

LEBANON THIS WEEK

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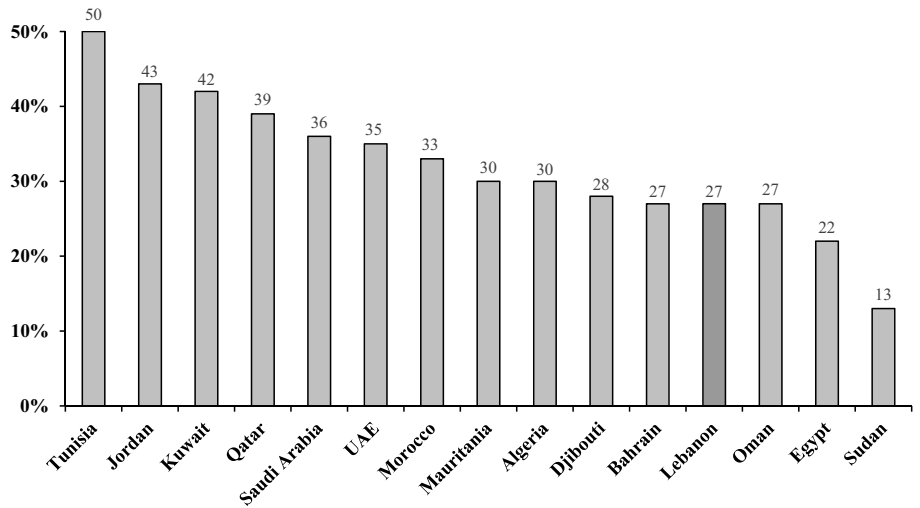
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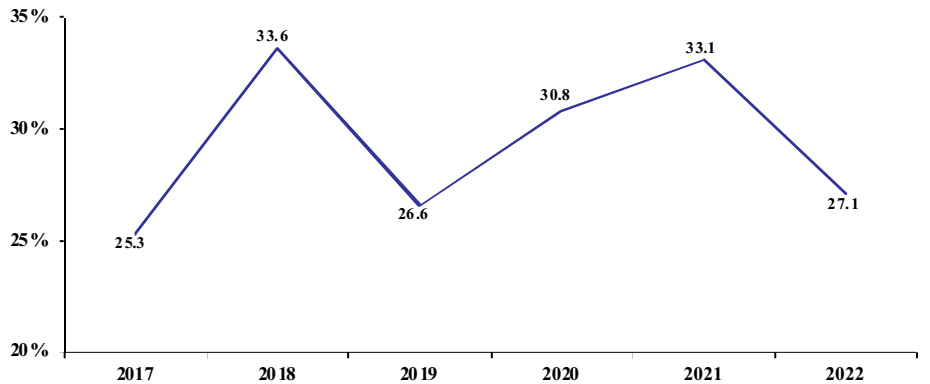
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Charts of the Week

Performance of Arab Countries in terms of Judicial Effectiveness for 2022*



Performance of Lebanon in terms of Judicial Effectiveness



*Judicial effectiveness is defined as efficient and fair judicial systems that ensure that laws are fully respected and appropriate legal actions are taken against violations

Source: Heritage Foundation, Judicial Effectiveness Sub-Indicator, Index of Economic Freedom for 2022, Byblos Bank

Quote to Note

"Negotiations with investors on a restructuring agreement are unlikely to take place in the absence of credible policy reforms."

S&P Global Ratings, on the outlook on the much-delayed negotiations with the holders of Lebanese Eurobonds

Number of the Week

0.18%: Average interest rate on US dollar deposits at banks operating in Lebanon in January 2022, according to Banque du Liban

Lebanon in the News

\$m (unless otherwise mentioned)	2019	2020	2021	% Change*	Dec-20	Nov-21	Dec-21
Exports**	3,731	3,544	699	-	295	-	-
Imports**	19,239	11,310	3,329	-	1,232	-	-
Trade Balance**	(15,508)	(7,765)	(2,631)	-	(937)	-	-
Balance of Payments	(5,851)	(10,551)	(1,976)	-81.3%	(348)	160	(400)
Checks Cleared in LBP	22,145	19,937	18,639	-6.5%	1,942	1,825	1,738
Checks Cleared in FC	34,826	33,881	17,779	-47.5%	2,802	949	1,079
Total Checks Cleared	56,982	53,828	36,425	-32.3%	4,744	2,773	2,818
Fiscal Deficit/Surplus***	(5,837)	(2,709)	374	-	(30)	-	-
Primary Balance***	(287)	(648)	1,519	-	264	-	-
Airport Passengers	8,684,937	2,501,944	4,334,231	73.2%	282,130	344,737	455,087
Consumer Price Index	2.9	84.9	154.8	6,989bps	145.8	201.1	224.4

\$bn (unless otherwise mentioned)	Dec-20	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	% Change*
BdL FX Reserves	18.60	14.20	14.62	14.49	14.05	13.65	(3.9)
In months of Imports	15.10	-	-	-	-	-	-
Public Debt	95.59	98.74	99.22	99.80	100.39	-	-
Bank Assets	188.04	180.28	179.68	178.90	175.60	174.94	(3.0)
Bank Deposits (Private Sector)	139.14	133.04	132.49	131.65	129.53	129.47	(2.7)
Bank Loans to Private Sector	36.17	30.86	30.00	29.18	28.04	27.71	(10.2)
Money Supply M2	44.78	49.85	49.95	50.03	50.10	52.41	5.1
Money Supply M3	132.70	133.21	132.90	132.42	131.62	133.39	0.1
LBP Lending Rate (%)	7.77	7.52	7.65	7.46	7.20	7.14	(38)
LBP Deposit Rate (%)	2.64	1.62	1.53	1.34	1.23	1.09	(53)
USD Lending Rate (%)	6.73	5.87	6.34	6.86	6.75	6.01	14
USD Deposit Rate (%)	0.94	0.30	0.26	0.23	0.20	0.19	(11)

*year-on-year; **figures for 2021 reflect the first quarter of the year ***figures for 2021 reflect the first seven months of the 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 %
Byblos Common	0.82	(1.2)	198,634	4.6%	Oct 2022	6.10	11.75	1,187.40
Solidere "A"	31.50	3.1	70,949	31.5%	Jan 2023	6.00	11.75	487.93
BLOM Listed	3.31	0.3	38,500	7.1%	Apr 2024	6.65	11.25	136.24
Solidere "B"	30.92	0.2	21,896	20.1%	Jun 2025	6.25	11.25	80.14
Audi GDR	1.90	5.0	10,000	2.3%	Nov 2026	6.60	11.63	51.45
HOLCIM	19.05	0.3	50	3.7%	Feb 2030	6.65	11.25	29.47
BLOM GDR	3.31	0.0	-	2.4%	Apr 2031	7.00	11.00	25.78
Audi Listed	1.89	0.0	-	11.1%	May 2033	8.20	10.75	20.99
Byblos Pref. 08	34.99	0.0	-	0.7%	Nov 2035	7.05	11.38	16.60
Byblos Pref. 09	37.99	0.0	-	0.8%	Mar 2037	7.25	11.00	15.25

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

Source: Refinitiv

	Mar 7-11	Feb 28 - Mar 4	% Change	February 2022	February 2021	% Change
Total shares traded	340,029	341,723	(0.5)	1,217,016	8,583,833	(85.8)
Total value traded	\$3,165,929	\$8,092,926	(60.9)	\$15,255,094	\$24,114,080	(36.7)
Market capitalization	\$10.00bn	\$9.89bn	1.09	\$9.81bn	\$7.09bn	38.2

Source: Beirut Stock Exchange (BSE)



Structural reforms to lift economic activity and reduce public finance imbalances

The Institute of International Finance indicated that Lebanon needs to start implementing a comprehensive and credible medium-term reforms program, supported by the International Monetary Fund (IMF), to reestablish financial stability and put the economy on a recovery path. It noted that the extended inaction of successive governments in the face of the economic and financial crisis has widened the credibility gap of the local authorities, and will require significant upfront measures to start restoring confidence in the economy. It considered that, in the absence of an IMF-supported comprehensive adjustment and structural reforms program, the Lebanese economy would settle into a "bad equilibrium" or continue to spiral downward. As such, it presented two scenarios for the outlook on the Lebanese economy.

Under its optimistic scenario, it assumes that the government will be able to implement the urgent economic reforms, and that the latter will be fully endorsed by Parliament and lead to an IMF agreement by June of this year. It added that this scenario would facilitate access to additional financial aid from other multilateral sources. As such, it projected real GDP to grow by 3.5% in 2022 from a very low base, with a strong recovery in the second half of the year following a small contraction in the first half. Further, it anticipated that the authorities will unify the different exchange rates in the local market, possibly at around LBP20,000 per US dollar, and then adopt a floating exchange rate system, which could appreciate further to around LBP17,500 by end-2022.

As a result, it expected the inflationary pressures to ease, helped by the appreciation of the unified exchange rate, with the average inflation rate declining from 140% in 2021 to 98% in 2022. In addition, it expected the fiscal primary balance to shift to a small surplus of 0.5% of GDP in 2022, as revenues increase well above what the 2022 draft budget projects, supported by the unified exchange rate that will apply to all economic and fiscal transactions, as well as by improved tax collection. It said that it is likely that an IMF program would be accompanied by some form or combination of debt rescheduling and restructuring, given that Lebanon is in default on its external debt. It estimated that, under certain debt restructuring scenarios, combined with fiscal reforms, the government's debt level could decline from 212.7% of GDP at the end of 2021 to 89% of GDP at end-2022.

In addition, it forecast the current account deficit to narrow to around 26% of GDP this year from an estimated 29% of GDP in 2021, under the assumption of an improvement in the relations with the Gulf Cooperation Council countries, which would include a lifting of the blockade on Lebanese exports and a stronger recovery in tourism receipts.

In parallel, the IIF's pessimistic scenario assumes the partial implementation of reforms, failure to reach an agreement with the IMF on a comprehensive reforms program, and the lack of adequate external financing. As such, it forecast the economy to remain weak, the parallel exchange rate to resume its depreciation, the inflation rate to increase to 141%, and the official foreign currency reserves to decline to less than \$10bn by the end of 2022. Also, it forecast the fiscal primary balance to post a deficit of 1.6% of GDP, the public debt level to remain well above 200% of GDP, and the current account deficit to widen to 31% of GDP this year.

Main Macroeconomic and Financial Indicators						
	2018	2019	2020e	2021e	2022A*	2022B**
Nominal GDP (LBP trillion)	83.3	80.7	96.3	201.7	395.7	457.6
Nominal GDP (US\$ bn)	55.3	53.6	23.9	21.4	22.8	20.3
Real GDP Growth, % Change	-1.7	-7.2	-25.9	-12.4	3.5	0.8
GDP Deflator, % Change	5.5	4.4	60.8	139.1	89.5	124.6
Consumer Prices, Avge, % Change	6.1	2.9	84.9	154.8	97.7	140.7
Consumer Prices, EoP, % Change	3.9	3.2	145.9	224.4	114.3	134.3
Weighted Exch. Rate, Avge, LBP/\$	1,508	1,584	4,035	9,422	17,320	22,500
Parallel Exch. Rate, Avge, LBP/\$	-	1,625	5,552	16,126	20,350	26,210
Parallel Exch. Rate, EoP, LBP/\$	-	2,054	8,282	27,000	17,500	35,289
Current Act. Balance, % of GDP	-24.2	-21.2	-12.4	-28.8	-25.6	-31.1
Official FX Reserves*** (US\$ bn)	32.5	29.6	18.6	13.6	17.0	9.6
Fiscal Balance, % of GDP	-11.3	-10.9	-4.6	-1.3	-1.2	-3.0
Primary Balance, % of GDP	-1.5	-0.9	-1.5	0.1	0.5	-1.6
Public Debt, % of GDP	154.0	171.1	244.1	212.7	88.9	193.4

*Optimistic Scenario

**Pessimistic Scenario

***Official reserves exclude gold and BdL holdings of government Eurobonds

Source: Institute of International Finance, Byblos Research

SIC follows up on implementation of Circular 154, assessment of AML/CFT framework under way

The Special Investigation Commission (SIC) for fighting money laundering and terrorism financing, which is Lebanon's Financial Intelligence Unit, asked banks operating in Lebanon to submit a list of politically exposed persons (PEPs) who repatriated to Lebanon the required percentage of the money that they transferred abroad, as per the requirements of Banque du Liban's Circular 154. It added that banks have to provide the SIC by the end of March 2022 with the names of the PEPs who did not abide by the circular. It noted that the list should also include the list of PEPs who deposited cash at banks between July 2017 and December 2020. Further, the SIC declared that it has decided to update the know-your-customer (KYC) data for PEPs, and asked banks to inform it in case of suspicions that warrant reporting. The SIC added that it will ask specialized institutions to train the staff of compliance units at Lebanese banks on these issues, and stressed the need for banks to cooperate and participate in the training sessions.

Banque du Liban issued on August 27, 2020 Basic Circular 154 that details the exceptional measures that banks operating in Lebanon have to take. The circular stipulated that, in order to boost the banks' liquidity profiles, Lebanese banks should encourage customers who transferred abroad the equivalent of \$500,000 or more since July 2017, to deposit the equivalent of 15% of the transferred amount in a "special account" with a term maturity of five years. Also, it asked banks to encourage importers to transfer from abroad the equivalent of 15% of the aggregate amount of letters of credits that they opened in any of the previous four years, and to place these funds in a "special account" and block them for five years. Further, it indicated that each bank should ask its chairman, members of the Board of Directors, major shareholders and senior executives, as well as its customers that are identified as "politically-exposed persons" and who transferred abroad more than \$500,000 or their equivalent in other foreign currencies since July 2017, to repatriate 30% of such funds and block them for five years.

In parallel, the SIC stated the following: First, at the start of 2019, the SIC provided to banks operating in Lebanon indicators from the Egmont Group of Financial Intelligence Units to be used to determine operations that could include money gained from corruption, given that corruption is a high-risk crime. Second, based on the BdL circulars that meet international standards and that are related to conducting regular and enhanced due diligence depending on the risk level, the SIC asked banks to update the KYC forms, to determine the actual beneficial owner, and to review the consistency of the updated information with the executed operations, as well as to inform the SIC about any suspicions according to Law 44, especially about crimes related to corruption.

Third, it said that BdL will issue a circular to update the indicators on corruption and to specify the additional measures that banks have to take regarding public sector employees who are considered as PEPs, based on Law 189 dated October 16, 2020. It added that the circular aims to encourage banks to identify and report suspicious operations about corruption in the public sector. Fourth, BdL and the SIC welcomed the formation of the National Authority to Combat Corruption and said that they look forward to cooperating with it within the framework of Law 175 and clauses 19 and 20 of the law that set the operational framework for cooperation in fighting graft.

Fifth, the SIC indicated that the regional body of the Financial Action Task Force for combating money laundering and the financing of terrorism, the MENAFATF, is currently assessing the framework for fighting money laundering and the financing of terrorism in Lebanon. It said that the assessment covers the effectiveness of the operational framework of all the stakeholders in the Lebanese State, including the supervisory and regulatory bodies, enforcement agencies such as customs and security forces, and the relevant judicial authorities. It added that the assessment will cover the authorities at the Ministry of Interior who supervise non-profit organizations, as well as moral persons like the commercial registry. In addition, it will assess financial and non-financial institutions in the private sector, including public notaries, certified accountants and lawyers, among others. It added that, following the assessment, the MENAFATF will issue recommendations and a plan of action for Lebanon to implement in cooperation with the relevant parties.

Government bans exports of food products

The Council of Ministers approved on March 10, 2022 the request of the Ministry of Industry to suspend the exports of food products that are manufactured in Lebanon, unless the manufacturer obtains an export license from the ministry. The Ministry of Industry attributed its decision to the need to ensure the minimum level of food security for the Lebanese population, given that the authorities have to address the prevailing global food crisis through preventive measures. The list of banned products consists of fresh and preserved meat and poultry; all types of meat products; preserved fish products; processed potatoes; fruit and vegetable juices; oils and animal fat; dairy products; ice cream; grain products; carbohydrates; processed animal feed; pet food; bread and fresh-made sweets; biscuits and preserved sweets; industrial sugar; chocolate, cacao and candy; pasta, noodles and other pastries; coffee and tea; spices; distilled alcoholic beverages; wine and beer; mineral water; and non-alcoholic beverages. The ban will affect 1,627 manufacturers in the country.

Figures compiled by the International Monetary Fund's terms-of-trade statistics show that Lebanese exports totaled \$2.74bn in the first 10 months of 2021, constituting a decrease of 20% from \$3.42bn in the same period of 2020, while imports to Lebanon reached \$9bn in the first 10 months of 2021 and increased by 37% from \$12.3bn in the same period of the previous year.

Lebanon ranks in 109th place globally, 11th regionally on prosperity index

The Legatum Institute ranked Lebanon in 109th place among 167 countries globally and in 11th place among 19 Arab countries on its Prosperity Index for 2021. In comparison, Lebanon came in 104th place globally and in 10th place regionally on the 2020 index. Based on the same set of countries in the 2020 and 2021 surveys, Lebanon's global rank regressed by five spots, while its Arab rank retreated by one notch from the 2020 survey.

The institute assesses the prosperity of citizens based on their material wealth and social well-being. The data covers 300 indicators grouped in 12 sub-indices that are Economic Quality, the Investment Environment, Governance, Education, Health, Safety & Security, Personal Freedom, Social Capital, the Natural Environment, Market Access & Infrastructure, Enterprise Conditions, and Living Conditions. The rankings are based on the simple average of the scores of the 12 sub-indices for each country.

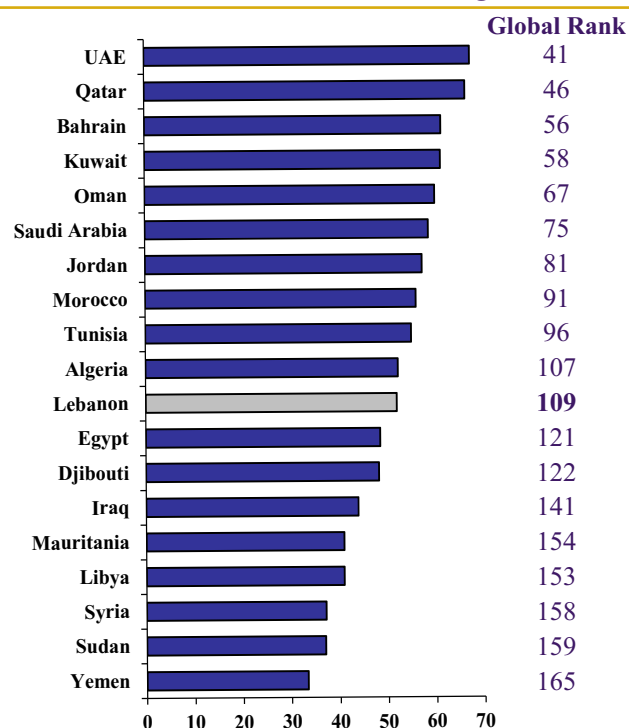
Lebanon received a score of 51.93 points on the 2021 index compared to 53.33 points in the 2020 survey. Lebanon's score was below the global average score of 57.71 points, while it was higher than the Arab countries' average score of 51.4 points. Denmark ranked first globally on the 2021 index, while South Sudan came in last place. Globally, Lebanon has a higher level of prosperity than Honduras, Kenya and Nicaragua, and a lower level than Bolivia, Algeria and Turkmenistan among economies with a GDP of \$10bn or more. Also, Lebanon preceded Egypt, Djibouti, Iraq, Libya, Mauritania, Syria, Sudan and Yemen among Arab countries.

Lebanon ranked ahead of Gabon and Azerbaijan, and came behind Guatemala and Turkey on the Governance Sub-Index. This category measures a country's performance on the effectiveness and accountability of the government, the level of democracy and political participation, and the rule of law. Regionally, Lebanon came ahead of Iraq, Egypt, Mauritania, Libya, Sudan, Syria and Yemen on the sub-index.

Further, Lebanon preceded Zambia and Mozambique, and trailed Angola and the Republic of Congo on the Economic Quality Sub-Index. This category measures how well an economy is equipped to generate wealth in a sustainable manner and with the full engagement of its workforce. Lebanon ranked ahead of only Yemen and Sudan on this category in the Arab region.

In addition, Lebanon preceded Botswana and Vietnam, and came behind Russia and Benin on the Enterprise Conditions Sub-Index. This category measures the degree to which regulations in a country enable businesses to start, compete and expand. Regionally, Lebanon ranked ahead of Tunisia, Djibouti, Iraq, Algeria, Sudan, Mauritania, Yemen, Syria and Libya on this category.

**Prosperity Index for 2021
Arab Countries' Scores & Rankings**



Source: Legatum Institute, Byblos Research

Components of the Prosperity Index for 2021

	Global Rank	Change in Rank*	Arab Rank	Lebanon Score	Global Avge Score	Arab Avge Score
Economic Quality	160	-20	17	31.33	49.73	43.08
Investment Environment	98	-1	11	47.56	53.25	48.30
Governance	128	-2	12	37.37	50.58	38.47
Education	68	-5	5	66.11	58.94	53.33
Health	100	-6	11	69.66	68.85	69.53
Safety & Security	132	3	13	54.61	67.21	58.08
Personal Freedom	108	1	2	51.07	57.49	36.89
Social Capital	165	-12	18	31.36	52.72	47.60
Natural Environment	115	4	1	51.18	55.57	45.13
Enterprise Conditions	81	-2	10	54.66	55.02	52.28
Market Access & Infrastructure	93	-1	11	50.91	54.26	52.57
Living Conditions	72	-7	8	77.31	68.93	71.50

* year-on-year

Source: Legatum Institute, Byblos Research



Occupancy rate at Beirut hotels at 42%, room yields down 57% in 2021

EY's benchmark survey of the hotel sector in the Middle East indicates that the average occupancy rate at four- and five stars hotels in Beirut was 42.3% in 2021 relative to 24.9% in 2020, and compared to an average rate of 49.4% in 14 Arab markets included in the survey. The occupancy rate at Beirut hotels was the ninth highest in the region in the covered period, while it was the second lowest in 2020. Beirut's occupancy rates reached 29% in January, 17% in February, 34% in March, 35% in April, 50% in May, 54% in June, 76% in July, 59% in August, 45.4% in September, 35.3% in October, 30.5% in November, and 40.2% in December 2021. In comparison, they were 34% in January, 42% in February, 14% in March, 2% in April, 5% in May, 4% in June, 12% in July, 39% in August, 43.4% in September, 37% in October, 25% in November, and 40.8% in December 2020. The occupancy rate at hotels in Beirut increased by 17.5 percentage points in 2021. In comparison, the average occupancy rate in Arab markets declined by 11.5 percentage points year-on-year.

Also, the average rate per room at Beirut hotels was \$39 in 2021, representing a drop of 74.8% from \$155 in 2020 and constituting the lowest rate in the region. EY indicated that it based its average rate per room at Beirut hotels on the exchange rate of the Lebanese pound to the US dollar that the hotels used at the time of the client's booking. The average rate per room in Beirut was lower than the regional average of \$138.1 that increased by \$2.36, or by 1.7%, from \$135.7 in 2020. The average rate per room at Beirut hotels reached \$73 in August, \$70 in September, \$68 in October, \$62 in November, and \$73 in December 2021. In comparison, it was \$195 in August, \$158 in September, \$180 in October, \$215 in November, and \$217 in December 2020.

Further, revenues per available room (RevPAR) amounted to \$17 at Beirut hotels in 2021 compared to \$39 in 2020, and were the lowest in the region. EY indicated that it used the same methodology to calculate the REvPAR as it did for the average rate per room. Beirut's RevPAR regressed by 57.2% in 2021 and posted the only decrease regionally. The RevPAR at hotels in Beirut reached \$43 in August, \$32 in September, \$24 in October, \$19 in November, and \$29 in December 2021. In comparison, they were \$76 in August, \$68 in September, \$67 in October, \$54 in November, and \$88 in December 2020. Abu Dhabi had the highest hotel occupancy rate in the region at 77.8% in 2021, while Dubai registered the highest average rate per room at \$272 and the highest RevPAR at \$173 in the covered period.

Opened letters of credit at \$113m for imports and \$109m for exports in 2021

Figures released by Banque du Liban show that the amount of letters of credit (LCs) opened to finance imports to Lebanon totaled \$112.6m in 2021, constituting a decrease of 67.2% from \$342.9m in 2020. The significant decline in the amount of LCs in 2021 is due to stricter requirements imposed by correspondent banks following the repeated downgrades of Lebanon's sovereign ratings in 2020 and to the challenges that importers have faced in meeting these requirements, as well as to the cash payments for goods that foreign companies have imposed on Lebanese importers.

Further, utilized credits for imports reached \$115.5m in 2021, constituting a decline of 74% from \$443.7m in 2020, and were equivalent to 102.6% of opened LCs for imports in 2021. Also, outstanding import credits stood at \$29.3m at the end of 2021 compared to \$64.9m in 2020. In addition, the aggregate amount of inward bills for collection stood at \$212.1m in 2021, down by 31% from \$307.8m in 2020. The outstanding amount of inward bills for collection was \$45.3m at the end of 2021 relative to \$40.5m at end-2020.

In parallel, the amount of documentary LCs opened to finance exports from Lebanon totaled \$108.7m in 2021, constituting a decrease of 42.4% from \$188.5m in 2020. Further, utilized credits for exports reached \$68.9m in 2021, down by 83% from \$408.6m in used credits in 2020, and were equivalent to 63.4% of opened LCs for exports in 2021. Also, outstanding export credits stood at \$101.2m at the end of 2021 compared to \$138.1m a year earlier. In addition, the aggregate amount of outward bills for collection amounted to \$206.1m in 2021 and dropped by 24.3% from \$272.2m in 2020. The outstanding amount of outward bills for collection reached \$199.3m at the end of 2021 relative to \$213m at end-2020.

Hotel Sector Performance in 2021

	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Abu Dhabi	78	58	10.7
Doha	74	73	22.4
Dubai	64	173	89.3
Ras Al Khaimah	59	103	23.4
Riyadh	59	81	16.1
Cairo-City	55	55	100.4
Jeddah	48	100	43.9
Beirut	42	17	(57.2)
Madina	43	46	59.3
Kuwait City	39	90	24.9
Manama	39	50	60.2
Muscat	33	29	3.7
Amman	32	43	50.1
Makkah	27	38	18.6

Source: EY, Byblos Research

Compensation of public-sector personnel absorbs 50% of public revenues in first seven months of 2021

Figures issued by the Ministry of Finance show that the compensation of public-sector personnel totaled LBP5,494bn, or the equivalent of \$3.64bn, in the first seven months of 2021, constituting an increase of 1.2% from LBP5,427 (\$3.6bn) in the same period of 2020. The dollar figures are based on the official exchange rate of the Lebanese pound to the US dollar. Salaries, wages and related benefits accounted for 61.8% of the total, followed by retirement benefits (31%), transfers to public institutions to cover salaries (4.3%), and end-of-service indemnities (3%). Further, end-of-service indemnities declined by 19.5%, transfers to public institutions to cover salaries dipped by 10.6%, and wages and related benefits regressed by 3.8%, while retirement salaries grew by 19% in the covered period. The compensation of public-sector personnel represented the largest component of current primary spending and accounted for 72.4% of such expenditures in the first seven months of 2021 compared to 70.1% in the same period of 2020. It also represented 52.7% of fiscal spending in the first seven months of 2021 relative to 47.4% in the same period of the previous year, while it absorbed 50% of public revenues in the first seven months of 2021 compared to 65.5% of government receipts in the same period of 2020.

In parallel, salaries, wages and related benefits paid to public-sector workers amounted to LBP3,396bn (\$2.25bn), in the first seven months of 2021 compared to LBP3,531bn (\$2.34bn) in the same period of 2020. This category includes basic salaries, employment benefits, allowances, contributions to civil servants' cooperatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly civil and religious judges, and employees at the Parliament. The breakdown of salaries, wages and related benefits paid to public-sector employees shows that allowances decreased by \$102.8m, other payments given to non-military bodies declined by \$25.2m, benefits regressed by \$9.3m, while basic salaries increased by \$47.1m year-on-year. Benefits include payments for transportation, overtime and family-related benefits, while other payments to non-military bodies consisted of the State's contribution to mutual funds and to the National Social Security Fund, as well as bonuses, among others. Basic salaries grew by 2.7% to \$1.77bn in the first seven months of 2021, while allowances declined by 27.4% to \$272m, other payments decreased by 18% to \$114.8m and benefits retreated by 12% to \$67.7m from the first seven months of 2020.

In addition, salaries and benefits of military personnel reached \$1.5bn and accounted for 66.3% of salaries, wages and related benefits paid to public sector workers in the first seven months of 2021. The salaries and benefits of personnel in public education followed with \$420.6m (18.7% of the total), then civil staff with \$218.2m (9.7%), the government's contributions to the Civil Servants Cooperative with \$96.8m (4.3%), and the salaries and benefits of customs employees with \$24.5m (1.1%). Also, the Lebanese Army's salaries and benefits totaled \$942m and represented 63% of the salaries and benefits of military personnel. The salaries of the Internal Security Forces followed with \$411.3m (27.6%), then those of the General Security Forces with \$104.1m (7%), and the salaries of State Security Forces with \$35.2m (2.4%).

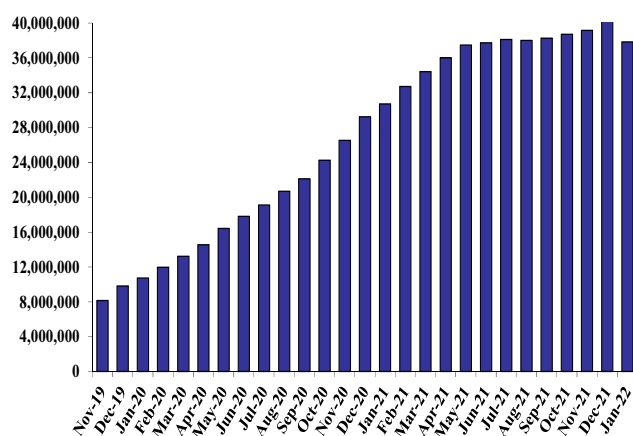
Broad money supply down 2% in January 2022, currency in circulation down 9%

Figures released by Banque du Liban show that money supply M1, which includes currency in circulation and demand deposits in Lebanese pounds, reached LBP54,931bn at the end of January 2022, constituting a decrease of 5.2% from LBP57,937bn at the end of 2021 and a rise of 29.5% from LBP42,425bn at end-January 2021. Currency in circulation stood at LBP37,843bn at the end of January 2022, down by LBP3,672bn or by 8.8% from LBP41,515bn at end-2021, and rose by 23.2% from LBP30,710bn at end-January 2021. Also, demand deposits in local currency stood at LBP17,087bn at the end of January 2022, representing an increase of 4% from the end of 2021 and a rise of 46% from end-January 2021.

In addition, money supply M2, which includes M1 and term deposits in Lebanese pounds, reached LBP75,513bn at the end of January 2022, constituting a decline of 4.4% from LBP79,007bn at the end of 2021 and an expansion of 9% from LBP69,303bn a year earlier. Term deposits in Lebanese pounds totaled LBP20,583bn at the end of January 2022, constituting decreases of 2.3% from LBP21,070bn at end-2021 and of 23.4% from LBP26,879bn at end-January 2021.

Further, broad money supply M3, which includes M2, deposits in foreign currency and debt securities issued by the banking sector, reached LBP196,995bn at the end of January 2022, constituting a retreat of 2% from LBP201,070bn at the end of 2021 and from LBP201,040bn at end-January 2021. Deposits in foreign currency totaled LBP121,139bn at the end of January 2022, down by 0.5% from end-2021 and by 7.8% from a year earlier. Also, debt securities issued by the banking sector amounted to LBP344bn at the end of January 2022 compared to LBP334bn at the end of 2021 and to LBP409bn at end-January 2021. In parallel, M3 declined by LBP4,044bn in January 2022 due to surge of LBP22,309bn in other items, which was partly offset by a drop of LBP11,733bn in claims of the private sector, a decline of LBP10,905bn in the net claims of the public sector, and a downturn of LBP3,715bn in the net foreign assets of deposit-taking institutions.

Currency in Circulation (LBP Millions)



Source: Banque du Liban, Byblos Research

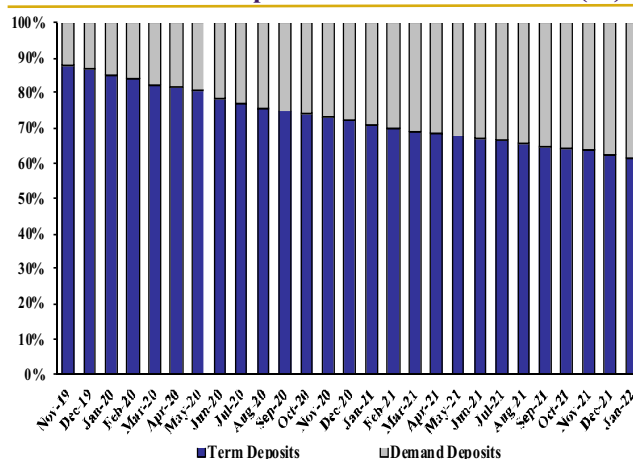
Term deposits account for 62% of customer deposits at end-January 2022

Figures issued by Banque du Liban about the distribution of bank deposits at commercial banks in Lebanon show that aggregate deposits, which include demand deposits and term deposits, stood at \$138.76bn at the end of January 2022, constituting a decrease of \$578.7m, or of 0.4%, from \$139.34bn at the end of 2021.

Total deposits include private sector deposits that reached \$128.9bn, as well as public sector deposits that stood at \$4.97bn and deposits of non-resident financial institutions that amounted to \$4.86bn at the end of January 2022. The dollar figures are converted at the official exchange rate of the Lebanese pound to the US dollar.

Term deposits in all currencies totaled \$85.3bn at the end of January 2022 and declined by \$1.76bn, or by 2%, from \$87.1bn at end-2021; while they accounted for 61.5% of total deposits in Lebanese pounds and in foreign currency at the end of January 2022 relative to a share of 62.5% at the end of 2021.

Breakdown of Deposits at Commercial Banks (%)



Source: Banque du Liban

The decline in term deposits is due to a dip of 6.3% in the term deposits in Lebanese pounds of the public sector, a contraction of 2.5% in the term deposits of the non-resident financial sector, a decline of 2.4% in the term deposits in Lebanese pounds of the resident private sector, a decrease of 1.7% in the foreign currency-denominated term deposits of the resident private sector, and a retreat of 1.5% in the term deposits of non-residents. This was partly offset by an uptick of 0.2% in foreign currency-denominated term deposits of the public sector. The decline in term deposits is due to cash withdrawals and to the migration of funds from term to demand deposits, amid the confidence crisis that started in September 2019. Aggregate term deposits declined by \$81.2bn since the end of September 2019.

Further, foreign currency-denominated term deposits of the resident private sector reached \$48bn and accounted for 34.6% of aggregate deposits at the end of January 2022. Term deposits of non-residents followed with \$16.4bn (11.8%), then term deposits in Lebanese pounds of the resident private sector with \$13.1bn (9.4%), term deposits of the non-resident financial sector with \$3.3bn (2.4%), term deposits of the public sector in Lebanese pounds with \$3.1bn (2.2%), and term deposits of the public sector in foreign currency with \$705.4m (0.5%).

In parallel, demand deposits in all currencies at commercial banks stood at \$53.5bn at the end of January 2022 and increased by \$1.2bn, or by 2.3%, from \$52.3bn at end-2021. They accounted for 38.5% of total deposits at end-January 2022 relative to a share of 37.5% at end-2021. The increase in demand deposits was mainly due to a rise of \$443m in foreign currency-denominated demand deposits of the resident private sector, an expansion of \$392.2m in demand deposits in Lebanese pounds of the resident private sector, and an upturn of \$170m in demand deposits in Lebanese pounds of the public sector.

Demand deposits in foreign currency of the resident private sector totaled \$31.1bn and represented 22.4% of deposits at end-January 2022. Demand deposits in Lebanese pounds of the resident private sector followed with \$10.93bn (7.9%), then demand deposits of non-residents with \$7.84bn (5.7%), demand deposits of the non-resident financial sector with \$1.53bn (1.1%), demand deposits in Lebanese pounds of the public sector with \$913.4m (0.7%), and demand deposits in foreign currency of the public sector with \$253.3m (0.2%).

The latest available figures show that Beirut and its suburbs accounted for 66.4% of private-sector deposits and for 49% of the number of depositors at the end of June 2021, the latest available figures. Mount Lebanon followed with 15% of deposits and 19% of beneficiaries, then South Lebanon with 7% of deposits and 11.5% of depositors, North Lebanon with 6.5% of deposits and 12% of beneficiaries, and the Bekaa with 5% of deposits and 8.4% of depositors.

Non-life premiums up 16% to \$1.4bn in 2021

The annual survey by Al-Bayan magazine of the insurance sector in Lebanon shows that total non-life premiums generated by 38 insurance companies operating in the country reached \$1.36bn in 2021, constituting an increase of 16.2% from \$1.17bn in 2020. In comparison, non-life premiums increased by 2% in 2020, decreased by 3% in 2019, and grew by 3.4% in 2018 and 2.3% in 2017. The survey attributed the rise in non-life premiums to the 100% surge in motor insurance premiums, and to citizens' purchase of health coverage after the National Social Security Fund and government-related insurance entities almost suspended paying beneficiaries' bill due to the deterioration of the Lebanese pound's exchange rate on the parallel market. It noted that the rise in premiums is also due to the increase in workers compensation and engineering insurance coverage for personnel responsible for the reconstruction of the properties that were destroyed by the explosion at the Port of Beirut on August 4, 2020.

Bankers Assurance ranked in first place with \$157.1m in non-life premiums in 2021, followed by Mediterranean and Gulf Insurance and Reinsurance (MEDGULF) with \$127.6m, LIA Assurex with \$115.2m, Fidelity Assurance & Reinsurance with \$101.5m, and GroupMed Insurance with \$92.9m. Byblos Bank's insurance affiliate, Adonis Insurance and Reinsurance Co. (ADIR), ranked in 17th place with non-life premiums of \$26.1m in 2021, unchanged from 2020.

The composition of the top 10 insurers changed from 2020, as the ranking of GroupMed Insurance improved from eighth place in 2020 to fifth place in 2021 and that of Sécurité Assurance advanced from 14th place to 10th place last year. Also, the ranking of Allianz SNA, AXA Middle East, and Libano-Suisse regressed by one spot each to sixth, seventh and eighth place, respectively, in 2021, while the remaining five insurers maintained their rankings. In addition, one out of the top 10 insurers posted a decline in its non-life premium last year, while the premiums of the remaining nine insurers increased in 2021. Further, there were eight declines and four advances in the rankings of the top 20 insurers in Lebanon, while the rankings of eight insurers were unchanged.

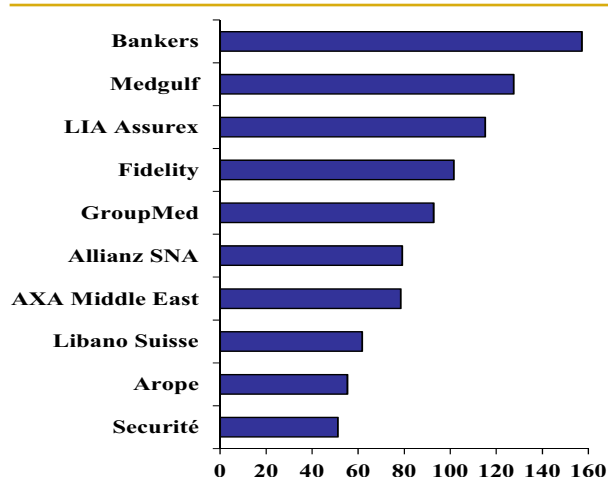
The top 10 insurers accounted for 67.5% of the non-life insurance market in 2021, relative to 66.3% in 2020 and to 64.2% in 2019; while the top 20 insurers represented 90.5% of premiums in 2021 compared to 89.3% in 2020 and 86.5% in 2019.

Import activity of top five shipping firms and freight forwarders up 13% in 2021

Figures released by the Port of Beirut show that the aggregate volume of imports by the top five shipping companies and freight forwarders through the port reached 181,743 20-foot equivalent units (TEUs) in 2021, constituting an increase of 13.1% from 160,624 TEUs in 2020. The five shipping and freight forwarding firms accounted for 82.6% of imports to the Lebanese market in 2021. Merit Shipping handled 56,369 TEUs in 2021, equivalent to 18.7% of the total import freight market to Lebanon. Mediterranean Shipping Company (MSC) followed with 48,319 TEUs (16%), then MAERSK with 39,051 TEUs (13%), Gezairi Transport with 21,117 TEUs (7%), and Lotus Shipping with 16,887 TEUs (5.6%). The five shipping and freight forwarding firms registered increases in import shipping last year, with Lotus Shipping posting a growth of 51.2%, the highest among the top five companies. The import shipping operations of the top five firms through the port increased by 1% in December 2021 from the preceding month.

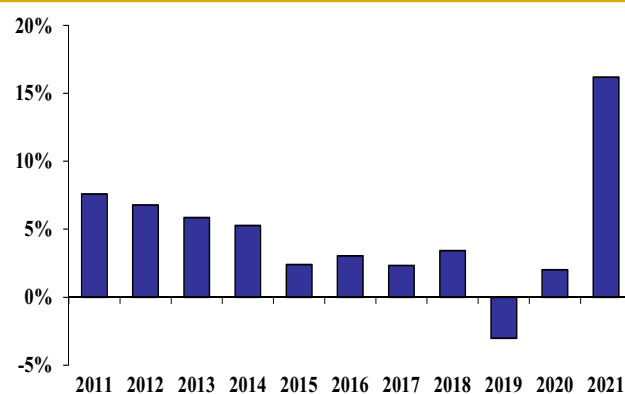
In parallel, the aggregate volume of exports by the top five shipping and freight forwarding firms through the Port of Beirut reached 73,730 TEUs in 2021, constituting an increase of 2.3% from 72,047 TEUs in 2020. The five shipping companies and freight forwarders accounted for 90% of exported Lebanese cargo in 2021. Merit Shipping handled 47,157 TEUs of freight last year, equivalent to 57.5% of the Lebanese cargo export market. MAERSK followed with 12,624 TEUs (15.4%), then Sealine Group with 5,625 TEUs (6.9%), MSC with 4,890 TEUs (6%), and Seanautics with 3,434 TEUs (4.2%). MSC registered a rise of 29.5% in exports in 2021, the highest growth rate among the top five shipping and freight forwarding companies, while Tourism & Shipping posted a drop of 36%, the steepest decline among the five firms. The export-shipping operations of the top five companies decreased by 15.8% in December 2021 from the previous month.

Non-Life Premiums of the Top 10 Insurers in 2021 (US\$m)



Source: Al-Bayan, Byblos Research

Percentage Change in Non-Life Premiums



Source: Al-Bayan, Byblos Research

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



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