700 ISSUES+
Issue 716 | February 15-19, 2022

BYBLOS BANK SAL
Economic Research & Analysis Department

LEBANON THIS WEEK

In This Issue

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

Updated draft budget forecasts deficit at 17% of expenditures for 2022, equivalent to 1.8% of GDP

Lebanon ranks 162nd globally, 13th among Arab countries in economic freedom, economy downgraded to "repressed"

Consumer Price Index up 240% in January 2022

Treasury transfers to Electricité du Liban down 21% to $344m in first half of 2021

Electricity reform plan aims to increase power supply, cut losses, and restore EdL's financial viability

IMF deal may take time to reach and implement

Amount of cleared checks up 17%, returned checks down 19% in January 2022

Banque du Liban's foreign assets at $17.2bn, gold reserves at $17.1bn at mid-February 2022

Balance sheet of investment banks down 12% in 2021

Gross public debt at $100bn at end-November 2021 at official exchange rate

Corporate Highlights 9

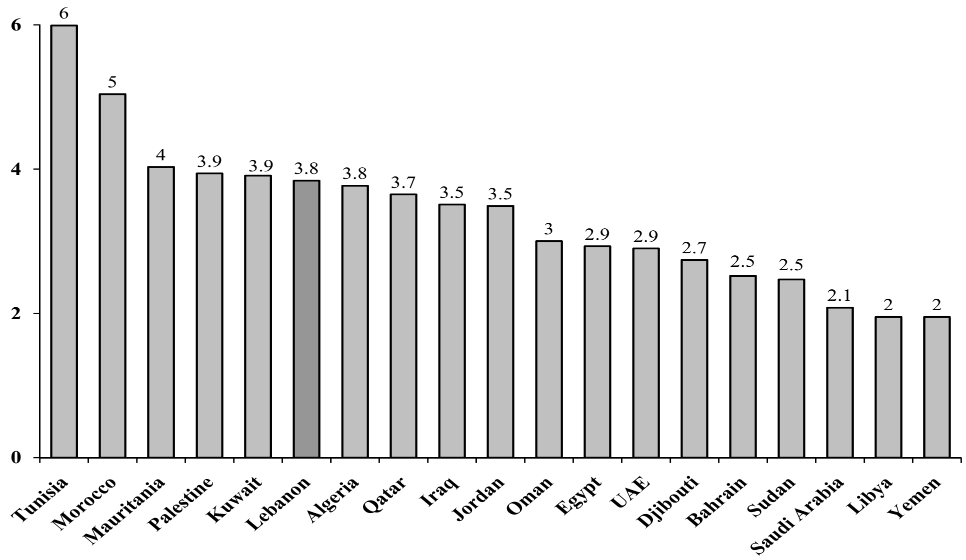
New car sales up 389% in January 2022

CMA CGM wins contract to manage Port of Beirut container terminal

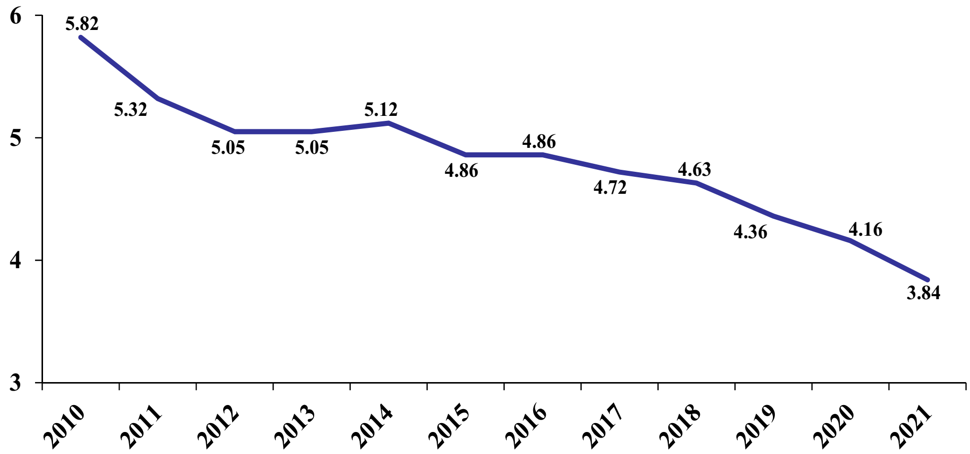
Ratio Highlights...............................10
National Accounts, Prices and Exchange Rates 10
Ratings & Outlook...........................10

Charts of the Week

Performance of Arab Countries on the Democracy Index for 2021*



Performance of Lebanon on the Democracy Index



Source: Economist Intelligence Unit, Byblos Bank

Quote to Note

"Obtaining broad based buy-in for this multi-year program will be fundamental for its timely and decisive implementation."

The International Monetary Fund, on the need for Lebanese authorities to gather wide-ranging support for their comprehensive social, economic and financial reforms plan

Number of the Week

45.6%: Percentage of utilized credits by the private sector that have real estate as collateral at the end of June 2021, according to Banque du Liban

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
Solidere "A"	30.25	(1.0)	97,392	30.4%
BLOM GDR	3.50	0.0	57,500	2.6%
Byblos Common	0.83	(1.2)	37,500	4.7%
Audi GDR	1.87	(6.5)	16,293	2.2%
Solidere "B"	30.16	0.8	13,647	19.7%
HOLCIM	19.00	(13.6)	12	3.7%
BLOM Listed	3.30	(1.5)	10	7.1%
Audi Listed	2.10	0.0	-	12.4%
Byblos Pref. 08	34.99	0.0	-	0.7%
Byblos Pref. 09	37.99	0.0	-	0.8%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Oct 2022	6.10	11.5	964.32
Jan 2023	6.00	11.5	441.57
Apr 2024	6.65	11.5	129.66
Jun 2025	6.25	11.5	77.48
Nov 2026	6.60	11.5	51.00
Feb 2030	6.65	11.5	28.92
Apr 2031	7.00	11.5	25.05
May 2033	8.20	11.5	20.21
Nov 2035	7.05	11.5	16.44
Mar 2037	7.25	11.5	14.87

Source: Refinitiv

	Feb 15-18	Feb 7-11	% Change	January 2022	January 2021	% Change
Total shares traded	222,354	419,951	(47.1)	729,260	170,734	327.1
Total value traded	$3,669,058	$1,552,943	136.3	$14,095,694	$2,373,929	493.8
Market capitalization	$9.96bn	$10.07bn	(1.06)	$10.05bn	$6.75bn	48.9

Source: Beirut Stock Exchange (BSE)

Lebanon in the News

Updated draft budget forecasts deficit at 17% of expenditures for 2022, equivalent to 1.8% of GDP

The updated draft budget for 2022 that the Council of Ministers approved shows total public expenditures at LBP47,329bn and public revenues at LBP40,911bn, leading to a fiscal deficit of LBP7,920bn and a primary deficit of LBP3,150bn in 2022. As such, the fiscal deficit would be equivalent to 16.7% of expenditures and the primary deficit to 6.7% of spending.

The budget forecasts current expenditures at LBP 44,183bn and capital spending at LBP3,146bn, which account for 93.4% and 6.6%, respectively, of fiscal spending. The distribution of the main expenditures items shows that the compensation of public-sector personnel, which includes salaries, wages and related benefits, retirement salaries, end-of-service indemnities, and transfers to public institutions to cover salaries, as well as urgent social assistance, amounts to LBP23,617bn and represents 53.5% of currrrent spending and 50% of fiscal spending in 2022. Also, budgetary reserves total LBP6,997bn (15.8% of current expenditures and 14.8% of fiscal spending); followed by debt servicing at LBP4,770bn (10.8% of current expenditures and 10.1% of fiscal spending); various transfers at LBP3,113bn (7.1% of current expenditures and 6.6% of fiscal spending); materials & supplies at LBP2,640bn (6% of current expenditures and 5.6% of fiscal spending); external services at LBP627bn (1.4% of current expenditures and 1.3% of fiscal spending); while other current expenditures total LBP2,370bn (5.4% of current expenditures and 5% of fiscal spending). The budget does not include Treasury transfers to the state-owned Electricité du Liban, as the government plans to approve a separate plan to reform the electricity sector.

On the revenues side, the budget for 2022 projects budgetary revenues of LBP39,409bn and Treasury receipts of LBP1,502bn, which account for 96.3% and 3.7% of fiscal revenues, respectively. The breakdown of budgetary receipts shows tax revenues at LBP33,215bn and non-tax receipts at LBP6,194bn, which represent 84.3% and 15.7%, respectively of budgetary revenues, and account for 81.2% and 15.1%, respectively, of fiscal spending. The budget estimates that revenues from the value-added tax would generate 52.8% of total tax receipts; followed by the tax on income, profits & capital gains (23.4%); receipts from custom duties (10.2%), and income from property taxes (8.7%), while other taxes would yield the remaining 5%. Further, administrative fees & charges and income from government properties & public institutions account for 53.8% and 40.4%, respectively of non-tax receipts, with net transfers from the telecommunications sector representing 68.2% of income from government properties and 27.5% of non-tax receipts.

Comparative Fiscal Results in % of GDP

	2021e	Budget 2022*
Total Revenues	**7.4%**	**9.3%**
Budget Revenues	**6.8%**	**9.0%**
Tax Revenues	**5.5%**	**7.5%**
Income Tax	2.2%	1.8%
Property Tax	0.6%	0.7%
Domestic Taxes on Goods & Services	1.9%	4.0%
Tax on International Trade	0.7%	0.8%
Non Tax Revenues	**1.3%**	**1.4%**
Treasury Receipts	**0.5%**	**0.3%**
Total Expenditures	**8.5%**	**10.8%**
Current Exp. (excl. Debt Principal)	**7.4%**	**10.0%**
Personnel Cost	4.4%	5.4%
Interest Payment	*1.4%*	*1.1%*
Materials & Supplies	0.3%	0.6%
Various Transfers	1.0%	0.7%
of which EDL	*0.5%*	*0.0%*
Other Current Spending	0.3%	0.5%
Reserves	0.0%	1.6%
Capital Expenditures	**0.2%**	**0.7%**
Treasury Expenditures	**0.7%**	**0.0%**
Overall Balance	**-1.1%**	**-1.8%**
Primary Balance	**0.3%**	**-0.7%**

**updated draft budget figures*

Source: Ministry of Finance, Byblos Research

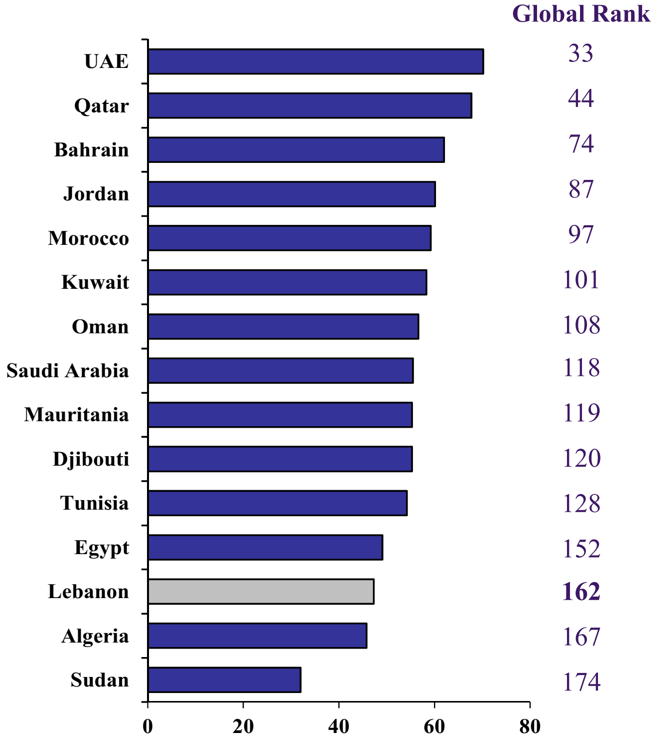
Lebanon ranks 162nd globally, 13th among Arab countries in economic freedom, economy downgraded to "repressed"

The Heritage Foundation's Index of Economic Freedom for 2022, a broad indicator of economic freedom in 177 countries, ranked Lebanon in 162nd place worldwide and in 13th place among 15 Arab countries that have a full dataset. In comparison, Lebanon ranked in 154th place globally and in 13th place regionally in 2021, while it came in 157th place worldwide and in 13th place among Arab countries on the 2020 index.

The index evaluates individual economies based on 12 equally-weighted broad factors of economic freedom divided into four pillars that are the Rule of Law, the size of the Government, Regulatory Efficiency, and Market Openness. A country's score ranges between zero and 100, with 100 reflecting the country with the highest possible level of economic freedom. The index also places each country in one of five categories of economic freedom that consist of a "free", "mostly free", "moderately free", "mostly unfree", and "repressed" economy.

Globally, Lebanon has a higher level of economic freedom than Equatorial Guinea, Turkmenistan and Algeria, and a lower level than the Republic of Congo, China and the Democratic Republic of Congo among economies with a GDP of $10bn or more. Lebanon's level of economic freedom reached 47.3% in the 2022 survey relative to 51.4% in 2021 and 51.7% in the 2020 survey. Lebanon's 2022 score came well below the global and the Arab levels of economic freedom of 60% and 55.2%, respectively. Also, its score was lower than the Gulf Cooperation Council (GCC) countries' average score of 61.7 points and the average score of non-GCC Arab countries of 50.9 points. The survey downgraded Lebanon's economic freedom status from the "mostly unfree" to the "repressed" category, after having maintained it in the "mostly unfree" category for nine consecutive years.

Index of Economic Freedom for 2022
Arab Countries' Scores & Rankings



Source: Heritage Foundation 2022, Byblos Research

It attributed the decline in Lebanon's score in the 2022 survey mainly to a lower score on the Fiscal Health indicator. The survey considered that the protracted economic contraction in the country has been reflected by a steady degradation of economic freedom. It pointed out that Lebanon's score has regressed by six points since the 2017 survey. It added that trade freedom is relatively strong, but noted that Lebanon's fiscal health score is the lowest in the world. In parallel, Lebanon preceded Nigeria and trailed Madagascar globally, while it came ahead of only Sudan among Arab countries on the Government Integrity Indicator. This category assesses the extent of government intervention in economic activity and the degree of corruption that follows. Also, Lebanon ranked ahead of Djibouti and behind Pakistan globally, while it preceded Djibouti, Mauritania and Sudan regionally on the Business Freedom Indicator, which reflects the ability to create, operate and close an enterprise without undue interference from the state. This category also measures the extent that the regulatory and infrastructure environments limit the efficient operation of businesses. Further, Lebanon came ahead of North Macedonia and trailed Mali globally, while it ranked behind only the UAE, Jordan, Tunisia and Bahrain regionally on the Labor Freedom Indicator, which assesses the legal and regulatory framework of a country's labor market.

Economic Freedom in Lebanon by Category

	Arab Rank	Global Rank	Lebanon Score	Change in Score*	Long-Term Trend**	Arab Avge	Global Avge
Tax Burden	7	38	88.5	↔	-9.5	86.9	77.9
Trade Freedom	6	77	74.2	↓	-0.8	67.8	69.5
Monetary Freedom	14	172	41.1	↓	-32.8	71.2	74.4
Government Spending	4	68	77.4	↑	-1.1	65.6	65.0
Investment Freedom	9	117	50.0	↓	0.0	53.3	57.0
Financial Freedom	8	68	50.0	↔	-20.0	51.3	48.7
Business Freedom	12	137	48.8	↑	-21.2	54.5	60.3
Labor Freedom	5	113	54.2	↑	N/A	50.3	55.7
Property Rights	12	144	33.7	↓	-16.3	48.4	55.3
Judicial Effectiveness	12	140	27.4	↓	N/A	32.1	50.2
Government Integrity	14	153	22.8	↓	12.8	40.2	45.3
Fiscal Health	13	168	0.0	↔	N/A	41.1	60.6

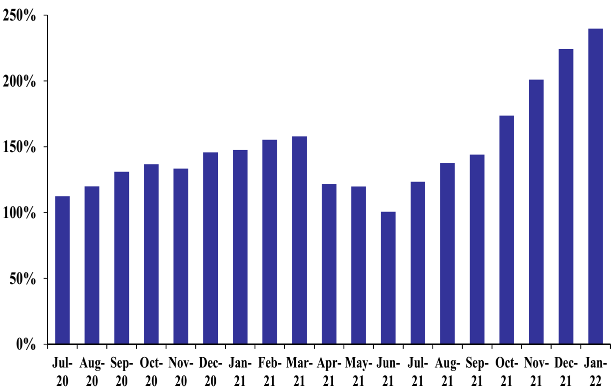
**year-on-year; ** Change in score from 1997 in percentage points;*
Source: Heritage Foundation 2022, Byblos Research

Consumer Price Index up 240% in January 2022

The Central Administration of Statistics' Consumer Price Index increased by 239.7% in January 2022 from the same month of 2021, while it registered its 19th consecutive triple-digit increase since July 2020. In comparison, the CPI rose by 147.6% in January 2021 from the same month of 2020.

The cumulative surge in inflation 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.

Annual Change in CPI (%)



Source: Central Administration of Statistics, Byblos Research

Transportation costs surged by 6.4 times in January 2022 from the same month last year, followed by the prices of food & non-alcoholic beverages (+5.8 times), the rates at restaurants & hotels (+5.5 times), healthcare costs (+5.4 times), the prices of water, electricity, gas & other fuels (+5.2 times), the cost of alcoholic beverages & tobacco (+4.4 times), the prices of miscellaneous goods & services (+4.1 times), and the prices of furnishings & household equipment (+3.6 times). In addition, the prices of clothing & footwear jumped by 225.6% year-on-year in January 2022, followed by the cost of recreation & entertainment (+152.2%), communication costs (+35.4%), the cost of education (+35%), actual rent (+4%), and imputed rent (+3.9%). Also, the distribution of actual rent shows that new rent grew by 4.9% and old rent increased by 2.7% in January 2022 from the same month last year.

In parallel, the CPI increased by 7.7% in January 2022 from the previous month, compared to a month-on-month rise of 16.5% in December 2021 and of 10.6% in November 2021. The cost of miscellaneous goods & services surged by 68.7% month-on-month in January 2022, followed by prices of food & non-alcoholic beverages (+13.4%), prices of alcoholic beverages & tobacco (+12.2%), healthcare costs and rates at restaurants & hotels (+7.6% each), transportation costs (+6.8%), prices of furnishings & household equipment (+6%), prices of water, electricity, gas and other fuels (+4.5%), the cost of actual rent (1.5%), communication costs (+1.2%), and the cost of recreation & entertainment and imputed rent (+1.1% each), while the prices of clothing & footwear decreased by 1.1% in the covered month. Also, the cost of education was unchanged in January 2022 from the preceding month.

Further, the CPI increased by 8.08% in Mount Lebanon, by 8.06% in Beirut, by 8.05% in Nabatieh, by 7.22% in the North, by 6.96% in the South, and by 6.6% in the Bekaa during January 2022 from the previous month. In parallel, the Education Price Index was unchanged, while the Fuel Price Index grew by 10.1% month-on-month in January 2022.

Treasury transfers to Electricité du Liban down 21% to $344m in first half of 2021

Figures released by the Ministry of Finance show that Treasury transfers to Electricité du Liban (EdL) totaled LBP518bn, or $343.6m, in the first half of 2021, constituting a decline of 20.8% from LBP654bn or from $433.8m in the same period of 2020. The dollar figures are converted at the official exchange rate of the Lebanese pound against the US dollar. Reimbursements for the purchase of natural gas, fuel and gas oil reached $343m in the first half of 2021, or 99.8% of transfers; while EdL's debt servicing represented the balance of around $0.6m, or 0.2% of the total.

The decline in transfers is mainly due to a decrease of $89m in reimbursements for the purchase of natural gas, fuel and gas oil, which mostly consist of payments to the Kuwait Petroleum Corporation and to the Algerian energy conglomerate Sonatrach. Reimbursements decreased by 20.6% in the first half of 2021, while debt servicing dropped by 64.3% from the same period last year.

Treasury transfers to EdL accounted for 7.1% of budgetary primary expenditures in the first half of 2021 relative to 7.9% in the same period of 2020. They constituted the third largest expenditure item, or 5.9% of overall fiscal spending, after personnel cost with 51.4% and debt servicing with 15.6%. EdL transfers were equivalent to 5.1% of GDP in 2012, 4.3% of GDP in 2013, 4.4% of GDP in 2014, 2.3% of GDP in 2015, 1.8% of GDP in 2016, 2.5% of GDP in 2017, 3.2% of GDP in 2018, 2.8% of GDP in 2019, and 1.3% of GDP in 2020.

Electricity reform plan aims to increase power supply, cut losses, and restore EdL's financial viability

The Ministry of Energy & Water submitted to the Council of Ministers a plan to reform the electricity sector. It said that the plan aims to increase the supply of electricity in order to meet national demand in a cost-effective, fiscally balanced and sustainable way. It noted that the plan is based on four pillars that consist of increasing the supply and generation of electricity, upgrading the transmission & distribution network, enhancing the financial performance of Eléctricité du Liban (EdL), and updating the sector's institutional, legislative and regulatory framework. It considered that the four components need to be addressed immediately and simultaneously over the short-, medium-, and long terms.

First, the plan aims to address the power supply and generation by raising EdL's output to 1,150 megawatts (MW) and supplying eight to 10 hours of electricity per day, up from three hours per day currently, at an average generation cost of 10 cents per kilowatt hour (KWH) in the short term, or in less than one year. It intends to raise power provisioning through the regional electricity and gas trade agreements with Egypt, Iraq and Jordan, and with the support of loans from the World Bank and, possibly, from other international financial institutions. It added that, in the medium term, EdL will supply 16 to 18 hours of electricity within 24 months through existing and temporary infrastructures, such as gas access at the Zahrani plant, gas-fired generation units at the Deir Amar plant, and solar and wind farms. It claimed that, in the long term, EdL will provide 20 to 24 hours of electricity per day starting in 2025 through permanent generation capacity, such as newly constructed gas-fired combined cycle power plants and renewable energies, in order for renewables to account for 30% of power output by 2030 as per the official target. It added that the energy mix by 2026 will see gas accounting for 70% of the sources of electricity, followed by hydroelectric and renewable sources with 14%, fuel oil with 9%, and the import of electricity from Jordan with 7% for a total production of 2,704 MW.

Second, the plan intends to upgrade the sector's transmission and distribution operations. It aims during the 2022-23 period to start reducing the network's technical and non-technical losses, which stood at 40% in 2021, through campaigns to remove illegal connections, by investing in the distribution networks, improving billing and collection cycles, and by enhancing existing DSPs contracts until 2023. It also intends to re-establish EdL's National Control Center, to initiate investments in the transmission infrastructures as per Eléctricité de France's approved transmission master plan, to award distribution contracts based on advanced public-private partnership agreements such as concessions or others, and to install advanced metering infrastructure in conjunction with the rollout of 10% of the smart meters. Its base case scenario envisages reducing non-technical losses from 27% in 2021 to 19.2% in 2022 and 12.8% in 2023, and cutting technical losses from 18.2% in each of 2021 and 2022 to 17.8% in 2023. After 2023, it plans to intensify the removal of illegal connections and complete the rollout of smart meters. It also aims to reduce non-technical losses to 9.4% in 2024, 6.5% in 2025 and 5.6% in 2026, and to cut technical losses to 17.2% in 2024, 16.2% in 2025 and 15.1% in 2026.

Third, the plan aims to improve the sector's financial performance. It intends to address EdL's financial losses during the 2022-23 period by adjusting the tariffs of residential and non-residential customers through indexing tariffs to the exchange rate of the US dollar and to international fuel oil prices. Also, it plans to establish a cash mechanism to prioritize and manage EdL's payments to suppliers, to enhance bill collections, to manage EdL's cash flow including arrears and overdue payments, to improve EdL's financial reporting as per industry standards, and to enforce financial discipline at EdL and at institutional stakeholders. After 2023, the plan aims to implement a tariff methodology as per the business plan laid out by or for the Electricity Regulatory Authority, provide financial guarantees to encourage the private sector's participation, and ensure that the public sector pays its electricity bills in arrears to reduce collection losses from 12% to 4%.

It claimed that these measures will allow EdL to provide electricity to 75% of residential customers at 10 cents per KWH, which is 3.2 times cheaper than what private generators charge. It added that households that consume 600 KWH and 900 KWH per month will save 20% and 12%, respectively, on their electricity bills. It said that tariffs for non-residential customers aim to achieve cost recovery in 2023. It noted that the ambitious loss-reduction plan will improve the financials of EdL, with a breakeven tariff of 18.3 cents per KWH, and that EdL will be on a sustainable path to profitability once the financing gaps are closed starting in 2024.

IMF deal may take time to reach and implement

Bank of America (BofA) considered that the Lebanese authorities' policy inaction during the past two years, amid multiple crises, has resulted in an economic depression, hyperinflation, a sharp depreciation of the exchange rate on the parallel market, the *de facto* conversion of foreign currency deposits to Lebanese pounds or the "lirafication" of deposits, shortages of basic goods, large emigration, and a significant impoverishment of the population. It estimated that nominal GDP declined from $55.3bn in 2018 to $22.3bn in 2021. As such, it said that Lebanon's real GDP contracted by 36% between 2018 and 2021, while the effective exchange rate depreciated by 500% in the 2018-21 period.

In addition, it considered that the authorities' policy inaction led the public debt level to rise from 171% of GDP at the end of 2019 to an estimated 217% of GDP at the end of 2021, even though the nominal size of the debt regressed to $48.4bn at the effective exchange rate of LBP9,000 per US dollar. It estimated that non-resident investors currently hold two-thirds of Lebanese Eurobonds, and pointed out that foreign holdings of Eurobonds nearly doubled from $11.8bn at the end of 2019 to $21.4bn at the end of 2021. It suggested that the significant increase in foreign holdings of Eurobonds may encourage the government to seek restructuring terms for its foreign currency-denominated debt. Also, it considered it plausible that Lebanese authorities will conclude an agreement with the International Monetary Fund, despite widespread skepticism. But it expected the deal to be difficult to reach and to implement, as the authorities have a poor track record in decision-making, and because the potential institutional vacuum following the parliamentary elections in May 2022 could halt negotiations in the second half of the year.

In parallel, BofA attributed the significant narrowing of Lebanon's fiscal deficit in the first half of 2021 to the faster decline in public expenditures than in public revenues, to the previous government's decision to suspend all payments on its outstanding Eurobonds starting in March 2020, as well as to the government's decision in 2020 to ask Banque du Liban to reimburse to the Treasury all interest payments on its holdings of domestic debt. Also, it said that the first version of the draft budget for 2022 targets a fiscal deficit of LBP15.5 trillion, or $10.3bn at the official exchange rate. However, given an effective exchange rate of LBP9,000 per dollar, it projected a fiscal deficit of $1bn, or 4.5% of GDP in 2022 relative to a deficit of $5.8bn, or 10.9% of GDP in 2019. It added that the draft budget for 2022 is based on a real GDP growth rate of 3%, which it considered to be an optimistic assumption.

Further, it noted that the budget for 2022 maintains the multiple exchange rates framework, given that several line items are still based on the official exchange rate, and pointed out that the government has set aside reserves of LBP7 trillion to factor-in potential additional spending needs due to the volatility of the exchange rate. It said that authorities are considering imposing customs duties at a new customs exchange rate linked to the US dollar rate on Banque du Liban's Sayrafa electronic platform, as well as collecting telecommunications receipts at a higher exchange rate than the official rate. As such, it anticipated that the inflation rate will increase if importers decide to maintain their profit margins, even though current prices already reflect the exchange rate of the US dollar on the parallel market.

BofA expected that the 2022 draft budget will require amendments in case authorities are planning to pursue negotiations with the IMF. It considered that the current draft reflects the ongoing challenging political and economic constraints, and that it would have to be consistent with a credible medium-term fiscal adjustment framework.

Amount of cleared checks up 17%, returned checks down 19% in January 2022

The amount of cleared checks reached $2.63bn in January 2022, constituting an increase of 17% from $2.25bn in the same month of 2021. In comparison, the amount of cleared checks decreased by 66.4% in January 2021 from the same month of 2020 and increased by 36.5% in January 2020 from the same month of 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 LBP2,486bn, or the equivalent of $1.65bn, in January 2022 and surged by 106% from LBP1,206bn a year earlier, while the amount of cleared checks in foreign currencies was $986m and declined by 32% in the covered month. The dollarization rate of cleared checks regressed from 64.4% in January 2021 to 37.4% in January 2022, while the number of checks denominated in foreign currency accounted for 50.7% of the total number of cleared checks in January 2022 compared to 58.6% in the same month of 2021.

In parallel, the amount of returned checks in local and foreign currencies was $25.9m in January 2022 compared to $31.8m in January 2021 and to $153.2m in 2020. This constituted declines of 18.8% in January 2022 and of 79.2% in January 2021, relative to an increase of 17.2% in the same month of 2019. The amount of returned check in Lebanese pounds reached LBP11bn ($7.3m) in January 2022 and declined by 42% from January 2021, while the amount of returned checks in foreign currencies was $19m, unchanged from a year earlier.

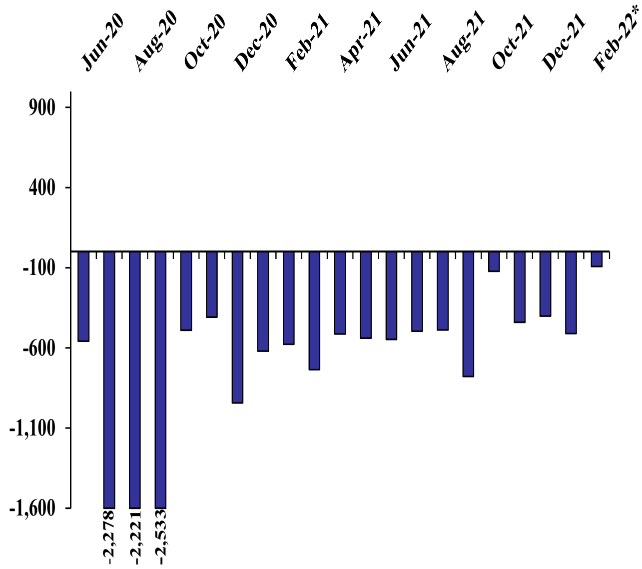
Also, there were 1,432 returned checks in January 2022, down by 37.5% from 2,291 returned checks in January 2021. The number of returned checks in foreign currencies and in Lebanese pounds reached 952 and 480, respectively, in January 2022, and dropped by 30.8% and 47.6%, respectively, from the same month last year.

Banque du Liban's foreign assets at $17.2bn, gold reserves at $17.1bn at mid-February 2022

Banque du Liban's (BdL) interim balance sheet reached $163.8bn on February 15, 2022, constituting increases of 0.4% from $163.2bn at end-2021 and of 8.8% from $150.5bn a year earlier. Assets in foreign currency totaled $17.23bn at mid-February 2022, representing a decrease of $600.9m, or of 3.4%, from the end of 2021 and a drop of $5.92bn (-25.6%) from $23.14bn at mid-February 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 $12.2bn at mid-February 2022 and regressed by $91.5m (-0.7%) from $12.29bn at end-January 2022. They dropped by $600.9m (-4.7%) from $12.8bn at the end of 2021 and by $5.92bn (-32.7%) from $18.1bn at mid-February 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, as well as to the implementation of BdL decrees that allowed depositors to withdraw US dollar banknotes from their accounts or to buy dollar banknotes from BdL through commercial banks. 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 foreign currency was offset in part by the allocation of about $1.13bn in Special Drawing Rights that the IMF transferred to BdL's account on September 16, 2021.

Change in Gross Foreign Currency Reserves (US$m)



**at mid-February 2022*
Source: Banque du Liban, Byblos Research

In parallel, the value of BdL's gold reserves amounted to $17.1bn at mid-February 2022, constituting increases of $521.2m (+3.1%) from the end of 2021 and of $351.8m (+2.1%) from $16.8bn at mid-February 2021. The value of gold reserves reached a peak of $18.13bn at mid-September 2020. Also, the securities portfolio of BdL totaled $41.5bn at mid-February 2022, increasing by $237m (+0.6%) from the end of 2021 and by $949.3m (+2.3%) from $40.56bn a year earlier. In addition, loans to the local financial sector totaled $13.54bn, regressing by 1.2% from the end of 2021 and by 4.5% from mid-February 2021. Further, the deposits of the financial sector stood at $109.6bn at mid-February 2022 and grew by $1.9bn from a year earlier. In addition, public sector deposits at BdL reached LBP12,290bn ($8.15bn) at mid-February 2022, increasing by $396.7m from the end of 2021 and surging by $3.37bn from a year earlier.

Balance sheet of investment banks down 12% in 2021

Figures released by Banque du Liban (BdL) show that the consolidated balance sheet of investment banks in Lebanon reached LBP 6,045.7bn, or $4bn at the end of 2021, constituting a decrease of 12% from LBP6,873.7bn ($4.6bn) at end-2020.The dollar figures are based on the official exchange rate of the Lebanese pound to the US dollar.

On the assets side, claims on resident customers reached LBP1,606.7bn ($1.1bn) at the end of 2021, regressing by 22.4% from the end of 2020; while claims on non-resident customers totaled LBP17.4bn ($11.5m) at the end of 2021 and dropped by 71.6% from end-2020. In addition, claims on the resident financial sector reached LBP800.8bn ($531.2m) at end-2021, as they decreased by 3.7% from a year earlier; while claims on the non-resident financial sector totaled LBP88.4bn ($58.7m) at end-2021, and declined by 35% from the end of 2020. Also, claims on the public sector amounted to LBP4.7bn ($3.1m) at the end of 2021, constituting a drop of 71.6% from end-2020; while the securities portfolio, which includes Lebanese Treasury bills and Eurobonds, reached LBP877.8bn ($582.3m) at end-2021 and contracted by 14.4% from the end of 2020. In parallel, currency and deposits at BdL and at foreign central banks reached LBP2,005.6bn ($1.3bn) at end-2021, down by 2.3% from the end of 2020.

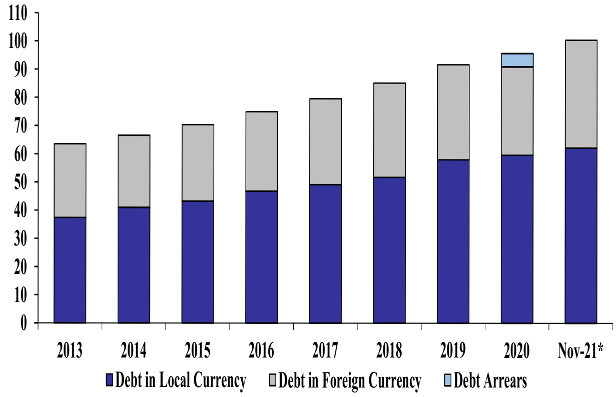
On the liabilities side, deposits of resident customers totaled LBP1,382.7bn ($917.2m) at the end of 2021, constituting a decline of 26.6% from a year earlier; while deposits of non-resident customers reached LBP149.2bn ($99m) at end- 2021, and decreased by 51.7% from end-2020. In addition, liabilities to the resident financial sector amounted to LBP148.8bn ($98.7m) at end-2021, down by 12.4% from end-2020; while those to the non-resident financial sector regressed by 22.4% from end-2020 to LBP224.8bn ($149m) at end-2021. Also, public sector deposits stood at LBP7.7bn ($5.1m), while debt securities issued totaled LBP9.1bn ($6m) at end-2021 and declined by 50% from end-2020. Further, the aggregate capital account of investment banks amounted to LBP2,384.6bn ($1.6bn) at end-2021, constituting an increase of 3.5% from a year earlier.

Lebanon in the News

Gross public debt at $100bn at end-November 2021 at official exchange rate

Figures issued by the Ministry of Finance show that Lebanon's gross public debt reached $100.4bn at the end of November 2021, constituting an increase of 5% from $95.6bn at the end of 2020 and an expansion of 5.1% from $95.5bn at the end of November 2020. The dollar figures are converted at the official exchange rate of the Lebanese pound against the US dollar. The gross public debt grew by $4.8bn in the first 11 months of 2021 relative to an increase of $3.9bn in the same period of 2020. The size of the gross public debt would become $42.1bn when the portion of the debt denominated in Lebanese pounds is converted to US dollars at the exchange rate of LBP 24,700 per dollar that prevailed on the parallel market at the end of November 2021. Conversely, the public debt becomes LBP1,039.8bn when the dollar-denominated debt is converted to Lebanese pounds at the same parallel market rate.

Lebanon's Gross Public Debt (US$bn)



**arrears were not provided by the Ministry of Finance*
Source: Ministry of Finance, Byblos Research

Debt denominated in Lebanese pounds totaled LBP93,596bn, or the equivalent of $62.1bn, at the end of November 2021, and expanded by 4.3% in the first 11 months of 2021 and by 4% from a year earlier; while debt denominated in foreign currency stood at $38.3bn and grew by 6.3% from end-2020 and by 7% from end-November 2020. On March 7, 2020, the Lebanese government decided to default on the $1.2bn Eurobond that was due on March 9, 2020. It also announced on March 23, 2020 that Lebanon will discontinue payments on all of its outstanding Eurobonds. According to the Finance Ministry, the latest available figures show that about $8.68bn of the debt stock denominated in foreign currency were in arrear as at end-October 2021.

Local currency debt accounted for 61.8% of the gross public debt at the end of November 2021 and foreign currency-denominated debt represented the balance of 38.2%, compared to 62.5% and 37.5%, respectively, a year earlier. The weighted interest rate on outstanding Treasury bills was 6.55% in November 2021, while the weighted life of Treasury bills and bonds was 1,528 days. BdL held 38% of the public debt at end-November 2021, followed by commercial banks (14.7%), and non-bank resident financial institutions (8.9%); while other investors, including foreign investors, held 36.2% of the debt, and multilateral institutions and foreign governments accounted for the remaining 1.9%.

BdL held 61.7% of the Lebanese pound-denominated public debt at the end of November 2021 compared to 60.9% a year earlier, while commercial banks accounted for 23.8% of the local debt relative to 26.2% at end-November 2020. Also, public agencies, financial institutions and the public held 14.5% of the local debt at the end of November 2021, compared to 12.9% a year earlier. Further, investors in Eurobonds and special T-bills in foreign currencies held 94.85% of the foreign currency-denominated debt at the end of November 2021, followed by multilateral institutions with 3.9%, and foreign governments with 1.3%. In addition, the latest available figures show that the gross market debt accounted for about 52% of the public debt. The gross market debt is the total public debt less the portfolios of BdL, the National Social Security Fund, as well as bilateral and multilateral loans.

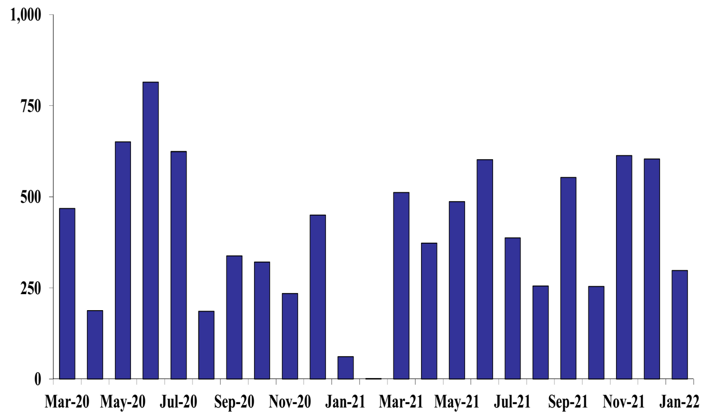
New car sales up 389% in January 2022

Figures released by the Association of Automobile Importers (AIA) in Lebanon show that dealers sold 298 new passenger cars in January 2022, constituting a surge of 388.5% from 61 automobiles sold in the same month of 2021, and relative to 604 vehicles sold in December 2021.

The increase in car sales in January 2022 comes from a very low base, given that the imposition in January 2021 of strict coronavirus-related lockdown measures in the country restricted mobility and business activity.

In comparison, individuals and institutional clients purchased 2,420 new cars in January 2017, 2,489 automobiles in January 2018, 1,838 new vehicles in January 2019, and 979 cars in January 2020. The association stopped releasing its monthly data on car sales by brand, distributor and source country since January 2020.

Number of New Passenger Cars Sold



Source: Association of Automobile Importers

The AIA attributed the drop in the sales of new cars since 2019 to the deterioration of political, economic and financial conditions in the country, as well as to the fluctuations of the exchange rate of the US dollar on the parallel market and the dealers' difficulties in opening letters of credit for their imports. Further, it said that car dealers incurred damages in the tens of millions of dollars as a result of the explosion at the Port of Beirut on August 4, 2020, as well as due to the national lockdown measures that the government imposed to contain the spread of the coronavirus.

The market for new passenger cars in Lebanon has been facing increasing challenges in the past few years, including the contraction in economic activity, job insecurity and, more recently, the shortage of foreign currency liquidity in the local market, the emergence of a parallel exchange rate market, the reduced purchasing power of consumers, and a very low level of household confidence. Also, the AIA considered that a large number of car dealerships could close down and lay off their employees, and that car sales could further deteriorate in the coming months.

CMA CGM wins contract to manage Port of Beirut container terminal

The Ministry of Public Works & Transportation announced that the Lebanese-owned and France-based container-shipping firm CMA CGM won a tender to manage, operate and maintain the Port of Beirut's container terminal for a 10-year period starting in March 2022. The firm indicated that it will invest $33m in the container terminal, including $19m in the first two years to upgrade the terminal, in order to increase its capacity to 1.4 million 20-foot equivalent units (TEUs) from 650,000 (TEUs) currently.

It said that it will earmark the funds to improve the infrastructure by replacing and purchasing new port equipment; to construct a new technical facility to store spare parts; to digitize operations by interconnecting systems between various operators within the port's community; and to improve environmental performance through the purchase of greener and eco-friendly equipment. It added that it will use its own expertise and that of the previous operator's teams to pursue its development goals for the terminal.

CMA CGM is already a major actor in shipping and logistics in Lebanon through its agency Merit Shipping and currently accounts for almost 55% of the container terminal's volumes at the Port of Beirut. Its Lebanon office covers Cyprus, Egypt, Greece, Iraq, Jordan, Saudi Arabia, Sudan, and Syria. Also, the firm fully acquired in 2021 the container terminal at the Port of Tripoli, Lebanon's second commercial port. In addition, the firm built a logistics storehouse in Taanayel in the Bekaa region in order to store and facilitate the recovery of empty containers, as well as to support fruit and vegetables producers and develop the agriculture sector in the country.

CMA CGM is one of the largest container shipping companies in the world and operates a fleet of 566 vessels, with a capacity of 3 million TEUs that serves over 420 commercial ports and utilizes more than 257 shipping lines. It is currently investing in 52 port terminals across 33 countries.

The Ministry of Public Works & Transportation announced on October 11, 2021 an international tender for the management of the container terminal at the Port of Beirut. It indicated that the tender aims to reactivate the port's full operations following the explosion on August 4, 2020. In addition, it considered that the geopolitical importance of the Port of Beirut makes its development crucial to Lebanon's economic recovery. On December 2004, the Beirut Container Terminal Consortium (BCTC), a British-Lebanese joint venture, won an international public tender to operate the container terminal at the Beirut port. BCTC's contract expired on January 31, 2020, but the authorities have extended the contract repeatedly on a three-month basis until the launch of a new tender.

Ratio Highlights

(in % unless specified)	2019	2020	2021	Change*
Nominal GDP ($bn)	51.0	26.5	22.3	(4.1)
Public Debt in Foreign Currency / GDP	63.0	52.1	-	-
Public Debt in Local Currency / GDP	108.1	86.0	-	-
Gross Public Debt / GDP	171.1	138.1	242.6	104.5
Trade Balance / GDP	(29.0)	(11.2)	(23.1)	(11.9)
Exports / Imports	19.4	31.3	47.7	16.4
Fiscal Revenues / GDP	20.7	14.7	8.1	(6.6)
Fiscal Expenditures / GDP	31.6	18.6	11.9	(6.7)
Fiscal Balance / GDP	(10.9)	(3.9)	(3.8)	0.1
Primary Balance / GDP	(0.5)	(0.9)	(1.8)	(0.9)
Gross Foreign Currency Reserves / M2	70.2	41.5	26.0	(15.5)
M3 / GDP	251.2	191.7	89.4	(102.3)
Commercial Banks Assets / GDP	404.8	271.7	117.2	(154.4)
Private Sector Deposits / GDP	296.6	201.0	86.8	(114.3)
Private Sector Loans / GDP	92.9	52.3	18.6	(33.7)
Private Sector Deposits Dollarization Rate	76.0	80.4	79.4	(1.0)
Private Sector Lending Dollarization Rate	68.7	59.6	56.3	(3.3)

**change in percentage points 21/20;*
Source: Banque du Liban, Ministry of Finance, 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

Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut – Lebanon
Tel: (961) 1 338 100
Fax: (961) 1 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com

BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605 Riad El Solh - Beirut 1107 2811- Lebanon
Phone: (+ 961) 1 335200
Fax: (+ 961) 1 339436

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60, Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457/8/9 - 2560017/9
E-mail: erbilbranch@byblosbank.com.lb

Sulaymaniyah Branch, Kurdistan, Iraq
Salem street, Kurdistan Mall - Sulaymaniyah
Phone: (+ 964) 773 042 1010 / (+ 964) 773 041 1010

Baghdad Branch, Iraq
Al Karrada - Salman Faeq Street
Al Wahda District, No. 904/14, Facing Al Shuruk Building
P.O.Box: 3085 Badalat Al Olwiya – Iraq
Phone: (+ 964) 770 6527807 / (+ 964) 780 9133031/2
E-mail: baghdadbranch@byblosbank.com.lb

Basra Branch, Iraq
Intersection of July 14th, Manawi Basha Street, Al Basra – Iraq
Phone: (+ 964) 770 4931900 / (+ 964) 770 4931919
E-mail: basrabranch@byblosbank.com.lb

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryan Street - Area 0002
Yerevan - Republic of Armenia
Phone: (+ 374) 10 530362 Fax: (+ 374) 10 535296
E-mail: infoarm@byblosbank.com

NIGERIA

Byblos Bank Nigeria Representative Office
161C Rafu Taylor Close - Off Idejo Street
Victoria Island, Lagos - Nigeria
Phone: (+ 234) 706 112 5800
(+ 234) 808 839 9122
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

BELGIUM

Byblos Bank Europe S.A.
Brussels Head Office
Boulevard Bischoffsheim 1-8
1000 Brussels
Phone: (+ 32) 2 551 00 20
Fax: (+ 32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

UNITED KINGDOM

Byblos Bank Europe S.A., London Branch
Berkeley Square House
Berkeley Square
GB - London W1J 6BS - United Kingdom
Phone: (+ 44) 20 7518 8100
Fax: (+ 44) 20 7518 8129
E-mail: byblos.london@byblosbankeur.com

FRANCE

Byblos Bank Europe S.A., Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+33) 1 45 63 10 01
Fax: (+33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

ADIR INSURANCE

Dora Highway - Aya Commercial Center
P.O.Box: 90-1446
Jdeidet El Metn - 1202 2119 Lebanon
Phone: (+ 961) 1 256290
Fax: (+ 961) 1 256293