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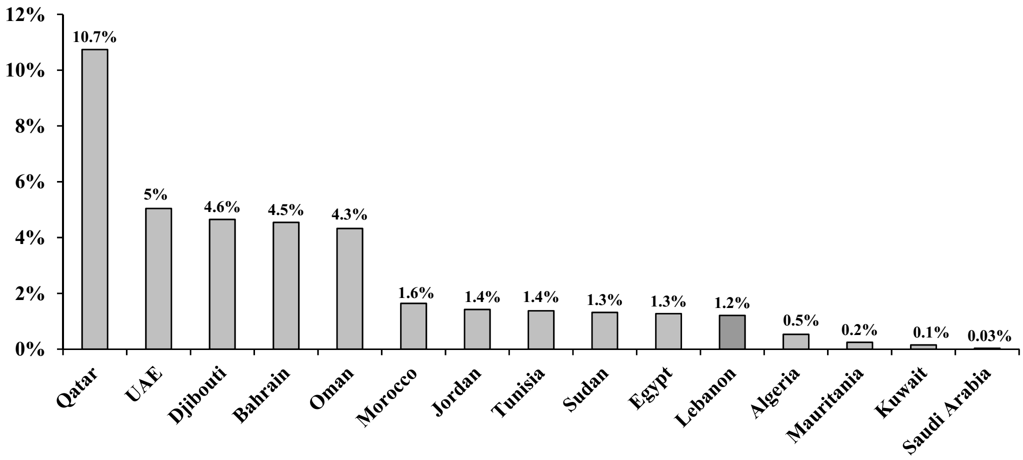
Economic Research & Analysis Department

LEBANON THIS WEEK

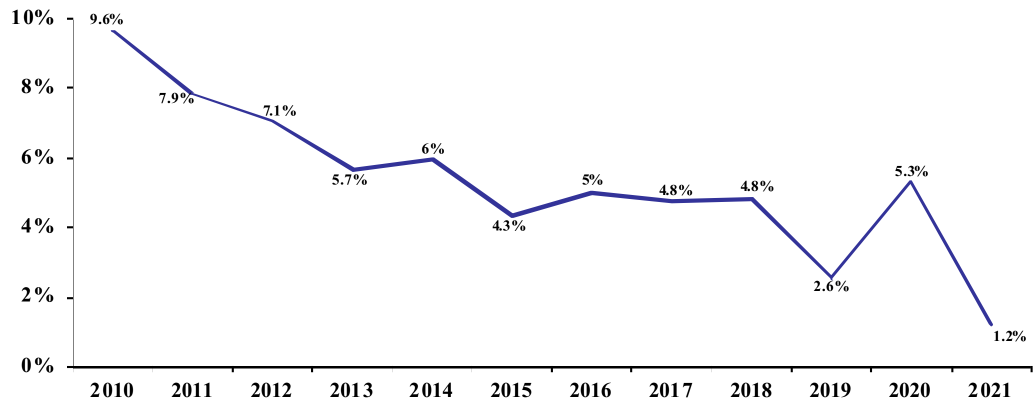
In This Issue

Charts of the Week

Foreign Direct Investment Inflows to Arab Countries in 2021 (% of GDP)



Foreign Direct Investment Inflows to Lebanon (% of GDP)



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

Quote to Note

"The authorities must deliver on commitments made in the April 7 staff-level agreement with the International Monetary Fund, including budget laws, capital controls, banking secrecy, banking resolution, government and central bank decisions on banking resolution and exchange rate unification, to lay a solid basis for a sustainable recovery of Lebanon."

The International Support Group for Lebanon, on the upcoming priority of the legislative and executive branches

Number of the Week

87.2%: Percent of Lebanese-pound denominated Treasury securities that mature in five years or more, according to the Association of Banks in Lebanon

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"	60.95	(2.5)	178,610	41.4%
BLOM GDR	2.50	0.0	127,470	1.3%
Byblos Common	0.75	2.7	75,700	2.9%
Solidere "B"	60.75	(3.0)	73,118	26.8%
Audi GDR	1.99	28.4	5,914	1.6%
Audi Listed	1.66	0.0	4,253	6.6%
HOLCIM	27.50	0.0	-	3.6%
Byblos Pref. 09	37.98	0.0	-	0.5%
BLOM Listed	3.00	0.0	-	4.4%
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	7.75	4,463.71
Jan 2023	6.00	7.75	1,609.72
Apr 2024	6.65	7.75	204.32
Jun 2025	6.25	7.75	108.27
Nov 2026	6.60	7.75	67.21
Feb 2030	6.65	7.75	36.33
Apr 2031	7.00	7.75	31.22
May 2033	8.20	7.75	24.93
Nov 2035	7.05	7.75	20.11
Mar 2037	7.25	7.75	18.13

Source: Refinitiv

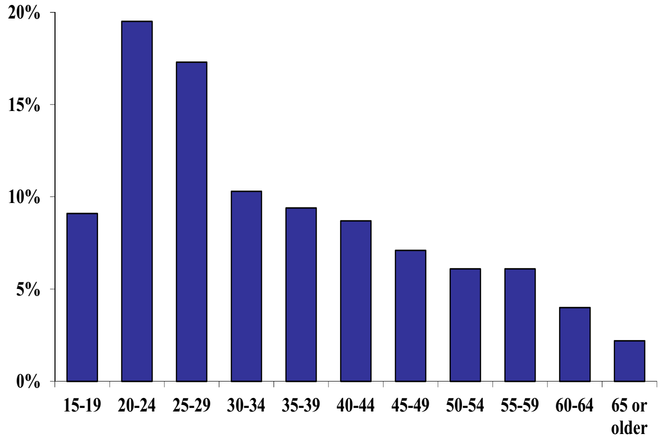
	Jun 20-24	Jun 13-17	% Change	May 2022	May 2021	% Change
Total shares traded	471,465	357,292	32.0	1,659,677	2,276,392	(27.1)
Total value traded	$15,685,255	$12,528,022	25.2	$50,621,005	$34,870,716	59.5
Market capitalization	$14.71bn	$14.92bn	(1.4)	$14.78bn	$9.18bn	61.0

Source: Beirut Stock Exchange (BSE)

Unemployment rate at 29.6% in January 2022

The Central Administration of Statistics (CAS) released its Labor Force Survey (LFS) that it conducted in January 2022, with the technical and financial assistance of the International Labor Organization, on a sample of 5,444 households in Lebanon irrespective of nationality.

Unemployment Rate by Age Bracket (%)



Source: Central Administration of Statistics

The LFS indicated that the total labor force participation rate was 43.4%, while 56.6% of the total working age population was out of the labor market in January 2022. It added that the labor force participation rate was 66.2% for males and 22.2% for females. It pointed out that 70.4% of the Lebanese and non-Lebanese labor force in the country is employed, while the remaining 29.6% consists of unemployed individuals, compared to an unemployment rate of 11.4% according to the 2018-19 survey. It noted that the unemployment rate stood at 28.4% among males and at 32.7% among females. Also, it revealed that the unemployment rate in the Baalbeck-Hermel governorate was 40.7% in January 2022, followed by South Lebanon with 36.5%, the Bekaa region with 35.2%, North Lebanon with 32.3%, the Nabatieh governorate with 28.9%, the Akkar governorate with 26.7%, Mount Lebanon with 25.4%, and Beirut with 24.8%. In comparison, it said that the unemployment rate in North Lebanon was 14% in the 2018-19 survey, followed by the Bekaa governorate with 13.6%, South Lebanon with 12.3%, Beirut with 11.6%, the Baalbeck-Hermel governorate with 11%, the Nabatieh governorate with 10.8%, Mount Lebanon with 10.4%, and the Akkar governorate with 9.3%.

Further, it indicated that 48.3% of workers were informally employed in January 2022 relative to 35.2% in the 2018-19 survey, with 45.8% of them working in the informal sector and 2.5% in the formal sector. The survey defined informal employment as all employees who do not benefit from social security coverage, or who do not have a paid annual leave or paid sick leave.

Further, the survey pointed out that the unemployment rate reached 47.8% among individuals in the 15 to 24 year-old bracket and was 17.3% among persons between 25 and 29 years old, while it was 4% among individuals in the 60 to 64 year-old segment, and 2.2% among those who are 64 years or older. It noted that 29.6% of the unemployed in all age brackets have been seeking employment for two years or more, 19.2% have been looking for work for one to two years, 16.6% had been seeking a job for one to three months, 15.5% have been searching for work from three to six months, 11.2% have been seeking employment for six to 12 months, and 7.9% have been looking for work for less than a month.

Also, the survey noted that the private sector accounted for 81% of total employment in Lebanon relative to 86.3% in the previous survey, while the public sector represented 16% of jobs in January 2022 compared to 12.4% in the 2018-19 survey. It said that 24.8% of employees in all sectors have obtained a university degree or higher, 24% have an elementary education, 19.2% hold a secondary degree, 15.4% have an intermediate education, 14.2% have attained pre-school education, and 2.2% are illiterate. It added that the unemployment rate varied between 2.7% for illiterate persons and 24.3% for university graduates.

In addition, the LFS pointed out that the labor force participation rate of Lebanese residents was 42.6% in January 2022 compared to 46.3% in the 2018-19 survey, while it was 47.7% among non-Lebanese residents relative to 60.8% in the previous survey. The unemployment rate among Lebanese residents reached 28.1% in 2022 compared to 12.1% the 2018-19 survey, while the unemployment rate of non-Lebanese residents stood at 36.5% relative to 8.7% in the previous survey.

In parallel, the survey showed that male Lebanese managers earned, on average, 11.3% less than female Lebanese managers. In contrast, it said that male Lebanese employees tend to earn 25.8% more than female Lebanese employees in elementary occupations. It said that male Lebanese workers make 25.4% more money than their female counterparts among white-collar jobs and are getting paid 23% more than women in armed forces occupations. It noted that male Lebanese employees receive a salary that is 22.8% higher than the wages of their females counterparts among plant and machine operators and assemblers, earn 21.7% more money than women among clerical support workers, and are getting paid 20.5% more than females among craft and related trades workers. It added that Lebanese male workers receive a salary that is 19.3% higher than the income of females among technicians and associate professionals, and earn 16.6% more than their female counterparts among services and sales employees.

Also, the LFS revealed that employees with a university education or higher earned LBP3,773,500 per month at the time of the survey, followed by workers with a secondary degree (LBP2,084,700), employees with intermediate education (LBP1,775,000), wager-earners with elementary education (LBP1,621,000), workers with pre-school education (LBP1,443,800), and employees who are illiterate (LBP1,274,000).

Outward greenfield foreign direct investments up 309% to $693m in 2021

Figures released by the United Nations Conference on Trade and Development (UNCTAD) and compiled by fDi Markets show that outward greenfield foreign direct investments (FDI) from Lebanon totaled $693m in 2021, constituting a rise of 308.8% from $169.5m in 2020. Lebanon was the source of 50 greenfield FDI in 2021, representing an increase of 138% from 21 projects in 2020.

In comparison, outward Lebanese greenfield FDI stood at $316m in 2019 and covered 34 projects, while they totaled $156m in 2018 (17 projects), $1.04bn in 2017 (12 projects), $569m in 2016 (nine projects), $733.8m in 2015 (17 projects), $216.5m in 2014 (17 projects), and $204.6m in 2013 (seven projects).

The FDI figures cover cross-border greenfield projects that lead to the direct creation of jobs and capital investment. They include joint ventures when these transactions lead to a new physical greenfield operation. The figures exclude mergers and acquisitions and other equity investments. fDi Markets is a database that tracks cross-border greenfield investments across the world, and is owned by the Financial Times Group.

Outward Greenfield FDI in Arab Countries (US$m)

	2021	2020	Change (%)
UAE	15,835.3	6,680.3	137.0%
Kuwait	2,178.6	235.9	823.5%
Saudi Arabia	1,726.2	3,377.0	-49%
Morocco	1,455.0	85.5	1601.8%
Lebanon	**693.0**	**169.5**	**308.8%**
Qatar	465.3	338.0	37.7%
Tunisia	239.1	67.8	252.7%
Egypt	188.5	318.6	-40.8%
Bahrain	117.4	351.1	-66.6%
Sudan	104.5	-	-
Oman	12.1	139.2	-91.3%
Jordan	9.2	10.4	-11.5%
Libya	3.2	-	-
Iraq	1.3	-	-
Djibouti	-	145.9	-
Palestine	-	10.2	-
Syria	-	1.5	-
Total	**23,028.7**	**11,930.9**	**93.0%**

Source: fDi Markets,UNCTAD, Byblos Research

Globally, the amount of greenfield FDI that originated from Lebanon was the 45th highest in nominal terms among 113 economies with a GDP of $10bn or more, as well as the fifth largest among 14 Arab countries. Lebanon was among 50 countries that registered an increase in the amount of outward greenfield FDI in 2021. Also, Lebanon was the source of $130.6m in greenfield FDI to developing economies in 2021, $113m to developing Asia, $24.1m to West Asia, $2.7m to Turkey, while other countries accounted for the remaining $422.7m.

In parallel, the number of greenfield FDI projects from Lebanon was the 36th highest globally in 2021 and the second highest regionally behind the UAE (209 projects). Also, Lebanon was among 60 countries worldwide that registered a rise in the number of outward greenfield FDI projects last year.

In addition, the amount of greenfield FDI that originated from Lebanon accounted for 3% of total greenfield FDI from Arab countries last year relative to 1.4% in 2020. It also represented 2.9% of total flows from West Asian countries in 2021, up from 1.1% in 2020, as well as 0.5% of such flows from developing economies compared to 0.1% in 2020. Further, the amount of outward Lebanese greenfield FDI was equivalent to 3.1% of Lebanon's GDP in 2021, based on the Ministry of Finance's estimate of nominal GDP for the year, the second highest such ratio in the Arab world behind the UAE (3.9% of GDP).

Banque du Liban extends measures on interest rates and fixed income instruments

Banque du Liban (BdL) issued Intermediate Circular 628 on June 21, 2022 addressed to banks, financial institutions and auditors that extends until the end of 2022 the implementation of Intermediate Circular 536 dated December 4, 2019, Intermediate Circular 541 issued on January 30, 2020, and Intermediate Circular 544 dated February 13, 2020. BdL has extended the implementation of these circulars for six-month periods since it issued them, and they were set to expire on June 30 of this year.

First, Circular 536 stipulated that BdL will, exceptionally and for a period of six months, apply new rules on the interest income it pays on term deposits that banks placed in US dollars at BdL and on the Certificates of Deposits that it issued in US dollars. Specifically, BdL will pay 50% of the interest income in US dollars and 50% in Lebanese pounds.

Second, Circular 541 indicated that banks and financial institutions operating in Lebanon have to pay the principal and coupons of the bonds that they issued in accounts at banks operating in the country. It said that the same rules will apply to the payments of the principal and interest on Certificates of Deposits and interbank certificates issued by banks and financial institutions. It added that the measures that the clearinghouse MidClear introduced at the time on foreign transfers will apply to the payments of principal and coupons of the aforementioned bonds and certificates.

Third, Circular 544 capped the interest rates on deposits in foreign currency with a maturity of one month at 2%, the rates on deposits with a maturity of six months at 3%, and the interest rates on deposits with a maturity of one year or more at 4%. Further, the circular capped the interest rates on Lebanese pounds deposits with a maturity of one month at 5.5%, the rates on deposits with a maturity of six months at 6.5%, and the interest rates on deposits with a maturity of one year or more at 7.5%. The ceilings applied on new deposit accounts or on renewed deposits after February 2, 2020.

Occupancy rate at Beirut hotels at 40%, room yields up 11% in first four 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 40% in the first four months of the year relative to 29% in the same period of 2021, and compared to an average rate of 57.3% in 14 Arab markets included in the survey. The occupancy rate at Beirut hotels was the fourth lowest in the region in the first four months of 2022 and in the same period of 2021. The occupancy rates at Beirut hotels reached 34.7% in January, 43.8% in February, 55.7% in March, and 25.8% in April, compared to 29.5% in January, 17% in February, 33.7% in March, and 34.6% in April 2021. The occupancy rate at hotels in Beirut increased by 11 percentage points in the first four months of 2022 from the same period of 2021. In comparison, the average occupancy rate in Arab markets expanded by 15.8 percentage points in the covered period

Hotel Sector Performance in First Four Months of 2022

	Occupancy Rate (%)	RevPAR (US$)	RevPAR % change
Madina	80	113	218.6
Abu Dhabi	79	65	35.8
Dubai	77	125	201.8
Ras Al Khaimah	66	123	28.6
Riyadh	66	116	83.5
Makkah	65	136	365.7
Cairo-City	64	66	209.0
Doha	59	63	-10.7
Jeddah	47	100	3.0
Muscat	47	61	175.1
Beirut	**40**	**23**	**11.4**
Manama	40	60	65.2
Kuwait City	38	91	39.8
Amman	36	51	183.5

Source: EY, Byblos Research

Also, the average rate per room at Beirut hotels was $57.5 in the first four months of 2022, decreasing by 19.4% from $71.3 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 $167.3 that increased by $35.5, or by 27% in the same period of 2021. The average rate per room at Beirut hotels reached $69 in January, $66.7 in February, $64.6 in March, and $72.3 in April 2022 compared to $73 in January, $81.8 in February, $72.5 in March, and $90.1 in April 2021.

Further, revenues per available room (RevPAR) were $23 at Beirut hotels in the first four months of the year compared to $20.7 in the same period last year, 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 rose by 11.4% in the first four months of 2022 and posted the 12th highest increase regionally. The RevPAR at hotels in Beirut reached $24 in January, $29.3 in February, $36 in March 2022, and $18.7 in April 2022, compared to $21 in January, $14 in February, $24.4 in March, and $31.2 in April 2021. Madinah in Saudi Arabia had the highest hotel occupancy rate in the region at 79.6% in the first four months of 2022, while Dubai registered the highest average rate per room at $405.1, and Makkah the highest RevPAR at $135.7 in the covered period.

Banque du Liban amends Circular 158, extends terms of circular for one year

Banque du Liban (BdL) issued on June 21, 2022 Intermediate Circular 626 that amends Basic Circular 158 that it issued on June 8, 2021 to banks operating in Lebanon about exceptional measures related to the gradual disbursement of deposits in foreign currency from accounts that clients opened prior to October 31, 2019. The circular stipulates that eligible depositors can withdraw up to $400 in foreign currency banknotes per month for a 12-month period, and up to the equivalent of $400 converted to Lebanese pounds at the rate of LBP12,000 per US dollar, with half of the amount disbursed in cash and the other half to be used through a payment card.

First, the circular stated that term deposit accounts opened or cash collateral booked prior to the end of October 2019 become eligible for Circular 151 upon the maturity of the account or the release of the collateral. Second, it stipulates that eligible account holders can use the equivalent of the $400 converted to Lebanese pounds at the rate of LBP12,000 per dollar to pay their taxes, bills, fees, loans in Lebanese pounds, etc., by checks, payment cards, or transfers, on the condition that the total amount withdrawn from banks does not exceed the equivalent of $4,800 per year based on the above exchange rate.

Third, it says that BdL will suspend the eligibility of the account holder for Circular 158 for the remainder of the yearly cycle of the circular, which begins on July 1 and ends on June 30 of each year, when the depositor reaches his or her annual withdrawal limit. It added that BdL will suspend the account holder's eligibility in case he or she exceeds the annual withdrawal limit before the end of the yearly cycle at all banks where the clients benefits from the circular, and will also suspend the account holder's eligibility in the following yearly cycle for the same number of months that he or she exceeded the withdrawal limit.

Fourth, the circular indicates that banks can continue to use their deposits at correspondent banks abroad, as per Circular 154, to source their part of the foreign currency liquidity needed for customer withdrawals under Circular 158. Circular 154 mandated banks to place at an account at foreign correspondent banks, by the end of February 2021, the equivalent of at least 3% of the aggregate amount of the bank's deposits in foreign currency as at end-July 2020. Circular 626 stated that, in case the liquidity in this account falls short of the 3% floor, banks have until the end of 2023 to meet the threshold.

Fifth, BdL indicated that the amendments stipulated in Circular 626 will go into effect on July 1, 2022 for a 12-month period that can be renewed or modified, and that they will remain valid until account holders transfer all the eligible funds to their "Special Sub Account".

Lebanon in the News

Banque du Liban extends terms of Circular 151 until end of 2022

Banque du Liban (BdL) issued Intermediate Circular 628 on June 21, 2022 addressed to banks about exceptional measures related to cash withdrawals from foreign currency accounts at banks operating in Lebanon. The circular extends the terms of Basic Circular 151, which were set to expire at the end of June of 2022, until the end of this year. The circular, which BdL issued on April 21, 2020, allowed clients who have accounts in US dollars, or in any other foreign currency, at banks operating in Lebanon to withdraw banknotes in Lebanese pounds from these accounts at a fixed exchange rate of LBP3,900 per US dollar for a period of six months. BdL extended the terms of the circular for another six-month period that expired at the end of March 2021, prolonged it for an additional six months until the end of September 2021, and renewed it for a four-month period ending on January 31, 2022.

In parallel, BdL issued Intermediate Circular 601 on December 9, 2021, addressed to banks and that modified the terms of Basic Circular 151. The circular allows clients who have accounts in US dollars, or in any other foreign currency, at banks operating in Lebanon, to withdraw banknotes in Lebanese pounds from these accounts at a fixed exchange rate of LBP 8,000 per US dollar instead of the LBP3,900 per dollar withdrawal rate that prevailed since April 2020. In addition, BdL put a ceiling of $3,000 on the monthly withdrawals per account. The terms of Circular 601 expire at the end of June 2022.

BdL stated at the time that its decision to modify the withdrawal rate took into consideration the need for the government to complete an economic recovery plan that meets the expectations of the International Monetary Fund, in order to reactivate economic activity and stimulate growth, as well as to reform the financial sector and reach fair and balanced solutions that preserve the rights of depositors and that represent the basis for restoring confidence. It added that it took its decision in expectation that the government will develop measures to unify the multiple exchange rates in the local market, protect social and economic stability, and limit the losses of depositors. Also, BdL affirmed that preserving the funds of depositors can only take place through developing a comprehensive reforms plan and implementing it. It added that it is important to take appropriate measures and initiatives to support the economy, contain the inflation rate, and reduce the size of currency in circulation through, in part, improving tax collection and expanding the tax base.

Private sector deposits declined by $19.36bn between the end of April 2020 and April 2022, with deposits in foreign currency decreasing by $16.54bn and deposits in Lebanese pounds regressing by the equivalent of $2.82bn in the covered period.

Lebanon signs deal for supply of natural gas from Egypt

The Ministry of Energy & Water signed on June 21, 2022 an agreement with its Egyptian and Syrian counterparts in order for Egypt to supply Lebanon's power plants with natural gas through the Arab Gas Pipeline that runs through Jordan and Syria.

The agreement stipulates that Egypt will ship about 650 million cubic meters of gas to Syria, and that Syria will ship in return almost the same quantity of gas to Lebanon through the pipeline to the Deir Ammar power station in the north. in turn, this will lead to the production of 450 megawatts (MW) of electricity and add four hours of electricity output per day in Lebanon. The ministry clarified that the contracts to transport gas from Egypt to Lebanon through Syria is part of a U.S.-backed effort to address the power outages in Lebanon through the import of gas and electricity. It said that the deal still requires the approval of a loan from the World Bank, which has expressed its readiness to finance the gas purchases, as well as assurances from the United States about compliance with its Syria sanctions regime.

Also, the ministry noted that the rehabilitation of the Arab Gas Pipeline within Lebanon's borders is complete after the Egyptian firm Technical Company for Gas Pipeline Operation Services upgraded the Lebanese portion of the pipeline, and that the pipeline is ready to transport natural gas.

In parallel, the Ministry of Energy & Water signed agreements on January 26, 2022 with its Jordanian and Syrian counterparts to supply electricity from Jordan to Lebanon via a grid that runs through Syria. It said that the World Bank will extend a loan to Lebanon in order to cover the costs of importing and transporting electricity through the grid from Jordan. Further, the ministry indicated that Lebanon expects to receive 250 megawatts of electricity as a result of the deal, which will result in an additional supply of up to three hours of electricity per day in the country.

The two agreements are part of the Lebanese authorities' efforts to increase the supply of electricity in Lebanon in light of the inability of Lebanon's main power provider, the state-owned and money-losing Electricité du Liban, to meet demand for electricity in the country, as well as due to the acute shortages of fuel oil that the country needs for power generation and the lack of foreign currency for the imports of hydrocarbons.

In parallel, the United States Department of State indicated that the U.S. administration welcomed the newly signed energy deal between Lebanon, Egypt and Syria, and that it will review the final contracts to make sure that the agreement is in line with U.S. policy and if the deal addresses any potential sanctions concerns, as Egypt has sought assurances that the gas plan will not violate sanctions that the U.S. imposed on Syria through the Caesar Act.

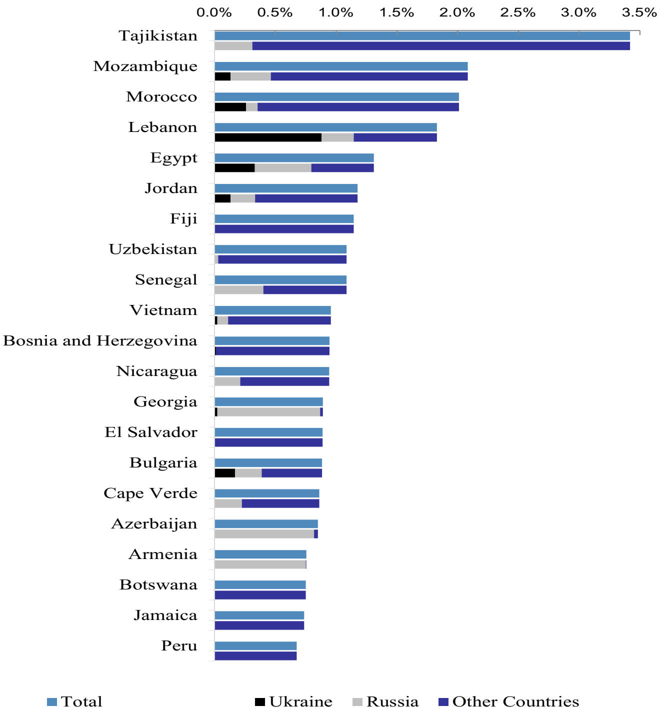
Lebanon exposed to global food price shocks

S&P Global Ratings considered that Lebanon is one of the most exposed countries among 21 emerging market (EM) economies to the ongoing global food price shocks. It indicated that Lebanon, along with Egypt, Jordan and Morocco in the Arab world, rely significantly on Ukraine for part of their food supply and are susceptible to war-induced disruptions to Ukrainian port and processing activities. It noted that Russia and Ukraine, which together account for 12% of the global food trade, are among the top three global exporters of wheat, maize, rapeseed, sunflower seeds and sunflower oil.

It indicated that Lebanon's import bill for barley, corn, rapeseed, sunflower seed, vegetable oil and wheat is equivalent to 1.83% of the country's GDP, the fourth highest among the 21 most vulnerable EM economies to the war in Ukraine after Tajikistan (3.4% of GDP), Mozambique (2.1% of GDP), and Morocco (2% of GDP), and the second highest among the four Arab countries.

It pointed out that Lebanon imports most of the six commodities from Ukraine, and that such imports account for 0.9% of its GDP, the highest share among the 21 EM countries, followed by Egypt (0.3% of GDP), Morocco (0.26% of GDP), Bulgaria (0.17% of GDP), and Jordan (0.13% of GDP). It added that Lebanon's imports of the six commodities from Russia represent 0.26% of Lebanon's GDP, the 10th highest share among the 21 EM economies and the second highest share after Egypt (0.46% of GDP) among the four Arab countries. It noted that Lebanon's imports of the same commodities from other countries account for 0.68% of its GDP.

Largest EM importers of six commodities (% of GDP)



Source: COMTRADE, S&P Global Ratings, Byblos Research

Further, it said that Lebanon's imports of wheat are equivalent to 0.78% of its GDP, the sixth highest among the 21 EM countries after Tajikistan (3% of GDP), Mozambique (1.5% of GDP), Morocco (1.2% of GDP), Fiji (1.1% of GDP), and Uzbekistan (0.9% of GDP). It pointed out that Lebanon's import bill for barley is equivalent to 0.62% of GDP, the third highest such ratio among the 21 EM economies after Vietnam (0.7% of GDP) and Nicaragua (0.67% of GDP). It added that Lebanon's import bill for vegetable oil represents 0.3% of its GDP, the highest among the EMs under coverage. Also, it indicated that the imports of sunflower seed to Lebanon account for 0.77% of the country's GDP and the import bill for corn represents 0.6% of its GDP, while the imports of rapeseed are negligible.

The agency indicated that authorities in several countries have imposed export restrictions on certain food products in response to escalating food prices globally. It considered that the shock to food supply will continue until 2024 and beyond and would negatively impact emerging market countries and affect their GDP growth, fiscal performance, and social stability.

Structural reforms to unlock international funding

Emirates NBD Bank considered that the Lebanese authorities have made limited progress on the implementation of the economic reforms that are essential to secure support from the International Monetary Fund (IMF) and other foreign donors. It added that the fallout from Russia's invasion of Ukraine has exacerbated the prevailing severe economic and financial conditions in the country. As a result of these factors, it revised downwards its forecast for real GDP growth for 2022 from an expansion of 2.9% to a contraction of 1.7% for this year. It noted that this would mark the fifth consecutive year of economic contraction in the country, and would result in a nominal GDP that is 39.4% smaller in real terms than it was in 2017.

In parallel, it indicated that Lebanon has been struggling with multiple crises following the government's decision to default on its Eurobond obligations in March 2020, and that the country is in need of external financial support. It pointed out that positive momentum emerged in this direction in April 2022, as the IMF reached a "Staff-Level Agreement" (SLA) on economic policies with Lebanon, which is effectively a "pre-agreement" that lays out measures that the Lebanese authorities have to implement in order to enter into a new program with the IMF and receive funding. However, it considered that any progress on the implementation of the prior actions is unlikely, especially given the various competing interests among the prevailing political class, particularly the problematic issue of distributing the $73bn in financial losses. It also anticipated that the unification of the multiple exchange rates of the US dollar in the country will prove challenging.

It added that the rise in wheat prices that the conflict in Ukraine has precipitated, as well as higher fuel prices amid fuel shortages, have exacerbated inflationary pressures, and anticipated that the inflation rate will remain elevated in the near-term. Further, it considered that the authorities' implementation of the prior actions in the SLA could improve the country's outlook in case authorities follow up with a reform program and secure emergency funding. It also expected that the government's stepped up efforts on much-needed reforms and the agreement with the IMF would unlock additional financial bilateral and multilateral support, with the potential for the release of the $11bn pledged at the CEDRE conference in April 2018.

Corporate Highlights

Banque de l'Habitat launches solar energy loans

Banque de l'Habitat sal announced that it launched a new short-term credit facility called "solar energy loan" that allows households to borrow funds to install high-quality energy systems in order to give low- and middle-income households access to sustainable electricity at affordable rates.

The bank will extend loans of between LBP75m and LBP200m per household, with a loan ceiling equivalent to 80% of the cost of installing the solar energy system. It indicated that the terms of the credit facility stipulate that the loans will have a five-year maturity and will carry an annual interest rate of 4.99% that can be subject to change. It added that the monthly loan repayments should not exceed 45% of the monthly net income of the household and that the monthly loan installments cannot exceed 33% of the borrower or borrowers' monthly net income. Also, it said that it will disburse the loan amount directly to the firm that will supply and install the solar panels, and only after the borrower provides proof of collateral or after a commercial bank issues a bank guarantee or an advance against cash collateral that is equal to the loan amount and the accrued interest payments.

Further, it pointed out that the net monthly income of resident households that apply for the loans must be between LBP6m and LBP20m, and that the net monthly income for Lebanese expatriate households should range from $1,000 to $2,000 per month in "fresh money".

Banque de l'Habitat is a Lebanese joint-stock company that provides loans in Lebanese pounds to individuals, especially those with low incomes, in order to buy, build, renovate or enlarge a residence. The private sector owns 80% of Banque de l’Habitat, and the Lebanese State owns the remaining 20%. In May 2020, the Kuwait-based Arab Fund for Economic and Social Development (AFESD) extended a soft loan of KWD50m, or the equivalent of $165m, to Bank de L'Habitat to finance affordable mortgages in Lebanon. The AFESD's total contribution to development projects in Lebanon reaches KWD595m, or about $1.95bn when including the loan.

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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