

LEBANON THIS WEEK

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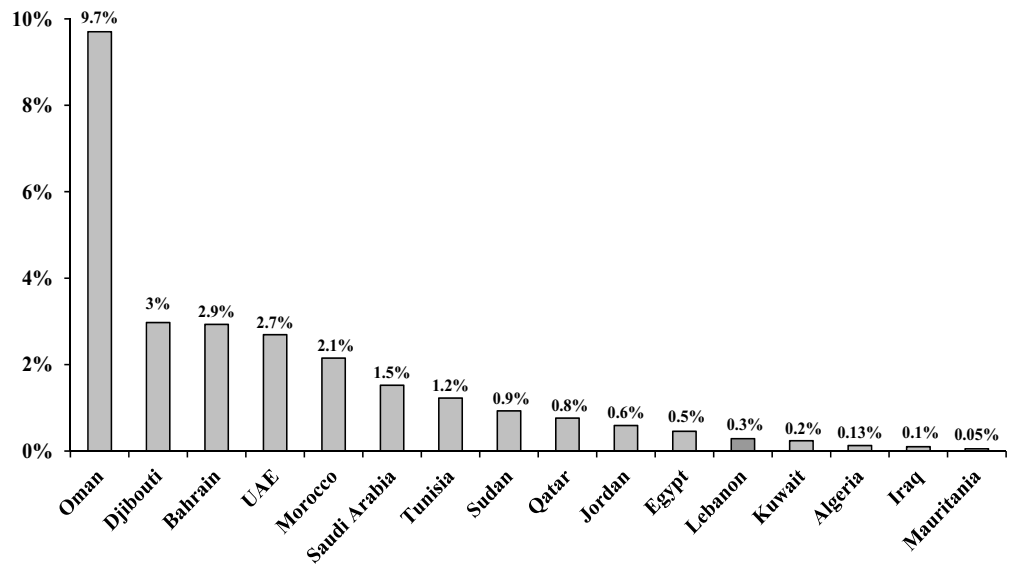
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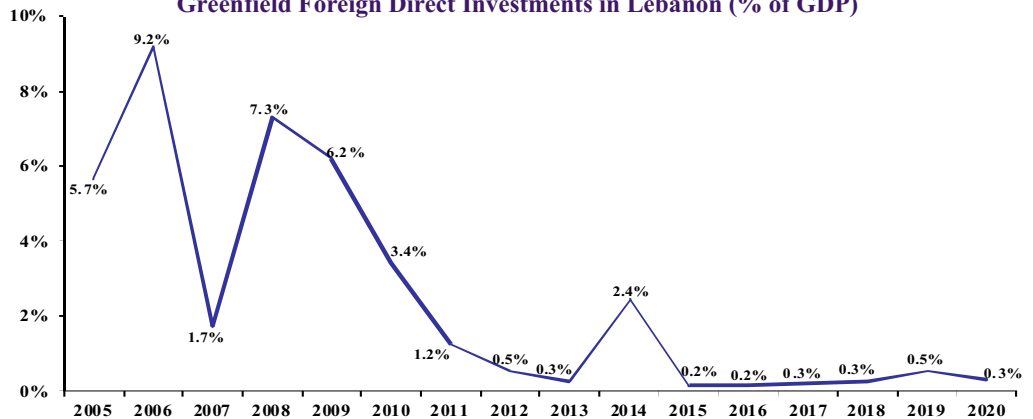
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Charts of the Week

Greenfield Foreign Direct Investments in Arab Countries in 2020 (% of GDP)



Greenfield Foreign Direct Investments in Lebanon (% of GDP)



Source: UNCTAD, IMF, World Bank, Central Administration for Statistics, Byblos Bank

Quote to Note

"Lebanon's recession is likely to be arduous and prolonged, given the lack of policy-making leadership and reforms."

The World Bank, on the cost of the delays and obstacles to the formation of a government capable to implement structural reforms

Number of the Week

11: Number of months that Lebanon has been without a functioning government

Lebanon in the News

\$m (unless otherwise mentioned)	2020	Jan-Mar 2020	Jan-Mar 2021	% Change*	Mar-20	Feb-21	Mar-21
Exports	3,546	914	-	-	238	200	-
Imports	11,310	2,931	-	-	826	1,033	-
Trade Balance	(7,765)	(2,017)	-	-	(588)	(833)	-
Balance of Payments	(10,551)	(1,062)	(847)	(20.2)	(557)	(341)	(96)
Checks Cleared in LBP	19,937	5,645	4,150	-26.5%	1,144	1,307	2,043
Checks Cleared in FC	33,881	10,430	5,847	-43.9%	2,407	1,384	3,014
Total Checks Cleared	53,828	16,079	10,001	-37.8%	3,552	2,692	5,059
Fiscal Deficit/Surplus	(2,709)	(1,655)	-	-	(498)	-	-
Primary Balance	(648)	(676)	-	-	(138)	-	-
Airport Passengers	2,501,975	1,165,094	549,476	(52.8)	187,570	141,260	201,935
Consumer Price Index	84.9	13.0	153.7	14070	17.5	155.4	157.9

\$bn (unless otherwise mentioned)	Dec-20	Apr-20	Jan-21	Feb-21	Mar-21	Apr-21	% Change*
BdL FX Reserves	18.60	27.37	17.98	17.49	16.75	16.23	(40.7)
In months of Imports	15.10	36.77	19.61	-	-	-	-
Public Debt	95.59	92.88	95.94	96.83	-	-	-
Bank Assets	188.04	205.75	188.34	188.13	186.26	184.53	(10.3)
Bank Deposits (Private Sector)	139.14	147.52	138.91	138.85	136.95	136.02	(7.8)
Bank Loans to Private Sector	36.17	43.90	35.71	35.49	34.20	33.11	(24.6)
Money Supply M2	44.78	38.64	45.97	47.50	47.96	48.59	25.8
Money Supply M3	132.70	129.52	133.36	134.60	134.11	134.34	3.7%
LBP Lending Rate (%)	7.77	9.29	8.53	7.59	8.02	8.00	(129bps)
LBP Deposit Rate (%)	2.64	5.06	2.31	2.11	1.96	2.11	(295bps)
USD Lending Rate (%)	6.73	7.79	6.52	6.92	7.14	6.88	(91bps)
USD Deposit Rate (%)	0.94	2.32	0.58	0.54	0.52	0.49	(183bps)

*year-on-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	2.05	2.5	266,485	2.7%	Oct 2022	6.10	12.5	267.35
Solidere "A"	24.32	(2.1)	123,630	27.1%	Jan 2023	6.00	12.5	193.05
Solidere "B"	24.35	(1.4)	43,694	17.6%	Apr 2024	6.65	12.375	91.43
BLOM Listed	3.33	(1.5)	29,810	8.0%	Jun 2025	6.25	12.25	61.53
Audi Listed	2.10	(4.1)	12,001	13.8%	Nov 2026	6.60	12.25	43.16
HOLCIM	19.70	15.9	7,961	4.3%	Feb 2030	6.65	12.25	25.9
Byblos Common	0.95	2.2	5,000	6.0%	Apr 2031	7.00	12.25	22.68
BLOM GDR	3.20	0.0	5,000	2.6%	May 2033	8.20	12.25	18.54
Byblos Pref. 08	33.10	0.0	333	0.7%	Nov 2035	7.05	12.25	15.23
Byblos Pref. 09	38.50	0.0	-	0.9%	Mar 2037	7.25	13.0	13.43

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

Source: Refinitiv

	July 5-9	Jun 28-Jul 2	% Change	June 2021	June 2020	% Change
Total shares traded	493,914	2,321,676	(78.7)	3,027,735	9,040,647	(66.5)
Total value traded	\$4,971,121	\$51,491,496	(90.3)	\$55,006,201	\$28,524,807	92.8
Market capitalization	\$8.97bn	\$9.03bn	0.7	\$9.02bn	\$6.36bn	41.9

Source: Beirut Stock Exchange (BSE)



Export potential of Lebanese agro-food products dependent on key measures

The Boston Consulting Group (BCG) indicated said that 98% of Lebanese exports of agriculture and agro-food products consist of live animals & animal products; vegetable products; prepared foodstuffs, beverages & tobacco; and animal or vegetable fats & oils. Also, it noted that non-edible agricultural products represent only 2% of Lebanese agriculture and agri-food exports.

It added that the top 10 product groups of exported agricultural products are mainly exported to countries in the Gulf Cooperation Council (GCC) and in North America, as well as to other markets in the Middle East & North Africa region and in Europe. It pointed out that 75% of agri-food exports went to 15 destinations in 2019, mainly to the United States, GCC economies and the European Union; while 50% of such exports targeted seven markets, mostly the U.S. and GCC markets. It attributed the high share of exports to the GCC and North America to the wide presence of Lebanese expatriates, and to the fact that GCC countries are logistically accessible and have trade agreements with Lebanon. However, it stressed that restrictions on trade agreements with European Union countries, such as higher quality standards and limitations on export quantities, have constrained Lebanese exports to these markets.

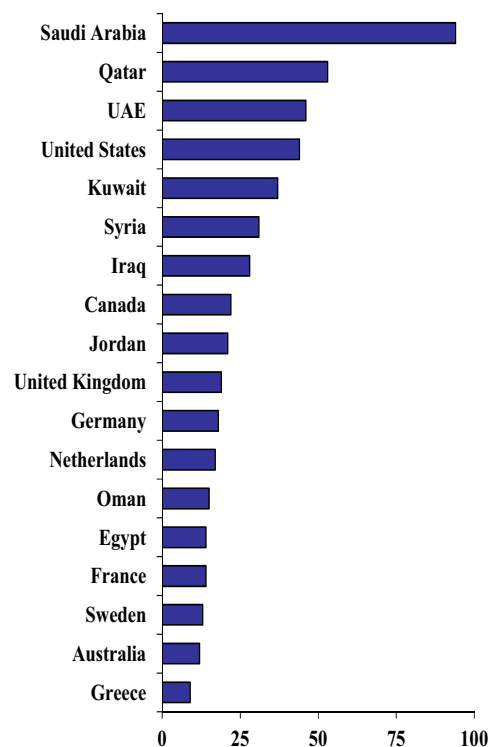
The findings are part of the BCG's export development strategy for Lebanese agro-food products under the Business Innovation & Enhance Exports for Lebanon initiative (BIEEL). The strategy assesses the markets for Lebanese agricultural exports, and tries to identify challenges and growth opportunities to boost the export of these products. It said that BIEEL targets an increase in the exports of Lebanese agriculture and agri-food products from \$627m in 2019 to \$677m over the next three years.

In parallel, the BCG identified 11 major challenges facing Lebanese agricultural and agri-food exports. It considered that the unavailability and/or high cost of imported raw materials given from the depreciation of the Lebanese pound on the parallel market, the loss of key suppliers, the low productivity in of exporting industries, and weak quality controls, constrain exports and constitute challenges at the primary production and processing levels. Also, it said that the inefficient or inadequate distribution of inputs, of bi-products and of final products by producers and suppliers; unfavorable trade agreements with importing countries; the limited branding and promotion of Lebanese goods in markets abroad; as well as the partial access to exports-related data such as on foreign distributors and markets, constitute major challenges for the exports of Lebanese agricultural products. It added that the lack of local market transparency and the unfair pricing of produce, limited financial support, as well as inefficient regulations and procedures further constrain Lebanese exporters' ability to reach their growth potential.

Further, the BCG identified seven measures to boost the growth of Lebanese agriculture and agro-food exports. It said that branding and marketing, such as developing labels that showcase the Lebanese origin of the products; facilitating cooperation between vested parties in order to establish direct sales-contracts with buyers; as well as enhancing quality and certification processes, would help improve the competitiveness of exports. Also, it expected the establishment of an electronic infrastructure platform to help connect Lebanese producers of agri-products to international buyers. It added that the improvement of the supply chain infrastructure through increasing the capacity of cold storages and packaging units, as well as by developing long term shipping contract, will generate higher sales of fresh produce and provide for increased availability of maritime transport. Further, it expected that the presence of a "one stop shop" for all paperwork and licensing needs of exporters, as well as the upskilling of producers to enhance the quality of their products and tailor their products to target markets, would improve the quality of export-oriented Lebanese agri-food products and exports.

BIEEL is a project led by Fair Trade Lebanon, and aims to support exports and to empower 100 Lebanese small- and medium-sized enterprises as well as cooperatives in order to compete on an international scale. Established in 2006, Fair Trade Lebanon is a non-profit organization that aims to improve the livelihoods of small producers.

Lebanese agri-food exports by destination in 2019 (\$USm)



Source: Boston Consulting Group, Byblos Research

Lebanon to benefit from the equivalent of \$900m in IMF Special Drawing Rights

The Ministry of Finance declared that the International Monetary Fund (IMF) is discussing the allocation of the equivalent of \$650bn in special drawing rights (SDRs) to its member countries, and that the IMF's Board of Governors, the highest decision-making body at the Fund, is considering the proposal this month and could approve the allocations by the end of August. It added that, in case the IMF's Board of Governors approves the proposal, Lebanon would receive the equivalent of \$900m in SDRs, and that Lebanon would decide how to benefit from the new allocation.

The IMF announced on March 23, 2021 that it intends to allocate the equivalent of \$650bn in direct SDRs to its member countries, in order to support their foreign currency reserves and narrow their external funding gaps. The IMF created the SDR in 1969 as an international reserve asset to supplement other reserve assets of its member countries. SDRs are the IMF's unit of account that is pegged to a basket of currencies. It added that the countries' respective SDR allocations will be based on each member's quota at the IMF, and that member countries have the right to keep the SDRs or to convert them into the five leading global currencies, which are the US dollar, the Euro, the Japanese yen, the Chinese renminbi, and the British pound. It noted that the SDR allocation will not increase the debt level of its member countries. The allocation will be the largest on record, after the IMF earmarked \$250bn in SDRs in the wake of the global financial crisis in 2009.

According to the IMF's latest available figures, one SDR was equal to US\$1.42 on July 9, 2021. Lebanon's quota at the IMF is 633.5 million SDRs, which is equivalent to 0.13% of total SDRs. This translates into 7,794 votes or 0.15 % of the total votes at the IMF. Lebanon's quota is divided into 507.04 million SDRs as part of the IMF's Holdings of Currency, while the remaining 126.46 million SDRs consist of the country's Reserve Tranche Position (RTP). The currency holdings are a country's quota payments and transactions with the IMF, while the RTP is a liquid claim on the IMF and is equal to a member's quota minus the IMF's holdings of the member's currency. The reserve tranche position is part of Lebanon's external reserves.

In parallel, S&P Global Ratings expected that many emerging markets (EMs) will benefit from relative increases in their foreign currency reserves. It estimated that \$42bn, or 7% of the aggregate new SDRs will be earmarked for the 44 lowest-rated EMs.

Foreign financial support dependent on economic reforms

Emirates NBD Bank indicated that economic conditions in Lebanon have continued to deteriorate in the first half of 2021 and considered that the outlook for the second half of the year remains uncertain, unless there is a significant shift in policy direction. It projected the economy to shrink by 4.7% this year, following its estimate of a contraction of 27% in 2020. It said that the expected decline in imports and in household spending would prevent a steeper contraction this year.

It pointed out that political paralysis and the deadlock about the government's formation persist, along with the country's economic and financial crises, despite pleas for action by multilateral institutions and prominent international and domestic political figures. It added that without external support, either from the International Monetary Fund and World Bank, or through the Paris Club of lenders or friendly regional governments, the economy will continue to struggle amid the turmoil of the past 18 months. It considered that substantial foreign financial support will remain dependent on the implementation of economic reforms, but it noted that near-term prospects remain dim without a government in place.

Further, it stated that the depreciation of the exchange rate of the Lebanese pound on the parallel market, which has accelerated following the government's decision to default on its Eurobonds obligations in March 2020, has continued in 2021 and has reached new levels recently. In turn, this has kept the inflation rate at elevated levels, even though it has slowed down recently due to base effects. It said the consumer price index increased by 120% in May 2021 from the same month of the previous year, with upward pressure on global commodity prices and concerns about the lifting of local subsidies keeping inflation at elevated levels.

Coincident Indicator down 44% in first two months of 2021

Banque du Liban's Coincident Indicator, an index of economic activity in Lebanon, stood at 145.3 in February 2021 compared to 143.7 in the previous month and to 258.3 in February 2020. The Coincident Indicator, an average of eight weighted economic indicators, regressed by 43.8% in November 2020 from the same month of the previous year, constituting the steepest annual decline on record in the month of February and reflecting the deterioration of economic and financial conditions in the country. However, the indicator increased by 1.1% from January 2021.

The indicator averaged 144.5 in the first two months of 2021, constituting a decline of 44% from an average of 258.7 in the same period of 2020 and representing its lowest level in the first two months of a year since the 134.1 mark it recorded in 2000. The percentage drop in the indicator is the steepest on record in the first two months of a year since BdL launched the indicator in 1993.

The indicator averaged 161.2 in the 12 months ending February 2021, compared to an average of 170.6 in the 12-month period ending January 2021 and to an average of 286.2 in the 12 months ending February 2020. As a result, the 12-month average coincident indicator decreased by 5.5% month-on-month and dropped by 43.7% year-on-year. In parallel, the indicator declined 13 times and improved 15 times in the month of February since 1993. It averaged 256.6 in 2012, 264.7 in 2013, 273.2 in 2014, 278.6 in 2015, 289.5 in 2016, 305.9 in 2017, 307.7 in 2018, 292.6 in 2019, and 180.2 points in 2020.



Lebanon ranks 109th globally, 13th among Arab countries in terms of commitment to cybersecurity

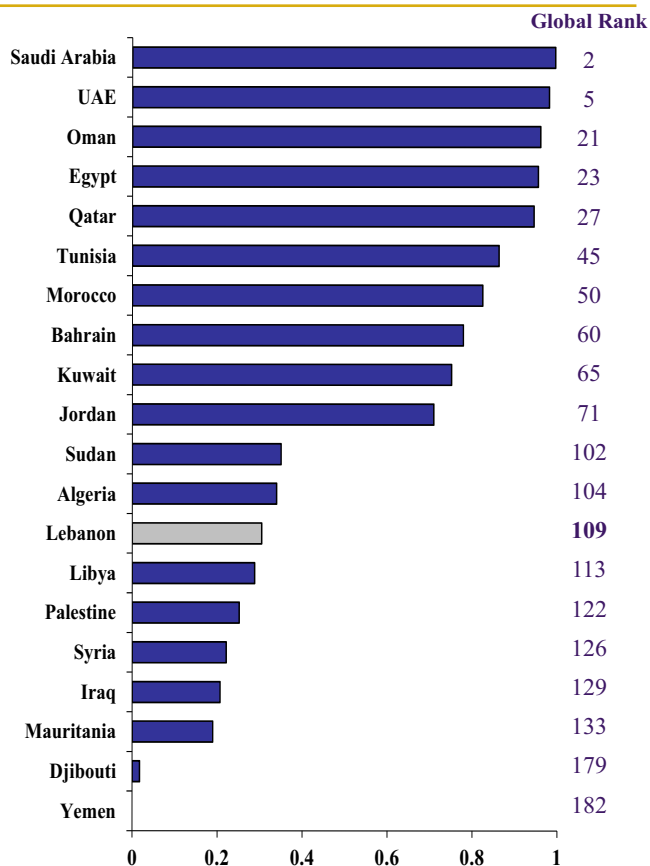
The International Telecommunication Union ranked Lebanon in 109th place among 194 countries around the world and in 13th place among 20 Arab countries on its 2020 Global Cybersecurity Index (GCI). Lebanon also came in 32nd place among 54 upper middle-income countries (UMICs) included in the survey. In comparison, Lebanon came in 124th place and ranked in 17th place among Arab states on the 2018 index. The GCI assesses a country's commitment to cybersecurity in order to help it identify areas that need improvement. Cybersecurity consists of the set of technologies, processes, and practices designed to protect networks, devices, programs, and electronic data from attacks, damages, or unauthorized access.

The GCI is a composite of 25 indicators that are grouped into five pillars, which are the Legal, Technical, Organizational, Capacity Building, and Cooperation pillars. The Legal and Technical pillars evaluate the legal and technical institutions and frameworks that deal with cybersecurity and cybercrime. Also, the Organizational Pillar measures policy-coordinating institutions and strategies for cybersecurity development at the national level. Further, the Capacity Building Pillar assesses the presence of research and development, education and training programs, certified professionals and public sector agencies that promote capacity building. Finally, the Cooperation Pillar measures the existence of partnerships, cooperative frameworks and information-sharing networks. A country's score is a weighted average of the five pillars and ranges from zero to one point, with a score of one point reflecting the highest commitment to cybersecurity.

Globally, Lebanon has a higher level of commitment to cybersecurity than Bosnia & Herzegovina, Libya and Ethiopia, and is less committed to cybersecurity than Panama, Algeria and Jamaica among countries with a nominal GDP of \$10bn or more. Also, it has a higher level of commitment to cybersecurity than Bosnia & Herzegovina, Samoa, and Fiji, and is less committed to cybersecurity than Argentina, Jamaica and Suriname among UMICs. Regionally, Lebanon ranked ahead of Libya, Palestine, Syria, Iraq, Mauritania, Djibouti and Yemen, while it trailed Saudi Arabia, the UAE, Oman, Egypt, Qatar, Tunisia, Morocco, Bahrain, Kuwait, Jordan, Sudan, and Algeria.

Lebanon received a score of 0.304 points, which is below the simple average of 0.517 points of the 194 countries included in the survey, the UMIC's average of 0.488 points and the Arab average of 0.547 points. Also, its score came below the Gulf Cooperation Council (GCC) countries' average of 0.902 points and the average of non-GCC Arab countries of 0.394 points. The United States has the highest level of commitment to cybersecurity worldwide, while Yemen is the country that is least committed to cybersecurity globally.

**Global Cybersecurity Index for 2020
Arab Countries Scores & Rankings**



Source: International Telecommunication Union, Byblos Research

Pillars of the 2020 Global Cybersecurity Index for Lebanon

	Global Rank	MENA Rank	UMICs Rank	Lebanon Score	Global Avg Score	MENA Avg Score	UMICs Avg Score
Legal Measures	122	14	35	0.102	0.128	0.133	0.121
Technical Measures	129	16	37	0.033	0.096	0.109	0.090
Organizational Measures	116	13	35	0.057	0.095	0.100	0.091
Capacity Development	98	12	25	0.083	0.094	0.104	0.087
Cooperative Measures	159	14	45	0.030	0.105	0.101	0.099

Source: International Telecommunication Union, Byblos Research

Broad money supply up 1% in first five months of 2021, currency in circulation up 28%

Figures released by Banque du Liban show that money supply M1, which includes currency in circulation and demand deposits in Lebanese pounds, reached LBP49,993bn at the end of May 2021, constituting an increase of 24.5% from LBP40,156bn at the end of 2020 and a rise of 101.3% from LBP24,829bn at end-May 2020. Currency in circulation stood at LBP37,483bn at the end of May, and surged by 28.2% in the first five months of the year and by 128.3% from LBP16,420bn at end-May 2020. Also, demand deposits in local currency stood at LBP12,510bn at end-May 2021, representing an increase of 14.6% in the first five months of the year and a rise of 49% from the end of May 2020. Money supply M1 grew by 3.3% in May from LBP48,402bn at the end of the previous month, with currency in circulation expanding by 4.1% and demand deposits in local currency growing by 1% 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 LBP74,312bn at the end of May 2021, constituting an increase of 10% in the first five months of the year and an expansion of 27% from LBP58,467bn a year earlier. Term deposits in Lebanese pounds totaled LBP24,319bn at the end of May 2021, and decreased by 11% from LBP27,354bn at end-2020 and by 27.7% from LBP33,638bn at end-May 2020. Money supply M2 grew by 1.5% in May from the previous month, with term deposits in local currency regressing by 2% month-on-month.

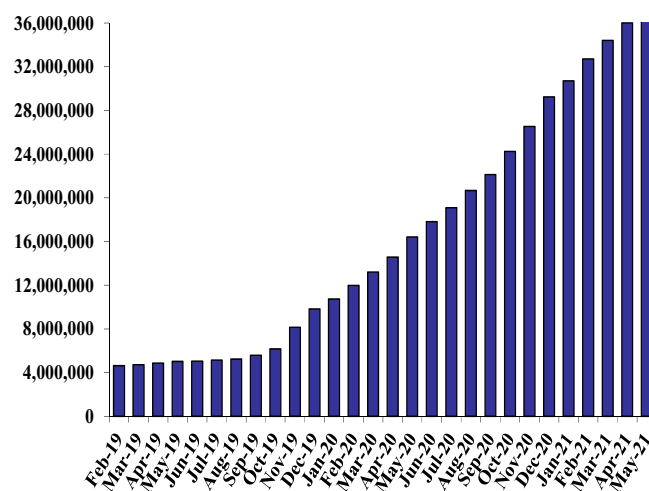
Further, broad money supply M3, which includes M2, deposits in foreign currency and debt securities issued by the banking sector, reached LBP202,745bn at the end of May 2021, constituting an increase of 1.3% in the first five months of the year and an upturn of 3.7% from LBP195,473bn at end-May 2020. Deposits in foreign currency totaled LBP128,094bn at the end of May 2021, down by 3% from end-2020 and by 6% from a year earlier. Also, debt securities issued by the banking sector amounted to LBP339bn at the end of May 2021 compared to LBP519bn at the end of 2020 and to LBP549bn at end-May 2020. Money supply M3 expanded by a marginal 0.1% from the preceding month, with deposits in foreign currency regressing by 0.6% and debt securities issued by the banking sector decreasing by 4.1% month-on-month. In parallel, M3 grew by LBP2,693bn in the first five months of 2021 due to a surge of LBP13,612bn in other items, which was partly offset by a drop of LBP4,904bn in the claims of the private sector, a downturn of LBP4,029bn in net claims on the public sector, and a decline of LBP1,985bn in the net foreign assets of deposit-taking institutions.

Amount of cleared checks down 22%, returned checks down 52% in first half of 2021

The amount of cleared checks reached \$20.6bn in the first half of 2021, constituting a decline of 22.1% from \$26.5bn in the same period of 2020. In comparison, the amount of cleared checks increased by 13% in the first half of 2020 and decreased by 28.7% 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 \$9.2bn in the first half of 2021 and regressed by 3% from the same period last year, while the amount of cleared checks in foreign currencies was \$11.4bn and dipped by 32.8% in the covered period. Also, there were 1.88 million cleared checks in the first half of 2021, down by 38% from 3.04 million checks in the same period last year. The dollarization rate of cleared checks regressed from 64% in the first half of 2020 to 55.2% in the same period of 2021, while the number of checks denominated in foreign currencies accounted for 54.3% of total cleared checks in the covered period. In addition, the amount of cleared checks totaled \$3.7bn in June 2021, constituting an increase of nearly 18% from \$3.1bn in the preceding month and a decrease of 24.6% from \$4.9bn in June 2020. Also, the amount of cleared checks in Lebanese pounds reached the equivalent of \$1.7bn in June 2021, as it increased by 8.2% from \$1.6bn in May 2021 and regressed by 1.2% from \$1.8bn in June 2020. Further, the amount of cleared checks in foreign currencies was \$1.9bn in June 2021, as it improved by 28% from the previous month and dropped by 38% from June 2020. There were 331,437 cleared checks in June 2021 relative to 294,156 cleared checks in the preceding month and to 544,729 cleared checks in June 2020.

In parallel, the amount of returned checks in local and foreign currencies was \$274.6m in the first half of 2021 compared to \$567.8m in the same period of 2020 and to \$700.5m in the first half of 2019. This constituted a drop of 51.6% in the first half of 2021 relative to decreases of 19% and 6.5% in the first half of 2020 and 2019, respectively. The amount of returned checks in Lebanese pounds and in foreign currencies reached \$83.6m and \$191m, respectively, in the first half of 2021, and declined by 56.6% and 49.2% year-on-year, respectively. Also, there were 15,361 returned checks in the first half of 2021, down by 80.7% from 79,671 checks in the same period of 2020. The number of returned checks in foreign currencies reached 9,360 in the first half of 2021 and dropped by 77.7% from the first half of 2020, while the number of returned checks in Lebanese pounds totaled 6,001 and fell by 84% year-on-year. Further, the amount of returned checks in domestic and foreign currencies stood at \$46.4m in June 2021 compared to \$47.8m in the previous month and to \$90.9m in June 2020. Also, there were 2,260 returned checks in June 2021, relative to 1,950 returned checks in May 2021 and to 8,141 checks in June 2020.

Currency in Circulation (LBP Millions)



Source: Banque du Liban, Byblos Research

Utilized credits by private sector at \$42.4bn at end-2020, advances against real estate at 47% of total

Figures issued by Banque du Liban show that utilized credits by the private sector totaled \$42.37bn at the end of 2020, constituting a decline of \$16.8bn, or 28.2%, from \$59.56bn at end-2019. The drop in lending is mostly due to clients' decision to settle their loans prior to their maturity, to limited demand for new loans amid political and economic uncertainties, and to lenders' risk aversion amid the challenging conditions in the country.

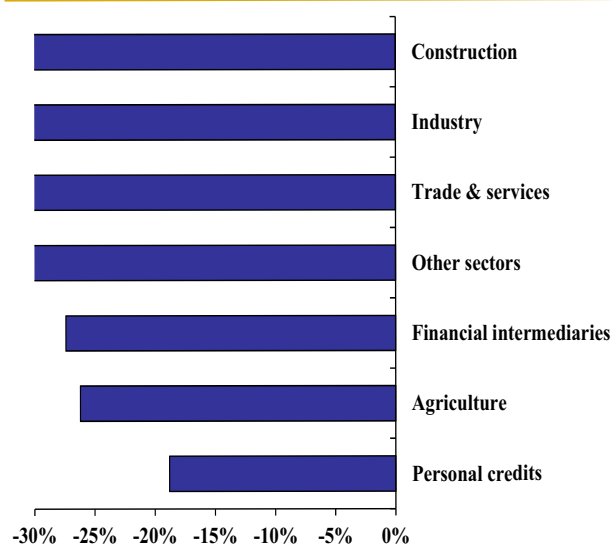
Utilized personal credits reached \$15.2bn and accounted for 35.5% of the total at the end of 2020, followed by credits for trade & services with \$13.4bn (31.4%), for construction with \$6.3bn (14.7%), industry with \$4.3bn (10%), financial intermediaries with \$1.8bn (4.2%), and agriculture with \$556.6m (1.3%), while other sectors represented the remaining \$1.2bn (2.8%). The distribution of utilized credits by type of collateral shows that advances against real estate totaled \$20.1bn and accounted for 47.5% of the collateral for utilized credits at the end of 2020. Advances against personal guarantees followed with \$6.4bn (15%), then advances against cash collateral or bank guarantees with \$2.2bn (5.1%), advances against financial values with \$998.8m (2.3%) and advances against other real guarantees with \$873m (2%); while overdrafts totaled \$12.2bn or 28.5% of the total. Also, the distribution of utilized credits in trade & services shows that wholesale trade accounted for 48% of loans to trade & services, followed by retail with 17.2%; real estate, rent & employment services with 13.5%; transport & storage with 8.4%; hotels & restaurants with 8.2%; and educational services with 4.9%.

In addition, utilized credits for construction declined by 36.4% at the end of 2020, followed by utilized credits for industry (-32.5%), for trade & services (-31.8%), for financial intermediaries (-27.4%), for agriculture (-26.2%), and for personal credits (-18.8%) that include mortgages (-16.2%), while utilized credits for other sectors fell by 30% from the end of 2019. Personal loans beneficiaries represented 85.6% of total loan beneficiaries, followed by trade & services with 10.6% of beneficiaries, industry with 2.8%, construction with 1.4%, agriculture with 1.1% and financial intermediaries with 0.5%, while other sectors accounted for the remaining 3.7% of loan beneficiaries.

Further, the aggregate number of loan beneficiaries declined by 24.3% to 436,462 at the end of 2020; while 63.2% of beneficiaries had loans ranging from LBP5m to LBP100m at the end of 2020. Beirut and its suburbs accounted for 73.5% of bank credits and for 54.2% of beneficiaries. Mount Lebanon followed with 13.5% of credits and 18% of beneficiaries, then North Lebanon with 5% of credits and 11.2% of beneficiaries, South Lebanon with 4.5% of credits and 9.6% of beneficiaries, and the Bekaa region with 3.6% of credits and 7.1% of beneficiaries.

In parallel, the off-balance sheet liabilities of banks and financial institutions totaled \$83.4bn at the end of 2020, constituting declines of 9.3% from end-September 2020 and of 21% from a year earlier. They included endorsement & guarantees of \$79.8bn, or 95.6% of the total, followed by letters of undertaking with \$1.8bn (2.1%), and commitments on notes with \$1.5bn (1.7%).

Change in Utilized Credits at End-2020* (%)



*from end-2019

Source: Banque du Liban

Corporate Highlights

New car sales down 49% in first half of 2021

Figures released by the Association of Automobile Importers (AIA) in Lebanon show that dealers sold 2,036 new passenger cars in the first half of 2021, constituting a decline of 49.1% from 3,998 cars sold in the same period of 2020 and a drop of 84.6% from 13,176 in the first half of 2019. Individuals and institutional clients purchased 61 new cars in January, one new vehicle in February, 512 new automobiles in March, 373 cars in April, 487 vehicles in May and 602 new cars in June 2021. In comparison, clients bought 979 new vehicles in January, 897 new automobiles in February, 468 new cars in March, 188 new vehicles in April, 651 new vehicles in May and 815 in June 2020.

The AIA indicated that the drop in the sales of new cars in the covered period resulted from the deterioration of economic, financial and political situation in the country, the closure of companies and car registration centers due to the lockdown measures that the government imposed at the start of 2021; as well the fluctuation of the exchange rate 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.

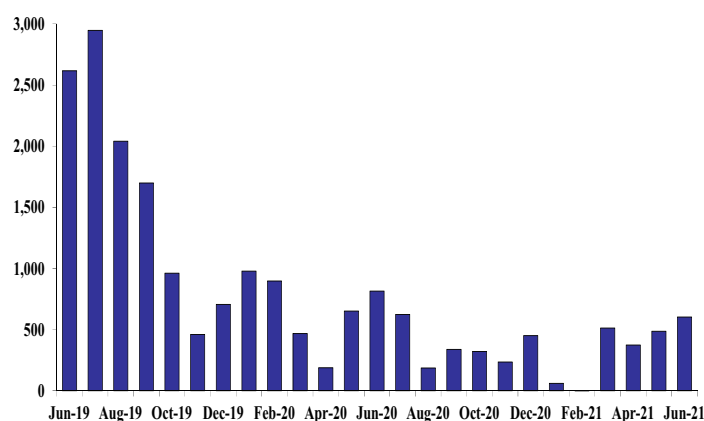
Further, the AIA indicated that car dealers incurred damages in the tens of millions of dollars as a result of the explosion at the Port of Beirut on August 4, 2020, as well as due to the national lockdown measures that the government imposed to contain the spread of the coronavirus. It considered that 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. Also, it estimated that car dealers paid less than \$33m in taxes to the Treasury in 2020 compared to \$265m in 2018. The AIA stopped releasing its monthly data on car sales by brand, distributor and source country since January 2020.

Deterioration in commercial activity slows down in fourth quarter of 2020

Banque du Liban's quarterly business survey about the opinions of business managers shows that the balance of opinions for the volume of commercial sales reached -55 in the fourth quarter of 2020, relative to -68 in the third quarter of 2020 and to -63 in the fourth quarter of 2019. The balance of opinions for the fourth quarter of 2020 reflects the disruptions to economic activity following the worsening of economic and financial conditions in the country, as well as the lockdown measures that the government imposed to contain the outbreak of the COVID-19 pandemic, in addition to the impact of the explosion at the Port of Beirut on August 4, 2020. The balance of opinions for the volume of commercial sales in the fourth quarter of 2020 reached its seventh lowest quarterly level during the 2004-20 period, after posting -74 in the second quarter of 2020, -73 in the third quarter of 2006 due to the Israeli war on Lebanon, -70 in the first quarter of 2005 following the assassination of Prime Minister Rafic Hariri, -68 in the third quarter of 2020, and -63 in the fourth and first quarters of 2019 and 2020, respectively.

The survey reflects the opinions of enterprise managers about their business activity in order to depict the evolution 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 improvement in an indicator and the proportion of those who reported a decline in the same indicator. The balance of opinions was the lowest in the South at -84, followed by Beirut & Mount Lebanon (-65), the Bekaa (-60), and the North (-18). The survey shows that the balance of opinions about the sales of food items was -21 in the fourth quarter of 2020 relative to -44 in the preceding quarter and to -48 in the second quarter. Also, the balance of opinions about the sales of non-food products was -72 in the covered quarter, compared to -86 in the previous quarter and to -92 in the second quarter of 2020; while it was -66 for inter-industrial goods relative to -65 in the third quarter and -67 in the second quarter of 2020. Further, the balance of opinions for inventory levels in all commercial sub-sectors was -54 in the fourth quarter of 2020, compared to -42 in the previous quarter and to -19 in the fourth quarter of 2019. Opinions about the level of inventories were the lowest in the South region as they reached -81, followed by the North (-71), Beirut and Mount Lebanon (-40) and the Bekaa area (-36).

Number of New Passenger Cars Sold



Source: Association of Automobile Importers

Commercial Activity: Year-on-Year Evolution of Opinions				
Aggregate results	Q4-17	Q4-18	Q4-19	Q4-20
Sales volume	-26	-39	-63	-55
Number of employees	-3	-9	-26	-43
Inventories of finished goods	1	-3	-19	-54
Q4-20 Regional results	Beirut / Mount Lebanon	North	South	Bekaa
Sales volume	-65	-18	-84	-60
Inventories of finished goods	-40	-71	-81	-36

Source: Banque du Liban business survey for fourth quarter of 2020

Net profits of Syrian affiliates of Lebanese banks at SYP 229bn in 2020 on unrealized foreign exchange gains

Financial results issued by the affiliates of six Lebanese banks operating in Syria show that their aggregate net profits reached SYP229bn in 2020 relative to net earnings of SYP5.7bn in 2019. The improvement in the banks' net income is mainly due to the depreciation of the Syrian pound from SYP436 against the US dollar at the end of 2019 to SYP1,256 per US dollar at the end of 2020, which resulted in unrealized foreign exchange gains on the banks' structural positions of SYP227.3bn in 2020 relative to gains of SYP30.1m in 2019. In US dollar terms, the net profits of the six banks reached \$205m in 2020 compared to net earnings of \$13.1m in 2019. The aggregate net income of the seven banks becomes SYP1.75bn, or \$1.6m, last year when excluding foreign exchange gains on structural positions, relative to earnings of SYP5.7bn, or \$13m in 2019.

The profits of Fransabank Syria rose by SYP48.4bn in 2020, followed by a surge of SYP46bn in the net income of Byblos Bank Syria, an expansion of SYP40.6bn in the earnings of Banque BEMO Saudi Fransi, an increase of SYP33.6bn in the earnings of Bank of Syria & Overseas, an uptick of SYP32.3bn in the net income of Syria Gulf Bank, the affiliate of First National Bank, and an improvement of SYP22.4bn in the profits of Bank Al-Sharq, the affiliate of Banque Libano-Française.

The net interest income of the six banks totaled SYP29.1bn in 2020, up by 25.5% from SYP23.2bn in 2019; while their net fees & commission income rose by 3.9 times year-on-year to SYP31.7bn. The six banks' operating income rose by 8.6 times from SYP35.6bn in 2019 to SYP305.4bn in 2020; while their total operating expenses reached SYP75.1bn in 2020, up by 2.6 times from SYP28.9bn in 2019.

In parallel, the banks' aggregate assets reached SYP1,786bn at the end of 2020 and increased by 118.2% from SYP818.6bn at end-2019. The rise in assets was due to an expansion of 362.1% in the assets of Syria Gulf Bank (+SYP191.3bn), a growth of 117.7% in those of Bank of Syria & Overseas (+SYP162.7bn), a growth of 103.8% in the assets of Banque BEMO Saudi Fransi (+SYP333.8bn), a surge of 100.6% in the assets of Byblos Bank Syria (+SYP91.8bn), a rise of 98.8% in those of Fransabank Syria (+SYP131.3bn), and an of 69.5% in the assets of Bank Al Sharq (+SYP57bn). In US dollar terms, the assets of the six banks declined from \$1.88bn at the end of 2019 to \$1.42bn at end-2020.

Also, the banks' total loans reached SYP280.7bn at end-2020, constituting an increase of 25.2% from SYP224.2bn at the end of 2019. Further, the banks' customer deposits totaled SYP1,170bn at the end of 2020, constituting a rise of 102% from SYP579.4bn a year earlier. The ratio of the banks' loans-to-customer deposits stood at 24% at the end of 2020 relative to 38.7% at end-2019. In parallel, the aggregate shareholders' equity of the six banks reached SYP352.6bn at end-2020, constituting an increase of 186.1% from SYP123.2bn at end-2019.

Ratio Highlights

(in % unless specified)	2018	2019	2020	Change*
Nominal GDP (\$bn)	55.0	51.3	25.2	(26.06)
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)	-	-
Exports / Imports	14.8	19.4	-	-
Fiscal Revenues / GDP	20.9	20.7	-	-
Fiscal Expenditures / GDP	32.2	31.6	-	-
Fiscal Balance / GDP	(11.3)	(10.9)	-	-
Primary Balance / GDP	(1.1)	(0.5)	-	-
Gross Foreign Currency Reserves / M2	63.8	70.2	41.5	(28.63)
M3 / GDP	255.6	251.2	205.6	(45.67)
Commercial Banks Assets / GDP	451.3	404.8	291.3	(113.50)
Private Sector Deposits / GDP	315.3	296.6	215.5	(81.10)
Private Sector Loans / GDP	107.4	92.9	56.0	(36.91)
Private Sector Deposits Dollarization Rate	70.6	80.3	80.4	0.08
Private Sector Lending Dollarization Rate	69.2	68.7	59.6	(9.12)

*change in percentage points 20/19;

Source: Banque du Liban, Central Administration of Statistics, Institute of International Finance, Byblos Research Estimates & Calculations

Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

National Accounts, Prices and Exchange Rates

	2018	2019e	2020f
Nominal GDP (LBP trillion)	82.9	80.8	99.4
Nominal GDP (US\$ bn)	55.0	51.3	25.9
Real GDP growth, % change	-1.9	-6.7	-26.4
Private consumption	-1.3	-7.3	-23.4
Public consumption	6.7	2.5	-64.7
Gross fixed capital	-1.8	-11.1	-32.2
Exports of goods and services	0.5	-4.0	-31.6
Imports of goods and services	1.1	-4.9	-39.5
Consumer prices, %, average	6.1	2.9	85.2
Official exchange rate, average, LBP/US\$	1,507.5	1,507.5	1,507.5
Parallel exchange rate, average, LBP/US\$	n/a	1,620	5,528
Weighted average exchange rate LBP/US\$	1,507.5	1,575	3,853

Source: Institute of International Finance- December 2020

Ratings & Outlook

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

*for downgrade

**CreditWatch negative

Source: Rating agencies

Banking Sector Ratings

	Outlook
Moody's Investors Service	Negative

Source: Moody's Investors Service



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