

LEBANON THIS WEEK

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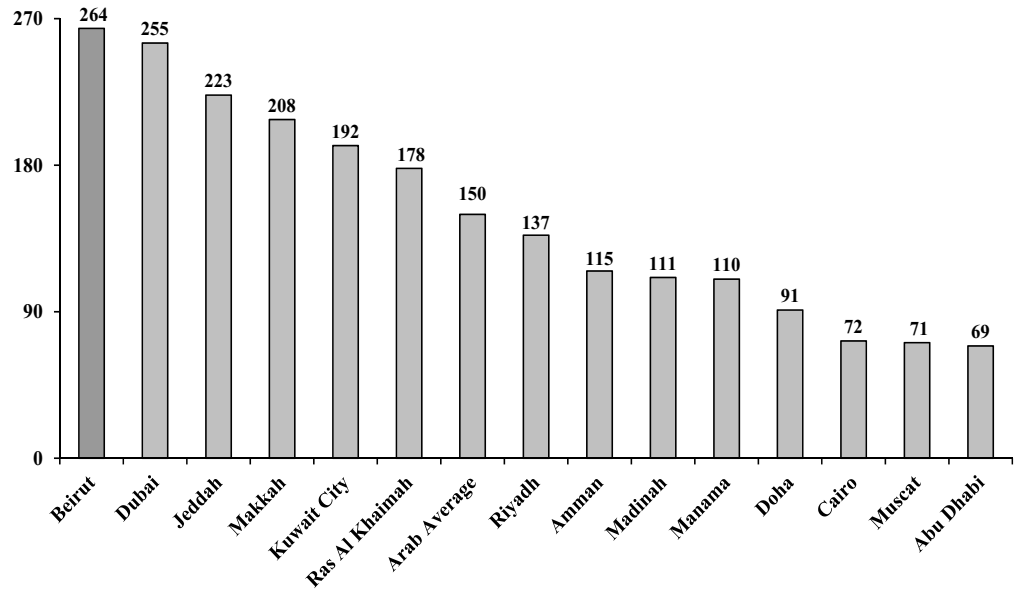
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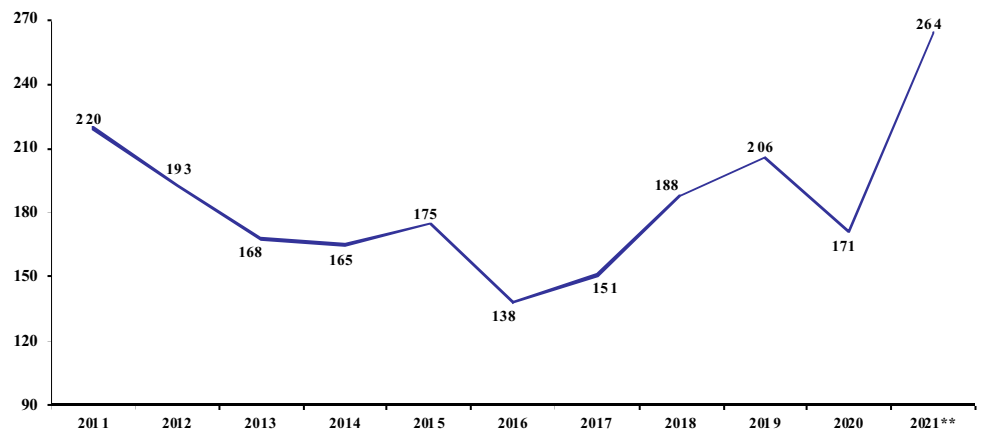
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Charts of the Week

Revenues per Available Room at Hotels in Selected Arab Cities in First Five Months of 2021* (in US\$)



Revenues per Available Room in Beirut (in US\$)



*at four- and five-star hotels
 **in first five months of 2021
 Source: EY, Byblos Bank

Quote to Note

"It is a matter of urgency to implement the measures and reforms needed to address the multiple crises affecting Lebanon, including an agreement with the International Monetary Fund."

The European Union, on the steps that Lebanese authorities have to take following the formation of the government

Number of the Week

13: Number of months it took to form the new Lebanese government

Lebanon in the News

\$m (unless otherwise mentioned)	2020	Jan-May 2020	Jan-May 2021	% Change*	May-20	Apr-21	May-21
Exports**	3,544	914	699	-23.6%	251	-	-
Imports**	11,310	2,931	3,329	13.6%	674	-	-
Trade Balance**	(7,765)	(2,017)	(2,631)	30.5%	(423)	-	-
Balance of Payments	(10,551)	(2,191)	(1,574)	-28.2%	(888)	(546)	(181)
Checks Cleared in LBP	19,937	7,748	7,481	-3.5%	1,105	1,719	1,611
Checks Cleared in FC	33,881	13,845	9,456	-31.7%	1,467	2,108	1,501
Total Checks Cleared	53,828	21,597	16,941	-21.6%	2,572	3,828	3,112
Fiscal Deficit/Surplus	(2,535)	(1,998)	-	-	(247)	-	-
Primary Balance	(1,136)	(716)	-	-	(120)	-	-
Airport Passengers	2,501,975	1,191,376	1,052,191	-11.7%	20,253	216,344	286,371
Consumer Price Index	84.9	28.6	138.0	10940	56.5	121.7	119.8

\$bn (unless otherwise mentioned)	Dec-20	May-20	Feb-21	Mar-21	Apr-21	May-21	% Change*
BdL FX Reserves	18.60	26.44	17.49	16.75	16.23	15.71	(40.6)
In months of Imports	15.10	39.24	16.94	-	-	-	-
Public Debt	95.59	93.15	96.83	-	-	-	-
Bank Assets	188.04	203.84	188.13	186.26	184.53	183.35	(10.1)
Bank Deposits (Private Sector)	139.14	146.30	138.85	136.95	136.02	135.11	(7.6)
Bank Loans to Private Sector	36.17	42.91	35.49	34.20	33.11	32.53	(24.2)
Money Supply M2	44.78	38.78	47.50	47.96	48.59	49.30	27.1
Money Supply M3	132.70	129.67	134.60	134.11	134.34	134.49	3.7
LBP Lending Rate (%)	7.77	8.45	7.59	8.02	8.00	7.86	(59)
LBP Deposit Rate (%)	2.64	4.63	2.11	1.96	2.01	1.85	(278)
USD Lending Rate (%)	6.73	7.90	6.92	7.14	6.88	6.61	(129)
USD Deposit Rate (%)	0.94	1.99	0.54	0.52	0.49	0.42	(157)

*year-on-year; **figures for the period reflect the first quarter of each year

Source: Association of Banks in Lebanon, Banque du Liban, Ministry of Finance, Central Administration of Statistics, Byblos Research

Capital Markets

Most Traded Stocks on BSE*	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Audi GDR	2.48	9.7%	74,971	2.8%	Oct 2022	6.10	13.00	325.70
Solidere "A"	33.35	(4.7%)	48,524	31.0%	Jan 2023	6.00	13.00	221.25
Solidere "B"	33.97	(1.3%)	33,259	20.5%	Apr 2024	6.65	13.00	95.84
BLOM GDR	3.47	9.8%	5,120	2.4%	Jun 2025	6.25	13.00	62.63
Byblos Common	0.93	0.0%	-	4.9%	Nov 2026	6.60	13.00	43.32
Audi Listed	2.40	(4.0%)	-	13.1%	Feb 2030	6.65	13.00	25.66
Byblos Pref. 09	38.38	0.0%	-	0.7%	Apr 2031	7.00	13.00	22.41
BLOM Listed	3.20	0.0%	-	6.4%	May 2033	8.20	13.00	18.26
HOLCIM	20.95	0.0%	-	3.8%	Nov 2035	7.05	13.38	14.75
Byblos Pref. 08	34.99	0.0%	-	0.7%	Mar 2037	7.25	14.38	12.89

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

Source: Refinitiv

	Sep 6-10	Aug 30-Sep 3	% Change	August 2021	August 2020	% Change
Total shares traded	365,402	607,572	(39.9)	2,166,545	941,951	130.0
Total value traded	\$9,263,213	\$10,471,184	(11.5)	\$24,370,670	\$10,392,324	134.5
Market capitalization	\$10.84bn	\$10.77bn	0.66	\$10.57bn	\$6.20bn	70.4

Source: Beirut Stock Exchange (BSE)



Lebanon to receive \$1.13bn in Special Drawing Rights from International Monetary Fund

The Ministry of Finance announced that the International Monetary Fund (IMF) indicated that Lebanon will receive on September 16, 2021 the equivalent of \$1.135bn in Special Drawing Rights (SDRs), which consist of \$275m in SDRs for 2009 and \$860m in SDRs for 2021, and that the SDRs will be deposited in the account of Banque du Liban. The ministry added that it has asked the IMF to transfer Lebanon's allocation of the SDRs, especially those for 2009.

The IMF said earlier that its allocation to Lebanon of 607.2 million in Special Drawing Rights (SDRs) for 2021, equivalent to \$865.6m, became effective on August 23, 2021. It added that the SDRs would support the country's foreign currency reserves, as well as help address many of the urgent needs of the Lebanese people. Further, it indicated that Lebanon's current holdings stand at 196.5 million SDRs and that the country's existing allocation is at about 193 million SDRs. As such, following the new SDRs allocation that came into effect in August 2021, Lebanon's cumulative allocation would reach 796 million SDRs, or about \$1.13bn as at September 10, 2021.

According to the IMF's latest available figures, one SDR was equal to US\$1.426 on September 10, 2021. Lebanon's quota at the IMF before the new allocations 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, the IMF considered that the allocation of the new SDRs is not going to resolve Lebanon's long-term structural and systemic problems, and urged the formation of a government in order to implement economic reforms. Also, it called on Lebanese authorities to use the SDRs responsibly and wisely, and to deploy them in a way that would optimize their benefits for the country and its people. It noted that the deployment of the SDRs is a sovereign decision of each country, but considered that the Lebanese people has the right to know how the SDRs will be utilized. As such, it called on domestic and international partners to help ensure the transparency and accountability of the deployment of Lebanon's new SDRs 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.

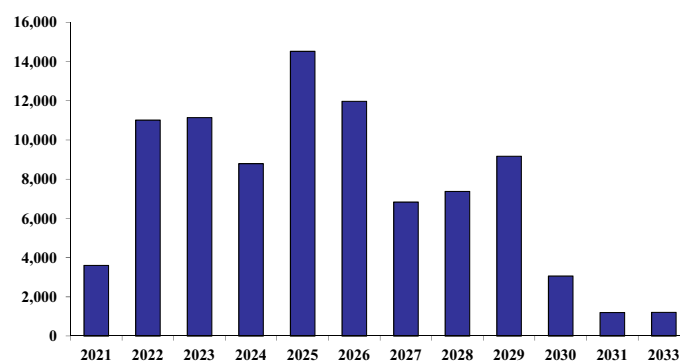
More than 91% of Treasury securities in Lebanese pounds have five-year maturities or longer

Figures released by the Association of Banks in Lebanon show that the face value of outstanding Treasury securities denominated in Lebanese pounds reached LBP89,895bn, or the equivalent of \$59.6bn, at the end of July 2021, compared to LBP86,934bn, or \$57.7bn, at end-July 2020. The dollar figures are converted at the official exchange rate of the Lebanese pound against the US dollar. The weighted interest rate on Lebanese Treasury securities denominated in Lebanese pounds was 6.58% in July 2021 compared to 6.49% July 2020.

The distribution of outstanding Treasury securities shows that 10-year Treasury bonds accounted for 38.2% or LBP 34,353bn, five-year Treasury securities had a share of 25.6% (LBP23,000bn), and seven-year Treasury bonds represented 22.3% (LBP20,033bn) of aggregate securities denominated in Lebanese pounds at the end of July 2021. Also, the share of three-year Treasury bonds was 5.1% (LBP4,613bn), 12-year Treasury securities represented 3.4% of the total (LBP3,076bn), the share of two-year Treasury bonds was 2.1% (LBP1,417bn), one-year Treasury bills had a share of 1.5% (LBP1,307bn), six-month T-bills represented 0.15% (LBP132bn) and the share of three-month T-bills was 0.06% (LBP53bn) of the total. As such, 65.5% of outstanding Treasury securities have seven-year maturities or longer and 91.1% have five-year maturities or more.

In parallel, LBP783m in outstanding Treasury securities denominated in Lebanese pounds matured in July 2021, of which 51.2% were five-year Treasury bonds, 33.1% consisted of two-years Treasury securities, 6.5% were three-year Treasury bonds, 5.7% consisted of one-year Treasury bills, 2.7% were three-month Treasury bills and 0.8% were six-month Treasury bills. According to ABL, LBP3,598bn of outstanding Treasury bonds in Lebanese pounds will mature in the remainder of 2021, while LBP11,020bn will come due in 2022.

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



*As at end-July 2021

Source: Association of Banks in Lebanon, Byblos Research

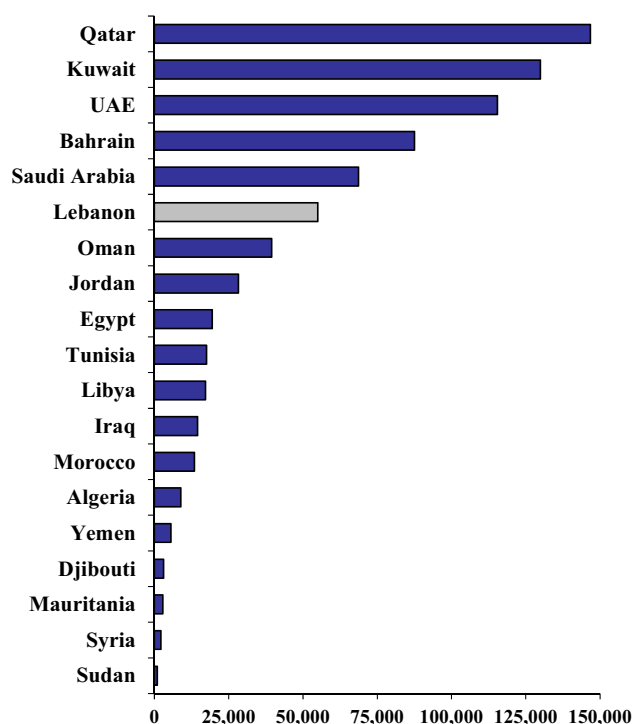
Lebanon's net wealth per adult at \$55,007 at end-2020

Global investment bank Credit Suisse estimated the net wealth per adult in Lebanon at \$55,007 at the end of 2020, constituting a decrease of 5.8% from \$58,367 at end-2019. Lebanon's net wealth per adult is the 52nd highest among 168 countries globally and the sixth highest among 19 Arab countries at end-2020.

Credit Suisse defines a country's net wealth as the sum of its adult population's marketable value of financial and non-financial assets, less its aggregate personal debt, with non-financial assets consisting mainly of real estate holdings. It excludes a country's stock of human capital as well as its stock of public assets and liabilities, such as the public debt. The investment bank provided annual data for the period between 2000 and 2020. It said that its methodology to estimate private wealth is based on figures of household balance sheets. However, it noted that it supplements such figures with econometric techniques that generate estimates of the level of wealth in countries that do not provide updated data on household balance sheets.

Globally, the net wealth per adult in Lebanon is higher than the wealth per adult in Hungary (\$53,664), Chile (\$53,591) and Romania (\$50,009), and lower than it is in Uruguay (\$60,914), Montenegro (\$60,310), and the Bahamas (\$56,737). Regionally, the net wealth per adult in Lebanon is lower than the wealth per adult in Qatar (\$146,730), Kuwait (\$129,890), the UAE (\$115,476), Bahrain (\$87,559), and Saudi Arabia (\$68,697).

Net Wealth Per Adult in Arab Countries (US\$)



Source: Credit Suisse, Byblos Research

The value of financial assets per adult in Lebanon stood at \$13,573 at the end of 2020, down by 2.5% from a peak of \$13,925 a year earlier. Lebanon's financial wealth per adult was the 64th highest globally at end-2020 and the eighth highest among Arab countries. The value of financial assets per adult in Lebanon was higher than in Brunei Darussalam (\$13,039), Romania (\$12,485), and the Caribbean Netherlands (\$11,710), and lower than in Equatorial Guinea (\$16,821), Mexico (\$16,146), and South Africa (\$15,604) worldwide. Regionally, it was lower than the financial wealth per adult in Qatar (\$102,411), Kuwait (\$102,371), the UAE (\$70,288), Bahrain (\$50,888), Saudi Arabia (\$39,394), Oman (\$17,532), and Jordan (\$17,276).

Also, the value of non-financial assets per adult in Lebanon was \$45,282 at the end of 2020, down by 7.2% from a peak of \$48,781 a year earlier. Lebanon's non-financial assets per adult were the 42nd highest globally and the third highest among Arab countries at end-2020. Globally, they were higher than the non-financial assets per adult in Bahrain (\$43,907), the Bahamas (\$43,739), and China (\$41,874), and lower than in the French West Indies (\$50,449), Estonia (\$49,153), and the Czech Republic (\$47,227). Regionally, the value of non-financial assets per adult in Lebanon was lower than in Qatar (\$61,198) and the UAE (\$54,548).

Further, the debt per adult in Lebanon reached \$3,847 at the end of 2020, down by 11.3 % from \$6,794 a year earlier and compared to a peak of \$4,435 at the end of 2018. It was the 64th highest globally and the seventh highest among Arab countries at end-2020. Globally, it was higher than the debt per adult in Brazil (\$3,639), Polynesia (\$3,408), and Romania (\$3,178), and lower than in Oman (\$4,073), South Africa (\$3,928) and Bulgaria (\$3,848). Regionally, it was lower than the debt per adult in Qatar (\$16,879), Kuwait (\$12,161), the UAE (\$9,397), Bahrain (\$7,236), Saudi Arabia (\$4,445), and Oman.

In parallel, Credit Suisse indicated that 40.6% of Lebanese adults each had a net wealth below \$10,000 as at the end of 2020, 50.5% had a net wealth between \$10,000 and \$100,000 each, 8.4% of Lebanese adults had an aggregate net wealth between \$100,000 and \$1m each, and 0.5% of Lebanese adults each had a total net wealth that exceeds \$1m. Further, the median wealth per adult in Lebanon stood at \$18,159 at the end of 2020 relative to \$18,491 at end-2019 and a peak of \$18,569 at the end of 2018.

Treasury transfers to Electricité du Liban down 85% to \$28.5m in January 2021

Figures released by the Ministry of Finance show that Treasury transfers to Electricité du Liban (EdL) totaled \$28.5m in January 2021, constituting a decline of 85% from \$189.7m in the same month of 2020. Treasury transfers covered reimbursements for the purchase of natural gas, fuel and gas oil, and did not include any debt servicing payments on behalf of EdL. The decline in transfers is mainly due to a decrease in payments to the Kuwait Petroleum Corporation and to the Algerian energy conglomerate Sonatrach.

Treasury transfers to EdL accounted for 3% of budgetary primary expenditures in January 2021 relative to 14% in the same month of 2020. They constituted the fifth largest expenditures item, or 2.4% of overall fiscal spending, after personnel cost with 46%, interest payments (21%), payments to hospitals (8.1%), and to the Higher Council of Relief (4.2%). EdL transfers were equivalent to 5.1% of GDP in 2012, 4.3% of GDP in 2013, 4.4% of GDP in 2014, 2.3% of GDP in 2015, 1.8% of GDP in 2016, 2.5% of GDP in 2017, 3.2% of GDP in 2018, 2.8% of GDP in 2019, and 3.2% of GDP in 2020.

Government launches cash card mechanism for vulnerable households

The Lebanese government launched an electronic cash card to support the purchasing power of the neediest segments of the Lebanese population, as part of the plan to rationalize or lift subsidies on hydrocarbons and basic goods. The cash card program is part of the government's efforts to support the purchasing power of Lebanese households, in light of the deterioration in socioeconomic conditions in the country that was aggravated by the spread of the coronavirus and that led to the closure of many companies, to the decline in commercial activity, as well as to the increase in unemployment and to the rise in the prices of consumer goods. The program will allow families to benefit for one full year from a monthly stipend of \$25 per individual at households, with an additional \$15 to be paid out for household members who are 64 years or older. It added that the enactment of the cash card will allow 500,000 families to benefit from a monthly stipend that ranges between \$93.3 and \$126 for one full year. The plan will be added to the other existing programs that the poorest families in Lebanon are benefitting from.

The plan stipulates that families can apply for the card through an electronic platform based on specific criteria, as well as the lifting of banking secrecy on the bank accounts of all card beneficiaries, with the banks making monthly payments in cash to persons who have received the card. Also, eligible families are required to submit their applications between September 9 and December 15, 2021, either through the government's electronic platform or in person at social affairs centers or non-governmental organizations.

In parallel, the program excludes household members who spend less than 60 consecutive days per year in Lebanon, but it covers such individuals who are 23 years old or younger. It added that households that are not entitled to benefit from the cash card program consist of families whose income exceeds \$10,000 per year, households whose bank deposits exceed \$10,000, families whose house rent exceeds \$3,500 annually, households that are benefiting from the World Bank's National Poverty Targeting Program, families who own two cars that were registered after 2018 and with models of 2017 or later, and households who have two domestic workers or more.

The Central Inspection Authority will supervise the program to ensure transparency, digital security and effective oversight, while all transactions will be subject to an external audit by specialized companies with international experience, and in cooperation with the World Bank.

The Lebanese Parliament enacted Law 230 on June 30, 2021 that authorized the government to issue an electronic cash card to support needy Lebanese families as part of the plan to rationalize subsidies on hydrocarbons basic goods. The law requires the establishment of a central unit at Banque du Liban (BdL) to verify the existence of deposit accounts at banks for the card beneficiaries. The government's plan to rationalize subsidies stipulates the lifting of 100% of subsidies on gasoline, which will save BdL \$96m monthly or \$1.15bn annually; the removal of 100% of subsidies on Diesel oil, which will result in savings of \$118m monthly or \$1.42bn annually for BdL; and the elimination of subsidies on gas, which will lead to savings of about \$132m per year. In addition, the plan suspended subsidies on the entire basket of subsidized consumer goods, which will result in monthly savings of \$71.5m and in annual savings of \$858m for BdL. It said that the current subsidy system has been costing BdL \$420m monthly or \$5.04bn annually, and estimated that rationalizing subsidies will reduce the cost to \$66.3m monthly and \$796m yearly, which will result in savings of \$4.25bn per year for BdL.

Compensation of public-sector personnel exceeds public revenues in January 2021

Figures issued by the Ministry of Finance show that the compensation of public-sector personnel totaled \$548.6m in January 2021, constituting a decrease of 5.3% from \$579m in the same month of 2020. Salaries, wages and related benefits accounted for 67.6% of the total, followed by retirement benefits (29%), transfers to public institutions to cover salaries (3.1%), and end-of-service indemnities (0.2%). The dollar figures are based on the official exchange rate of the Lebanese pound to the US dollar. Further, end-of-service indemnities dropped by 96.6%; and salaries, wages and related benefits decreased by a marginal 0.2%; while transfers to public institutions to cover salaries grew by 24% and retirement salaries increased by 2% in the covered month. The compensation of public-sector personnel represented the largest component of current primary spending and accounted for 68% of such expenditures in January 2021 compared to 50% in the same month of 2020. It also absorbed 46% of fiscal spending in the first month of 2021 relative to 34.2% in the same month of 2020; while it was equivalent to 109.3% of public revenues in January 2021 compared to 56.7% of government receipts in the first month of 2020.

In parallel, salaries, wages and related benefits paid to public-sector workers amounted to \$370.8m in January 2021 compared to \$372.1m in the same month of 2020. This category includes basic salaries, employment benefits, allowances, contributions to civil servants' co-operatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly civil and religious judges, and employees at the Parliament. The breakdown of salaries, wages and related benefits paid to public-sector employees shows that allowances increased by \$37.8m; while benefits and other payments given to non-military bodies declined by \$6m, and basic salaries regressed by \$5.3m year-on-year. Benefits include payments for transportation, overtime and family-related benefits, while other payments to non-military bodies consist of the State's contribution to mutual funds and to the National Social Security Fund, as well as bonuses, among others. Basic salaries regressed by 2.2% to \$234.8m in January 2021, allowances grew by 53.8% to \$108m, while benefits and other payments dropped by 28% to \$15.3m from January 2020. In addition, salaries and benefits of military personnel reached \$284m and accounted for 76.6% of salaries, wages and related benefits paid to public sector employees in January 2021. The salaries and benefits of personnel in public education followed with \$47m (12.7% of the total), then civil staff with \$31.8m (8.6%), and the salaries and benefits of customs employees with \$8m (2.1%). Also, the Lebanese Army's salaries and benefits totaled \$177.8m and represented 62.6% of the salaries and benefits of military personnel. The salaries of the Internal Security Forces followed with \$82.3m (29%), those of the General Security Forces with \$19.2m (6.8%), and the salaries of State Security Forces with \$4.6m (1.6%).

Broad money supply up 1% in first seven months of 2021, currency in circulation up 30%

Figures released by Banque du Liban show that money supply M1, which includes currency in circulation and demand deposits in Lebanese pounds, reached LBP51,669bn at the end of July 2021, constituting an increase of 28.7% from LBP40,156bn at the end of 2020 and a rise of 80.2% from LBP28,668bn at end-July 2020. Currency in circulation stood at LBP38,108bn at the end of July, and surged by 30.3% in the first seven months of the year and by 99.5% from LBP19,101bn at end-July 2020. Also, demand deposits in local currency stood at LBP13,561bn at end-July 2021, representing an increase of 24.3% in the first seven months of the year and a rise of 41.8% from the end of July 2020. Money supply M1 grew by 0.8% in July from LBP51,266bn at the end of the previous month, with currency in circulation expanding by 1% and demand deposits in local currency growing by a marginal 0.2% 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 LBP74,752bn at the end of July 2021, constituting increases of 10.7% in the first seven months of the year and of 26.3% from LBP59,170bn a year earlier. Term deposits in Lebanese pounds totaled LBP23,083bn at the end of July 2021, decreasing by 15.6% from LBP27,354bn at end-2020 and by 24.3% from LBP30,502bn at end-July 2020. Money supply M2 regressed by a marginal 0.4% in July from the previous month, with term deposits in local currency contracting by 2.9% month-on-month.

Further, broad money supply M3, which includes M2, deposits in foreign currency and debt securities issued by the banking sector, reached LBP201,130bn at the end of July 2021, representing an increase of 0.5% in the first seven months of the year and an upturn of 3% from LBP195,195bn at end-July 2020. Deposits in foreign currency totaled LBP126,047bn at the end of July 2021, down by 4.5% from end-2020 and by 7% from a year earlier. Also, debt securities issued by the banking sector amounted to LBP331bn at the end of July 2021 compared to LBP519bn at the end of 2020 and to LBP490bn at end-July 2020. Money supply M3 decreased by 0.5% from the preceding month, while deposits in foreign currency regressing by 0.7% and debt securities issued by the banking sector expanding by 0.8% month-on-month. In parallel, M3 grew by LBP1,078bn in the first seven months of 2021 due to a surge of LBP17,132bn in other items, which was partly offset by a drop of LBP7,004bn in the claims of the private sector, a decline of LBP5,692bn in net claims on the public sector, and a downturn of LBP3,357bn in the net foreign assets of deposit-taking institutions.

Lebanon receives 4.5% of IMF regional technical assistance between May and July 2021

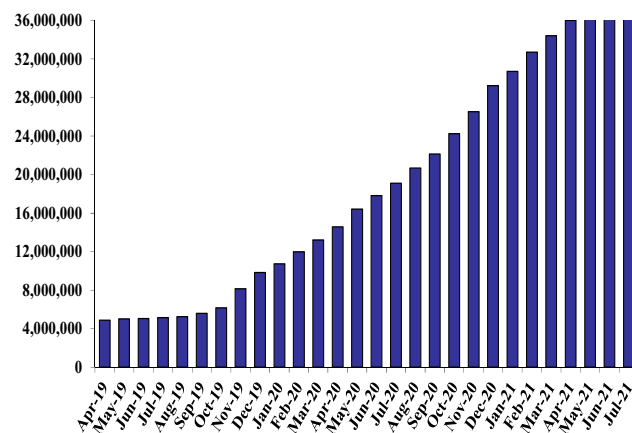
The International Monetary Fund's Middle East Technical Assistance Center (METAC) indicated that Lebanon received 4.5% of the center's delivery of technical assistance to member countries during the first quarter of the fiscal year that ends in April 2022, or between May and July 2021. In comparison, Lebanon received 10.7% of the center's technical assistance to member countries during the first quarter of FY2020/21, or between May and July 2020. METAC provided one technical assistance project in public financial management to Lebanon in the first quarter of FY2021/22. It indicated that there are eight technical assistance projects planned for Lebanon in FY2021/22, the third highest number of such projects among member countries, behind Egypt (10 projects), and Afghanistan and Sudan (nine projects each).

In terms of public financial management, METAC delivered with the Institut des Finances Basil Fuleihan a webinar on assessing and managing fiscal risks from public-private partnership (PPP) projects. It said that the training session was part of an ongoing medium-term capacity development project to develop the role of the Ministry of Finance (MoF) as a gatekeeper for identifying, quantifying, and capturing fiscal risks. Also, it said that it defined a workflow and developed a near and medium term roadmap for the MoF about the roles and responsibilities for reviewing, vetting and approving PPP projects. It added that it studied the coordination mechanisms between the MoF and the Higher Council for Privatization and Partnerships.

In parallel, the center indicated that it has one project planned in Lebanon during the second quarter of FY2021/22, which extends from August to October 2021. It noted that the project is in the statistics field and consists of helping the Central Administration for Statistics to develop the Consumer Price Index and the Producer Price Index.

The IMF established METAC in Beirut in October 2004 to serve Afghanistan, Algeria, Djibouti, Egypt, Iraq, Jordan, Lebanon, Libya, Morocco, Sudan, Syria, Tunisia, the West Bank & Gaza, and Yemen. The center's mandate is to assist in capacity-building, facilitate the reform process in member countries, and support the region's integration in the world economy.

Currency in Circulation (LBP Millions)



Source: Banque du Liban, Byblos Research

Fiscal deficit equivalent to 33.5% of expenditures in first two months of 2021

Figures released by the Ministry of Finance show that the fiscal deficit reached \$648.1m in the first two months of 2021 and narrowed by 44% from a deficit of \$1.16bn in the same period of 2020, based on the official exchange rate of the Lebanese pound to the US dollar. The deficit was equivalent to 33.5% of total budget and Treasury expenditures relative to 40.8% of spending in the first two months of 2020. Government spending reached \$1.94bn in the first two months of 2021 and dropped by 31.8% from the same period of 2020, while revenues stood at \$1.29bn and declined by 23.4% year-on-year. The narrowing of the deficit was caused by a contraction of \$902.8m in spending from lower debt servicing cost and Treasury transfers to Electricité du Liban (EdL), which was partly offset by the decrease of \$393.6m in revenues.

On the revenues side, tax receipts declined by 32% year-on-year to \$904.6m in the first two months of 2021, of which 27.7%, or \$251m, were in VAT receipts that regressed by 9.8% annually. Tax receipts accounted for 76.6% of budgetary revenues and for 70.3% 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 40% to \$433m in the covered period; receipts from customs grew by 5.6% to \$134.5m; revenues from property taxes dropped by 59.2% to \$45.6m; while proceeds from stamp fees retreated by 48% to \$32.2m and revenues from taxes on goods & services plunged by 70% to \$8.5m.

The distribution of income tax receipts shows that the tax on interest income accounted for 66.4% of income tax revenues in the first two months of 2021, followed by the tax on wages & salaries with 21.6%, the tax on profits with 8.2%, and the capital gains tax with 3.6%. Revenues from the tax on profits dropped by 50.8%, receipts from the tax on interest income fell by 42.4%, proceeds from the tax on wages & salaries declined by 29%, and revenues from the tax on capital gains increased by 1% in the covered period. Also, receipts from real estate registration fees contracted by 62% to \$30.6m and revenues from the inheritance tax declined by 19.6% to \$7.5m in the first two months of 2021, while proceeds from the built property tax dipped by 66.1% to \$7.4m.

Further, non-tax budgetary receipts grew by 10.5% year-on-year to \$276.4m in the covered period. They mainly included \$220.8m in revenues generated from government properties that rose by 68.3%, as well as \$23m in receipts from administrative fees and charges that decreased by 72% annually. Receipts from telecommunication services surged by 182.6% to \$187.4m in the first two months of 2021, and accounted for 85% of income from government properties and for 67.8% of non-tax budgetary revenues. In parallel, Treasury receipts increased by 3.6% to \$106.3m in the covered period.

On the expenditures side, total budgetary spending, which includes general expenditures and debt servicing, declined by 34.3% to \$1.77bn in the first two months of 2021. General spending regressed by 32% to \$1.41bn in the covered period, and included \$72.8m in transfers to EdL that fell by 62.7% year-on-year, and \$438m in outlays from previous years that contracted by 54.5% annually, among other general spending items. Also, debt servicing totaled \$358m in the covered period and contracted by 42.2% from the first two months of 2020. Interest payments on Lebanese pound-denominated debt declined by 30% to \$338.1m in the first two months of 2021, while debt servicing on foreign currency debt fell by 95.5% to \$5.1m, due to the government's decision to suspend all payments on its outstanding Eurobonds starting in March 2020. In addition, Treasury expenditures, excluding transfers to EdL, grew by 12.7% year-on-year to \$166.4m in the covered period. Further, the primary budget balance posted a deficit of \$230m in the first two months of 2021, equivalent to 13% of budgetary expenditures, while the overall primary balance registered a deficit of \$290m, or 15% of spending.

Fiscal Results in First Two Months of Each Year			
	2020 (US\$m)	2021 (US\$m)	Change (%)
Budget Revenues	1,578	1,181	-25.2%
Tax Revenues	1,328	905	-31.9%
Non-Tax Revenues	250	276	10.5%
<i>of which Telecom revenues</i>	66	187	182.6%
Budget Expenditures	2,691	1,769	-34.3%
Budget Surplus/Deficit	(1,112)	(588)	-47.1%
<i>In % of budget expenditures</i>	<i>-41.3%</i>	<i>-33.2%</i>	
Budget Primary Surplus/Deficit	(493)	(230)	-53.3%
<i>In % of budget expenditures</i>	<i>-18.3%</i>	<i>-13.0%</i>	
Treasury Receipts	103	106	3.6%
Treasury Expenditures	148	166	12.7%
Total Revenues	1,681	1,287	-23.4%
Total Expenditures	2,838	1,935	-31.8%
Total Surplus/Deficit	(1,157)	(648)	-44.0%
<i>In % of total expenditures</i>	<i>-40.8%</i>	<i>-33.5%</i>	
Total Primary Surplus/Deficit	(537.6)	(290.0)	-46.1%
<i>In % of total expenditures</i>	<i>-18.9%</i>	<i>-15.0%</i>	

Source: Ministry of Finance, Byblos Research



New car sales down 44% in first eight months of 2021

Figures released by the Association of Automobile Importers (AIA) in Lebanon show that dealers sold 2,678 new passenger cars in the first eight months of 2021, constituting a decline of 44.3% from 4,808 cars sold in the same period of 2020 and a drop of 85.3% from 18,165 in the first eight months 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, 602 new cars in June, 387 new vehicles in July and 255 new automobiles in August 2021. In comparison, clients bought 979 new vehicles in January, 897 automobiles in February, 468 new cars in March, 188 vehicles in April, 651 new automobiles in May, 815 in June, 624 new cars in July and 186 new vehicles in August 2020.

The AIA indicated that the drop in the sales of new cars in the covered period is due to the deterioration of political, economic and financial conditions in the country, the closure of companies and car registration centers due to the lockdown measures that the government imposed at the start of 2021; as well as to the fluctuations of the exchange rate of the US dollar on the parallel market.

Also, the market for new passenger cars in Lebanon has been facing increasing challenges in the past few years, including the contraction in economic activity, job insecurity and, more recently, the shortage of foreign currency liquidity in the local market, the emergence of a parallel exchange rate market, the reduced purchasing power of consumers, and a very low level of household confidence.

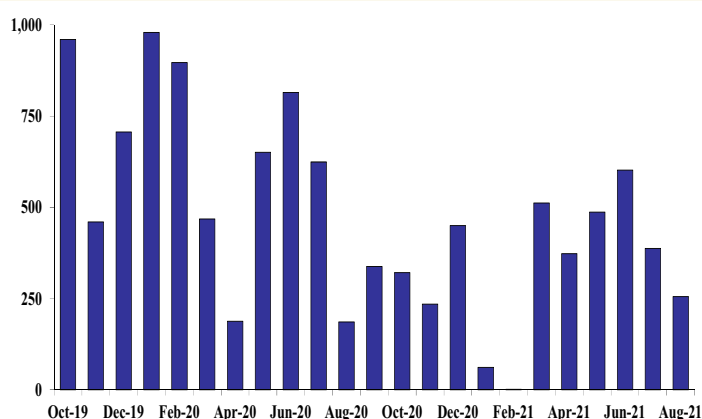
Further, the AIA indicated that car dealers incurred damages in the tens of millions of dollars as a result of the explosion at the Port of Beirut on August 4, 2020, as well as due to the national lockdown measures that the government imposed to contain the spread of the coronavirus. It considered that 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.

Import activity of top five shipping firms and freight forwarders up 32% in first half 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 99,414 20-foot equivalent units (TEUs) in the first half of 2021, constituting an increase of 31.8% from 75,450 TEUs in the same period of 2020. The five shipping and freight forwarding firms accounted for 84.9% of imports to the Lebanese market and for 63.5% of the total import freight market in the first half of 2021. Merit Shipping handled 32,066 TEUs in the covered period, equivalent to 20.5% of the total import freight market. Mediterranean Shipping Company (MSC) followed with 26,561 TEUs (17%), then MAERSK with 19,717 TEUs (12.6%), Gezairi Transport with 11,067 TEUs (7.1%), and Lotus Shipping with 10,003 TEUs (6.4%). The five shipping and freight forwarding firms registered year-on-year increases in import shipping in the first half of 2021, with Lotus Shipping posting an expansion of 112.3%, the highest among the top five companies. The import shipping operations of the five firms through the port decreased by 17.6% in June 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 32,825 TEUs in the first half of 2021, constituting an increase of 11.5% from 29,431 TEUs in the same period of 2020. The five shipping companies and freight forwarders accounted for 89.8% of exported Lebanese cargo and for 22.8% of the total export freight market in the first half of 2021. Merit Shipping handled 22,429 TEUs of freight in the covered period, equivalent to 61.4% of the Lebanese cargo export market. MAERSK followed with 4,333 TEUs (11.9%), then Tourism & Shipping with 2,192 TEUs (6%), MSC with 1,944 TEUs, and Sealine Group with 1,927 TEUs (5.3% each). Merit Shipping registered a rise of 53% in exports in the first half of 2021, the highest growth rate among the top five shipping and freight forwarding companies, while Sealine Group posted a drop of 36.9%, the steepest decline among the five firms. The export-shipping operations of the top five companies increased by 8% in June 2021 from the previous month.

Number of New Passenger Cars Sold



Source: Association of Automobile Importers

Ratio Highlights

(in % unless specified)	2018	2019	2020	Change*
Nominal GDP (\$bn)	55.0	51.3	33.4	(17.88)
Public Debt in Foreign Currency / GDP	60.6	63.0	55.8	(7.17)
Public Debt in Local Currency / GDP	93.4	108.1	92.2	(15.87)
Gross Public Debt / GDP	154.0	171.1	148.1	(23.04)
Trade Balance / GDP	(30.8)	(29.0)	(12.0)	16.93
Exports / Imports	14.8	19.4	31.3	11.95
Fiscal Revenues / GDP	20.9	20.7	15.8	(4.90)
Fiscal Expenditures / GDP	32.2	31.6	20.0	(11.60)
Fiscal Balance / GDP	(11.3)	(10.9)	(4.2)	6.70
Primary Balance / GDP	(1.1)	(0.5)	(1.0)	(0.47)
Gross Foreign Currency Reserves / M2	63.8	70.2	41.5	(28.63)
M3 / GDP	255.6	251.2	205.6	(45.67)
Commercial Banks Assets / GDP	451.3	404.8	291.3	(113.50)
Private Sector Deposits / GDP	315.3	296.6	215.5	(81.10)
Private Sector Loans / GDP	107.4	92.9	56.0	(36.91)
Private Sector Deposits Dollarization Rate	70.6	80.3	80.4	0.08
Private Sector Lending Dollarization Rate	69.2	68.7	59.6	(9.12)

*change in percentage points 20/19;

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

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

National Accounts, Prices and Exchange Rates

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

Source: Institute of International Finance- December 2019

Ratings & Outlook

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

*for downgrade

**CreditWatch negative

Source: Rating agencies

Banking Sector Ratings

	Outlook
Moody's Investors Service	Negative

Source: Moody's Investors Service



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