

## LEBANON THIS WEEK

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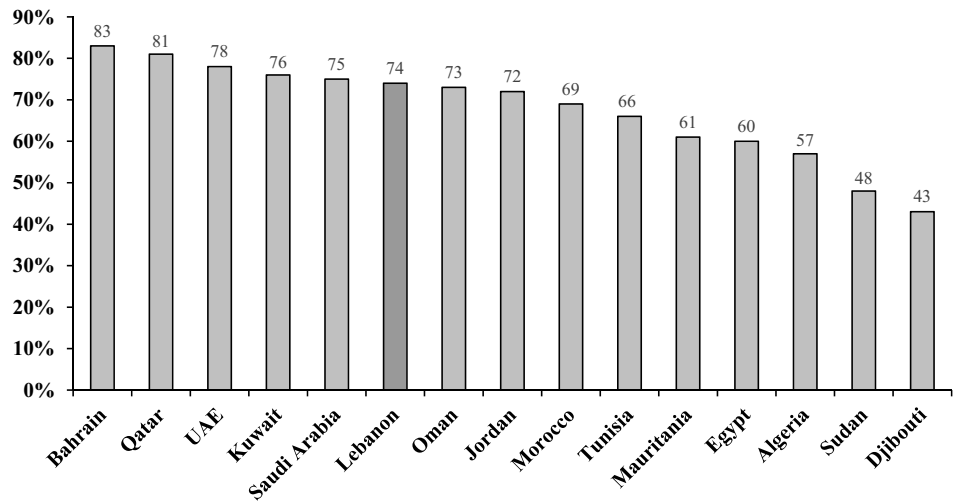
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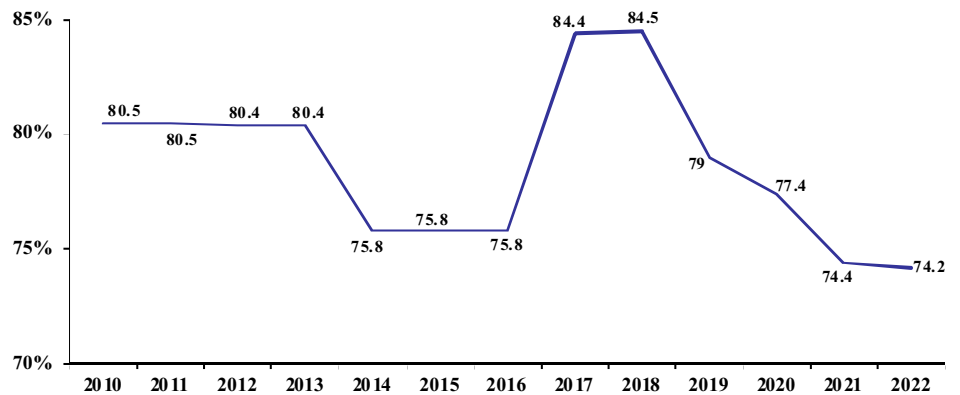
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### Charts of the Week

Performance of Arab Countries in terms of Trade Freedom for 2022\*



Performance of Lebanon in terms of Trade Freedom



\*The Heritage Foundation defines trade freedom as a composite measure of the absence of tariff and non-tariff barriers that affect imports and exports of goods and services  
Source: Heritage Foundation, Trade Freedom Sub-Indicator, Index of Economic Freedom for 2022, Byblos Bank

### Quote to Note

"This is one of the conditions for the European Union's Macro-Financial Assistance to be considered."

*The European Union, on the need for Lebanese authorities to complete all of the prior actions stipulated in the agreement between Lebanon and the International Monetary Fund as a pre-condition for the EU to consider disbursing financial support to Lebanon*

### Number of the Week

**46%:** Percentage of utilized credits by the private sector that have real estate as collateral as at the end of September 2021, 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 %
Solidere "A"	33.57	3.4	180,732	32.5%	Oct 2022	6.10	12.0	1,639.41
BLOM GDR	3.11	(6.0)	133,347	2.2%	Jan 2023	6.00	12.0	563.13
Byblos Common	0.80	(1.2)	46,605	4.4%	Apr 2024	6.65	12.0	137.35
Solidere "B"	34.08	4.7	31,580	21.5%	Jun 2025	6.25	12.0	79.53
BLOM Listed	3.00	(9.1)	10,001	6.2%	Nov 2026	6.60	12.0	51.52
Audi Listed	1.81	0.0	3,000	10.3%	Feb 2030	6.65	12.0	28.83
Audi GDR	1.75	0.0	-	2.0%	Apr 2031	7.00	12.0	24.92
Byblos Pref. 08	30.00	0.0	-	0.6%	May 2033	8.20	12.0	20.05
HOLCIM	22.99	0.0	-	4.3%	Nov 2035	7.05	12.0	16.27
Byblos Pref. 09	37.99	0.0	-	0.7%	Mar 2037	7.25	12.0	14.70

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

Source: Refinitiv

	Apr 4-8	Mar 28 - Apr 1	% Change	March 2022	March 2021	% Change
Total shares traded	422,405	355,559	18.8	1,544,302	2,293,580	(32.7)
Total value traded	\$7,860,140	\$7,004,916	12.2	\$21,527,622	\$39,350,211	(45.3)
Market capitalization	\$10.33bn	\$10.2bn	1.23	\$10.1bn	\$8.9bn	13.5

Source: Beirut Stock Exchange (BSE)



### IMF reaches \$3bn Staff-Level Agreement with Lebanese authorities

The International Monetary Fund (IMF) announced that it has reached a Staff-Level Agreement (SLA) with Lebanese authorities on a comprehensive economic reforms program that could be supported by a \$3bn 46-month Extended Fund Arrangement (EFF). It indicated that the agreement is subject to the approval of the IMF's management and of its Executive Board, based on the timely implementation of all prior actions and the confirmation of financial support from international partners. It said that the EFF aims to support the authorities' reform strategy to restore growth and financial sustainability, to strengthen governance and transparency in the public sector, and to increase social and reconstruction spending. It stressed the need to restructure the external public debt in order to reestablish debt sustainability and to close financing gaps. It noted that concessional financing from Lebanon's international partners will be essential to support the authorities' efforts and to ensure that the program is adequately financed and can meet its objectives.

The IMF stated that the economic reforms program has to include targeted and time-bound measures across five main pillars that consist of reforming state-owned enterprises, especially in the energy sector, to improve service delivery without draining public funds; enhancing transparency and accountability by strengthening the governance, anti-corruption, and the anti-money laundering and combating the financing of terrorism frameworks; reforming public finances to ensure debt sustainability and to provide space for social spending and reconstruction; restructuring the financial sector to restore confidence and support the recovery; as well as establishing a credible monetary and exchange rate system. It added that the decisive policies and reforms in these areas include achieving a primary deficit of 4% of GDP in the 2022 budget, which will be supported by a change in imports valuation for customs and tax purposes at a unified exchange rate. It said that BdL's financing of the budget deficit should stop and that BdL's priorities will be to reduce inflation rates, to focus on rebuilding its foreign currency reserves and to maintain a single market-determined exchange rate, in addition to strengthening BdL's mandate and its governance structure. It considered that authorities have designed an appropriate strategy for the recapitalization needs of the banking sector, but its implementation requires a number of legislative changes to support it. Also, it noted that these initial steps will be followed by other reforms, such as developing comprehensive plans for cost-recovery in the energy sector and the introduction of a new framework for state-owned enterprises to improve their governance and oversight.

Further, the IMF indicated that the Lebanese authorities have agreed to complete the following measures prior to the IMF's Board consideration of the program. First, the Cabinet has to approve a bank restructuring strategy that recognizes and addresses upfront the losses in the sector, while protecting small depositors and limiting recourse to public resources. Second, Parliament has to approve an appropriate emergency bank resolution legislation in order to restructure the banking sector. Third, initiating an externally assisted bank-by-bank evaluation for the 14 largest banks by signing the terms of references with a reputable international firm. Fourth, Parliament has to adjust the banking secrecy law to bring it in line with international standards. Fifth, completing the special purpose audit of the BdL's foreign asset position. Sixth, the Cabinet needs to approve a medium-term fiscal and debt restructuring strategy, in order to restore debt sustainability, instill credibility in economic policies and create fiscal space for additional social and reconstruction spending. Seventh, Parliament has to enact the 2022 budget. Eighth, BdL has to unify the prevailing multiple exchange rates and to implement formal capital controls in order to support this measure.

### Remittance inflows to Lebanon up 6% to \$1.6bn in first quarter of 2021

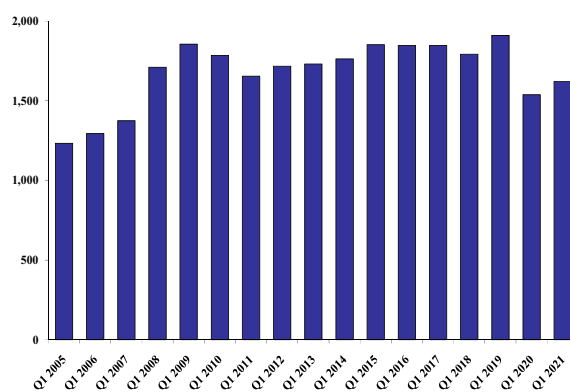
Figures released by Banque du Liban show that the inflows of expatriates' remittances to Lebanon totaled \$1.62bn in the first quarter of 2021, constituting an increase of 5.5% from \$1.54bn in the same quarter of 2020 and a decline of 3.7% from \$1.68bn in the fourth quarter of 2020. The figures include workers' remittances and the compensation of employees, according to the World Bank's definition of remittances. Banque du Liban's figures are the only official data on remittance flows to and from Lebanon.

In addition, remittance inflows to Lebanon averaged \$1.6bn during the first quarter of each year between 2002 and 2021, and registered a high of \$1.97bn in the second quarter of 2019 and a low of \$623m in the first quarter of 2002. The flow of remittances in the first quarter of 2021 reached its third lowest quarterly level since the third quarter of 2007 after reaching \$1.54bn in the first quarter of 2020 and \$1.6bn in the fourth quarter of 2019.

In parallel, remittance outflows from Lebanon amounted to \$551.4m in the first quarter of 2021, constituting a drop of 21% from \$699m in the first quarter of 2020 and by 10.2% from \$614.2m in the fourth quarter of 2020. Remittance outflows averaged \$936.3m in the first quarter of each year between 2002 and 2021, and reached their lowest level in the first quarter of 2021 since the first quarter of 2002.

As such, net remittance inflows to Lebanon totaled \$1.07bn in the first quarter of 2021, constituting a rise of 25% from \$856.5m in the first quarter of 2020 and an uptick of 0.6% from \$1.06bn in the fourth quarter of 2020. They averaged \$666.8m in the first quarter of each year between 2002 and 2021, with a high of \$1.3bn in the fourth quarter of 2004.

Remittance Inflows to Lebanon (US\$m)



Source: Banque du Liban, Byblos Research

### **Association of banks and Banque du Liban welcome agreement with IMF**

The Association of Banks in Lebanon (ABL) declared that it welcomes the signing of the Staff-Level Agreement between the International Monetary Fund (IMF) and Lebanese authorities, and added that the deal constitutes a crucial first step towards the implementation of an IMF program. It considered that the IMF program is the only viable path towards lifting the Lebanese economy out of the acute and unprecedented crisis that it is facing, and is vital to restoring confidence and halting the depletion of the remaining foreign currency reserves in the financial system.

It indicated that the financial gap has widened at an alarming rate since the start of the crisis, due mainly to the policy of subsidizing imported products, to interventions in the foreign exchange market to procure hard currency for imports, and to conversions of Lebanese pound deposits to foreign currencies. It estimated that the delays in addressing the crisis since it erupted two and half years ago has widened the financial gap by an additional \$35bn. As such, the ABL stressed on the need to enact all the necessary legislation and reforms to support the full implementation of the IMF program, including the enactment of the capital controls law, a debt sustainability strategy, a macroeconomic framework, and governance reforms.

Further, the ABL noted that it has not received the details of the government's financial restructuring plan and the distribution of losses among stakeholders. But it added that the banking sector remains open to any solution that resolves the crisis, and expects the plan to include a fair allocation of the losses to the government and Banque du Liban according to the hierarchy of responsibilities, in order to maximize the recovery of the rights of depositors. It added the test will be in the implementation of the ambitious set of the outlined reforms in the program, and that it stands ready to support the government's efforts.

In parallel, Banque du Liban Governor Riad Salamé declared that the Staff-Level Agreement is a positive event for Lebanon and that Banque du Liban cooperated with and facilitated the mission of the IMF. He added that the agreement with the IMF will contribute to the unification of the multiple exchange rates of the Lebanese pound to the US dollar in the market, and hoped that the authorities will meet the IMF's prior actions in order to secure the approval of the IMF's Executive Board for the program.

### **Global investment banks give input on deal with IMF**

Goldman Sachs indicated that the announcement by the International Monetary Fund (IMF) that the latter has reached a staff-level agreement for a \$3bn, 46-month Extended Fund Facility with Lebanese authorities comes as a positive surprise to markets, and is the most positive economic development in Lebanon in the past three years. It considered that the deal constitutes the most significant step to addressing the economic crisis since it erupted in October 2019, and that it potentially paves the way for a resolution of the sovereign default in March 2020.

However, it expressed concerns about the prospects for the successful implementation of the prior actions required by the IMF before its Executive Board approves the program. It considered that each of these actions is economically and politically difficult to implement, especially the restructuring of the banks. It added that a bail-in of depositors is required to restore the viability of the banking sector, given that the government does not intend to recapitalize the banks. It noted that the distribution of losses between the government, the banks' shareholders and depositors is politically challenging and is unlikely to be resolved easily or quickly.

Further, it said that the implementation of the prior actions could face obstacles due to the upcoming political agenda, with parliamentary elections scheduled to take place in May and presidential elections due before the end of October 2022. It considered that the staff-level agreement is more of a "carrot" to motivate the Lebanese political class to implement reforms, rather than a promise of near-term financial assistance. It added that the successful completion of the prior actions will unlock significant benefits for the Lebanese economy and the Lebanese people, including billions of dollars in concessional financing pledged at the CEDRE conference in April 2018.

In parallel, Bank of America (BofA) considered that the IMF staff-level agreement is a blueprint for a transformative recovery of the Lebanese economy, but it cautioned that the implementation of reforms is likely to be challenging. It said that the size of the program, which provides normal rather than exceptional access to IMF financing, as well as the unprecedented transparency in the listing of all prior actions as a condition for the IMF Executive Board to approve the program, suggest that the IMF anticipates implementation risks.

BofA added that the early unification of the multiple exchange rates of the US dollar, which is one of the prior actions, could help preserve official foreign currency reserves and may suggest that the momentum for reforms will pick up to provide a near-term anchor to the exchange rate, especially as it could force accounting recognition of the losses of the financial sector. It estimated that the Cabinet will need to expedite the approval of all IMF required legislation prior to the upcoming May 15 parliamentary elections, so that it delivers them to Parliament for its timely consideration. It also noted that debt restructuring is likely to be complex, and that the framework of a restructuring will probably be determined by the available financing envelop and the medium-term fiscal path.

### **Compensation of public-sector personnel accounts for 54% of public expenditures in first nine months of 2021**

Figures issued by the Ministry of Finance show that the compensation of public-sector personnel totaled LBP7,305bn, or the equivalent of \$4.85bn, in the first nine months of 2021, constituting a decrease of 2.1% from LBP7,461 (\$4.95bn) 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 61.6% of the total, followed by retirement benefits (31.3%), transfers to public institutions to cover salaries (4.4%), and end-of-service indemnities (2.7%). Further, end-of-service indemnities declined by 46.6%, transfers to public institutions to cover salaries dipped by 8.1%, and wages and related benefits regressed by 2.4%, while retirement salaries grew by 7.3% in the covered period. The compensation of public-sector personnel represented the largest component of current primary spending and accounted for 75% of such expenditures in the first nine months of 2021 compared to 72.8% in the same period of 2020. It also represented 54.3% of fiscal spending in the first nine months of 2021 relative to 51.4% in the same period of the previous year, while it absorbed 52.5% of public revenues in the first nine months of 2021 compared to 70.6% of government receipts in the same period of 2020.

In parallel, salaries, wages and related benefits paid to public-sector workers amounted to LBP4,504bn (\$3bn), in the first nine months of 2021 compared to LBP4,615bn (\$3.1bn) 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 \$43.1m, other payments given to non-military bodies declined by \$34.5m, benefits regressed by \$9.95m, while basic salaries increased by \$11.9m 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 0.5% to \$2.3bn in the first nine months of 2021, while other payments decreased by 16% to \$179.8m, and allowances and benefits declined by 10.5% each to \$366.8m and to 84.9m, respectively, from the first nine months of 2020.

In addition, salaries and benefits of military personnel reached \$1.9bn and accounted for 63.7% of salaries, wages and related benefits paid to public sector workers in the first nine months of 2021. The salaries and benefits of personnel in public education followed with \$606.3m (20.3% of the total), then civil staff with \$299.2m (10%), the government's contributions to the Civil Servants Cooperative with \$150m (5%), and the salaries and benefits of customs employees with \$31.2m (1%). Also, the Lebanese Army's salaries and benefits totaled \$1.2bn and represented 63.7% of the salaries and benefits of military personnel. The salaries of the Internal Security Forces followed with \$513.4m (27%), then those of the General Security Forces with \$133.3m (7%), and the salaries of State Security Forces with \$44.4m (2.3%).

### **Government approves construction of two power plants**

The Council of Ministers approved the Ministry of Energy & Water's plan to build, finance and operate two power plants in Zahrani in the south and Deir Amar in the north of the country. The ministry said that each plant will have a production capacity of 825 megawatts and estimated the cost per plant at \$500m to \$600m. It added that the financing of the project will be in the form of soft loans that have a grace period and that carry interest rates of 1% to 2% per year. The construction of the two plants is part of the ministry's strategy to reform the electricity sector.

Last month, the Council of Ministers endorsed the ministry's plan to reform the electricity sector that aims to increase the supply of electricity in order to meet national demand in a cost-effective, fiscally balanced and sustainable way. The ministry 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 Electricité 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.

The ministry 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.



### Broad money supply down 3% in first two months of 2022, currency in circulation down 14.4%

Figures released by Banque du Liban show that money supply M1, which includes currency in circulation and demand deposits in Lebanese pounds, reached LBP53,513bn at the end of February 2022, constituting a decrease of 7.6% from LBP57,937bn at the end of 2021 and a growth of 18% from LBP45,298bn at end-February 2020. Currency in circulation stood at LBP35,547bn at the end of February 2022, as it declined by 14.4% from LBP41,514bn at end-2021 and expanded by 8.7% from LBP32,714bn at end-February 2021. Also, demand deposits in local currency stood at LBP17,965bn at the end of February 2022, representing an increase of 9.4% from the end of 2021 and a rise of 42.8% from end-February 2021. Money supply M1 decreased by 2.6% in February from LBP54,930bn at end-January 2022, with currency in circulation regressing by 6.1%, while demand deposits in local currency expanding by 5.1% month-on-month.

In addition, money supply M2, which includes M1 and term deposits in Lebanese pounds, reached LBP73,618bn at the end of February 2022, constituting a decrease of 6.8% from LBP79,007bn at the end of 2021 and an increase of 2.8% from LBP71,601bn a year earlier.

Term deposits in Lebanese pounds totaled LBP20,104bn at the end of February 2022, as they decreased by 4.6% from LBP21,069bn at end-2021 and by 23.6% from LBP26,303bn at end-February 2021. Money supply M2 declined by 2.5% in February from LBP75,513bn at end-January 2022, with term deposits in local currency regressing by 2.3% month-on-month.

Further, broad money supply M3, which includes M2, deposits in foreign currency and debt securities issued by the banking sector, reached LBP194,331bn at the end of February 2022, constituting decreases of 3.4% from LBP201,070bn at the end of 2021 and of 4.2% from LBP202,916bn at end-February 2021. Deposits in foreign currency totaled LBP120,382bn at the end of February 2022, down by 1.1% in the first two months of the year and by 8.1% from end-February 2021. Also, debt securities issued by the banking sector amounted to LBP331bn at the end of February 2022 compared to LBP334bn at the end of 2021 and to LBP308bn at end-February 2021. Money supply M3 decreased by 1.4% from LBP196,995bn at the end of January 2022, with deposits in foreign currency regressing by 0.6% and debt securities issued by the banking sector declining by 3.7% month-on-month. In parallel, M3 decreased by LBP6,738bn in the first two months of 2022 due to a decline of LBP8,766bn in the net foreign assets of deposit-taking institutions, a retreat of LBP3,544bn in the net claims on the public sector, a decrease of LBP1,776bn in other items and a downturn of LBP1,407bn in the claims on the private sector.

### Real GDP contracts by 34% in third quarter of 2020 due to explosion at Port of Beirut

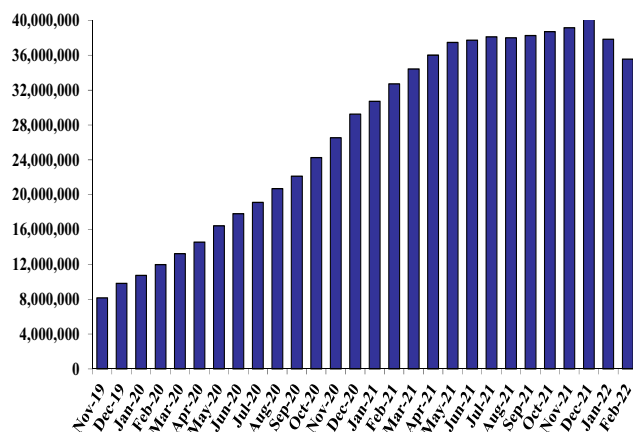
The Central Administration for Statistics (CAS) released national economic data that covers official figures for quarterly gross domestic product (GDP) and its structure and components up until the fourth quarter of 2020, and revised its previous quarterly figures for the 2012-19 period.

The CAS estimated that Lebanon's real GDP contracted by 25.9% in 2020, while it revised its forecast for 2019 to a contraction of 6.9% from a decline of 7.2% previously. Further, it estimated that real GDP shrank by 16% in the first quarter of 2020 from the same period of the previous year, as well as by 32% in the second quarter, by 34% in the third quarter and by 20% in the fourth quarter of 2020.

It based its calculation of the nominal GDP for each quarter of 2020 by using a weighted average exchange rate of LBP2,123 for the first quarter, LBP3,552 for the second quarter, LBP5,209 for the third quarter, and LBP5,635 for the fourth quarter of 2020. It estimated nominal GDP in the first quarter of 2020 at LBP17.9tn or \$8.4bn, LBP19.9tn, or \$5.6bn, in the second quarter, LBP26.3tn, or \$5bn, in the third quarter,

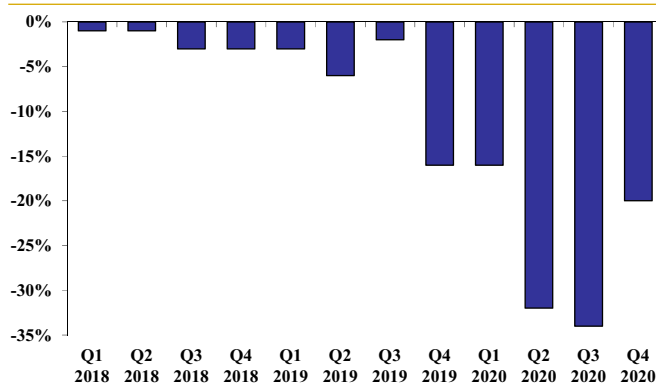
and LBP19.1tn, or \$12.7bn, in the fourth quarter of the year. Further, its revised figures show that real GDP regressed by 3% in the first quarter, by 6% in the second quarter, by 2% in the third quarter and by 16% in the fourth quarter of 2019 from the same quarters of the preceding year. Also, it estimated nominal GDP in the first quarter of 2019 at LBP19.6tn or \$13bn, LBP19.8tn, or \$13.1bn, in the second quarter, LBP21.7tn, or \$14.4bn, in the third quarter, and LBP19.1tn, or \$12.7bn, in the fourth quarter of the year.

Currency in Circulation (LBP Millions)



Source: Banque du Liban, Byblos Research

Lebanon's Quarterly Real GDP (year-on-year % change)



Source: Central Administration of Statistics

### Lebanon ranks 170<sup>th</sup> globally, 16<sup>th</sup> in Arab region in terms of country risk in fourth quarter of 2021

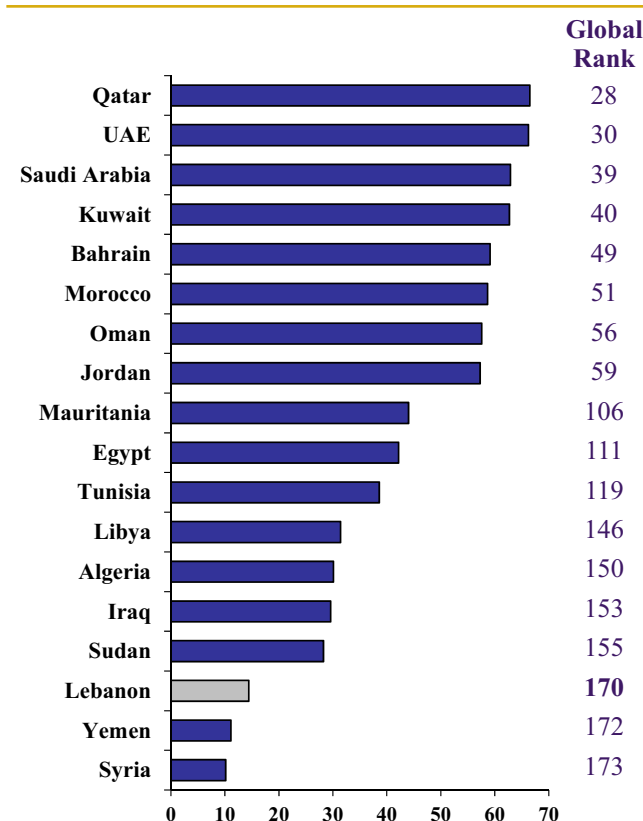
In its quarterly survey of the country risk level in 174 countries, the Euromoney Group ranked Lebanon in 170<sup>th</sup> place worldwide and in 16<sup>th</sup> place among 18 Arab countries in the fourth quarter of 2021. In comparison, Lebanon came in 170<sup>th</sup> place globally and in 16<sup>th</sup> place regionally in the third quarter of 2021, while it ranked in 167<sup>th</sup> place worldwide and in 16<sup>th</sup> place among Arab countries in the fourth quarter of 2020. As such, Lebanon's global rank dropped by three spots year-on-year, while its regional rank was unchanged from the fourth quarter of 2020. The survey evaluates the country risk level of economies by assigning a weight to five categories that cover Political Assessment, Economic Assessment, Structural Assessment, Access to International Capital Markets, and Debt Indicators. A higher score reflects a lower country risk level.

Globally, Lebanon had a lower country risk level than Zimbabwe, Yemen, Syria, and North Korea among economies with a GDP of \$10bn or more. Lebanon's global rank on the Structural Assessment category dropped by 16 spots from the same quarter of 2020 and declined by 22 notches on the Access to International Capital Markets indicator. It also decreased by three spots on the Political Assessment category and regressed by one notch on the Economic Assessment indicator, while its global rank was unchanged year-on-year on the Debt Indicators category.

Lebanon received a score of 14.41 points in the fourth quarter of 2021, constituting a decline of 3.8% from 14.98 points in the third quarter of 2021 and a drop of 27.7% from 19.93 points in the fourth quarter of 2020. Lebanon's score came lower than the global average score of 48.81 points and the Arab countries' average of 42.83 points. Also, its score was lower than the Gulf Cooperation Council (GCC) countries' average score of 62.5 points and the average score of non-GCC Arab countries of 33 points. Further, Lebanon's score dropped by 50.2% on the Access to International Capital Markets indicator, by 31% on the Political Assessment category, by 27.8% on the Debt Indicators category, by 26% on the Economic Assessment indicator, and by 11% on the Structural Assessment category from the fourth quarter of 2020. The survey attributed the drop in the scores of most categories to the government's decision to default on its Eurobond obligations in March 2020 and to the lack of structural reform measures to address the prevailing crises.

In parallel, Lebanon ranked ahead of only Yemen, Syria, North Korea and Zimbabwe worldwide on the Economic Assessment indicator. Also, it preceded only Zimbabwe, Yemen, Syria, North Korea and Somalia globally on the Political Assessment category. In addition, Lebanon fared better than the Gambia and worse than Dominica worldwide; while it ranked ahead of only Sudan, Iraq, Syria and Yemen regionally on the Structural Assessment indicator. Further, it preceded Venezuela and came behind Myanmar globally, while it ranked ahead of only Yemen and Syria among Arab countries on the Access to International Capital Markets indicator. Finally, Lebanon preceded only Mongolia, Mozambique, Venezuela, Cuba, North Korea and Congo worldwide on the Debt Indicators category.

### Country Risk in Arab World in Fourth Quarter of 2021 Arab Countries' Scores & Rankings



Source: Euromoney Group, Byblos Research

### Country Risk Indicators for Lebanon - Fourth Quarter of 2021

	Weighting (%)	Lebanon Score	Arab Rank	Global Rank	Arab Avge Score	Global Avge Score
Economic Assessment	35	4.18	16	170	14.77	16.52
Political Assessment	35	4.22	16	169	14.72	17.29
Structural Assessment	10	3.37	14	149	4.57	5.06
Access to Int'l Capital Mkt	10	1.12	16	163	4.57	5.14
Debt Indicators	10	1.53	18	168	4.20	4.80

Source: Euromoney Group, Byblos Research

### Coincident Indicator down 24% in first 11 months of 2021

Banque du Liban's Coincident Indicator, an index of economic activity in Lebanon, stood at 124.9 in November 2021 compared to 127.8 in the previous month and to 164.5 in November 2020. The indicator averaged 143.4 in the first quarter, 152.6 in the second quarter, 139.03 in the third quarter of 2021, and 126.4 in the October–November 2021 period. The Coincident Indicator, an average of eight weighted economic indicators, regressed by 24.1% in November 2021 from the same month of the previous year, reflecting the deterioration of economic and financial conditions in the country. Also, the indicator regressed by 2.3% from October 2021.

The indicator averaged 141.6 in the first 11 months of 2021, constituting a decline of 21.7% from an average of 180.8 in the same period of 2020 and representing its lowest level in the first 11 months of a year since the 134.9 mark it recorded in 2000. The percentage drop in the indicator is the second lowest in the first 11 months of a year since BdL launched the indicator in 1993. The steepest decline was in the first 11 months of 2020, by 38.7%.

Further, the indicator averaged 144.3 in the 12 months ending November 2021, compared to an average of 147.6 in the 12-month period ending October 2021 and to an average of 187.9 in the 12 months ending November 2020. As a result, the 12-month average coincident indicator decreased by 2.2% month-on-month and dropped by 23.2% year-on-year.

In parallel, the indicator declined eight times and improved 20 times in the month of November since 1993. It averaged 256.6 in 2012, 264.7 in 2013, 273.2 in 2014, 278.6 in 2015, 289.5 in 2016, 305.9 in 2017, 307.7 in 2018, 292.6 in 2019, and 180.2 points in 2020.

### Deterioration in construction activity slows down in third quarter of 2021

Banque du Liban's quarterly business survey about the opinions of business managers shows that the balance of opinions for general construction activity reached -67 in the third quarter of 2021, unchanged from the previous quarter and compared to -75 in the third quarter of 2020. The balance of opinions for general construction activity in the third quarter of 2021 constituted the fourth lowest quarterly level since the first quarter of 2004, after reaching -81 in the second quarter of 2020, -75 in the first and third quarters of 2020, and -69 in the fourth quarter of 2020. The results are attributed to the economic crisis, as well to disruptions to economic activity as a result of the lockdown measures that the government imposed since March 2020 to contain the outbreak of the COVID-19 pandemic, delays in implementing reforms, and to the impact of the explosion at the Port of Beirut on August 4, 2020.

The business survey covers the opinions of managers of construction 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 for construction activity was -67 in the third quarter of 2021 compared to -65 in the preceding quarter and to -74 in the third quarter of 2020. It reached its seventh lowest quarterly level since the first quarter of 2004. The balance of opinions about construction activity was -12 in the North, -53 in the South, -95 in Beirut & Mount Lebanon, and -100 in the Bekaa. Also, the balance of opinions about public works stood at -66 in the third quarter of 2021 compared to -68 in each of the second quarter of 2021 and in the third quarter of 2020. The opinions about the level of public works reached -18 in the North, -80 in the South, -88 in the Bekaa, and -94 in Beirut & Mount Lebanon.

In addition, the balance of opinions about the portfolio of projects was -96 in the third quarter of 2021 relative to -87 in the preceding quarter and to -92 in the third quarter of 2020, and reached its sixth lowest quarterly level since the first quarter of 2004. The balance of opinions about the portfolio of projects was -92 in the Bekaa, -93 in the South, -98 in Beirut & Mount Lebanon, and -100 in the North. Further, the balance of opinions about construction costs reached +43 in the third quarter of 2021, compared to +57 in the preceding quarter and +79 in the third quarter of 2020.

In parallel, the balance of opinions about investments in the sector was 17% in the third quarter of 2021, unchanged from the preceding quarter, and relative to 15% in the third quarter of 2020. The balance of opinions about investments was null in Beirut & Mount Lebanon, 4% in the Bekaa, 10% in the South, and 73% in the North. Also, the balance of opinions about the number of employees in the sector was -87 in the third quarter of 2021 compared to -79 in the preceding quarter and to -82 in the third quarter of 2020, and reached its sixth lowest quarterly level since the first quarter of 2004. The balance of opinions about the number of employees was -78 in Beirut & Mount Lebanon, -82 in the Bekaa, and -100 in each of the North and the South.

<b>Construction and Public Work Activity: Evolution of Opinions</b>				
<b>Aggregate results</b>	<b>Q3-18</b>	<b>Q3-19</b>	<b>Q3-20</b>	<b>Q3-21</b>
General activity	-52	-46	-75	-67
Construction	-51	-47	-74	-67
Public works	-42	-51	-68	-66
Portfolio of projects	-59	-61	-92	-96
Construction costs	4	-11	79	543
Investments (% of yes)	20%	17%	15%	17%

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

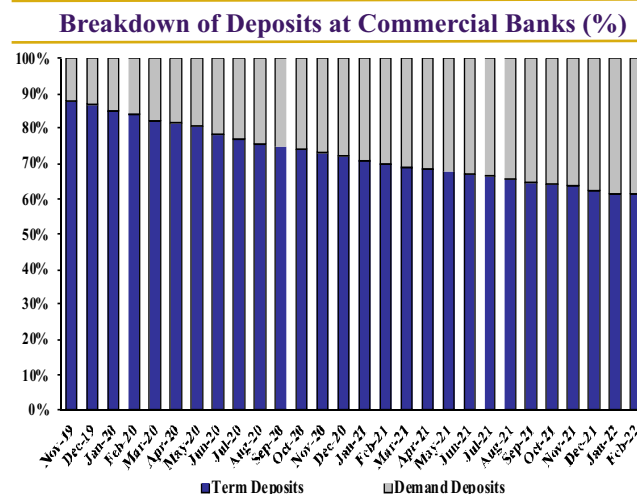


### Term deposits account for 61% of customer deposits at end-February 2022

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 \$138bn at the end of February 2022, constituting a decrease of \$1.3bn, or of 1%, from \$139.34bn the end of 2021.

Total deposits include private sector deposits that reached \$128.6bn, deposits of non-resident financial institutions that amounted to \$4.8bn, and public sector deposits that stood at \$4.6bn at the end of February 2022. The dollar figures are converted at the official exchange rate of the Lebanese pound to the US dollar.

Term deposits in all currencies reached \$83.9bn at the end of February 2022 and declined by \$3.1bn, or by 3.7%, from \$87.1bn at end-2021; while they accounted for 60.8% of total deposits in Lebanese pounds and in foreign currency as at end-February 2022 relative to a share of 62.5% at the end of 2021.



Source: Banque du Liban

The decline in term deposits is due a dip of 12.5% in the term deposits in Lebanese pounds of the public sector, a decrease of 4.9% in the term deposits in Lebanese pounds of the resident private sector, a decline of 3.3% in the foreign currency-denominated term deposits of the resident private sector, a retreat of 2.3% in the term deposits of non-residents, and a contraction of 1.8% in the term deposits of the non-resident financial sector. This was partly offset by an uptick of 0.7% 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 \$82.6bn since the end of September 2019.

Further, foreign currency-denominated term deposits of the resident private sector reached \$47.7bn and accounted for 34.3% of aggregate deposits at the end of February 2022. Term deposits of non-residents followed with \$16.3bn (11.8%), then term deposits in Lebanese pounds of the resident private sector with \$13bn (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 \$2.9bn (2.1%), and term deposits of the public sector in foreign currency with \$709m (0.5%).

In parallel, demand deposits in all currencies at commercial banks stood at \$54.1bn at the end of February 2022 and increased by \$1.82bn, or by 3.5%, from \$52.3bn at end-2021. They accounted for 39.2% of total deposits at end-February 2022 relative to a share of 37.5% at end-2021. The increase in demand deposits was mainly due to a rise of \$1bn in demand deposits in Lebanese pounds of the resident private sector, and an expansion of \$723.4m in foreign currency-denominated demand deposits of the resident private sector. This was partly offset by a downturn of \$15.1m in demand deposits in Lebanese pounds of the public sector.

Also, demand deposits in foreign currency of the resident private sector totaled \$31.7bn and represented 23% of deposits at end-February 2022. Demand deposits in Lebanese pounds of the resident private sector followed with \$11.9bn (8.7%), then demand deposits of non-residents with \$7.9bn (5.7%), demand deposits of the non-resident financial sector with \$1.5bn (1.1%), demand deposits in Lebanese pounds of the public sector with \$727.6m (0.5%), and demand deposits in foreign currency of the public sector with \$266.5m (0.2%).

Beirut and its suburbs accounted for 66.2% of private-sector deposits and for 49.2% of the number of depositors at the end of September 2021, the latest available figures. Mount Lebanon followed with 15.2% of deposits and 18.8% of beneficiaries, then South Lebanon with 7.1% of deposits and 11.4% of depositors, North Lebanon with 6.6% of deposits and 12.2% of beneficiaries, and the Bekaa with 4.9% of deposits and 8.5% of depositors.

## Life premiums down 14% to \$369m in 2021

The annual survey by *Al-Bayan* magazine of the insurance sector in Lebanon indicates that total life premiums generated by 29 providers of life insurance in the Lebanese market reached \$369.3m in 2021, constituting a decline of 13.8% from \$428.4m in 2020. In comparison, life premiums decreased by 13% in 2020 and by 9.2% in 2019, while they increased by 4% to \$541.5m in 2018, and by 4.3% to \$521m in 2017.

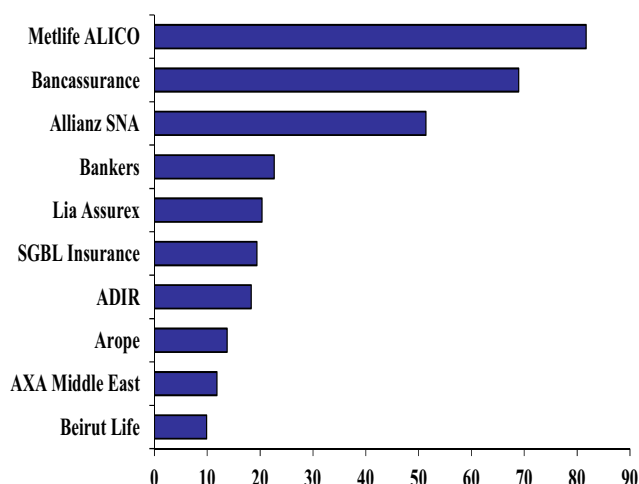
MetLife ALICO maintained its market lead with \$81.7m in life premiums, equivalent to a 22% market share in 2021. Bancassurance followed with \$69m for a market share of 18.7%, then Allianz SNA with \$51.4m (14%), Bankers Assurance with \$22.7m (6.%), and LIA Assurex with \$20.4m (5.5%) as the top five providers of life insurance in Lebanon. Adonis Insurance and Reinsurance Co. (ADIR), Byblos Bank's affiliate, came in seventh place with life premiums of \$18.3m in 2021.

In parallel, five life insurance providers posted increases in their premiums last year, with Amana Insurance registering a double-digit growth rate of 31%. In contrast, 21 firms saw a decline in their life premiums in 2021 and three insurers did not register any growth in their life premiums. Amana Insurance and Sécurité Assurance were the only insurance companies out of the top 10 life insurers to post an increase in their life premiums in 2021.

The composition of the top 10 insurers was unchanged from 2020. Also, Bankers Assurance's rank improved by four spots to fourth place, while the ranking of LIA Assurex, SGBL Insurance, Arope, and ADIR regressed by one spot each to fifth, sixth, seventh and eighth place, respectively. The ranks of the remaining five insurers were unchanged year-on-year.

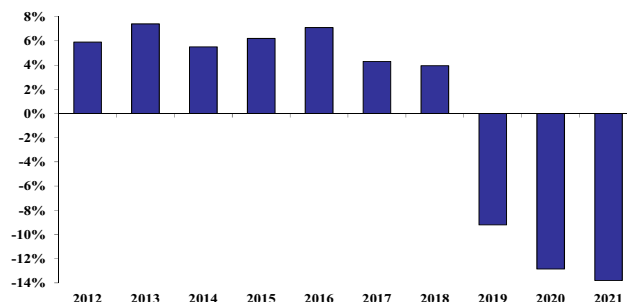
The survey shows that the top 10 providers of life insurance in Lebanon accounted for 86.2% of the life insurance market, while the top 20 firms generated 98% of life premiums in 2021. Further, the top five life insurers in Lebanon accounted for 66.4% of the market in 2021, up from 62.9% in 2020. Their premiums totaled \$269.3m in 2021, \$268m in 2020, \$314.8m in 2019, \$346.3m in 2018, and \$337.1m in 2017.

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



Source: *Al-Bayan, Byblos Research*

## Nominal Growth in 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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