

LEBANON THIS WEEK

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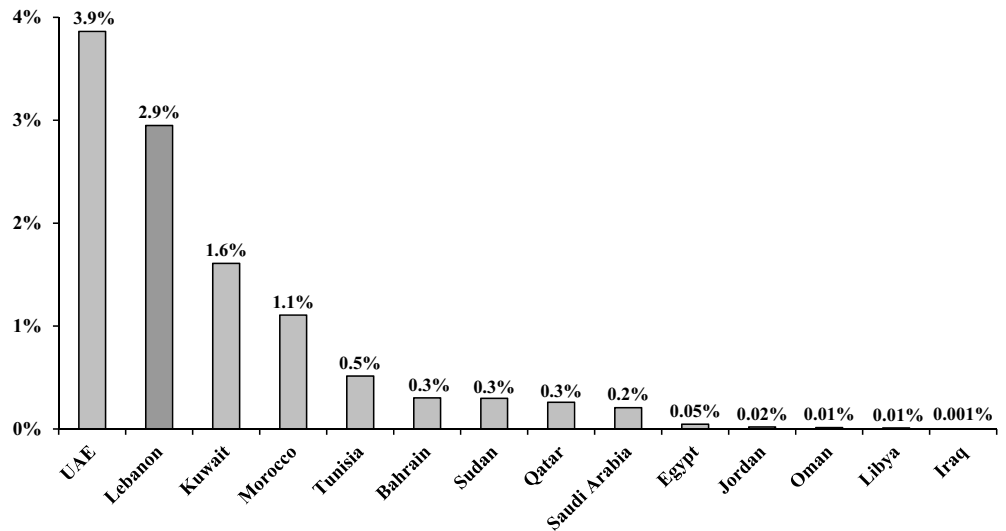
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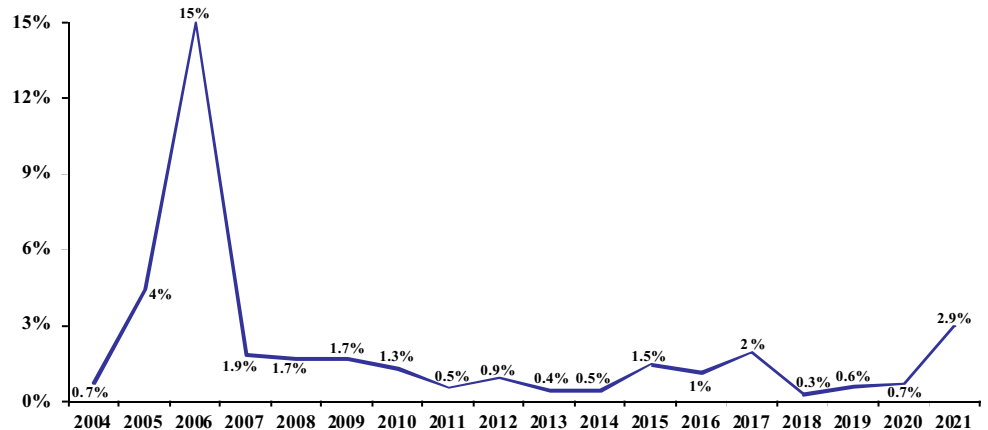
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Charts of the Week

Greenfield Foreign Direct Investment Outflows from Arab Countries in 2021 (% of GDP)



Greenfield Foreign Direct Investment Outflows from Lebanon (% of GDP)



Source: UNCTAD, IIF, IMF, Byblos Research

Quote to Note

"Lebanon's trajectory will depend on the ability and willingness of the country's leaders to urgently initiate sustainable solutions."

Ms. Joanna Wronecka, the United Nations Special Coordinator for Lebanon, on the need for Lebanese authorities to start the implementation of structural reforms

Number of the Week

52.6%: Increase in the prices of water, electricity, gas and other fuels in June 2022 from the preceding month, according to the Central Administration of Statistics' Consumer Price Index

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 %
Audi Listed	1.40	(0.7)	397,027	5.8%	Oct 2022	6.10	6.0	9,096.77
Solidere "A"	59.75	(2.0)	207,118	42.0%	Jan 2023	6.00	6.0	3,222.86
Solidere "B"	59.55	(1.5)	20,556	27.2%	Apr 2024	6.65	6.0	252.65
BLOM GDR	2.49	(0.4)	11,400	1.3%	Jun 2025	6.25	6.0	127.01
BLOM Listed	2.85	0.0	5,000	4.3%	Nov 2026	6.60	6.0	76.99
Byblos Common	0.68	(2.9)	2,663	2.7%	Feb 2030	6.65	6.0	40.86
HOLCIM	28.50	2.9	1,000	3.9%	Apr 2031	7.00	6.0	35.00
Audi GDR	1.50	0.0	-	1.3%	May 2033	8.20	6.0	27.85
Byblos Pref. 09	37.98	0.0	-	0.5%	Nov 2035	7.05	6.0	22.40
Byblos Pref. 08	24.99	0.0	-	0.4%	Mar 2037	7.25	6.0	20.17

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

Source: Refinitiv

	Jul 25-29	Jul 18-22	% Change	July 2022	July 2021	% Change
Total shares traded	644,764	130,704	393.3	1,320,045	1,814,751	(27.3)
Total value traded	\$14,281,681	\$5,822,976	145.3	\$50,138,832	\$30,622,302	63.7
Market capitalization	\$14.21bn	\$14.39bn	(1.26)	\$14.21bn	\$9.81bn	44.8

Source: Beirut Stock Exchange (BSE)



Economic outlook dependent on commitment to structural reforms

The Institute of International Finance (IIF) revised upwards its projection for Lebanon's real GDP growth for 2022 from its May 2022 forecast of 2.5% to 3% currently, driven by the expected strong recovery in tourism, mainly during this summer season, as well as by favorable base effect. Also, it revised its forecast for the average inflation rate from 96% to 156% in 2022, due to higher global food and oil prices, as well as to the further depreciation of the Lebanese pound on the parallel market. In addition, it modified its estimate for the fiscal deficit this year from 4.3% of GDP last May to 3.2% of GDP currently, mainly due to the accumulated large public expenditure arrears. Further, it expected the current account balance to post a deficit at 11.5% of GDP in 2022 relative to a previous deficit forecast of 22.7% of GDP for the year, supported by the strong recovery in exports of goods and services that could more than offset the increase in imports, which continue to be constrained by the availability of foreign currency in the Lebanese market.

Further, the IIF considered that its medium-term outlook is based on two scenarios for the Lebanese economy, in order to take into account the prevailing uncertainties about the authorities' will to implement reforms and whether or not they will reach a final agreement with the International Monetary Fund (IMF) on a supported program.

In its optimistic scenario, it assumed that the Lebanese authorities will start implementing urgent economic reforms following the upcoming presidential elections, including the prior actions included in the staff level agreement with the IMF. It expected the completion of the prior actions to pave the way for the IMF's Executive Board to approve the \$3bn Extended Fund Facility by the end of 2022, and to unlock additional external financial support that would provide the needed uplift to the Lebanese economy and drive a sustainable strong recovery.

Under this scenario, it projected real GDP growth to accelerate to 6.2% in 2023 and 8.1% in 2024, driven by the partial recovery in public consumption, and the surge in public investments and net exports, and for Lebanon's nominal GDP to recover from \$23.5bn in 2022 to \$54.7bn by 2026 due to the strong growth and the appreciation of the unified exchange rate. It also forecast the inflation rate to gradually decline from an average of 151.8% in 2022 to low double-digit levels in the 2023-24 period, and to single digit levels in the 2025-26 period, supported by the appreciation of the unified exchange rate and lower global commodity prices. In addition, it expected the fiscal balance to post sizeable primary surpluses starting in 2023, as public revenues recover from 6.3% of GDP in 2022 to 16.4% of GDP in 2026. It added that a potential IMF-supported program would put Lebanon's high public debt level on a firm downward path. Also, it projected the current account deficit to narrow from 11.5% of GDP in 2022 to 3.2% of GDP by 2026, driven by the expected robust growth in the exports of goods and services. It forecast gross foreign currency reserves to gradually rise from \$8.68bn at end-2022 to \$30.74bn by the end of 2026, driven by narrower current account deficits and substantial official financial flows.

In contrast, in its pessimistic scenario, the IIF assumed that the political parties in Lebanon will continue to delay the implementation of crucial reforms and the enactment of draft laws related to the IMF's prior actions. As such, it did not expect the Lebanese authorities to reach a final agreement with the IMF or for the international community to extend financial support to Lebanon. As a result, it anticipated foreign currency reserves to decline to \$977m by the end of 2026 in the absence of financial assistance from the IMF, the World Bank, and other official creditors, and for the authorities to use most of the mandatory reserve requirements of commercial banks at Banque du Liban. Also, it projected the public debt level to reach 202% of GDP by the end of 2026 in the absence of debt restructuring or a haircut on Eurobonds. Also, it expected Lebanon's real GDP to shrink in 2023 onwards, but for the contraction to be smaller than in previous years due to low base effects. It added that the exchange rate on the parallel market will continue to depreciate, and projected nominal GDP at about \$20.4bn in 2023, despite higher inflation rates next year.

	Medium-Term Scenarios for the Lebanese Economy									
	Optimistic Scenario*						Pessimistic Scenario**			
	2021	2022	2023	2024	2025	2026	2023	2024	2025	2026
Nominal GDP (LBP trillion)	221.4	556.0	897.0	1,078	1,203	1,312	917	1,398	1,906	2,491
Nominal GDP (US\$ bn)	23.4	23.5	33.2	41.5	48.1	54.7	20.4	18.6	21.2	22.6
Real GDP Growth, (% Change)	-7.5	3.0	6.2	8.1	7.5	7.3	-3.3	-2.5	-1.9	-1.5
GDP Deflator, (% Change)	148.5	143.9	51.9	11.3	4	1.7	72.2	56.5	38.9	32.7
Consumer Prices, Avge, (% Change)	154.8	151.8	52.6	12	6	4	82.6	62	40	35
Consumer Prices, EoP, (% Change)	224.4	84.0	30.5	9	4	3	65.5	43	37	34
Weighted Exch. Rate, Avge, LBP/\$	9,452	23,679	27,000	26,000	25,000	24,000	45,000	75,000	90,000	110,000
Current Account Balance, (% of GDP)	-14.8	-11.5	-6.2	-3.1	-3	-3.2	-12.4	-8.6	-6.3	-5.5
Official FX Reserves*** (US\$m)	13,646	8,683	12,405	18,235	24,285	30,739	5,750	3,911	2,398	977
Fiscal Balance, (% of GDP)	-1.3	-3.2	-0.5	0.1	0.5	1.4	-0.8	0.3	0.1	0.1
Primary Balance, (% of GDP)	-0.1	-2.1	0.9	2.1	2.5	3.5	0.1	1.2	1	1.1
Public Debt, (% of GDP)	221.7	190.1	88.7	82.1	78.1	73.4	187.3	187	201.6	201.8

*Optimistic Scenario: Assumes implementation of significant reforms and agreement with the IMF on a program

**Pessimistic Scenario: Assumes no implementation of reforms and failure to reach an agreement with the IMF

***Official reserves exclude gold and BdL holdings of government Eurobonds

Source: Institute of International Finance, July 2022



Banque du Liban's foreign assets at \$15.2bn, gold reserves at \$16.3bn at end-July 2022

Banque du Liban's (BdL) interim balance sheet reached \$169.4bn at the end of July 2022, constituting increases of 3.8% from \$163.2bn at end-2021 and of 6.6% from \$158.9bn a year earlier. Assets in foreign currency totaled \$15.17bn at end-July 2022, representing a decrease of \$2.6bn, or of 15%, from the end of 2021 and a drop of \$4.9bn (-24.4%) from \$20.1bn at the end of July 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 gross foreign currency reserves, which consist of its assets in foreign currency excluding Lebanese Eurobonds, stood at \$10.14bn at the end of July 2022 and increased by \$57.2m (+0.6%) from \$10.08bn at mid-July 2022, while decreased by \$167.2m (-1.6%) from \$10.3bn at end-June 2022. They dropped by \$2.6bn (-20.8%) in the first seven months of the year from \$12.8bn at the end of 2021 and by \$4.9bn (-32.5%) from \$15bn at end-July 2021. The cumulative decline of BdL's gross foreign-currency reserves in the past 12 months 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 amounted to \$16.3bn at the end of July 2022, constituting a decrease of \$330m (-2%) in the first seven months of the year and a decline of \$604.6m (-3.6%) from \$16.9bn at end-July 2021. The value of gold reserves reached a peak of \$18.15bn at mid-April 2022. Also, the securities portfolio of BdL totaled \$41.9bn at end-July 2022, increasing by \$634m (+1.5%) in the first seven months of the year and by \$1.3bn (+3.3%) from \$40.6bn a year earlier. In addition, loans to the local financial sector totaled \$13.3bn, as they regressed by 3% in the first seven months of 2022 and by 4.6% from end-July 2021. Further, the deposits of the financial sector stood at \$111.6bn at end-July 2022 and grew by \$4.25bn from a year earlier. In addition, public sector deposits at BdL stood at LBP16,432.4bn (\$10.9bn) at end-July 2022, as they rose by LBP4,741 (\$3.1bn) in the first seven months of the year and surged by LBP6,771.7 (\$4.5bn) from the end of July 2021.

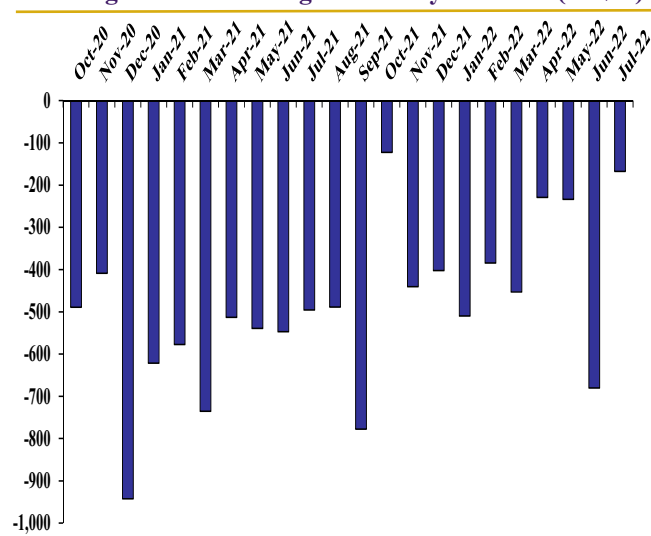
Banque du Liban issues circulars about early repayment of loans and cash withdrawals

Banque du Liban (BdL) issued Intermediate Circular 638 on July 27, 2022 addressed to banks that modifies Basic Circular 23 dated March 7, 1996 and Basic Circular 84 dated June 2, 2001.

The circular stipulates that banks no longer need the approval of BdL to accept the early repayment of housing loans that banks extended based on the protocols signed with the Public Corporation for Housing, the Military Volunteers Housing Unit, the Ministry of the Displaced, the Mutual Fund of the Magistrates, the General Directorate of the Internal Security Forces, the General Directorate of General Security, the Customs Authority, the General Directorate of State Security, the Fire Brigade, and the Beirut Municipality Guards Brigade. The circular also covers loans that banks extended for higher education and for environmental loans that do not exceed LBP30m. It asked banks to inform BdL's financing unit in case of the early repayment of the specified loans and to provide it with the new payment schedule. It added that the decision covers applications for the early repayment of loans that BdL received prior to the issuance of this circular and that it has not approved yet.

In parallel, BdL issued Intermediate Circular 636 dated July 27, 2022 addressed to banks that modifies Basic Circular 151 dated April 21, 2020 about exceptional measures regarding cash withdrawals in foreign currency from deposit accounts. The circular asks banks to communicate to the Banking Control Commission on a monthly basis the aggregate amounts from cash withdrawal operations under the terms of Circular 151. BdL issued Circular 151 on April 21, 2020 that 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. BdL modified the terms of the circular on December 9, 2021 to allow depositors to withdraw banknotes in Lebanese pounds from their foreign currency 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, it put a ceiling of \$3,000 on the monthly withdrawals per account.

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



Source: Banque du Liban, Byblos Research

Lebanese agro-food products have high export potential

The Boston Consulting Group's (BCG) export development strategy for Lebanese agro-food products indicated that Lebanese exports of such products exceeded \$1bn in 2021, constituting increases of \$410m, or 68%, from \$604m in 2020 and of \$387m (+62%) from \$627m in 2019. It pointed out that the decline in exports in 2020 was mainly due to the COVID-19-related restrictions and to the slowdown of shipping activities worldwide. The strategy, which falls under the Business Innovation & Enhance Exports for Lebanon initiative (BIEEL), assesses the markets for Lebanese agricultural exports, and tries to identify challenges and growth opportunities to boost the export of these products

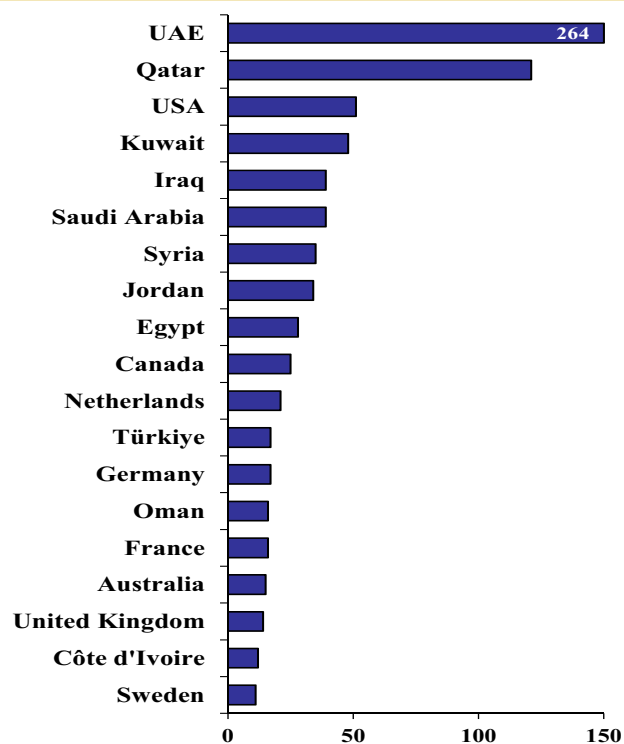
It added that 98% of Lebanese exports of agriculture and agro-food products in 2021 consisted of prepared foodstuffs, beverages, and tobacco (49% of the total); vegetable products (40%); live animals and animal products (4%); and animal or vegetable fats and oils (3%), unchanged from 2019. Also, it noted that non-edible agricultural products represented only 2% of Lebanese agriculture and agri-food exports last year, similar to 2019. In addition, it pointed out that 75% of Lebanese agri-food exports went to 12 destinations in 2021, mainly to the Gulf Cooperation Council (GCC) economies, North America, and four other countries in the Middle East & North Africa region; while 50% of such exports targeted the U.S., the UAE, Qatar, and Kuwait. It attributed the high share of exports to the GCC and North America to the wide presence of Lebanese expatriates in these markets, and to the fact that GCC countries are geographically well placed and have trade agreements with Lebanon. It stressed that restrictions on trade agreements with European Union countries, such as higher quality standards and limitations on export quantities, have constrained Lebanese exports to these markets.

Further, it stated that Lebanese exports of agri-food products to the UAE totaled \$264m in 2021 and surged by 474% from \$46m in 2019, as the country was the top destination for Lebanon's exports last year. In contrast, it stated that agri-food exports to Saudi Arabia amounted to \$39m in 2021 and posted a drop of 59% from \$94m in 2019, the only decline among the top six export destinations last year. Saudi Arabia announced in April 2021 that it suspended the imports of fruits and vegetables from Lebanon, as well as the transit of such products through its territory to other markets.

In parallel, the BCG identified seven measures to boost the growth of Lebanese agriculture and agro-food exports. First, it said that companies in the agricultural sector need to invest in branding and marketing, such as developing labels that showcase the Lebanese origin of the products. Second, it stated that agri-food firms should facilitate cooperation between vested parties in order to establish direct sales-contracts with buyers. Third, it noted that companies have to improve the quality of their products and coordinate with certification agencies to fast track the exporting process. Fourth, it pointed out that firms must establish an electronic infrastructure platform to help connect Lebanese producers of agri-products to international buyers. Fifth, it indicated that agri-food companies should increase the capacity of cold storages and packaging units for fresh products. Sixth, it said that firms in the agricultural sector need to develop a "one stop shop" for all the paperwork and licensing needs of exporters. Seventh, it encouraged companies to facilitate the upskilling of producers to enhance the quality of their products.

BIEEL is a project led by Fair Trade Lebanon, and aims to support Lebanese exports and to empower Lebanese small- and medium-sized enterprises as well as cooperatives in order to compete on an international scale. Established in 2006, Fair Trade Lebanon is a non-profit organization that aims to improve the livelihoods of small agricultural producers.

Lebanese agri-food exports by destination in 2021 (\$USm)



Source: Boston Consulting Group, Byblos Research

Banque du Liban tightens AML/CFT measures

Banque du Liban issued on July 19, 2022 Intermediate Circular 633 to banks, financial institutions, leasing companies, and to companies operating in Lebanon that issue debit, credit and charge cards. The circular amends Basic Circular 83 dated May 18, 2001 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 on AML/CFT.

First, the circular asks banks to receive the approval of their senior management before establishing relations with correspondent banks, to verify the activities of the correspondent bank, and to be convinced that these banks have conducted the necessary due diligence on the persons who have access to the Payable Through Accounts.

Second, it says that banks have to 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 added that the banks must also keep all documents related to every operation, 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.

Third, it stipulates that banks have to conduct due diligence on their current clients based on the latter's relative importance and risks, including on clients who opened accounts prior to the enactment of AML Law 318 dated April 20, 2001, as well as to conduct due diligence on current business relationships within an adequate period of time and to take into consideration the previously-conducted due diligence and if there are any changes to the client's situation, especially if there are doubts about the accuracy of information that the client provided in the past.

Fourth, the circular asks senior management at banks to adopt specific policies, controls and procedures to classify risks and reduce them. Fifth, it stipulates that banks should verify the clients' operations throughout the business relationship to ensure that the operations are consistent with the information that the bank has on its clients, their work and the associated risks, their sources of funds when necessary, and the risks they entail. Sixth, it says that banks and firms should ensure that the documents, statements and information from the due diligence process are continuously updated, especially for high-risk clients.

Seventh, 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. It noted that in the latter case, the bank must implement additional risk management measures for AML/CFT and inform the Special Investigation Commission about them.

Eighth, it states that financial groups have to implement AML/CFT measures at the group level, including at all branches and affiliated companies where the group holds a majority. It added that these measures should include the designation of a compliance officer at the group level, policies and measures for the exchange of information from the due diligence process on clients, and risk management for money laundering and the financing of terrorism, as well as provide the information about clients, accounts and operations at branches and affiliated companies to the compliance officer when necessary for AML/CFT purposes. Also, it said that the branches and affiliated companies should receive information from the group's compliance officer, which are consistent with the risk management, and the analysis of information and reports about unusual operations, as well as provide guarantees about the confidentiality and the usage of the exchange information, including guarantees to avoid informing or warning the client.

Banque du Liban extends implementation of Circular 161 for one additional month

Banque du Liban (BdL) issued on July 27, 2022 Intermediate Circular 635 addressed to banks that extends until August 31, 2022 the clauses of Circular 161 dated December 16, 2021 about exceptional measures related to cash withdrawals from accounts at commercial banks in Lebanon. Circular 161 stipulated that BdL will provide banks with US dollar banknotes instead of supplying them with Lebanese pound banknotes, at the daily exchange rate of the Lebanese pound to the dollar, based on the operations conducted on BdL's Sayrafa electronic exchange platform on the previous day. It added that the supply of the dollar banknotes will consist of the preset monthly ceiling for each bank.

Also, BdL asked all banks to disburse the dollar banknotes in full to their clients at the Sayrafa exchange rate as specified, instead of settling the depositors' withdrawal amounts or cash operations at counters in Lebanese pounds, based on the authorized ceiling for each client. Further, it noted that clients can submit a written request in case they do not want to withdraw their monthly ceiling in US dollars. But the banks' quotas have been insufficient to meet the dollar amounts for the withdrawals of depositors, which prompted BdL to issue a follow up decision on January 11, 2022 that authorized banks to purchase US dollar banknotes from the latter with the Lebanese pounds that they hold, or from their clients' holdings of Lebanese pounds banknotes, at the exchange rate of the dollar on BdL's Sayrafa electronic exchange platform. This constitutes the seventh extension of Circular 161, as the latter was originally set to expire at the end of 2021, but BdL extended its clauses until the end of December 2021, then until the end of January of this year, the end of February, the end of March, the end of April, the end of May and the end of July 2022, with the possibility of further extensions.



Government provides work incentives to public sector personnel

The Council of Ministers issued several decrees on July 28, 2022 that provide incentives to public sector personnel to report to work. Decree 9753 adjusts the transportation stipend for public sector personnel from LBP64,000 per day to LBP95,000 per day, starting in August 2022, for each day that they report to work. Further, Decree 9754 increases the compensation of public administration employees, day laborers, hourly workers, and workers in civil servants' cooperatives starting August 1, 2022 for a period of two months. The decree stipulates that public personnel must be present at work at least three days per week in order for them to receive the daily financial incentives. It pointed out that the incentive of Grade 1 workers amounts to LBP350,000 per day, the compensation of Grade 2 employees stands at LBP300,000 for each day at work, that of Grade 3 workers will be LBP250,000 per day at the office, the incentive of Grade 4 employees totals LBP200,000 for each day they report to work, while the compensation of Grade 5 workers as well as of technical service providers amounts to LBP150,000 per day at their work premises. It added that public sector personnel can get the incentives for the remaining days of the working week if they attend work during those days. Further, the decree indicated that any public administration employee, day laborer, or hourly worker who does not report to work at least three days per week will face disciplinary measures by the Central Inspection Administration.

In parallel, Decree 9752 authorizes a Treasury advance of LBP140bn to the Ministry of Finance to cover the cost of the financial incentives of public sector personnel for the months of August and September 2022. It added that the credit facility will be available for six months from the date of the decree and that it has to be disbursed within one year. The decrees were published in the Official Gazette on July 29, 2022.

Deterioration in construction activity slows down in first quarter of 2022

Banque du Liban's quarterly business survey about the opinions of business managers shows that the balance of opinions for general construction activity reached -56 in the first quarter of 2022, compared to -63 in the previous quarter and to -65 in the first quarter of 2021. The balance of opinions for general construction activity in the first quarter of 2022 constituted the sixth 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, -67 in the third quarter of 2021, and -63 in the fourth quarter of 2021. The results are attributed to the absence of new projects, very low investments in the sector, delays in the implementation of reforms to restore confidence, the fluctuations of the exchange rate of the US dollar on the parallel market, as well 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 -53 in the first quarter of 2022 compared to -60 in the preceding quarter and to -66 in the first quarter of 2021. It reached its ninth lowest quarterly level since the first quarter of 2004. The balance of opinions about construction activity was -15 in the North, -46 in the South, -72 in the Bekaa, and -76 Beirut & Mount Lebanon. Also, the balance of opinions about public works stood at -56 in the first quarter of 2022 compared to -69 in the fourth quarter of 2021 and -60 in the first quarter of 2021. The opinions about the level of public works reached -9 in the North, -69 in the Bekaa, -80 in the South, and -93 in Beirut & Mount Lebanon.

In addition, the balance of opinions about the portfolio of projects was -83 in the first quarter of 2022 relative to -88 in the preceding quarter and to -93 in the first quarter of 2021, and reached its eighth lowest quarterly level since the first quarter of 2004. The balance of opinions about the portfolio of projects was -59 in the North, -80 in the South, -96 in Beirut & Mount Lebanon, and -97 in the Bekaa. Further, the balance of opinions about construction costs reached +31 in the first quarter of 2022, compared to +58 in the preceding quarter and +49 in the first quarter of 2021.

In parallel, the balance of opinions about investments in the sector was 15% in the first quarter of 2022, compared to 13% in the preceding quarter, and to 17% in the first quarter of 2021. The balance of opinions about investments was zero in Beirut & Mount Lebanon, 9% 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 -70 in the first quarter of 2022 compared to -75 in the preceding quarter and to -88 in the first quarter of 2021, and reached its eighth lowest quarterly level since the first quarter of 2004. The balance of opinions about the number of employees was -53 in the South, -61 in the North, -76 in Beirut & Mount Lebanon and in the Bekaa.

Construction and Public Work Activity: Evolution of Opinions				
Aggregate results	Q1-19	Q1-20	Q1-21	Q1-22
General activity	-58	-75	-65	-56
Construction	-62	-76	-66	-53
Public works	-45	-79	-60	-56
Portfolio of projects	-63	-87	-93	-83
Construction costs	1	51	49	31
Investments (% of yes)	15%	12%	17%	15%

Source: Banque du Liban Business Survey for First Quarter of 2022

Remittance inflows down 3% to \$4.8bn in first nine months of 2021

Figures released by Banque du Liban (BdL) show that the inflows of expatriates' remittances to Lebanon totaled \$4.82bn in the first nine months of 2021, constituting a decrease of 2.8% from \$4.95bn in the same period of 2020. The figures include workers' remittances and the compensation of employees, according to the World Bank's definition of remittances. BdL's figures are the only official data on remittance flows to and from Lebanon.

In addition, remittance inflows in the first nine months of 2021 reached their lowest level for the period since the first nine months of 2007 and were below the average of \$5.4bn for the first nine months of each year in the 2008-2020 period. Remittance inflows to Lebanon totaled \$1.62bn in the first quarter of 2021, constituting an increase of 5.5% from \$1.54bn in the same quarter of 2020; while inflows of expatriates' remittances to Lebanon totaled \$1.63bn and \$1.57bn in the second and third quarters of 2021, respectively, representing declines of 2.4% and 10.5%, respectively, from the same quarters of the previous year.

In parallel, remittance outflows from Lebanon amounted to \$1.6bn in the first nine months of 2021, and dropped by 31% from \$2.33bn in the same period of 2020. Remittance outflows in the first nine months of the year reached their lowest level for the period since BdL started to publish the data in 2002. They posted an average of \$3.3bn for the first nine months of each year between 2008 and 2020. Remittance outflows totaled \$551.4m, \$541m and \$514.4m in the first, second and third quarters of 2021, respectively, constituting decreases of 35%, 29% and 28.4%, respectively, from the same quarters of the preceding year.

As such, net remittance inflows to Lebanon reached \$3.2bn in the first nine months of 2021, constituting an increase of 22.3% from \$2.62bn in the same period of the preceding year. Net remittance inflows averaged \$2.1bn in the first nine months of each year between 2008 and 2020.

Public procurement law goes into effect

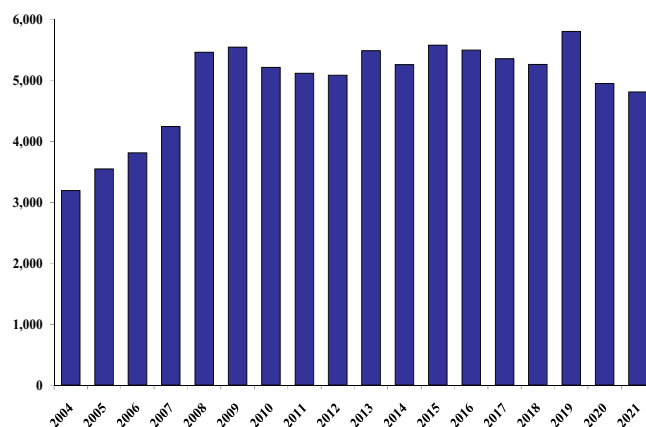
The new public procurement legislation, Law 244/2021, went into effect on July 29, 2022. The law, which transforms the existing public procurement department at the Central Inspection Administration into the Public Procurement Authority, among other changes, aims to usher a modern and transparent procurement system in the public sector. The Lebanese Parliament enacted on June 30, 2021 the general procurement law, which intends to limit the proliferation of public transactions and establish a central mechanism for public procurement.

In May 2021, the World Bank conducted a comprehensive assessment of the public procurement system in Lebanon, and concluded that the existing process is not at par with internationally-recognized benchmarks. It said that Lebanon has an outdated and fragmented public procurement system with considerable capacity and technology gaps, resulting in inefficiencies and high risks of corruption. It added that Lebanon did not meet at all 57% of the 210 specific criteria used in the assessment, while it partially met 34% of them. Also, it found major shortcomings in the system's regulatory, institutional and operational frameworks, and considered that there is considerable room for improving the accountability, integrity and transparency criteria. Further, it indicated that the public procurement operations and market practices in Lebanon are extremely vague. Also, it noted that the private sector faces a number of obstacles to participate in public procurement, which results in a lack of trust in the system and a lower level of participation.

In parallel, the government launched on January 20, 2022 the national strategy for public procurement reform. The Ministry of Finance considered that the public procurement strategy should be a stepping-stone to reform the way governmental agencies spend financial resources, irrespective of the source of such funds or the entity that will use the money. It added that this measure will attract investments in vital economic projects that Lebanon needs to kick start its economy. It said that authorities will initiate the implementation of the national strategy for public procurement reform in the summer of 2022.

The ministry said that the strategy includes six key operational steps. First, it stated that the government should approve decrees that complement the public procurement law and propose amendments to other related laws. Second, it said that authorities should issue guidelines, as well as terms and conditions for the public procurement process, and make them available to all concerned parties. Third, it noted that the government should improve the skills of public-sector personnel, including employees at municipalities, and at all public entities and state-owned enterprises that engage in the spending of public funds. Fourth, the strategy stipulated that authorities should launch the central electronic platform that constitutes the main pillar of the new public procurement system. Fifth, it said that the government should strengthen the supervision of the Public Procurement Authority. Sixth, it stated that authorities should establish a committee that would address and handle objections from any concerned party. Finally, the ministry indicated that the public procurement strategy will support the activity of small- and medium-sized enterprises that have dealings with the public sector.

Remittance Inflows to Lebanon* (US\$m)



*in the first nine months of each year

Source: Banque du Liban, Byblos Research

Byblos Bank registers losses of LBP142bn in first half of 2022

Byblos Bank sal declared unaudited net losses of LBP141.8bn in the first half of 2022, compared to unaudited net profits of LBP4.6bn in the same period last year. The Bank's net interest income reached LBP520.6bn in the first half of the year compared to LBP508.2bn in the same period of 2021, while its net earnings from fees & commissions stood at -LBP270.9bn in the first half of 2022 relative to LBP53.8bn in the first six months of 2021, mainly due to fees and commission expenses of LBP338.4bn that outweighed fees and commission income of LBP67.6bn. Also, the Bank's net operating income totaled LBP39.6bn in the first half of 2022 relative to LBP557.2bn in the same period of 2021. Further, the Bank's operating expenditures reached LBP236.9bn in the first half of 2022, relative to LBP163.2bn in the same period last year, with personnel cost accounting for 34.5% of the total.

Also, Byblos Bank's aggregate assets reached LBP25,238.3bn at the end of June 2022 and regressed by 2.7% from LBP25,942.8bn at end-2021. Net loans & advances to customers totaled LBP2,632.3bn at the end of June 2022 compared to LBP2,816bn at end-2021, while net loans & advances to related parties reached LBP13.2bn relative to LBP10.8bn at end-2021. Further, customer deposits stood at LBP19,292bn at the end of June 2022, down by LBP478.5bn or by 2.4% from LBP19,770bn at end-2021. In parallel, the Bank's equity was LBP2,531bn at the end of June 2022, and regressed by 5% from LBP2,666bn at the end of 2021.

Stock market capitalization up 45% to \$14.2bn at end-July 2022

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 10.15 million shares in the first seven months of 2022, constituting a decrease of 49.5% from 20.1 million shares traded in the same period of 2021; while aggregate turnover amounted to \$244.1m and increased by 11.7% from a turnover of \$218.5m in the first seven months of 2021. The market capitalization of the BSE reached \$14.2bn at the end of July 2022, representing a surge of 44.8% from \$9.8bn a year earlier, with real estate equities accounting for 69.3% of the total, followed by banking stocks (26.3%), and industrial shares (4.4%). The market liquidity ratio was 1.7% at the end of July 2022 compared to 2.2% a year earlier.

Banking stocks and real estate equities accounted for 49.5% each of the trading volume in the first seven months of 2022, followed by industrial shares (1%). Also, real estate equities accounted for 95% of the aggregate value of shares traded, followed by banking stocks (4.4%), and industrial shares (0.5%). The average daily traded volume for the first seven months of 2022 was 74,641 shares for an average daily amount of \$1.8m. The figures represent a drop of 56.5% in the average daily traded volume and a decline of 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 254.2% in the first seven months of 2022, while the CMA's Banks Market Value-Weighted Index regressed by 18.4% 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 83% and 78.7%, respectively, from the end of 2021, given that the shares had market weights of 42% and 27.24%, respectively, on the last trading day in July, the highest among listed companies on the BSE. The rise in the prices of Solidere share is mainly driven by the increase in demand for the shares from several bank depositors, given that they consider it a way to channel their deposits out of the banking sector in light of the government's economic rescue plan that stipulates the conversion of deposits into bank shares as part of the restructuring of the banking sector.

Holcim posts net losses of LBP13bn in 2021

Cement producer Holcim (Liban) sal posted audited net losses of LBP12.92bn in 2021 compared to net losses of LBP7.57bn in 2020. The firm's sales reached LBP435.3bn in 2021, constituting a surge of 343.6% from LBP98bn in 2020; while its cost of goods sold totaled LBP263.7bn last year and surged by 247.4% from LBP76bn in 2020. This resulted in gross profits of LBP171.6bn in 2021 relative to LBP22.2bn in 2020. As such, the firm's gross profits margin was 39.4% in 2021 relative to 22.6% in 2020. Further, the company's total assets reached LBP602bn at the end of 2021 compared to LBP404.3bn at the end of 2020. Also, the firm's current ratio, which is a measure of the company's ability to meet its short-term obligations, was 2.8x at the end of 2021 relative to 5.2x a year earlier. Moreover, Holcim's shareholders equity reached LBP210.4bn at the end of 2021, nearly unchanged from LBP209.3bn a year earlier. As such, the company's debt-to-equity ratio was 186% at the end of 2021 compared to 93.2% at end-2020. The firm produces and sells cement and other related products. Holcim's share price closed at \$28.5 on July 29, 2022, up by 47.4% from \$19.33 at the end of 2021.

In parallel, the company's external auditors indicated that "the accompanying separate financial statements do not present fairly the financial position of the company as at December 31, 2021, and its financial performance and its cash flows for the year that ended in accordance with International Financial Reporting Standards", since the financial statements do not take into account the impact of hyperinflation on the revenues stream. It said that "the company has translated transactions and assets and liabilities denominated in foreign currencies, using the parallel market exchange rates prevailing at the date of the transactions and at the reporting date, and has not translated transactions and monetary assets and liabilities denominated in foreign-currencies at the appropriate exchange rate prevailing at the date of the transactions and at the reporting date."



Ratio Highlights

(in % unless specified)	2019	2020	2021	Change*
Nominal GDP (\$bn)	53.2	24.7	23.4	(1.3)
Public Debt in Foreign Currency / GDP	63.4	56.8	26.2	(30.6)
Public Debt in Local Currency / GDP	108.8	93.8	42.1	(51.7)
Gross Public Debt / GDP	172.3	150.6	68.3	(82.2)
Trade Balance / GDP	(29.2)	(12.2)	(6.6)	5.6
Exports / Imports	19.4	31.3	28.5	(2.8)
Fiscal Revenues / GDP	20.8	16.0	8.5	(7.5)
Fiscal Expenditures / GDP	31.8	20.3	9.8	(10.5)
Fiscal Balance / GDP	(11.0)	(4.3)	(1.3)	2.9
Primary Balance / GDP	(0.5)	(1.0)	(0.1)	1.0
Gross Foreign Currency Reserves / M2	70.2	41.5	26.0	(15.5)
M3 / GDP	252.9	209.0	90.8	(118.2)
Commercial Banks Assets / GDP	407.5	296.2	119.1	(177.1)
Private Sector Deposits / GDP	298.6	219.2	88.2	(131.0)
Private Sector Loans / GDP	93.6	57.0	18.9	(38.1)
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

	2020	2021e	2022f
Nominal GDP (LBP trillion)	95.7	212.6	426.8
Nominal GDP (US\$ bn)	24.7	22.6	26.8
Real GDP growth, % change	-25.9	-9.9	2.5
Private consumption	-70	1.2	1.5
Public consumption	-4	-45.7	-9.8
Gross fixed capital	-63	-16.2	21.8
Exports of goods and services	-34.2	9.6	8.9
Imports of goods and services	-33.4	3.9	2.0
Consumer prices, %, average	84.9	154.8	97.7
Official exchange rate, average, LBP/US\$	1,507.5	1,507.5	11,754
Parallel exchange rate, average, LBP/US\$	6,705	16,821	26,070*
Weighted average exchange rate LBP/US\$	3,878	9,452	23,679

*Average year-to-July 22, 2022

Source: Central Administration of Statistics, Institute of International Finance- June 2022

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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