

LEBANON THIS WEEK

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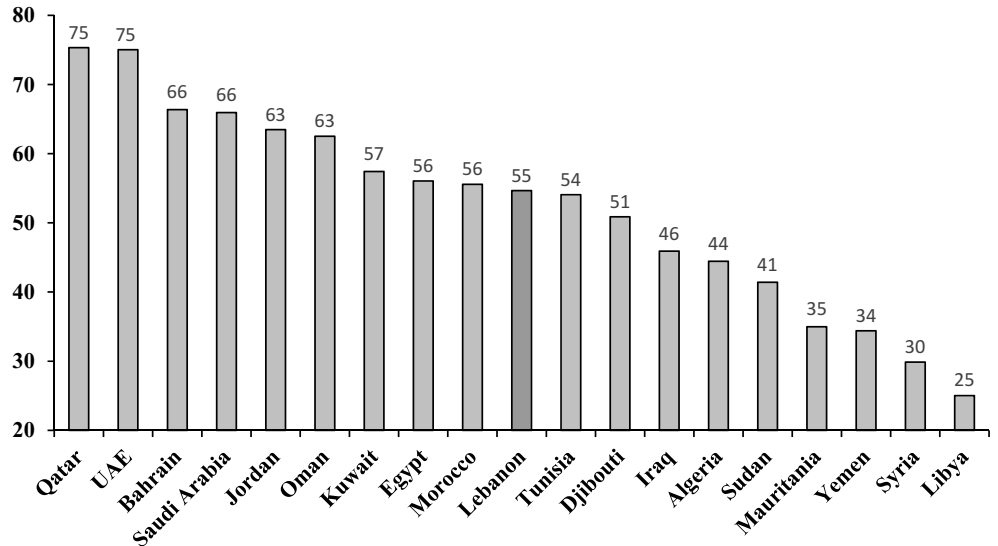
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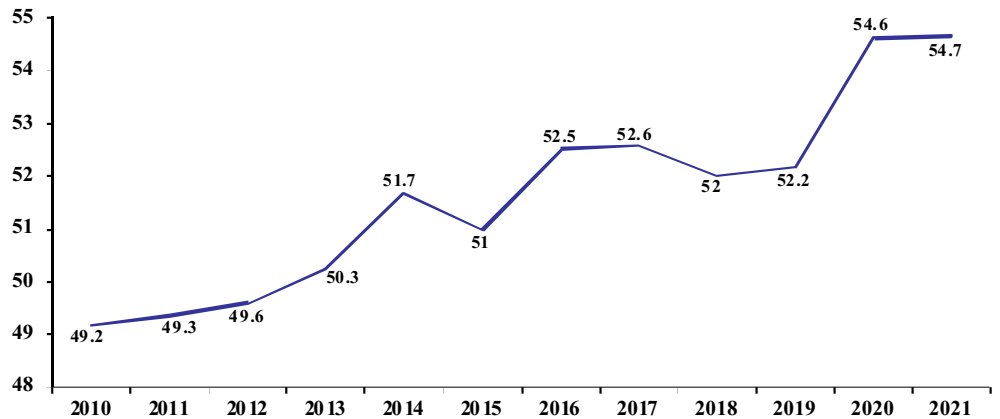
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Charts of the Week

Performance of Arab Countries in terms of Enterprise Conditions for 2021*



Performance of Lebanon in terms of Enterprise Conditions



*The Legatum Institute defines enterprise conditions as the quality of regulations that enable businesses to start, compete and expand in a country

Source: Legatum Institute, Enterprise Conditions Sub-Indicator, Prosperity Index for 2021, Byblos Bank

Quote to Note

"Strong reforms and policies are needed to address the crisis."

Dr. Gerry Rice, Director of the Communications Department at the International Monetary Fund, on the need for Lebanese authorities to begin the implementation of the multi-year structural reforms program

Number of the Week

\$5bn: Value of the Lebanese-pound denominated component of Lebanon's public debt at the parallel market rate of LBP20,000 to the dollar at the end of 2021, according to the Government's Economic Recovery Plan

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	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Solidere "A"	62.75	(3.9)	255,851	41.8%	Oct 2022	6.10	9.0	3,111.11
Byblos Common	0.75	(3.8)	90,000	2.8%	Jan 2023	6.00	9.0	1,116.58
BLOM GDR	2.60	0.00	87,835	1.3%	Apr 2024	6.65	9.0	180.10
Solidere "B"	65.00	2.10	67,306	28.1%	Jun 2025	6.25	9.0	98.21
BLOM Listed	2.85	0.00	45,000	4.1%	Nov 2026	6.60	9.0	61.79
Audi GDR	1.57	(15.1)	6,000	1.3%	Feb 2030	6.65	9.0	33.76
Audi Listed	1.68	(1.2)	5,074	6.6%	Apr 2031	7.00	9.0	29.06
Byblos Pref. 08	24.99	(16.7)	500	0.3%	May 2033	8.20	9.0	23.26
HOLCIM	23.80	0.5	292	3.1%	Nov 2035	7.05	9.0	18.80
Byblos Pref. 09	37.98	0.0	261	0.5%	Mar 2037	7.25	9.0	16.96

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

Source: Refinitiv

	May 30 - Jun 3	May 23-27	% Change	May 2022	May 2021	% Change
Total shares traded	558,119	597,790	(6.6)	1,659,677	2,276,392	(27.1)
Total value traded	\$20,375,504	\$25,623,963	(20.5)	\$50,621,005	\$34,870,716	59.5
Market capitalization	\$15.02bn	\$15.26bn	(1.55)	\$14.78bn	\$9.18bn	61.0

Source: Beirut Stock Exchange (BSE)



Banque du Liban issues guidelines about bank accounts of public officials

Banque du Liban issued on May 27, 2022 Basic Circular 163 addressed to banks about monitoring the accounts of public officials. First, it stipulated that the clauses of the circular cover public officials, as well as the employees of the Ministry of Finance, of Lebanese customs, of the real estate registration departments, and of the vehicles registration centers, in addition to the president and members and employees of administrative committees, as well as of independent and regulatory authorities of all grades and categories. It excluded fourth-grade employees and those that carry lower grades, as well as members of the educational system at public and vocational training schools, and at the Lebanese University.

Second, it asked banks, based on their risk-based approach, to conduct enhanced due diligence on the salary-domiciliation accounts of public officials who have funds that do not originate from their work, such as deposits or transfers resulting from real estate or commercial investments, or from sources that are not related to the scope of their work. It said the due diligence should include the strict monitoring of the accounts and operations, and regular follow ups on the customer relationship; getting the approval of upper management to conduct operations for the account holder; conducting periodic reviews of the customer relationship, and getting more detailed information about the client and about the Beneficial Owner. Also, it asked banks to open a sub account for the operations that are not related to the work of the public official, to conduct enhanced due diligence on the sub-account, and to continuously monitor its activity. It added that the related Know Your Customer form should include the information listed in the Special Investigation Commission's (SIC) announcement no. 13, as well as the information related to the work or function of the public official or employees, and all the information about their other sources of income.

Third, the circular stipulated that, in case there are signs or indications of any corruption-related operations, the bank has to revert to the commonly agreed corruption indicators that include but are not limited to: having large sums in bank accounts without providing documents to support or justify the deposits; the incompatibility of the public official's wealth and sources of funds with his/her career, experience and age; the unjustified transfers abroad of unusual and large amounts, especially to tax haven jurisdictions; and conducting large cash operations without providing supporting documentation. Further, additional corruption indicators include receiving payments from individuals, companies, or non-governmental entities that benefited or are benefiting from public procurement contracts; cashing checks issued from public sector authorities and placing the amount in private accounts; negative reports from multiple sources in the media about the bad reputation or unethical or illegal behavior of the public official; receiving large foreign transfers from the accounts of companies or individuals without justification; having representatives of the public official conduct banking operations on his/her behalf to circumvent the enhanced due diligence process; and receiving funds in the bank accounts of legal entities or individuals known to be related to the public official without providing justifications for the funds.

Fourth, the circular noted that the existence of one or more indicators does not mean that an act of corruption took place. It added that, in case an act of corruption materializes, the bank has to review and assess the available information about the operation, the account's activity and the customer's bank statement, and take the appropriate decision about informing or not informing the SIC. Fifth, it asked banks to conduct enhanced due diligence on all customers who conduct substantial banking operations with public officials, or operations related to the public official to verify that they are justifiable.

More than 150 enterprises in agricultural sector to benefit from capacity building

The technology pole Berytech announced on May 18, 2022 that it will provide 156 selected micro-, small- and medium-sized enterprises (MSMEs) in the agriculture sector, in collaboration with Mercy Corps Europe, with capacity building, business development services, technical assistance, coaching, and in-kind grants of up to \$25,000 per recipient. It stated that the MSMEs will be connected to key stakeholders in the agri-food sector and members of Lebanon's Agri-Food Innovation Cluster (QOOT). Also, it announced that it intends to build a digital platform to connect farmers to different groups and players in the agricultural value chain, in order to provide them with data that allows them to stay up to date on all aspects that affect their work and plans to provide the farmers with digital literacy training.

The initiative is part of the "bolstering agriculture systems' ability to invest, nourish and employ" (BASATINE) program that aims to provide support to more than 3,500 vulnerable farmers in Lebanon's Akkar and Bekaa regions. The program is supported by l'Agence Française de Développement (AFD) and is led by a consortium that consists of six non-governmental organizations that are CARE France, Mercy Corps Europe, the Beirut-based Berytech Foundation, the Georges N. Frem Foundation, the Lebanese Organization for Studies and Training, and Al Majmoua. The AFD and Care International in Lebanon signed the four-year €17.7m program on October 29, 2021.

BASATINE aims to support farmers and MSMEs who harvest cereals, vegetables, and several types of beans and seeds, as well as manufacturers of farming tools and equipment, manufacturers of packaging materials, transporters, storage centers, food processors, distributors, wholesalers, and exporters in the Akkar and Bekaa regions. It aims to develop the capacity of Lebanese farmers to produce food for the local market, create and secure employment opportunities for vulnerable populations, and generate social cohesion between host communities and refugees. Also, the program intends to improve the financial skills of targeted farmers and to support the identification of clear financial plans and investment strategies to develop financial products adapted to the needs of farmers and MSMEs.



Banque du Liban's foreign assets at \$16bn, gold reserves at \$17.1bn at end-May 2022

Banque du Liban's (BdL) interim balance sheet reached \$170.2bn at the end of May 2022, constituting increases of 4.3% from \$163.2bn at end-2021 and of 8% from \$157.6bn a year earlier. Assets in foreign currency totaled \$16.02bn at end-May 2022, representing a decrease of \$1.8bn, or of 10.2%, in the first five months of the year and a drop of \$5.1bn (-24.1%) from \$21.1bn at end-May 2021. Assets in foreign currency include \$5.03bn in Lebanese Eurobonds, unchanged from a year earlier. The dollar figures are based on the official exchange rate of the Lebanese pound to the US dollar.

BdL's assets in foreign currency, excluding Lebanese Eurobonds, stood at \$10.98bn at the end of May 2022 and regressed by \$43.11m (-0.4%) from \$11.03bn at mid-May 2022 and by \$234.1m (-2%) from \$11.22bn at end-April 2022. They dropped by \$1.8bn (-14%) in the first five months of the year from \$12.8bn at the end of 2021 and by \$5.08bn (-31.6%) from \$16.07bn at end-May 2021. The cumulative decline of BdL's assets in foreign currency in the past 12 months, 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 circulars 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 \$17.08bn at the end of May 2022, constituting an increase of \$489.3m (+2.9%) in the first five months of the year and a decline of \$491.6m (+2.8%) from \$17.57bn at end-May 2021. The value of gold reserves reached a peak of \$18.15bn at mid-April 2022. Also, the securities portfolio of BdL reached \$42.17bn at end-May 2022, increasing by \$900.2m (+2.2%) from the end of 2021 and by \$1.12bn (+2.7%) from \$41.05bn a year earlier. In addition, loans to the local financial sector totaled \$13.4bn, and regressed by 2.3% from the end of 2021 and by 4.5% from end-May 2021. Further, the deposits of the financial sector stood at \$110.5bn at end-May 2022 and grew by \$3.15bn from a year earlier. In addition, public sector deposits at BdL reached LBP16,878bn (\$11.2bn) at end-May 2022, as they rose by LBP5,186.3 (\$3.4bn) in the first five months of the year and surged by LBP8,007 (\$5.3bn) from the end of May 2021.

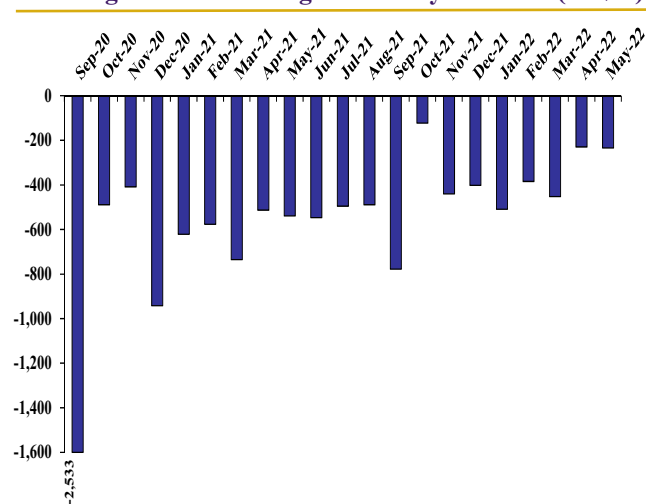
Net foreign assets of financial sector down \$1.7bn in first four months of 2022

Figures issued by Banque du Liban (BdL) show that the net foreign assets of the financial sector, which are a proxy for Lebanon's balance of payments, declined by \$1.7bn in the first four months of 2022, compared to decreases of \$1.4bn in the same period of 2021 and of \$1.3bn in the first four months of 2020.

The cumulative deficit in the first four months of 2022 was caused by a drop of \$1.8bn in the net foreign assets of BdL, which was partly offset by an increase of \$76.3m in those of banks and financial institutions. Further, the net foreign assets of the financial sector regressed by \$229.4m in April 2022 compared to declines of \$518.5m in March 2022 and of \$546m in April 2021. The April decrease was caused by a drop of \$262.3m in the net foreign assets of BdL that was partly offset by an increase of \$33m in those of banks and financial institutions.

The cumulative increase in the banks' net foreign assets is mostly due to a decline in their foreign liabilities. The decrease in foreign liabilities was driven mainly by the contraction in liabilities to the non-resident financial sector and in non-resident customer deposits. In parallel, the drop in BdL's net foreign assets was due in part to the financing of the imports of hydrocarbons, wheat, medicine, medical equipment, a large number of food and non-food items, and raw materials for agriculture and industry; as well as to the implementation of BdL circulars that allowed depositors to withdraw US dollar banknotes from their accounts or to buy dollar banknotes from BdL through commercial banks.

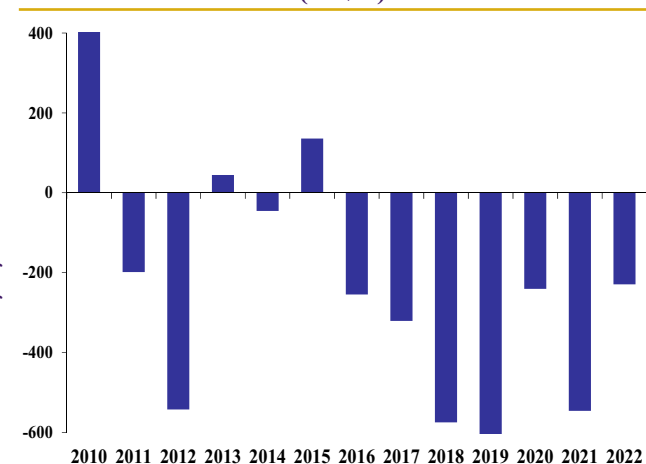
Change in Gross Foreign Currency Reserves (US\$m)



at end-May 2022

Source: Banque du Liban, Byblos Research

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



*in April of each year

Source: Banque du Liban, Byblos Research

Lebanon receives 10.3% of IMF regional technical assistance between February and April 2022

The International Monetary Fund's Middle East Technical Assistance Center (METAC) indicated that Lebanon received 10.3% of the center's delivery of technical assistance to member countries during the fourth quarter of the fiscal year that ends in April 2022, or between February and April 2022. In comparison, Lebanon received 4.5% of the center's technical assistance to member countries during the first quarter of FY2021/22, or between May and July 2021, and 5.9% of the total in the third quarter or during the November 2021-January 2022 period, while it did not receive any technical assistance in the second quarter of FY2021/22. METAC provided one technical assistance project in public financial management to Lebanon and one project in revenue administration in the fourth quarter of FY2021/22. It indicated that there were eight technical assistance projects planned for Lebanon in FY2021/22, the second highest number of such projects among member countries.

In terms of public financial management, METAC delivered with the Institut des Finances Basil Fuleihan a three-day virtual workshop that allowed a peer exchange on the budget between the Ministry of Finance (MoF) and line ministries to further strengthen macro fiscal planning and to establish multi-year ceilings for different sectors and ministries. It said that increasing budget coverage and the introduction of consistent baseline estimates and forward costing would enhance planning for the budget and improve the use of public resources.

Also, it organized the training in order to build the capacity of authorities to use the Health Check Tool for state-owned enterprises (SOEs), as well as the capacity of the reporting and transparency of SOEs. It noted that the mission presented a reporting template to gather data from the SOEs to input it directly into the SOE Health Check Tool so that the MoF can analyze it, as well as a roadmap to take immediate action and strengthen surveillance of SOEs. It said that 15 participants attended the training session, including financial controllers from SOEs, the Public Accounting Directorate and the team working directly with the General Director of the MoF on the issue of SOEs.

In addition, the mission indicated that it delivered a second workshop with personnel from the International Monetary Fund (IMF) and designed a strategy to tackle expenditure arrears at the Central Government level. It noted that the mission took stock of the current situation on arrears, provided a tentative definition of expenditure arrears, and advised authorities on how to quantify and monitor the stock of these arrears.

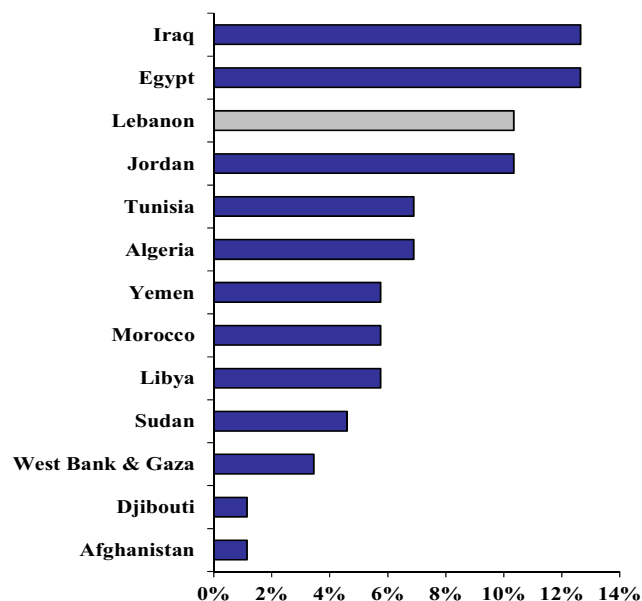
In parallel, in terms of revenue administration, METAC indicated that in November 2021 the IMF proposed a plan to improve the mobilization of public revenues. It said that a plan to re-activate tax collection will start with businesses that are less affected by the economic crisis, as well as with the largest tax debtors, followed by an extensive offer to settle the accumulated tax arrears through instalments. It noted that a reform related to the large taxpayer office to incorporate value-added tax will not take effect until 2023.

Further, it provided a remote capacity development activity to assess the tax IT system of the Lebanese Tax Administration. It said that the IT function of the General Directorate of Finance lacks adequate financing and is in critical condition, and proposed recommendations for the immediate support of the IT function to avoid a breakdown of the IT systems. It also provided medium- and long- term recommendations to modernize the IT system in order to align it with international good practices.

Also, it provided technical assistance in the customs area, based on the November 2021 IMF report on "Short-and-Medium-Term Actions for Stabilizing Revenue Administration", which helped the Lebanese Customs Administration identify the organizational units that will be responsible for the implementation of selected measures. It added that it will prioritize the proposed measures based on available resources and capacity.

The IMF established METAC in Beirut in October 2004 to serve Afghanistan, Algeria, Djibouti, Egypt, Iraq, Jordan, Lebanon, Libya, Morocco, Palestine, Sudan, Syria, Tunisia, and Yemen. The center's mandate is to assist in capacity-building, facilitate the reform process in member countries, and support the region's integration in the world economy.

Allocation by Country of Full-Time Equivalent Resources in Fiscal Year 2021/22



Source: International Monetary Fund, Byblos Research

Tourist arrivals up 156% in first quarter of 2022

Figures compiled by the Ministry of Tourism indicate that the number of incoming visitors to Lebanon totaled 212,950 in the first quarter of 2022, constituting a jump of 155.8% from 83,260 tourists in the same quarter of 2021 and an increase of 9.5% from 194,395 in the first quarter of 2020, they also represented decreases of 43.3% and 41.2% from 375,815 and 362,398 visitors in the first quarters of 2019 and 2018, respectively. The number of incoming visitors reached 62,340 in January, 67,800 in February, and 82,810 in March 2022, compared to 23,560 visitors in January, 22,747 in February, and 36,953 in March 2021. This constituted increases of 264.6% in January, 198% in February, and 124% in March 2022 from the corresponding months of the previous year. The increase in the number of visitor arrivals in the first quarter of 2022 is due to the resumption of normal activity and the lifting of lockdown measures in the country, including the closure the airport in March 18, 2020, that the authorities imposed to contain the spread of the coronavirus. The figures exclude Lebanese, Syrian and Palestinian arrivals.

Visitors from European countries accounted for 37% of the total in the first quarter of 2022, followed by those from Arab countries with 33.7%, the Americas with 16.6%, Asia with 4.8%, Africa with 4.6%, and Oceania with 3.2%. On a country basis, tourists from Iraq accounted for 19.2% of total visitors in the first quarter of 2022, followed by visitors from France (9%), the United States (8.7%), Egypt (6.4%), Germany (6.1%), Canada (5.3%), Jordan (3.5%), Sweden (3.4%), the United Kingdom (3.1%), Turkey (2.5%), Kuwait (1.8%), Italy (1.4%), Brazil (1.3%), Bahrain, Qatar, and Venezuela (0.5% each), Saudi Arabia (0.3%), and the UAE (0.04%). Further, the number of visitors from Oceania surged by 758.6% in the first quarter of 2022 from the same period last year, followed by those from Arab countries (+224%), the Americas (+160.3%), Europe (+116.5%), Africa (+113.3%), and Asia (+79.7%).

In parallel, the ministry indicated that the number of incoming visitors to Lebanon totaled 889,953 in 2021 and 414,168 visitors in 2020, compared to 1.94 million arrivals in 2019 and 1.96 million tourists in 2018. Visitors from European countries accounted for 43.6% of incoming tourists in 2021, followed by those from Arab countries with 26.5%, the Americas with 20.7%, Africa with 4.1%, Asia with 3.9%, and Oceania with 1.2%. Further, the number of visitors from the Americas surged by 154% in 2021 from 2020, followed by those from Africa (+141.3), Europe (+118%), Arab countries (+110%), Oceania (+28.6), and Asia (+25.8%).

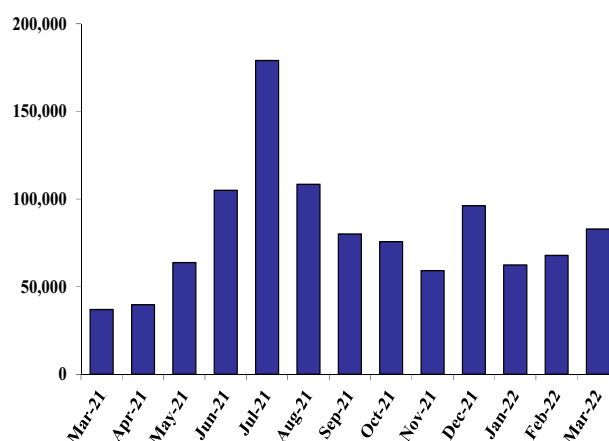
Number of airport passengers up 93% in first five months of 2022

Figures released by the Beirut-Rafic Hariri International Airport (HIA) show that nearly 2 million passengers utilized the airport (arrivals, departures and transit) in the first five months of 2022, constituting a surge of 92.6% from 1.03 million passengers in the same period of 2021, and relative to 1.18 million passengers in the first five months of 2020. The increase in the number of airport passengers in the first five months of 2022 is due to the resumption of normal activity following the imposition of strict lockdown measures in the country in the first quarter of 2021 to contain the spread of the coronavirus. The number of arriving passengers reached 964,228 in the first five months of 2022 and jumped by 94.3% from 496,275 passengers in the same period of 2021, compared to 556,966 travelers in the same period of 2020. Also, the number of departing passengers totaled 1.02 million in the first five months of 2022 and increased by 91% from 536,099 travelers in the same period of last year, relative to 620,991 passengers in the first five months of 2020.

In parallel, the airport's aircraft activity totaled 17,972 take-offs and landings in the first five months of the year, representing a rise of 53.3% from 11,723 takeoffs and landings in the same period of last year. In comparison, aircraft activity decreased by 2.7% in the first five months of 2021 and declined by 55.1% in the same period of 2020.

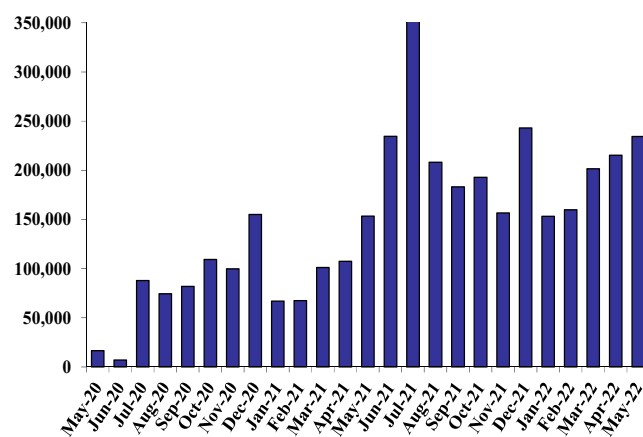
In addition, the HIA processed 22,366 metric tons of freight in the first five months of 2022 that consisted of 11,400 tons of import freight and 10,966 tons of export freight. Middle East Airlines had 6,444 flights in the covered period and accounted for 35.9% of HIA's total aircraft activity.

Number of Tourist Arrivals to Lebanon



Source: Ministry of Tourism, Byblos Research

Number of Arriving Passengers



Source: Beirut-Rafic Hariri International Airport

Deterioration in construction activity slows down in fourth 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 -63 in the fourth quarter of 2021, compared to -67 in the previous quarter and compared to -69 in the fourth quarter of 2020. The balance of opinions for general construction activity in the fourth quarter of 2021 constituted the fifth 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, -69 in the fourth quarter of 2020, and -67 in the third quarter of 2021. The results are attributed to the economic crisis, the fluctuations of the exchange rate of the US dollar on the parallel market, 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 lingering 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 -60 in the fourth quarter of 2021 compared to -67 in the preceding quarter and in the fourth quarter of 2020. It reached its eighth lowest quarterly level since the first quarter of 2004. The balance of opinions about construction activity was -10 in the North, -46 in the South, -86 in the Bekaa, and -88 Beirut & Mount Lebanon. Also, the balance of opinions about public works stood at -69 in the fourth quarter of 2021 compared to -66 in the third quarter of 2021 and -75 in the fourth quarter of 2020. The opinions about the level of public works reached -31 in the North, -80 in the South, -85 in Beirut & Mount Lebanon, and -88 in the Bekaa.

In addition, the balance of opinions about the portfolio of projects was -88 in the fourth quarter of 2021 relative to -96 in the preceding quarter and to -95 in the fourth quarter of 2020, and reached its seventh lowest quarterly level since the first quarter of 2004. The balance of opinions about the portfolio of projects was -71 in the North, -90 in Beirut & Mount Lebanon, -93 in the South, and -100 in the Bekaa. Further, the balance of opinions about construction costs reached +58 in the fourth quarter of 2021, compared to +43 in the preceding quarter and +72 in the fourth quarter of 2020.

In parallel, the balance of opinions about investments in the sector was 13% in the fourth quarter of 2021, compared to 17% in the preceding quarter, and to 16% in the fourth quarter of 2020. The balance of opinions about investments was zero in Beirut & Mount Lebanon, 4% in the Bekaa, 10% in the South, and 57% in the North. Also, the balance of opinions about the number of employees in the sector was -75 in the fourth quarter of 2021 compared to -87 in the preceding quarter and to -92 in the fourth quarter of 2020, and reached its seventh lowest quarterly level since the first quarter of 2004. The balance of opinions about the number of employees was -59 in Beirut & Mount Lebanon, -76 in the Bekaa, -85 in the North, and -93 in the South.

Construction and Public Work Activity: Evolution of Opinions				
Aggregate results	Q4-18	Q4-19	Q4-20	Q4-21
General activity	-59	-57	-69	-63
Construction	-60	-58	-67	-60
Public works	-49	-57	-75	-69
Portfolio of projects	-53	-73	-95	-88
Construction costs	4	45	72	58
Investments (% of yes)	16%	12%	16%	13%

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

World Bank revises Country Partnership Framework to account for delays in reforms

The World Bank considered that despite early warnings, Lebanon has lost precious time and numerous opportunities to reform its economic and financial system, and pointed out that the cost of inaction has been increasing. It added that the country has yet to embark on a comprehensive reform and recovery program, despite the eruption of the crisis two and a half years ago. It cautioned that the continued deliberate delays in addressing the drivers of the crisis represent a threat at the socio-economic level and a risk of a systemic failing of state institutions. It noted that the Lebanese authorities' management of the multiple crises that are prevailing in the country reflects the level of erosion of governance capacities, and shows that political and sectarian divisions caused a near halt to high-level decision-making processes. It anticipated political uncertainties to continue during 2022 following the May parliamentary elections, given that the presidential elections are scheduled for October of this year and that the formation of post-elections governments take usually several months. As such, it said that this factor could delay the necessary decisions on reforms until at least the end of the year, including the implementation of the prior conditions in the Staff-Level Agreement that the government and the International Monetary Fund signed on April 7, 2022.

As such, it stressed the need to update the World Bank's Country Partnership Framework (CPF) for the 2017-2022 period in order to directly support the poor and most vulnerable segments of the population, including refugees, and prepare the ground for a reforms program. It added that it will need to reorient its strategic approach, first and foremost, to help address the economic and health crises, respond to the blast at the Port of Beirut, and to reflect the country's protracted political and economic crisis. It expected that the update and reorientation of the framework will help address Lebanon's developing needs, recent changes in the socioeconomic context, and continued political instability.

It indicated that its revisions and additions to the CPF's objectives include improving the quantity and quality of, and access to electricity; responding to the COVID-19 crisis and enabling the socioeconomic recovery; and the contribution to a more enabling environment for women's economic participation and the facilitation of women's entrepreneurship. Further, it indicated that it extended for one year the current CPF period until the end of 2023, and that the extension will provide stakeholders the opportunity to focus on advancing urgently needed programs to address the socioeconomic recovery and to support the government's stabilization agenda.

As such, it highlighted the urgent need for Lebanon to adopt a credible, comprehensive and equitable macro-financial stabilization and recovery plan. It noted that this strategy should be based on a new monetary policy framework that would regain confidence and stability in the exchange rate; a debt restructuring program that would achieve short-term fiscal space and medium-term debt sustainability; a comprehensive restructuring of the financial sector to regain solvency of the banking sector; a phased, equitable, fiscal adjustment to regain confidence in fiscal policy; growth enhancing reforms; and improved social protection. Also, it stressed that authorities need to significantly step up efforts to push forward the governance reform agenda, which includes reforming public procurement, public financial management reforms, strengthening parliamentary financial oversight, and the independence of the judiciary.



Corporate Highlights

Private sector deposits down \$46bn since start of 2019

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets stood at \$172.1bn at the end of April 2022, constituting declines of 1.5% from \$174.8bn at the end of 2021 and of 6.7% from \$184.5bn at end-April 2021. The dollar figures are based on the official exchange rate of the Lebanese pound to the US dollar.

Loans extended to the private sector reached \$25.3bn at the end of April 2022 and decreased by 9% in the first four months of 2022 and by 23.7% from a year earlier. Loans to the resident private sector totaled \$22.6bn, constituting decreases of 9.4% from the end of 2021 and of 23.3% from end-April 2021. Also, credit to the non-resident private sector amounted to \$2.7bn at the end of April 2022, and contracted by 4.6% from the end of 2021 and by 27.1% from the end of April 2021.

In nominal terms, credit to the private sector regressed by \$2.46bn in the first four months of 2022 relative to a decrease of \$3.1bn in the same period of 2021, as lending to the resident private sector declined by \$2.3bn and credit to the non-resident private sector regressed by \$130m in the covered period. Further, loans extended to the private sector contracted by \$34.1bn since the start of 2019, with loans denominated in Lebanese pounds shrinking by LBP10,424.3bn and loans denominated in foreign currency dropping by \$27.2bn. The dollarization rate of private sector loans regressed from 59% at end-April 2021 to 55% at the end of April 2022. The average lending rate in Lebanese pounds was 6% in April 2022 compared to 8% a year earlier, while the same rate in US dollars was 6.11% relative to 6.88% in April 2021.

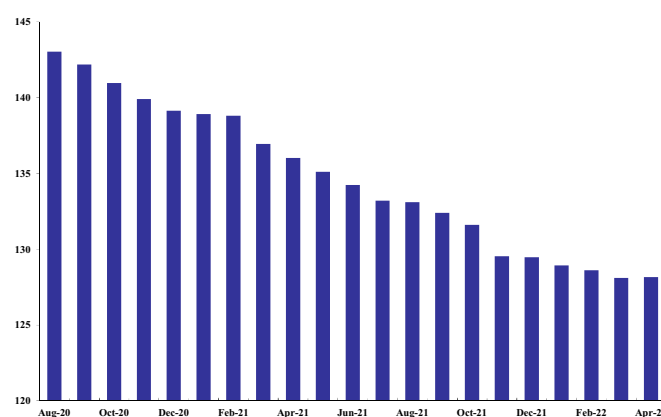
In addition, claims on non-resident financial institutions reached \$4.05bn at the end of April 2022, constituting a decrease of \$535.6m (-11.7%) in the first four months of 2022 and a decline of \$262.7m (-6.1%) from a year earlier. Also, claims on non-resident financial institutions decreased by \$5.1bn (-55.6%) from the end of August 2019 and by \$7.94bn (-66.2%) since the start of 2019. Further, deposits at foreign central banks totaled \$1.1bn, constituting increases of \$63m (+6.1%) in the first four months of 2022 and of \$379m (+52.6%) from a year earlier. In addition, the banks' claims on the public sector stood at \$15.1bn at end-April 2022, down by \$1.63bn (-9.8%) in the first four months of the year, by \$5.1bn (-25.3%) from the end of April 2021 and by \$9.7bn (-39%) from end-April 2020. The banks' holdings of Lebanese Treasury bills stood at \$10.4bn, while their holdings of Lebanese Eurobonds reached \$4.52bn at end-April 2022. Further, the deposits of commercial banks at Banque du Liban (BdL) totaled \$110.5bn at end-April 2022, up by \$1.48bn (+1.4%) from \$109bn at end-2021 and by \$752m (+0.7%) from \$109.7bn at the end of April 2021.

In parallel, private sector deposits totaled \$128.2bn at the end of April 2022 and regressed by 1% in the first four months of 2022 and by 5.8% from end-April 2021. Deposits in Lebanese pounds reached the equivalent of \$28.2bn at end-April 2022, as they increased by 6% from the end of 2021 and by 6.1% from a year earlier; while deposits in foreign currency reached \$99.91bn, and regressed by 2.8% from end-2021 and by 8.7% from the end of April 2021. Resident deposits totaled \$104.2bn at the end of April 2022 and retreated by \$728.4m (-0.7%) from the end of 2021, while non-resident deposits reached \$24bn at end-April 2022, down by \$584.4m (-2.4%) in the first four months of the year. Resident deposits in Lebanese pounds stood at LBP39,522.1bn, or the equivalent of \$26.2bn at end-April 2022, constituting an increase of LBP2,423bn, or of 6.5%, in the first four months of the year, while those in foreign currency totaled \$78bn at end-April 2022 and decreased by \$2.3bn (-3%) in the covered period. Non-resident deposits in Lebanese pounds and in foreign currency regressed by 0.5% and 2.5%, respectively, in the first four months of 2022.

Private sector deposits declined by \$1.3bn in the first four months of 2022, with deposits in Lebanese pounds increasing by LBP2,407bn, or the equivalent of \$1.6bn, and foreign currency deposits shrinking by \$2.9bn. Private sector deposits regressed by \$535m in January, by \$319.6m in February, and by \$512.9m in March 2022, while it increased by \$54.8m in April 2022. In comparison, private sector deposits declined by \$227m in January, by \$60.7m in February, by \$1.9bn in March, and by \$928.2m in April 2021. In addition, private sector deposits dropped by \$15.4bn in 2019 and by \$19.7bn in 2020, including a decrease of \$10.7bn between September and December 2019. As such, aggregate private sector deposits contracted by \$46.1bn since the start of 2019, with deposits in Lebanese pounds shrinking by \$23bn and foreign currency deposits declining by \$23.16bn. The decrease is due largely to the repayment of loans by companies and individuals, to the hoarding of cash at households, to banks and companies paying their foreign obligations, and to deposit outflows. The dollarization rate of private sector deposits was 78% at end-April 2022, relative to 79.4% at end-2021 and to 80.4% a year earlier.

Further, the liabilities of non-resident financial institutions reached \$4.43bn at the end of April 2022 and contracted by 17.7% from \$5.4bn at the end of April 2021. Also, the average deposit rate in Lebanese pounds was 0.88% in April 2022 compared to 2% a year earlier, while the same rate in US dollars was 0.15% relative to 0.49% in April 2021. The ratio of private sector loans to deposits in foreign currency stood at 13.9% at the end of April 2022 compared to 17.9% a year earlier, well below BdL's limit of 70%. The same ratio in Lebanese pounds reached 40.3% at end-April 2022, down from 51% at end-April 2021. As such, the total private sector loans-to-deposits ratio reached 19.7% at end-April 2022 compared to 24.3% a year earlier. The banks' aggregate capital base stood at \$16.3bn at the end of April 2022, down by \$1.5bn (-8.5%) from \$17.8bn at the end of 2021.

Private Sector Deposits (US\$bn)



Source: Banque du Liban, Byblos Research

Stock market capitalization up 61% to \$14.8bn at end-May 2022

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 7.3 million shares in the first five months of 2022, constituting a decrease of 52.3% from 15.2 million shares traded in the same period of 2021; while aggregate turnover amounted to \$136.86m and increased by 3% from a turnover of \$133m in the first five months of 2021. The market capitalization of the BSE reached \$14.8bn on May 31, 2022, representing a surge of 61% from \$9.2bn at the end of May 2021, with real estate equities accounting for 69% of the total, followed by banking stocks (27.2%), industrial shares (3.5%), and trading firms' equities (0.3%). The market liquidity ratio was 0.9% at the end of May 2022 compared to 1.4% a year earlier.

Banking stocks accounted for 53% of the trading volume in the first five months of 2022, followed by real estate equities (45.8%), and industrial shares (1.1%). Also, real estate equities accounted for 93.2% of the aggregate value of shares traded, followed by banking stocks (6%), and industrial shares (0.8%). The average daily traded volume for the first five months of 2022 was 76,580 shares for an average daily amount of \$1.44m. The figures represent a drop of 60.3% in the average daily traded volume and a decline of 14.4% in the average daily value in the covered period.

In parallel, the Capital Markets Authority's (CMA) Market Value-Weighted Index for stocks traded on the BSE surged by 280% in the first five months of 2022, while the CMA's Banks Market Value-Weighted Index regressed by 16% in the covered period. The increase in the Market Value-Weighted Index is mainly due to the rise in the prices of Solidere 'A' and Solidere 'B' shares by 90.8% and 83.4%, respectively, from the end of 2021, given that the shares had market weights of 42.16% and 26.87%, respectively, on the last trading day in May, the highest among listed companies on the BSE.

Import activity of top five shipping firms and freight forwarders up 5% in first quarter of 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 totaled 52,687 20-foot equivalent units (TEUs) in the first quarter of 2022, constituting an increase of 4.7% from 50,303 TEUs in the first quarter of 2021. The five shipping and freight forwarding firms accounted for 85.6% of imports to the Lebanese market in the covered period. Mediterranean Shipping Company (MSC) handled 18,864 TEUs in the first quarter of 2022, equivalent to 37% of the total import freight market to Lebanon. Merit Shipping followed with 16,027 TEUs (31.4%), then MAERSK with 7,887 TEUs (15.5%), Gezairi Transport with 5,120 TEUs (10%), and Lotus Shipping with 4,789 TEUs (9.4%). MSC registered a rise of 43% in imports in the first quarter of 2022, the highest growth rate among the top five shipping and freight forwarding companies, while Maersk posted a drop of 18.2%, the steepest decline among the five firms in the covered period. Also, the import shipping operations of the top five companies through the port declined by 1.1% in March 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 19,234 TEUs in the first quarter of 2022, constituting an increase of 21.7% from 15,808 TEUs a year earlier. The five shipping companies and freight forwarders accounted for 93.5% of exported Lebanese cargo in the first quarter of 2022. Merit Shipping handled 11,187 TEUs of freight in the first quarter of the year, equivalent to 54.4% of the Lebanese cargo export market. MAERSK followed with 3,770 TEUs (18.3%), then Sealine Group with 1,687 TEUs (8.2%), MSC with 1,304 TEUs (6.3%), and Seanautics with 1,286 TEUs (6.2%). Seanautics registered a rise of 418.5% in exports in the first quarter of 2022, the highest growth rate among the top five shipping and freight forwarding companies, while Merit Shipping posted an increase of 1.2%, the slowest during the covered period. The export-shipping operations of the top five companies increased by 3.9% in March 2022 from the previous month.



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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