PART I

GENERAL ECONOMIC DEVELOPMENTS

01

WORLD ECONOMY

01-**1**

In 2020, the world economy witnessed a considerable contraction with a negative real growth rate of -3.3%. Most of the developed and emerging countries have recorded a negative growth of which the pace differed depending on tourism, export of primary commodities, and other issues. China, for instance, recorded an economic growth rate of 2.3%, the lowest rate it witnessed since the 1980s. In addition, the economic contraction rate reached -3.5% in the United States of America, -6.6% in the Eurozone, -9.9% in Britain, -5.4% in Canada, -4.8% in Japan, -8.0% in India, -3.1% in Russia and -4.1% in both Brazil and the Kingdom of Saudi Arabia. The root cause of this global contraction is the effects of the Covid-19 pandemic and the tragic human and material losses arising from it, noting that the contraction situation could have been worse and of a historical nature had not many countries set forth exceptional support through policies, regulations, and measures that aim at supporting the income of individuals and families, and healthcare, and at ensuring the continuity of companies' basic businesses and the economic activity.

01-**2** IMF'S EXPECTATIONS

The initial expectations issued by the International Monetary Fund indicate a quick global economic recovery and a possible estimated positive growth rate of 6% in 2021 (the highest since 1973) driven by a growth rate of 6.4% in the United States of America, 4.4% in the Eurozone, 5.3% in Britain, 8.4% in China, and other countries. The progressive lift of the containment measures, the adaptation with the new working methods, the availability of vaccines, the continuous support from treasuries, maintaining an easing monetary policy, and resuming the touristic and trade activity, all, are factors contributing to the process of exiting the contraction and recording a positive growth rate. The IMF also expects rapid growth in the Middle East and North Africa region, reaching a rate of 4.0% in 2021 (except for Lebanon which was the only country in the region recording a negative growth rate) compared to -3.4% in 2020, for the aforementioned reasons, in addition to better oil prices. The growth prospects vary for oil-exporting countries in the said region (4.8% in 2021 compared to -4.5% in 2020) and for oil-importing countries (2.3% in 2021 compared to -0.8% in 2020).

02

LEBANESE ECONOMY

02-1 GROSS DOMESTIC PRODUCT, GROWTH RATES, AND INFLATION

In 2020, the Lebanese economy suffered from an extreme unprecedented contraction as a result of the economic, financial, and political crisis that started in the last semester of 2019, and that has been aggravating until the preparation of the present report. The Lebanese economy, like the rest of the world, also suffered from the consequences of the Covid-19 pandemic, in addition to the consequences of Lebanon's default on its Eurobonds and of the Beirut Port explosion. The Lebanese negative real growth rate reached -25% in 2020 compared to -6.7% in 2019, while the GDP Deflator rate reached 60.9% in 2020 and 2.5% in 2019, according to the IMF's estimations. Therefore, the GDP decreased from LBP 79252 billion (equal to USD 52.6 billion at the exchange rate of LBP 1507.5) to LBP 95629 billion (equal to USD 19.1 billion at the exchange rate of LBP 5000) along with a decrease in the overall demand in the absence of confidence, stability in the country, increase in prices, deterioration of the exchange rate, and the negative effects of all these factors on the public and private consumption and investment. The World Bank estimated the GDP at USD 33.4 billion in 2020 while the Institute of International Finance (IIF) estimated it at USD 25.2 billion. The IMF's prospects also indicate a possible negative growth rate reaching -9.5% in 2021. It is worth mentioning that according to the Central Statistics Administration, the real growth rate reached -7.2% in 2019, and GDP deflator reached 47.7%, leading the Nominal GDP to reach LBP 80736 billion in said year. The Central Administration of Statistics has not provided yet such rates for 2020. However, the average inflation rate calculated according to the changing average consumer prices – and according to the Central Administration of Statistics - reached 85% (88% according to the IMF) compared to 2.9% in 2019 along with the deterioration of the exchange rate in the parallel market, where the dollar exchange rate reached approximately LBP 8,000 by the end of the year.

	2018	2019	2018	2019	2020
Real Growth Rate (%)	-1.7	-7.2	-1.9	-6.7	-25.0
Change of the average consumer price Index %	6.1	2.9	4.6	2.9	88.2
GDP Deflator %	5.7	4.7	5.5	2.5	60.9
GDP (LBP billion)	83329	80736	82854	79252	95629
GDP (USD billion)	55.3	53.6	55.0	52.6	19.1
Current Account Balance (USD billion)			15.5	13.9	2.7
Current Account Balance / GDP %			-28.2	-26.5	-14.3

Source: Central Statistics Administration
Source: IMF

02-**2** DEFICIT AND BALANCE OF PAYMENTS

Contrary to expectations, the political performance deteriorated, political bickering increased, and time-wasting lasted, instead of accelerating the formation of an effective Government that is capable of helping the international community in achieving the required structural and sectoral reforms, in addressing waste and corruption sources, and in launching the public investment plan submitted to CEDRE conference previously by the Government and other aids, especially the ones related to the International Monetary Fund.

Awaiting the numbers related to this year, it is expected that the budget's deficit reaches approximately 6.2% of GDP and the public debt to GDP ratio will reach approximately 151%. Also, the deficit of the balance of payments drastically increased, although the trade balance deficit declined by roughly one-half, whereas the balance of payments recorded a deficit of USD 10.6 billion and the current balance a deficit of 14.3% over GDP. In 2020 as well, total bank deposits and assets declined to unprecedented levels with depositors continuously investing their savings in the purchase of built and non-built real estate, paying off debts at banks, and saving cash in Lebanese pounds and US dollars at homes withdrawing for consumption purposes, and with low income and purchasing power and rising unemployment. The BDL reserves in foreign currencies also decreased to very low levels that would make the financing of the country's basic imports difficult.

STATE'S DEFAULT ON ITS DEBTS.

In March 2020, the Lebanese State announced a default on all USD Eurobonds without conducting well-intended discussions with its creditors. The Lebanese Government established the first version of its economic and financial recovery plan on the 7th of April 2020, and the second version on the 30th of April 2020, in which it negatively approached the banking sector, both commercial banks and the central bank. The Association of Banks in Lebanon established and published therefore its contribution and approach for Lebanon's financial and economic recovery.

The Government's plan consists of reducing the public debt to GDP ratio to less than 100% all at once, meaning during less than a year, by eliminating around USD 69 billion from the public debt denominated in LBP and USD mainly carried by banks and central bank. Such an approach would imply a deduction of the same amount from banks' capital and their clients' deposits, according to the range to be adopted for the deduction. The plan specifically tackled "losses" estimated at LBP 241 billion, which amounts to USD 69 billion with the government adopting an exchange rate of LBP 3500 for the dollar. The plan distributes said amount of "losses," despite the accounting and methodological mistake that occurred in its estimation, on BDL's balance sheet with an amount of LBP 177 billion – a share of 73% - and on banks' balance sheet with an amount of LBP 64 billion – a share of 27%. The Government's solution requires therefore the cancellation and arbitrarily reach of a zero-debt level of all State's debts in one day, and holding banks and the central bank responsible for said debts by demonstrating losses on their balance sheets. Such a strategy would pave the way to seize the current banking sector and replace it with five banks, which ownership and management would be held by political powers, according to the plan. The Government's plan could also be criticized for not addressing the roots of the crisis reflected in the chronic weakness of Lebanon's economic productivity, absence of growth and employment, rampant corruption, plundering the country's anticipated assets, and weakening the State and preventing it from fulfilling its core functions, in the interest of political powers that disputed its resources, and shared its authorities and the management of its institutions while having poor competence. Such mode practically led the country to be jeopardized at the financial level as reflected in the accumulated public and foreign trade deficits.

"ABL's Contribution to the Government's Financial Recovery Plan"

The contribution called upon all parties to cooperate, take responsibility and assume the consequences. It includes various orientations or comprehensive axes:

First, public debt restructuring would mitigate the negative impacts bared by depositors and the overall economy. It would also prevent defaulting on both treasury bills and placements denominated in LBP at BDL, knowing the devastating damages default can have on the return of confidence and the country's future. ABL's contribution estimates the need for USD 8 billion over five years as foreign funding, instead of USD 28 billion as mentioned in the Government's plan.

Second, establishing a national fund that would preserve the State's full ownership of its assets, and would allow the Central Bank to cancel its State debts estimated at USD 40 billion. ABL's contribution also suggests negotiations between banks and the State to restructure banks' debts in terms of lengthening debt maturities and reducing their returns, whereby the public debt to GDP ratio would decrease from 171%, which is the current ratio, to 74% by 2030, without having to apply a haircut on debts and deposits.

Third, a fiscal adjustment that would generate a reasonable primary surplus of 2.1% instead of 4.8%, which would not negatively affect the social conditions of the low-income Lebanese groups in the medium-term. To this end, the Association suggests the creation of a social safety net with a value of at least 4% of GDP during the whole period of fiscal adjustment.

Fourth, adopting a monetary policy based on the exchange rate unification, where it would progressively treat the external imbalances and control the very strong inflationary pressures. It is also important to adopt a managed-float exchange system where the Central Bank interferes to avoid sharp fluctuations. It is worth mentioning that maintaining a local currency exchange rate in the next phase needs an effective treatment of two issues: the current account deficit and the fiscal deficit, which fuel each other.

Fifth, an organized restructuring of banks, case by case, managed by the monetary and supervisory authorities by virtue of the Code of Money and Credit, along with the adoption of international banking standards within an appropriate timeline allowed by the Basel Agreements. Such an approach determines the market's structure including mergers and acquisitions. It is also required not to overlook the value of the in-kind guarantees taken against the loan portfolio and the value of the declared and implicit provisions.

Sixth, diversifying and restructuring the Lebanese economy including structural reforms in its fight against rampant corruption, reducing the cost of doing business in Lebanon, and adopting policies that would reduce the size of parallel and unlicensed economic activities.

Today more than ever, the Lebanese economy needs a rescue plan with the cooperation of all parties. Such a rescue plan would be implementable and would address the roots of the crisis reflected in the chronic weakness of Lebanon's economic productivity, absence of growth, increasing business costs, rampant corruption, plundering the country's anticipated funds, and weakening the State and preventing it from fulfilling its core functions. Such mode practically led the country to be jeopardized at the financial level as reflected in the accumulated public and foreign trade deficits.

	End of March 2020	End of **2020**	End of March **2021**
Private sector deposits (USD billion)	149.6	139.1	136.9
Private sector loans (USD billion)	45.0	36.2	34.2
BDL liquid assets in foreign currencies (USD billion)	28.2	18.6	16.8
LBP exchange rate against USD at the parallel market LBP/USD	2800	8400	12300
FC debt arrears (USD billion)	1.3	4.8	5.1
Total public debt (USD billion)	92.6	95.6	97.2
BDL general economic indicator	199.7	173.8	141.1

MAIN ECONOMIC INDICATORS IN 2019 AND 2020

	2019	2020
BDL Coincident Indicator (average)	292.6	180.2
Real estate sales operations (Number)	50,352	82,202
Real estate transactions (number)	141,631	164,067
Value of real estate sales (LBP billion)	10,310	21,688
Collected real estate fees (LBP billion)	565.8	1,158.9
Construction permits area (000 s.m)	6,081	5,478
Cement deliveries (000 tons)	3,203	1,958
Total value of Checks cleared (USD million)	56,983	53,827
Number of ships	1,746	1,377
Weight of unloaded merchandises (tons)	5,696,800	3,727,676
Weight of shipped merchandises (tons)	827,209	803,257
Number of unloaded containers	226,531	136,728
Port of Beirut revenues (USD million)	198.9	110.6
Merchandise imports (USD million)	19,239	11,311
Merchandise exports (USD million)	3,731	3,544
Balance of payments (USD million)	-5,851	-10,551
Value of agricultural imports (000 USD)	1,773	1,416
Value of agricultural exports (000 USD)	198	874
Weight of agricultural imports (thousand tons)	2,133	2,073
Weight of agricultural exports (thousand tons)	294	413
Weight of unloaded merchandises (000 tons)	19,353	13,475
Number of tourists	1,963,320	199,722*
Number of arrivals	4,280,141	1,172,049
Number of departures	4,351,380	1,269,393

**Until June 2020*

02-**3** REFORMS FIRST

As it is now acknowledged by internal and external parties, the most urgent issue lies in accelerating Lebanon's implementation of a comprehensive reform program with the International Monetary Fund. Said program would include many chapters: financial and monetary reforms, structural and comprehensive reforms of economic sectors, especially the power sector that has been a great burden on the Lebanese economy, and attention to the social and lifestyle frameworks, given the decline in purchasing power and the deterioration of the Lebanese pound exchange rate. The forensic audit at all levels is at the top of the required reforms, in order to activate transparency and accountability, passing a law that would impose restrictions on outward transactions and cash withdrawals (capital control law), restructuring the financial system including the recapitalization and restructuring of banks, unifying the multiple exchange rates, achieving a radical restructuring of Electricité du Liban, and achieving a large primary surplus as of 2020 to be able to redirect the public debt towards a sustainable reduction. The restructuring's management needs to be led by visionary, independent, and competent authorities. Having the same authorities and using the same tools and policies would only lead to a deepening of the socio-economic crisis.

03

PUBLIC FINANCES AND PUBLIC DEBT

03-**1** **PUBLIC DEBT**

The total public deficit decreased to LBP 4,083 billion in 2020 compared to LBP 8,797 billion in 2019 and decreased also when measured to the estimated GDP to 4.3% compared to around 11.0% in the two mentioned years. The primary balance registered an LBP 977 billion deficit in 2020 (1% of GDP) compared to a lower deficit of LBP 431 billion (0.5% of GDP) in 2019.

03-**2** **REVENUES**

As for total government revenues, they amounted to LBP 15,342 billion in 2020 compared to LBP 16,680 billion in 2019, thus decreasing by LBP 1,338 billion or 8%. In detail, tax revenues decreased by LBP 2,061 billion, non-tax revenues by LBP 144 billion, while Treasury receipts increased by LBP 867 billion.

03-**3** **TAX REVENUES**

As for tax revenues, the revenue from each of the value-added taxes decreased by LBP 1,394 billion and customs by LBP 510 billion compared to an increase in real estate fees by an amount of LBP 575 billion and income tax on interest by LBP 399 billion.

03-**4** **EXPENDITURES AND DEBT SERVICE**

Total government expenditures decreased to LBP 19,425 billion in 2020 compared to LBP 25,477 billion in the previous year, that is by LBP 6,052 billion or 23.8%. This resulted from a decline in the debt service by LBP 5,260 billion: to LBP 3,106 billion in 2020 from LBP 8,366 billion in 2019 following the suspension of Eurobonds payments (principal and coupon) by the government in March 2020 and the interest rate decrease on LBP Treasury bills. Yet, primary expenditures, excluding debt service, decreased to LBP 16,319 billion in 2020 from LBP 17,111 billion in the preceding year. Transfers to EDL decreased by LBP 876 billion to reach LBP 1,393 billion in 2020, and expenditures related to the previous budget by LBP 451 billion, while Treasury payments increased by LBP 867 billion.

03-**5** Total expenditures were estimated at LBP 19,732 billion in the 2020 budget law issued on March 5, 2020, including a treasury advance to EDL, amounting to LBP 1,500 billion, compared to LBP 14,176 billion for total revenues, of which LBP 780 billion Treasury receipts, so that the public deficit is estimated at LBP 5,556 billion. The new in Article 20 of this law was that it is imposing a lump-sum tax of 2% on the turnover of the year 2019 on banks, financial institutions, and financial intermediation institutions to be paid in 3 equal payments, knowing that the concept of turnover for banks and financial institutions is strange in the world of accounting and even a novelty is unparalleled in any country in the world. In Article 38 of the same law, the value of the guarantee on deposits covered by the Deposit Insurance Corporation was amended to LBP 75 million instead of LBP 5 million.

03-**6** In the draft budget law for the year 2021 (in its second version) submitted by the Minister of Finance in the caretaker government to the Council of Ministers, the budget expenditures are estimated at LBP 20,278 billion, including LBP 1,500 billion to pay the fuel purchase deficit and pay interest and loan installments in favor of the Electricite du Liban. Noting that the amount allocated for electricity is one billion dollars, meaning that the price of 1,500 Lebanese Lira to the dollar has been adopted, bearing in mind that the price circulating in the parallel market is much higher than the official rate, which indicates a flagrant shortcoming in securing the supply of electricity to the Lebanese. This would favor a reduction of the amount of corruption and looting associated with the entire issue of electricity in Lebanon. Budget revenues are estimated at LBP 13,426 billion, in addition to LBP 568 billion expected Treasury revenues, bringing the total expected revenue to LBP 13,994 billion. Thus, the expected public deficit will be LBP 6,284 billion, knowing that the totality of these figures and the assumptions based on them are no more than a mere accounting exercise that is somewhat far from the required credibility.

The following is a comparison of the figures of the budget law for the year 2020 with the draft budget law for the year 2021 and the figures achieved in the years 2019 and 2020:

LBP billion	Law Draft 2021	Law 2020	Effective 2020	Effective 2019
Budget expenditures	18,778	18,232	18,032	23,208
Advance to EDL	1,500	1,500	1,393	2,269
Total expenditures	**20,278**	**19,732**	**19,425**	**25,477**
Budget Revenue	13,426	13,396	13,686	15,890
Treasury Receipts	568	780	1,656	790
Total Revenue	**13,994**	**14,176**	**15,342**	**16,680**
Public Deficit	**-6,284**	**-5,556**	**-4,083**	**-8,797**
Primary Balance	**-3,513**	**-836**	**-977**	**-431**

Source: MOF

03-**7** The draft budget law for the year 2021 includes a decrease in debt service to LBP 3,131 billion, compared to LBP 4,720 billion in the 2020 budget law, after the government announced that it would stop paying Eurobonds and the interest due on them, and announced a set of tax exemptions and incentives, among which we mention the exemption of start-up companies, from income tax on profits for a period of 3 years, partially exempting new investments in the tourism and industrial sectors from tax on profits for a period of ten years, and granting incentives to industrial and commercial institutions established after the adoption of this law in areas that the government wants to develop, in addition to some exemptions from paying income tax. The draft law also noted raising the value of the guarantee new deposit (Fresh) from LBP 75 million to LBP 300 million (Article 87 of the 2021 draft budget) and exempting the interests of new deposits in foreign currencies from tax for a period of 3 years (Article 74 of the 2021 draft budget). Banks are obligated to pay new deposits in foreign currencies that are deposited in cash with them or through external bank transfers as of the date of publication of this law in the same way that they were deposited with them at the request of the person concerned (Article 110 of the draft law). And raises the value of the guarantee on the deposits referred to 50 thousand US dollars or its equivalent in foreign currencies. The draft law introduces the National Solidarity Tax, which is an exceptional and one-time tax, on the value of each credit account opened with banks operating in Lebanon as of October 31, 2020 (with some exceptions) and ranges between 1%, 1.5%, and 2% on deposits of one million dollars, or its equivalent in pounds and above (Article 37 of the draft budget). The project also established a tax at a rate of 30% (instead of 10%) on interests, revenues, and returns subject to the provisions of the Income Tax Law and to the third chapter tax thereof on the part whose interest exceeds 3% on accounts in foreign currencies and 5% on accounts in Lebanese pounds (Article 36 of the draft law). It seems that the adoption of these two rates came to compensate for the decline in income tax on interest and tax on profits. In the context of the draft law, all ministries and public institutions were required to evaluate assets within a period of 6 months after the law was passed, as this constitutes an opportunity to establish the real estate fund in addition to other sovereign funds that have been discussed.

DETAILED TABLE ON PUBLIC EXPENDITURES & REVENUES

(LBP Billion)

	2019	2020	2020 Budget Law	2021 Draft Budget Law
Total Revenue	**16,680**	**15,342**		
Tax Revenue	**12,535**	**10,474**		
o/w				
Taxes on income, profits and Capital gains	5,447	4,857		1,742
tax on interest income	*2,806*	*3,205*		*158*
Domestic Taxes on Goods and Services	3,892	2,386		789
VAT	*3,258*	*1,864*		*577*
Taxes on Property	858	1,448		246
Taxes on International Trade	1,800	1,290		387
Other Tax Revenues	538	493		120
Non-tax revenues	**3,356**	**3,212**		**586**
Income from public institutions and Government properties	*2,155*	*2,146*		*320*
Administrative fees and Charges administrative fees	*851*	*716*		*200*
Penalties and Confiscations	*33*	*24*		
Other non-tax revenues	316	325		266
Treasury receipts	**790**	**1,656**		**869**
Total Expenditures	**25,477**	**19,425**		
o/w				
Transfers to EDL institution	2,269	1,393		
Salaries, wages, and other benefits	10,146	9,885		
Debt service	8,366	3,106		
Capital Expenditure	1,028	418		
Other Expenditures	3,668	4,623		
Public Deficit	**-8,797**	**-4,083**		
Primary Balance	**-431**	**-977**		**4,740**

Source: Ministry of Finance

03-**8** The total public debt reached LBP 144,108 billion (USD 95.6 billion according to official exchange rate) at the end of the year 2020, compared to LBP 138,150 billion (the equivalent of USD 91.6 billion) at end of 2019, thus registering an increase of LBP 5,958 billion or 4.3% in the year 2020 compared to a higher increase amounting to LBP 9,803 billion or 7.6% in 2019. However, the rapid decline in the exchange rate and the sharp economic contraction led to a decrease in the ratio of the total public debt to the GDP to about 151% in 2020 compared to about 171% in 2019. The increase in total public debt in 2020 resulted from the increase in each of the public debt in Lebanese pound by LBP 2,483 billion, which amounted to LBP 89,762 billion at the end of the mentioned year, and foreign currency debt equivalent to USD 2.3 billion to reach the equivalent of LBP 54,346 billion (USD 36.1 billion) at end December 2020. Thus, the LBP public debt represented 62.3% of total public debt against 37.7% for debt in foreign currencies.

03-**9** The increase in public debt in LBP in 2020 is attributed to the subscriptions of the Banque du Liban in Treasury bonds in LBP, even at a slower pace than in the previous year, and its portfolio amounted to LBP 55,079 billion at end of 2020 compared to LBP 50,717 billion at the end of 2019 (+LBP 4,362 billion). Thus, BDL holdings of the public debt in LBP rose to 61.4% at the end of 2020 from 58.1% at the end of 2019. On the other hand, the contribution of banks in financing public debt in LBP decreased to 25.8% end of 2020 from 29% end of 2019 while the non-banking sector share stood almost unchanged (12.8% and 12.9% respectively).

03-**10** Concerning the public debt denominated in foreign currencies, the Lebanese government announced that it would stop paying all Eurobonds and the proceeds thereof in March 2020. This had harmful repercussions on several levels, as we mentioned above, and the value of arrears on the foreign debt reached USD 5 billion until the end of February 2021. At the end of 2020, the public debt in foreign currencies amounted to USD 36.1 billion, distributed among 34 billion dollars in Eurobonds (of which 5.03 billion belongs to the Banque du Liban and 9.4 billion - after taking provisions into account - to commercial banks and the rest is distributed among other parties, local -USD 2 to 3 billion- and foreign), and USD 2.1 billion dollars for bilateral and multilateral parties.

03-**11** At the end of 2020, the net public debt, calculated after subtracting public sector deposits with the banking system, amounted to LBP 128,975 billion (USD 85.6 billion) compared to LBP 122,473 billion (USD 81.2 billion) at the end of 2019, thus registering an increase of 5.3% in 2020 compared to a higher increase of 7.3% in 2019. The public sector deposits with the central bank decreased to LBP 6,838 billion at the end of 2020 from LBP 8,203 billion at the end of 2019, while the public sector deposits with banks increased to LBP 8,295 billion from LBP 7,474 billion respectively.

PUBLIC DEBT

(End of the period – LBP billion)

	2018	2019	2020	Change % 2019/2018	Change % 2020/2019
Gross Public Debt	**128,347**	**138,150**	**144,108**	**+7.6**	**+14.3**
- Debt in LBP	77,852	87,279	88,762	+12.1	+1.7
- Debt in Foreign Currencies	50,495	50,871	54,346	+0.7	+6.8
Public Sector Deposits at the Banking System	14,186	15,677	15,133	+10.5	-3.5
Net Public Debt	**114,161**	**122,473**	**128,975**	**+7.3**	**+5.3**

Source: BDL

03-**12** In terms of yields on regular LBP Treasury bills, they witnessed a reduction in 2020 (some in March and others in April) ranging from 180 and 300 basis points. The weighted average interest rate on the total portfolio increased to 6.52% at the end of 2020 compared to 6.44% at the end of 2019 as a result of the maturity of bonds with an exceptional interest of 1% in December 2020. The average life for this portfolio reached 4,65 years by the end of 2020 and 4,87 years by the end of 2019.

YIELDS ON REGULAR LBP TREASURY BILLS

	120-M	84-M	60-M	36-M	24-M	12-M	6-M	3-M
Dec 2018	10.00%*	7.08%	6.74%	6.50%	5.84%	5.35%	4.99%	4.44%
Dec 2019	10.00%	9.00%	8.00%	7.50%	7.00%	6.50%	5.85%	5.30%
Dec 2020	7.00%	6.50%	6.00%	5.50%	5.00%	4.50%	4.00%	3.50%
The decrease 2019/2020 (bp)	300	250	200	200	200	200	185	180

Source: BDL

03-**13** In the Eurobonds market, the weighted interest on this portfolio attained 7.38% at the end of 2019 compared to 6.81% at the end of 2018 due to the maturity of bonds with relatively low interest, and the weighted life was 8.0 years and 7.83 years in the two years respectively.

04-1 PUBLIC DEBT

Since 1998, Lebanon has been adopting the policy of stabilizing the exchange rate of the Lebanese pound against the US dollar[(1)] – a decision taken initially by the Lebanese authorities and agreed upon by successive Governments in their ministerial statements. Without going into the advisability of this choice and its consequences on growth, the advantages of said policy, under the political and security conditions Lebanon has witnessed, ensured trust and financial, economic, and social stability for many years, during which Banque du Liban exerted considerable efforts in maintaining the credibility of the monetary stability. After using all available means to maintain this monetary policy, most recently the financial engineering through banks, the policy reached its limits whereby it is no longer viable with the slow capital flow in the country in recent years, leading to a negative net capital balance recorded in 2020. It was imperative, therefore, that the concerned authorities accelerate the implementation of the needed reform measures they promised and receive the "CEDRE" funds, in order to launch the economic activity, ensure debt sustainability, and especially to reduce the burden on the monetary policy and BDL. Unfortunately, these measures were not taken, and the monetary and financial crisis Lebanon is suffering from today erupted.

04-2 As of the last quarter of 2019, the monetary situation witnessed a clear and fast deterioration[(2)] that was continuous in 2020 – a year considered as the worst in 30 years. In 2020 and 2021 (at the time of writing the present report) the value of the Lebanese pound collapsed on the parallel market to record levels, whereby the US dollar has been trading at LBP 12500[(3)] after being traded previously at LBP 15000. The BDL liquid assets in foreign currencies have also seriously decreased, reaching an amount of USD 16.8 billion by the end of March 2021, compared to USD 18.6 billion in 2020 and USD 29.6 billion by the end of 2019.

At the start of the crisis, BDL's mission was extremely difficult. The measures taken did not end the current economic meltdown, they rather slowed it down. Regarding liquidity in the Lebanese pound, the central bank tried from one side to reduce the losses on the value of deposits in foreign currencies, whereas it allowed their withdrawal in LBP according to the platform's exchange rate and intended, on the other side, to regulate the allowed liquidity with the aim of limiting the devaluation of the local currency in particular. The BDL also ensured Lebanon's funding needs for importing subsidized vital commodities, including fuel for electricity (fuel oil). Part of the funding was ensured according to the official exchange rate and the other part according to the platform's exchange rate, with an annual cost of approximately USD 6 billion. This strategy contributed to mitigating the decline of the LBP exchange rate. It is worth mentioning that while the BDL intended to use said subsidization exclusively for local consumption according to the needs of the Lebanese market, it was in

(1) At an average of LBP 1507.5 for the dollar, and previously the pegged exchange rate regime of the Lebanese pound to the US dollar adopted since 1993.
(2) Review ABL's annual report 2019 to check the crisis's causes.
(3) 11 May 2021.

fact partially abused either in operations of smuggling and reselling subsidized products abroad or in stockpiling subsidized products to sell them later for a higher price. This has led to a fast and unnecessary drain of BDL's assets in foreign currencies.

It is also worth mentioning that controlling the decline of the exchange rate cannot be achieved with temporary solutions that would only be effective for a short period. It can rather be achieved by regaining the trust of internal and external parties, knowing the country's need for new capital flow. This requires the intention and strong will to establish a real state that would prioritize the interests of the country and citizens, play its role in building the economy's capacities on a sound basis, adopt governance, and focus on reinforcing and diversifying the economy. The exchange rate is indeed the economy's mirror.

04-**3** STATISTICAL DATA

The Lebanese pound was subject to continuous pressures throughout the year 2020 and until the preparation of the present report, whereby the exchange rate witnessed a clear and fast decline on the parallel market. The US dollar is currently being traded at LBP 12500[4], while the platform rate (LBP 3900) is being adopted for withdrawals in foreign currencies and the import of some goods. The official rate was still being adopted for some banking operations (LBP 1507,5 for the dollar).

Many factors caused the collapse of the local currency against the dollar on the parallel market. One factor is the considerable demand for the dollar for the import of unsubsidized goods needed by the Lebanese market, knowing that its funding was no longer possible through banks. Another factor is the frequent demand for the dollar occasionally, by individuals who are seeking to maintain the value of their savings, speculate, or exchange cash and transfer the funds abroad for many purposes. However, the offer of the US dollar is fueled by inward transactions, the expatriates' expenses in Lebanon, and by banknotes stored previously in houses and companies, noting that all these funding methods are regressing. The growing concern about the deterioration of the political situation and the absence of a solution for the current crisis played a major and negative role on the market, whereby it increased the demand for the dollar and decreased its supply.

Huge conversion of deposits from LBP to USD was recorded, with approximately USD 10 billion in the first half of 2020, compared to USD 15 billion in 2019. It is worth mentioning that the dollarization rate of the private sector's deposits in commercial banks was approximately 65% between 2014 and 2017 and progressively increased in 2018 reaching 70.4% by the end of said year. It continuously increased reaching 76.4% by the end of 2019 and 80.4% by the end of 2020.

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(4) 11 May 2021.

These numbers surely affected BDL's commitment towards banks in dollars which considerably increased as a result of the transfers. However, the obligations started decreasing in the second half of 2020 with ongoing withdrawals from foreign currency accounts in LBP under BDL circular 151 and limiting the transfer of LBP denominated deposits into USD.

Since the second half of 2019, the Interbank Rate in LBP recorded high ratios until the end of 2020's first half. A large number of deposits in LBP were transferred into USD, making the interbank rate reach 100%, 120%, and 152%. However, it decreased to 3% in the remainder of the year after the number of transfer operations decreased because the BDL limited its approval on such operations. The outward transfers of deposits continued in 2020 but in smaller numbers than the ones mentioned by the media. Also, the cash circulating outside the banking system reached unprecedented levels whereby it reached LBP 29242 billion by the end of 2020 compared to 9818 billion by the end of 2019 (5008 billion by the end of 2018), which is an increase of approximately 20 thousand billion LBP in one year i.e., a ratio of 200%. This increase harmed the exchange rate and inflation, turning the current Lebanese economy into a cash economy in the prevailing circumstances. This is due, among others, to the Lebanese favoring banknotes in this critical period characterized by considerable uncertainty, to the printing of LBP cash by virtue of circular number 151/2020 allowing withdrawals in LBP from foreign currency accounts according to the platform rate, and to the ceilings imposed by banks on cash withdrawals. Dollar banknotes suffered the same fate as they were also stored in large amounts estimated at USD 7 billion in the first half of 2020. Also, the interest rates on deposits recorded a progressive decrease throughout 2020 (-490 basis points for the LBP term deposits and -412 basis points for the USD term deposits) after the BDL had imposed ceilings on credit interest rates, as there was no need for them to remain high. Interest rates on all categories of treasury bonds decreased by 180 to 300 basis points in March and April 2020.

The Central Bank was the main, if not only, financier of the State's needs in LBP during recent years, whether by the existing market interests or low rates. The Treasury bonds portfolio denominated in LBP and owned by the BDL recorded a continuous increase in recent years, reaching unprecedented new levels. Its value reached LBP 55079 billion by the end of 2020, compared to LBP 50717 billion by the end of 2019 (LBP 39006 billion by the end of 2018). BDL's share of said bonds increased to 61,6%, compared to 58,3% by the end of 2019 (50,3% by the end of 2018). The Central bank persisted in ensuring the State's payments and dues in foreign currencies, including Eurobonds before the Lebanese Government announces the default in March 2020.

As a result of the aforementioned developments, BDL's total liquidity assets decreased to USD 18.6 billion by the end of 2020, compared to USD 29.6 billion by the end of 2019. BDL's placements in local and international securities in foreign currencies[5] also decreased to USD 5.5 billion by the end of 2020, compared to USD 7.7 billion by the end of 2019. BDL's total assets in foreign currencies decreased to USD 24.1 billion by the end of 2020, compared to USD 37.3 billion by the end of 2019. This led to the use of said assets to provide dollars at the official rate or the platform's rate and subsidize the import of a large number of vital goods, such as oil products, medication, wheat, raw material, and other goods as mentioned before. As an additional result, the Central Bank granted loans for banks during the crisis, and the deposit of one of the European investment funds that had been deposited several months before with the Central Bank was withdrawn. It is worth mentioning in this frame that BDL's gold reserves[6] increased to USD 17.3 billion by the end of 2020, compared to USD 13.9 billion by the end of 2019, due to the rise in the ounce of gold globally.

04-**4** MEASURES TAKEN BY BANQUE DU LIBAN

Keeping pace with developments, especially the crisis that Lebanon has been witnessing since the last quarter of 2019 and taking into consideration the remaining resources considering Lebanon's bleak future, the BDL has adopted a series of exceptional regulatory measures in an attempt to limit the decline in foreign currency reserves, to moderate the pace of LBP exchange rate fluctuations on the parallel market, and to support the economy and the citizens. The following box sums up all measures taken[7].

• The BDL took important measures to reactive the activity of operating banks in Lebanon, related particularly to improving their liquidity and solvency, especially through intermediate circular 2019/532 issued on November 4, 2019, intermediate circular 567 issued on August 26, 2020, and basic circular 154 issued on August 27, 2020. These measures – which may be supplemented – represent the first crucial step towards the right direction allowing the banking sector to recover. The BDL issued basic circular 44 requesting banks not to distribute dividends on Common Equity Tier One for the two fiscal years 2019 and 2020 and to increase the Common Equity Tier One by 20%, as it is on December 31, 2018, through the adoption of new tools accepted by said circular. Banks are also requested to undertake a fair assessment of assets and requirements to help them implement a comprehensive compliance plan, even it was gradual, with legal texts and banking regulations especially those related to liquidity and solvency. The BDL requested banks also to boost their liquidity with their foreign correspondent banks by urging clients who have transferred more than USD 500 thousand – or their equivalent in other currencies - abroad from the beginning of July 2017 until the end of August 2020 to deposit in "special" saving accounts for 5 years 15% of said amount whereas 30% is

(5) Knowing that they include Lebanon's bonds in foreign currencies since November 2017.
(6) Ranked 20th worldwide and 2nd in the MENA region in terms of country reserves according to the ranking issued by the World Gold Council in March 2021.
(7) Review ABL's Annual Report 2019 to check the regulatory measures taken by BDL in the first months of the crisis.

applied for banks' shareholders, members of Board of Directors, and Politically Exposed Persons (PEPs). Banks are also required to have by the end of February 2021 an external account at their correspondent banks equivalent to 3% of the size of foreign currency deposits as of July 31, 2020, which reached USD 114 billion, meaning the 3% ratio would constitute USD 3.42 billion.

• **The BDL provided foreign currencies for certain essential products and sectors, under the best possible conditions.** 1- According to the official rate (LBP 1500 per USD), especially for imported oil products such as gasoline, diesel, gas, as well as wheat, medication, medical supplies, infant formula up to the age of one year, and medical materials used in the pharmaceutical industry, provided these products are exclusively imported for local consumption according to the Lebanese market needs. The BDL also provided foreign currencies to raw materials imported in foreign currencies, in order to meet the needs of industrial institutions. 2- According to the rate of BDL's electronic platform (LBP 3900 per USD) to meet the needs of importers and manufacturers of basic food items, and raw materials needed for food industries and agriculture and specified in a list issued by the Ministry of Economy and Trade.

• **BDL's attempts to intervene in the parallel market** by issuing circulars for exchange institutions, establishing a special unit in the Cash Operations Department responsible for trading foreign currencies according to the market rate, and establishing an electronic platform that was launched in June 2020.

• On **helping Lebanese citizens and especially banks' clients**, the BDL took many measures allowing withdrawals in cash LPB from accounts denominated in foreign currencies according to the platform's exchange rate. It also allowed those affected by the Beirut Port explosion to be granted loans under favorable terms. Banks are exceptionally exempted from mandatory placements in terms of funds transferred from abroad and/or funds received in cash in foreign currencies after April 9, 2020, provided customers have free access to their money in order to benefit from all services offered by the bank. The BDL kept other transactions carried out between the bank and the client subject to the official rate (LBP 1501 – 1515 for the dollar)).

Considering the Covid-19 pandemic and its impact on the economic cycle, the BDL requested banks to grant exceptional loans for a period of 5 years with zero percent interest rate to their customers who have been granted all types of loans previously by the concerned bank and are unable to pay their dues over the four months (from March till June 2020). In August 2020, banks were also requested not to reduce the debt rating of customers negatively affected by the spread of the Coronavirus, and to reschedule unpaid overdue payments, under certain conditions.

• Reducing the interest cost on the economy, in both its private and public sectors. The Central Bank imposed ceilings on the interest rates denominated in LBP and USD, which was subsequently reflected by a fall in interest rates, and in the Beirut Reference Rates BRR. Also, interest rates on all categories of treasury bills have been reduced in March and April 2020.

04-**5** MONEY SUPPLY

The money supply in its broad sense (M3) declined in 2020 by 1.4% after decreasing in 2019 by 4.8%. Therefore, the creation of cash in LBP through circular 151 surely played a significant role in limiting the decline in the money supply.

M3 decreased to LBP 200,052 billion by the end of 2020, compared to LBP 202,831 billion by the end of 2019 (LBP 212,993 billion by the end of 2018). Its dollarization rate recorded a decrease, reaching 66.25% by the end of 2020 compared to 68.70% by the end of 2019 affected by the huge increase in "circulating cash in LBP outside the banking sector", while deposits' dollarization rate within the money supply increased from 72.13% in 2019 to 77.53% in 2020, due to the continuous deposits' exchange from LBP to USD, especially in the first half of 2020.

The following table summarizes the main components that have contributed to the decrease of the money supply by LBP 2,779 billion in 2020. We will focus on two components that had a clear deflationary effect on the money supply.

First, in 2020, loans granted to the private sector recorded a remarkable decline by USD 12.5 billion, which is explained in particular by the settlement of loans by some individuals and institutions through their deposits, as well as the infrequency of new loans granted. Second, the drop in net foreign assets of the banking system (excluding gold) that continued decreasing strongly since 2011, whereby they reached USD 10.5 billion for they were affected by the financing of Lebanon's foreign trade, including oil products for both private and public sectors, whereas financial inflows reached their minimum and a net capitals outflow was recorded for the first time. In return, "other net items"[8] witnessed a huge increase, compensating to a large extent the deflationary effect of other items on money supply, knowing that it includes, alongside other items, "other assets" on BDL's balance sheet that significantly increased in 2020. The difference between the platform rate (LBP 3900 per USD) and the official rate for deposits in foreign currencies withdrawn in LBP according to circular 151 was mentioned.

(8) They include many items from BDL's and banks' budgets, mainly: Tangible and intangible fixed assets, other assets, private capitals, other liabilities.

EVOLUTION OF MONEY SUPPLY AND ITS COUNTERPARTS

(End of the period – billion LBP)

	2018	2019	Change 2018/2019	2020	Change 2019/2020
Currency in circulation	5008	9818	+4810	29242	+19424
Demand deposits in LBP	6653	6802	+149	10914	+4112
Money in LBP (M1)	11661	16620	+4959	40156	+23536
Money and quasi-money in LBP (M2)	76828	63484	-13344	67510	+4026
Money and quasi-money in LBP & FC (M3)	**212993**	**202831**	**10162-**	**200052**	**-2779**
Currency in circulation/M3	2.35%	4.84%	+2.49%	14.62%	+9.78%
Counterparts					
Net foreign assets	43308	37823	-5485	27028	-10795
o/w: gold	17743	21013	+3270	26116	+5103
: foreign currencies	25565	16810	-8755	912	-15898
Net claims on public sector	82439	84150	+1711	76290	-7860
Valuation adjustment	9464-	12835-	-3371	-17383	-4548
Claims on private sector	83099	70814	-12285	51964	-18850
Other items (net)	13610	22879	+9269	62153	+39274

Source: BDL

04-**6** INFLATION

According to the consumer price index prepared and published by the Central Administration of Statistics, the inflation rate for the average period increased to a record level[9] reaching 84.9% in 2020 compared to 2.9% in 2019. This increase resulted mainly from the dramatic decline in the exchange rate of the Lebanese pound against the dollar on the parallel market, which directly and completely affected the prices of imported goods[10], as well as the rise in prices of goods and local services in a less and different way. As for 2021, should the existing status quo remain, the inflation rate is expected to hit a new record level seeing that the BDL will lift dollar subsidies on certain basic goods and that the Lebanese pound exchange rate may deteriorate to unknown limits, given that Lebanon's political and economic prospects are difficult to visualize. In addition, it is expected that the prices of most international goods such as oil, foodstuffs, and materials will increase in 2021, which will exacerbate pressures on the inflation rate in Lebanon. In this regard, we also point out that the International Monetary Fund, in its latest report on the prospects for the world economy, did not publish any forecast regarding Lebanon's economy in 2021 as has been the case.

(9) Since 1992, meaning almost 30 years.
(10) Unsubsidized goods

05

EXTERNAL PAYMENTS

05-1 CURRENT ACCOUNT AND BALANCE OF PAYMENTS

According to the latest data issued by the Central Bank of Lebanon, the **estimated current account deficit** in Lebanon decreased to around USD 2.2 billion in the first nine months of 2020 (the equivalent of USD 2.9 billion every year), compared to an estimated deficit of USD 8.8 billion in the same first nine months of 2019 (USD 11.5 billion in 2019), given that the trade deficit in goods (FOB)[11] decreased to about USD 4.3 billion in 2020 compared to USD 10.8 billion in 2019, while the estimated surplus in the services, current account, and income balances slightly increased from USD 2.0 billion to about USD 2.2 billion. Thus, the current account deficit to GDP ratio decreased to an estimated 15% in 2020 compared to 21.5% in 2019.

Knowing that the latest IMF estimates regarding the current account deficit also indicated a noteworthy decline in the current deficit to about USD 2.7 billion in 2020 and a decrease in the current account deficit to GDP ratio to 14.3%. Nevertheless, this ratio remains very high by all international standards, as it reached 3.2% in the Middle East and North Africa region, 3.9% in the Arab world, and 0.6% in developing economies and emerging markets.

CURRENT ACCOUNT

(USD billion)

	9 months of 2019	9 months of 2020	Whole 2019
Current account	-8.8	-2.2	-11.5
Inc: Balance of Trade	-10.8	-4.3	-13.4
Inc: Balance of Services	+0.7	-0.01	+0.4
Inc: Balance of Income	-1.0	-0.7	-1.4
Inc: Current Transfers	+2.3	+2.9	+2.9
GDP	40.2 (1)	14.3 (2)	53.6
Current Account/GDP %	21.9	20.2	21.5

Source: BDL – Central Administration of Statistics

05-2

According to BDL's estimations, current net transfers remarkably increased to more than USD 2.9 billion in the first nine months of 2020 compared to about USD 2.3 billion in the first nine months of 2019, i.e., 25.5%. Transfers from Lebanon significantly decreased (-40%) due to the increase of related expenses and the decrease in the number of foreign workers in Lebanon. This fully compensated for the decline in inward transfers reaching USD 5.4 billion in the first nine months of 2020 compared to 6.5 billion in the first nine months of 2019. It even improved the balance of net transfers.

(11) The deficit in the trade balance recorded differs from the deficit published by the Lebanese customs. The following are added to the exports declared by the latter: re-exported goods, goods temporarily exported to be recycled after processing locally, and reform goods.

05-**3** **The high current account deficit** in Lebanon, which is affected to a large extent by the huge deficit in the trade balance - one of the major imbalances in the Lebanese economy-, is normally financed by the surplus in the capital and financial accounts, i.e., through the net capital flows in various forms, including direct investments, portfolio investments, deposits with banks, foreign net loans to the public and private sectors, and other means. It is also financed using BDL's reserves in foreign currencies, as was the case in 2018, 2019, and 2020. According to numbers issued by BDL in the first nine months of 2020, a net positive balance in the capital account, direct foreign investments, and portfolios investments reached a total of USD 4.7 billion compared to a negative balance in other investments accounts reaching USD 4.5 billion. All these balances combined only covered USD 0.2 billion of the current account deficit that reached USD 2.2 billion, thereby requiring once again the use of BDL's reserves to cover the difference i.e., USD 2 billion. However, according to the balance of payments issued by BDL, approximately USD 11.3 billion of reserves in foreign currencies have been used to cover an additional amount of USD 9.4 billion of unrecorded transactions in any of the above-mentioned accounts. These omissions and errors may be partly or entirely due to the current account balance, as well as for the capital and financial account, which weakens the accuracy of both accounts. The balance-of-payments deficit measured by the change in BDL's foreign currencies' reserves still reached USD 11.3 billion in the first nine months of 2020 (compared to the balance-of-payments deficit measured by the change of banking sector's net foreign assets - i.e., banks and BDL - that reached USD 9.6 billion during the same period).

It is worth mentioning that in 2019, this deficit in current account balance (USD 11.5 billion) was covered by surpluses in capital balance, direct investment balance, portfolio investment balance, and other investments, all combined, reaching in total USD 5 billion. It was also covered by surpluses resulting from unrecorded transactions and reaching USD 4.1 billion and using USD 2.4 billion of BDL's reserves in foreign currencies. Nevertheless, the balance of payments deficit is measured through the change in net foreign assets of the banking system - i.e., banks and BDL - and is estimated at USD 5.8 billion during the same period.

CAPITAL AND FINANCIAL ACCOUNT

(USD billion)

	9 months of 2019	9 months of 2020	Whole 2019
Capital Account	+0.8	1.1+	1.0+
Financial Account	+8.1	+10.5	+6.3
Inc: Direct Investments Account Balance	+1.2	+2.3	+1.8
Inc: Portfolio Investments Account Balance	-0.1	+1.3	-0.9
Inc: Other Investments Account Balance	+5.9	-4.5	3.1+
Reserve Assets	1.1	11.3	2.4

Source: BDL

05-**4** According to the data provided by the BDL and adopted in UNCTAD's World Investment Report (United Nations Conference on Trade and Development), and unexpectedly, direct net foreign investments increased to USD 2.3 billion approximately in the first nine months of 2020, compared to USD 1.2 billion in the same period in 2019. This increase might probably be related to purchases of real estate in fresh USD due to the significant decrease in prices. According to the same source, **foreign direct investments flow** to Lebanon increased by approximately USD 2.3 billion in the first nine months of 2020, compared to USD 1.5 billion in the same period in 2019. It is to mention that foreign direct investments usually finance a part of the current account deficit, and were mainly geared to the real estate sector, making them different in nature from foreign direct investments in many emerging countries where they are diverse and reach several economic sectors.

BALANCE OF PAYMENTS

(USD billion)

	9 months of 2019	9 months of 2020	Whole 2019
Current Account	-8.8	-2.2	-11.5
Capital and Financial Account	8.9	11.6	7.4
Unrecorded Transactions (Omissions and errors)	-0.1	-9.5	4.1

BALANCE OF PAYMENTS

(USD Millions)

	2017	2018	2019	Sep-2020
I - Current Account	**(12.134)**	**(13.367)**	**(11.455)**	**(2.162)**
1- Goods	**(14.398)**	**(15.060)**	**(13.382)**	**(4.339)**
Credit	4.041	3.847	4.839	3.021
Debit	18.49	18.907	18.221	7.360
2- Services	**1.268**	**1.440**	**434**	**(65)**
Credit	15.116	15.770	13.545	3.566
Debit	13.847	14.331	13.111	3.631
3- Income	**(209)**	**(1.113)**	**(1.397)**	**(693)**
Credit	3.128	2.816	3.072	1.103
Debit	3.337	3.929	4.469	1.795
4- Current Transfers	**1.206**	**1.367**	**2.890**	**2.935**
Credit	7.817	7.778	8.279	5.440
Debit	6.611	6.412	5.389	2.505
II - Capital and Financial Account	**10.572**	**5.593**	**7.346**	**11.608**
5- Capital and Financial Account	**1.715**	**1.449**	**1.027**	**1.119**
Credit	2.505	2.153	1.742	1.229
Debit	790	704	716	111
6- Financial Account	**8.857**	**4.144**	**6.319**	**10.489**
Direct Investment	**1.205**	**2.027**	**1.752**	**2.279**
Abroad	1.317	631	303	(21)
In Lebanon	2.522	2.658	2.055	2.300
Portfolio Investment	**4.945**	**(3.607)**	**(915)**	**1.336**
Assets	183	401	1.444	861
Liabilities	4.762	(4.008)	(2.359)	475
Other Investments	**5.076**	**3.408**	**3.092**	**(4.469)**
Assets	2.494	(972)	7.814	1.679
Liabilities	2.582	4.379	(4.722)	(6.149)
Reserve Assets	(2.369)	2.317	2.390	11.342
III - Unrecorded Transactions	**1.562**	**7.774**	**4.109**	**(9.445)**

Source: BDL - third-quarter report

05-**5** According to the Customs Higher Council, the value of **imported goods** unprecedentedly decreased to USD 11.3 billion in 2020 compared to USD 19.2 billion in 2019 i.e., by USD 7.9 billion (41.2%), which is normal due to the ongoing economic, financial, and monetary crisis. All customs items without exception witnessed a significant decline in this imported value, including metal products mainly composed of petroleum derivatives, which registered a remarkable decrease of USD 3.4 billion and a percentage of 50.9%. As for imports of electrical machinery, devices and equipment, and transportation equipment, they remarkably decreased by USD 768 million and–USD 703 million respectively.

Import quantities also witnessed a corresponding decrease of 30.4% reaching 13,475 thousand tons in 2020 compared to 19,351 thousand tons in 2019.

Even though this new or emerging direction in imported goods is closely linked to the crisis that Lebanon is facing, it is considered positive, as it is useful and required for Lebanon to control the imports bill as much as possible. This bill strongly weakened the economy in the past years and contributed to a depletion of foreign currencies reserves or liquid assets in foreign currencies, especially that, as confirmed by all facts and observations, an important part of subsidized imports, including oil derivatives, were smuggled to Syria.

IMPORTS OF GOODS

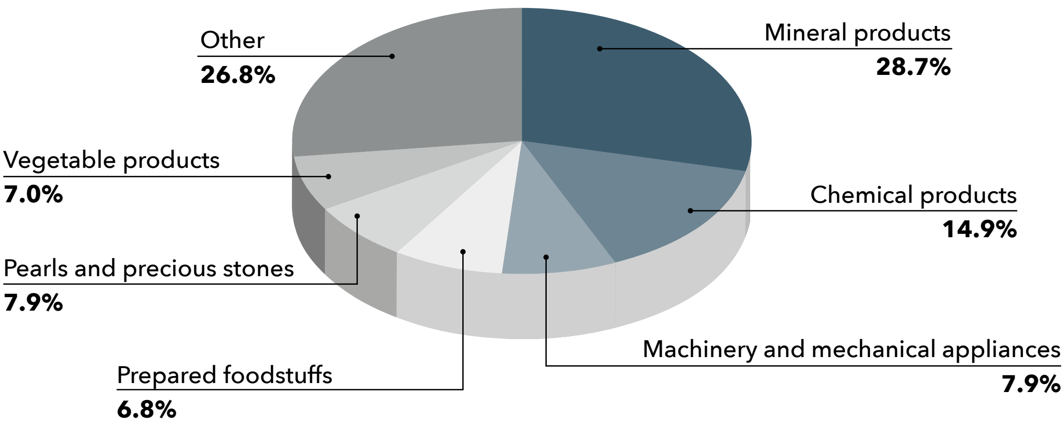
	2017	2018	2019	2020
Value – USD million	19,582	19,980	19,239	11,310
Change- %	+2.4	+2.0	-3.7	-41.2
Quantities – Thousand tons	18,975	15,855	19,351	13,475
Change %	+0.2	-16.4	+22.0	-30.4

Source: Customs Higher Council.

The two graphs below summarize the distribution of imported goods by type and country of origin in 2020.

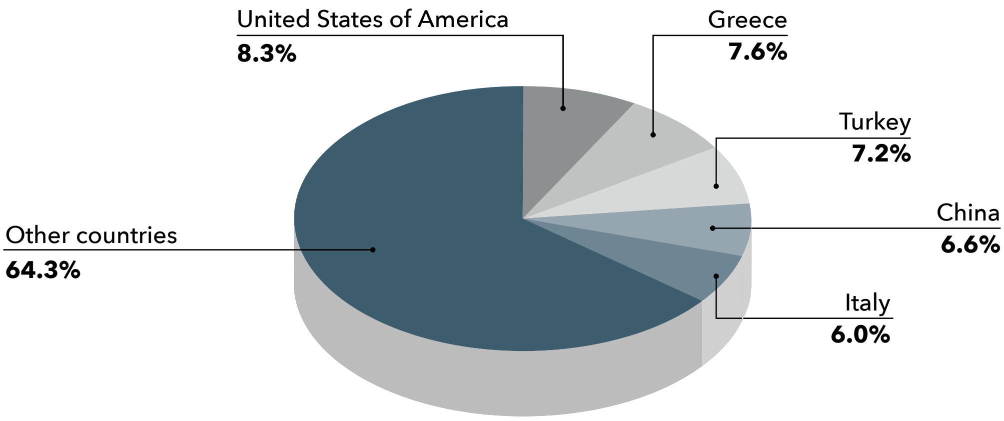
MAIN IMPORTED PRODUCTS

In % of the total in 2020



IMPORTS BY COUNTRIES OF ORIGIN

In % of the total in 2020



05-**6** On the other hand, the value of exported goods slightly decreased to USD 3,544 million in 2020 compared to USD 3,731 million in 2019, i.e., by an amount of USD 187 million and by 5.0%. Hence, exported goods performed well in 2020, as in 2019, approaching the USD 4 billion thresholds, while exports only reached USD 3 billion in 2015-2018. As for exports quantities, they registered an increase by 12.6% in 2020 reaching 1,889 thousand tons compared to 1,677 thousand tons in 2019.

EXPORTS OF GOODS

	2017	2018	2019	2020
Value – USD million	2844	2952	3731	3544
Change- %	-4.5	+3.8	+26.4	-5.0
Quantities – Thousand tons	1937	1840	1677	1889
Change %	+16.8	-5.0	-8.9	+12.6

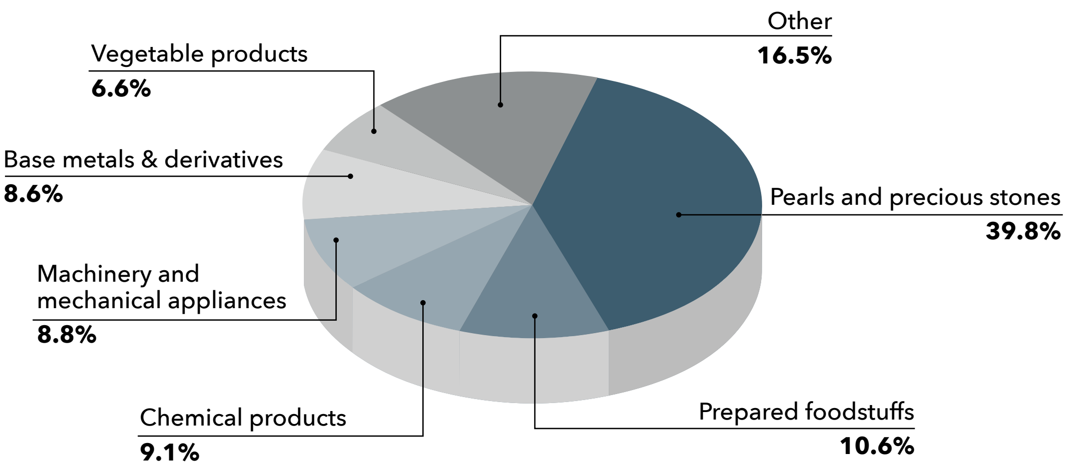
Source: Customs Higher Council.

The two graphs below highlight the main exported products and the main countries of destination in 2020.

The improvement in the competitiveness of Lebanese goods in foreign markets is explained by the difference in prices that resulted from the prices decline in Lebanon due to the low cost of labor, which made exports maintain their number and even record an increase.

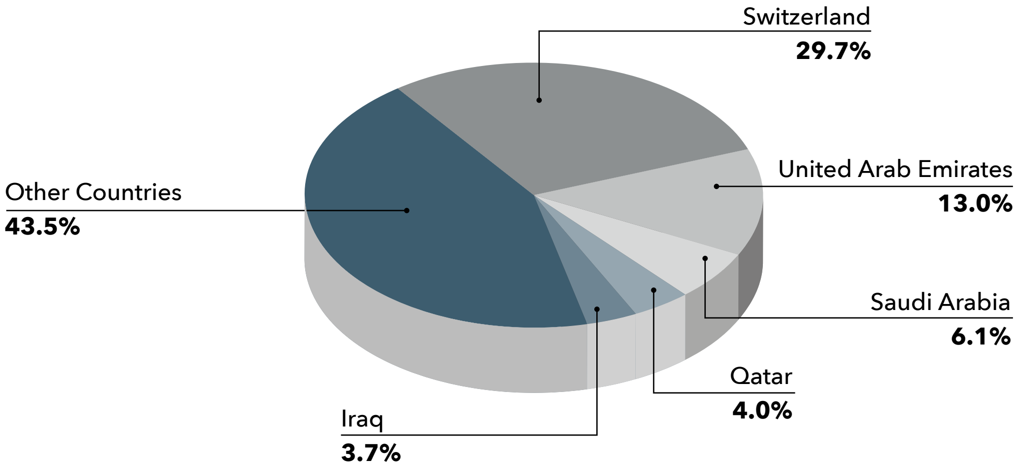
MAIN EXPORTED PRODUCTS

In % of the total in 2020



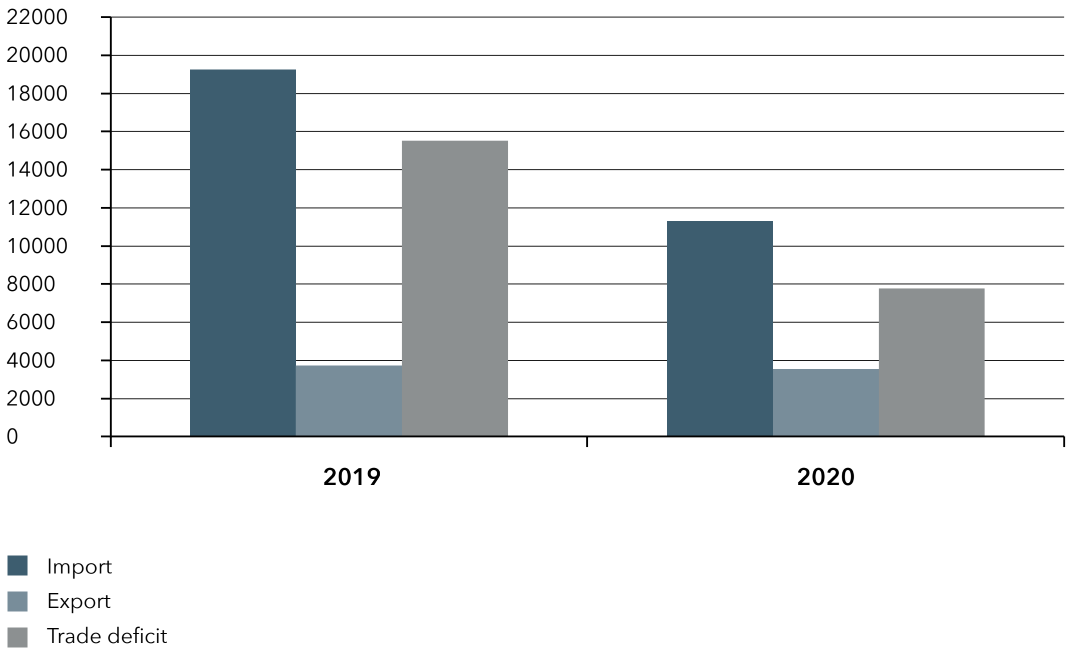
EXPORT BY COUNTRIES OF DESTINATION

In % of the total in 2020



LEBANON'S FOREIGN TRADE

USD million



06-**1** At the end of 2020, total assets of commercial banks operating in Lebanon reached LBP 283,474 billion (the equivalent of USD 188,0 billion based on the official exchange rate), compared to LBP 326,797 billion (the equivalent of USD 216,8) at the end of 2019, thus decreasing by 13.3% considering the continuous political, economic, and financial crisis that the country is witnessing[12].

06-**2** 6-2 The table below shows the evolution of the main liabilities' items of commercial banks, in absolute value and percent of the total. At the end of 2020, the share of each of resident private sector deposits reached 59.4% of total liabilities, non-resident private sector 14.5%, capital accounts 10.6 %, non-resident financial sector deposits 3.5%, public sector deposits 2.9%, and other liabilities 9.0%[13].

COMMERCIAL BANKS' LIABILITIES AT THE END OF THE PERIOD

(Billion LBP and %)

	2018		2019		2020	
	Value	%	Value	%	Value	%
Resident private sector deposits	205,859	54.7	190,566	58.3	168,519	59.4
Public sector deposits	6,445	1.7	7,379	2.3	8,264	2.9
Non-resident private sector deposits	56,870	15.1	48,920	15.0	41,233	14.5
Non-resident financial sector deposits	13,961	3.7	13,310	4.1	9,924	3.5
Capital accounts	30,383	8.1	31,240	9.6	30,045	10.6
Other liabilities	62,579	16.6	35,382	10.8	25,489	9.0
Total	**376,097**	**100.0**	**326,797**	**100.0**	**283,474**	**100.0**

(12) Starting December 2019, and according to IAS 32 "Financial Instruments: Presentation" and the disclosure on offsetting financial assets and financial liabilities in IRFS 7, banks have offset their loans granted by BDL in LBP with their corresponding placements at BDL in LBP that have the same maturity dates. It is worth noting that total assets/liabilities, clients' deposits at BDL, and unclassified liabilities, all, are published on this basis.

(13) It is worth mentioning that "other liabilities" started to increase in May 2006 and continued to increase in the next three years because of the financial operations conducted by the BDL. The size of said operations was great to contain the pressures on the monetary situation that accompanied the deteriorating economic and financial situation, coupled with rumors affecting the Lebanese pound. We note that "other liabilities" usually include loans granted by the BDL, interbank operations conducted between branches abroad and other liabilities. They constitute an additional source of financing along with deposits and capital.

06-**3** DEPOSITS

At the end of 2020, the total deposits' base, which includes deposits of residents (including financial sector), non-resident private sector, and deposits of some public institutions reached LBP 218,016 billion (the equivalent of USD 144.6 billion), compared to LBP 246,865 billion (USD 163.8 billion) at the end of 2019. Thus, these deposits decreased by 11.7% with a value of LBP 28,849 billion or the equivalent of USD 19,137 billion in 2020 after decreasing by 8.3% with a value of LBP 22,309 billion (the equivalent of USD 14.8 billion) in 2019. In 2019 and 2020, the total decrease of deposits reached an estimated amount of USD 34 billion. This decrease occurred due to two main factors: the frequency of cash withdrawals in LBP and foreign currencies from banks despite the ceilings set, to an amount estimated by BDL at no less than USD 10 billion in LBP and foreign currencies. The most significant part of the decline in deposits is due to the repayment of loans at banks. In fact, loans show a decline by USD 23.2 billion. These numbers reveal that deposits transferred abroad are of a low size and are likely to have resulted from the liquidation of investment portfolios and direct investments.

06-**4** In terms of the distribution of deposits by currency, those denominated in LBP declined with a value of LBP 16,239 billion and by 28.3% in 2020 partly due to the conversion from LBP to US dollar to avoid the risk caused by the decrease of the national currency's value, similar to what the year 2019 witnessed. The decline is also due to saving funds in houses, whereas the decline of deposits in foreign currencies with a value of LBP 13,494 billion and by 7.4% is attributed to removing a part of funds from the sector in the form of checks and to buying properties, repay debts or deposit for exchange into USD banknotes. Accordingly, the private sector deposit dollarization rate significantly increased to 80.4% at the end of 2020 (the highest in the past 13 years) against 76% at the end of 2019 and 70.6% at the end of 2018.

06-**5** On the other hand, the share of the resident private sector represented 77.3% out of total deposits in 2020 (77.2% at the end of 2019), the share of non-resident private sector 18.9% (19.8% respectively), and the public sector share 3.8% (3.0% respectively). It should be noted that deposits include certificates of deposits issued by banks which amounted to USD 300 million at the end of 2020.

06-**6** Bank deposits are concentrated in Beirut and its suburbs. This region attracted 66.0% of total deposits at the end of September 2020, allocated to 48.4% of the total number of depositors, whereas 34.0% of the deposits belong to other regions and were allocated to 51.6% of total depositors, indicating a difference in the average deposit value between Beirut & suburbs and other regions.

DISTRIBUTION OF PRIVATE SECTOR DEPOSITS AT COMMERCIAL BANKS

USD Million	End of December 2018	End of December 2019	End of December 2020	Change 2018/2019	Change 2019/2020
Resident Deposits	**136,556**	**126,412**	**111,787**	**-10,144**	**-14,625**
In LBP	46,896	34,950	25,061	-11,946	-9,889
In FC	89,660	91,462	86,726	+1,802	-4,735
Non-Resident Deposits	**37,724**	**32,451**	**27,352**	**-5,273**	**-5,099**
In LBP	4,312	3,140	2,257	-1,172	-883
In FC	33,412	29,311	25,095	-4,101	-4,216
Total Deposits	**174,280**	**158,863**	**139,140**	**-15,417**	**-25,193**
In LBP	51,208	38,090	27,318	-13,118	-10,772
In FC	123,072	120,773	111,822	-2,299	-8,951

06-**7** Under Intermediate Circular 536 issued by BDL on December 4, 2019 (followed by Intermediate Circular 544 of February 13, 2020), and under applicable restrictions, interest rates started decreasing in December 2019 and kept on decreasing in 2020. The weighted interest average on deposits denominated in the Lebanese pound fell from 7.36% in December 2019 to 2.64% at the end of 2020. Weighted interest average on new or renewed USD deposits decreased from 4.62% in December 2019 to 0.94% in December 2020.

PRIVATE CIRCULARS

In order to protect the public interest during the exceptional circumstances the country is witnessing, and according to the governor's authority to secure BDL's activity based on the principle of the public facility's continuity, BDL respectively issued two Basic Circulars; 148 known as the USD 3000 circular for small depositors (depositors whose total credit accounts value does not exceed LBP 5 billion or USD 3000 by the date of issuance of said decision regardless of their type or maturity) and Basic Circular 151 in April 2020. Said circulars give customers who wish to perform withdrawals from their respective accounts or entitlements in USD or other foreign currencies to receive the correspondent amount in LBP in accordance with the ceilings set by the bank and at the electronic platform' rate, i.e., 3900. Also, the aforementioned circulars stayed in force until August 2021, according to Intermediate Circular 581 issued at the end of March 2021.

06-**8** CAPITAL ACCOUNTS

At the end of 2020, **capital accounts** of commercial banks operating in Lebanon reached LBP 30,045 billion (the equivalent of USD 19.9 billion), compared to USD 31,240 billion in December 2019 (the equivalent of USD 20.7 billion) decreasing by 3.8% compared to 2019 after increasing by 2.8% in 2019.

At the end of December 2020, capital accounts represented 10.6% of the consolidated balance sheet (9.6% at the end of 2019) and 55.1% of total claims on the private sector (41.6% at the end of 2019). The supplementary capital, which includes subordinated bonds and some types of preferred shares, remains low as it represented 6.7% of capital accounts at the end of April 2020 (6.3% at the end of 2019).

The increased exposure of banks to sovereign debt, especially in foreign currencies (Eurobonds, certificate of deposits at BDL, and deposits at BDL), and the increased risk of non-performing loans, especially banking loans in FC to the private sector, threaten and put pressure on bank capital, thus explain the request of the central bank from banks to increase their capital through the intermediate circular no 532. Said circular aims at responding to the liquidity crisis in foreign currencies in the short term, and to enhance banking solvency to face the increase of non-performing loans and book value reduction.

According to what was mentioned in the box regarding the monetary policy, Basic Circular 44 was amended through Intermediate Circular 567 issued in August 2020 requesting banks to increase, by December 31, 2021, their capital, and more precisely the common equity tier one dated December 31, 2018, by 20%. This increase shall be achieved through any type of capital tool that can be accepted within all types of specified private capitals. Circular 154 relating to the stipulation of extraordinary measures to reactivate the activity of banks operating in Lebanon requires banks to constitute, before February 2, 2021, an external account with their correspondent banks equivalent to 3% of the size of foreign currency deposits as of July 31, 2020.

06-**9** PLACEMENTS OF THE BANKING SECTOR

At the end of December 2020, the share of each of the private sector loans to total assets dropped to 17.0%, claims on the public sector to 11.2%, and foreign assets to 7.5%, compared to the increase of banks placements at BDL to 58.7% of the total as shown in the table below.

COMMERCIAL BANKS' ASSETS AT THE END OF THE PERIOD

(Billion LBP and %)

	2018		2019		2020	
	Value	%	Value	%	Value	%
Reserves	197,138	52.4	54.5	168,142	168,519	59.4
o/w: deposits with BDL	*196,288*	*52.2*	*177,468*	*54.3*	*166,477*	*58.7*
Claims on customers and financial sector (resident)	78,796	21.0	66,627	20.4	48,288	17.0
Claims on the public sector	50,651	13.5	43,240	13.2	31,745	11.2
Foreign assets	37,990	10.1	26,534	8.1	21,141	7.5
o/w: claims on NR financial sector	*18,074*	*4.8*	*10,202*	*3.1*	*7,110*	*2.5*
claims on NR private sector	*10,728*	*2.9*	*8,400*	*2.6*	*6,235*	*2.2*
Resident private sector securities portfolio	2,671	0.7	2,413	0.7	2,445	0.9
Fixed assets & non-classified assets	8,851	2.4	9,775	3.0	11,713	4.1
Total	**376,097**	**100.0**	**326,797**	**100.0**	**283,474**	**100.0**

Source: BDL

06-**10** CLAIMS ON PRIVATE SECTOR

Bank loans to the resident and non-resident private sectors reached around LBP 54,523 billion at the end of December 2020, compared to LBP 75,027 billion at the end of December 2019. Thus, registering a significant decline of 27.3% against a decrease of 16.2% in 2019, reflecting the severe contraction of the economic activity, and debt settlements using deposits.

Loans granted to the non-resident private sector, of which a large part is related to the financing of projects for Lebanese businesses abroad, particularly in Arab and African countries, represented 11.4% of the total loans granted to the private sector at the end of December 2020 (11.2% at the end of 2019 and 12% at the end of 2018).

The ratio of loans in foreign currencies to deposits in foreign currencies decreased to 19.3% at the end of December 2020 compared to 28.3% at the end of December 2019 and 33.4% at the end of December 2018. However, loans in LBP to deposits in LBP increased to 53.5% at the end of December 2020 from around 40.9% at the end of 2019 and 35.7% at the end of December 2018.

With the decrease of loans in LBP by 6.2% in 2020 (14.8% in 2019) and the decline of loans in FC by 37.0% in 2020 (16.8% in 2019), the loan dollarization rate decreased to reach 59.6% at the end of December 2020 (the lowest rate) against 68.7% at the end of 2019.

The interest rates on new and renewed loans witnessed a decreasing trend in 2020 contrary to 2019. The average lending rate on the USD decreased from 10.84% in December 2019 to 6.73% in December 2020. Concerning the average lending rate on the LBP, it decreased from 9.09% to 7.77% in the two consecutively mentioned dates.

DISTRIBUTION OF PRIVATE SECTOR LOANS IN COMMERCIAL BANKS

USD Million	End of December **2018**	End of December **2019**	End of January **2020**	Change **2018/2019**	Change **2019/2020**
Resident Claims	**52,269**	**44,197**	**32,032**	**-8,072**	**-12,165**
In LBP	16,484	13,853	13,051	-2,631	-802
In FC	35,785	30,345	18,981	-5,440	-11,364
Non-resident Claims	**7,117**	**5,572**	**4,136**	**-1,545**	**-1,436**
In LBP	1,798	1,720	1,563	-78	-157
In FC	5,318	3,852	2,573	-1,466	-1,279
Total Claims	**59,386**	**49,769**	**36,168**	**-9,617**	**-13,601**
In LBP	18,283	15,573	14,614	-2,710	-959
In FC	41,103	34,197	21,554	-6,906	-12,643

Source: BDL

06-**11** PUBLIC SECTOR CLAIMS

The claims of commercial banks in the public sector reached LBP 31,745 billion compared to LBP 43,241 billion at the end of 2019, thus recording a decrease of 26.6% in 2020 and 14.6% in 2019.

In detail, **the commercial banks' portfolio of Treasury bills in LBP** decreased from LBP 22,071 billion at the end of 2019 to LBP 17,266 billion at the end of 2020. The banks' portfolio of Eurobonds decreased from USD 13,816 million at the end of 2019 to USD 9,391 million at the end of 2020.

As a result, the share of the claims on the public sector in LBP out of total loans to the public sector increased from 51.8% at the end of 2019 to 55.4% at the end of 2020. While the share of claims in foreign currencies decreased from 48.2% to 44.6% at the end of the two consecutively mentioned dates.

06-**12** FOREIGN ASSETS

Deposits of commercial banks with correspondent banks reached USD 4.7 billion at the end of 2020 compared to USD 6.8 billion at the end of 2019. Thus, decreasing significantly by 30.3% in 2020 and 43.6% in 2019.

The ratio of these deposits out of total customer's deposits in foreign currencies at banks decreased to 4.3% compared to 5.6% at the end of 2019. It is to note that deposits of commercial banks at correspondent banks, net of deposits of non-resident banks, decreased to USD – 1.9 billion at the end of 2020 and USD - 2.1 billion at the end of 2019 against USD +2.7 billion at the end of 2018.

06-**13** DEPOSITS AT BDL

At the end of 2020, **deposits of commercial banks at the BDL** reached LBP 166,477 billion (the equivalent of USD 110.4 billion) – 75% in FC and 25% in LBP – compared to LBP 177,468 billion at the end of 2019, thus decreasing by 6.2%. These deposits include required reserves imposed on banks and free deposits in LBP and USD, in addition to certificates of deposits issued by BDL in favor of banks. CDs in LBP reached LBP 45,211 billion at the end of 2020 against LBP 48,043 billion at the end of 2019, while CDs in USD reached USD 22.5 billion and USD 22.7 billion consecutively.