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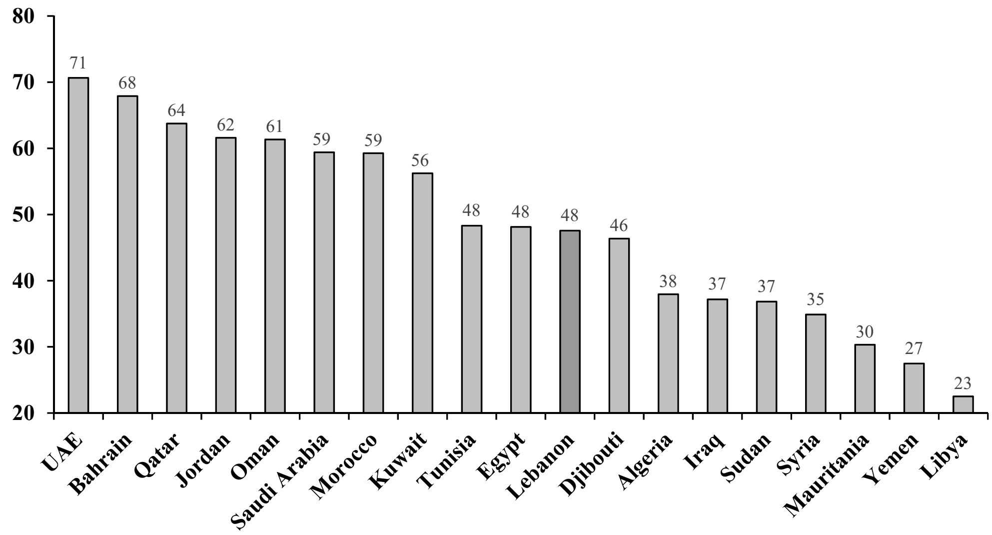
BYBLOS BANK SAL
Economic Research & Analysis Department

LEBANON THIS WEEK

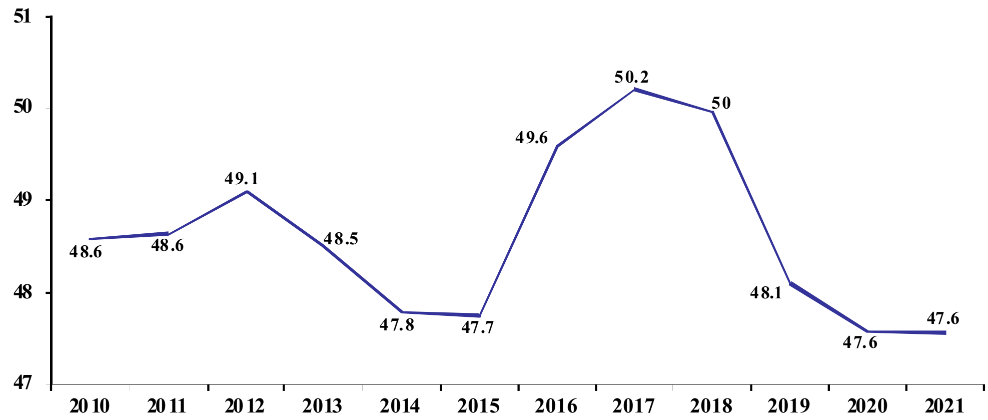
In This Issue

Charts of the Week

Performance of Arab Countries in terms of the Investment Environment for 2021*



Performance of Lebanon in terms of the Investment Environment



**The Legatum Institute defines the investment environment as the extent to which investments are adequately protected through the existence of property rights, investor measures, and contract enforcement*

Source: Legatum Institute, Investment Environmnrt Sub-Indicator, Prosperity Index for 2021, Byblos Bank

Quote to Note

"The complete and timely implementation of the first steps is key to initiate the process of addressing the deep-seated problems that Lebanon and the Lebanese people face."

Dr. Gerry Rice, Director of the Communications Department at the International Monetary Fund, on the need for Lebanese authorities to implement in full the prior actions that the two sides agreed on in the Staff Level Agreement

Number of the Week

3.2%: Projected average annual real GDP growth rate in Lebanon during the 2023-2026 period, according to the government's Economic Rescue 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
Solidere "A"	64.40	2.6	104,289	42.5%
BLOM GDR	2.50	(3.8)	52,945	1.2%
Solidere "B"	63.80	(1.8)	42,798	27.3%
Audi GDR	1.57	0.0	7,008	1.2%
Byblos Pref. 09	37.98	0.0	6,000	0.5%
HOLCIM	25.00	5.0	1,142	3.2%
BLOM Listed	3.00	5.3	900	4.3%
Byblos Common	0.75	0.0	-	2.8%
Audi Listed	1.70	1.2	-	6.6%
Byblos Pref. 08	24.99	0.0	-	0.3%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Oct 2022	6.10	8.25	3,639.67
Jan 2023	6.00	8.25	1,298.45
Apr 2024	6.65	8.25	191.75
Jun 2025	6.25	8.25	103.36
Nov 2026	6.60	8.25	64.67
Feb 2030	6.65	8.25	35.17
Apr 2031	7.00	8.25	30.25
May 2033	8.20	8.25	24.19
Nov 2035	7.05	8.50	19.29
Mar 2037	7.25	8.50	17.40

Source: Refinitiv

	Jun 6-10	May 30 - Jun 3	% Change	May 2022	May 2021	% Change
Total shares traded	227,582	558,119	(59.2)	1,659,677	2,276,392	(27.1)
Total value traded	$9,944,345	$20,375,504	(51.2)	$50,621,005	$34,870,716	59.5
Market capitalization	$15.17bn	$15.02bn	0.98	$14.78bn	$9.18bn	61.0

Source: Beirut Stock Exchange (BSE)

Foreign direct investments at $273m in 2021, equivalent to 1.2% of GDP

Figures released by the United Nations Conference on Trade and Development (UNCTAD) show that foreign direct investments (FDI) in Lebanon totaled $273.1m in 2021, constituting a decrease of 79% from $1.31bn in 2020 and relative to $1.36bn in 2019. In comparison, FDI inflows to Arab economies grew by 42.7%, while FDI inflows to West Asia increased by 59% in 2021.

The UNCTAD figures for Lebanon are based on the official figures issued by Banque du Liban (BdL). According to BdL's methodology, which is based on the International Monetary Fund's balance of payments methodology to record the movement of non-resident deposits, FDI figures consist largely of the transfer of non-resident deposits at local commercial banks to the real estate sector, rather than to the foreign flow of capital into local projects.

FDI inflows to Lebanon in 2021 were 89.3% lower than the annual average flows of $2.55bn during the 2010-20 period, and came 93.8% below the peak of $4.38bn posted in 2009. Lebanon was the 11th largest recipient of FDI among 17 Arab countries and the 9th largest recipient among 14 countries in West Asia in 2021. Also, it was the 114th largest FDI recipient globally among 143 economies with a nominal GDP of $10bn or more.

FDI inflows to Lebanon accounted for 0.02% of global FDI inflows in 2021 relative to 0.14% in the previous year; while they represented 0.5% of total FDI in Arab countries last year relative to a share of 3.6% in 2020. FDI inflows to Lebanon also accounted for 0.5% of FDI flows to West Asia in 2021 compared to a share of 3.8% in the previous year. Further, FDI inflows to Lebanon were equivalent to 1.2% of GDP in 2021 based on the Ministry of Finance's estimate of nominal GDP for the year, down from 5.3% of GDP in 2020, and compared to a peak of 15.5% of GDP in 2005.

In parallel, FDI outflows from Lebanon totaled $65.5m in 2021, constituting a surge of 525.7% from $10.5m in 2020, and compared to an annual average of $875.7m during the 2010-20 period and a peak of $2bn registered in 2013. Lebanon was the eighth smallest source of FDI outflows among 16 Arab countries with available figures and the fifth smallest among West Asian countries in 2021.

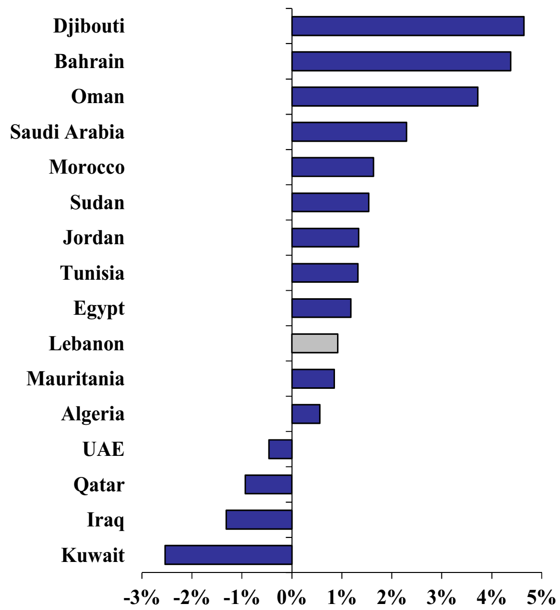
As such, net FDI flows to Lebanon reached $207.6m in 2021 compared to $1.3bn in 2020 and to a peak of $3.25bn in 2009. Net FDI flows to Lebanon were equivalent to 5.25% of GDP in 2021 relative to 0.92% of GDP in 2020.

Foreign Direct Investments in Arab Countries ($m)

Country	2021	2020	Change (%)
UAE	20,667.1	19,884.5	3.9%
Saudi Arabia	19,285.6	5,399.2	257.2%
Egypt	5,122.0	5,851.8	-12.5%
Oman	3,619.0	2,861.0	26.5%
Morocco	2,153.3	1,419.2	51.7%
Bahrain	1,766.0	1,021.3	72.9%
Algeria	869.7	1,142.6	-23.9%
Tunisia	660.2	652.1	1.2%
Jordan	621.8	760.3	-18.2%
Sudan	462.5	716.9	-35.5%
Lebanon	**273.1**	**1,306.0**	**-79.1%**
Palestine	256.0	79.7	221.0%
Kuwait	198.2	(141.7)	-
Djibouti	166.8	158.2	5.4%
Mauritania	22.2	927.9	-97.6%
Qatar	(1,093.4)	(2,434.1)	-55.1%
Iraq	(2,613.0)	(2,859.1)	-8.6%
Total	**52,437.0**	**36,745.9**	**42.7%**

Source: Banque du Liban, UNCTAD, Byblos Research

Net FDI inflows to Arab Countries in 2021 (% of GDP)



Source: Banque du Liban, UNCTAD, IIF, IMF, Byblos Research

Banque du Liban tightens AML/CFT procedures

Banque du Liban (BdL) issued Intermediate Circular 625 on May 27, 2022 addressed to banks, financial institutions, as well as to all other institutions included in article 4 of Law 44 dated November 24, 2015 about combating money laundering and the financing of terrorism (AML/CFT). The circular amends multiple circulars as part of updating the Regulations on the Control of Financial and Banking Operations for Fighting Money Laundering and Terrorist Financing (AML/CFT), in line with the recommendations of the Financial Action Task Force (FATF) on AML/CFT.

First, the circular stipulates that banks should not enter into, pursue or maintain a correspondent banking relationship with a shell bank; and that they should verify that the bank actually exists based on documentary evidence, that it does not deal with shell banks, that it has a good reputation, is subject to proper supervision, implements sufficient and effective AML/CFT procedures, and if it was subject to any AML/CFT investigation.

Second, it says that bank employees who execute client operations have to conduct appropriate due diligence that includes the verification of the customer's identification regardless of the amount of the transaction, in case he or she notices an operation or several inter-linked operations with an aggregate amount that totals or exceeds $10,000 or their equivalent; or if the employee suspects the customer is trying to conduct a money laundering or terrorism financing operation. It added that the bank must keep information about the customer and the Beneficial Owner, in particular the client's full name, residency address, the registered address of the place of work of the legal person, the customer's occupation and financial status, in addition to copies of all the documents used to verify the above-mentioned information and of the client's accounts, for at least five years after closing the account or ending the business relationship. It must also keep all documents related to all operations, including business correspondence and the results of any analysis conducted, for at least five years after the operation's date, in order for these records to constitute evidence, when needed, in case of prosecution for criminal acts. It noted that, in case it is not possible to conduct the due diligence process, the bank must refrain from opening a new account or conduct any operation, terminate the customer relationship, and inform the Special Investigation Commission (SIC) about the outcome.

Third, the circular indicates that the bank has to inform the Governor of Banque du Liban, in his capacity as the head of the SIC, in case it has proof or doubts, about an actual or potential banking operation that is related to money laundering or related crimes, or about the financing of terrorism or terrorist organizations. Fourth, it said that banks must continuously update their due diligence measures on all of their customers, including current clients and owners of accounts opened before the issuance of Law 318 dated April 20, 2001, in order to modify or add any information resulting from any changes to the client's condition, especially if there are doubts about the accuracy of the existing data, or in case there are subsequent changes to the identity of the customer or of the Beneficial Owner.

Fifth, it stipulates that, when a client utilizes intermediaries such as brokers or introducers, or any third party, the bank has to verify that the third party meets the standards of the FATF in terms of due diligence, and has to keep all related records, as well as rapidly obtain any information to identify the client and the Beneficial Owner, as well as the nature of their work. Sixth, it declares that banks must verify that their branches and majority-owned affiliates abroad adopt the AML/CFT measures and standards that the banks implement in Lebanon, whenever the standards in the host countries are lower than those that the bank applies in Lebanon.

Seventh, the circular states that banks have to take counter measures that are commensurate with the risk level of the jurisdictions as designated by the FATF, or based on the risk level that the bank identifies. These measures include getting the approval of senior management for dealing or continuing to deal with the client, avoiding dealing with third parties based in these jurisdictions, ending any correspondent relationship with institutions in these countries, and refraining from establishing branches or affiliates or representative offices in these jurisdictions.

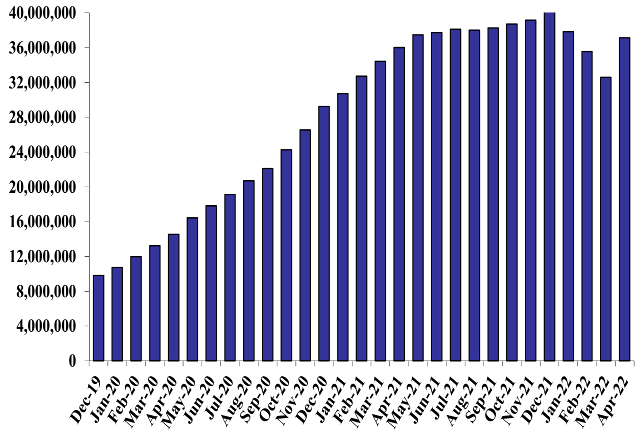
Eighth, the circular stipulates that banks must take into consideration the country risk, the customer risk and the services risk levels when assessing the risk of customers and of their operations. It said that customer risks cover clients whose work depends on cash, politically exposed persons, offshore companies, companies based in tax havens, non-face-to-face customers, clients who deal with banks only through intermediaries, customers who deal through fiduciary contracts or trusts, and clients from countries that do not implement the recommendations of the FATF, as well as non-profit organizations, especially those without clear programs or sources of funds. In terms of country risk, it highlighted the need to assess the strict implementation of AML/CFT laws and regulations, and the effectiveness of the judicial and supervisory institutions in charge of implementing them, as well as the existence of bank secrecy, and the country's status in terms of corruption and organized crime. In terms of service risk, it identified the management of private portfolios, of collective investment funds, and dealing with financial instruments.

Ninth, the circular bans the issuance of and the dealing with electronic money by any party, except according to directives that BdL issued or might issue. Tenth, the circular asks banks to review regularly any update on the website of the General Directorate of the Internal Security Forces (ISF) with regard to the names listed on the latter's watch list of natural or legal persons or entities involved in terrorism or terrorism financing, and to apply the SIC's related decisions, such as freezing their accounts or operations, and other assets affiliated to them. Also, it pointed out that the bank has to inform the SIC within 48 hours in case it has a client with the same name as the ones on the ISF's watch list. It added that banks should implement the seventh recommendation of the FATF about the immediate freezing of accounts or funds or related assets of suspected persons or entities, and inform the SIC within 48 hours of its action. In addition, it indicated that, when the FATF calls for taking measures against a country or jurisdiction, the bank should implement enhanced due diligence on the business relationship and the operations that take place with natural and legal persons, including financial institutions, from this country or jurisdiction.

Broad money supply down 3% in first four months of 2022, currency in circulation down 11%

Figures released by Banque du Liban show that money supply M1, which includes currency in circulation and demand deposits in Lebanese pounds, reached LBP57,729bn at the end of April 2022, constituting a marginal decrease of 0.4% from LBP57,937bn at the end of 2021 and a rise of 19.3% from LBP48,402bn at end-April 2021. Currency in circulation stood at LBP37,137bn at the end of April 2022, as it declined by LBP4,377.4bn (-10.5%) from LBP41,515bn at the end of 2021 and increased by 3% from LBP36,016.3bn at end-April 2021. Also, demand deposits in local currency stood at LBP20,591.7bn at the end of April 2022, representing an expansion of 25.4% from the end of 2021 and a rise of 66.2% from end-April 2021. Money supply M1 grew by 12% in April from LBP51,496.3bn at end-March 2022, with currency in circulation increasing by 13.9%, and demand deposits in local currency expanding by 9% month-on-month.

Currency in Circulation (LBP Millions)



Source: Banque du Liban, Byblos Research

In addition, money supply M2, which includes M1 and term deposits in Lebanese pounds, reached LBP77,073bn at the end of April 2022, constituting a decrease of 2.4% from LBP79,007bn at the end of 2021 and an increase of 5.2% from LBP73,248.2bn a year earlier. Term deposits in Lebanese pounds totaled LBP19,344.1bn at the end of April 2022, as they declined by 8.2% from LBP21,070bn at end-2021 and by 22% from LBP24,845.8bn at end-April 2021. Money supply M2 expanded by 8.3% in April from LBP71,185.6bn at end-March 2022, with term deposits in local currency regressing by 1.8% month-on-month.

Further, broad money supply M3, which includes M2, deposits in foreign currency and debt securities issued by the banking sector, reached LBP195,433.6bn at the end of April 2022, constituting decreases of 2.8% from the end of 2021 and of 3.5% from LBP202,511bn at end-April 2021. Deposits in foreign currency totaled LBP118,128.5bn at the end of April 2022, down by 3% from the end of 2022 and by 8.4% from end-April 2021. Also, debt securities issued by the banking sector amounted to LBP232bn at the end of April 2022 compared to LBP334bn at the end of 2021 and to LBP354bn at end-April 2021. Money supply M3 increased by 2.5% from LBP190,706bn at the end of March 2022, with deposits in foreign currency regressing by 0.9% and debt securities issued by the banking sector dropping by 31% month-on-month. In parallel, M3 decreased by LBP5,636.2bn from the end of 2021 due to a decline of LBP2,581bn in the net foreign assets of deposit-taking institutions, a retreat of LBP5,158.4bn in the net claims on the public sector, and a downturn of LBP3,564bn in the claims on the private sector, which was partly offset by an increase of LBP4,077bn in other items.

Port of Beirut processes 1.25 million tons of freight in first quarter of 2022

Figures released by the Port of Beirut show that the port processed 1.25 million tons of freight in the first quarter of 2022, constituting a decline of 1.3% from 1.27 million tons in the same quarter last year. Imported freight amounted to 1.02 million tons, as it regressed by 6.5% from 1.09 million tons in the same quarter of 2021 and accounted for 81.4% of total processed freight. In addition, the volume of exported cargo reached 234,000 tons in the first quarter of 2022, constituting an increase of 30.7% from 179,000 tons in the first quarter of 2021, and represented 18.6% of aggregate freight in the covered quarter. A total of 283 vessels docked at the port in the first quarter of 2022, down by 9% from 311 ships in the same quarter of 2021. The port handled 438,000 tons of freight in March 2022, constituting a decrease of 1.4% from 444,000 tons in February 2022. In addition, 99 vessels docked at the port in March 2022, up by 4.2% from 95 ships in February 2022.

In parallel, the Port of Tripoli processed 744,963 tons of freight in the first quarter of 2022, constituting an increase of 116,025 tons (+18.4%) from 628,938 tons in the first quarter of 2021. Imported freight amounted to 575,019 tons in the first quarter of 2022, and jumped by 112,148 tons (+24.2%) from 462,871 tons in the same quarter last year. Imports accounted for 77.2% of freight activity in the covered quarter. In parallel, the volume of cargo that was exported through the port reached 169,944 tons in the first quarter of 2022, constituting an expansion of 3,877 tons (+2.3%) from 166,067 tons in the same quarter last year and represented 22.8% of total freight in the covered quarter. Further, revenues generated through the Port of Tripoli reached $32.8m in the first quarter of 2022 and surged by 626.7% from $4.5m in the first quarter of 2021. A total of 220 vessels docked at the port in the first quarter of 2022, constituting a rise of 35.8% from 162 ships in the same quarter last year.

Fiscal surplus equivalent to 9.6% of expenditures in first 10 months of 2021

Figures released by the Ministry of Finance show that the fiscal balance posted a surplus of LBP1,417.8bn, or $940.5m, in the first 10 months of 2021 compared to a deficit of LBP4,223.6bn ($2.8bn) in the same period of 2020. The dollar figures are based on the official exchange rate of the Lebanese pound to the US dollar. The surplus was equivalent to 9.6% of total budget and Treasury expenditures in the first 10 months of 2021 relative to a deficit equivalent to 26% of government spending in the same period of 2020. Public expenditures reached LBP14,721.3bn ($9.8bn) in the first 10 months of 2021 and declined by 9.4% from the same period of 2020, while revenues stood at LBP16,139bn ($10.7bn) and grew by 34.2% year-on-year. The surplus of the fiscal balance was caused by a contraction of LBP1,525.8bn ($1bn) in spending from lower debt servicing cost and Treasury transfers to Electricité du Liban (EdL), as well as by an increase of LBP4,115.6bn ($2.7bn) in revenues.

On the revenues side, tax receipts rose by 44.2% year-on-year to LBP12,245.4bn ($8.1bn) in the first 10 months of 2021, of which 30%, or LBP3,666.3bn ($2.4bn), were in VAT receipts that surged by 147.3% annually due in large part to accelerating inflation. Tax receipts accounted for 81.7% of budgetary revenues and for 76% of Treasury and budgetary income in the covered period. The distribution of other tax receipts shows that revenues from taxes on income, profits & capital gains increased by 23.7% to LBP4,956bn ($3.3bn) in the covered period; customs receipts grew by 21% to LBP1,279.3bn ($848.6m); revenues from property taxes rose by 33.2% to LBP1,458.4bn ($967.4m); proceeds from stamp fees increased by 11.7% to LBP432bn ($286.6m); while receipts from taxes on goods & services regressed by 2.8% to LBP453.2bn ($300.6m). The distribution of income tax receipts shows that the tax on interest income accounted for 40.3% of income tax revenues in the first 10 months of 2021, followed by the tax on profits with 35.6%, the tax on wages & salaries with 17.2%, and the capital gains tax with 6.3%. Receipts from the tax on profits jumped by 312.8%, revenues from the tax on capital gains surged by 159.3%, and proceeds from the tax on wages & salaries increased by 31.4%, while revenues from the tax on interest income dropped by 28.4% in the covered period. Also, revenues from the inheritance tax jumped by 193.7% to LBP261.2bn ($173.3m), proceeds from the built property tax surged by 30.7% to LBP215bn ($142.5m), and receipts from real estate registration fees expanded by 16.7% to LBP982.3bn ($651.6m) in the first 10 months of 2021. Further, non-tax budgetary receipts grew by 25.3% year-on-year to LBP2,740.2bn ($1.8bn) in the covered period. They mainly included LBP1,839bn ($1.2bn) in revenues generated from government properties that increased by 37.8%, as well as LBP576bn ($382m) in receipts from administrative fees and charges that expanded by 1.8% annually. Receipts from telecommunication services surged by 61.3% to LBP1,475.2bn ($978.6m) in the first 10 months of 2021, and accounted for 80.2% of income from government properties and for 53.8% of non-tax budgetary revenues. In parallel, Treasury receipts decreased by 14% to LBP1,153.5bn ($765.2m) in the covered period.

On the expenditures side, total budgetary spending, which includes general expenditures and debt servicing, declined by 8% to LBP13,006.6bn ($8.6bn) in the first 10 months of 2021. General spending regressed by 8.3% to LBP10,684.3bn ($7.1bn) in the covered period, and included LBP698bn ($463m) in transfers to EdL that decreased by 37.4% year-on-year, and LBP1,028.7bn ($682.4m) in outlays from previous years that shrank by 46% annually, among other general spending items. Further, debt servicing totaled LBP2,322.4bn ($1.5bn) in the covered period and contracted by 6.6% from the first 10 months of 2020. Interest payments on Lebanese pound-denominated debt were nearly unchanged at LBP2,109.7bn ($1.4bn), while debt servicing on foreign currency debt dropped by 77% in the first 10 months of 2021. In addition, Treasury expenditures, excluding transfers to EdL, decreased by 18.7% year-on-year to LBP1,714.6bn ($1.1bn) in the covered period. Also, the primary budget balance posted a surplus of LBP4,301.3bn ($2.85bn) in the first 10 months of 2021, equivalent to 33% of budgetary expenditures, while the overall primary balance registered a surplus of LBP3,740.2bn ($2.5bn), or 25.4% of spending.

Fiscal Results in First 10 Months of Each Year

	2020 (US$m)	2021 (US$m)	Change (%)
Budget Revenues	7,085	9,941	40.3%
Tax Revenues	5,634	8,123	44.2%
Non-Tax Revenues	1,451	1,818	25.3%
of which Telecom revenues	607	979	61.3%
Budget Expenditures	9,379	8,628	-8.0%
Budget Surplus/Deficit	**(2,294)**	**1,313**	
In % of budget expenditures	-24.5%	15.2%	
Budget Primary Surplus/Deficit	**(645)**	**2,853**	
In % of budget expenditures	-6.9%	33.1%	
Treasury Receipts	891	765	-14.1%
Treasury Expenditures	1,399	1,137	-18.7%
Total Revenues	7,976	10,706	34.2%
Total Expenditures	10,777	9,765	-9.4%
Total Surplus/Deficit	**(2,802)**	**940**	
In % of total expenditures	-26.0%	9.6%	
Total Primary Surplus/Deficit	**(1,152.8)**	**2,481.0**	
In % of total expenditures	-10.7%	25.4%	

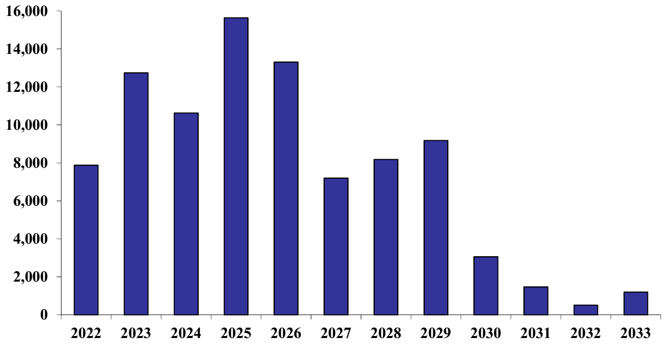
Source: Ministry of Finance, Byblos Research

Nearly 66% of Treasury securities in Lebanese pounds have seven-year maturities or longer

Figures released by the Association of Banks in Lebanon show that the face value of outstanding Treasury securities denominated in Lebanese pounds reached LBP90,971bn or the equivalent of $60.3bn, at the end of April 2022, compared to LBP90,024bn or $59.7bn at end of April 2021. The dollar figures are converted at the official exchange rate of the Lebanese pound to the US dollar. The weighted interest rate on Lebanese Treasury securities denominated in Lebanese pounds was 6.52% in April 2022 compared to 6.49% in April 2021.

The distribution of outstanding Treasury securities shows that 10-year Treasury bonds totaled LBP35,139bn and accounted for 38.6% of aggregate securities denominated in Lebanese pounds at the end of April 2022, followed by seven-year Treasury securities with LBP20,132bn (22.1%), five-year bonds with LBP19,533bn (21.5%), three-year Treasury bonds with LBP6,086bn (6.7%), 12-year Treasury securities with LBP3,076bn (3.4%), two-year Treasury bonds with LBP2,626bn (2.9%), one-year Treasury bills with LBP1,550bn (1.7%), 15-year Treasury securities with LBP1,417bn (1.6%), six-month T-bills with LBP1,242bn (1.4%), and three-month T-bills with LBP170bn (0.2%). As such, 65.7% of outstanding Treasury securities have seven-year maturities or longer and 87.2% have five-year maturities or more.

Projected Maturities of Treasury Securities in LBP*
(LBP billions)



**as at end April-2022*
Source: Association of Banks in Lebanon, Byblos Research

In parallel, LBP670bn in outstanding Treasury securities denominated in Lebanese pounds matured in April 2022, of which 34.5% consisted of seven-year Treasury bills, 17% consisted of five-year Treasury bonds, 16.3% were three-year T-bills, 9.4% were three-month Treasury bonds, and 5.2% consisted of six-month Treasury securities. According to ABL, LBP7,873bn in outstanding Treasury bonds in Lebanese pounds will mature in 2022 and LBP12,734bn will come due in 2023.

Beirut and Marseille ports sign cooperation agreement

The Port of Beirut and le Grand Port Maritime de Marseille signed a partnership agreement on June 8, 2022 that aims to strengthen cooperation between the two ports. The agreement stipulates that the operators of le Grand Port Maritime de Marseille will share their expertise with their counterparts at the Port of Beirut on issues related to port governance and internal organization, as well as trainings in the areas of maritime and port security, safety, port information technology and environmental protection. Also, the two sides will exchange information in order to help the development of maritime trade.

According to a joint statement from the French Embassy in Lebanon, the Beirut Port Investment and Management Company and le Grand Port Maritime de Marseille, the two Mediterranean ports have had links since the 1990s, and the idea of a strengthened partnership derives from France's support for the reconstruction of the Port of Beirut. It stated that experts from the major French seaports of Le Havre and Marseille have organized training to their counterparts in Beirut between November 2020 and July 2021.

Further, the ministry said that the reconstruction of the port will start at the end of August 2022 after the completion of the master plan, in cooperation with the World Bank, in order to optimize investments in the port, which would lead to an increase in Treasury receipts. The World Bank's Rapid Damage and Needs Assessment estimated the damages to the port from the explosion at $350m.

In parallel, the Lebanese-owned and France-based container-shipping firm CMA CGM won a tender in February 2022 to manage, operate and maintain the Port of Beirut's container terminal for a 10-year period starting in March 2022. The firm indicated that it will invest $33m in the container terminal, including $19m in the first two years to upgrade the terminal, in order to increase its capacity to 1.4 million 20-foot equivalent units (TEUs) from 650,000 (TEUs) currently. CMA CGM said that it will earmark the funds to improve the infrastructure by replacing and purchasing new port equipment; to construct a new technical facility to store spare parts; to digitize operations by interconnecting systems between various operators within the port's community; and to improve environmental performance through the purchase of greener and eco-friendly equipment. It added that it will use its own expertise and that of the previous operator's teams to pursue its development goals for the terminal.

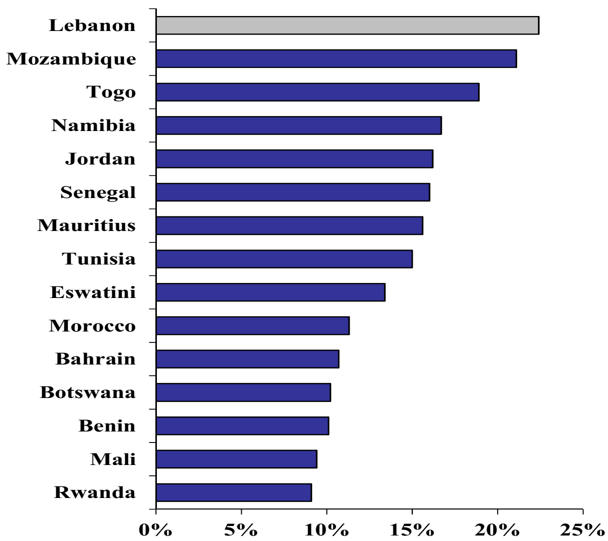
Lebanon exposed to global food and energy price shocks

Moody's Investors Service considered that Lebanon, along with Jordan, Namibia, Mozambique, Senegal and Togo, are the most exposed countries in the Middle East & Africa (ME&A) region to the ongoing global food and energy price shocks.

It indicated that Lebanon's dependency ratio, or the level of the country's energy and food imports bill, was equivalent to 22.4% of GDP in 2019, which is the highest import bill for energy and food products among 37 countries in the Middle East and Africa (ME&A) included in the survey, and that consist of 12 countries in the Middle East and 25 economies in Africa. Also, it said that Lebanon's energy imports bill was equivalent to 12% of GDP in 2019, the third highest in the ME&A region after Togo (14.5% of GDP) and Mozambique (13.4% of GDP), and the highest among 12 Arab countries. It noted that Lebanon, Mozambique, Senegal, Togo, and Tunisia are among the most exposed to higher oil prices.

It added that Lebanon's food import bill was equivalent to 10.4% of GDP in 2019, the highest in the ME&A region, and that Benin, Jordan, Lebanon, Mauritius, Mozambique, and Namibia are the most exposed economies to the increase in food prices. It noted that it used the nominal GDP figures for 2019 in its calculations, given that the GDP figures for 2020 are skewed amid low energy prices due to the COVID-19 pandemic, and because the GDP figures for 2021 are not yet available for all countries.

Highest Energy & Food Import Bills in the Middle East & Africa (% of GDP in 2019)



Source: COMTRADE, Moody's Investors Service

In addition, it assessed political and social risks in Lebanon to be at the same level as risks in Ethiopia, Iraq, Mali, and Niger, due to elevated unemployment rates, healthcare and safety concerns, as well as the lack of access to basic services. It added that the inflation rate in Lebanon reached 214.6% annually in February 2022, the only triple-digit rate among ME&A economies.

The agency anticipated social and political risks to increase in the ME&A region in the coming 18 months as a result of the global food and energy price shock. It considered that countries with a high dependency on food and oil imports, with already elevated social risks, and that a system of governance where citizens do not have an electoral outlet to voice their frustrations, will be the most at risk of political and social unrest.

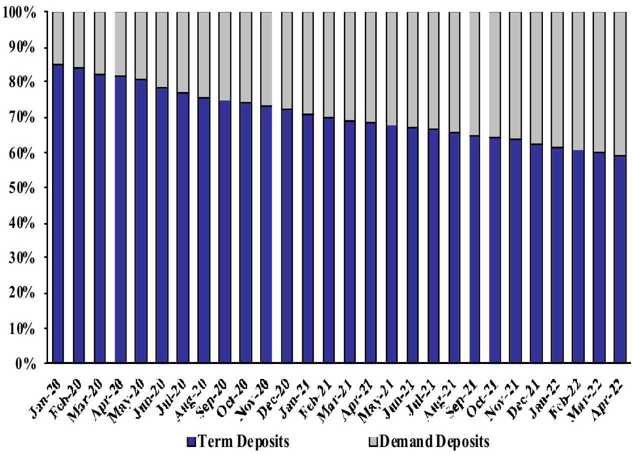
Term deposits account for 59% of customer deposits at end-April 2022

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 $136.4bn at the end of April 2022, constituting a decrease of $3bn, or of 2.1%, in the first four months of the year from $139.3bn at the end of 2021.

Total deposits include private sector deposits that reached $128.2bn, deposits of non-resident financial institutions that amounted to $4.43bn, and public sector deposits that stood at $3.8bn at the end of April 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 $80.7bn at the end of April 2022 and declined by $6.4bn, or by 7.4%, from $87.1bn at end-2021; while they accounted for 59.2% of total deposits in Lebanese pounds and in foreign currency as at end-April 2022 relative to a share of 62.5% at the end of 2021.

Breakdown of Deposits at Commercial Banks (%)



Source: Banque du Liban

The decline in term deposits is due a dip of 33.7% in the term deposits in Lebanese pounds of the public sector, a decrease of 11.4% in the term deposits of the non-resident financial sector, a decline of 8.5% in the term deposits in Lebanese pounds of the resident private sector, a retreat of 6.4% in the foreign currency-denominated term deposits of the resident private sector, a contraction of 3.6% in the term deposits of non-residents, and a marginal downturn of 0.2% in foreign currency-denominated term deposits of the public sector. The decline in term deposits is due to cash withdrawals and to the migration of funds from term to demand deposits, amid the confidence crisis that started in September 2019. Aggregate term deposits declined by $85.8bn since the end of September 2019.

Further, foreign currency-denominated term deposits of the resident private sector reached $46.2bn and accounted for 33.8% of aggregate deposits at the end of April 2022. Term deposits of non-residents followed with $16.1bn (11.8%), then term deposits in Lebanese pounds of the resident private sector with $12.5bn (9.2%), term deposits of the non-resident financial sector with $3bn (2.2%), term deposits of the public sector in Lebanese pounds with $2.2bn (1.6%), and term deposits of the public sector in foreign currency with $703m (0.5%).

In parallel, demand deposits in all currencies at commercial banks stood at $55.7bn at the end of April 2022 and increased by $3.4bn, or by 6.5%, from $52.3bn at end-2021. They accounted for 40.8% of total deposits at end-April 2022 relative to a share of 37.5% at end-2021. The increase in demand deposits was mainly due to a rise of $2.8bn in demand deposits in Lebanese pounds of the resident private sector, a growth of $812.8m in foreign currency-denominated demand deposits of the resident private sector, and an upturn of $13m in demand deposits of non-residents.

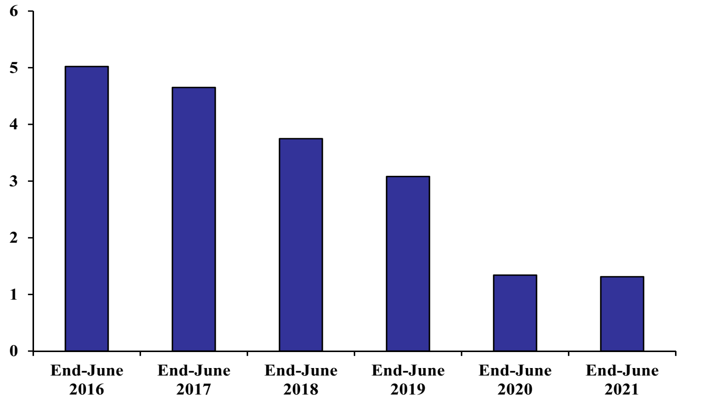
Also, demand deposits in foreign currency of the resident private sector totaled $31.8bn and represented 23.3% of deposits at end-April 2022. Demand deposits in Lebanese pounds of the resident private sector followed with $13.7bn (10%), then demand deposits of non-residents with $7.86bn (5.8%), demand deposits of the non-resident financial sector with $1.4bn (1%), demand deposits in Lebanese pounds of the public sector with $659.8m (0.5%), and demand deposits in foreign currency of the public sector with $211.6m (0.2%).

Based on the latest available figures, Beirut and its suburbs accounted for 66.3% of private-sector deposits and for 50% of the number of depositors at the end of 2021. Mount Lebanon followed with 15% of deposits and 18.6% of beneficiaries, then South Lebanon with 7.15% of deposits and 11.2% of depositors, North Lebanon with 6.6% of deposits and 11.9% of beneficiaries, and the Bekaa with 4.9% of deposits and 8.35% of depositors.

Foreign investments of financial sector at $1.3bn at end-June 2021

Figures issued by Banque du Liban (BdL) show that the net investment portfolio of Lebanese banks and financial institutions in foreign debt and equity securities totaled $1.31bn at the end of June 2021, constituting an increase of 3.3% in the first half of the year from $1.27bn at the end of 2020, and decreases of 2.1% from $1.33bn at the end of June 2020 and of 57.4% from $3.1bn at the end of June 2019. According to BdL, the figures cover the net assets of resident banks and financial institutions in foreign tradable debt and equity instruments. They help provide a clearer picture about the flow of funds from Lebanon and, therefore, about the balance of payments. Placements in equities reached $897.1m at the end of June 2021 and accounted for 68.4% of the total, followed by investments in long-term debt securities at $413.7m (31.5%), and investments in short-term debt securities at $0.9m (0.1%). Investments in short-term debt securities declined by 17.6%, and investments in long-term debt securities regressed by 3.8% in the first half of 2021, while placements in equities grew by 6.9% from the end of 2020.

Foreign Investments of Financial Sector (US$bn)



Source: Banque du Liban, Byblos Research

The net investments of insurance companies in long-term debt securities totaled $168.7m and accounted for 40.8% of the financial sector's aggregate investments in such securities at the end of June 2021. The investments of commercial banks in long-term debt securities, which consist of the banks' investments for their own account, on behalf of their clients and on a custodial basis, followed with $143.3m (34.6%), then medium- and long-term banks with $70.7m (17%), and financial institutions with $30.8m (7.5%). Further, medium- and long-term banks' investments in equities reached $288.2m and represented 32% of the financial sector's investments in such securities at the end of June 2021. Commercial banks followed with $260.3m (29%), then financial institutions with $190.8m (21.3%), insurers with $157.3m (17.5%), and financial intermediaries with $0.26m (0.03%). In parallel, insurance firms had $0.9m invested in short-term debt securities at the end of June 2021 and were the only segment to place funds in such securities.

The distribution of investments by destination shows that the United States was the main recipient of equity investments of banks and financial institutions operating in Lebanon with $261m, or 29% of the total at the end of June 2021. Luxembourg followed with equity investments of $82m (9%), then the United Kingdom with $75.2m (8.4%), France with $72.4m (8.1%), and the Cayman Islands with $63.3m (7%), while other countries accounted for the remaining 38.3%. In parallel, the United States was the recipient of $67.3m or 16.3% of investments by Lebanese banks and financial institutions in long-term debt securities, followed by Ireland with $50m (12%), Belgium with $36m (8.7%), South Africa with $26.8m (6.5%), and the United Kingdom with $24.6m (6%), while other countries accounted for the balance of 50.5%. Further, the United Kingdom was the recipient of 71.4% of investments by Lebanese banks and financial institutions in short-term debt securities, followed by the European Union with 21.4%, while other countries accounted for the balance of 7.1%.

Bank Audi posts losses of LBP11bn in first quarter of 2022

Bank Audi sal, one of six listed banks on the Beirut Stock Exchange, declared unaudited consolidated net losses of LBP11bn, or the equivalent of $7.3m, in the first quarter of 2022, while it did not register profits or losses in the first quarter of 2021. The dollar figures are based on the official exchange rate of the Lebanese pound to the US dollar. The bank's net interest income reached LBP367.6bn ($243.8m) in the first quarter of 2022, constituting a decrease of 5.7% from LBP389.6bn ($258.4m) in the same period of 2021; while its net earnings from fees & commission stood at LBP35bn ($23.2m) compared to –LBP39.8bn (-$26.4m) in the first quarter of 2021, mainly due to fees and commission income of LBP87.5bn ($58m) that outweighed fees and commission expenses of LBP52.5bn ($35m). Further, the bank's net operating income totaled LBP242.8bn ($161m) in the first quarter of the year and increased by 38% from LBP175.8bn ($116.6m) in the same period of 2021. In addition, the bank's operating expenditures reached LBP244bn ($162m) in the first quarter of 2022, up by 37.2% from LBP177.9bn ($118m) in the same period last year, with personnel cost accounting for 51% of the total.

In parallel, the bank's aggregate assets amounted to LBP40,324.3bn ($26.75bn) at the end of March 2022 and regressed by 0.4% from LBP40,486.4bn ($26.86bn) at end-2021. Net loans & advances to customers totaled LBP6,740bn ($4.47bn) at the end of March and decreased by 4.8% from LBP7,079bn ($4.7bn) at end-2021. Further, customer deposits reached LBP29,800bn ($19.8bn) and regressed by 1.2% from LBP30,156.4bn ($20bn) at end-2021. Also, net loans & advances to related parties amounted to LBP67.8bn ($45m), while deposits from related parties stood at LBP126.2bn ($83.7m) at end-March 2022. In parallel, the bank's shareholders' equity was LBP3,799.7bn ($2.52bn) at the end of March and increased by 1.2% in the first quarter of 2022. The bank indicated that the uncertainties arising since 2019 makes it difficult to estimate the negative impact of the crisis on its financial statements according to International Accounting Standards.

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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