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MACROECONOMIC OVERVIEW

Lebanon was in a state of economic depression in 2020. Lebanon has suffered from a severe economic, political and humanitarian crisis during 2020. The crisis began in October 2019, when a massive protest sprung against the Lebanese government. Since that date, several unfortunate events have worsened the economic environment; starting with the massive protests in October 2019, followed by the deadly blast at the port of Beirut that killed hundreds of people, ending by the worldwide pandemic. However, the huge turning point in Lebanese economy took place on 7 March 2020, when the government defaulted on \$1.2 billion Eurobond, making Lebanon's first ever sovereign default. Also, the Lebanese politicians didn't react to save the Lebanese economy, and the political conflict shadowed the Lebanese situation in 2020 with the failure to form the awaited government. In numbers, the GDP growth slumped to an unprecedented level. Consequently, the Lebanese pound recorded a low level of LBP9500/\$ in December 2020 amid the heightened uncertainty. As a result, the average increase in inflation rate was more than 80% during the year 2020, eroding the Lebanese purchasing power. Lebanon was obliged to negotiate with the IMF in order to unlock the international financial aid, and restructure its debt. The IMF is considered as the last resort of help, and it's known for its severe conditions. However, the negotiations were stalled amid the resignation of Prime Minister Hassan Diab's government after the deadly blast at the port of Beirut on the fourth of August 2020. After that date, Saad el Hariri was named to form a new government. Unfortunately, the awaited government has not been formed until today due to political tension, while most of the Lebanese people are suffering from poverty amid the devaluation of the Lebanese lira, leaving them unable to secure their basic needs.

Real GDP is projected to decline by 19.2% in 2020. According to the World Bank, Lebanon's GDP is expected to contract by 19.2% in 2020- GDP is considered as an economic indicator, which tracks the health of country's economy. This contraction can be explained by the several crises that are facing Lebanon. In details, three main points can explain the crisis in Lebanon:

- The depreciation of the national currency against the dollar in the parallel market (currency crisis)

- The collapse of Lebanese of the banking system (banking crisis)
- The political conflict, and failure to form a new government (government crisis)

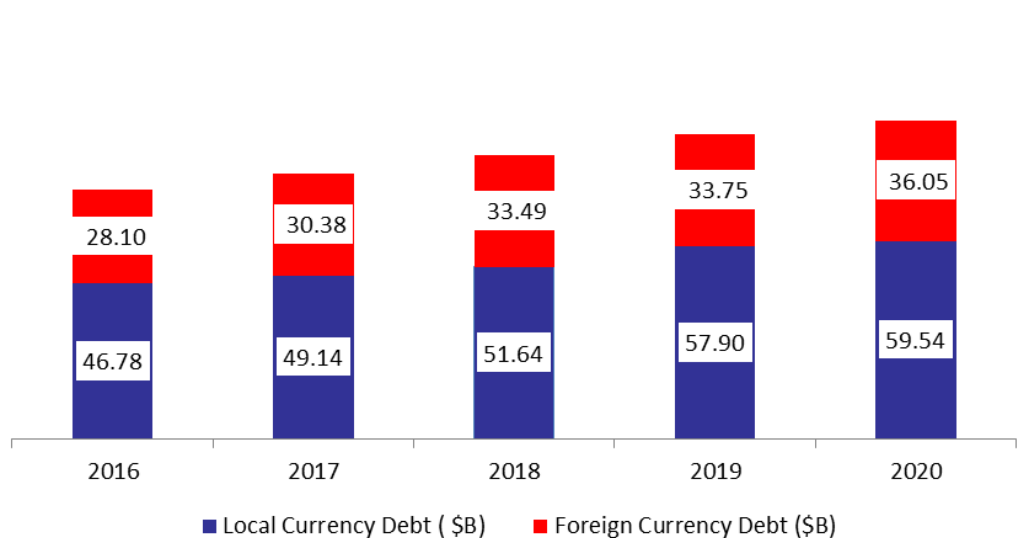
The depreciation of the national currency against the dollar in the parallel market: The Lebanese lira has been stable during the past years from 1997 to 2019 due to several factors. One of these factors is the intervention of the central bank by adopting open market operations. This kept the national currency stable against the lira at the rate of LBP1507.5/\$. However, because of the deficit in balance of payments for several years made it was hard to maintain the stability of the national currency. Further, the political instability combined with the no clear economic vision or plan has contributed to the deterioration of Lebanese currency.

Lebanon fiscal deficit narrowed. On the fiscal side, the (cash basis) fiscal deficit decreased from \$2.95B by August 2019 to \$2.53B by August 2020. In details, the government decision to default on Eurobonds has decreased its expenditures by 18.5% to stand at \$8.67B as of Jan-Aug 2020. Further, government revenues retreated by 20.25% to stand at \$6.14B for the period of Jan-Aug 2020.

USD (billions)	Jan-Aug 2019	Jan-Aug 2020	%Change
Total Budgets and Treasuries Receipts	7.70	6.14	-20%
Total Budgets and Treasury payments, of which	10.65	8.68	-19%
Interest payments	3.20	1.31	-59%
Concessional loans principal payments	0.12	0.09	-28%
Primary Expenditures	7.33	7.28	-1%
Total (Deficit)/Surplus	(2.95)	(2.53)	-14%
Primary (Deficit)/Surplus	0.37	-1.14	

Gross Public Debt up Yearly by 4.3% to \$95.6B in December 2020. The rise is mainly attributed to 6.83% annual increase in foreign currency debt and to 2.8% in local currency debt. In details, debt in local currency (denominated in LBP) stood at \$59.54B in December 2020. As such, domestic debt constituted 62.29% of the total public debt. Lebanon must take actions and work to reduce its foreign debt. Reaching an agreement with the IMF in order to restructure its debt is mandatory to reaccelerate the Lebanese economy.

Domestic and Foreign Debt in December (\$B)

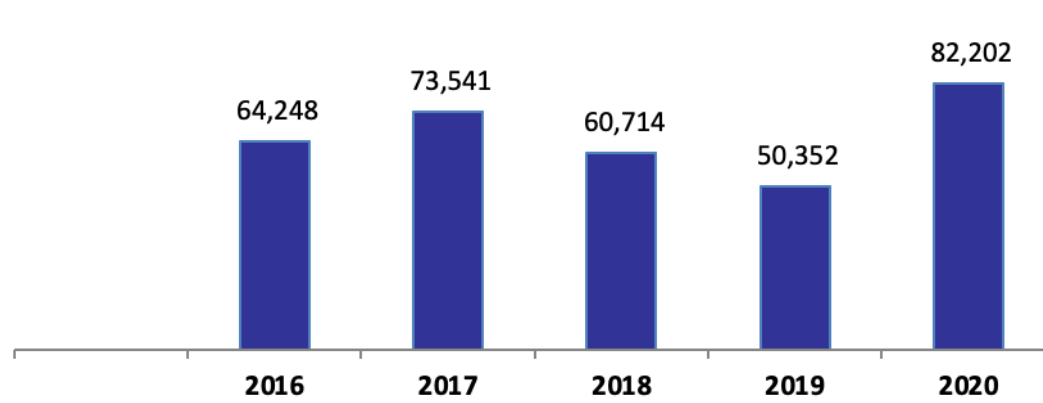


Real estate expanded in 2020. The expansion in real estate doesn't reflect the healthiness of Lebanese economy. The increase of real estate transaction is due to the fact that depositors were trying to liberate their deposit from the banks. Real estate was the last resource for depositors in order to not losing the value of deposits. In details, the number of Real estate (RE) transactions which may include one or more realties, rose by a yearly 63.25% to stand at 82,202 transactions by December 2020. In its turn, the value of total RE transactions stood at \$14.38B by December 2020, compared to \$6.84B in the same period last year, up by 110.35%. As such, the average value per transaction increased from \$135,828 in December 2019 to \$175,015 in the same period last year. Our outlook for 2021 that the increase in real estate in 2020 will likely retreat in 2021 for several reasons.

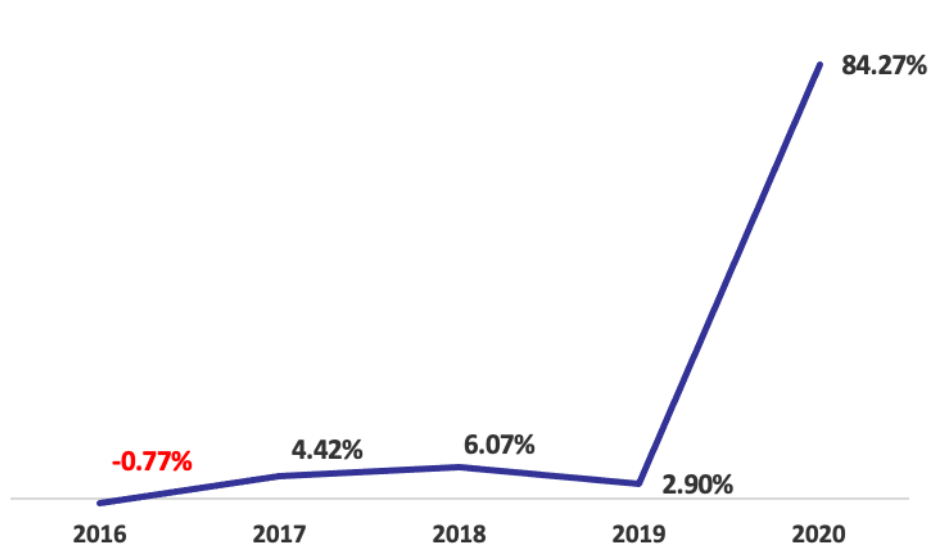
1. The increase in real estate in the first place was not as a result of an expansion in the Lebanese economy. In fact, it was a desperate move from depositors in order to minimize their losses.
2. Due to the severe financial crisis and political deadlock the Lebanese economy will not recover in 2021, as no new projects are expected to launch soon especially in real estate sector. Further, construction permits have decreased considerably by more than 30% compared to pre-crisis period

3. Owners and real estate companies are not willing to sell at this time, as they prefer to keep their assets with them until the Lebanese lira become more stable.

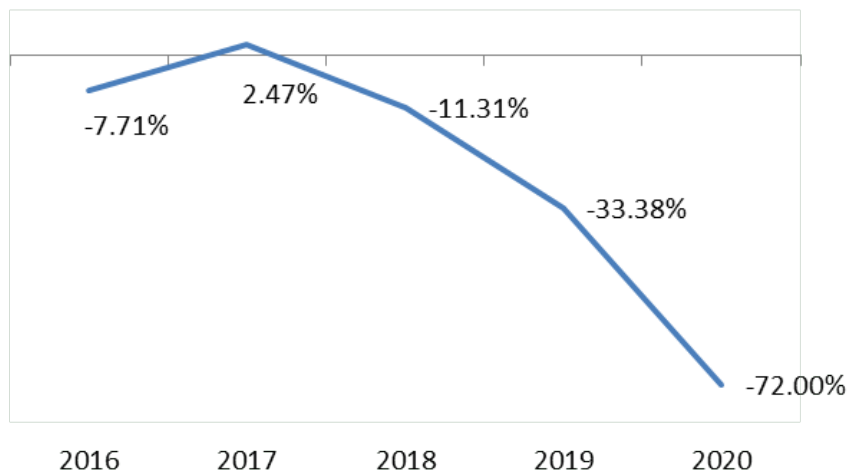
Total yearly RE transactions



Inflation rate surged to 84% by December 2020. The devaluation of Lebanese lira against the US dollar in the black market was the main reason behind the spike of the inflation rate. In fact, Lebanon relies on imports to fill its basic necessities that are payed in foreign currency. In details, the average prices of “Food and non-alcoholic beverages” (20% of CPI) surged by 253.96% in year 2020. In turn, the average prices of “Transportation” (13.1% of the CPI), “Health” (7.7% of the CPI) and “Education” (6.6% of CPI) all recorded hikes of an annual 85.46%, 10.07% and 5.74%, respectively, in year 2020. All this happening, while BDL continues to subsidize essential goods in order to minimize the effects of the deterioration of Lebanese Lira. However, BDL cannot continue subsidizing the essential goods, as this act is dwindling its foreign reserves. Our outlook for the inflation in rate in 2021 is negative, as we expect more surge in inflation rate, amid the political conflicts that are freezing any rescue plan.

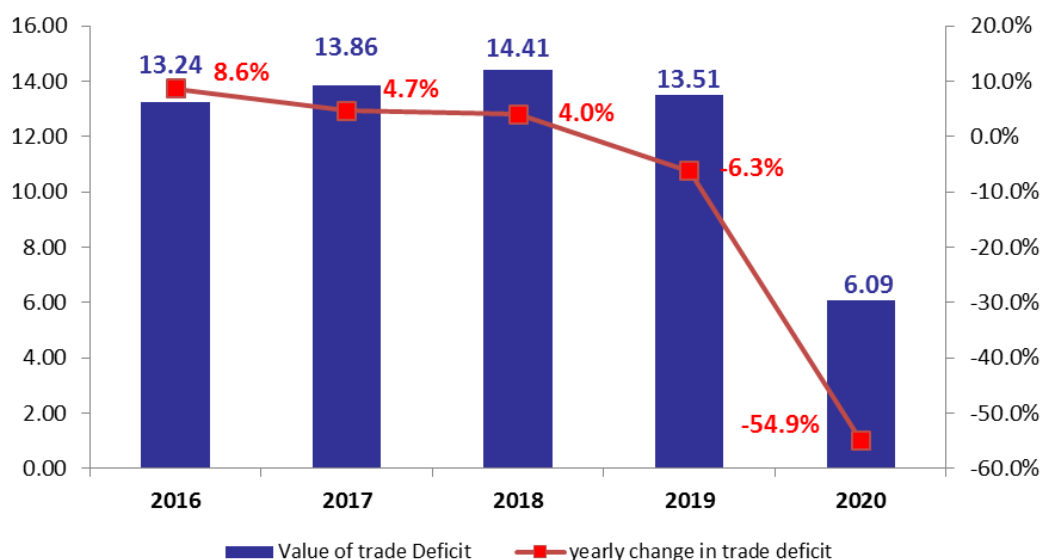
Yearly average inflation rate

The Car market slumped badly in 2020. The car market has slumped more than 67% on average on year 2020. This market in Lebanon was a very active sector before the Lebanese financial crisis. For example, the cars' registrations in 2018 were 35,301 (passenger car + commercial car), compared only to 6,606 on 2020. The reduction in this sector was expected due to the massive reduction on Lebanese purchasing power caused by the devaluation of Lebanese lira. As such, Lebanese people were obliged to rationalize their expenses. We don't expect that the car sector will recover soon, even if Lebanon improves its economics in the future. However, we must take in consideration that most of the Lebanese consumers have changed their behaviors, and buying cars will not be a priority for them anymore.

Yearly Growth of Registered Passengers Cars

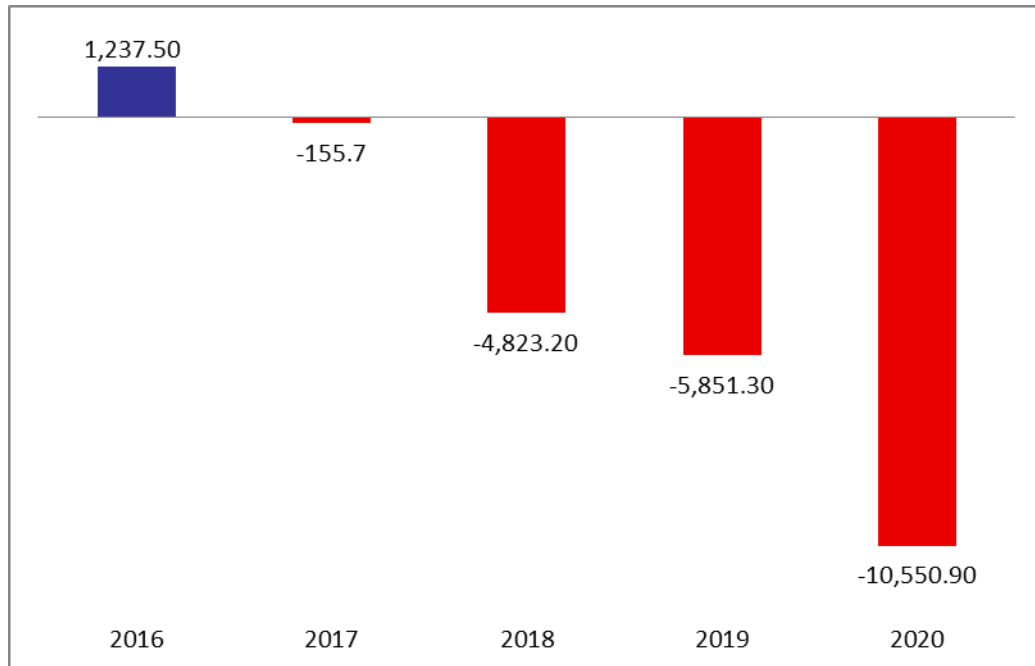
Lebanon trade deficit narrowed in 2020. The decrease in trade deficit was the only positive economic indicator in 2020. However, the decrease in trade deficit was not a result of an increase in exports, it was the result of massive decrease in imports; In fact, the reduction in imports was expected due to the Lebanese financial crisis and the deterioration of purchasing power of the Lebanese people; As such, Lebanon in 2020 was focusing to import only its necessities like fuel and oil. In numbers, we notice that Footwear, umbrellas, artificial flowers decreased 67% on October 2020 compared to October 2019. Further the Vehicles, aircraft, vessels, transport equipment decreased by 66% for the same period. On the other hand Lebanon's total exports declined by 3.9% YOY to \$2.98B. As a result, the trade deficit narrowed by 54.9% YOY at \$6.09B by October 2020.

Trade Deficit by October 2020 (\$B)



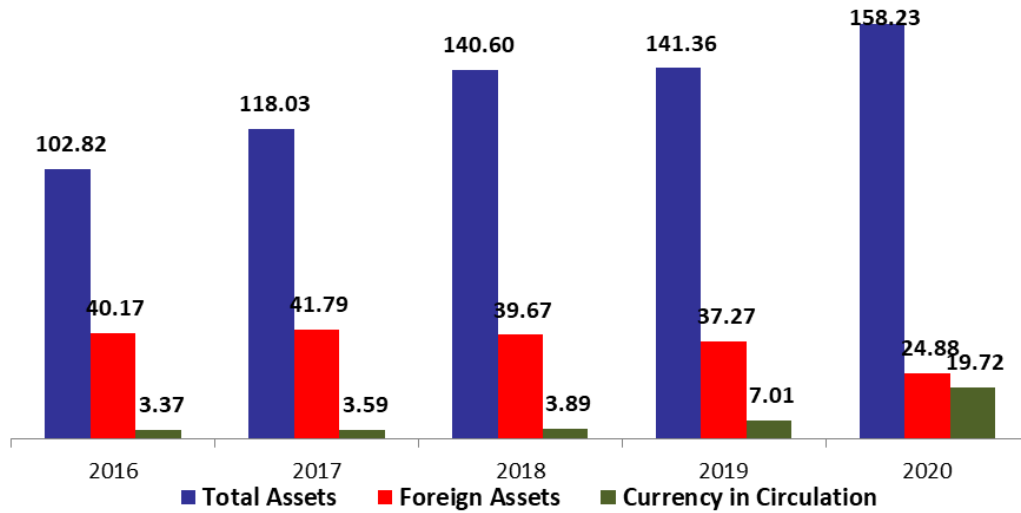
Lebanon's balance of payments deficit reached \$10.5bn by the end of December 2020, almost double that registered a year before. According to BDL's latest monetary report, the BOP recorded a cumulative deficit of \$10.55B by December 2020, compared to a deficit of \$5.85B over the same period last year. Accordingly, Net foreign Assets (NFAs) of BDL fell by \$14.27B. While the NFAs of commercial banks added \$3.72B for the year of 2020. Unfortunately, Lebanon has lost its position in attracting foreign investors. In fact, Lebanon was known with its robust banking sector before the financial crisis in 2019. However, after the crisis the banking sector was unable to meet the high withdrawals demand from its depositors. As such banks have imposed an informal capital control on the foreign deposits. As a result, the trust in Lebanese banking sector was damaged, leaving them unable to attract new foreign investors.

Balance of Payments (BoP) by December (in \$M)



BDL Foreign Assets Down by 35.37% since the Start of the Year to \$24.09B in December 2020. The BDL balance sheet cannot be a reliable source to measure the health of the Lebanese economy. However, some accounts show the desperate situation, especially concerning the foreign reserve. If the BDL continues to subsidize the essential goods from its foreign reserve, the situation in Lebanon can be a lot worse as the foreign reserves reached its low peak. Looking at Currency in Circulation outside of BDL (13.80% of BDL's total liabilities) it increased from \$7B end-December 2019 to \$20.51B in December 2020. This uptrend in circulated currency has been ongoing since the beginning of the year, as it continues to reflect clients' strong preference for cash amid the growing uncertainty and feeble trust in the economy. In addition, BDL's circulars No.148 and 151 further supported and facilitated cash withdrawals, as the circulars allowed depositors with foreign currency accounts to withdraw their savings in Lebanese lira at rate of LBP/USD 3,900.

BDL Total, foreign assets and currency in circulation in December (\$B)



Lastly, the banking sector was hit hard amid the financial crisis. Actually they took all the blame in the media; however it is by far not their sole responsibility for the crisis. In number, Lebanon's consolidated commercial banks' balance sheet, total assets decreased by 13.26%, year-to-date (y-t-d), to stand at \$188.04B in December 2020. Further, resident customers' deposits decreased since the start of the year by 11.83% to \$110.2B in December 2020, with deposits in LBP and in foreign currencies declining by 29.13% and 5.24% to \$24.43B and \$85.81B, respectively. As for Non-resident customers' deposits they retreated by 15.71% and totaled \$27.35B over the same period on the back of drops in deposits in LBP and in foreign currencies by 28.11% and 14.39% to \$2.26B and \$25.09B, respectively. As for loans, claim on resident customers and Non-resident customers decreased by 27.66% and 25.77% to \$31.76B and \$4.13B, respectively.

The Lebanese politicians should understand that Lebanon is heading to chaos. Most of the Lebanese people are suffering to secure its basic needs amid the deterioration of their purchasing power. Political sacrifices should be applied here in order to form the awaited government and execute the necessary reforms. Failing to do so, will have catastrophic effect in all aspect.

Forming a new government, applying the reforms needed, and achieving an agreement with the IMF are the three main conditions to stop the economic collapse in 2021. However, a new economic vision is needed in order to reaccelerate growth in the Lebanese economy and build a sustainable one.

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