

## LEBANON THIS WEEK

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### Corporate Highlights

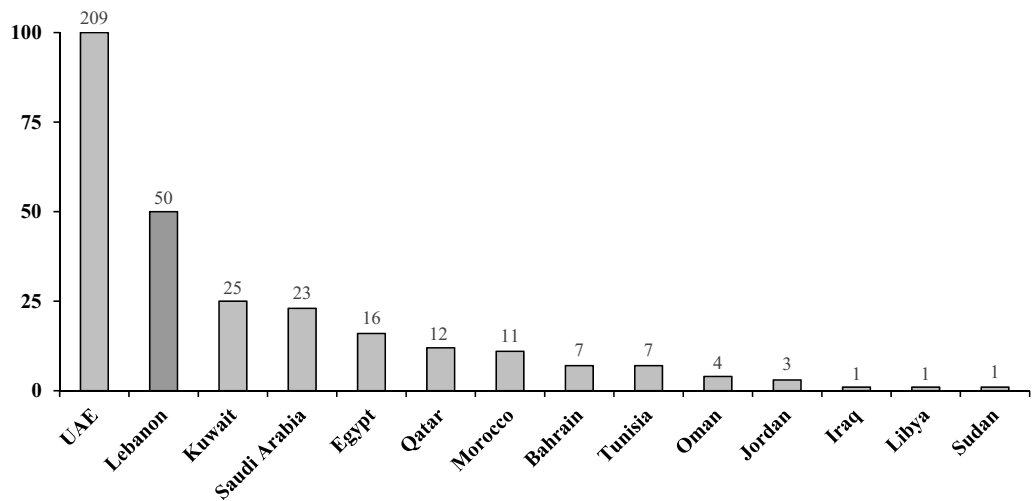
Private sector deposits down \$47bn since start of 2019

Net profits of Syrian affiliates of Lebanese banks at SYP430bn in 2021 on unrealized foreign exchange gains

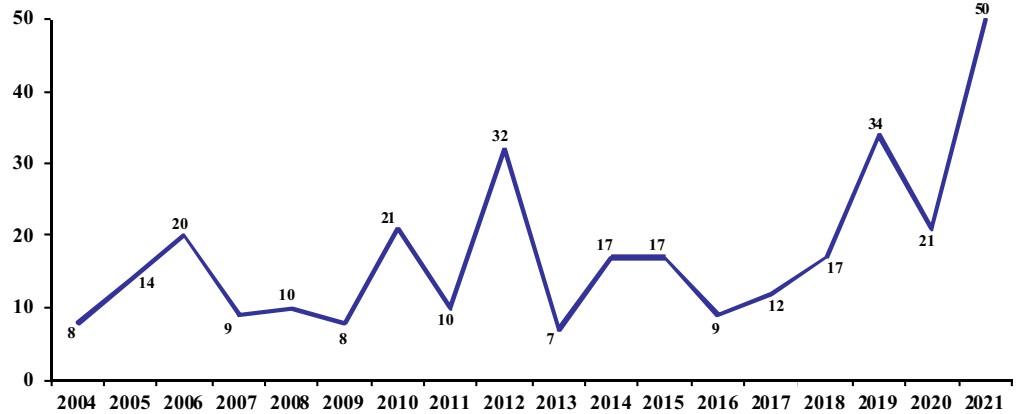
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### Charts of the Week

Number of Greenfield Foreign Direct Investment Projects from Arab Countries in 2021



Number of Greenfield Foreign Direct Investment Projects from Lebanon



Source: UNCTAD, Byblos Research

### Quote to Note

"We share the view that the government and Banque du Liban should assume a larger portion of the financial losses."

*The Institute of International Finance, on the need to revise the distribution of losses in the government's Economic Rescue Plan in order to achieve a balanced burden sharing*

### Number of the Week

**16.7%:** Increase in the prices of food and non-alcoholic beverages 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 %
BLOM GDR	2.50	0.4	143,923	1.3%	Oct 2022	6.10	6.25	9,642.86
Solidere "A"	59.60	(0.3)	87,961	42.1%	Jan 2023	6.00	6.25	3,195.27
Solidere "B"	58.55	(1.7)	86,776	26.9%	Apr 2024	6.65	6.25	250.85
Audi Listed	1.43	2.1	30,081	5.9%	Jun 2025	6.25	6.25	125.61
BLOM Listed	2.90	1.8	15,000	4.4%	Nov 2026	6.60	6.25	76.03
Audi GDR	1.50	0.0	4,879	1.3%	Feb 2030	6.65	6.25	40.31
Byblos Common	0.68	0.0	-	2.7%	Apr 2031	7.00	6.25	34.52
HOLCIM	28.50	0.0	-	3.9%	May 2033	8.20	6.25	27.46
Byblos Pref. 09	37.98	0.0	-	0.5%	Nov 2035	7.05	6.25	22.09
Byblos Pref. 08	24.99	0.0	-	0.4%	Mar 2037	7.25	6.25	19.89

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

Source: Refinitiv

	Aug 1-5	Jul 25-29	% Change	July 2022	July 2021	% Change
Total shares traded	368,620	644,764	(42.8)	1,320,045	1,814,751	(27.3)
Total value traded	\$10,874,622	\$14,281,681	(23.9)	\$50,138,832	\$30,622,302	63.7
Market capitalization	\$14.16bn	\$14.21bn	(0.36)	\$14.21bn	\$9.81bn	44.8

Source: Beirut Stock Exchange (BSE)



### Cost of living in Lebanon is 18<sup>th</sup> highest in the world, highest among Arab countries

The Mid-2022 Cost of Living Index, produced by crowd-sourced global database Numbeo, ranked the cost of living in Lebanon as the 18<sup>th</sup> highest among 137 countries around the world and the highest among 16 Arab states. In comparison, Lebanon came in 30<sup>th</sup> place in the Mid-2021 survey among 139 countries worldwide. Lebanon ranked in the 87<sup>th</sup> percentile worldwide in the Mid-2022 Index, which means that the cost of living in the country was higher than in 87% of the countries covered by the survey, while the cost of living in Lebanon was higher than about 78% of countries worldwide in the Mid-2021 survey.

The index covers the prices of consumer goods, such as groceries, meals and drinks at restaurants, transportation, and utilities. Numbeo benchmarks the Index against New York City. It also issues a Rent Index, which is an estimation of apartment rents in a country compared to New York City rents.

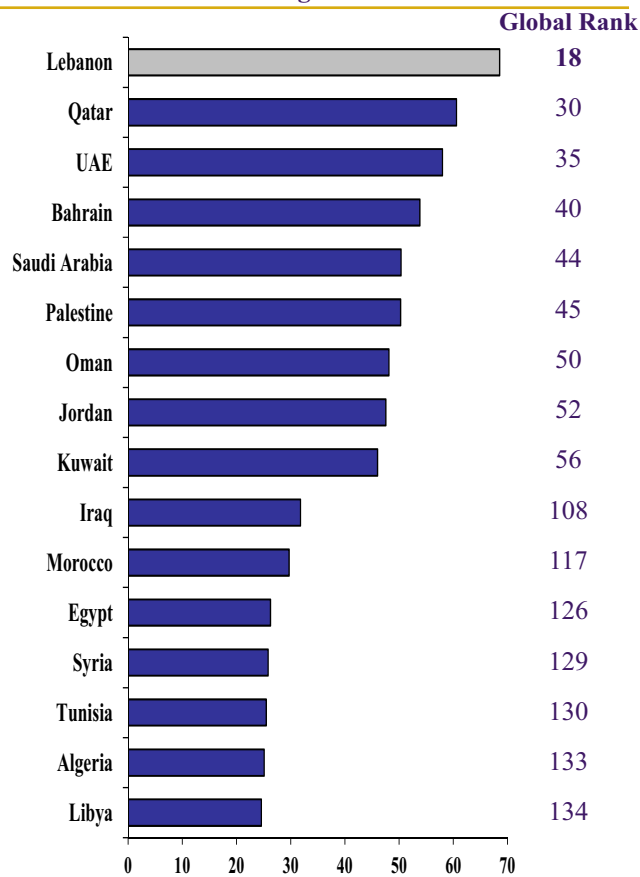
According to the Cost of Living Index, consumer goods in Lebanon are more expensive than in Macao, the Netherlands, and South Korea; while they are less costly than in the United States, New Zealand, and Canada. Lebanon received a score of 68.53 points in the Mid-2022 survey, which means that the prices of consumer goods in Lebanon are 31.5% lower than those in New York City.

In parallel, the Rent Index ranked Lebanon in 41<sup>st</sup> place globally and in fifth place among Arab countries. Lebanon received a score of 20.71 points on the index, which means that rent in Lebanon is 79.3% less expensive than in New York City. Globally, renting an apartment in Lebanon is more expensive than in Portugal, Panama and Myanmar; while it is less expensive than in Barbados, Italy and Japan. Further, Qatar, the UAE, Kuwait and Bahrain are the only Arab countries that have more expensive rents than Lebanon.

Also, the Groceries Index, which is an estimate of grocery prices in a country compared to New York City, ranked Lebanon in 13<sup>th</sup> place globally and in first place among Arab countries. Lebanon received a score of 68.17 points, which means that groceries in Lebanon are 31.8% less expensive than they are in New York City. Globally, groceries in Lebanon are more expensive than in Canada, New Zealand and Luxembourg; while they are cheaper than in the Bahamas, Singapore and the U.S.

Finally, the Restaurant Index, which compares the prices of meals and drinks at restaurants and pubs relative to New York City, ranked Lebanon in 35<sup>th</sup> place globally and in third place among Arab countries. Lebanon received a score of 48.9 points on the index, which means that prices at restaurants and pubs in Lebanon are 51% less expensive than they are in New York City. Globally, meals and drinks at restaurants and pubs in Lebanon are more expensive than in Macao, Estonia and Spain; while they are cheaper than in Germany, Singapore and Trinidad & Tobago. Also, meals and drinks at restaurants and pubs in Lebanon are less costly than only in Qatar and the UAE among Arab countries.

Cost of Living Index for Mid-2022  
Scores & Rankings of Arab Countries



Source: Numbeo, Byblos Research

### Number of airport passengers up 65% in first seven months of 2022

Figures released by the Beirut-Rafic Hariri International Airport (HIA) show that nearly 3.4 million passengers utilized the airport (arrivals, departures and transit) in the first seven months of 2022, constituting a surge of 64.7% from 2.1 million passengers in the same period of 2021, and relative to 1.4 million passengers in the first seven months of 2020. The increase in the number of airport passengers in the first seven months of the year is due low base effects from the imposition of strict lockdown measures in the country in the early part of 2021 to contain the spread of the coronavirus, the subsequent resumption of normal activity and the lifting of lockdown measures in 2022, as well as to the cancelation of most travel restrictions around the world this year. The number of arriving passengers reached 1.8 million passengers in the first seven months of the year and jumped by 62.4% from 1.1 million passengers in the same period of 2021, compared to 651,745 travelers in the first seven months of 2020. Also, the number of departing passengers totaled 1.6 million in the first seven months of 2022 and increased by 71.6% from 944,385 travelers in the same period of last year, relative to 684,671 passengers in the first seven months of 2020.

In parallel, the airport's aircraft activity totaled 28,589 take-offs and landings in the first seven months of 2022, representing a rise of 43.9% from 19,866 takeoffs and landings in the same period of last year. In comparison, aircraft activity increased by 36.2% in the first seven months of 2021 and declined by 65% in the same period of 2020.

In addition, the HIA processed 33,047 metric tons of freight in the first seven months of 2022 that consisted of 16,473 tons of import freight and 16,574 tons of export freight. Middle East Airlines had 10,518 flights in the covered period and accounted for 36.8% of HIA's total aircraft activity.

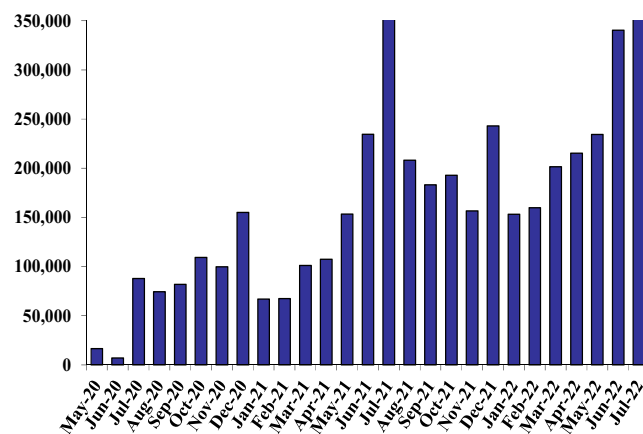
### Compensation of public sector personnel accounts for 56% of public expenditures in first 10 months of 2021

Figures issued by the Ministry of Finance show that the compensation of public-sector personnel totaled LBP8,272bn, or the equivalent of \$5.5bn, in the first 10 months of 2021, constituting an increase of 0.7% from LBP8,211bn (\$5.45bn) in the same period of 2020. The dollar figures are based on the official exchange rate of the Lebanese pound to the US dollar. Salaries, wages and related benefits accounted for 60.7% of the total, followed by retirement benefits (32%), transfers to public institutions to cover salaries (4%), and end-of-service indemnities (3.4%). Further, end-of-service indemnities declined by 28%, transfers to public institutions to cover salaries dipped by 14.4%, and wages and related benefits regressed by 0.8%, while retirement salaries grew by 11% in the covered period. The compensation of public-sector personnel represented the largest component of current primary spending and accounted for 76.6% of such expenditures in the first 10 months of 2021 compared to 72.3% in the same period of 2020. It also represented 56.2% of fiscal spending in the first 10 months of 2021 relative to 50.5% in the same period of the previous year, while it absorbed 51.3% of public revenues in the first 10 months of 2021 compared to 68.3% of government receipts in the same period of 2020.

In parallel, salaries, wages and related benefits paid to public-sector workers amounted to LBP5,025bn (\$3.3bn), in the first 10 months of 2021 compared to LBP5,064bn (\$3.4bn) in the same period of 2020. This category includes basic salaries, employment benefits, allowances, contributions to civil servants' cooperatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly civil and religious judges, and employees at the Parliament. The breakdown of salaries, wages and related benefits paid to public-sector employees shows that allowances decreased by \$12.6m, other payments given to non-military bodies declined by \$18.6m, benefits regressed by \$3m, while basic salaries increased by LBP8bn (\$5.3m) year-on-year. Benefits include payments for transportation, overtime and family-related benefits, while other payments to non-military bodies consisted of the State's contribution to mutual funds and to the National Social Security Fund, as well as bonuses, among others. Basic salaries were nearly unchanged and stood at LBP3,855bn (\$2.6bn) in the first 10 months of 2021, while other payments decreased by 8.4% to LBP306bn (\$203m), allowances declined by 2.8% to LBP656bn (\$435.2m), and benefits regressed by 2% to LBP156bn (\$103.5m), from the first 10 months of 2020.

In addition, salaries and benefits of military personnel reached LBP3,227bn and accounted for 64.2% of salaries, wages and related benefits paid to public sector workers in the first 10 months of 2021. The salaries and benefits of personnel in public education followed with LBP990bn (19.7% of the total), then civil staff with LBP502bn (10%), the government's contributions to the Civil Servants Cooperative with LBP255bn (5.1%), and the salaries and benefits of customs employees with LBP51bn (1%). Also, the Lebanese Army's salaries and benefits LBP2,057bn and represented 63.7% of the salaries and benefits of military personnel. The salaries of the Internal Security Forces followed with LBP868bn (27%), then those of the General Security Forces with LBP224bn (7%), and the salaries of State Security Forces with LBP78bn (2.4%).

Number of Arriving Passengers



Source: Beirut-Rafic Hariri International Airport

## Broad money supply up 5% in first half of 2022, currency in circulation down 17%

Figures released by Banque du Liban show that money supply M1, which includes currency in circulation and demand deposits in Lebanese pounds, reached LBP 56,215bn at the end of June 2022, constituting a decrease of 3% from LBP57,937bn at the end of 2021 and an increase of 9.7% from LBP51,265.6bn at end-June 2021. Currency in circulation stood at LBP34,551bn at the end of June 2022, as it declined by LBP6,964bn (-16.8%) from LBP41,515bn at the end of 2021, and decreased by 8.4% from LBP37,729.5bn at end-June 2021. Also, demand deposits in local currency stood at LBP21,664bn at the end of June 2022, representing an expansion of 32% in the first half of the year and a rise of 60% from end-June 2021. Money supply M1 decreased by 7.5% in June from LBP60,776.4bn at end-May 2022, with currency in circulation decreasing by 8.4% and demand deposits in local currency declining by 6.1% month-on-month.

In addition, money supply M2, which includes M1 and term deposits in Lebanese pounds, reached LBP74,834.6bn at the end of June 2022, constituting decreases of 5.3% from LBP79,007bn at the end of 2021 and of 0.3% from LBP75,032.1bn a year earlier. Term deposits in Lebanese pounds totaled LBP18,619.6bn at the end of June 2022, as they declined by 11.6% from LBP21,070bn at end-2021 and by 21.7% from LBP23,766.4bn at end-June 2021. Money supply M2 decreased by 6.2% in June from LBP79,797.7bn at end-May 2022, with term deposits in local currency regressing by 2.1% month-on-month.

Further, broad money supply M3, which includes M2, deposits in foreign currency and debt securities issued by the banking sector, reached LBP191,721.8bn at the end of June 2022, constituting decreases of 4.6% in the first half of the year and of 5.2% from LBP202,238bn at end-June 2021. Deposits in foreign currency totaled LBP116,494bn at the end of June 2022, down by 4.3% from the end of 2021 and by 8.2% from end-June 2021. Also, debt securities issued by the banking sector amounted to LBP393bn at the end of June 2022 compared to LBP334bn at the end of 2021 and to LBP328bn at end-June 2021. Money supply M3 decreased by 2.8% from LBP197,271.2bn at the end of May 2022, with deposits in foreign currency regressing by 0.5% and debt securities issued to residents by the banking sector expanded by 0.4% month-on-month. In parallel, M3 decreased by LBP9,348bn from the end of 2021 due to a decline of LBP3,895bn in the net foreign assets of deposit-taking institutions, a retreat of LBP5,963bn in the net claims on the public sector, and a downturn of LBP5,123.8bn in the claims on the private sector, which was partly offset by an increase of LBP5,433.5bn in other items.

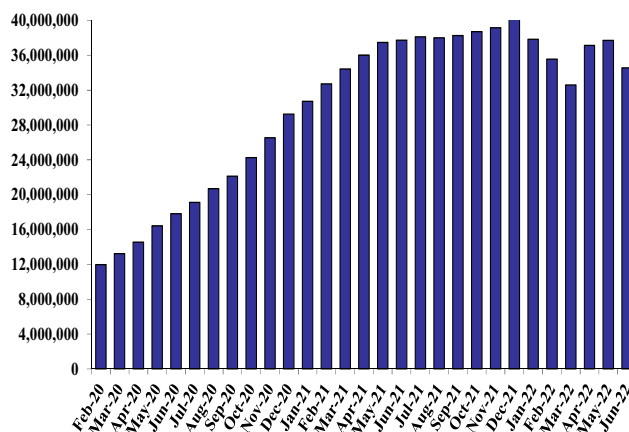
## Net foreign assets of financial sector down \$2.6bn in first half of 2022

Figures issued by Banque du Liban (BdL) show that the net foreign assets of the financial sector, which are a proxy for Lebanon's balance of payments, declined by \$2.6bn in the first half of 2022, compared to decreases of \$1.8bn in the same period of 2021 and of \$2.5bn in the first six months of 2020.

The cumulative deficit in the first half of 2022 was caused by a drop of \$2.8bn in the net foreign assets of BdL, which was partly offset by an increase of \$214m in those of banks and financial institutions. Further, the net foreign assets of the financial sector regressed by \$474.1m in June 2022 compared to declines of \$402.3m in May 2022 and of \$238.3m in June 2021. The June decrease was caused by a contraction of \$728.3m in the net foreign assets of BdL, which was partly offset by an increase of \$254.2m in those of banks and financial institutions.

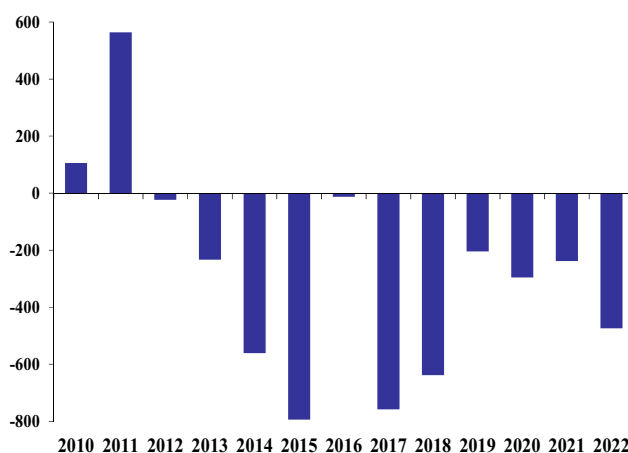
The cumulative increase in the banks' net foreign assets is mostly due to a decline in their foreign liabilities. The decrease in foreign liabilities was driven mainly by the contraction in liabilities to the non-resident financial sector and in non-resident customer deposits. In parallel, the drop in BdL's net foreign assets was due in part to the financing of the imports of hydrocarbons, wheat, medicine, medical equipment, 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.

Currency in Circulation (LBP Millions)



Source: Banque du Liban, Byblos Research

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



\*in June of each year

Source: Banque du Liban, Byblos Research

### Occupancy rate at Beirut hotels at 43%, room yields down 8% in first five 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 42.6% in the first five months of the year relative to 33.3% in the same period of 2021, and compared to an average rate of 57.8% in 13 Arab markets included in the survey. The occupancy rate at Beirut hotels was the fourth lowest in the region in the first five 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, 25.8% in April, and 52.5% in May 2022. In comparison, it was 29.5% in January, 17% in February, 33.7% in March, 34.6% in April, and 50% in May 2021. The occupancy rate at hotels in Beirut increased by 9.3 percentage points in the first five months of 2022 from the same period of 2021. In comparison, the average occupancy rate in Arab markets expanded by 16.5 percentage points in the covered period.

Also, the average rate per room at Beirut hotels was \$57 in the first five months of 2022, decreasing by 28% from \$79 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 \$164.6 that increased by \$30.4 (+22.6%) 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, \$72.3 in April, and \$79 in May 2022. In comparison, it was \$73 in January, \$81.8 in February, \$72.5 in March, \$90.1 in April, and \$103 in May 2021.

Further, revenues per available room (RevPAR) were \$24 at Beirut hotels in the first five months of the year compared to \$26 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 declined by 7.9% in the first five months of 2022 and posted the second steepest decrease regionally. The RevPAR at hotels in Beirut reached \$24 in January, \$29.3 in February, \$36 in March, \$18.7 in April, and \$42 in May 2022. In comparison, it was \$21 in January, \$14 in February, \$24.4 in March, \$31.2 in April, and \$51 in May 2021. Abu Dhabi had the highest hotel occupancy rate in the region at 78.2% in the first five months of 2022, while Dubai registered the highest average rate per room at \$378, and the highest RevPAR at \$290 in the covered period.

### Foreign direct investments down 82% to \$200m in first nine months of 2021

Figures released by Banque du Liban show that foreign direct investments (FDI) in Lebanon totaled \$200.4m in the first nine months of 2021, constituting a decrease of 82% from \$1.12bn in the first nine months of 2020. FDI inflows in the covered period were well below the average of \$1.97bn for the first nine months per year between 2002 and 2020, with a high of \$2.67bn in the first nine months of 2009. 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 amounted to \$36.9m in the first quarter of 2021 compared to \$684.8m in the same quarter of 2020, their lowest quarterly level since 2002. They totaled \$99.7m in the second quarter 2021 relative to \$266m in the same period of 2020, which is lower than the average of \$752.6m in the second quarter of a year between 2002 and 2020. Also, FDI inflows reached \$63.8m in the third quarter of 2021 compared to \$169.6m in the same quarter of 2020, their lowest level in the third quarter of a year since 2002.

In parallel, FDI outflows from Lebanon stood at \$22.6m in the first nine months of 2021 compared to \$10.1m in the same period of 2020, and reached their second lowest level for the first nine months of a year since 2002. FDI outflows from Lebanon posted an average of \$594.4m for the first nine months per year between 2002 and 2020, with a high of \$1.4bn in the first nine months of 2013.

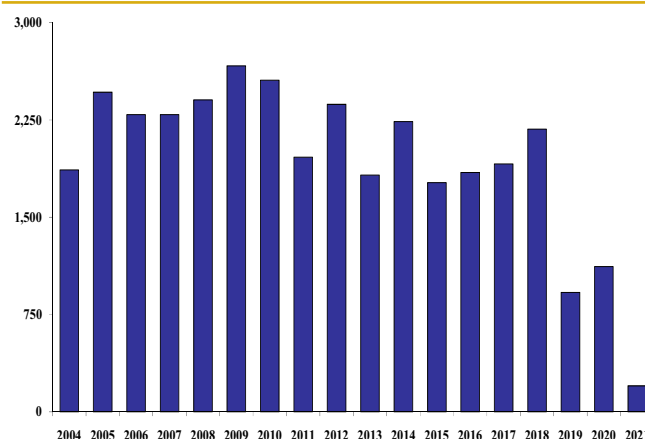
As such, net FDI inflows to Lebanon reached \$177.8m in the first nine months of 2021, constituting a decline of 84.3% from \$1.13bn in the first nine months of 2020. Net FDI inflows to Lebanon posted their lowest level for the first nine months of a year between 2002 and 2020. They averaged \$1.4bn for the first nine months per year between 2002 and 2020.

### Hotel Sector Performance in First Five Months of 2022

	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Abu Dhabi	78	64	33.8
Madina	77	108	166.8
Dubai	77	290	78
Cairo-City	66	73	234.5
Makkah	63	121	185
Riyadh	63	111	79.3
Doha	59	66	-4.8
Jeddah	50	113	9.1
Muscat	50	62	211.7
Manama	43	68	76.1
<b>Beirut</b>	<b>43</b>	<b>24</b>	<b>-7.9</b>
Kuwait City	42	103	46.4
Amman	41	58	195.4

Source: EY, Byblos Research

### Foreign Direct Investment Inflows (US\$m)



\*in the first nine months of each year

Source: Banque du Liban, Byblos Research

### Gross public debt at \$101bn at end-March 2022 at official exchange rate, and at \$43.2bn at parallel market rate

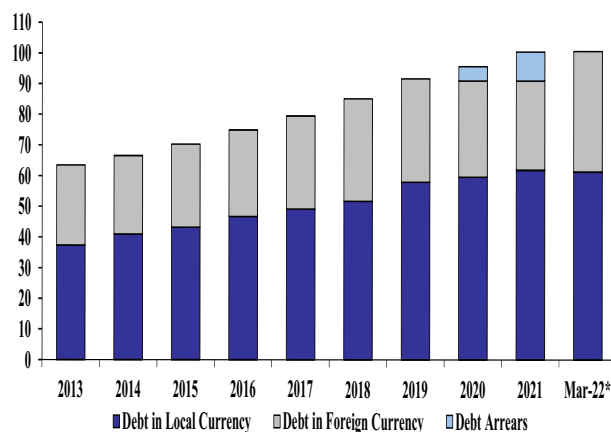
Figures issued by the Ministry of Finance show that Lebanon's gross public debt reached \$100.7bn at the end of March 2022, nearly unchanged from \$100.4bn at the end of 2021 and constituting an increase of 3.5% from \$97.2bn at the end of March 2021. The dollar figures are converted at the official exchange rate of the Lebanese pound against the US dollar. The gross public debt grew by \$279m in the first quarter of 2022 relative to an increase of \$1.65bn in the same quarter of 2021. The size of the gross public debt becomes \$43.24bn when the portion of the debt denominated in Lebanese pounds is converted to US dollars at the exchange rate of LBP 23,800 per dollar that prevailed on the parallel market at the end of March 2022. Conversely, the public debt becomes LBP1,029bn when the dollar-denominated debt is converted to Lebanese pounds at the same parallel market rate.

Debt denominated in Lebanese pounds totaled LBP92,396bn at the end of March 2022, or the equivalent of \$61.3bn at the official exchange rate, and regressed by 1% in the first quarter of 2022 and increased by 1.2% from a year earlier; while debt denominated in foreign currency stood at \$39.4bn and grew by 2.2% from end-2021 and by 7.3% from the end of March 2021. On March 7, 2020, the Lebanese government at the time decided to default on the \$1.2bn Eurobond that was due on March 9, 2020. It also announced on March 23, 2020 that Lebanon will discontinue payments on all of its outstanding Eurobonds. According to the Ministry of Finance, the latest available figures show that about \$9.75bn of the debt stock denominated in foreign currency were in arrear as at the end of February 2022.

Local currency debt accounted for 60.9% of the gross public debt at the end of March 2022 and foreign currency-denominated debt represented the balance of 39.1%, compared to 62.3% and 37.7%, respectively, a year earlier. The weighted interest rate on outstanding Treasury bills was 6.53% in March 2022, while the weighted life of Treasury bills and bonds was 1,480 days. Banque du Liban (BdL) held 39% of the public debt at end-March 2022, followed by commercial banks (12.5%), and non-bank resident financial institutions (9.6%); while other investors, including foreign investors, held 37% of the debt, and multilateral institutions and foreign governments accounted for the remaining 2%.

BdL held 63.8% of the Lebanese pound-denominated public debt at the end of March 2022 compared to 61.8% a year earlier, while commercial banks accounted for 20.5% of the local debt relative to 25.4% at end-March 2021. Also, public agencies, financial institutions and the public held 15.7% of the local debt at the end of March 2022, compared to 12.7% a year earlier. Further, investors in Eurobonds and special T-bills in foreign currencies held 94.6% of the foreign currency-denominated debt at the end of March 2022, followed by multilateral institutions with 4.1%, and foreign governments with 1.3%. In addition, the latest available figures show that the gross market debt accounted for about 52% of the public debt. The gross market debt is the total public debt less the portfolios of BdL, the National Social Security Fund, as well as bilateral and multilateral loans.

Lebanon's Gross Public Debt (US\$bn)

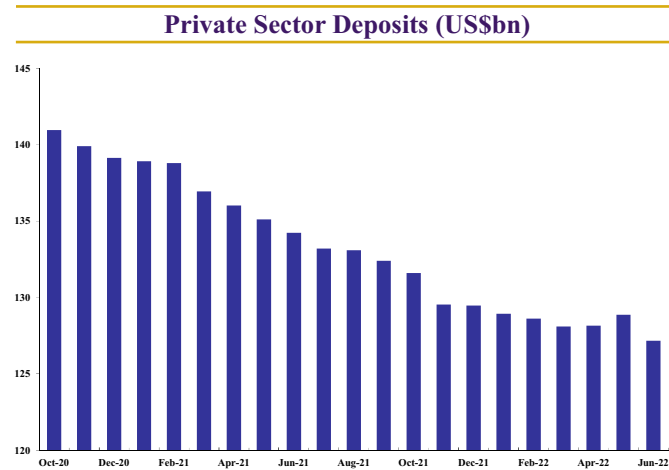


\*arrears were not provided by the Ministry of Finance  
Source: Ministry of Finance, Byblos Research

### Private sector deposits down \$47bn since start of 2019

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets stood at \$170.9bn at the end of June 2022, constituting declines of 2.2% from \$174.8bn at the end of 2021 and of 5.6% from \$181.1bn at end-June 2021. The dollar figures are based on the official exchange rate of the Lebanese pound to the US dollar.

Loans extended to the private sector reached \$24bn at the end of June 2022 and decreased by 13.5% in the first half of 2022 and by 24.8% from a year earlier. Loans to the resident private sector totaled \$21.4bn, constituting declines of 14% from the end of 2021 and of 24% from end-June 2021. Also, credit to the non-resident private sector amounted to \$2.54bn at the end of June 2022, and contracted by 10.3% from the end of 2021 and by 30.2% from the end of June 2021.



Source: Banque du Liban, Byblos Research

In nominal terms, credit to the private sector decreased by \$3.75bn in the first half of 2022 relative to a drop of \$4.3bn in the same period of 2021, as lending to the resident private sector retreated by \$3.45bn and credit to the non-resident private sector regressed by \$293m in the covered period. Further, loans extended to the private sector contracted by \$35.4bn since the start of 2019, with loans denominated in Lebanese pounds shrinking by LBP10,945.75bn and loans denominated in foreign currency dropping by \$28.2bn. The dollarization rate of private sector loans regressed from 69.2% at end-June 2021 to 54% at the end of June 2022. The average lending rate in Lebanese pounds was 5.36% in June 2022 compared to 7.32% a year earlier, while the same rate in US dollars was 5.28% relative to 6.46% in June 2021.

In addition, claims on non-resident financial institutions reached \$3.87bn at the end of June 2022, constituting a decrease of \$718.3m (-15.6%) in the first half of 2022 and a decline of \$783.3m (-16.8%) from a year earlier. Also, claims on non-resident financial institutions decreased by \$5.26bn (-57.6%) from the end of August 2019 and by \$8.1bn (-67.7%) since the start of 2019. Further, deposits at foreign central banks totaled \$1.2bn, constituting increases of \$167.6m (+16.2%) in the first half of 2022 and of \$358.1m (+42.3%) from a year earlier. In addition, the banks' claims on the public sector stood at \$14.3bn at end-June 2022, down by \$2.4bn (-14.6%) in the first half of the year and by \$5.1bn (-26.1%) from the end of June 2021. The banks' holdings of Lebanese Treasury bills stood at \$10.14bn, while their holdings of Lebanese Eurobonds reached \$4bn at end-June 2022. Further, the deposits of commercial banks at Banque du Liban (BdL) totaled \$110bn at the end of June 2022, up by \$1.06bn (+1%) from \$109bn at end-2021 and by \$1.8bn (+1.7%) from \$108.2bn at the end of June 2021.

In parallel, private sector deposits totaled \$127.2bn at the end of June 2022 and regressed by 1.8% in the first half of 2022 and by 5.3% from end-June 2021. Deposits in Lebanese pounds reached the equivalent of \$28.5bn at end-June 2022, as they increased by 7% from the end of 2021 and by 7.5% from a year earlier; while deposits in foreign currency reached \$98.7bn, and regressed by 4% from end-2021 and by 8.4% from the end of June 2021. Resident deposits totaled \$103.3bn at the end of June 2022 and decreased by \$1.6bn (-1.5%) from the end of 2021, while non-resident deposits reached \$23.8bn at end-June 2022, down by \$701.2m (-3%) in the first half of the year. Resident deposits in Lebanese pounds stood at LBP39,905bn, or the equivalent of \$26.5bn at end-June 2022, constituting an increase of LBP2,806bn, or of 7.6%, in the first half of the year, while those in foreign currency totaled \$76.86bn at end-June 2022 and decreased by \$3.5bn (-4.3%) in the covered period. Non-resident deposits in Lebanese pounds and in foreign currency regressed by 1.1% and 3%, respectively, in the first half of 2022. Private sector deposits declined by \$2.3bn in the first half of 2022, with deposits in Lebanese pounds increasing by LBP2,772.8bn, or the equivalent of \$1.8bn, and foreign currency deposits shrinking by \$4.1bn. Private sector deposits declined by \$535m in January, by \$319.6m in February, by \$513m in March 2022 and by \$1.7bn in June, while they increased by \$54.8m in April and by \$712.2m in May 2022. In addition, private sector deposits dropped by \$15.4bn in 2019 and by \$19.7bn in 2020, including a decrease of \$10.7bn between September and December 2019. As such, aggregate private sector deposits contracted by \$47.1bn since the start of 2019, with deposits in Lebanese pounds shrinking by \$22.7bn and foreign currency deposits contracting by \$24.4bn. The decrease is due largely to the repayment of loans by companies and individuals, to the hoarding of cash at households, to banks and companies paying their foreign obligations, and to deposit outflows. The dollarization rate of private sector deposits was 77.6% at end-June 2022, relative to 79.4% at end-2021 and to 80.3% a year earlier.

Further, the liabilities of non-resident financial institutions reached \$4.43bn at the end of June 2022 and decreased by 15.7% from \$5.26bn at the end of June 2021. Also, the average deposit rate in Lebanese pounds was 0.74% in June 2022 compared to 1.84% a year earlier, while the same rate in US dollars was 0.09% relative to 0.39% in June 2021. The ratio of private sector loans to deposits in foreign currency stood at 13.1% at the end of June 2022 compared to 17.3% a year earlier, well below Banque du Liban's limit of 70%. The same ratio in Lebanese pounds reached 38.7% at end-June 2022, down from 50% at end-June 2021. As such, the total private sector loans-to-deposits ratio reached 18.8% at end-June 2022 compared to 23.7% a year earlier. The banks' aggregate capital base stood at \$16.95bn at the end of June 2022, down by \$835.4m (-4.7%) from \$17.8bn at the end of 2021 and up by \$571.4m (+3.5%) from \$16.4bn at end-June 2021.





### Net profits of Syrian affiliates of Lebanese banks at SYP430bn in 2021 on unrealized foreign exchange gains

Financial results issued by the affiliates of six Lebanese banks operating in Syria show that their aggregate net profits reached SYP430.3bn in 2021 relative to net earnings of SYP229bn in 2020. The improvement in the banks' net income is mainly due to the depreciation of the Syrian pound from SYP1,256 against the US dollar at the end of 2020 to SYP2,512 per US dollar at the end of 2021, which resulted in unrealized foreign exchange gains on the banks' structural positions of SYP420bn in 2021 relative to gains of SYP232.4bn in 2020. In US dollar terms, the net profits of the six banks reached \$246.5m in 2021 compared to net earnings of \$205m in 2020. The aggregate net income of the six banks becomes SYP10.3bn, or \$5.9m, last year when excluding foreign exchange gains on structural positions, relative to losses of SYP3.3bn or \$3m in 2020.

The profits of Banque BEMO Saudi Fransi surged by SYP96.5bn in 2021, followed by an increase of SYP36bn in the net income of Syria Gulf Bank, the affiliate of First National Bank, an expansion of SYP29.7bn in the earnings of Byblos Bank Syria, an improvement of SYP22.1bn the profits of Bank of Syria & Overseas, a rise of SYP13.5bn in the net income of Bank Al-Sharq, the affiliate of Banque Libano-Française, and an uptick of SYP3.6bn in the earnings of Fransabank Syria.

The net interest income of the six banks totaled SYP73.1bn in 2021, up by 151% from SYP29.1bn in 2020; while their net fees & commission income rose by 2.3 times year-on-year to SYP71.7bn. The six banks' operating income rose by 99.3% from SYP305.4bn in 2020 to SYP608.6bn in 2021; while their total operating expenses reached SYP170.3bn in 2021, up by 2.3 times from SYP74.9bn in 2020.

In parallel, the banks' aggregate assets reached SYP3,706.7bn at the end of 2021 and increased by 107.5% from SYP1,786.5bn at end-2020. The rise in assets was due to a surge of 204.5% in the assets of Syria Gulf Bank (+SYP499.2bn), an expansion of 129% in those of Banque BEMO Saudi Fransi (+SYP845.8bn), a growth of 71.5% in the assets of Fransabank Syria (+SYP131.3bn), an increase of 68% in those of Byblos Bank Syria (+SYP124.3bn), a rise of 60% in the assets of Bank Al Sharq (+SYP83.2bn), and an improvement of 59.4% in those of Bank of Syria & Overseas (+SYP178.9bn). In US dollar terms, the assets of the six banks increased from \$1.42bn at the end of 2020 to \$1.48bn at end-2021.

Also, the banks' total loans reached SYP725.4bn at end-2021, constituting a surge of 158.4% from SYP281bn at the end of 2020. Further, the banks' customer deposits totaled SYP2,251.3bn at the end of 2021, constituting a rise of 92.4% from SYP1,170bn a year earlier. The ratio of the banks' loans-to-customer deposits stood at 32.2% at the end of 2021 relative to 24% at end-2020. In parallel, the aggregate shareholders' equity of the six banks reached SYP744.4bn at end-2021, constituting an increase of 111.3% from SYP352.3bn at end-2020.

Results of Affiliates of Lebanese Banks in Syria in 2021 (SYPbn)						
	Banque BEMO Saudi Fransi	Bank of Syria & Overseas	Fransabank Syria	Syria Gulf Bank	Byblos Bank Syria	Bank Al-Sharq
Net Profits	139.74	67.84	55.87	52.46	76.69	37.74
Total Assets	1,501.20	743.35	479.95	452.83	307.22	222.13
% Change*	129.0%	204.5%	59.4%	71.5%	67.9%	59.9%
Loans	197.24	389.99	26.43	55.85	36.26	19.62
% Change*	103.2%	458.2%	139.6%	9.5%	19.9%	-8.8%
Customer Deposits	1,103.80	297.23	337.16	243.31	136.93	132.91
% Change*	106.8%	165.5%	78.0%	69.3%	37.4%	45.3%

\*Change from end-2020

Source: Banks' financial statements, Byblos Research

## 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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