<b>181</b>	
<i>In % of budget expenditures</i>	<i>-17.9%</i>	<i>5.1%</i>	
Treasury Receipts	577	249	-56.9%
Treasury Expenditures	364	438	20.5%
Total Revenues	3,144	3,306	5.1%
Total Expenditures	4,895	3,965	-19.0%
<b>Total Surplus/Deficit</b>	<b>(1,751)</b>	<b>(659)</b>	<b>-62.4%</b>
<i>In % of total expenditures</i>	<i>-35.8%</i>	<i>-16.6%</i>	
<b>Total Primary Surplus/Deficit</b>	<b>(596.2)</b>	<b>(8.5)</b>	<b>-98.6%</b>
<i>In % of total expenditures</i>	<i>-12.2%</i>	<i>-0.2%</i>	

Source: Ministry of Finance, Byblos Research



### **Main U.S. exports to Lebanon shrink significantly on impact of crisis**

The United States Department of Commerce's 2021 Country Commercial Guide (CCG) for Lebanon indicated that, despite the small size of its economy, Lebanon has offered unique market opportunities for U.S. firms, and that U.S. products and services have wide demand among Lebanese consumers. However, it noted that the recent challenging conditions that Lebanon has been facing could weigh on the country's potential as a market for U.S. goods and services. It stressed that there will be opportunities for U.S. companies in Lebanon if authorities implement overdue economic and governance reforms, attract foreign capital, stabilize the exchange rate, and re-capitalize the financial sector. It noted that Lebanon has the legal underpinnings of a free-market economy, a highly educated labor force, and limited restrictions on investors, but it pointed out that the economic and financial crisis in the country generated challenging market conditions. It added that the crisis disrupted the repatriation of profits by U.S. and other international firms, and that shortages of foreign currency liquidity has led some contracts to be fulfilled in Lebanese pounds rather than in US dollars.

In addition, it considered that corruption and a lack of transparency continue to cause frustration among local and foreign businesses. It pointed out that other impediments include bureaucratic over-regulation and institutionalized corruption, arbitrary licensing decisions, complex customs procedures, outdated legislation, an ineffectual judicial system, high taxes and fees, elevated telecommunication charges and slow Internet speed, poor electricity provision, inconsistent interpretation of laws, as well as the weak enforcement of intellectual property rights. It added that Lebanon has fragmented and opaque tendering and procurement processes, which have been a deterrent for foreign investments.

The CCG said that the U.S. exported \$936m worth of goods to Lebanon in 2020, which accounted for 8.2% of total Lebanese imports, compared to U.S. exports of \$1.71bn or 9% of Lebanese imports in 2019. It noted that the U.S. was the largest source of imports to Lebanon in 2020, followed by Greece, Turkey, China and Italy. It added that major U.S. exports to Lebanon in 2020 were mineral fuel & oil (\$258m), chemical industrial products (\$235m), vehicles (\$150m), vegetable products & prepared foodstuff (\$61m), and beverages & tobacco (\$25m). Further, it indicated that leading Lebanese sectors for U.S. exports and investments are the automotive market, the pharmaceuticals sector, medical equipment, the apparel sector, and the agricultural sector.

Also, it indicated that U.S. automotive exports to Lebanon dropped from \$253m in 2019 to \$102m in 2020. It said that the total imports of vehicles reached \$472m in 2020 relative to \$1.18bn in 2019, and that the U.S. share of the local market stood at 21% during the year. It noted that demand for U.S. sport utility vehicles in Lebanon has been driven by their ability to withstand the country's poor road conditions and by their competitive prices. It anticipated that demand will remain for U.S. automotive products such as brakes, clutches, engine lubricants and safety accessories because of their quality advantage over foreign competitors. It considered that strict controls that the local financial sector imposed on capital outflows have led to a major decrease in automotive exports to Lebanon. It anticipated new car sales to increase in 2021 relative to 2020, but to remain very low compared to historical averages. As such, it projected U.S. automotive exports to Lebanon at \$156m in each of 2021 and 2022.

Further, the CCG said that U.S. pharmaceutical exports to Lebanon regressed from \$147m in 2019 to \$120m in 2020 and accounted for 10% of the country's total pharmaceutical imports. It added that U.S. pharmaceutical products have an advantage over their European and Asian counterparts in the biotechnology, high-tech, anti-cancer and cardiovascular fields. In parallel, the U.S. Department of Commerce said that local production of pharmaceuticals covers approximately 5% of market demand and is mainly focused on manufacturing drugs under license for international companies. It noted that the sector continues to face several challenges, such as the high production cost of pharmaceuticals, the presence of counterfeit products, as well as a weak regulatory framework governing pharmaceuticals. Also, it said that Lebanon's ongoing economic crisis has resulted in a shortage of critical medication, and that Banque du Liban (BdL) has been subsidizing imports of pharmaceuticals to Lebanon. However, it indicated that BdL has reduced the amount of foreign currency available for these subsidies, which has resulted in higher prices for the medication that is available on the market, amid massive shortages of other medicines. Still, it expected Lebanon to remain dependent on the import of pharmaceutical products, and pointed out that U.S. companies that are present in the Lebanese market are working on solutions, including stricter controls on medicine distribution, in order to preserve their market share. It projected U.S. pharmaceutical exports to Lebanon at \$100m in each of 2021 and 2022.

In addition, the CCG indicated that the exports of U.S. medical equipment to Lebanon decreased from \$71m in 2019 to \$54m in 2020 and accounted for 27% of the country's total imports of medical equipment for the year. However, it pointed out the spread of COVID-19 virus supported the high demand for medical equipment in 2020. It forecast such exports at \$24m in each of 2021 and 2022. It considered that the sustained demand for U.S. medical equipment reflects their high quality and competitive value.

In parallel, it said that U.S. agricultural exports to Lebanon totaled \$89m in 2020 and accounted for 4% of Lebanon's agricultural imports, and that U.S. apparel exports to Lebanon dropped from \$6m in 2019 to \$2m in 2020 and accounted for 1.4% of the country's total apparel imports. It projected such exports to recover to \$3m in each of 2021 and 2022.



### Banque du Liban's foreign assets at \$18.7bn, gold reserves at \$16.5bn at end-October 2021

Banque du Liban's (BdL) interim balance sheet reached \$161.8bn at the end of October 2021, constituting increases of 8.8% from \$148.6bn at end-2020 and of 4.2% from \$155.2bn a year earlier. Assets in foreign currency totaled \$18.7bn at the end of October 2021, representing a decrease of \$5.4bn, or of 22.5%, in the first 10 months of the year and a drop of \$6.8bn (-26.6%) from \$25.4bn at end-October 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 \$13.64bn at end-October 2021 and regressed by \$122.5m, or by 0.9%, from \$13.76bn at end-September 2021, and by \$101.7m (-1%) from \$13.74bn at mid-October 2021. They dropped by \$5.4bn (-28.4%) in the first 10 months of the year and by \$6.8bn (-33.2%), from \$20.4bn at end-October 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. However, the decline in BdL's assets foreign currency was offset in part by the allocation of about \$1.13bn in Special Drawing Rights that the IMF transferred to BdL's account on September 16 of this year.

In parallel, the value of BdL's gold reserves amounted to \$16.5bn at end-October 2021, constituting decreases of \$790.4m (-4.6%) in the first 10 months of the year and of \$752m (-4.4%) from \$17.3bn at end-October 2020. The value of gold reserves reached a peak of \$18.13bn at mid-September 2020. Also, the securities portfolio of BdL totaled \$41bn at end-October 2021, increasing by \$1bn (+2.6%) from the end of 2020 and by \$1.1bn (+2.8%) from \$40bn from a year earlier. In addition, loans to the local financial sector totaled \$13.8bn, regressing by 3.4% from the end of 2020 and by 5.2% from end-October 2020. Further, the deposits of the financial sector stood at \$107.1bn at end-October 2021 and declined by \$1.4bn from a year earlier. In addition, public sector deposits at BdL reached \$6.7bn at end-October 2021, increasing by \$2.2bn in the first 10 months of the year and by \$2.4bn from a year earlier.

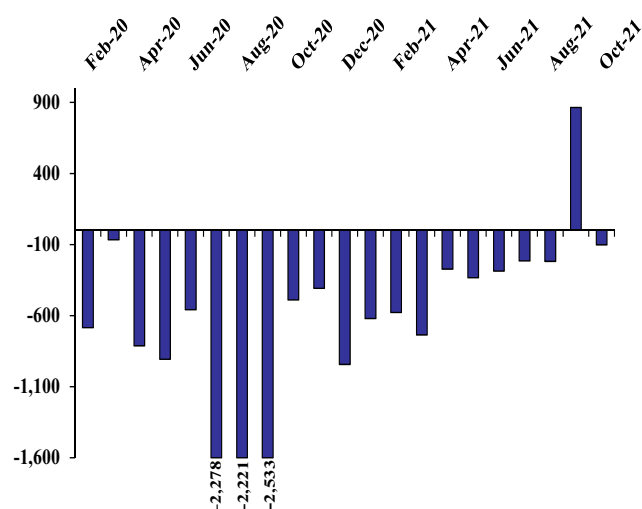
### Nearly 91% of Treasury securities in Lebanese pounds have five-year maturities or longer

Figures released by the Association of Banks in Lebanon show that the face value of outstanding Treasury securities denominated in Lebanese pounds reached LBP90,616bn or the equivalent of \$60.1bn, at the end of September 2021, compared to LBP87,757bn or \$58.2bn at end-September 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 6.57% in September 2021 compared to 6.48% September 2020.

The distribution of outstanding Treasury securities shows that 10-year Treasury bonds accounted for 38% or LBP34,514bn, five-year Treasury securities had a share of 25.2% (LBP22,883bn), and seven-year Treasury bonds represented 22.4% (LBP20,268bn) of aggregate securities denominated in Lebanese pounds at the end of September 2021. Also, the share of three-year Treasury bonds was 5.4% (LBP4,931bn), 12-year Treasury securities accounted for 3.4% of the total (LBP3,076bn), the share of two-year Treasury bonds was 2.5% (LBP2,255bn), 15-year Treasury securities represented 1.6% of the total (LBP1,417bn), one-year Treasury bills had a share of 1.2% (LBP1,082bn), six-month T-bills represented 0.16% (LBP151bn) and the share of three-month T-bills was 0.04% (LBP39bn) of the total. As such, 65.4% of outstanding Treasury securities have seven-year maturities or longer and 90.7% have five-year maturities or more.

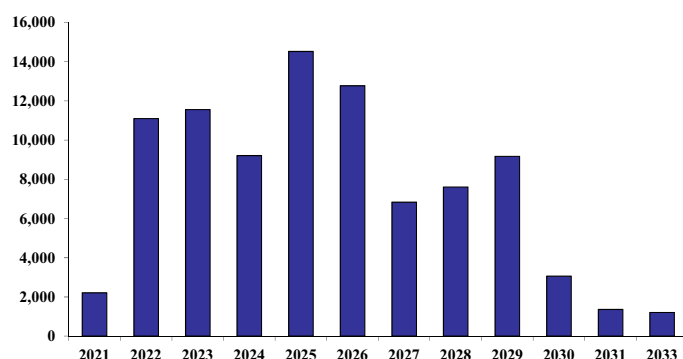
In parallel, LBP877m in outstanding Treasury securities denominated in Lebanese pounds matured in September 2021, of which 70.7% were five-year Treasury bonds, 14.8% consisted of one-year Treasury bills, 5.7% were three-year Treasury bonds and two-years Treasury securities, 1.7% constituted of three-month Treasury securities, and 1.4% were six-month Treasury bills. According to ABL, LBP2,209bn of outstanding Treasury bonds in Lebanese pounds will mature in the remainder of 2021, and LBP11,102bn will come due in 2022.

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



Source: Banque du Liban, Byblos Research

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



\*As at end-September 2021

Source: Association of Banks in Lebanon, Byblos Research

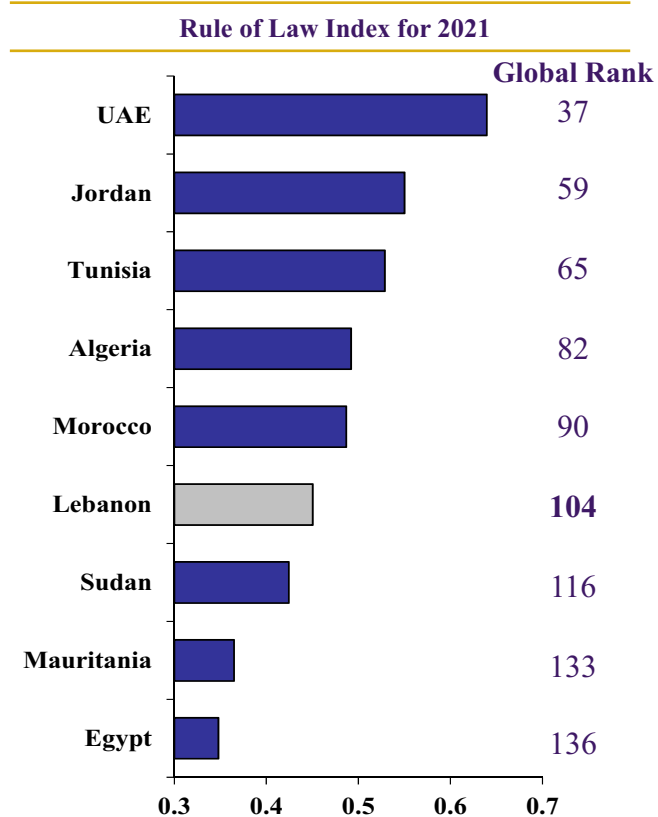
### Lebanon ranks in 104<sup>th</sup> place globally, sixth in Arab region on Rule of Law Index

The World Justice Project's Rule of Law Index for 2021 ranked Lebanon in 104<sup>th</sup> place among 139 countries around the world and in sixth place among nine Arab countries included in the survey. Based on the same set of countries included in the 2020 and 2021 surveys, Lebanon's global rank deteriorated by eight spots from the 2020 index, while its rank among Arab countries was unchanged year-on-year.

The index measures the implementation of the rule of law by aggregating 44 sub-factors into eight factors that are the Constraints on Government Powers, Absence of Corruption, Open Government, Fundamental Rights, Order & Security, Regulatory Enforcement, Civil Justice, and Criminal Justice. The scores and rankings of each factor and sub-factor are based on the results of an opinion poll of the general public and of a survey of legal professionals in each country. The scores range from zero to one point, with a score of one point reflecting the strongest adherence to the rule of law. The general population poll covers the three major urban areas in each country. The Lebanon survey covered 1,000 participants in Beirut, Sidon and Tripoli.

Globally, the implementation of the rule of law in Lebanon is better than in Côte d'Ivoire, Kenya, and Zambia, and is weaker than in Russia, the Philippines and Togo. Regionally, the rule of law in Lebanon is more effective than in Sudan, Mauritania and Egypt, while it is less effective than the UAE, Jordan Tunisia, Algeria and Morocco. Lebanon received a score of 0.45 points in the 2021 survey, nearly unchanged from 0.455 points in the 2020 survey. Lebanon's score came lower than the global average score of 0.56 points and the Arab countries' average score of 0.48 points.

In addition, the survey classified the 139 countries into four quartiles based on a country's score on each factor. The scores in the first quartile range from zero to 0.25 points and cover countries with the weakest adherence to the factors, followed by the second quartile with scores between 0.25 and 0.50 points, the third quartile with scores in the 0.50 to 0.75 points range, and the fourth quartile with scores between 0.75 to one point, with countries in the latter quartile demonstrating the strongest adherence to the factors. Lebanon came in the third quartile among 71 countries on the Order & Security factor; while it was in the second quartile on the Constraints on Government Powers along with 59 jurisdictions, as well as in the second quartile on the Absence of Corruption (78 economies), Open Government (69 countries), Fundamental Rights (49 economies), Regulatory Enforcement (72 jurisdictions), Civil Justice (63 countries), and Criminal Justice factors (81 countries).



Source: World Justice Project, Byblos Research

### Components of the 2021 Rule of Law Index for Lebanon

Factors	Global Rank	Arab Rank	Lebanon Score	Global Average Score	Arab Average Score
Constraints on Government Powers	84	4	0.49	0.55	0.46
Absence of Corruption	109	8	0.36	0.52	0.46
Open Government	100	3	0.42	0.53	0.37
Fundamental Rights	98	3	0.47	0.57	0.43
Order and Security	103	6	0.64	0.72	0.70
Regulatory Enforcement	106	6	0.44	0.54	0.47
Civil Justice	117	6	0.42	0.55	0.49
Criminal Justice	104	7	0.35	0.47	0.42

Source: World Justice Project, Byblos Research

### **Lebanon reaches deal for supply of electricity from Jordan**

The Ministry of Energy & Water reached on October 28, 2021 a final agreement with the energy and oil ministries of Jordan and Syria in order to deliver electricity from Jordan to Lebanon through Syria. The ministry said that Lebanon expects to receive 150 megawatts of electricity from midnight until 6 a.m., and 250 megawatts during the rest of the time, which will result in an additional supply of up to three hours of electricity per day in the country. The ministry indicated that the World Bank will extend a loan to Lebanon in order to cover the costs of importing and transporting electricity through the grid from Jordan. It added that the maintenance process and rehabilitation of Syria's electricity grid requires a few weeks and will be completed by the end of the current year at a cost of \$5.5m. It expected the supply of electricity from Jordan to begin by the end of this year.

The agreement is part of the authorities' efforts to increase the supply of electricity in Lebanon in light of the inability of Lebanon's main power provider, the state-owned Electricité du Liban (EdL) to meet demand for power in the country, as well as due to the acute shortages of fuel oil that the country needs for power generation and the lack of foreign currency for the imports of hydrocarbons, as well as.

In parallel, in July 2021, the Lebanese authorities reached a deal with their Iraqi counterparts that allows the Lebanese government to buy one million tons of heavy fuel oil from Iraq and to resell it through monthly spot tenders on behalf of EdL in order to meet power production needs in the country. The Ministry of Energy & Water said that the Iraqi heavy fuel oil is unsuitable for Lebanon's power plants, so the Lebanese government has been exchanging the imports with refined fuel oil through tenders to swap the Iraqi heavy fuel oil with 'Grade B' fuel oil. According to the signed agreement, the Lebanese authorities will buy one million tons of heavy fuel oil for the benefit of EdL in exchange for medical and consulting services, and Iraq will export two shipments per month to Lebanon. The volume is equivalent to one third of Lebanon's fuel oil needs for electricity production. The agreement between the two countries came after the contract between the Lebanese State and the Algerian energy conglomerate Sonatrach to supply fuel oil to Lebanon expired on December 31, 2020, which raised concerns about sourcing fuel oil for electricity generation in Lebanon. Further, in October 2021, the Energy Ministry signed a Memorandum of Understanding with the energy and oil ministries of Egypt, Jordan and Syria in order to deliver Egyptian natural gas to Lebanon through the Arab Gas Pipeline via Jordan and Syria. The ministry indicated that the supply of natural would allow Lebanon to generate up to 17 hours of electricity per day. It also said that Lebanon expects to receive 600 million cubic meters of gas annually that will allow it to generate 450 megawatts of electricity at the Deir Ammar power plant in the north of the country.

### **Economic Associations suggest steps for government recovery plan**

The Group of Economic Associations in Lebanon, which includes all the chambers of commerce, industry and agriculture in the country, as well as the Association of Banks in Lebanon, the Association of Lebanese industrialists, the Beirut Traders Association, the Association of Insurance Companies in Lebanon, and most of the other business and trade associations in the country, submitted to the new government nine suggestions for the country's economic recovery plan.

First, the group asked the government to rectify the previous government's financial recovery plan and to take into consideration the content of the group's suggestions to the preceding government that aimed to prevent severe damages to the economy. Second, it requested that authorities determine the responsibility of the state, Banque du Liban and commercial banks for the financial gap, and to distribute the losses fairly based on the responsibility of each party in order to restore investor confidence in the financial system domestically and abroad. It added that the authorities should properly manage the state's revenue-generating assets, mainly through private-public partnerships and Build-Operate-Transfer contracts, in order for the state to repay its debt and obligations, as well as to return deposits to depositors.

Third, it noted that authorities should re-engage in discussions with the International Monetary Fund on a funded program that takes in consideration the interests of the Lebanese economy, and that addresses the prevailing monetary and financial imbalances in the country, such as the prevailing multiple exchange rates. Fourth, it said that the government should address the social needs of the Lebanese population and alleviate the humanitarian crisis in the country by providing a social safety net, such as through the cash-card assistance program and negotiations with the IMF on social protection programs. It added that authorities should step up efforts to support vital social sectors, especially the education and healthcare systems in the country.

Fifth, the group stressed that the government needs to pass the budgets for 2021 and 2022, with the aim to revive the economy and contain the high inflation rate, and to boost private sector activity through financial incentives and tax exemptions. It added that authorities should avoid any additional tax burden and, instead, should step up efforts to reduce the size of the shadow economy, fight tax evasion and combat smuggling. Sixth, it called on authorities to commit to a reforms program that gains the support of the Lebanese population and the international community, especially the implementation of reforms included in previous budgets and of the reform packages submitted at past international conferences since 2002 until the CEDRE conference in 2018. It added that the international community has tied its financial support to the reforms, especially establishing regulatory authorities, updating the current customs law, activating regulatory and oversight bodies, as well as restructuring the public sector.

Seventh, it pointed out that the government should re-engage with the international community on the pledged financial support for the reconstruction of the Port of Beirut, to improve public services and infrastructure, to rehabilitate the electricity sector, as well as to work on the balanced development of rural areas. Eighth, the group reiterated the need to re-engage with Arab countries, especially with the economies of the Gulf Cooperation Council, for the economic and social benefit of Lebanon. Ninth, it urged authorities to cooperate with the Group of Economic Associations, and to involve the latter in all economic and financial decisions.

### Deterioration in construction activity slows down in first quarter of 2021

Banque du Liban's quarterly business survey about the opinions of business managers shows that the balance of opinions for general construction activity reached -65 in the first quarter of 2021, relative to -69 in the fourth quarter of 2020 and to -75 in the first quarter of 2020. The balance of opinions for general construction activity in the first quarter of 2020 constituted the fifth lowest quarterly level since the first quarter of 2004, after reaching -81 in the second quarter of 2020, -75 in the first and third quarters of last year, and -69 in the fourth quarter of 2020. The results are attributed to the economic crisis, as well to disruptions to economic activity as a result of the lockdown measures that the government imposed since March 2020 to contain the outbreak of the COVID-19 pandemic, and to the impact of the explosion at the Port of Beirut.

The business survey reflects the opinions of enterprise managers about the evolution of their businesses, in order to depict the trend of a number of key economic variables. The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an increase and the proportion of those who reported a decline in a particular indicator. The balance of opinions for construction activity was -66 in the first quarter of 2021 compared to -67 in the preceding quarter and to -76 in the first quarter of 2020. It reached its fifth lowest quarterly level since the first quarter of 2004.

The balance of opinions about construction activity was the lowest in Beirut & Mount Lebanon at -93, followed by the South (-73), the Bekaa (-71), and the North (-40). Also, the balance of opinions about public works stood at -60 in the first quarter of 2021 compared to -75 in the fourth quarter of 2020 and to -79 in the first quarter of 2020, and reached its fifth lowest level since the first quarter of 2004. Opinions about the level of public works were the lowest in Beirut & Mount Lebanon area with -90, followed by the South (-80), the Bekaa (-76), and the North (-22).

In parallel, the balance of opinions about the portfolio of projects was -93 in the first quarter of 2021 relative to -95 in the preceding quarter and to -87 in the first quarter of 2020, and reached its third lowest quarterly level since the first quarter of 2004. The balance of opinions about the portfolio of projects was the lowest in the Bekaa and Beirut & Mount Lebanon at -94 each, followed by the south (-93) and the north (-91). Further, the balance of opinions about construction costs reached +49 in the first quarter of 2021, compared to +72 in the preceding quarter and +51 in the first quarter of 2020.

Construction and Public Work Activity: Evolution of Opinions				
Aggregate results	Q1-18	Q1-19	Q1-20	Q1-21
General activity	-45	-58	-75	-65
Construction	-44	-62	-76	-66
Public works	-45	-45	-79	-60
Portfolio of projects	-39	-63	-87	-93
Construction costs	1	1	51	49
Investments (% of yes)	26%	15%	12%	17%

Source: Banque du Liban Business Survey for First Quarter of 2021

### Revenues through Port of Beirut down 13% to \$64m in first eight months of 2021

Figures released by the Port of Beirut show that the port's revenues reached \$64.3m in the first eight months of 2021, constituting a decline of 13.2% from \$74.1m in the same period of 2020. The Beirut Port processed 3.1 million tons of freight in the covered period, up by 7.7% from 2.9 million tons in the first eight months of 2020. Imported freight amounted to 2.6 million tons, as it increased by 6% from 2.4 million tons in the same period of 2020 and accounted for 83.3% of the total freight volume processed through the port. In addition, the volume of exported cargo reached 520,000 tons in the covered period and increased by 17% from 445,000 tons in the first eight months of 2020. It represented 16.7% of aggregate freight in the first eight of 2021. A total of 790 vessels docked at the port in the first eight months of the year, representing a decrease of 14.8% from 927 ships in the same period of 2020.

The decline in revenues at the Beirut port is mainly due to the deterioration of economic and financial conditions in Lebanon, as well as to the impact of the coronavirus pandemic and the August 4 explosion at the port on economic activity. Further, revenues generated through the Beirut port reached \$7.5m in August 2021 and increased by 14.5% from \$6.5m in July. The port handled 351,000 tons of freight in August, constituting a decline of 1.4% from 356,000 tons in July. In addition, 87 vessels docked at the port in August, compared to 89 vessels in July 2021.

In parallel, revenues generated through the Port of Tripoli reached \$17.1m in the first eight months of 2021, constituting a surge of 124.8% from \$7.7m in the same period of 2020. The port processed 1.62 million tons of freight in the covered period, up by 28.4% from 1.3 million tons in the first eight months of 2020. Imported freight amounted to 1.1 million tons in the first eight months of 2021 and increased by 18.7% from 958,709 tons in the same period of 2020. It accounted for 70% of the freight processed through the port in the covered period.

In parallel, the volume of cargo that was exported through the port reached 485,442 tons, or 30% of total freight, constituting a jump of 58.6% from 306,151 tons in the first eight months of 2020. Also, a total of 485 vessels docked at the port in the covered period, representing a surge of 35% from 359 ships in the same period of 2020. Further, revenues generated through the Port of Tripoli amounted to \$2.5m in August 2021, down by 78% from \$2.7m in the preceding month. The port handled 132,427 tons of freight in August, regressing by 42.3% from 229,398 tons in July 2021. Also, 61 vessels docked at the port in August, relative to 58 ships in July 2021.



### Lebanon's external debt at \$79bn at end-2020, accounts for 0.8% of external debt in low- and middle-income countries

Figures released by the World Bank show that the total external debt outstanding in Lebanon reached \$68.9bn at the end of 2020, constituting a decline of 6.8% from \$73.9bn at end-2019 and a rise of 44% from \$47.8bn in 2010. Lebanon's total external debt accounted for 0.8% of the external debt in low- and middle-income countries and for 18.6% of the external debt of the Middle East & North Africa (MENA) region. Lebanon's external debt grew by a compound annual growth rate (CAGR) of 3.7% during the 2010-20 period and regressed at a CAGR of 0.2% between 2016 and 2020 and compared to a CAGR of 7.1% in the 2010-20 period and of 6.9% in the 2016-20 period and for external debt in low- and middle-income countries. The World Bank defines external debt as the sum of public and private long-term external debt, short-term debt, and credit from the International Monetary Fund. It represents the total debt owed to non-resident creditors and is repayable in both foreign and domestic currency.

The stock of long-term external debt in Lebanon reached \$58.4bn at the end of 2020 and accounted for 85% of the country's total external debt outstanding. Public and publicly-guaranteed debt represented 57% of long-term external debt in the country, while private non-guaranteed debt accounted for the remaining 43%. The World Bank defines private non-guaranteed debt as the obligations of private borrowers to non-resident creditors, which are not guaranteed for repayment by the government or any other public entity. In addition, short-term external debt stood at \$10.2bn at end-2020 and accounted for 14.7% of Lebanon's external debt, while the use of IMF credit amounted to \$278m at end-2020 and represented 0.4% of the total. Further, Lebanon's stock of short-term external debt rose by 104.6%, while its long-term external debt declined by 15% in 2020. Lebanon's stock of short-term external debt increased by a CAGR of 6.6% during the 2016-20 period, its long-term external debt posted a CAGR of -1.2% and the use of IMF credit declined by a CAGR of 1.7% during the covered period. Also, the country's stock of short-term external debt grew by a CAGR of 11% during the 2010-20 period, its long-term external debt increased by a CAGR of 2.9%, while its use of IMF credit regressed by a CAGR of 3.5% during the covered period.

In parallel, Lebanon's ratio of total external debt-to-Gross National Income (GNI) was 212% at the end of 2020, up from 144% at end-2019 and relative to 126% at end-2010. In comparison, the debt-to-GNI ratio reached 29% in low- and middle-income countries and 37% in the MENA region at end-2020. Further, Lebanon's official foreign currency reserves were equivalent to 36% of its external debt stock at the end of 2020 relative to 52% at end-2019 and 66% at end-2010. In comparison, official foreign reserves in low- and middle-income countries were equivalent to 72% of their external debt stock at end-2020.

#### Lebanon's Long-Term External Debt Stock by Creditor Type (US\$m)

	2010	2016	2017	2018	2019	2020
<b>Long-term external debt stocks</b>	<b>43,857</b>	<b>61,395</b>	<b>65,127</b>	<b>73,834</b>	<b>68,663</b>	<b>58,433</b>
Public and publicly guaranteed debt:	20,386	27,702	29,987	33,072	33,319	33,359
<i>Multilateral</i>	1,368	1,033	1,333	1,369	1,373	1,460
<i>Bilateral</i>	990	726	692	574	502	476
<i>Bondholders</i>	17,422	25,727	27,768	30,964	31,314	31,314
<i>Commercial banks and others</i>	606	217	194	164	130	109
Private non-guaranteed debt:	23,471	33,693	35,140	40,763	35,343	25,074
<i>Bondholders</i>	500	500	300	600	600	600
<i>Commercial banks and others</i>	22,971	33,193	34,840	40,163	34,743	24,474

Source: World Bank

### Stock market capitalization up 59% to \$10bn at end of October 2021

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 27,358,531 shares in the first 10 months of 2021, constituting a decrease of 39.2% from 44,992,811 shares traded in the same period of 2020; while aggregate turnover amounted to \$290.3m and increased by 44.5% from a turnover of \$201m in the first 10 months of 2020. The market capitalization of the BSE reached \$10.2bn at the end of October 2021, representing a surge of 58.5% from \$6.4bn at the end of October 2020, with banking stocks accounting for 48.1% of the total, followed by real estate equities (47.6%), industrial shares (4%), and trading firms' equities (0.3%). The market liquidity ratio was 2.8% at the end of October 2021 compared to 3.1% a year earlier.

Banking stocks accounted for 58% of the trading volume in the first 10 months of 2021, followed by real estate equities (41%), trading firms' equities (0.7%), and industrial shares (0.3%). Also, real estate equities accounted for 90.2% of the aggregate value of shares traded, followed by banking stocks (9.3%), industrial shares (0.4%), and trading firms' equities (0.2%). The average daily traded volume for the first 10 months of 2021 was 153,700 shares for an average daily amount of \$1.63m. The figures reflect a decline of 33.7% in the average daily traded volume and a rise of 57.5% in the average daily value in the covered period.

### Term deposits account for 66% of customer deposits at end-August 2021

Figures issued by Banque du Liban about the distribution of bank deposits at commercial banks in Lebanon show that aggregate deposits, which include demand deposits and term deposits, stood at \$143.6bn at the end of August 2021, constituting a decrease of \$7.6bn, or 5%, from \$151.2bn the end of 2020. Total deposits include private sector deposits that reached \$133bn, as well as deposits of non-resident financial institutions and public sector deposits that stood at \$5.3bn each at the end of August 2021.

Term deposits in all currencies reached \$94.3bn at the end of August 2021 and declined by \$14.9bn, or by 13.7%, from \$109.2bn at end-2020; while they accounted for 65.6% of total deposits in Lebanese pounds and in foreign currency as at end-August 2021 relative to a share of 72.2% at the end of 2020.

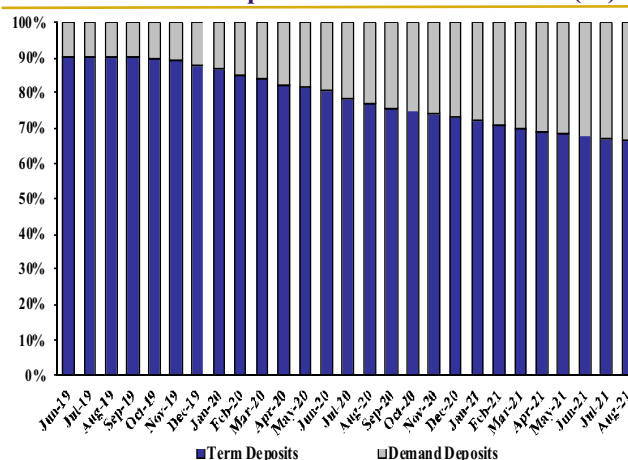
The decline in term deposits is due to a drop of 23% in the term deposits of the non-resident financial sector, a decrease of 17.2% in the term deposits in Lebanese pounds of the resident private sector, a dip of 13.8% in the foreign currency-denominated term deposits of the resident private sector, a 10% decline in the term deposits of non-residents, and a decrease of 8% in the term deposits in Lebanese pounds of the public sector. This was partly offset by an increase of 3.5% in foreign currency-denominated term deposits of the public sector. The decline in term deposits is due to cash withdrawals and to the migration of funds from term to demand deposits, amid the confidence crisis that started in September 2019. Aggregate term deposits declined by \$72.2bn since the end of September 2019.

Further, foreign currency-denominated term deposits of the resident private sector reached \$52.7bn and accounted for 36.7% of aggregate deposits at the end of August 2021. Term deposits of non-residents followed with \$18.6bn (13%), then term deposits in Lebanese pounds of the resident private sector with \$14.7bn (10.2%), term deposits of the public sector in Lebanese pounds with \$3.8bn (2.7%), term deposits of the non-resident financial sector with \$3.7bn (2.6%), and term deposits of the public sector in foreign currency with \$688.9m (0.5%).

In parallel, demand deposits in all currencies at commercial banks stood at \$49.3bn at the end of August 2021 and increased by \$7.3bn, or by 17.4%, from \$42bn at end-2020. They accounted for 34.3% of total deposits at end-August 2021 relative to a share of 27.8% at end-2020. The increase in demand deposits was mainly due to a growth of \$4.2bn in foreign currency-denominated demand deposits of the resident private sector, a rise of \$2.4bn in demand deposits in Lebanese pounds of the resident private sector, and an increase of \$774.5m in demand deposits of non-residents.

Demand deposits in foreign currency of the resident private sector totaled \$29.8bn and represented 20.7% of deposits at end-August 2021. Demand deposits in Lebanese pounds of the resident private sector followed with \$9.7bn (6.7%), then demand deposits of non-residents with \$7.5bn (5.2%), demand deposits of the non-resident financial sector with \$1.6bn (1.1%), demand deposits in Lebanese pounds of the public sector with \$576.8m (0.4%), and demand deposits in foreign currency of the public sector with \$197.9m (0.1%).

Breakdown of Deposits at Commercial Banks (%)



Source: Banque du Liban

### **Banking sector has 1,058 branches at end-March 2021**

Figures issued by Banque du Liban (BdL) show that the Lebanese banking sector had 1,058 branches at the end of March 2021, constituting a decline of 29 branches, or 2.7% from 1,087 branches at end-2020 and a decrease of 90 branches, or 7.8% from 1,148 branches at end of March 2020. Commercial banks had 1,037 branches in total at the end of March 2021 compared to 1,065 branches at end-2020 and to 1,127 branches at end-March 2020. Further, medium- and long-term banks had 21 branches in Lebanon at the end of March 2020, unchanged from a year earlier.

The breakdown of commercial banks' branches shows that banks had 965 local branches at the end of March 2021, down by 27 branches from 992 branches at end-2020 and by 89 branches from 1,054 branches at end-March 2020. There were 510 branches of commercial banks in Beirut & its suburbs, accounting for 52.8% of total branches in Lebanon, followed by Mount Lebanon with 194 branches (20%), North Lebanon with 99 branches (10.3%), South Lebanon with 97 branches (10.1%), and the Bekaa with 65 branches (6.7%). In addition, nine foreign commercial banks operating in the country had 22 branches and four Islamic banks had 14 branches at the end of March 2021. In addition, there were 14 e-branches that offer banking services through interactive and automated machines at end-March 2021.

In parallel, commercial banks operating in Lebanon had 72 branches outside the country at the end of March 2021 compared to 73 branches a year earlier. Further, there were 46 commercial banks and 15 medium- and long-term banks operating in Lebanon at the end of March 2021, relative to 47 commercial banks and 16 medium- and long-term banks operating in Lebanon a year earlier.

### **Import activity of top five shipping firms and freight forwarders up 29% in first eight months of 2021**

Figures released by the Port of Beirut show that the aggregate volume of imports by the top five shipping companies and freight forwarders through the port reached 128,457 20-foot equivalent units (TEUs) in the first eight months of 2021, constituting an increase of 29.2% from 99,453 TEUs in the same period of 2020. The five shipping and freight forwarding firms accounted for 84.2% of imports to the Lebanese market and for 61.8% of the total import freight market in the first eight months of 2021. Merit Shipping handled 40,868 TEUs in the covered period, equivalent to 19.7% of the total import freight market. Mediterranean Shipping Company (MSC) followed with 34,694 TEUs (16.7%), then MAERSK with 27,686 TEUs (13.3%), Gezairi Transport with 13,494 TEUs (6.5%), and Lotus Shipping with 11,715 TEUs (5.6%). The five shipping and rate freight forwarding firms registered increases in import shipping in the covered period, with Lotus Shipping posting a growth of 88.3%, the highest among the top five companies. The import shipping operations of the five firms through the port regressed by 1.8% in August 2021 from the preceding month.

In parallel, the aggregate volume of exports by the top five shipping and freight forwarding firms through the Port of Beirut reached 45,109 TEUs in the first eight months of 2021, constituting an increase of 8.8% from 41,453 TEUs in the same period of 2020. The five shipping companies and freight forwarders accounted for 90% of exported Lebanese cargo and for 23.6% of the total export freight market in the first eight months of 2021. Merit Shipping handled 30,429 TEUs of freight in the covered period, equivalent to 60.7% of the Lebanese cargo export market. MAERSK followed with 6,492 TEUs (13%), then MSC with 2,834 TEUs (5.7%), Tourism & Shipping with 2,701 TEUs (5.4%) and Sealine Group with 2,653 TEUs (5.3%). Merit Shipping registered a rise of 38.4% in exports in the first eight months of 2021, the highest growth rate among the top five shipping and freight forwarding companies, while Sealine Group posted a drop of 31.6%, the steepest decline among the five firms. The export-shipping operations of the top five companies declined by 8% in August 2021 from the previous month.

## Ratio Highlights

(in % unless specified)	2019	2020	2021	Change*
Nominal GDP (\$bn)	51.3	22.6	23.2	0.60
Public Debt in Foreign Currency / GDP	63.0	58.1	-	-
Public Debt in Local Currency / GDP	108.1	95.9	-	-
Gross Public Debt / GDP	171.1	154.0	299.4	145.5
Trade Balance / GDP	(29.0)	(12.5)	(22.2)	(9.71)
Exports / Imports	19.4	31.3	47.7	16.40
Fiscal Revenues / GDP	20.7	16.4	10.0	(6.37)
Fiscal Expenditures / GDP	31.6	20.8	14.7	(6.09)
Fiscal Balance / GDP	(10.9)	(4.4)	(4.7)	(0.29)
Primary Balance / GDP	(0.5)	(1.0)	(2.3)	(1.22)
Gross Foreign Currency Reserves / M2	70.2	41.5	-	-
M3 / GDP	251.2	213.7	-	-
Commercial Banks Assets / GDP	404.8	302.9	-	-
Private Sector Deposits / GDP	296.6	224.1	-	-
Private Sector Loans / GDP	92.9	58.3	-	-
Private Sector Deposits Dollarization Rate	80.3	80.4	-	-
Private Sector Lending Dollarization Rate	68.7	59.6	-	-

\*change in percentage points 21/20;

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

	2019	2020e	2021f
Nominal GDP (LBP trillion)	80.8	93.6	182.3
Nominal GDP (US\$ bn)	51.6	22.6	23.2
Real GDP growth, % change	-6.7	-26.2	-8.3
Private consumption	-7.3	-20.2	-10.0
Public consumption	2.5	-67.0	-60.0
Gross fixed capital	-11.1	-31.3	-21.5
Exports of goods and services	-4.0	-35.8	1.1
Imports of goods and services	-4.9	-38.0	-21.0
Consumer prices, %, average	2.9	84.9	140.2
Official exchange rate, average, LBP/US\$	1,507.5	1,507.5	1,507.5
Parallel exchange rate, average, LBP/US\$	1,625	5,549	13,569
Weighted average exchange rate LBP/US\$	1,566	4,142	7,865

Source: Institute of International Finance- September 2021

## 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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