

# LEBANON THIS WEEK

## In This Issue

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

Lebanon ranks 187<sup>th</sup> globally, 15<sup>th</sup> in Arab world in government effectiveness

IMF stresses urgency of structural reforms

Novatek to withdraw from oil and gas exploration consortium

Banque du Liban's foreign assets at \$14.6bn, gold reserves at \$15.6bn at mid-September 2022

Port of Beirut processes 2.45 million tons of freight in first half of 2022

Consumer Price Index up 162% year-on-year in August 2022

Surveyed economists expect Lebanon's real GDP to contract by 1.3% in 2022

Lebanon ranks 154<sup>th</sup> globally, 15<sup>th</sup> among Arab countries in terms of economic freedom

Payment cards at 2.51 million at end of June 2022, ATMs total 1,637

## Corporate Highlights

Term deposits account for 56% of customer deposits at end-July 2022

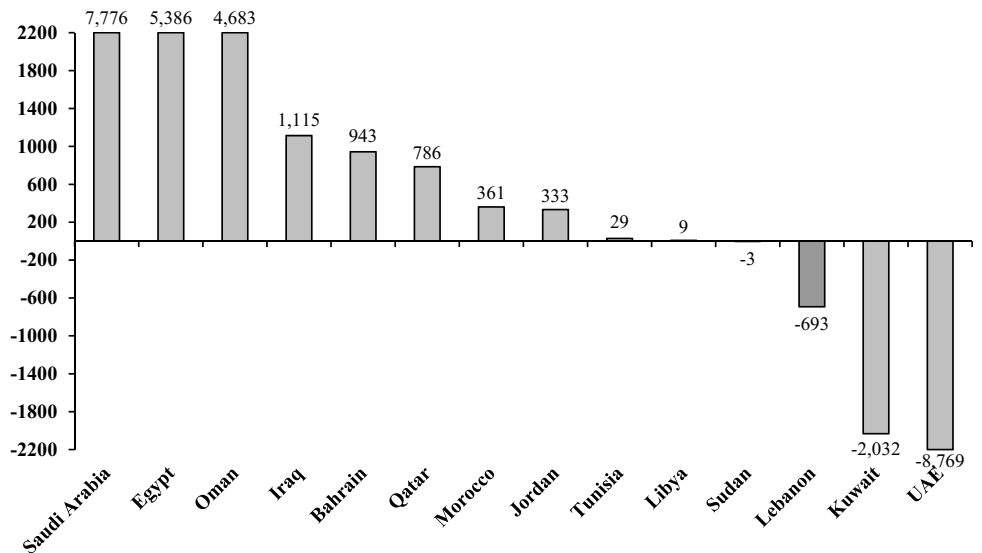
Beirut Stock Exchange requires prior approval from Capital Market Authority for new listings and brokers

Import activity of top five shipping firms and freight forwarders up 12% in first half of 2022

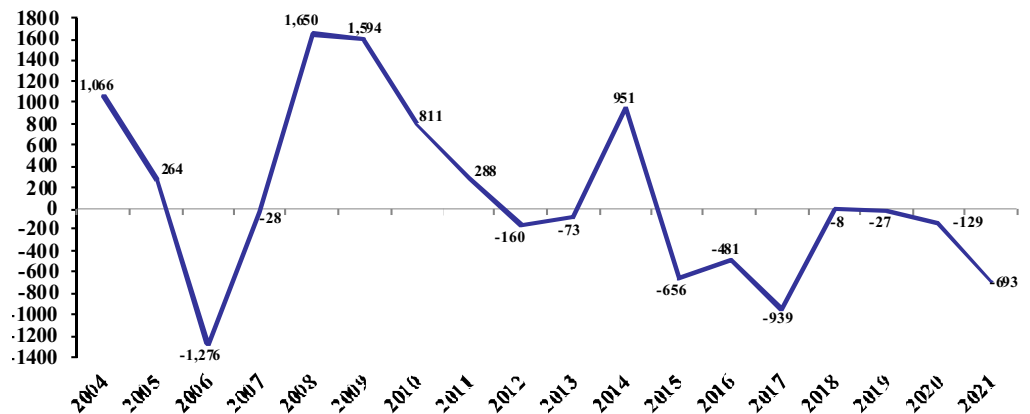
**Ratio Highlights**.....10  
**National Accounts, Prices and Exchange Rates** .....10  
**Ratings & Outlook**.....10

## Charts of the Week

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



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



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

## Quote to Note

"The inconclusive outcome of the parliamentary elections in May 2022 and the end of the president's term in October 2022 hinder the implementation of the reforms required by the International Monetary Fund and other partners.

*Fitch Ratings, on some of the obstacles to reforms*

## Number of the Week

**64%:** Percentage of the public debt denominated in Lebanese pounds that Banque du Liban holds, according to the Ministry of Finance

## 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"	56.75	(3.2)	45,906	41.0%	Oct 2022	6.10	6.25	77,142.86
Solidere "B"	56.90	(2.2)	26,817	26.7%	Jan 2023	6.00	6.25	4,500.00
HOLCIM	30.49	0.0	-	4.3%	Apr 2024	6.65	6.25	283.78
Audi GDR	1.48	0.0	-	1.3%	Jun 2025	6.25	6.25	133.68
BLOM Listed	2.90	0.0	-	4.5%	Nov 2026	6.60	6.25	78.95
BLOM GDR	2.50	0.0	-	1.3%	Feb 2030	6.65	6.25	41.12
Audi Listed	1.50	0.0	-	6.4%	Apr 2031	7.00	6.25	35.12
Byblos Pref. 08	27.00	0.0	-	0.4%	May 2033	8.20	6.25	27.84
Byblos Common	0.64	0.0	-	2.6%	Nov 2035	7.05	6.25	22.33
Byblos Pref. 09	37.98	0.0	-	0.5%	Mar 2037	7.25	6.25	20.08

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

Source: Refinitiv

	Sep 19-23	Sep 12-16	% Change	August 2022	August 2021	% Change
Total shares traded	77,623	196,206	(60.4)	899,525	2,166,545	(58.5)
Total value traded	\$4,226,954	\$8,353,778	(49.4)	\$33,747,990	\$24,370,670	38.5
Market capitalization	\$13.84bn	\$14.11bn	(1.9)	\$13.36bn	\$10.57bn	26.4

Source: Beirut Stock Exchange (BSE)



### Lebanon ranks 187<sup>th</sup> globally, 15<sup>th</sup> in Arab world in government effectiveness

The World Bank's annual World Governance Indicators for 2021 show that Lebanon's score increased on one out of six governance indicators included in the survey and regressed on five indicators, reflecting a relatively worse level of governance in the country from the previous year. Also, Lebanon's rankings improved on one indicator and regressed on five other ones from the previous survey. The indicators cover 214 countries and territories and are rated on a scale of -2.5 to +2.5, with higher values corresponding to better governance outcomes.

Lebanon ranked in 187<sup>th</sup> place worldwide among 209 countries with available figures and in 15<sup>th</sup> place among 20 Arab countries in terms of Government Effectiveness. The indicator evaluates the quality of public and civil services and the degree of their independence from political pressure, as well as the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. Lebanon's global rank regressed by two spots, while its regional rank was unchanged from the preceding year. Globally, Lebanon had a more effective government than Iraq, Myanmar and Chad, and a less effective one than Equatorial Guinea, Mali and Zimbabwe among countries with a nominal GDP of \$10bn or more. Regionally, Lebanon had a higher level of government effectiveness than only Iraq, Sudan, Libya, Syria and Yemen. The results show that 89.5% of countries and territories in the world have a better score than Lebanon on this dimension of governance.

In addition, Lebanon ranked in 187<sup>th</sup> place globally among 209 countries with available figures and in 15<sup>th</sup> place regionally on the Control of Corruption category, which measures perceptions of the use of public power for private gain in a country, including both petty and grand forms of corruption. Lebanon's global regressed by three notches, while its regional rank was unchanged from the previous year. Globally, the control of corruption in Lebanon is better than in Nicaragua, Iraq and Zimbabwe, and is less effective than in Afghanistan, Guatemala and Cambodia. Regionally, the control of corruption in Lebanon is better than in Iraq, Sudan, Libya, Yemen and Syria. The results show that 89.5% of countries and territories around the world had a better score than Lebanon on this dimension of governance.

Also, Lebanon ranked in 178<sup>th</sup> place globally among 209 countries with available figures and in 15<sup>th</sup> place regionally on the Rule of Law category, which is a measure of the extent that citizens have confidence in the rules of society and abide by them, as well as the likelihood that acts of crime and violence will occur. Lebanon's rank deteriorated by nine notches globally, while its regional rank regressed by one spot from the preceding year. Globally, Lebanon preceded Guatemala, Cameroon and Kyrgyzstan, while it trailed Angola, Mozambique and Honduras on this indicator. Regionally, Lebanon came ahead of only Sudan, Iraq, Libya, Yemen and Syria. The results show that 85.2% of countries and territories around the world have a better score than Lebanon on this dimension of governance.

Further, Lebanon ranked in 170<sup>th</sup> place worldwide among 209 countries with available figures and in 13<sup>th</sup> place among Arab countries in terms of Regulatory Quality, which assesses market-friendly policies and laws that enable and promote private sector development. Lebanon's global and regional rankings deteriorated by 13 spots and by one notch, respectively, year-on-year. Globally, Lebanon ranked ahead of Laos, Belarus and Cameroon, and came behind Nicaragua, Bangladesh and the Gambia on this indicator. Regionally, the quality of rules and regulations in Lebanon was better than in Mauritania, Iraq and Algeria, while it was worse than in Tunisia, Egypt and Djibouti. The results show that 81.3% of countries and territories in the world have a better score than Lebanon on this dimension of governance.

### Government Effectiveness Rankings & Scores in 2021

	Score	Arab Rank	Global Rank
UAE	1.40	1	22
Qatar	1.11	2	37
Bahrain	0.72	3	55
Saudi Arabia	0.50	4	66
Jordan	0.23	5	85
Kuwait	-0.04	6	102
Morocco	-0.07	7	103
Oman	-0.12	8	109
Tunisia	-0.17	9	114
Egypt	-0.43	10	135
Algeria	-0.62	11	147
Mauritania	-0.73	12	158
Palestine	-0.77	13	163
Djibouti	-0.80	14	168
<b>Lebanon</b>	<b>-1.29</b>	<b>15</b>	<b>187</b>
Iraq	-1.29	16	188
Sudan	-1.64	17	198
Libya	-1.72	18	202
Syria	-1.74	19	203
Yemen	-2.30	20	208

Source: World Bank, Byblos Research

### Lebanon's Rankings and Scores on Governance Indicators for 2021

	Global Rank	Change in Rank	Arab Rank	Lebanon Score	Change in Score	Arab Avg Score
Voice & Accountability	144	▼	3	-0.63	▼	-1.12
Political Stability	193	▲	14	-1.49	▲	-0.93
Government Effectiveness	187	▼	15	-1.29	▼	-0.49
Regulatory Quality	170	▼	13	-0.88	▼	-0.47
Rule of Law	178	▼	15	-1.07	▼	-0.49
Control of Corruption	187	▼	15	-1.23	▼	-0.53

Source: World Bank, Byblos Research



### **IMF stresses urgency of structural reforms**

Following a staff mission to Lebanon, the International Monetary Fund (IMF) indicated that Lebanese authorities need to step up efforts to implement much-needed structural and financial reforms, in order to address the country's economic and social crisis, but noted that progress in implementing the reforms under the Staff Level Agreement of April 2022 is still very slow. It said that Parliament has yet to approve the government budget for 2022, and called on the government to focus on preparing and approving a credible budget for 2023. Further, it urged authorities to consider realistic macroeconomic assumptions when formulating the budget, as well as to take into account the necessary measures to raise public revenues, including the use of a realistic exchange rate for tax purposes. It considered that this approach would allow for a significant increase in social and investment spending and for adjusting public spending in order to support the basic functioning of the public administration. Also, it indicated that the multiple exchange rates that prevail in the local market are causing significant distortions to economic activity and are undermining the operations of the public sector, which are significantly weighing on foreign currency reserves at Banque du Liban (BdL). It stressed that the enactment of the Capital Controls and Deposit Withdrawal Limits Law that the government submitted to Parliament in March 2022 is crucial to address these issues and reduce pressures on BdL's foreign currency reserves. It pointed out that the authorities' intervention in the exchange rate market to stabilize the exchange rate has proven to be insufficient in the absence of much-needed reforms.

Further, the IMF noted that the reforms to the Banking Secrecy Law that Parliament enacted in July 2022 contain positive measures, but considered that the modifications fell short of the changes needed to bring the law in line with international best practices. But it welcomed the authorities' efforts to review some of the key shortcomings that it considered fundamental to fight corruption, to eliminate impediments to effective banking sector supervision and restructuring, to improve the tax administration, as well as to investigate financial crimes and recover misappropriated assets. In parallel, it urged authorities to implement the financial sector's rehabilitation strategy that the Cabinet approved in order to allow the proper functioning of the banking system, to attract deposits, and to support economic activity. It also called on authorities to identify and address the large losses in the financial sector, and to respect the hierarchy of claims. It stressed the need to fully protect small depositors, and that authorities should limit the recourse to public resources.

It considered that delaying the implementation of these reforms will increase the cost to the country and its population. It also stressed that the authorities need to complete all prior actions in order for the IMF's Executive Board to consider Lebanon's request for a financial program.

### **Novatek to withdraw from oil and gas exploration consortium**

Russian firm JSC Novatek informed the Lebanese government of its plan to withdraw from the consortium that won bids in late 2017 for the exploration of oil & gas in Blocks 4 and Block 9 of Lebanon's territorial waters, as a result of U.S. sanctions on the company. Novatek intends to leave the consortium and withdraw from the project by October 2022. The consortium consists of the operator Total E&P Liban sal and the Italian company Eni International BV and JSC Novatek, with Total and Eni holding a 40% stake each in the consortium.

Further, the Ministry of Energy & Water announced that the government will take over the 20% non-operating stake of Novatek in the consortium, as it asked the Russian company to waive its full participation in the exploration and production agreements in favor of the Lebanese government. The ministry intends to designate the Lebanese Petroleum Administration to manage the government's participation in each of the two agreements, to work with the other right holders, and to discuss the financial and operational arrangements related to the implementation of petroleum activities in Block 4 and Block 9.

In December 2017, the Council of Ministers approved the bid submitted by the three companies for offshore oil & gas exploration and production in Lebanon. The consortium submitted one bid for Block 4 in the center of Lebanon's territorial waters and another bid for Block 9 in the south. Following the approval of the bid, the ministry received the two signed Exploration and Production Agreements (EPA) from the consortium for the exclusive rights to explore, develop and produce oil and gas in Block 4 and Block 9 in Lebanon's offshore Exclusive Economic Zone. It added that the consortium has submitted guarantees, which will be claimed by the government if the companies fail to meet the contract's requirements. The consortium started the five-year exploration phase on February 27, 2020, with a first phase of three years followed by a timeframe of two years.

In parallel, Total E&P Liban sal, which is the operator of the consortium, announced in April 2020 that the results of the drilling of Lebanon's first exploration well were "negative". It indicated that it found evidence of traces of gas in the well, which confirms the presence of hydrocarbon in Lebanon's territorial waters. However, it said that it did not find reservoirs in the Tamar formation, which was the main target of the exploration well that is located 30 kilometers offshore of Beirut. It pointed out that despite the "negative" results, the exploration has provided valuable information that will be incorporated in future complementary studies about the exploration potential of Lebanon's offshore Exclusive Economic Zone.





### Banque du Liban's foreign assets at \$14.6bn, gold reserves at \$15.6bn at mid-September 2022

Banque du Liban's (BdL) interim balance sheet reached \$169.4bn on September 15, 2022, constituting increases of 3.8% from \$163.2bn at end-2021 and of 6.5% from \$159.1bn a year earlier. Assets in foreign currency totaled \$14.62bn at mid-September 2022, representing a decrease of \$3.2bn, or of 18%, from the end of 2021 and a drop of \$3.3bn (-18.5%) from \$17.9bn at mid-September 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 \$9.6bn at mid-September 2022 and regressed by \$124.75m (-1.3%) from \$9.72bn at the end of August 2022, and decreased by \$521m (-5.2%) from \$10.11bn at mid-August 2022. They dropped by \$3.2bn (-25%) from \$12.8bn at the end of 2021 and by \$3.3bn (-25.6%) from \$12.9bn at mid-September 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.

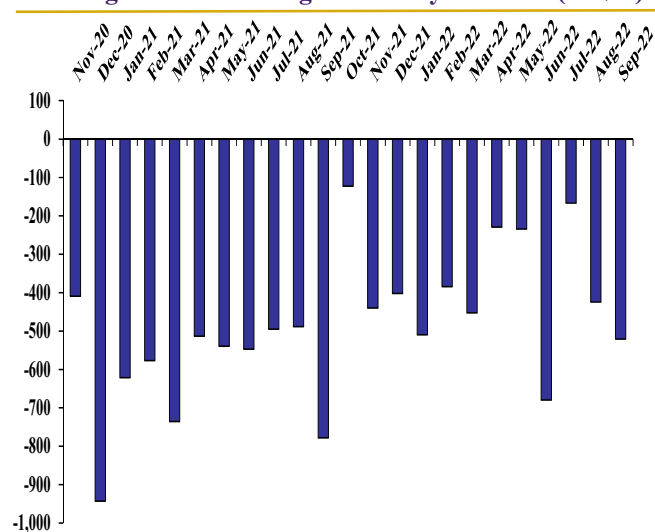
In parallel, the value of BdL's gold reserves amounted to \$15.6bn at mid-September 2022, constituting decreases of \$1.03bn (-6.2%) from the end of 2021 and of \$1.04bn (-6.3%) from \$16.6bn at mid-September 2021. The value of gold reserves reached a peak of \$18.15bn at mid-April 2022. Also, the securities portfolio of BdL totaled \$41.3bn at mid-September 2022, decreasing by \$20m (-0.05%) from the end of 2021, while they increased by \$458.7m (+1.1%) from \$40.8bn a year earlier. In addition, loans to the local financial sector totaled \$13bn, as they regressed by 4.6% from the end of 2021 and by 5.6% from mid-September 2021. Further, the deposits of the financial sector stood at \$107.8bn at mid-September 2022 and grew by \$1.53bn from a year earlier. In addition, public sector deposits at BdL stood at LBP18,840bn (\$12.5bn) at mid-September 2022, as they rose by LBP7,148.3bn (\$4.74bn) from the end of the previous year and surged by LBP7,966bn (\$5.28bn) from mid-September 2021.

### Port of Beirut processes 2.45 million tons of freight in first half of 2022

Figures released by the Port of Beirut show that the port processed 2.45 million tons of freight in the first half of 2022, constituting an increase of 1.7% from 2.41 million tons of freight in the same period last year. Imported freight amounted to 2.03 million tons, nearly unchanged from 2.04 million tons in the same period of 2021, and accounted for 83% of total processed freight. In addition, the volume of exported cargo reached 420,000 tons in the first half of 2022, up by 12.3% from 374,000 tons in the same period of 2021. It represented 17% of aggregate freight in the covered period. A total of 561 vessels docked at the port in the first half of 2022, representing a decline of 8.6% from 614 ships in the same period of 2021. The port handled 387,000 tons of freight in June 2022, representing an increase of 3% from 376,000 tons in May 2022. In addition, 78 vessels docked at the port in June 2022, down by 17% from 94 ships in May 2022.

In parallel, the Port of Tripoli processed 1.57 million tons of freight in the first half of 2022, constituting an increase of 306,828 tons (+24.3%) from 1.26 million tons in the first half of 2021. Imported freight amounted to 959,347 tons in the first half of 2022 and grew by 85,847 tons (+9.8%) from 873,500 tons in the same period last year. Imports accounted for 61.2% of freight activity in the covered period. In parallel, the volume of cargo that was exported through the port reached 609,396 tons in the first half of 2022, up by 220,981 tons (+57%) from 388,415 tons in the same period last year, and represented 38.8% of total freight in the covered period. Further, revenues generated through the Port of Tripoli stood at \$91.5m in the first half of 2022, and surged by 972% from \$8.5m in the corresponding period last year. A total of 454 vessels docked at the port in the first half of 2022, representing an increase of 24% from 366 ships in the same period of 2021.

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



\* as at mid-September 2022

Source: Banque du Liban, Byblos Research

### Consumer Price Index up 162% year-on-year in August 2022

The Central Administration of Statistics' Consumer Price Index increased by 197.3% in the first eight months of 2022 from the same period of 2021. In comparison, it grew by 130% and by 58.7% in the same period of 2021 and 2020, respectively.

The CPI rose by 161.9% in August 2022 from the same month of 2021, and registered its 26<sup>th</sup> consecutive triple-digit increase since July 2020. The cumulative surge in inflation is due in part to the inability of authorities to monitor and contain retail prices, as well as to the fluctuation of the Lebanese pound's exchange rate on the parallel market and the gradual lifting of subsidies on hydrocarbons, which have encouraged opportunistic wholesalers and retailers to raise the prices of consumer goods disproportionately. In addition, the smuggling of subsidized imported goods has resulted in shortages of these products locally, which contributed to the rise in prices. Further, the emergence of an active black market for gasoline in the summer of 2021 has put upward pressure on prices and on inflation at the time, but the lifting of subsidies on gasoline and the resulting disappearance of the retail black market for this product did not translate into a decline in prices.

The prices of water, electricity, gas & other fuels surged by 4.9 times in August 2022 from the same month of 2021, followed by transportation costs (+3.9 times), the cost of healthcare (+3.7 times), the prices of miscellaneous goods & services (+3.5 times), communication costs (+3.1 times), the prices of food & non-alcoholic beverages (+3 times), rates at restaurants & hotels (+2.9 times), the cost of recreation & entertainment (+2.5 times), the prices of clothing & footwear (+2.4 times), and the prices of furnishings & household equipment (+2.3 times). In addition, the cost of alcoholic beverages & tobacco jumped by 116.3% year-on-year in August 2022, followed by the cost of education (+36.5%), imputed rent (+6%), and actual rent (+4.5%). Also, the distribution of actual rent shows that new rent grew by 5.9% and old rent increased by 2.5% in August 2022 from the same month of 2021.

In parallel, the CPI expanded by 7.6% in August 2022 from the previous month, compared to a month-on-month rise of 7.4% in July 2022 and an increase of 9.2% in June 2022. Communication costs surged by 144.6% in August 2022 from July, followed by rates at restaurants & hotels (+10.4%), healthcare costs (+8.6%), the prices of furnishings & household equipment (+8.4%), the cost of miscellaneous goods & services (+7.8%), the prices of food & non-alcoholic beverages (+5.9%), clothing & footwear prices (+5%), the prices of alcoholic beverages & tobacco (+4.7%), the cost of recreation & entertainment and (+4.1%), transportation costs (+2.1%), imputed rent (+0.2%), and actual rent (+0.1%), while the prices of water, electricity, gas and other fuels regressed by 0.3%. In addition, the cost of education was unchanged in August 2022 from the preceding month.

Further, the CPI increased by 8.6% in the Nabatieh area, by 8.2% in the South, by 7.5% in Beirut and in Mount Lebanon, by 7.3% in the Bekaa, and by 7.1% in the North by during August 2022 from the previous month. In parallel, the Education Price Index was unchanged in August 2022 from the preceding month, while the Fuel Price Index decreased by 4.8% month-on-month in August 2022.

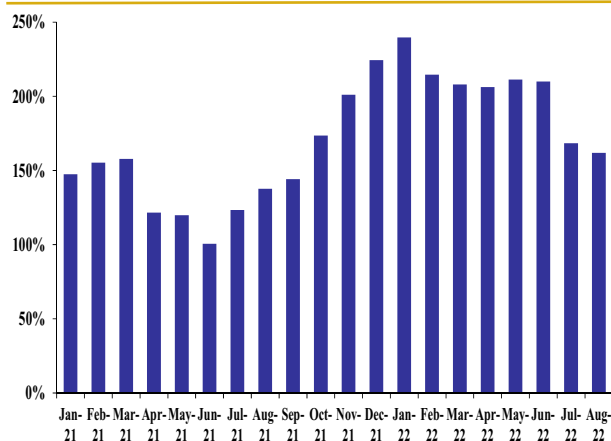
### Surveyed economists expect Lebanon's real GDP to contract by 1.3% in 2022

Bloomberg's quarterly survey of economists and analysts about the outlook on the Lebanese economy projected economic activity to contract by 1.3% in 2022, compared to an earlier forecast of a growth rate of 0.1% in the June 2022 survey. The individual forecasts for 2022 ranged from a contraction of 5% to an expansion of 2.5% for the current year, with a median real GDP contraction of 1.5% for 2022. Also, the poll indicates that the consensus forecast among 31% of participants is that real GDP will improve by more than 0.3% this year. Bloomberg conducted the poll in September 2022, and the survey's results are based on the opinions of 13 economists and analysts based in Lebanon and abroad.

Further, participants forecast the average inflation rate in Lebanon at 164.2% in 2022 compared to a projection of 159.4% in the June 2022 survey. The opinions of surveyed analysts differed on the magnitude of the increase in consumer prices in 2022, with expectations ranging from 100% to 200% and a median inflation rate of 175.3% for 2022. Also, 69.2% of participants predicted that the inflation rate would range between 155% and 200% this year.

In addition, surveyed analysts projected Lebanon's fiscal deficit at 5.3% of GDP in 2022 compared to a previous forecast of 5.6% of GDP in the June 2022 survey. The projections of polled economists for the fiscal deficit ranged from 1% of GDP to 13.6% of GDP in 2022, with a median deficit of 3.9% of GDP. Further, the survey's participants forecast the current account deficit at 14.8% of GDP in 2022 compared to a previous forecast of a deficit of 10% of GDP in June 2022. The polled analysts expected the current account deficit to range from 8% of GDP to 22.1% of GDP in 2022, with a median deficit of 15.5% of GDP for the year.

Annual Change in Consumer Price Index (%)



Source: Central Administration of Statistics, Byblos Research

### Lebanon ranks 154<sup>th</sup> globally, 15<sup>th</sup> among Arab countries in terms of economic freedom

The Fraser Institute ranked Lebanon in 154<sup>th</sup> place among 165 countries globally and in 15<sup>th</sup> place among 21 Arab economies on its index of Economic Freedom for 2022. Based on the same set of countries, Lebanon's global rank regressed by 64 spots from the 2021 survey, while its regional rank deteriorated by nine notches year-on-year.

The index measures the extent that a country's policies and institutions support economic freedom. It includes 42 variables distributed into five broad factors of economic freedom that are the Size of Government, the Legal System & Property Rights, Access to Sound Money, Freedom to Trade Internationally, and the Regulation of Credit, Labor & Business. A country's overall score ranges from zero to 10, with a higher score reflecting a higher level of economic freedom.

Globally, Lebanon had a higher level of economic freedom than the Central African Republic, the Democratic Republic of the Congo and Algeria, and a lower level than Ethiopia, Chad and Iraq. Lebanon received a score of 5.45 points, down from 6.85 points in the 2021 survey. Lebanon's score was lower than the global average of 6.75 points. It also came below the average of Gulf Cooperation Council (GCC) countries of 7 points, the Arab average score of 6.1 points, and the average of non-GCC economies of 5.65 points.

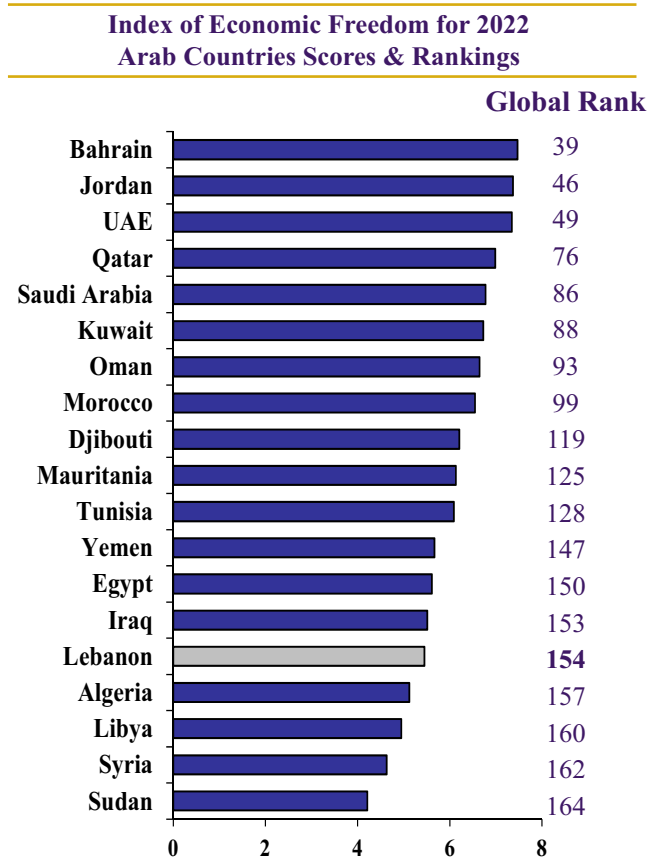
Lebanon's score on the Access to Sound Money category dropped by 47.8%, its score on the Freedom to Trade Internationally and the Regulation of Credit category declined by 41.3%, its score on the Legal System & Property Rights indicator regressed by 2.3%, and its score on the Regulation of Credit, Labor & Business indicator decreased by a marginal of 0.2% from the 2020 survey. In parallel, Lebanon's score improved by 1.2% on the Size of Government factor.

Lebanon preceded Algeria and Burundi, and trailed Nicaragua and Honduras on the Legal System & Property Rights category. This category assesses the level of judicial independence, the protection of property rights, the integrity of the legal system, and the legal enforcement of contracts, among other factors. The survey noted that this indicator constitutes the most important function of government, and that countries with major deficiencies in this category are unlikely to prosper economically, regardless of their performance in the other four categories. Also, Lebanon ranked ahead of Algeria and Djibouti, and came behind Bahrain and Jordan in the Arab world on this category.

Further, Lebanon ranked ahead of only Argentina, Libya, Burundi, Iran, and Syria on the Freedom to Trade Internationally category, which assesses how trade takes place across national boundaries. This indicator measures a wide variety of trade restrictions, such as tariffs, quotas, hidden administrative restraints, as well as controls on exchange rates and the movement of capital.

In addition, Lebanon preceded Bangladesh and Angola, and trailed Sri Lanka and Hong Kong on the Size of Government indicator. This category assesses the levels of government expenditures, of tax rates, and of public investments. Also, Lebanon trailed only Yemen among Arab countries on this category.

The Fraser Institute is a Canada-based independent research organization whose mission is to study and measure the impact of competitive markets and government intervention on the welfare of individuals.



Source: Fraser Institute, Byblos Research

Components of the 2022 Economic Freedom Index for Lebanon					
	Global Rank	Arab Rank	Lebanon Score	Global Avge Score	Arab Avge Score
Size of Government	14	2	8.22	6.60	5.95
Access to Sound Money	161	18	4.97	8.24	7.74
Legal System & Property Rights	128	10	4.14	5.36	4.43
Regulation of Credit, Labor & Business	126	13	6.44	6.93	6.49
Freedom to Trade Internationally	160	17	3.47	6.62	5.77

Source: Fraser Institute, Byblos Research

### Payment cards at 2.51 million at end of June 2022, ATMs total 1,637

Figures released by Banque du Liban show that the number of payment cards issued in Lebanon reached 2,508,672 cards at the end of June 2022, constituting a decline of 100,340 cards (-3.8%) from the end of 2021 and a decrease of 140,777 cards (-5.3%) from end June-2021.

Payment cards held by residents accounted for 97.3% of total cards issued in Lebanon at the end of June 2022. The distribution of payment cards by type shows that debit cards with residents reached 1,602,424 and accounted for 64% of the total, followed by prepaid cards with residents at 598,073 (23.8%), credit cards with residents at 171,133 (6.8%), charge cards with residents at 68,551 (2.7%), debit cards held by non-residents at 56,260 (2.2%), credit cards with non-residents at 6,780 (0.3%), charge cards held by non-residents at 3,837 (0.2%), and prepaid cards with non-residents at 1,614 (0.1%)

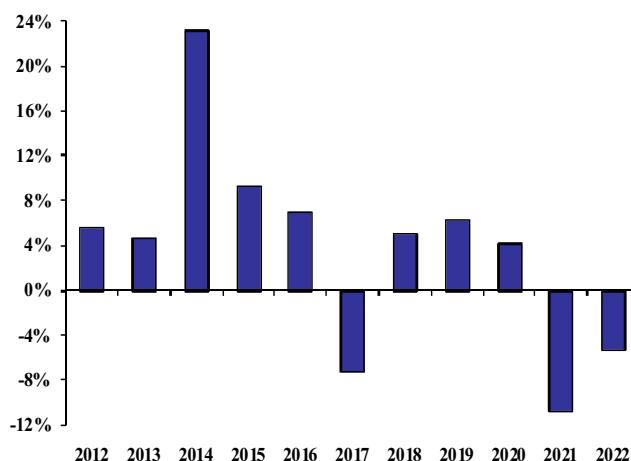
The number of prepaid cards with residents increased by 32,069 cards (+5.7%) in the first half of 2022, and prepaid cards with non-residents rose by 479 cards (+42.2%); while the number of debit cards with residents decreased by 86,790 cards (-5.1%); the number of credit cards with residents declined by 36,682 cards (-17.7%), the number of debit cards held by non-residents regressed by 4,459 cards (-7.3%), the number of charge cards with residents dipped by 3,445 cards (-4.8%), credit cards held with non-residents contracted by 1,124 cards (-14.2%), and charge cards with non-residents retreated by 388 cards (-9.2%).

In parallel, the number of prepaid cards with residents rose by 66,292 cards (+12.5%) in the 12-months ending June 2022, resident charge cards expanded by 5,540 cards (+8.8%), prepaid cards with non-residents increased by 570 cards (+54.6%), and non-resident charge cards improved by 10 cards (+0.3%). In contrast, the number of credit cards with residents contracted by 103,957 cards (-37.8%), the number of resident debit cards dropped by 96,894 cards (-5.7%) in the covered period, non-resident debit cards decreased by 7,752 cards (-12.1%), and credit cards with non-residents shrank by 4,586 cards (-40.3%). The decline in debit and credit cards held by residents and non-residents since 2020 is due in part to the banks' tighter controls on credit card issuance and renewal.

Further, the aggregate number of points-of-sales (PoS) accepting payment cards reached 42,992 at the end of June 2022, constituting a decrease of 938 (-2.1%) from 43,930 PoS at end-2021 and a drop of 1,408 (-3.2%) from 44,400 PoS at end-June 2021. There were 4.11 PoS per square kilometer (km<sup>2</sup>) in Lebanon at the end of June 2022 compared to 4.2 PoS per km<sup>2</sup> at the end of 2021 and to 4.25 PoS per km<sup>2</sup> at the end of June 2021.

In parallel, there were 1,637 automated teller machines (ATMs) across Lebanon at the end of June 2022, constituting a decline of 87 ATMs in the first half of the year and a decrease of 173 ATMs from a year earlier. The Mount Lebanon area had 605 ATMs at the end of June 2022, equivalent to 37% of the total, followed by the Greater Beirut area with 566 ATMs (34.6%), the North with 173 ATMs (10.6%), the Bekaa with 136 ATMs (8.3%), the South region with 126 ATMs (7.7%), and the Nabatieh area with 31 ATMs (1.9%). As such, there were 157 ATMs per 1,000 km<sup>2</sup> in Lebanon at the end of June 2022 compared to 165 ATMs per 1000 km<sup>2</sup> at the end of 2021 and to 173 ATMs per 1000 km<sup>2</sup> at the end of June 2021.

Change in Number of Payment Cards (%)\*



\*year-on-year in first half of each year

Source: Banque du Liban, Byblos Research



### Term deposits account for 56% of customer deposits at end-July 2022

Figures issued by Banque du Liban about the distribution of bank deposits at commercial banks in Lebanon show that aggregate deposits, which include demand deposits and term deposits, stood at \$135.5bn at the end of July 2022, constituting a decrease of \$3.9bn, or of 2.8%, in the first seven months of the year from \$139.3bn at the end of 2021.

Total deposits include private sector deposits that reached \$127.8bn, deposits of non-resident financial institutions that amounted to \$4.36bn, and public sector deposits that stood at \$3.3bn at the end of July 2022. The dollar figures are converted at the official exchange rate of the Lebanese pound to the US dollar.

Term deposits in all currencies reached \$76.2bn at the end of July 2022 and declined by \$10.9bn, or by 12.5%, from \$87.1bn at end-2021; while they accounted for 56.2% of total deposits in Lebanese pounds and in foreign currency as at end-July 2022 relative to a share of 62.5% at the end of 2021.

The decline in term deposits is due a dip of 55% in the term deposits in Lebanese pounds of the public sector, a decrease of 15.4% in the term deposits of the non-resident financial sector, a decline of 14.2% in foreign currency-denominated term deposits of the public sector, a retreat of 14% in the term deposits in Lebanese pounds of the resident private sector, a contraction of 11% in the foreign currency-denominated term deposits of the resident private sector, and a downturn of 7% in the term deposits of non-residents. The decline in term deposits is due to cash withdrawals and to the migration of funds from term to demand deposits, amid the confidence crisis that started in September 2019. Aggregate term deposits declined by \$90.3bn since the end of September 2019.

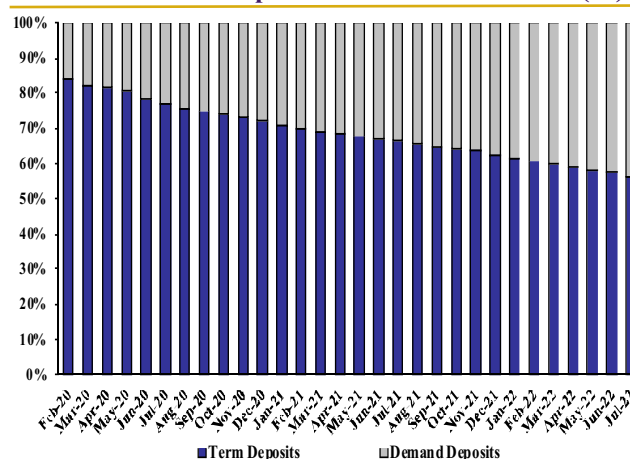
Further, foreign currency-denominated term deposits of the resident private sector reached \$43.9bn and accounted for 32.4% of aggregate deposits at the end of July 2022. Term deposits of non-residents followed with \$15.5bn (11.5%), then term deposits in Lebanese pounds of the resident private sector with \$11.7bn (8.7%), term deposits of the non-resident financial sector with \$2.9bn (2.1%), term deposits of the public sector in Lebanese pounds with \$1.5bn (1.1%), and term deposits of the public sector in foreign currency with \$603.8m (0.4%).

In parallel, demand deposits in all currencies at commercial banks stood at \$59.3bn at the end of July 2022 and increased by \$7bn, or by 13.4%, from \$52.3bn at end-2021. They accounted for 43.8% of total deposits at end-July 2022 relative to a share of 37.5% at end-2021. The increase in demand deposits was mainly due to a rise of \$5.2bn in demand deposits in Lebanese pounds of the resident private sector, a growth of \$1.3bn in foreign currency-denominated demand deposits of the resident private sector, an increase of \$296.3m in demand deposits of non-residents, an expansion of \$237.3m in demand deposits in Lebanese pounds of the public sector, and an upturn of \$13.5m in demand deposits of the non-resident financial sector, which more than offset a downturn of \$28.9m in demand deposits in foreign currency of the public sector.

Also, demand deposits in foreign currency of the resident private sector totaled \$32.3bn and represented 23.8% of deposits at end-July 2022. Demand deposits in Lebanese pounds of the resident private sector followed with \$16.2bn (12%), then demand deposits of non-residents with \$8.1bn (6%), demand deposits of the non-resident financial sector with \$1.5bn (1.1%), demand deposits in Lebanese pounds of the public sector with \$980m (0.7%), and demand deposits in foreign currency of the public sector with \$220.2m (0.2%).

Based on the latest available figures, Beirut and its suburbs accounted for 66% of private-sector deposits and for 49.8% of the number of depositors at the end of March 2022. Mount Lebanon followed with 15% of deposits and 18.6% of beneficiaries, then South Lebanon with 7.2% of deposits and 11% of depositors, North Lebanon with 6.7% of deposits and 12% of beneficiaries, and the Bekaa with 5% of deposits and 8.4% of depositors.

**Breakdown of Deposits at Commercial Banks (%)**



Source: Banque du Liban

### **Beirut Stock Exchange requires prior approval from Capital Market Authority for new listings and brokers**

The Beirut Stock Exchange (BSE) issued Circular 501/2022 dated September 14, 2022 about the listing of financial instruments on the BSE. The circular stipulates that the BSE will no longer accept the listing of new financial instruments, including shares and bonds, or the additional listing of existing financial instruments that are traded on the Beirut bourse, without the prior approval of the Capital Markets Authority (CMA), in accordance with Capital Markets Law 161 dated August 17, 2011. It added that the BSE will require the entities that are listing the financial instruments to include a copy of the CMA's approval in the necessary paperwork.

In parallel, the BSE issued Circular 502/2022 dated September 14, 2022 about financial intermediaries. The circular indicates that the BSE will no longer accept any financial intermediary to operate on the Beirut bourse without the prior approval of the CMA, in accordance with Capital Markets Law 161. It added that the BSE will require the financial intermediaries to include a copy of the CMA's approval in the necessary paperwork so they can perform their work. The latest figures issued by Banque du Liban show that there were 14 financial intermediaries and 40 financial institutions operating in Lebanon at the end of March 2022.

### **Import activity of top five shipping firms and freight forwarders up 12% in first half of 2022**

Figures released by the Port of Beirut show that the aggregate volume of imports by the top five shipping companies and freight forwarders through the port totaled 111,302 20-foot equivalent units (TEUs) in the first half of 2022, constituting an increase of 12% from 99,414 TEUs in the same period of 2021. The five shipping and freight forwarding firms accounted for 86.6% of imports to the Lebanese market in the covered period. Merit Shipping handled 38,732 TEUs in the first half of 2022, equivalent to 23.6% of the total import freight market to Lebanon. Mediterranean Shipping Company (MSC) followed with 36,406 TEUs (22.2%), then MAERSK with 17,656 TEUs (10.8%), Lotus Shipping with 8,903 TEUs (5.4%), and Gezairi Transport with 8,767 TEUs (5.3%). MSC registered a rise of 37% in imports in the first half of 2022, the highest growth rate among the covered companies, while Gezairi Transport posted a decline of 20.8%, the steepest decline among the five firms in the covered period. Also, the import shipping operations of the five companies through the port grew by 12.6% in June 2022 from the preceding month.

In parallel, the aggregate volume of exports by the top five shipping and freight forwarding firms through the Port of Beirut reached 34,322 TEUs in the first half of 2022, constituting an increase of 2.2% from 33,584 TEUs in the same period of 2021. The five companies accounted for 93.2% of exported Lebanese cargo in the covered period. Merit Shipping handled 21,086 TEUs of freight in the first half of the year, equivalent to 57.2% of the Lebanese cargo export market. MAERSK followed with 6,461 TEUs (17.5%), then MSC with 2,970 TEUs (8%), Sealine Group with 2,421 TEUs (6.6%), and Gezairi Transport with 1,384 TEUs (3.8%). MSC registered a rise of 52.8% in exports in the first half of 2022, the highest growth rate among the covered companies, while Gezairi Transport posted a decrease of 16%, the only decline among the five firms in the covered period. The export-shipping operations of the five companies regressed by 4.7% in June 2022 from the previous month.



## 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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**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](mailto:research@byblosbank.com.lb)**  
**[www.byblosbank.com](http://www.byblosbank.com)**

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# BYBLOS BANK GROUP

## LEBANON

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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](mailto: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](mailto: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](mailto: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](mailto: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](mailto: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](mailto: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](mailto: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](mailto: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