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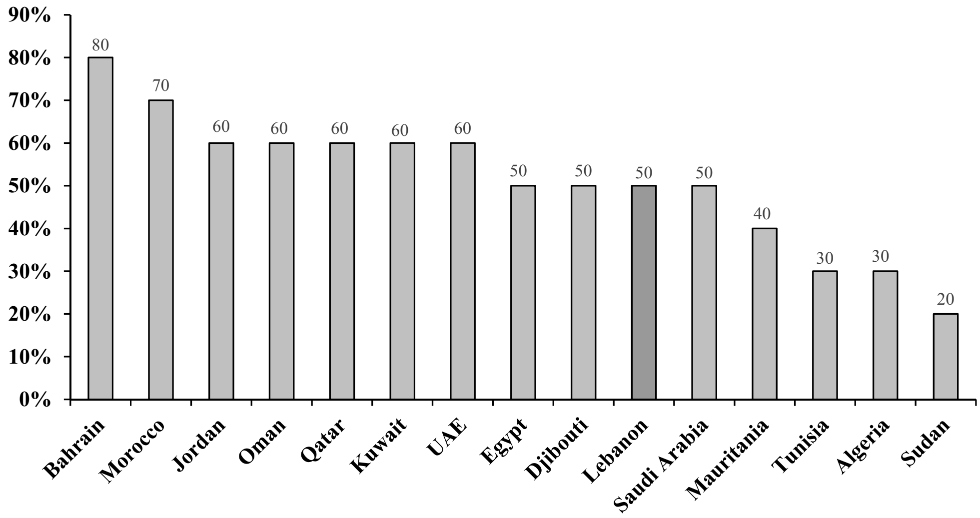
LEBANON THIS WEEK

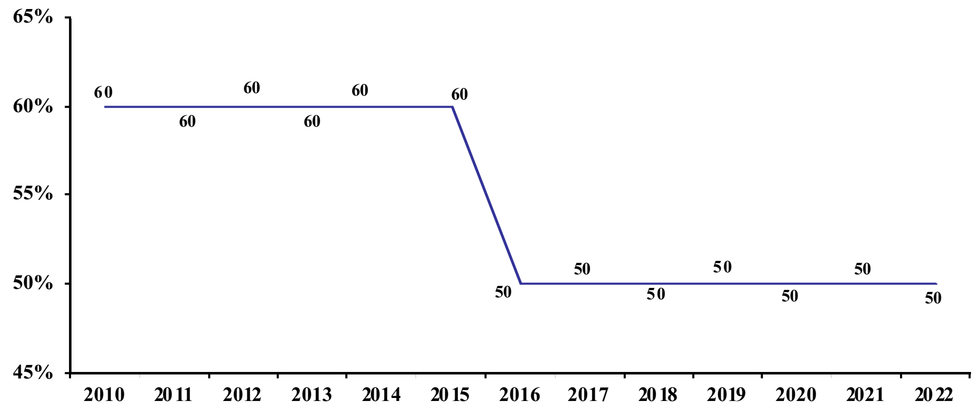
In This Issue

Charts of the Week

Performance of Arab Countries in terms of Financial Freedom for 2022*



Performance of Lebanon in terms of Financial Freedom



**The Heritage Foundation defines financial freedom as a measure of investment and financial independence from government control and from interference in the financial sector*
Source: Heritage Foundation, Financial Freedom Sub-Indicator, Index of Economic Freedom for 2022, Byblos Bank

Quote to Note

"Banque du Liban will be guided by the overarching objectives of creating the conditions for disinflation, including by moving to a new monetary regime."

The International Monetary Fund, on the upcoming change of Banque du Liban's monetary policy priority towards "inflation targeting"

Number of the Week

54.3%: The compensation of public sector personnel as a percentage of total public expenditures in the first nine months of 2021, according to the Ministry of Finance

Lebanon in the News

$m (unless otherwise mentioned)	2019	2020	2021	% Change*	Dec-20	Nov-21	Dec-21
Exports	3,731	3,544	3,887	9.6%	295	391	616
Imports	19,239	11,310	13,641	20.6%	1,232	1,179	1,269
Trade Balance	(15,508)	(7,765)	(9,754)	25.6%	(937)	(788)	(653)
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)	302	-	(30)	-	-
Primary Balance**	(287)	(648)	1,706	-	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 nine 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
Solidere "A"	33.72	0.4	94,490	32.8%
Byblos Common	0.80	0.0	25,000	4.4%
BLOM Listed	3.01	0.3	20,005	6.3%
Solidere "B"	34.10	0.1	16,415	21.5%
Audi Listed	1.81	0.0	15,240	10.4%
HOLCIM	21.50	(6.5)	1,880	4.1%
Byblos Pref. 08	30.00	0.0	1,000	0.6%
BLOM GDR	3.11	0.0	-	2.2%
Audi GDR	1.75	0.0	-	2.0%
Byblos Pref. 09	37.99	0.0	-	0.7%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Oct 2022	6.10	12.25	1803.81
Jan 2023	6.00	12.25	582.67
Apr 2024	6.65	12.25	137.57
Jun 2025	6.25	12.25	79.27
Nov 2026	6.60	12.25	51.24
Feb 2030	6.65	12.25	28.62
Apr 2031	7.00	12.25	24.73
May 2033	8.20	12.25	19.89
Nov 2035	7.05	12.25	16.13
Mar 2037	7.25	12.25	14.57

Source: Refinitiv

	Apr 11-14	Apr 4-8	% Change	March 2022	March 2021	% Change
Total shares traded	175,530	422,405	(58.4)	1,544,302	2,293,580	(32.7)
Total value traded	$4,042,298	$7,860,140	(48.6)	$21,527,622	$39,350,211	(45.3)
Market capitalization	$10.29bn	$10.33bn	(0.35)	$10.1bn	$8.9bn	13.5

Source: Beirut Stock Exchange (BSE)

Lebanon's agreement with IMF is opportunity to start reforms process

The Institute of International Finance (IIF) considered that the Staff-Level Agreement between the International Monetary Fund (IMF) and Lebanese authorities constitutes a first step in the right direction, and that the Lebanese authorities and political parties should seize this opportunity and start implementing the needed reforms, including the prior actions, in order to prevent the further deterioration of the crisis and to put the economy on the path towards a sustained recovery.

It indicated that the agreement, which is subject to the approval of the IMF's management and its Executive Board, is based on the timely implementation of a series of prior actions. It considered that structural changes to the political system, along with new and reform-minded representatives in Parliament, would facilitate the passage of comprehensive economic reforms.

Also, it said that the restructuring of the financial system, which is the main component of the prior actions, will be the most challenging part of the IMF program. It suggested that the assets and liabilities of "bad banks" should be consolidated following the audit of the top 14 banks as part of the prior actions, with small depositors receiving their deposits in full, and all remaining assets auctioned off as part of safeguarding the funds of larger depositors, which would lead to the emergence of a healthier banking system.

Further, it stated that Lebanon urgently needs to reform and regulate the electricity, telecommunications, and water sectors, as well as the ports systems and other state-owned entities, and to consider privatizing these utilities. In addition, it called on Lebanese authorities to adopt a floating exchange rate system and to unify the prevailing multiple exchange rates in order to restore macroeconomic stability, strengthen investment and growth, boost the competitiveness and transparency of the economy, eliminate the distortions associated with multiple currency practices, and reduce rent-seeking activities.

In parallel, the IIF considered that there is a 50% chance that Lebanese authorities will start implementing economic reforms in the coming two months, especially the IMF's list of prior actions. It said that this would pave the way for the IMF's management and Executive Board's approval of the $3bn Extended Fund Facility by June 2022. Under this scenario, it projected real GDP to grow by 2.5% in 2022, supported by a stronger recovery in the second half of the year, and to accelerate to 8% in 2023, driven by investments and net exports. Further, it expected the inflationary pressures to ease, helped by the appreciation of the unified exchange rate, with the average inflation rate declining from 156% in 2021 to 98% in 2022 and 20% in 2023. In addition, it forecast the current account deficit to widen to around 23% of GDP this year from an estimated 20% of GDP in 2021, due to higher global commodity prices, which will raise the import bill substantially. It expected that financial flows from the IMF, the World Bank and from concessional loans pledged at the CEDRE conference, would help increase Banque du Liban's foreign exchange reserves in the near term.

It said that the IMF program could also put Lebanon's elevated public debt on a firm downward path through the implementation of fiscal measures and the restructuring of the debt. It considered that prioritizing and sequencing the reform measures will be crucial, and added that the short-term priorities should focus on achieving macroeconomic stability, including a relatively stable unified market-determined exchange rate, significantly lower inflation rates, and narrower fiscal and current account deficits. The IIF noted that its projections are subject to downside risks in case of delays in the implementation of reforms and shortfalls in donor support.

Main Macroeconomic and Financial Indicators

	2019	2020	2021e	2022f
Nominal GDP (LBP trillion)	80.2	96.4	212.6	425.2
Nominal GDP (US$ bn)	53.2	24.7	22.6	26.4
Real GDP Growth, % Change	-6.9	-25.9	-9.9	2.5
GDP Deflator, % Change	4.1	62.3	144.8	95.1
Consumer Prices, Avge, % Change	2.9	84.9	154.8	97.7
Weighted Exch. Rate, Avge, LBP/$	1,584	4,035	9,422	16,120
Parallel Exch. Rate, Avge, LBP/$	1,625	5,552	16,126	22,000
Current Act. Balance, % of GDP	-21.4	-12.0	-20.4	-22.7
Official FX Reserves* (US$ bn)	29.6	18.6	13.6	15.8
Fiscal Balance, % of GDP	-11.0	-4.2	-1.3	-4.3
Primary Balance, % of GDP	-0.5	-1.0	0.1	-3.1
Public Debt, % of GDP	160.0	243.8	201.7	88.2

**Official reserves exclude gold and BdL holdings of government Eurobonds*
Source: Institute of International Finance

Lebanon's agreement with IMF to support reforms momentum

S&P Global Ratings indicated that the Staff-Level Agreement between Lebanese authorities and the International Monetary Fund (IMF) on a four-year $3bn Extended Fund Facility (EFF) could trigger the momentum for reforms. But it considered that meeting the prior actions attached to the agreement, which is a precondition to obtain the approval of the IMF Executive Board, will be challenging for Lebanon due to persisting political dysfunction and weak governance. It said that Lebanon has to implement a set of reforms in order to rebuild the economy and improve governance, which constitute a prerequisite for the IMF's approval of the $3bn EFF. It added that reforms consist of the Cabinet's approval of a medium-term fiscal and debt restructuring strategy, a banking sector-restructuring plan, an external evaluation of the 14 largest banks, Parliament's approval of the 2022 budget, a bank resolution legislation, a revised bank secrecy law based on international standards, a completion of an audit of Banque du Liban's (BdL) foreign assets position, and BdL's unification of the multiple exchange rates in the economy.

Further, it considered that some of the prior actions are likely to be difficult to implement, such as developing a restructuring plan for the banking sector. It stated that the restructuring of the banking sector and potentially also of BdL will be closely linked to the government's debt restructuring strategy, given that BdL and commercial banks hold about 40% and 25% of the public debt, respectively. Moreover, it considered that the unification of the multiple exchange rates is a complex task amid weak economic conditions.

In parallel, it indicated that advancing the reforms agenda will be difficult due to the longstanding constraints on the institutional framework in Lebanon stemming from the fragmented political landscape. Further, it expressed skepticism about the Lebanese authorities' ability to implement all of the prior actions before the upcoming parliamentary elections and that they will not achieve enough progress on reforms by the end of 2022 for the IMF Executive Board to approve the EFF. However, it stated that the Lebanese authorities' clear enumeration and acknowledgement of the reform measures that they need to take is a positive sign, and noted that Lebanon's engagement in an IMF program will create a policy anchor for the authorities and could unlock further bilateral and multilateral support that are crucial for stabilizing macroeconomic conditions in the country and rebuilding the economy.

IMF deal underscores urgency of reforms to access external support

Moody's Investors Service considered that the Staff-Level Agreement between the International Monetary Fund and Lebanon constitutes a response by international financial institutions to the government's urgent need for external support in order to halt the country's economic and social decline, given Lebanon's weak track record of reform implementation capacity.

It indicated that Lebanon's access to the IMF's Extended Fund Facility of $3bn is tied to a deep restructuring of the government's external commercial debt, as well as to sufficient creditor participation in order to restore the sustainability of the public debt. It said that the external commercial debt totals $37.9bn and includes $8.6bn in accumulated payment arrears since the previous government defaulted on its sovereign Eurobonds in March 2020. It added that the list of prior actions in the agreement includes measures that the IMF has advocated for a long time, but that have not been implemented due to the political deadlock.

The agency considered that the losses accruing to the holders of Eurobonds will exceed 65% of their face value, based on the government's effective debt servicing capacity in foreign currency and on the estimated haircut to restore the debt's sustainability. It said that Lebanon's sovereign rating of 'C', which is the lowest level on the agency's rating scale, reflects this assessment.

It added that it is unlikely to upgrade the sovereign rating before the debt restructuring, given the extent of the prevailing macroeconomic, financial and social challenges, and the significant reform execution risks. It noted that the key drivers of the country's debt dynamics would need to evolve in a way that ensures the debt's sustainability in the future, with these drivers including a return to economic growth, access to funding, and the ability to generate and sustain large primary surpluses.

Government approves usage of Special Drawing Rights for wheat, medicine and electricity

The Council of Ministers announced that it has approved the utilization of Special Drawing Rights (SDRs) to cover the cost of importing $16m of wheat and $13m of medicine for incurable diseases, as well as $60m in Treasury advances to the state-owned Electricité du Liban. SDRs are the International Monetary Fund's (IMF) unit of account that is pegged to a basket of currencies.

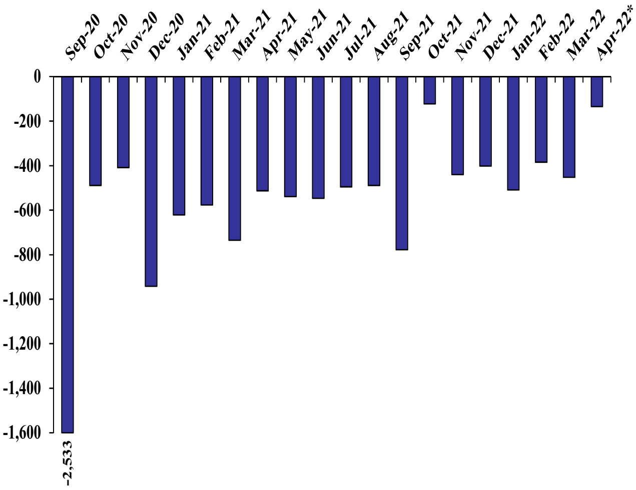
The IMF allocated to Lebanon 607.2 million in SDRs on August 23, 2021, which were equivalent to $864m at the time. It said that the SDRs would support the country's foreign currency reserves, as well as help address many of the urgent needs of the Lebanese people. Further, the IMF deposited in the account of Banque du Liban on September 16, 2021 the equivalent of $1.135bn in SDRs, which consisted of $275m in SDRs for 2009 and $860m in SDRs for 2021 based on the SDR's value of US$1.426 on September 10, 2021. As such, following the new SDRs allocation that came into effect in September 2021, Lebanon's net cumulative allocation reached 800.47 million SDRs. According the IMF's latest available figures, one SDR was equal to US$1.3657 on April 18, 2022, which means that Lebanon's SDRs were equivalent to $1.093bn as at April 18, 2022.

In parallel, the IMF considered that the allocation of the new SDRs is not going to resolve Lebanon's long-term structural and systemic problems. It called on Lebanese authorities to use the SDRs responsibly and wisely, and to deploy them in a way that would optimize their benefits for the country and its people. It noted that the deployment of the SDRs is a sovereign decision of each country, but considered that the Lebanese people has the right to know how the SDRs will be utilized. As such, it called on domestic and international partners to help ensure the transparency and accountability of the deployment of Lebanon's new SDRs allocation.

Banque du Liban's foreign assets at $16.3bn, gold reserves at $18.15bn at mid-April 2022

Banque du Liban's (BdL) interim balance sheet reached $165.23bn on April 15, 2022, constituting an increase of 1.2% from $163.2bn at the end of 2021 and an increase of 7.5% from $153.7bn a year earlier. Assets in foreign currency totaled $16.3bn at mid-April 2022, representing a decrease of $1.48bn, or of 8.3%, from the end of 2021 and a drop of $5.56bn (-25.4%) from $21.91bn at mid-April 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.

Change in Gross Foreign Currency Reserves (US$m)



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

BdL's assets in foreign currency, excluding Lebanese Eurobonds, stood at $11.32bn at mid-April 2022 and regressed by $134.9m (-1.2%) from $11.45bn at the end of March 2022 and by $237m (-2.1%) from $11.55bn at mid-March 2022. They dropped by $1.48bn (-11.6%) from $12.8bn at the end of 2021 and by $5.56bn (-33%) from $16.8bn at mid-April 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.

In parallel, the value of BdL's gold reserves reached a peak of $18.15bn at mid-April 2022, constituting increases of $1.5bn (+9.4%) from the end of 2021 and of $2bn (+12.6%) from $16.1bn at mid-April 2021. Also, the securities portfolio of BdL totaled $41.8bn at mid-April 2022, and increased by $548m (+1.3%) from the end of 2021 and by $988.8m (+2.4%) from $40.8bn a year earlier. In addition, loans to the local financial sector totaled $13.4bn, regressing by 2% from the end of 2021 and by 4.6% from mid-April 2021. Further, the deposits of the financial sector stood at $110.3bn at mid-April 2022 and grew by $2.8bn from a year earlier. In addition, public sector deposits at BdL reached LBP15,203bn ($10.1bn) at mid-April 2022, as they increased by $2.3bn from the end of 2021 and surged by $4.6bn from a year earlier.

Port of Beirut processes 374,000 tons of freight in January 2022

Figures released by the Port of Beirut show that the port processed 374,000 tons of freight in January 2022, constituting decreases of 12.2% from 426,000 tons in December 2021 and of 0.3% from 375,000 tons in the same month of 2021. Imported freight amounted to 320,000 tons in the first month of the year, down by 8% from 348,000 tons in December 2021 and by 2.1% from 327,000 tons from January 2021, while it accounted for 85.5% of the total freight volume processed through the port. In addition, the volume of exported cargo reached 54,000 tons in January 2022, constituting a drop of 30.8% from 78,000 tons in the preceding month and an increase of 12.5% from 48,000 tons in January 2021. It represented 14.4% of aggregate freight in the covered month. A total of 89 vessels docked at the port in the first month of 2022, representing decreases of 3.3% from 92 ships in December 2021 and of 6.3% from 95 vessels in January 2021.

In parallel, the Port of Tripoli processed 265,366 tons of freight in January 2022, constituting increases of 124,779 tons, (+88.8%) from 140,587 tons in December 2021 and of 97,657 tons (+58.2%) from 167,709 tons in January 2021. Imported freight amounted to 206,163 tons in January 2022, representing a jump of 106,409 tons (+106.7%) from 99,754 tons in December 2021 and an increase of 97,624 tons (+90%) from 108,539 tons in January 2021. Imports accounted for 77.7% of freight activity in the covered month. In parallel, the volume of cargo that was exported through the port reached 59,203 tons in the first month of the year, constituting an expansion of 18,370 tons (+45%) from 40,833 tons in December 2021 and a marginal increase of 33 tons (+0.06%) from 59,170 tons in January 2021. It represented 22.3% of total freight in January 2022. Further, revenues generated through the Port of Tripoli reached $9.7m in January 2022, up by 36.5% from $7.1m in December 2021 and by 506.6% from $1.6m in January 2021. A total of 69 vessels docked at the port in January 2022, constituting increases of 23.2% from 56 ships in December 2021 and of 38% from 50 vessels in January 2021.

Occupancy rate at Beirut hotels at 39%, room yields up 61% in first two months of 2022

EY's benchmark survey of the hotel sector in the Middle East indicates that the average occupancy rate at four- and five-star hotels in Beirut was 39% in the first two months of 2022 relative to 23.6% in the same period of 2021, and compared to an average rate of 55% in 14 Arab markets included in the survey. The occupancy rate at Beirut hotels was the 11th highest in the region in the first two months of the year, while it was the 10th highest in the first two months of 2021. The occupancy rates at Beirut hotels reached 34.7% in January and 43.8% in February 2022, compared to 29.5% in January and 17.1% in February 2021. The occupancy rate at hotels in Beirut increased by 15.4 percentage points in the first two months of 2022 from the same period of 2021. In comparison, the average occupancy rate in Arab markets expanded by 15.7 percentage points in the covered period.

Hotel Sector Performance in First Two Months of 2022

	Occupancy Rate (%)	RevPAR (US$)	RevPAR % change
Abu Dhabi	86	70.2	41.8
Dubai	77	290.0	91.0
Riyadh	73	123.2	73.5
Madina	72	70.7	77.1
Cairo-City	68	78.0	244.6
Ras Al Khaimah	64	115.9	52.9
Doha	58	57.7	-11.8
Makkah	47	45.8	136.6
Muscat	44	56.7	212.5
Jeddah	43	73.0	-21.4
Beirut	**39**	**26.8**	**60.9**
Kuwait City	35	86.5	11.0
Manama	34	49.4	110.7
Amman	30	41.9	135.2

Source: EY, Byblos Research

Also, the average rate per room at Beirut hotels was $68.6 in the first two months of 2022, decreasing by 2.7% from $70.6 in the same period of 2021 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 $151.3 that increased by $22.9, or by 17.8%, from $128.4 in the same period of 2021. The average rate per room at Beirut hotels reached $69 in January and $66.7 in February 2022, compared to $73 in January and $81.8 in February 2021.

Further, revenues per available room (RevPAR) amounted to $26.8 at Beirut hotels in the covered period compared to $16.6 in the first two months of 2021, 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. The RevPAR at Beirut hotels grew by 61% in the first two months of 2022 and posted the ninth highest increase regionally. The RevPAR at hotels in Beirut reached $24 in January and $29.3 in February 2022, compared to $21 in January and $14 in February 2021. Abu Dhabi had the highest hotel occupancy rate in the region at 85.8% in the first two months of 2022, while Dubai registered the highest average rate per room at $378.2 and the highest RevPAR at $290 in the covered period.

Skilling Up Lebanon project to provide digital skills to Lebanese youth

The Beirut Digital District (BDD) and the World Bank launched Skilling Up Lebanon, a program that aims to provide digital skills to nearly 9,500 young males and females in Lebanon over a three-year period, in order to prepare them for the local, regional and global jobs of the future. The program is part of Skilling Up Mashreq, a regional World Bank Group initiative that aims to facilitate the upskilling of young males and females in Iraq, Jordan and Lebanon by providing market-relevant digital technology skills and attracting key global technology firms to invest in the region.

The World Bank said that Skilling Up Lebanon builds on the success of several pilot projects revolving around digital coding and digital skills certification that brought together the BDD, the World Bank and content providers. It pointed out that the project will start with an awareness campaign targeting students about the changes happening in the labor market and new opportunities in digital and creative sectors, and will also establish an internship program. In parallel, it noted that the BDD will work closely with major employers in Lebanon and in the region to identify gaps in digital skills, in order to develop a series of micro-credential trainings linked to industry certification to fill those gaps, which would help youth in Lebanon to find better employment opportunities.

Further, the World Bank considered that the workforce in Lebanon is not well-equipped digitally, given that the Lebanese educational system is lagging in adapting to the needs of today's fast-paced world and does not focus enough on market-relevant digital skills. In parallel, it indicated that the number of digital jobs will continue to rise exponentially worldwide in the next few years, given that technologies have an impact on the operations of firms through creating new business models and expanding job opportunities.

The Skilling Up Lebanon initiative is co-funded by the Dutch Ministry of Foreign Affairs under the PROSPECTS Program and by the Lebanon Syrian Crisis Trust Fund (LSCTF). PROSPECTS is a global partnership between the Government of the Netherlands, the International Finance Corporation, the International Labour Organization, the United Nations High Commissioner for Refugees, the United Nations Children's Fund and the World Bank that aims to improve the access of host communities and forcibly displaced people to education, social protection and decent work. The LSCTF is a multi-donor trust fund established in 2014 by the World Bank to mobilize grants to help mitigate the impact of the Syrian crisis on Lebanese host communities.

Number of new construction permits up 447% in first two months of 2022

Figures issued by the Orders of Engineers & Architects of Beirut and of Tripoli show that the two orders issued 3,889 new construction permits in the first two months of 2022, constituting a surge of 447% from 711 permits in the same period of 2021. The jump in the number of construction permits in the covered period is due in part to low base effects related to activity in the first two months of 2021 due to the lockdown measures and the closure of public sector departments in response to the outbreak of COVID-19 in the country. The rise is also due to the anticipated sharp increase in the fees for new permits in 2022 after Parliament enacts the draft budget for the year. Also, the orders of engineers issued 2,163 permits in February 2022, representing an increase of 25.3% from 1,726 permits in January 2022 and a surge of 293.3% from 550 permits in February 2021.

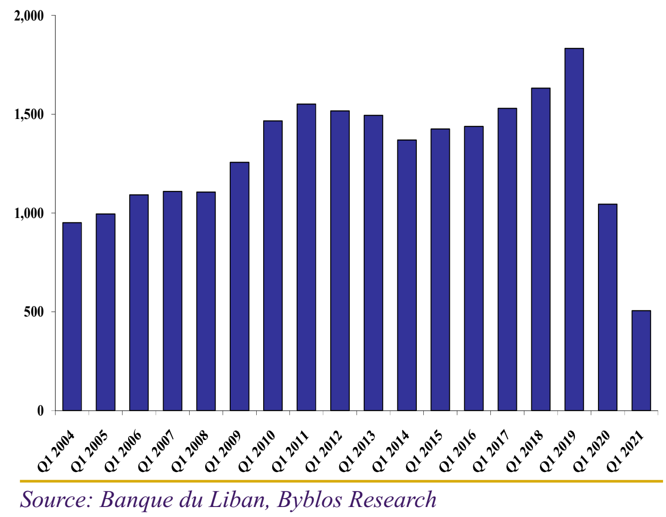
Mount Lebanon accounted for 32.4% of the number of newly-issued construction permits in the first two months of 2022, followed by the South with 25.5%, the North with 15.7%, the Nabatieh area with 14.4%, the Bekaa region with 7.3%, and Beirut with 1.9%. The remaining 2.8% were permits issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon. The number of new construction permits issued for regions located in the South surged by 667.4%, followed by permits in Mount Lebanon (+659%), the Nabatieh area (+560%), Beirut with (+508.3%), the Bekaa region (+466%), permits issued outside northern Lebanon (+400%), and in the North (+148%) in the covered period.

Further, the surface area of granted construction permits reached 1.98 million square meters (sqm) in the first two months of 2022, constituting a jump of 457.6% from 354,780 sqm in the same period last year. In comparison, the surface area of granted construction permits decreased by 34% in the first two months of 2021 from the same period of the preceding year. Also, the surface area of granted construction permits reached 1.21 million sqm in February 2022, increasing by 59.2% from 763,400 sqm in January 2022 and surging by 325.3% from 285,689 sqm in February 2021. Mount Lebanon accounted for 583,534 sqm, or for 29.5% of the total surface area of granted construction permits in the covered period. The North followed with 459,180 sqm (23.2%), then the South with 436,453 sqm (22.1%), the Nabatieh area with 199,741 sqm (10.1%), the Bekaa region with 186,245 sqm (9.4%), and Beirut with 14,295 sqm (0.7%). The remaining 98,941 sqm, or 5% of the total, represent the surface area of permits that the Order of Engineers & Architects of Tripoli issued for regions located outside northern Lebanon. The surface area of new construction permits issued for regions located outside northern Lebanon jumped by 789% in the first two months of 2022, followed by surface areas in the South (+772.7%), then Beirut (+693.3%), Mount Lebanon (+630.7), the Nabatieh area (+507.8%), the Bekaa region (+419.4), and the North (+220.6). In parallel, the latest available figures show that cement deliveries totaled 1.8 million tons in the first 11 months of 2021, constituting a rise of 3.2% from 1.75 million tons in the same period of 2020.

Tourism receipts down 52% to $505m in first quarter of 2021

Figures released by Banque du Liban (BdL) show that revenues generated from tourism activity in Lebanon, defined by BdL as "Travel Services", totaled $505m in the first quarter of 2021, constituting a drop of 51.6% from $1bn in the first quarter of 2020 and a decline of 9.6% from $558.8m in the preceding quarter. Also, they decreased by 72.4% in the first quarter of 2021 from the same quarter of 2019. Tourism receipts in the first three months of 2021 reached their third lowest quarterly level since BdL started publishing detailed figures about the balance of payments in 2002, after reaching $279.3m and $470m in the second and third quarters of 2020, respectively. Tourism receipts in Lebanon averaged $1.2bn during the first quarter of each year between 2002 and 2021, and registered a high of $2.88bn in the third quarter of 2019. BdL's figures are the only official data on receipts from tourism activity in Lebanon and on tourism spending abroad by Lebanese citizens. The subdued level of tourism revenues mirrors the low number of tourist arrivals in the first quarter of 2021, as a result of the outbreak of the coronavirus worldwide and the related closure and lockdown measures in Lebanon and most countries around the world.

Tourism Receipts (US$m)



Source: Banque du Liban, Byblos Research

In parallel, outbound tourism spending from Lebanon reached $272m in the first quarter of 2021, and decreased by 71.7% from $961.4m in the same quarter of 2020 and by 13% from $312.7m in the fourth quarter of 2020. Also, they dropped by 79.3% from the first quarter of 2019. Outbound tourism spending in the covered period reached its third lowest quarterly level since BdL started publishing data about travel services in 2002, and averaged $1bn per quarter since the first quarter of 2002. The drop in outbound tourist spending is in line with the decline in the number of Lebanese tourists abroad. The latter decreased due to the lockdown measures and closure of airports in several countries, including Lebanon, in response to the outbreak of the coronavirus worldwide, as well as to restrictions on the withdrawals of foreign currency banknotes from Lebanese banks and to the reduced spending limits on credit cards in foreign currencies.

As such, net tourism receipts totaled $233m in the first quarter of 2021, constituting a surge of 180.2% from $83.2m in the same quarter of 2020 and a decrease of 5.3% from $246.1m in the fourth quarter of 2020. Also, they decreased by 55.3% in the first quarter of 2021 from the same quarter of 2019. Net tourism receipts in Lebanon in the first quarter of 2021 constituted their seventh lowest quarterly level between 2002 and 2021, while they averaged $559.6m per quarter since the first quarter of 2002.

Consultative Group calls on authorities to adopt reform plan

The fourth Consultative Group (CG) meeting of the Reform, Recovery and Reconstruction Framework (3RF) stressed the importance for Lebanese authorities to embark on a roadmap to lift the economy out of the current crisis by reaching an agreement with the International Monetary Fund and implementing a comprehensive economic stabilization and recovery program. It considered that delays in the decision-making of Lebanese authorities are leading Lebanon towards a protracted and escalating humanitarian crisis. It added that a strong social protection program with local buy-in will help safeguard Lebanon's human and social capital. The CG consists of the European Union, the United Nations, the Lebanese government, and Lebanese civil society organizations.

The CG said that the international community and global civil society organizations are committed to continuing to support the Lebanese people, but considered that this cannot be a substitute to the role of the Lebanese government and Parliament. It urged the authorities to develop a common vision across the political spectrum to start restoring confidence in the economy. Also, it called on authorities and Lebanese civil society to take ownership of the roadmap that the 3RF and its international partners have offered, both at the strategic level in the CG and at the technical level through the 3RF Working Groups.

Further, it called on countries and international organizations to maintain and increase the financial and technical support for the 3RF in 2022 and beyond, and noted that disbursements to sectors under the 3RF, such as social protection, education, healthcare, housing, waste management and economic opportunities, reached $204m in 2021.

In parallel, the CG urged the authorities to immediately adopt and implement a credible, comprehensive and equitable reforms plan that includes a debt restructuring strategy that would achieve short-term fiscal space and medium-term debt sustainability, a comprehensive restructuring of the financial sector, a new monetary policy framework that would restore confidence and stability in the exchange rate, a fiscal adjustment aimed at regaining confidence in fiscal policy, and growth-enhancing reforms. It asked for the urgent mobilization of adequate resources to enable the National Anti-Corruption Commission to carry out its tasks.

Also, the CG welcomed the progress to establish a unified registry that covers all social assistance programs and the implementation of the social assistance and services programs. It called for the urgent adoption of the draft National Social Protection Strategy to ensure that social coverage is not limited to financial assistance and that it includes social insurance, financial access to basic services, social welfare, economic inclusion, and labor activation. It considered that this strategy will pave the way for a new social contract between the Lebanese people and the State and will avoid a protracted humanitarian crisis.

In December 2020, the World Bank, the United Nations and the European Union launched an 18-month 3RF for Lebanon, in response to the August 4 explosion at the Port of Beirut. The 3RF aims to achieve three central goals in response to the August 4 blast, which are to re-establish a sustainable livelihood for the population affected by the explosion; to rebuild critical assets, services and infrastructure; as well as to implement reforms to support reconstruction and improve governance in the public sector. The initiative builds on the identified needs and recommendations of the World Bank's Rapid Damage and Needs Assessment that estimated the physical damage from the blast at between $3.8bn and $4.6bn.

Corporate Highlights

Import activity of top five shipping firms and freight forwarders up 16% in January 2022

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 18,046 20-foot equivalent units (TEUs) in January 2022, constituting an increase of 16% from 15,548 TEUs in January 2021. The five shipping and freight forwarding firms accounted for 91.6% of imports to the Lebanese market in January 2022. Merit Shipping handled 6,983 TEUs in January 2022, equivalent to 26.7% of the total import freight market to Lebanon. Mediterranean Shipping Company (MSC) followed with 6,096 TEUs (23.3%), then MAERSK with 2,423 TEUs (9.3%), Gezairi Transport with 1,732 TEUs (6.6%), and El Fil Shipping with 812 TEUs (3%). The five shipping and freight forwarding firms registered increases in shipping activity from the same month last year, with Gezairi Transport posting a rise of 46.5%, the highest among the five companies. Also, the import shipping operations of the top five firms through the port increased by 24% in January 2022 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 6,394 TEUs in January 2022, constituting an increase of 52.8% from 4,185 TEUs a year earlier. The five shipping companies and freight forwarders accounted for 99.7% of exported Lebanese cargo in January 2022. Merit Shipping handled 5,067 TEUs of freight in the first month of the year, equivalent to 79% of the Lebanese cargo export market. MAERSK followed with 522 TEUs (8%), then MSC with 364 TEUs (5.7%), Gezairi Transport with 284 TEUs (4.4%), and Sealine Group with 157 TEUs (2.4%). The five shipping and freight forwarding firms registered increases in export shipping from the same month of last year, with Sealine Group posting a rise of 87%, the highest among the five shipping firms. The export-shipping operations of the top five companies decreased by 3.3% in January 2022 from the previous month.

Bank Audi issues $350m in subordinated debt

Bank Audi sal declared that it will issue 350,000 bonds on April 19, 2022 at a price of $1,000 each for a total of $350m in subordinated debt. The bank's Ordinary General Assembly that was held on February 12, 2021 approved the issuance of five-year subordinated bonds that the bank will use to exchange the bonds that it issued in 2013. The bank said that Banque du Liban approved the issuance of the new subordinated notes in April 2022. It added that the current holders of subordinated notes that the bank issued in 2013 are the only ones authorized to subscribe to the new bonds. The new subordinated notes are due in 2027 and carry an annual coupon rate of 5% to be paid quarterly. The bank will also disburse for one time only interest payments of 10% of the bonds' par value on the date of the issuance. The bank issued $350m in subordinated bonds in 2013 with a term maturity of 10 years that carry an annual coupon rate of 6.75%.

The bank's most recent financial figures show that it posted unaudited consolidated net losses of $107.3m in the first nine months of 2021, and had total assets of $28bn, net loans & advances of $5.25bn and deposits of $20.8bn at end-September 2021.

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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