

LEBANON THIS WEEK

In This Issue

Economic Indicators.....1
Capital Markets.....1
Lebanon in the News.....2

Nearly 59% of surveyed Lebanese do not intend to emigrate from Lebanon

Banque du Liban to sell Lebanese pound banknotes to banks

Banque du Liban's foreign assets at \$17.3bn, gold reserves at \$16.5bn at end-January 2022

Number of airport passengers up 76% in January 2022

Net foreign assets of financial sector down \$2bn in 2021

Amount of cleared checks down 32%, returned checks down 42% in 2021

Consumer price index up by 753% between 2019 and 2021

Deterioration in industrial activity slows down in second quarter of 2021

Development of renewable energy to yield multiple benefits

Corporate Highlights7

Private sector deposits down \$45bn since start of 2019, deposits equivalent to 87% of GDP at end-2021

Stock market capitalization up 49% to \$10bn at end January 2022

Banque du Liban tightens supervision of banks' brokerage activities

BLOM Bank posts profits of LBP6.7bn in 2021

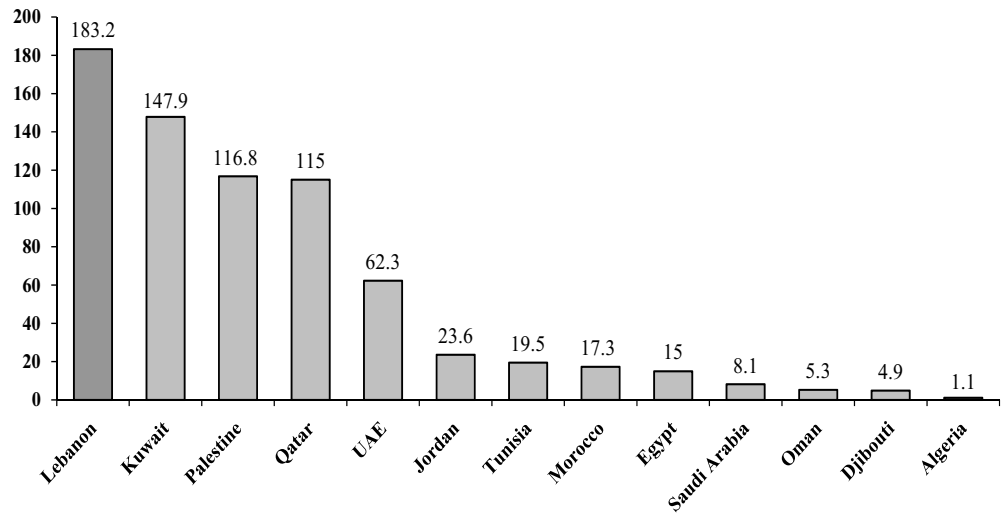
Ratio Highlights.....9

National Accounts, Prices and Exchange Rates9

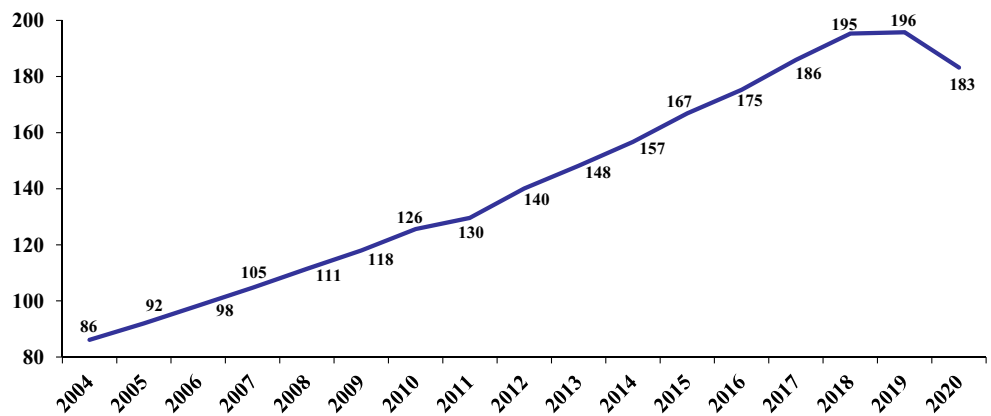
Ratings & Outlook.....9

Charts of the Week

Penetration Rate of Banks' ATMs in Arab Countries at end-2020
(number of Automated Teller Machines per 1,000 km²)



Penetration Rate of Commercial Banks' ATMs in Lebanon
(number of Automated Teller Machines per 1,000 km²)



Source: International Monetary Fund, Byblos Bank

Quote to Note

"We are stressing that it has to be a comprehensive program, as we cannot solve separate problems without thinking of the overall governance fundamentals for the country."

Ms. Kristalina Georgieva, Managing Director of the International Monetary Fund, on the need for Lebanese authorities to develop a comprehensive economic and financial rescue plan

Number of the Week

21.4%: Percentage of residents in Lebanon who have received the third dose of the COVID-19 vaccine, out of those who have received the second dose of the vaccine, as at February 5, 2022, according to the Ministry of Public Health

Lebanon in the News

\$m (unless otherwise mentioned)	2020	Jan-Nov 2020	Jan-Nov 2021	% Change*	Nov-20	Oct-21	Nov-21
Exports**	3,544	914	699	-23.5%	251	-	-
Imports**	11,310	2,931	3,329	13.6%	674	-	-
Trade Balance**	(7,766)	(2,017)	(2,630)	30.4%	(423)	-	-
Balance of Payments	(10,551)	(10,203)	(1,576)	-84.6%	(214)	(154)	160
Checks Cleared in LBP	19,937	17,995	16,901	-6.1%	1,683	1,298	1,825
Checks Cleared in FC	33,881	31,079	16,700	-46.3%	2,242	891	949
Total Checks Cleared	53,828	53,828	33,607	-37.6%	3,926	2,189	2,773
Fiscal Deficit/Surplus***	(2,535)	(2,223)	187	-	514	-	-
Primary Balance***	(1,136)	(876)	1,152	-	666	-	-
Airport Passengers	2,501,975	2,219,814	3,879,144	74.8%	220,333	415,231	344,737
Consumer Price Index	84.9	79.0	145.6	6660	133.5	173.6	201.1

\$bn (unless otherwise mentioned)	Dec-20	Nov-20	Aug-21	Sep-21	Oct-21	Nov-21	% Change*
BdL FX Reserves	18.60	19.03	14.20	14.62	14.49	14.05	(26.2)
In months of Imports	15.10	-	-	-	-	-	-
Public Debt	95.59	95.51	98.74	99.22	99.80	-	-
Bank Assets	188.04	190.31	180.28	179.68	178.90	175.60	(7.7)
Bank Deposits (Private Sector)	139.14	139.91	133.04	132.49	131.65	129.53	(7.4)
Bank Loans to Private Sector	36.17	37.11	30.86	30.00	29.18	28.04	(24.4)
Money Supply M2	44.78	43.32	49.85	49.95	50.03	50.10	15.6
Money Supply M3	132.70	131.92	133.21	132.90	132.42	131.62	(0.2)
LBP Lending Rate (%)	7.77	7.92	7.52	7.65	7.46	7.20	(72)
LBP Deposit Rate (%)	2.64	2.91	1.62	1.53	1.34	1.23	(168)
USD Lending Rate (%)	6.73	6.63	5.87	6.34	6.86	6.75	12
USD Deposit Rate (%)	0.94	0.97	0.30	0.26	0.23	0.20	(77)

*year-on-year; **figures for the period reflect the first quarter of each year; ***figures for the period reflect the first half of each year
Source: Association of Banks in Lebanon, Banque du Liban, Ministry of Finance, Central Administration of Statistics, Byblos Research

Capital Markets

Most Traded Stocks on BSE*	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Solidere "A"	30.54	(0.2)	84,669	30.3%	Oct 2022	6.10	10.13	947.17
Byblos Common	0.82	0.0	52,189	4.6%	Jan 2023	6.00	10.13	451.64
Audi Listed	2.20	4.8	32,224	12.9%	Apr 2024	6.65	10.13	136.13
Solidere "B"	30.06	(1.5)	16,956	19.4%	Jun 2025	6.25	10.13	81.66
Audi GDR	2.00	5.3	3,800	2.4%	Nov 2026	6.60	10.13	53.85
BLOM Listed	3.40	(5.3)	500	7.3%	Feb 2030	6.65	10.13	30.57
BLOM GDR	3.50	0.0	-	2.6%	Apr 2031	7.00	10.13	26.49
Byblos Pref. 08	34.99	0.0	-	0.7%	May 2033	8.20	10.13	21.38
Byblos Pref. 09	37.99	0.0	-	0.8%	Nov 2035	7.05	10.13	17.39
HOLCIM	19.00	0.0	-	3.7%	Mar 2037	7.25	10.13	15.73

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

Source: Refinitiv

	Jan 31 - Feb 4	Jan 24-28	% Change	January 2022	January 2021	% Change
Total shares traded	190,638	321,701	(40.7)	729,260	170,734	327.1
Total value traded	\$3,209,235	\$5,781,427	(44.5)	\$14,095,694	\$2,373,929	498.3
Market capitalization	\$10.08bn	\$10.08bn	(0.07)	\$10.05bn	\$6.75bn	48.9

Source: Beirut Stock Exchange (BSE)



Nearly 59% of surveyed Lebanese do not intend to emigrate from Lebanon

A survey commissioned by the Konrad-Adenauer-Stiftung Foundation and conducted last December on the perceptions and attitudes of Lebanese citizens towards the prevailing economic, social and political conditions in the country showed that 81.6% of respondents believe that the Lebanese economy will deteriorate in 2022 and 2023, 10.2% said that it will improve during the covered period, and 6.3% indicated that economic conditions will be unchanged. In addition, 73% of surveyed citizens expected that their families' financial situation will be worse in the 2022-23 period than it was at the time of the survey, 14.8% believe that it will stay the same, and 10.1% predicted that it will improve in the covered two years.

In parallel, 80.3% of respondents stated that there will be fewer job opportunities in Lebanon in 2022 and 2023 than there was at the time of the survey, 10.8% noted that the number of job opportunities will decline in the covered period, and 7.4% said that the job market will remain the same.

Moreover, the survey revealed that 85.3% of respondents do not have access to "fresh US dollars", while 13.6% have access to it. It added that 45.4% of respondents said that they receive fresh dollars from their salaries, 31.9% indicated that they withdraw them from their savings, 30.7% stated that they receive it as money transfers from outside Lebanon, and 28.2% said that they get the dollars from their children or relatives.

Further, the survey indicated that 58.8% of respondents stated that they will not emigrate to another country, while 39.3% said that they plan to emigrate. It added that 34.24% of respondents who are currently in the process of preparing to leave Lebanon hold a bachelor's degree, 20.65% have a secondary school education, 16.9% have received a complementary school education, 8.7% have obtained a technical baccalaureate diploma, 6% have a primary school education, 5.43% have a master's degree, 4.9% hold a technical degree, and 3.26% have basic literacy skills. Also, 34.8% of surveyed Lebanese want to emigrate to Canada, 31% chose Australia, 30.4% intend to travel to the United States, 11.2% to Sweden, 9.9% to Germany, 9.3% to an unspecified Gulf Cooperation Council country, 8.7% to France, 8.1% to the UAE, 7.5% to Qatar, 5.6% to Saudi Arabia, 5.6% to the European Union, 3.7% to Turkey, and 3.1% to the United Kingdom, while the rest intend to emigrate to other destinations.

In parallel, the survey revealed that 59.5% of respondents affirmed that the upcoming parliamentary elections will partially change the political landscape in Lebanon, while 19% did not expect the elections to affect the country's political mix, and 16% indicated that the elections will modify the political backdrop. Also, the survey's results revealed that 48.3% of respondents considered that fighting corruption should be the government's priority, while 24.3% of surveyed participants want the repatriation of illicit funds, 15.8% aimed for the rebuilding of public institutions, 8% wanted authorities to start negotiations with the International Monetary Fund, while 3.6% asked for carrying out a forensic audit of public institutions.

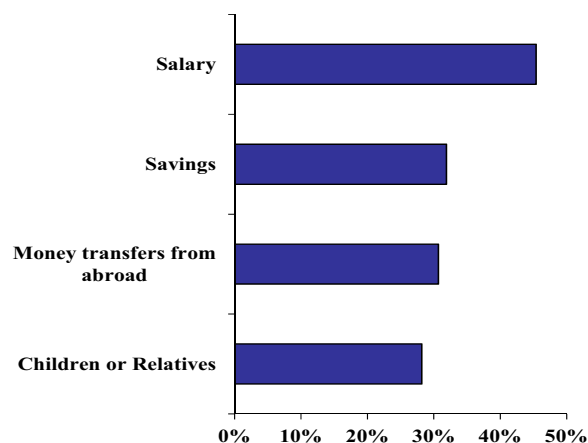
The survey was conducted between December 10 and December 15, 2021 by Statistics Lebanon Ltd, a market research and opinion-polling firm. It is based on a face-to-face interviews of a nationally representative sample of 1,200 males and females living throughout the country.

Banque du Liban to sell Lebanese pound banknotes to banks

Banque du Liban (BdL) announced that it will sell Lebanese pound banknotes to banks operating in Lebanon in exchange for cash US dollar banknotes, based on the exchange rate of the Lebanese pound to the dollar on BdL's Sayrafa electronic exchange platform. The decision came as a result of recent shortages of Lebanese pound banknotes at banks amid BdL's measures to sterilize Lebanese pound liquidity from the local market to reduce demand for dollars on the parallel exchange market. BdL issued on December 16, 2021 Circular 161 about exceptional measures related to cash withdrawals from accounts at commercial banks in Lebanon. The circular indicated that BdL will provide banks with cash US dollar banknotes instead of the supply of Lebanese pound banknotes, at the daily exchange rate of the Lebanese pound to the dollar, based on the operations conducted on BdL's Sayrafa electronic exchange platform on the previous day. It added that the supply of the dollar banknotes will consist of the preset monthly ceiling for each bank.

Also, BdL asked all banks to disburse the dollar banknotes in full to their clients at the Sayrafa exchange rate as specified, instead of settling the depositors' withdrawal amounts or cash operations at counters in Lebanese pounds, based on the authorized ceiling of each client. Further, it noted that clients can submit a written request in case they do not want to withdraw their monthly ceiling in US dollars. But the banks' quotas have been insufficient to meet the dollar amounts for the withdrawals of depositors, which prompted BdL to issue a follow up decision on January 11, 2022 that authorized banks to purchase US dollar banknotes from the latter with the Lebanese pound banknotes that they hold, or from their clients' holdings of Lebanese pounds banknotes, at the exchange rate of the dollar on BdL's Sayrafa electronic exchange platform. On January 26, BdL extended the clauses of Circular 161 until the end of February 2022, with the possibility of extending it further.

Sources of "Fresh Dollars" of Resident Lebanese



Source: KAS Foundation, Statistics Lebanon, Byblos Research

Banque du Liban's foreign assets at \$17.3bn, gold reserves at \$16.5bn at end-January 2022

Banque du Liban's (BdL) interim balance sheet reached \$161.86bn at the end of January 2022, constituting a decrease of 0.8% from \$163.2bn at end-2021 and an increase of 8% from \$149.85bn a year earlier. Assets in foreign currency totaled \$17.3bn at the end of January 2022, representing a decrease of \$509.4m, or of 3%, from the end of 2021 and a drop of \$6.15bn (-26.2%) from \$23.5bn at end-January 2021. Assets in foreign currency include \$5.03bn in Lebanese Eurobonds, unchanged from a year earlier. The dollar figures are based on the official exchange rate of the Lebanese pound to the US dollar.

BdL's assets in foreign currency, excluding Lebanese Eurobonds, stood at \$12.29bn at end-January 2022 and regressed by \$394.1m (-3.1%) from \$12.68bn at mid-January 2022. They dropped by \$509.4m (-4%) from \$12.8bn at the end of 2021 and by \$6.15bn (-33.3%) from \$18.4bn at end-January 2021. The cumulative decline in BdL's assets in foreign currency, excluding Lebanese Eurobonds, is largely due to the financing of the imports of hydrocarbons, wheat, medicine, medical equipment, a large number of food and non-food items, and raw materials for agriculture and industry. It is also due to the steep drop in capital flows to Lebanon since September 2019, and to the near halt of inflows after the government decided to default on its Eurobonds obligations in March 2020. However, the decline in BdL's assets in foreign currency was offset in part by the allocation of about \$1.13bn in Special Drawing Rights that the International Monetary Fund transferred to BdL's account on September 16, 2021.

In parallel, the value of BdL's gold reserves amounted to \$16.51bn at end-January 2022, constituting decreases of \$85.6m (-0.5%) from the end of 2021 and of \$548.2m (-3.2%) from \$17.06bn at end-January 2021. The value of gold reserves reached a peak of \$18.13bn at mid-September 2020. Also, the securities portfolio of BdL totaled \$41.43bn at end-January 2022, increasing by \$159.3m (+0.4%) from the end of 2021 and by \$1.29bn (+3.2%) from \$40.15bn a year earlier. In addition, loans to the local financial sector totaled \$13.63bn, regressing by 0.6% from the end of 2021 and by 4% from end-January 2021. Further, the deposits of the financial sector stood at \$109.63bn at end-January 2022 and rose by \$1.25bn from a year earlier. In addition, public sector deposits at BdL reached \$6.93bn at end-January 2022, decreasing by \$827.3m from the end of 2021 and surging by \$2.87bn from a year earlier.

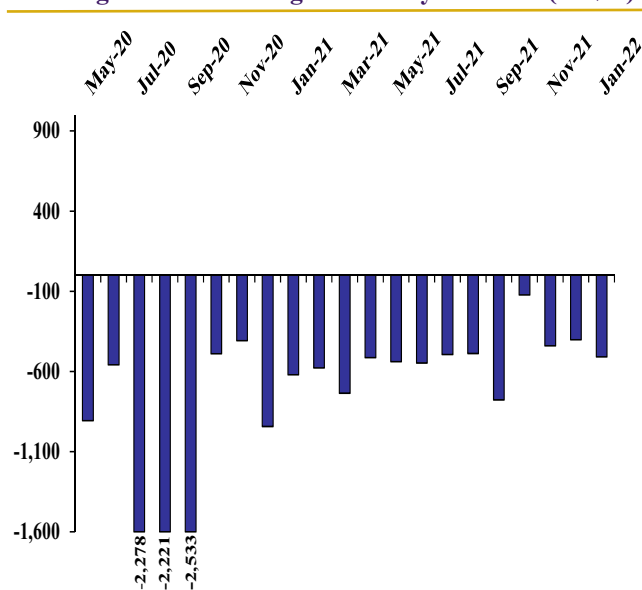
Number of airport passengers up 76% in January 2022

Figures released by the Beirut-Rafic Hariri International Airport (HIA) show that 363,886 passengers utilized the airport (arrivals, departures and transit) in January 2022, constituting a surge of 76.4% from 206,281 passengers in January 2021, and relative to 522,683 passengers in January 2020.

The number of arriving passengers jumped by 128.4% to 57,162 in January 2022 from the same month last year, compared to 67,076 arriving passengers in January 2021 and to 231,380 arriving passengers in January 2020. Also, the number of departing passengers totaled 208,594 in January 2022 and increased by 54.2% from 135,246 departing passengers in the same period last year, relative to 282,957 travelers in January 2020.

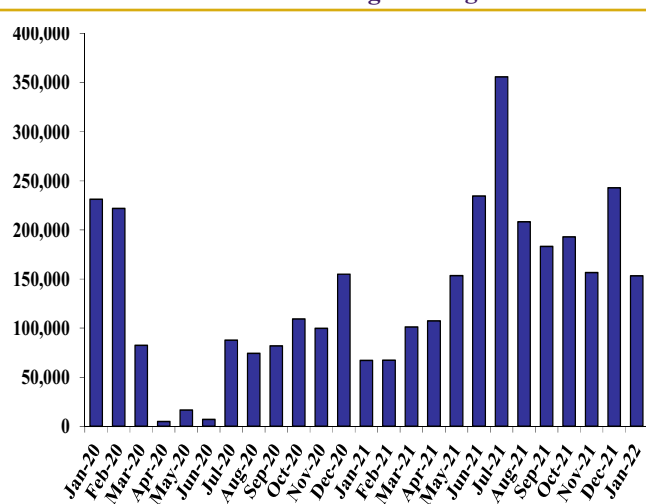
In parallel, the airport's aircraft activity registered 3,671 take-offs and landings in January 2022, representing a rise of 45.6% from 2,521 takeoffs and landings in the same month of 2021. In comparison, aircraft activity declined by 46.6% in January 2021 and retreated by 16% in January 2020. Also, the HIA processed 4,206 metric tons of freight in January 2022 that consisted of 2,058 tons of import freight and 2,148 tons of export freight. Middle East Airlines had 1,463 flights in January 2022 and accounted for 40% of HIA's total aircraft activity.

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



Source: Banque du Liban, Byblos Research

Number of Arriving Passengers



Source: Beirut-Rafic Hariri International Airport

Net foreign assets of financial sector down \$2bn in 2021

Figures issued by Banque du Liban (BdL) show that the net foreign assets of the financial sector, which are a proxy for Lebanon's balance of payments, declined by \$1.98bn in 2021 compared to decreases of \$10.55bn in 2020 and of \$5.85bn in 2019.

The cumulative deficit in 2021 was caused by a drop of \$4.58bn in the net foreign assets of BdL, which was partly offset by an increase of \$2.61bn in those of banks and financial institutions. Further, the net foreign assets of the financial sector regressed by \$399.8m in December 2021 compared to a growth of \$160m in November 2021 and to a decline of \$348.1m in December 2020. The December 2021 decrease was caused by a dip of \$402m in the net foreign assets of BdL, which was partly offset by an uptick of \$2.2m in those of banks and financial institutions.

The deficit in 2021 registered its sixth widest level since BdL started to publish the data in 1993, after reaching deficits of \$10.55bn in 2020, \$5.85bn in 2019, \$4.82bn in 2018, \$3.35bn in 2015, and \$2bn in 2011.

The increase in the banks' net foreign assets in 2021 is mostly due to a decline in their foreign liabilities. The decrease in foreign liabilities was driven mainly by the contraction of liabilities to the non-resident financial sector and the decline in non-resident customer deposits.

In parallel, the drop in BdL's net foreign assets was due in part to the financing of the imports of hydrocarbons, wheat, medicine, medical equipment, a large number of food and non-food items, and raw materials for agriculture and industry.

The net foreign assets of the financial sector declined by the equivalent of 8.86% of GDP in 2021, 4% of GDP in 2020, 11.5% of GDP in 2019, 8.8% of GDP in 2018 and 0.3% of GDP in 2017, relative to an increase equivalent to 2.4% of GDP in 2016.

Amount of cleared checks down 32%, returned checks down 42% in 2021

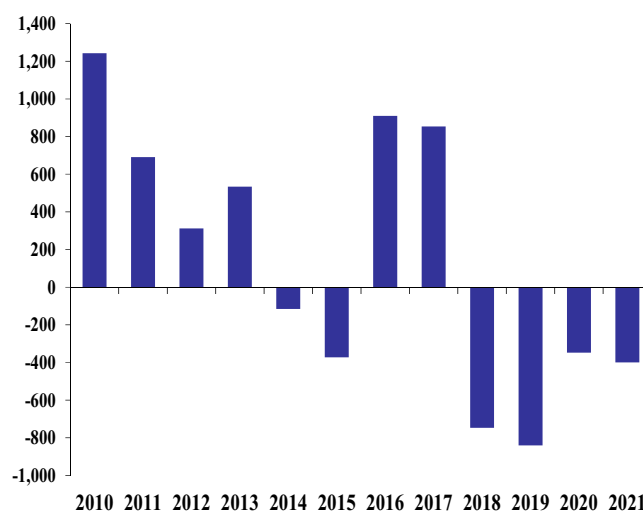
The amount of cleared checks reached \$36.43bn in 2021, constituting a drop of 32.3% from \$53.83bn in 2020. In comparison, the amount of cleared checks decreased by 5.5% in 2020 and declined by 14.4% in 2019. The Lebanese pounds component of cleared checks is converted at the official exchange rate of the Lebanese pound to the US dollar. The amount of cleared checks in Lebanese pounds reached LBP28,098bn, or the equivalent of \$18.64bn in 2021 and regressed by 6.5% from 2020, while the amount of cleared checks in foreign currencies was \$17.8bn and declined by 47.5% from the preceding year. Also, there were 3.14 million cleared checks in 2021, down by 46.3% from 5.85 million checks in 2020. The dollarization rate of cleared checks regressed from 63% in 2020 to 48.8% in 2021, while the number of checks denominated in foreign currencies accounted for 51.7% of total cleared checks in 2021 compared to 51.2% in 2020.

In addition, the amount of cleared checks totaled \$2.82bn in December 2021, constituting an increase of 1.6% from \$2.77bn in the preceding month and a decline of 40.6% from \$4.74bn in December 2020. The amount of cleared checks in Lebanese pounds reached LBP2,620bn (\$1.74bn) in December 2021, as it regressed by 4.76% from \$1.82bn in November 2021 and decreased by 10.5% from \$1.94bn in December 2020. Further, the amount of cleared checks in foreign currencies was \$1.08bn in December 2021, as it grew by 13.7% from the previous month and dropped by 61.5% from December 2020. There were 191,151 cleared checks in December 2021 relative to 202,295 cleared checks in the preceding month and to 468,100 cleared checks in December 2020.

In parallel, the amount of returned checks in local and foreign currencies was \$558m in 2021 compared to \$958m in 2020 and to \$1.64bn in 2019. This constituted declines of 41.8% in 2021 and of 41.5% in 2020, relative to an uptick of 1% in 2019. The amount of returned check in Lebanese pounds reached LBP262bn (\$173.8m) in 2021 and decreased by 43.8% from 2020, while the amount of returned checks in foreign currencies was \$385m and dipped by 40.8% in 2020. Also, there were 25,301 returned checks in 2021, down by 77% from 109,329 returned checks in 2020. The number of returned checks in foreign currencies reached 15,521 in 2021 and dropped by 74% from the previous year, while the number of returned checks in Lebanese pounds totaled 9,780 and fell by 80.3% year-on-year.

Further, the amount of returned checks in domestic and foreign currencies stood at \$29.85m in December 2021 compared to \$63.7m in the previous month and \$59m in December 2020. Also, there were 1,329 returned checks in December 2021, relative to 1,584 returned checks in November 2021 and to 4,216 checks in December 2020.

Change in Net Foreign Assets of Financial Sector* (US\$m)



*in December of each year

Source: Banque du Liban, Byblos Research

Consumer price index up by 753% between 2019 and 2021

Figures released by the Central Administration of Statistics (CAS) show that the Consumer Price Index (CPI) in Lebanon increased by 4% in 2018, by 7% in 2019, by 145% in 2020, and by 224.4% in 2021. Also, the CAS indicated that the CPI rose by 697.5% during the December 2019-December 2021 period and by 753% in the December 2018 to December 2021 timeframe.

Further, the CAS noted that the prices of food and non-alcoholic beverages jumped by 439% between December 2020 and December 2021, by 2,605% during the December 2019-December 2021 period, and by 2,870% in the December 2018 to December 2021 timeframe. Also, it pointed out that the prices of clothing & footwear surged by 234% between December 2020 and December of last year, by 2,102% during the December 2019-December 2021 period, and by 2,484% in the December 2018 to December 2021 timeframe. It added that healthcare costs grew by 405% between December 2020 and December of last year, by 493% during the December 2019-December 2021 period, and by the same percentage between December 2018 and December 2021.

The cumulative surge in the inflation rate is due in part to the inability of authorities to monitor and contain retail prices, as well as to the deterioration of the Lebanese pound's exchange rate on the parallel market and the gradual lifting of subsidies on hydrocarbons, which have encouraged opportunistic wholesalers and retailers to raise the prices of consumer goods disproportionately. In addition, the smuggling of subsidized imported goods has resulted in shortages of these products locally, which contributed to the rise in prices. Further, the emergence of an active black market for gasoline during the summer has put upward pressure on prices and on inflation.

Deterioration in industrial activity slows down in second quarter of 2021

Banque du Liban's quarterly business survey about the opinions of business managers shows that the balance of opinions about industrial production was -44 in the second quarter of 2021 compared to -57 in the first quarter of 2021 and to -66 in the second quarter of 2020. The balance of opinions for the level of industrial production in the second quarter of 2021 reached its eighth lowest quarterly level between 2004 and the second quarter of 2021, after posting -66 in the second quarter of 2020, -64 in the third quarter of 2006 due to the Israeli war on Lebanon, -57 in the first quarter of 2021, -55 in the first quarter of 2020, -50 in the fourth quarter of 2019, -48 in the third quarter of 2020, and -45 in the fourth quarter of 2020. The balance of opinions for the second quarter of 2021 reflects the disruptions to economic activity following the worsening of economic and financial conditions in the country, the deterioration of the exchange rate of the Lebanese pound on the parallel market, as well as the impact of the explosion at the Beirut Port on August 4, 2020, in addition to the gradual relaxation of lockdown measures in Lebanon.

The business survey covers the opinions of managers of industrial enterprises about their businesses, in order to depict the evolution of a number of key economic variables. The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in a particular indicator and the proportion of those who reported a decline in the same indicator. The balance of opinions about industrial production was -77 in the South, followed by the Bekaa (-74), Beirut & Mount Lebanon (-31), and the North (-11).

The balance of opinions about demand for industrial goods stood at -44 in the second quarter of 2021 compared to -63 in the preceding quarter and to -68 in the second quarter of 2020. It was the lowest in the South at -77, followed by the Bekaa (-70), Beirut & Mount Lebanon (-36), and the North (-11). In parallel, the balance of opinions about the volume of investments in the industrial sector stood at -23 in the second quarter of 2021 compared to -42 in the preceding quarter and -37 in the second quarter of 2020. It was the lowest in the South at -89, followed by Beirut & Mount Lebanon (-55), the North (zero) and the Bekaa (+30).

Further, the balance of opinions about foreign demand for industrial goods stood at -25 during the second quarter of 2021 compared to -26 in the preceding quarter and to -37 in the second quarter of 2020. It was the lowest in the South at -73, followed by the Bekaa region (-50), Beirut & Mount Lebanon (-7), and the North (zero). Also, the balance of opinions about the number of employees in the sector was -37 in the second quarter of 2021 compared to -36 in the preceding quarter and in the second quarter of 2021. It was the lowest in the Bekaa at -56, followed by the North (-53), the South (-35), and Beirut & Mount Lebanon (-13).

Industrial Activity: Evolution of Opinions				
Aggregate results	Q2-18	Q2-19	Q2-20	Q2-21
Production	-19	-27	-66	-44
Total demand	-22	-30	-68	-44
Foreign demand	-13	-19	-37	-25
Volume of investments	-11	-11	-37	-23
Inventories of finished goods	-5	-9	-49	-50
Inventories of raw material	-7	-12	-56	-60
Registered orders	-23	-30	-72	-73

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

Development of renewable energy to yield multiple benefits

A study conducted by the Issam Fares Institute for Public Policy and International Affairs at the American University of Beirut (AUB) and the Friedrich Ebert Stiftung Foundation considered that Lebanon possesses advanced financing and regulatory mechanisms for the renewable energy (RE) sector compared to many other countries in the Middle East & North Africa region. However, it indicated that several economic, social, and geopolitical challenges have impeded the sector's development. More specifically, it said that the mismanagement and inefficiency of the country's electricity sector have deprived Lebanese citizens of reliable and affordable electricity.

It indicated that Lebanese citizens suffer from a drastic shortage in the supply of electricity, and that polluting generators that run on diesel have become a crucial source of electricity in the country, as they have been closing the gap between power demand and supply. It added that the prevalence of diesel generators has made the electricity sector even more dependent on the imports of fossil fuel.

Also, the study stated that the current system of electricity supply is unsustainable, and that the insufficient electricity generation capacity reflects the outdated assets of the energy sector and the need to rebuild and develop the country's electricity grid. It added that, in order for Lebanon to reach its RE goals in 2030, it needs to start exploring short-term solutions and to strengthen the involvement of governmental institutions. However, it pointed out that the country's electricity sector faces three main challenges, which are unreliable power supply, a distorted subsidy system, as well as inadequate finances. It also said that the financial performance of the state-owned Electricité du Liban has been deteriorating due to theft of resources, high technical losses, and the widening gap between the cost of providing electricity and the prevailing tariffs. As such, it urged the government to develop a clear action plan to reform the tariff structure in order to introduce opportunities for investments in REs.

It noted that, in 2019, the Lebanese government expressed its interest and motivation to officially increase the share of RE in the country's energy mix from 2% in 2018 to 30% by 2030. It expected that the introduction of RE sources in Lebanon could yield significant benefits, such as addressing the high deficits of the power sector and meeting the growing demand for energy in the country, which would increase energy security and provide various health benefits. Also, it anticipated that increasing the share of RE in the country's energy mix could reduce Lebanon's vulnerability to the volatility of global oil prices, ease the burden of imported fossil fuels on the government's budget, and lower the carbon footprint of power production. It also anticipated that the decentralization of power generation would increase the reliability of supply and the participation of the private sector in energy production, while it considered that expanding the transmission capacity of the electricity grid to be a major factor for coping with the growing demand and the variability of supply from renewable sources in the future.

The study noted that authorities need to implement deep structural reforms in the electricity sector, starting with establishing an independent Regulatory Authority, in order to put Lebanon on a more integrated and sustainable energy path. It urged authorities to update the 2019 reform plan of the electricity sector and to commit to adopting a transition towards green energy. Still, it considered that it will take the country several years to achieve a balanced mix of energy sources. It noted that Lebanon has the potential to become a producer of natural gas, in case offshore exploration resumes and identifies commercial and extractable quantities of gas.

Finally, the study considered that the transition to RE would have positive effects on the economy and the environment, including creating jobs along the energy value chain, reducing air and environmental pollution, and increasing energy security, which constitute prerequisites for economic growth. It urged the authorities to transition towards a renewables-based energy system by introducing new regulations, focusing on the development of the energy market, investing in the transmission capacity of the electricity grid in order to efficiently provide electricity and to secure the grid's stability, and adopting energy efficiency measures, all of which are currently lacking in the country's infrastructure and regulatory framework. Also, it said that authorities should encourage large investments in the diversification of the energy mix, as well as the participation of the private sector in the development of the energy sector, in order to achieve the country's 2030 goals for sustainable energy, to enhance energy security, and to support economic growth.

In parallel, an AUB online survey about the usage of RE in Lebanon revealed that only 30% of respondents currently use RE, of which 88% are using solar photovoltaics (PV) for either producing electricity or as solar water heating systems at their workplace or at home. Further, the survey noted that 96% of respondents said that they would be willing to install RE technologies if the latter were more affordable, while 50.6% believed that diesel generators will remain part of citizens' daily lives or will be gradually phased out during the transition to RE. Also, it indicated that 72% of participants are willing to incur costs to install RE technologies. However, the survey's results show that the main barriers to implementing those measures include the high upfront costs (79% of respondents), maintenance costs (72%), space requirements (45%), and technical problems (39%). Moreover, the survey pointed out that the main challenges to implementing energy efficiency standards at a community level are capital expenditures (89% of participants), technology availability (59%), the lack of the required awareness (74%), and the absence of the needed expertise (55.5%).

Private sector deposits down \$45bn since start of 2019, deposits equivalent to 87% of GDP at end-2021

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets stood at \$174.9bn at the end of 2021, constituting a decline of 7% from \$188bn at the end of 2020 and compared to a decline of 13.3% in 2020. The dollar figures are based on the official exchange rate of the Lebanese pound to the US dollar. The sector's assets were equivalent to 117.2% of GDP at the end of 2021, relative to 271.7% at end-2020 and to 404.8% at the end of 2019, based on the official figures for nominal GDP that the Ministry of Finance provided in the government's draft budget for 2022.

Loans extended to the private sector reached \$27.7bn at the end of 2021 and decreased by 23.4% from a year earlier relative to a decline of 27.3% in 2020. Loans to the resident private sector totaled \$24.9bn, constituting a decline of 22.3% in 2021, while credit to the non-resident private sector amounted to \$2.8bn at the end of 2021, and contracted by 31.4% from a year earlier. Total private sector loans were equivalent to 18.6% of GDP at the end of 2021, compared to 52.3% at end-2020 and to 93% at the end of 2019.

In nominal terms, credit to the private sector decreased by \$8.46bn in 2021 relative to a drop of \$13.6bn in 2020, as lending to the resident private sector declined by \$7.16bn and credit to the non-resident private sector regressed by \$1.3bn last year. Further, loans extended to the private sector contracted by \$31.7bn in the 2019-2021 period, with loans denominated in Lebanese pounds shrinking by LBP 9,286bn and loans denominated in foreign currency contracting by \$25.5bn. The dollarization rate of private sector loans regressed from 59.6% at end-2020 to 56.3% at the end of 2021. The average lending rate in Lebanese pounds was 7.14% in December 2021 compared to 7.77% a year earlier, while the same rate in US dollars was 6.01% relative to 6.73% in December 2020.

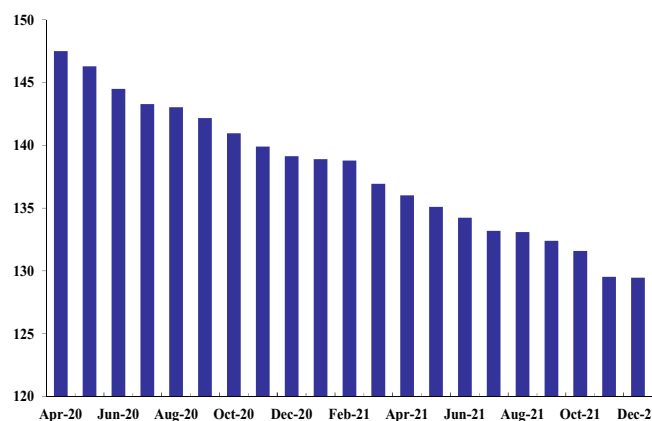
In addition, claims on non-resident financial institutions reached \$4.6bn at the end of 2021, constituting a decrease of \$126.3m (-2.7%) in 2021. Also, claims on non-resident financial institutions decreased by \$4.54bn (-49.8%) between end-August 2019 and the end of 2021, and by \$7.4bn (-61.7%) in the 2019-2021 timeframe. Further, deposits at foreign central banks totaled \$1bn, constituting an increase of \$458.9m (+79.5%) in 2021. In addition, the banks' claims on the public sector stood at \$17.1bn at end-2021, down by \$4bn (-19%) from a year earlier. The banks' holdings of Lebanese Treasury bills stood at \$12.1bn, while their holdings of Lebanese Eurobonds reached \$4.8bn at the end of 2021. Further, the deposits of commercial banks at Banque du Liban (BdL) totaled \$109bn at end-2021 and declined by \$1.5bn (-1.3%) from \$110.4bn at end-2020.

In parallel, private sector deposits totaled \$129.5bn at the end of 2021 and regressed by 7% from a year earlier compared to a decrease of 12.4% in 2020. Deposits in Lebanese pounds reached the equivalent of \$26.6bn at end-2021, as they decreased by 2.5% from the end of 2020; while deposits in foreign currency reached \$102.8bn and declined by 8% from end-2020. Resident deposits totaled \$104.9bn at the end of 2021 and retreated by \$6.9bn (-6.1%) from the end of 2020, while non-resident deposits reached \$24.5bn at end-2021, down by \$2.8bn (-10.3%) last year. Aggregate private sector deposits were equivalent to 86.6% of GDP at the end of 2021, relative to 201% at end-2020 and to 296.6% at the end of 2019.

Private sector deposits declined by \$9.7bn in 2021, with deposits in Lebanese pounds decreasing by LBP1,011bn, or the equivalent of \$670.5m, and foreign currency deposits shrinking by \$9bn. Private sector deposits regressed by \$227.1m in January, by \$60.7m in February, by \$1.9bn in March, by \$928.2m in April, by \$914.8m in May, by \$870.5m in June, by \$982m in July, by \$208.6m in August, by \$556m in September, by \$839.7m in October, by \$2.1bn in November, and by \$65m in December 2021. In addition, private sector deposits dropped by \$15.4bn in 2019 and by \$19.7bn in 2020, including a decrease of \$10.7bn between September and December 2019. As such, aggregate private sector deposits contracted by \$44.8bn in the 2019-2021 period, with deposits in Lebanese pounds shrinking by LBP37,026bn (\$24.56bn) and foreign currency deposits declining by \$20.25bn. The decrease is due largely to the repayment of loans by companies and individuals, to the hoarding of cash at households, to banks and companies paying their foreign obligations, and to deposit outflows. The dollarization rate of private sector deposits was 79.4% at end-2021 relative to 80.4% at the end of 2020.

Further, the liabilities of non-resident financial institutions reached \$4.9bn at the end of 2021 and contracted by 26% from \$6.6bn at the end of 2020. Also, the average deposit rate in Lebanese pounds was 1.09% in December 2021 compared to 2.64% a year earlier, while the same rate in US dollars was 0.19% relative to 0.94% in December 2020. The ratio of private sector loans to deposits in foreign currency stood at 15.2% at the end of 2021 compared to 19.3% a year earlier, well below BdL's limit of 70%. The same ratio in Lebanese pounds reached 45.5% at end-2021, down from 53.5% at end-2020. As such, the total private sector loans-to-deposits ratio reached 21.4% at end-2021 compared to 26% a year earlier. The banks' aggregate capital base stood at LBP26,740bn (\$17.7bn) at the end of 2021, down by LBP3,304bn (-11%) from LBP30,045bn (\$19.9bn) at the end of 2020 and by LBP4,500bn (-14.4%) from LBP31,240bn (\$20.7bn) at end-2019.

Private Sector Deposits (US\$bn)



Source: Banque du Liban, Byblos Research

Stock market capitalization up 49% to \$10bn at end January 2022

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 729,260 shares in January 2022, constituting a surge of 327% from 170,734 shares traded in January 2021; while the aggregate turnover amounted to \$14.1m and jumped by 493.8% from a turnover of \$2.37m in January 2021. The market capitalization of the BSE reached \$10.05bn on the last trading day of January 2022, representing an increase of 49% from \$6.75bn at the end of January 2021, with real estate equities accounting for 50.3% of the total, followed by banking stocks (45%), industrial shares (4.2%), and trading firms' equities (0.4%). The market liquidity ratio was 0.14% at the end of January 2022 compared to 0.04% a year earlier.

Real estate equities accounted for 60.5% of the trading volume in January 2022, followed by banking stocks (37.3%), and industrial shares (2.1%). Also, real estate equities accounted for 95.4% of the aggregate value of shares traded, followed by banking stocks (3.9%), and industrial shares (0.7%). The average daily traded volume for January 2022 was 36,463 shares for an average daily amount of \$704,785. The figures reflect an increase of 49.5% in the average daily traded volume and a jump of 107.8% in the average daily value in January 2022.

In parallel, the Capital Markets Authority's (CMA) Market Value-Weighted Index for stocks traded on the BSE declined by 4.2% in January 2022 from the previous month, while the CMA's Banks Market Value-Weighted Index regressed by 1.7% in the covered month. The decrease in the Market Value-Weighted Index is mainly due to the drop in the prices of Solidere 'A' and of Solidere 'B' shares by 6% and 8.6%, respectively, from end-2021, given that the shares have market weights of 30.55% and 19.71%, respectively, at end-January 2022, the highest among listed companies on the BSE.

Banque du Liban tightens supervision of banks' brokerage activities

Banque du Liban (BdL) issued on February 4, 2022 Intermediate Circular 613 to banks and financial institutions that modifies Basic Circular 19 dated September 7, 1995 about the authorization of specialized banks to participate in brokerage activities on the Beirut Stock Exchange (BSE). First, the modification stipulates that banks operating in Lebanon are allowed to conduct brokerage activities and financial intermediation on the BSE, as per the rules and regulations of the BSE, after receiving the approval of BdL. Also, the circular exempted specialized banks that are subject to legislative decree No. 50 dated July 15, 1983 from BdL's approval to conduct such activities. Second, it states that banks that are not subject to legislative decree No. 50 have to open separate accounts to conduct brokerage and financial intermediation activities on the BSE, subject to all related laws and regulations and to the supervision of the Capital Markets Authority (CMA).

Third, the circular specifies that banks have to sign contracts with their clients that include the relevant requirements that are stipulated in the related laws, as well as in the implementation rules and regulations issued by the CMA. Fourth, it indicates that the bank has to establish a specialized unit composed of qualified and experienced employees in capital markets operations, in order to execute these operations for clients based on clear processes and procedures under the supervision of the CMA and in compliance with the latter's rules and regulations. Fifth, the circular asks banks to use their proper funds to lend to clients against the latter's capital markets portfolio, and prohibits banks from using customer deposits to extend such loans. Sixth, it asks banks to take the proper legal procedures so that the Banking Control Commission and the CMA can adequately supervise the listed requirements.

BLOM Bank posts profits of LBP6.7bn in 2021

BLOM Bank sal, one of Lebanon's listed banks on the Beirut Stock Exchange, declared unaudited net profits of LBP6.7bn, or \$4.44m in 2021, compared to audited earnings of \$2.6m in 2020. The dollar figures are based on the official exchange rate of the Lebanese pound to the US dollar. The bank's net interest income reached LBP2,247.5bn (\$1.49bn) in 2021 relative to LBP1,768bn (\$1.17bn) in 2020, while its net fees & commission income stood at LBP85.15bn (\$56.5m), down by 42% from LBP147bn (\$97.6m) in 2020. Net operating income totaled LBP563.3bn (\$373.7m) in 2021 and decreased by 8.4% from LBP615.2bn (\$408m) in the preceding year. In parallel, the bank's operating expenditures reached LBP463bn (\$307m) in 2021 and increased by 8% from LBP428.4bn (\$284.2m) in 2020, with personnel cost accounting for 44.5% of the total in 2021.

Also, the bank's aggregate assets amounted to LBP39,900bn (\$26.5bn) at the end of 2021, constituting a decline of 11% from LBP44,797.7bn (\$29.7bn) at end-2020. Further, net loans & advances to customers totaled LBP3,372.6bn (\$2.24bn) at end-2021 and dropped by 28% from LBP4,691.6bn (\$3.1bn) at end-2020, while net loans & advances to related parties stood at LBP8.9bn (\$5.9m). In addition, customer deposits reached LBP30,586.5bn (\$20.3bn) at the end of 2021 relative to LBP31,641bn (\$21bn) at end-2020, with deposits from related parties standing at LBP100bn (\$66.4m). In parallel, the bank's shareholders' equity was LBP4,798.3bn (\$3.18bn) at the end of 2021, nearly unchanged from the end of 2020. The bank indicated that it is required to comply with all the circulars that Banque du Liban (BdL) issues, as stipulated in the Code of Money & Credit. As such, it noted that it calculated the expected credit losses in accordance with specific ratios listed in BdL's Basic Circular 44 dated March 25, 1998 about the capital adequacy regulatory framework for banks operating in Lebanon, and according to Circular 543 dated February 4, 2020. The bank pointed out that the deterioration of economic and monetary conditions in the country, as well the continued lack of an agreement on an economic and financial recovery plan, makes it difficult to estimate the negative impact of the crisis on financial statements according to the International Accounting Standards.



Ratio Highlights

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

*change in percentage points 21/20;

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

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

National Accounts, Prices and Exchange Rates

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

Source: Institute of International Finance- September 2021

Ratings & Outlook

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

Source: Rating agencies

Banking Sector Ratings	Outlook
Moody's Investors Service	Negative

Source: Moody's Investors Service



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