

LEBANON THIS WEEK

In This Issue

Economic Indicators.....1
Capital Markets.....1
Lebanon in the News.....2

Number of registered real estate transactions down 15% in first seven months of 2022

Banque du Liban's foreign assets at \$14.7bn, gold reserves at \$15.9bn at end-August 2022

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

Number of airport passengers up 58% in first eight months of 2022

Broad money supply down 3% in first seven months of 2022, currency in circulation down 10%

Net foreign assets of financial sector down \$2.8bn in first seven months of 2022

Capital Markets Authority asks financial firms to raise capital by 20%

Coincident Indicator down 17% in first quarter of 2022

Foreign direct investments down 60% to \$517m in 2021

Corporate Highlights

Private sector deposits down \$46.5bn since start of 2019

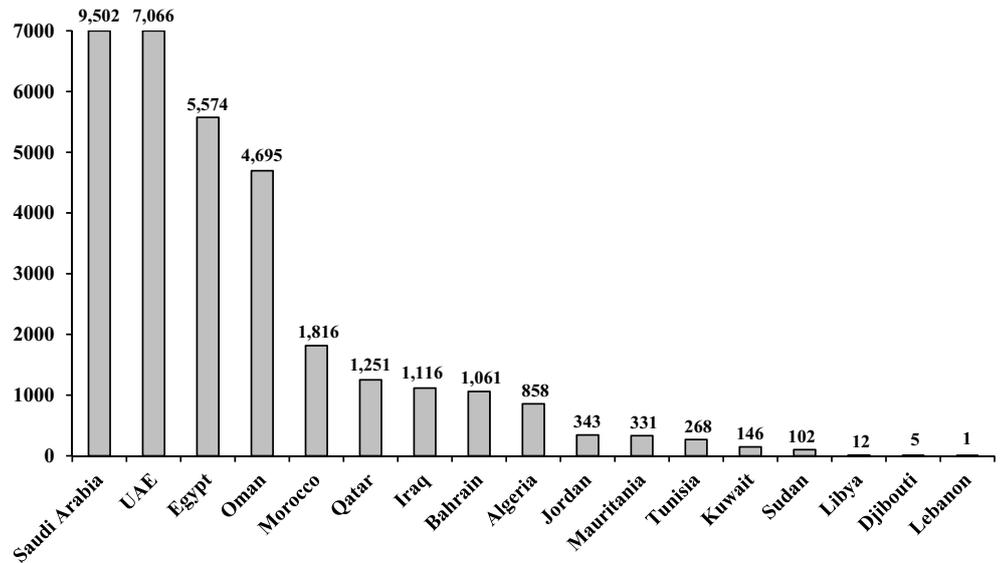
Stock market capitalization up 26% to \$14.2bn at end-August 2022

Financial institutions to register staff who carry out regulated activities

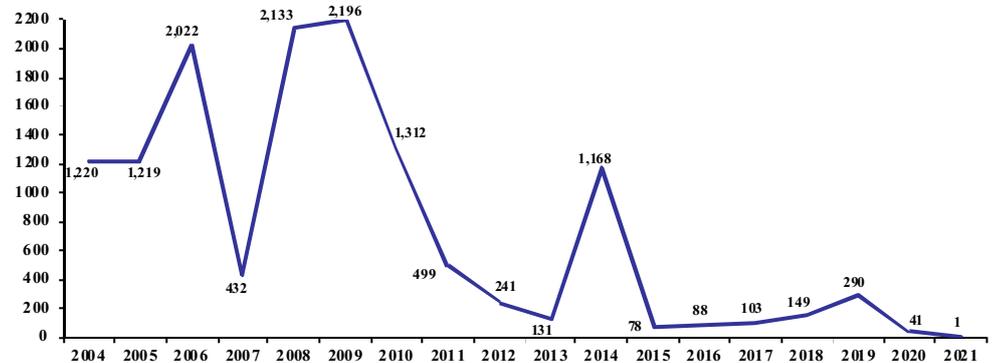
Ratio Highlights.....9
National Accounts, Prices and Exchange Rates9
Ratings & Outlook.....9

Charts of the Week

Greenfield Foreign Direct Investment Inflows to Arab Countries in 2021 (in US\$ millions)



Greenfield Foreign Direct Investment Inflows to Lebanon (in US\$ millions)



Source: United Nations Conference on Trade and Development, Byblos Research

Quote to Note

"A comprehensive solution to the demarcation issue would clear the way for exploration in Lebanon's promising southern waters."

International advocacy organization Crisis Group, on the potential of the demarcation of Lebanon's maritime border that fully protects the country's territorial rights

Number of the Week

\$1.8bn: Increase in Lebanon's non-hydrocarbon imports in the first seven months of 2022 from the same period last year, according to Lebanese Customs

Lebanon in the News

\$m (unless otherwise mentioned)	2019	2020	2021	% Change*	Dec-20	Nov-21	Dec-21
Exports	3,731	3,544	3,887	9.6%	295	391	616
Imports	19,239	11,310	13,641	20.6%	1,232	1,179	1,269
Trade Balance	(15,508)	(7,765)	(9,754)	25.6%	(937)	(788)	(653)
Balance of Payments	(5,851)	(10,551)	(1,976)	-81.3%	(348)	160	(400)
Checks Cleared in LBP	22,145	19,937	18,639	-6.5%	1,942	1,825	1,738
Checks Cleared in FC	34,826	33,881	17,779	-47.5%	2,802	949	1,079
Total Checks Cleared	56,982	53,828	36,425	-32.3%	4,744	2,773	2,818
Fiscal Deficit/Surplus**	(5,837)	(2,709)	302	-	(30)	-	-
Primary Balance**	(287)	(648)	1,706	-	264	-	-
Airport Passengers	8,684,937	2,501,944	4,334,231	73.2%	282,130	344,737	455,087
Consumer Price Index	2.9	84.9	154.8	6,989bps	145.8	201.1	224.4

\$bn (unless otherwise mentioned)	Dec-20	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	% Change*
BdL FX Reserves	18.60	14.20	14.62	14.49	14.05	13.65	(3.9)
In months of Imports	15.10	-	-	-	-	-	-
Public Debt	95.59	98.74	99.22	99.80	100.39	-	-
Bank Assets	188.04	180.28	179.68	178.90	175.60	174.94	(3.0)
Bank Deposits (Private Sector)	139.14	133.04	132.49	131.65	129.53	129.47	(2.7)
Bank Loans to Private Sector	36.17	30.86	30.00	29.18	28.04	27.71	(10.2)
Money Supply M2	44.78	49.85	49.95	50.03	50.10	52.41	5.1
Money Supply M3	132.70	133.21	132.90	132.42	131.62	133.39	0.1
LBP Lending Rate (%)	7.77	7.52	7.65	7.46	7.20	7.14	(38)
LBP Deposit Rate (%)	2.64	1.62	1.53	1.34	1.23	1.09	(53)
USD Lending Rate (%)	6.73	5.87	6.34	6.86	6.75	6.01	14
USD Deposit Rate (%)	0.94	0.30	0.26	0.23	0.20	0.19	(11)

*year-on-year; **figures for 2021 reflect the first nine months of the year

Source: Association of Banks in Lebanon, Banque du Liban, Ministry of Finance, Central Administration of Statistics, Byblos Research

Capital Markets

Most Traded Stocks on BSE*	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Solidere "A"	49.26	(13.7)	96,134	39.5%	Oct 2022	6.10	6.75	18,419.75
Solidere "B"	47.52	(15.3)	65,356	24.8%	Jan 2023	6.00	6.75	3,552.38
Byblos Common	0.64	(5.9)	16,334	2.9%	Apr 2024	6.65	6.75	258.4
Audi Listed	1.50	0.0	15,000	7.1%	Jun 2025	6.25	6.75	125.7
Audi GDR	1.41	(4.7)	13,489	1.4%	Nov 2026	6.60	6.75	75.21
HOLCIM	31.00	6.9	2,000	4.9%	Feb 2030	6.65	6.75	39.55
BLOM GDR	2.50	0.0	1,000	1.5%	Apr 2031	7.00	6.75	33.83
BLOM Listed	2.85	0.0	-	4.9%	May 2033	8.20	6.75	26.86
Byblos Pref. 09	37.98	0.0	-	0.6%	Nov 2035	7.05	6.75	21.58
Byblos Pref. 08	24.99	0.0	-	0.4%	Mar 2037	7.25	6.75	19.42

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

Source: Refinitiv

	Aug 29-Sep 2	Aug 22-26	% Change	August 2022	August 2021	% Change
Total shares traded	209,313	129,882	61.2	899,525	2,166,545	(58.5)
Total value traded	\$8,762,240	\$5,381,817	62.8	\$33,747,990	\$24,370,670	38.5
Market capitalization	\$12.46bn	\$13.80bn	(9.7)	\$13.36bn	\$10.57bn	26.4

Source: Beirut Stock Exchange (BSE)



Number of registered real estate transactions down 15% in first seven months of 2022

Figures released by the Ministry of Finance show that the ministry registered 40,366 real estate transactions in the first seven months of 2022, constituting a decrease of 15.3% from 47,640 in the same period of 2021. In comparison, the ministry registered 37,609 real estate transactions in the first seven months of 2020 and 25,384 real estate deals in the same period of 2019. The decline in the number of registered transactions in the covered period is due mainly to the strike of public sector employees that led to the shutdown of government agencies and departments, and paralyzed the functioning of the public administration and prevented the official registration of real estate transactions.

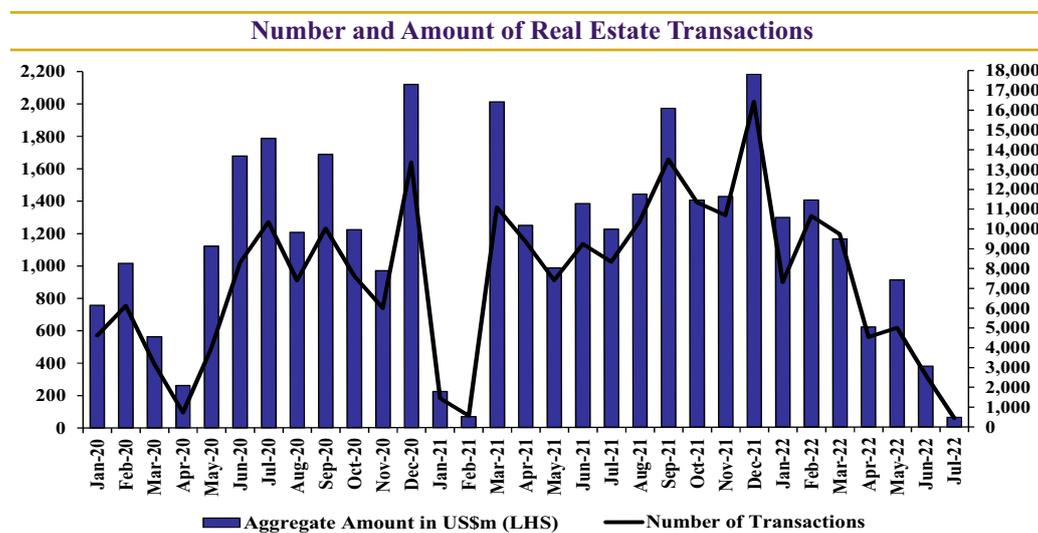
Further, the ministry registered 7,507 real estate transactions in the South governorate in the first seven months of 2022, representing 18.6% of the total. The Baabda/Aley/Chouf area followed with 6,841 deals (17%), then the North region with 5,337 transactions (13.2%), the Nabatieh governorate with 5,196 deals (13%), the Keserwan/Jbeil region with 4,876 transactions (12%), Beirut with 3,865 deals (9.6%), the Bekaa/Baalbeck-Hermel region with 3,743 transactions (9.3%), and the Northern Metn district with 1,717 deals (4.3%).

The aggregate amount of registered real estate transactions reached LBP8,776.5bn in the first seven months of 2022, or \$5.82bn based on the official exchange rate of the US dollar, and decreased by 18.4% from LBP10,756.7bn (\$7.14bn) in the same period of 2021. In comparison, the amount of real estate deals regressed by 0.7% in the first seven months of 2021 from the same period of the previous year and surged by 137.5% in the first seven months of 2020 from the same period of 2019. Further, the value of registered real estate transactions in Beirut amounted to LBP2,748.6bn and accounted for 31.3% of the total in the first seven months of 2022. The South governorate followed with LBP1,817.4bn (20.7%), then the Keserwan/Jbeil region with LBP1,134bn (13%), the Baabda/Aley/Chouf area with LBP763.1bn (8.7%), the North region with LBP671.8bn (7.7%), the Northern Metn district with LBP539.5bn (6.1%), the Nabatieh governorate with LBP447.6bn (5.1%), and the Bekaa/Baalbeck-Hermel region with LBP327.6bn (3.7%).

The amount of registered real estate transactions in the South governorate surged by 72.4% in the first seven months of 2022 from the same period of 2021, followed by deals in the Nabatieh governorate (+32.4%); while the amount of registered real estate transactions in the Northern Metn district declined by 68.7% in the first seven months of 2022 from the same period last year, followed by the Baabda/Aley/Chouf region (-64%), the Bekaa/Baalbeck-Hermel area (-21.5%), the North area (-20.3%), the Keserwan/Jbeil region (-10.6%) and Beirut (-4.3%). In addition, the aggregate amount of real estate transactions reached LBP90bn (\$60.2m) in July 2022, constituting a drop of 84% from LBP566.1bn (\$375.5m) in June 2022 and compared to LBP1,843.5bn (\$1.22bn) in July 2021.

In parallel, the average amount per registered real estate transaction was LBP217.4m (\$144,227) in the first seven months of 2022, and regressed by 4% from an average of LBP225.8m (\$149,778.5) in the same period of 2021. Further, there were 427 real estate transactions executed by foreigners in the first seven months of 2022, compared to 724 deals in the same period of 2021 and to 533 transactions in the first seven months of 2020. The number of real estate deals by foreigners accounted for 1.1% of the registered real estate transactions in the covered period, down from 1.5% in the first seven months of 2021 and from 1.4% in the same period of 2020.

Further, 33.7% of real estate transactions executed by foreigners in the first seven months of 2022 were in the South governorate, followed by Beirut (25.3%), then the Keserwan/Jbeil region (11.7%), the North region (9.6%), the Bekaa/Baalbeck-Hermel region (6.3%), the Baabda/Aley/Chouf area (6.1%), the Nabatieh governorate (4%), and the Northern Metn district (3.3%). The latest available figures show that Kuwaiti citizens accounted for 16.8% of the amount of real estate transactions executed by foreigners in April 2022, followed by Syrian nationals (14.2%), Saudi citizens (14%), nationals from France (5%), and American citizens (4.7%).



Source: Ministry of Finance, Byblos Research

Banque du Liban's foreign assets at \$14.7bn, gold reserves at \$15.9bn at end-August 2022

Banque du Liban's (BdL) interim balance sheet reached \$169.3bn at the end of August 2022, constituting increases of 3.7% from \$163.2bn at end-2021 and of 6% from \$159.8bn a year earlier. Assets in foreign currency totaled \$14.75bn at end-August 2022, representing a decrease of \$3.1bn, or of 17.3%, in the first eight months of 2022 and a drop of \$4.8bn (-24.7%) from \$19.6bn at the end of August 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 \$9.71bn at the end of August 2022, constituting decreases of \$396.1m (-3.9%) from \$10.11bn at mid-August 2022, and of \$424.5m (-4.2%) from \$10.14bn at end-July 2022. They dropped by \$3.1bn (-24%) in the first eight months of the year from \$12.8bn at the end of 2021 and by \$4.8bn (-33.2%) from \$14.76bn at end-August 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 \$15.9bn at the end of August 2022, constituting a decrease of \$601.7m (-3.6%) in the first eight months of the year and a decline of \$739.4m (-4.4%) from \$16.7bn at end-August 2021. The value of gold reserves reached a peak of \$18.15bn at mid-April 2022. Also, the securities portfolio of BdL totaled \$41.8bn at end-August 2022, increasing by \$557.6m (+1.4%) in the first eight months of the year and by \$1.1bn (+2.7%) from \$40.7bn a year earlier. In addition, loans to the local financial sector totaled \$13.3bn, as they regressed by 3.2% from the end of 2021 and by 4.5% from a year earlier. Further, the deposits of the financial sector stood at \$108.8bn at the end of August 2022 and grew by \$1.38bn from a year earlier. In addition, public sector deposits at BdL stood at LBP18,366.7bn (\$12.2bn) at end-August 2022, as they rose by LBP6,675bn (\$4.4bn) in the first eight months of the year and surged by LBP8,053.3bn (\$5.3bn) from the end of August 2021.

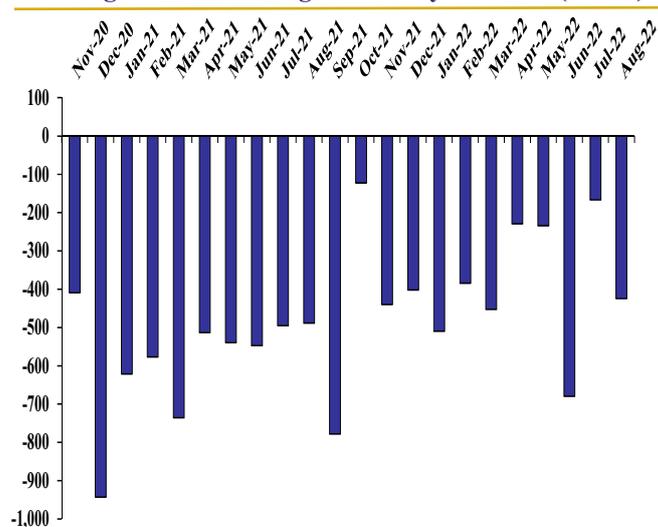
Banque du Liban extends implementation of Circular 161 for one additional month

Banque du Liban (BdL) issued on August 29, 2022 Intermediate Circular 639 addressed to banks that extends until September 30, 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.

However, BdL put a ceiling of \$500 per month on these exchanges starting in June of this year. This constitutes the eighth 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 January of this year, the end of February, the end of March, the end of April, the end of May, the end of July and the end of August 2022, with the possibility of extending the circular further.

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



Source: Banque du Liban, Byblos Research

Number of airport passengers up 58% in first eight months of 2022

Figures released by the Beirut-Rafic Hariri International Airport (HIA) show that nearly 4.2 million passengers utilized the airport (arrivals, departures and transit) in the first eight months of 2022, constituting a surge of 57.9% from 2.7 million passengers in the same period of 2021, and relative to 1.6 million passengers in the first eight months of 2020. The increase in the number of airport passengers in the first eight months of the year is due to 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 rolling back of most travel restrictions around the world this year. The number of arriving passengers reached 2.1 million passengers in the first eight months of the year and jumped by 61% from 1.29 million passengers in the same period of 2021, compared to 726,021 travelers in the first eight months of 2020. Also, the number of departing passengers totaled 2.1 million in the first eight months of 2022 and increased by 58.5% from 1.32 million travelers in the same period of last year, relative to 803,573 passengers in the first eight months of 2020.

In parallel, the airport's aircraft activity totaled 34,510 take-offs and landings in the first eight months of 2022, representing a rise of 39.6% from 24,718 takeoffs and landings in the same period of last year. In comparison, aircraft activity increased by 42.4% in the first eight months of 2021 and declined dropped by 65.5% in the same period of 2020. In addition, the HIA processed 38,701 metric tons of freight in the first eight months of 2022 that consisted of 19,034 tons of import freight and 19,667 tons of export freight. Middle East Airlines had 12,885 flights in the covered period and accounted for 37.3% of HIA's total aircraft activity.

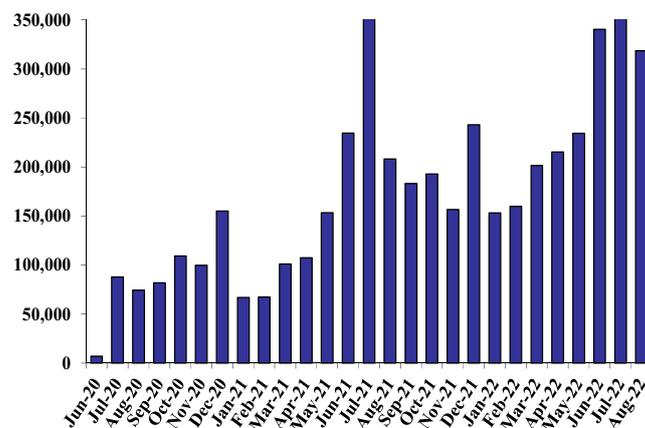
Broad money supply down 3% in first seven months of 2022, currency in circulation down 10%

Figures released by Banque du Liban show that money supply M1, which includes currency in circulation and demand deposits in Lebanese pounds, reached LBP61,513.7bn at the end of July 2022, constituting an increase of 6.2% from LBP57,937bn at the end of 2021 and a rise of 19% from LBP51,669bn at end-July 2021. Currency in circulation stood at LBP37,246.7bn at the end of July 2022, as it declined by LBP4,268bn (-10.3%) from LBP41,515bn at the end of 2021 and decreased by 2.3% from LBP38,107.6bn at end-July 2021. Also, demand deposits in local currency stood at LBP24,267bn at the end of July 2022, representing an expansion of 47.8% in the first seven months of the year and a rise of 79% from end-July 2021. Money supply M1 grew by 9.4% in July from LBP56,215bn at end-June 2022, with currency in circulation increasing by 7.8% and demand deposits in local currency expanding by 12% month-on-month. The increase in the money supply largely reflects the migration of term deposits to demand deposits, as well as the shift to a cash-based economy.

In addition, money supply M2, which includes M1 and term deposits in Lebanese pounds, totaled LBP79,687bn at the end of July 2022, constituting increases of 0.9% from LBP79,007bn at the end of 2021 and of 6.6% from LBP74,752.2bn a year earlier. Term deposits in Lebanese pounds totaled LBP18,173bn at the end of July 2022, as they declined by 13.7% from LBP21,070bn at end-2021 and by 21.3% from LBP23,083.4bn at end-July 2021. Money supply M2 grew by 6.5% in July from LBP74,834.6bn at end-June 2022, with term deposits in local currency regressing by 2.4% month-on-month.

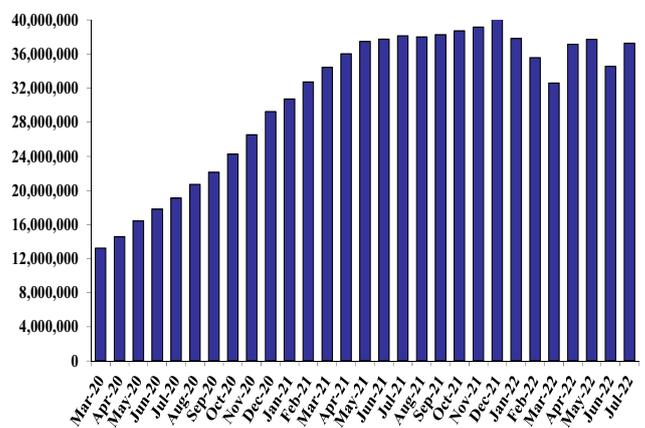
Further, broad money supply M3, which includes M2, deposits in foreign currency and debt securities issued by the banking sector, reached LBP195,585bn at the end of July 2022, constituting decreases of 2.7% in the first seven months of the year and of 2.8% from LBP201,130bn at end-July 2021. Deposits in foreign currency totaled LBP115,504.3bn at the end of July 2022, down by 5% from the end of 2021 and by 8.4% from end-July 2021. Also, debt securities issued by the banking sector amounted to LBP394bn at the end of July 2022 compared to LBP334bn at the end of 2021 and to LBP331bn at end-July 2021. Money supply M3 increased by 2% from LBP191,721.8bn at the end of June 2022, with deposits in foreign currency regressing by 0.8% and debt securities issued to residents by the banking sector nearly unchanged month-on-month. In parallel, M3 decreased by LBP5,485bn from the end of 2021 due to a decline of LBP4,709.2bn in the net foreign assets of deposit-taking institutions, a retreat of LBP4,909.4bn in the net claims on the public sector, and a downturn of LBP6,018.3bn in the claims on the private sector, which was partly offset by an increase of LBP10,152bn in other items.

Number of Arriving Passengers



Source: Beirut-Rafic Hariri International Airport

Currency in Circulation (LBP Millions)



Source: Banque du Liban, Byblos Research

Net foreign assets of financial sector down \$2.8bn in first seven months of 2022

Figures issued by Banque du Liban (BdL) show that the net foreign assets of the financial sector, which are a proxy for Lebanon's balance of payments, declined by \$2.8bn in the first seven months of 2022, compared to decreases of \$1.8bn in the same period of 2021 and of \$5.5bn in the first seven months of 2020.

The cumulative deficit in the first seven months of 2022 was caused by a drop of \$3bn in the net foreign assets of BdL, which was partly offset by an increase of \$227m in those of banks and financial institutions. Further, the net foreign assets of the financial sector regressed by \$207.7m in July 2022 compared to a decline of \$474 m in June 2022 and to an increase of \$38.7m in July 2021. The July decrease was caused by a contraction of \$220.7m in the net foreign assets of BdL, which was partly offset by an increase of \$13m 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.

Capital Markets Authority asks financial firms to raise capital by 20%

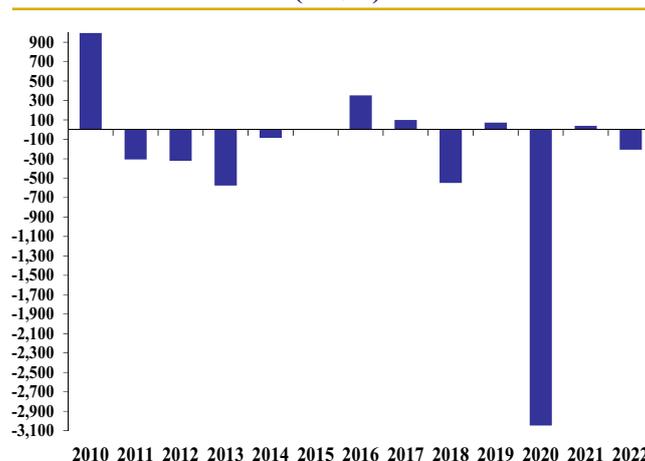
The Capital Markets Authority (CMA) issued on July 28, 2022 Announcement No. 84 that asks licensed financial institutions to raise their minimum capital by 20% by the end of 2022 in order to conduct activities related to financial instruments, according to the rules and regulations about the licensing and registration in financial markets under Series 2000.

The CMA specified that firms require a minimum capital of LBP750m in order to conduct activities that consist of dealing with or trading financial instruments from the firm's or the client's account; selling, buying or receiving an order to buy or sell a financial instrument; and representing and distributing a foreign collective investment scheme. Further, it said that firms that provide activities that consist of market making or liquidity provisioning; managing subscriptions in financial products or distributing them, or insuring subscriptions in financial instruments, require a capital of LBP1.8bn. Also, it noted that companies that provide financial advisory services to individuals about the benefits and risks of their investment or their dealings with any type of financial instrument; that offer subscriptions in financial instruments and private or public subscriptions; that provide financial advice about investments, about dealing with financial instruments, and about the finances of a company, as well as about mergers and acquisitions, require a minimum capital of LBP180m. It added that these services do not include the execution of orders from clients, which requires a specific permit.

In addition, it stipulated that financial firms need to have a minimum capital of LBP360m to organize or structure operations related to financial instruments, introducing individuals to financial instruments, and organizing operations in financial instruments. It added that this includes financial agreements for the company, mergers and acquisitions deals, offering subscriptions in financial instruments, as well as offering private or public subscriptions.

Moreover, the CMA indicated that firms require a capital of LBP3.6bn in order to manage a financial instrument or a portfolio of financial products on behalf of clients, as well as to manage collective investment schemes. Further, it said that companies need a capital of LBP7.2bn in order to provide custodial services, including for financial instruments on behalf of an individual. This includes providing custodial services for clients and for collective investment schemes; as well as managing the rights, benefits and procedures related to a financial instrument.

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



*in July of each year

Source: Banque du Liban, Byblos Research

Coincident Indicator down 17% in first quarter of 2022

Banque du Liban's (BdL) Coincident Indicator, an index of economic activity in Lebanon, stood at 124.6 in March 2022 compared to 118.1 in the previous month and to 141.1 in March 2021. The Coincident Indicator, an average of eight weighted economic indicators, regressed by 11.7% in March 2022 from the same month of the previous year, reflecting the deterioration of economic and financial conditions in the country. However, the indicator increased by 5.5% from February 2022, indicating a slight improvement in economic and financial conditions in the country in the covered month.

The indicator averaged 119.5 in the first quarter of 2022, constituting a decline of 16.6% from an average of 143.4 in the same period of 2021 and representing its lowest level in the first quarter of a year since the 109.5 mark it recorded in 1994. The percentage drop in the indicator is the third steepest in the first quarter of a year since BdL launched the indicator in 1993. The indicator declined by 40% in the first quarter of 2021 and by 20.6% in the same quarter of 2020.

Further, the indicator averaged 134.3 in the 12 months ending March 2022, compared to an average of 135.7 in the 12-month period ending February 2022 and to an average of 156.3 in the 12 months ending March 2021. As a result, the 12-month average coincident indicator regressed by 1% month-on-month and dropped by 14% year-on-year.

In parallel, the indicator declined 12 times and improved 17 times in the month of March since 1993. Also, it averaged 140.3 in 2021, constituting a decline of 22.2% from an average of 180.2 in 2020 and representing its lowest level since the 99.1 mark it recorded in 1993. The percentage drop in the indicator is the second lowest since BdL launched the indicator in 1993. The steepest decline was 38.4% in 2020. The indicator averaged 256.6 in 2012, 264.7 in 2013, 273.2 in 2014, 278.6 in 2015, 289.5 in 2016, 305.9 in 2017, 307.7 in 2018, and 292.6 in 2019.

Foreign direct investments down 60% to \$517m in 2021

Figures released by Banque du Liban show that foreign direct investments (FDI) in Lebanon totaled \$516.7m in 2021, constituting a drop of 60.4% from \$1.31bn in 2020. FDI inflows in 2021 reached their lowest annual level since BdL started publishing detailed figures about the balance of payments in 2002.

FDI inflows to Lebanon averaged \$2.79bn annually between 2002 and 2020, and registered a high of \$4.44bn in 2009. FDI inflows were equivalent to 2.2% of GDP in 2021 relative to 5.3% of GDP in 2020.

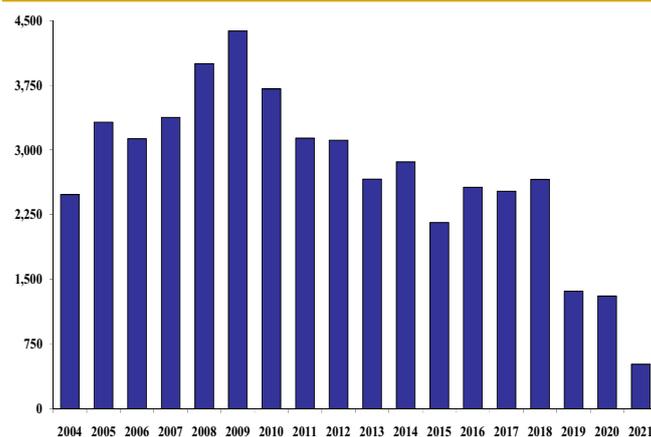
According to BdL's methodology, which is based on the International Monetary Fund's balance of payments methodology to record the movement of non-resident deposits, figures for FDI inflows consist largely of the transfer of non-resident deposits at local commercial banks to the real estate sector, rather than to the foreign flow of capital into local projects.

Foreign direct investments totaled \$36.9m in the first quarter, \$99.7m in the second quarter, \$63.8m in the third quarter, and 316.5m in the fourth quarter of 2021. They dropped by 94.6% in the first three months of the year, by 62.5% in the second quarter and by 62.4% in the third quarter from the same quarters of 2020, while they improved by 70.5% in the fourth quarter of 2021 from the same period of the previous year.

In parallel, FDI outflows from Lebanon stood at \$28m in 2021 and surged by 167.8% from \$10.5m in 2020. They totaled \$12m in the first quarter, \$20.8m in the second quarter, -\$9.6m in the third quarter, and \$4.8m in the fourth quarter of 2021. In addition, FDI outflows from Lebanon in 2021 reached its second lowest yearly level during the 2002-2021 period. In comparison, they averaged \$822.2m annually between 2002 and 2020. FDI outflows were equivalent to 0.1% of GDP last year compared to 0.04% of GDP in 2020.

As such, net FDI inflows to Lebanon reached \$488.7m in 2021 and decreased by 62.3% from \$1.3bn in 2020. Net FDI inflows last year registered their lowest annual level between 2002 and 2021. They averaged \$2.4bn annually between 2002 and 2012, and \$1.37bn yearly during the 2013-2020 period. They were equivalent to 5.2% of GDP in 2021 relative to 2.1% of GDP in 2020.

Foreign Direct Investment Inflows (US\$m)



Source: Banque du Liban, Byblos Research

Private sector deposits down \$46.5bn since start of 2019

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets stood at \$171.3bn at the end of July 2022, constituting declines of 2% from \$174.8bn at the end of 2021 and of 5.2% from \$180.6bn at end-July 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 \$23.3bn at the end of July 2022 and decreased by 16% in the first seven months of 2022 and by 26% from a year earlier. Loans to the resident private sector totaled \$20.9bn, constituting declines of 16.2% from the end of 2021 and of 24.3% from end-July 2021. Also, credit to the non-resident private sector amounted to \$2.4bn at the end of July 2022, and contracted by 14.7% from the end of 2021 and by 37.3% from the end of July 2021.

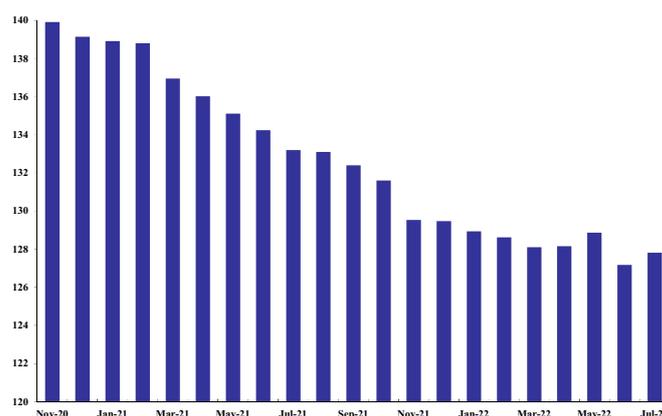
In nominal terms, credit to the private sector decreased by \$4.4bn in the first seven months of 2022 relative to a drop of \$4.8bn in the same period of 2021, as lending to the resident private sector retreated by \$4bn and credit to the non-resident private sector regressed by \$416.3m in the covered period. Further, loans extended to the private sector contracted by \$36.1bn since the start of 2019, with loans denominated in Lebanese pounds shrinking by LBP11,142bn and loans denominated in foreign currency dropping by \$28.7bn. The dollarization rate of private sector loans regressed from 68.2% at end-July 2021 to 53.2% at the end of July 2022. The average lending rate in Lebanese pounds was 5.09% in July 2022 compared to 7.26% a year earlier, while the same rate in US dollars was 4.74% relative to 5.99% in July 2021.

In addition, claims on non-resident financial institutions reached \$3.83bn at the end of July 2022, constituting a decrease of \$764.8m (-16.7%) in the first seven months of 2022 and a decline of \$877m (-18.7%) from a year earlier. Also, claims on non-resident financial institutions dropped by \$5.3bn (-58%) from the end of August 2019 and by \$8.2bn (-68%) since the start of 2019. Further, deposits at foreign central banks totaled \$1.2bn, constituting increases of \$135.9m (+13%) in the first seven months of 2022 and of \$263.5m (+29%) from a year earlier. In addition, the banks' claims on the public sector reached at \$14.2bn at end-July 2022, down by \$2.6bn (-26%) in the first seven months of the year and by \$5bn (-26%) from the end of July 2021. The banks' holdings of Lebanese Treasury bills stood at \$10.1bn, while their holdings of Lebanese Eurobonds reached \$3.9bn at end-July 2022. Further, the deposits of commercial banks at Banque du Liban (BdL) totaled \$111.1bn at the end of July 2022, up by \$2.2bn (+2%) from \$109bn at end-2021 and by \$2.8bn (+2.6%) from \$108.3bn at the end of July 2021.

In parallel, private sector deposits totaled \$127.8bn at the end of July 2022 and regressed by 1.3% in the first seven months of 2022 and by 4.1% from end-July 2021. Deposits in Lebanese pounds reached the equivalent of \$29.9bn at end-July 2022, as they increased by 12.3% from the end of 2021 and by 14.6% from a year earlier; while deposits in foreign currency reached \$97.9bn, and regressed by 4.8% in the first seven months of the year and by 8.6% from the end of July 2021. Resident deposits totaled \$104.1bn at the end of July 2022 and decreased by \$797.4m (-0.8%) from the end of 2021, while non-resident deposits reached \$23.7bn at end-July 2022, down by \$857m (-3.5%) in the first seven months of the year. Resident deposits in Lebanese pounds stood at LBP42,068bn, or the equivalent of \$27.9bn at end-July 2022, constituting an increase of LBP4,968.7bn, or of 13.4%, in the first seven months of the year, while those in foreign currency totaled \$76.2bn at end-July 2022 and decreased by \$4.1bn (-5.1%) in the covered period. Non-resident deposits in Lebanese pounds and in foreign currency regressed by 0.3% and 3.8%, respectively, in the first seven months of 2022. Private sector deposits declined by \$1.7bn in the first seven months of 2022, with deposits in Lebanese pounds increasing by LBP4,958.4bn, or the equivalent of \$3.3bn, and foreign currency deposits shrinking by \$4.9bn. 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, by \$712.2m in May and by \$643.2m in July 2022. In addition, private sector deposits dropped by \$15.4bn in 2019, by \$19.7bn in 2020 and by \$9.7bn in 2021, including a decrease of \$10.7bn between September and December 2019. As such, aggregate private sector deposits contracted by \$46.5bn since the start of 2019, with deposits in Lebanese pounds shrinking by \$21.3bn and foreign currency deposits contracting by \$25.2bn. 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 76.6% at end-July 2022, relative to 79.4% at end-2021 and to 80.4% a year earlier.

Further, the liabilities of non-resident financial institutions reached \$4.4bn at the end of July 2022 and decreased by 18% from \$5.3bn at the end of July 2021. Also, the average deposit rate in Lebanese pounds was 0.54% in July 2022 compared to 1.74% a year earlier, while the same rate in US dollars was 0.12% relative to 0.33% in July 2021. The ratio of private sector loans to deposits in foreign currency stood at 12.6% at the end of July 2022 compared to 17.1% a year earlier, well below BdL's limit of 70%. The same ratio in Lebanese pounds reached 36.4% at end-July 2022, down from 50.3% at end-July 2021. As such, the total private sector loans-to-deposits ratio reached 18.2% at end-July 2022 compared to 23.6% a year earlier. The banks' aggregate capital base stood at \$16.93bn at the end of July 2022, down by \$856.4m (-4.8%) from \$17.8bn at the end of 2021 and up by \$166.6m (+1%) from end-July 2021.

Private Sector Deposits (US\$bn)



Source: Banque du Liban, Byblos Research

Stock market capitalization up 26% to \$14.2bn at end-August 2022

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 11.05 million shares in the first eight months of 2022, constituting a decrease of 50.3% from 22.25 million shares traded in the same period of 2021; while aggregate turnover amounted to \$277.85m and increased by 14.4% from a turnover of \$242.9m in the first eight months of 2021. The market capitalization of the BSE reached \$13.4bn at the end of August 2022, representing a surge of 26.4% from \$10.6bn a year earlier, with real estate equities accounting for 67% of the total, followed by banking stocks (28.2%), and industrial shares (4.8%). The market liquidity ratio was 2.1% at the end of August 2022 compared to 2.3% a year earlier.

Real estate equities accounted for 50.4% of the trading volume in the first eight months of 2022, followed by banking stocks (48.4%) and industrial shares (1.3%). Also, real estate equities accounted for 95% of the aggregate value of shares traded, followed by banking stocks (4.2%) and industrial shares (0.9%). The average daily traded volume for the first eight months of 2022 was 70,838 shares for an average daily amount of \$1.78m. The figures represent a drop of 56% of the average daily traded volume and an increase of 1.2% of 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 193% in the first eight months of 2022, while the CMA's Banks Market Value-Weighted Index regressed by 18.2% 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 66.2% and 62.5%, respectively, from the end of 2021, given that the shares had market weights of 40.6% and 26.4%, respectively, on the last trading day in August, 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.

Financial institutions to register staff who carry out regulated activities

The Capital Markets Authority (CMA) issued on August 29, 2022 Announcement No. 86 addressed to licensed financial institutions about registering employees who carry out regulated functions and activities. It said that the announcement aims to remind licensed financial firms about the need to abide in full by Series 2000 regulations regarding the mandatory registration of persons who carry out licensed activities. As such, it stipulated that licensed financial institutions that have already appointed, prior to the date of this announcement, individuals to carry out regulated functions and activities should register them immediately with the CMA, and added that it will hold the persons liable and suspend them from performing their work until they meet all the registration requirements. It added that the CMA has the right to take appropriate action against the institutions that do not abide by this decision, based on Article 2501 of the rules and regulations of licensing and registration in capital markets Series 2000.

Further, it modified Annex 5 of the rules about the positions and jobs of registered individuals and the specified qualifications exams. The positions consist of the Executive Director, Managing Director, General Manager, Chief Executive Officer, members of the Executive Board, the Chief Financial Officer, the Compliance Officer, the reporting officer on Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT), the Head of Risk Management, the Head of Internal Audit, the Customer Service Representative, and traders in financial instruments. It added that the exams have to cover financial instruments, financial derivatives, and the code of conduct.

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



Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut – Lebanon
Tel: (961) 1 338 100
Fax: (961) 1 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com

Lebanon This Week is a research document that is owned and published by Byblos Bank sal. The contents of this publication, including all intellectual property, trademarks, logos, design and text, are the exclusive property of Byblos Bank sal, and are protected pursuant to copyright and trademark laws. No material from Lebanon This Week may be modified, copied, reproduced, repackaged, republished, circulated, transmitted, redistributed or resold directly or indirectly, in whole or in any part, without the prior written authorization of Byblos Bank sal.

The information and opinions contained in this document have been compiled from or arrived at in good faith from sources deemed reliable. Neither Byblos Bank sal, nor any of its subsidiaries or affiliates or parent company will make any representation or warranty to the accuracy or completeness of the information contained herein.

Neither the information nor any opinion expressed in this publication constitutes an offer or a recommendation to buy or sell any assets or securities, or to provide investment advice. This research report is prepared for general circulation and is circulated for general information only. Byblos Bank sal accepts no liability of any kind for any loss resulting from the use of this publication or any materials contained herein.

The consequences of any action taken on the basis of information contained herein are solely the responsibility of the person or organization that may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies that may be discussed in this report and should understand that statements regarding future prospects may not be realized.

BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605 Riad El Solh - Beirut 1107 2811- Lebanon
Phone: (+ 961) 1 335200
Fax: (+ 961) 1 339436

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60, Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457/8/9 - 2560017/9
E-mail: erbilbranch@byblosbank.com.lb

Sulaymaniyah Branch, Kurdistan, Iraq
Salem street, Kurdistan Mall - Sulaymaniyah
Phone: (+ 964) 773 042 1010 / (+ 964) 773 041 1010

Baghdad Branch, Iraq
Al Karrada - Salman Faeq Street
Al Wahda District, No. 904/14, Facing Al Shuruk Building
P.O.Box: 3085 Badalat Al Olwiya – Iraq
Phone: (+ 964) 770 6527807 / (+ 964) 780 9133031/2
E-mail: baghdadbranch@byblosbank.com.lb

Basra Branch, Iraq
Intersection of July 14th, Manawi Basha Street, Al Basra – Iraq
Phone: (+ 964) 770 4931900 / (+ 964) 770 4931919
E-mail: basrabranch@byblosbank.com.lb

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryan Street - Area 0002
Yerevan - Republic of Armenia
Phone: (+ 374) 10 530362 Fax: (+ 374) 10 535296
E-mail: infoarm@byblosbank.com

NIGERIA

Byblos Bank Nigeria Representative Office
161C Rafu Taylor Close - Off Idejo Street
Victoria Island, Lagos - Nigeria
Phone: (+ 234) 706 112 5800
(+ 234) 808 839 9122
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

BELGIUM

Byblos Bank Europe S.A.
Brussels Head Office
Boulevard Bischoffsheim 1-8
1000 Brussels
Phone: (+ 32) 2 551 00 20
Fax: (+ 32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

UNITED KINGDOM

Byblos Bank Europe S.A., London Branch
Berkeley Square House
Berkeley Square
GB - London W1J 6BS - United Kingdom
Phone: (+ 44) 20 7518 8100
Fax: (+ 44) 20 7518 8129
E-mail: byblos.london@byblosbankeur.com

FRANCE

Byblos Bank Europe S.A., Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+33) 1 45 63 10 01
Fax: (+33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

ADIR INSURANCE

Dora Highway - Aya Commercial Center
P.O.Box: 90-1446
Jdeidet El Metn - 1202 2119 Lebanon
Phone: (+ 961) 1 256290
Fax: (+ 961) 1 256293