

## LEBANON THIS WEEK

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Gross written premiums up 9% to \$1.7bn in 2021, claims at \$1.2bn

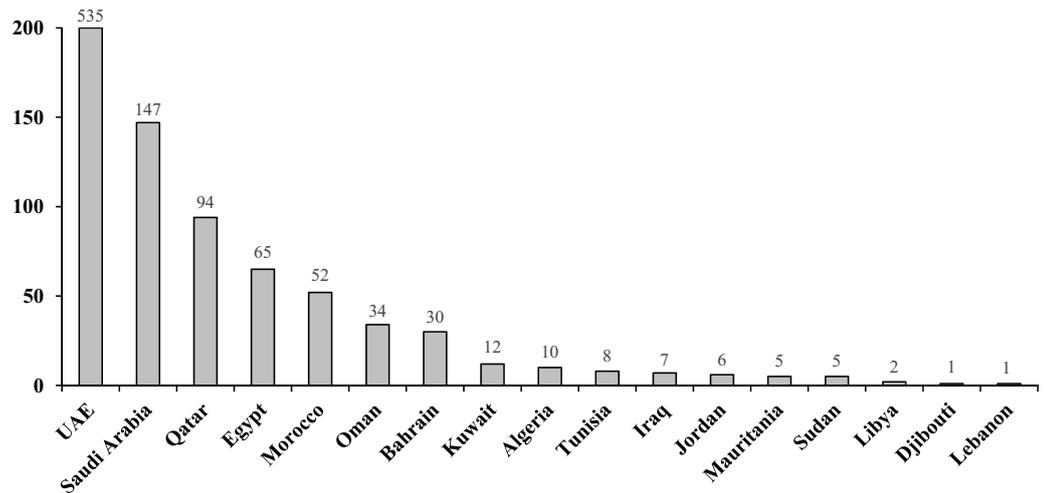
Foreign investments of financial sector at \$1.24bn at end-September 2021

### Ratio Highlights

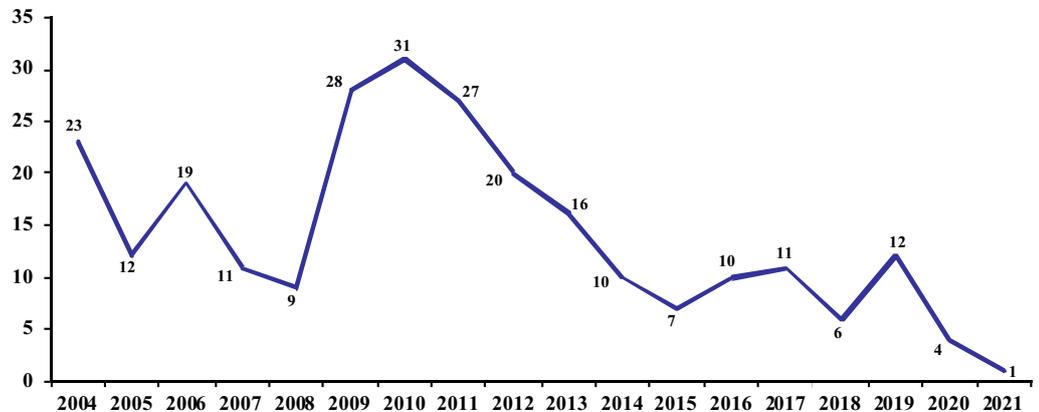
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### Charts of the Week

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



Number of Greenfield Foreign Direct Investment Projects in Lebanon



Source: UNCTAD, Byblos Research

### Quote to Note

"Both the Parliament and Government should quickly take the required prior actions stipulated in the agreement with the International Monetary Fund to make that deal possible, including fiscal, monetary, financial and governance reforms."

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

### Number of the Week

**45.6%:** Percentage of utilized credits by the private sector that have real estate as collateral as at the end of March 2022, according to Banque du Liban

## 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"	60.95	92.0)	58,016	42.3%	Oct 2022	6.10	5.50	9,096.26
Solidere "B"	60.45	(4.0)	35,960	27.3%	Jan 2023	6.00	5.50	3,378.56
Audi Listed	1.41	0.0	23,718	5.8%	Apr 2024	6.65	5.50	260.50
Byblos Common	0.70	0.0	12,000	2.8%	Jun 2025	6.25	5.50	131.04
HOLCIM	27.70	0.7	1,010	3.8%	Nov 2026	6.60	5.50	79.43
BLOM GDR	2.50	0.0	-	1.3%	Feb 2030	6.65	5.50	42.15
Audi GDR	1.50	0.0	-	1.2%	Apr 2031	7.00	5.50	36.10
BLOM Listed	2.85	0.0	-	4.3%	May 2033	8.20	5.50	28.72
Byblos Pref. 09	37.98	0.0	-	0.5%	Nov 2035	7.05	5.50	23.10
Byblos Pref. 08	24.99	0.0	-	0.3%	Mar 2037	7.25	5.50	20.80

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

Source: Refinitiv

	Jul 18-22	Jul 11-15	% Change	June 2022	June 2021	% Change
Total shares traded	130,704	60,917	114.6	1,556,020	3,027,735	(48.6)
Total value traded	\$5,822,976	\$2,016,050	188.8	\$57,103,187	\$55,006,201	3.8
Market capitalization	\$14.39bn	\$14.68bn	(1.95)	\$14.35bn	\$9.02bn	59.0

Source: Beirut Stock Exchange (BSE)



### **Restoring deposits is key to credibility of recovery plan and to rebuilding confidence**

The Institute of International Finance (IIF) indicated that the government should incorporate in its economic rescue plan a combination of options and measures that would help banks return funds to their depositors or make deposits accessible over a period of less than 10 years, depending on the category of deposits. It considered that the government's clear commitment to return deposits is essential to restoring confidence in the Lebanese economy and to the credibility of the economic recovery plan.

It said that the priority would be to return deposits of \$200,000 or less, which represent 95% of the total number of bank accounts, over a short period of time. It pointed out that, given the large size of foreign currency deposits and the substantial financial losses on Banque du Liban's (BdL) balance sheet, the government's plan may exclude from the deposits to be returned part of the accumulated interest on foreign currency deposits during the 2015-19 period. It estimated the additional interest payments on foreign currency deposits at about \$12bn during the five-year period, based on the differential between the average interest rate on foreign currency deposits in Lebanon and the U.S. interest rates. It also suggested that the authorities should properly address the Lebanese pound-denominated deposits that depositors converted to US dollars after October 2019 and that it estimates at about \$10bn.

First, it indicated that a significant portion of the eligible deposits in foreign currency could be disbursed in Lebanese pounds, in case authorities implement a comprehensive reform program and reach a final agreement with the International Monetary Fund (IMF) on a support package. It expected that the implementation of structural reforms will restore confidence, put the economy on a strong recovery path, and stabilize the unified exchange rate of the US dollar around a level that is much lower than the current parallel market rate. In this case, it said that BdL could supply enough liquidity in Lebanese pounds to allow banks to meet the demand of depositors for their funds.

Second, the IIF suggested that authorities could settle a sizeable portion of the foreign currency deposits in excess of \$200,000 through the establishment of a Deposits Recovery Fund (DRF). It said that authorities could give concessions to multinational companies to rebuild and manage the Port of Beirut for 20 years, which could raise billions of dollars, and these companies will pay significant taxes to the Treasury on their annual income, which would also increase public revenues. In addition, it noted that a similar approach could be applied to other commercial state-owned entities (SOEs) such as Électricité du Liban, the mobile telecommunications companies, the Rafic Hariri International Airport, Middle East Airlines, Casino du Liban, the water authorities, and the Regie of Tobacco and Tombac, among others. It added that depositors could subscribe to the capital of the SOEs once these entities become efficient and profitable.

Third, it pointed out that authorities could establish a National Real Estate Fund (NRF) that will include the vast portfolio of state-owned land and real estate. It anticipated that a properly managed NRF would generate sizeable annual dividends, and suggested that 50% of these returns could be used to finance basic public services and the improvement in infrastructure, while the other 50% could be transferred to the DRF.

Fourth, it said that authorities could set up a structure like the NRF to preserve potential revenues from offshore oil and gas exploration and extraction for future generations, and that a limited portion of these revenues could be allocated to depositors. However, it did not expect the receipts from gas to materialize before 2030.

Fifth, it pointed out that the government may transfer at least 50% of the projected primary budget surpluses starting in 2023 to the DRF; while the assets of the DRF could include the transfer of BdL Certificates of Deposits that banks subscribed to and that carry interest rates of about 4% annually on average that BdL can deposit directly in the DRF.

### **Government approves social assistance to public sector personnel**

The Lebanese government issued Decree 9718 dated July 20, 2022 about granting temporary social assistance to public sector employees, regardless of their grades and job titles, and to retirees who receive pension payments.

The decree stipulates that the amount of the social assistance will be equivalent to one month of the beneficiaries' basic salary or wage, and to one month of pension payments for retirees. It indicated that active public sector personnel will receive a minimum of LBP2m and a maximum of LBP6m per month and retirees will receive between LBP1.7m to LBP5.1m per month. Also, the decree states that the Ministry of Finance will determine the amount of the temporary social assistance for day laborers, hourly workers, and technical service providers.

In addition, the decree stipulates that members of the diplomatic corps who are assigned to Lebanese missions abroad, and all workers in public administrations who receive their salaries, wages, or monthly remuneration in currencies other than the Lebanese pound, as well as anyone who receives compensation in currencies other than the Lebanese pound, will not benefit from the social assistance. Also, it states that any public sector worker or employee who benefits from more than one social assistance program must inform the concerned public administration about the duplication and noted that the employee is only entitled to the higher aid.

Further, the government issued Decree 9719 dated July 20, 2022 that states that the Ministry of Finance will extend LBP3,400bn per month in Treasury advances for one year, in order to cover the cost of the temporary social assistance to public sector workers and retirees. It indicated that the amounts will be paid retroactively starting in July 2022. The government decree will go into effect upon its publication in the Official Gazette.



### Consumer Price Index up 210% year-on-year in June 2022

The Central Administration of Statistics' Consumer Price Index increased by 214.2% in the first half of 2022 from the same period of 2021. In comparison, it grew by 129.5% and by 38.8% in the same period of 2021 and 2020, respectively.

The CPI rose by 210% in June 2022 from the same month of 2021, and registered its 24<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 last summer 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 6.9 times in June 2022 from the same month of 2021, followed by the cost of healthcare (+5.9 times), transportation costs (+5.6 times), the prices of food & non-alcoholic beverages (+4.3 times), rates at restaurants & hotels (+3.7 times), the prices of miscellaneous goods & services (+3.6 times), the cost of alcoholic beverages & tobacco (+3.2 times), the prices of clothing & footwear (+2.7 times), and the prices of furnishings & household equipment (+2.6 times). In addition, the cost of recreation & entertainment jumped by 124.4% year-on-year in June 2022, followed by the cost of education (+36.5%), communication costs (+7.3%), imputed rent (+6.2%), and actual rent (+5%).

In parallel, the CPI expanded by 9.2% in June 2022 from the previous month, compared to a month-on-month rise of 8% in May 2022 and an increase of 7.1% in April 2022. The prices of water, electricity, gas and other fuels surged by 52.6% in June 2022 from May, followed by the prices of alcoholic beverages & tobacco (+16.7%), rates at restaurants & hotels (+9.2%), the cost of recreation & entertainment (+8.1%), the prices of food & non-alcoholic beverages (+8%), transportation costs (+7%), the prices of furnishings & household equipment (+4.8%), healthcare costs (+4.6%), the cost of miscellaneous goods & services (+4%), the cost of education (+0.8%), and clothing & footwear prices (+0.2%). In contrast, communication costs declined by a marginal 0.3%, while imputed rent and actual were nearly unchanged in June 2022 from the preceding month.

### Banque du Liban streamlines electronic settlement system

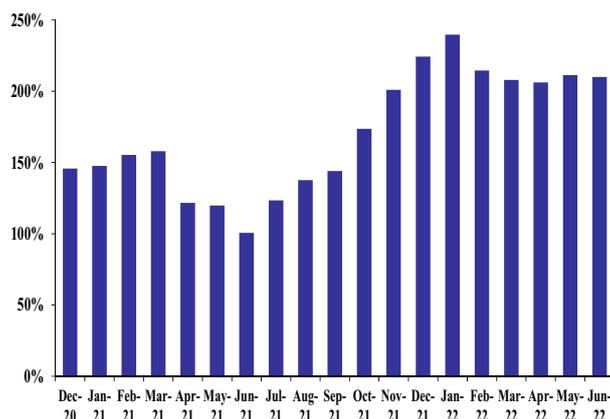
Banque du Liban (BdL) issued on July 19, 2022 Intermediate Circular 629 addressed to banks, financial institutions, as well as to Lebanese and foreign companies that are licensed to issue debit, credit and charge cards. The circular modifies the electronic settlement system for debit, credit and charge cards that are issued in the Lebanese market and that are used at local points of sales.

First, the circular stipulates the formation of a new electronic settlement system at the headquarters of BdL. It added that the accounts of participating firms will be settled through this system for card usage in Lebanese pounds only, while card payments in US dollars will be settled exclusively through Visa and Mastercard from their related accounts abroad. Second, it removed the expression "US dollars" from articles 4 and 6 in Basic Circular 9668 dated August 9, 2007 about the electronic settlement system for payment cards that are issued in the Lebanese market and that are utilized at local points of sales. Third, it stated that, in order to carry out the settlement of transactions in Lebanese pounds, companies issuing debit, credit and/or charge cards must communicate the messages about electronic transactions in Lebanese pounds either directly to BdL or through a third-party institution, provided that the card companies remain responsible for the accuracy of the content of the messages.

Fourth, it asked companies issuing debit, credit and/or charge cards to request the opening of an account in Lebanese pounds at BdL and to freeze an amount in the same currency in order to cover the settlement of operations that they submit, in case participants fail to cover the amount. Also, it noted that BdL will determine the amount that each company must freeze in the account, and that each firm will have to replenish the account at the end of each working day if it falls short of the minimum requirement that BdL sets. Further, it asked each company to cover the operational costs and expenses that BdL incurs for executing the settlement operations. Fifth, the circular stipulates that participating companies must accumulate each morning enough reserves in Lebanese pounds in their accounts to cover the settlement operations. It added that, in case a company does not have enough funds, BdL will deduct from the frozen funds the balance of the required amount, and considered that the firms issuing payment cards remain liable to BdL in case the participants fail to cover their debit balance.

Sixth, the circular asked companies that issue payment cards to provide their clients electronically or in hard copy a monthly statement about all the transactions conducted through their cards. It added that companies should not charge their clients any uncommon or extra fees on their card transactions.

### Annual Change in Consumer Price Index (%)



Source: Central Administration of Statistics, Byblos Research

### More than 65% of Treasury securities in Lebanese pounds have seven-year maturities or longer

Figures released by the Association of Banks in Lebanon show that the face value of outstanding Treasury securities denominated in Lebanese pounds reached LBP91,695bn, or the equivalent of \$60.8bn at the end of June 2022, compared to LBP89,532bn or \$59.4bn at the end of June 2021. The dollar figures are converted at the official exchange rate of the Lebanese pound to the US dollar. The weighted interest rate on Lebanese Treasury securities denominated in Lebanese pounds was 6.5% in June 2022 compared to 6.6% in June 2021.

The distribution of outstanding Treasury securities shows that 10-year Treasury bonds totaled LBP35,465bn and accounted for 38.7% of aggregate securities denominated in Lebanese pounds at the end of June 2022, followed by seven-year Treasury securities with LBP19,861bn (21.7%), five-year Treasury bills with LBP19,443bn (21.2%), three-year Treasury bonds with LBP5,978bn (6.5%), two-year Treasury securities with LBP3,080bn and 12-year Treasury bills with LBP3,076bn (3.4% each), one-year Treasury bonds with LBP1,668bn (1.8%), six-month T-bills with LBP1,596bn (1.7%), 15-year Treasury securities with LBP1,417bn (1.5%), and three-month T-bills with LBP111bn (0.1%). As such, 65.2% of outstanding Treasury securities have seven-year maturities or longer and 86.4% have five-year maturities or more.

In parallel, LBP757bn in outstanding Treasury securities denominated in Lebanese pounds matured in June 2022, of which 35.8% consisted of seven-year Treasury bills, 26.4% were three-year Treasury bonds, 17% consisted of six-month Treasury securities, 10% were three-month T-bills, 5.3% consisted of two-year Treasury bonds, 3% were five-year Treasury securities, and 2.5% consisted of one-year Treasury bills. According to ABL, LBP7,221bn in outstanding Treasury bonds in Lebanese pounds will mature in the remainder of 2022 and LBP13,082bn will come due in 2023.

### Amount of cleared checks down 18%, returned checks down 46.4% in first half of 2022

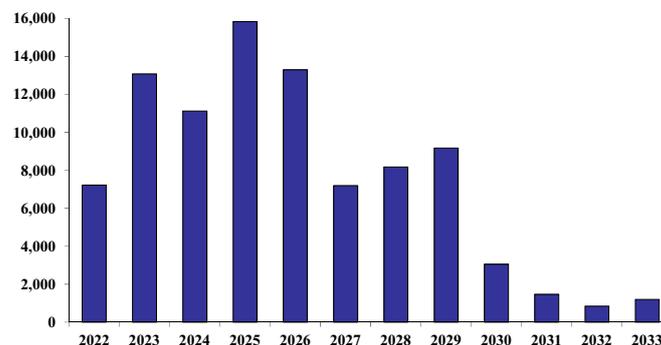
The amount of cleared checks reached LBP25,446bn, or the equivalent of \$16.9bn, in the first half of 2022, constituting a decline of 18% from \$20.6bn in the same period of 2021. In comparison, the amount of cleared checks dropped by 22% in the first half of 2021 and regressed by 3.8% in the same period of 2020 from the corresponding periods of the preceding year. The dollar figures are converted at the official exchange rate of the Lebanese pound to the US dollar. The amount of cleared checks in Lebanese pounds reached LBP16,583bn, or the equivalent of \$11bn, in the first half of 2022 and increased by 19.3% from the same period last year, while the amount of cleared checks in foreign currencies was \$5.9bn and decreased by 48.3% in the covered period. Also, there were more than one million cleared checks in the first half of 2022, down by 46% from 1.9 million checks in the same period of the previous year. The dollarization rate of cleared checks regressed from 55.2% in the first half of 2021 to 34.8% in the same period of 2022, while the number of checks denominated in foreign currencies accounted for 48.2% of total cleared checks in the covered period compared to 54.3% in the same period of 2021.

In addition, the amount of cleared checks totaled \$2.8bn in June 2022, constituting an increase of 2.6% from \$2.7bn in the preceding month and a decrease of 23.5% from \$3.7bn in June 2021. The amount of cleared checks in Lebanese pounds reached LBP2,818bn (\$1.87bn) in June 2022, as it grew by a marginal 0.5% from LBP2,804bn (\$1.86bn) in May 2022 and increased by 7.2% from LBP2,628bn (\$1.7bn) in June 2021. Further, the amount of cleared checks in foreign currencies was \$935m in June 2022, as it increased by 7.1% from the previous month and dropped by 51.4% from June 2021. There were 132,850 cleared checks in June 2022 relative to 145,362 cleared checks in the preceding month and to 331,437 cleared checks in June 2021.

In parallel, the amount of returned checks in local and foreign currencies was \$147.3m in the first half of 2022 compared to \$274.6m in the same period of 2021 and to \$567.8m in the first half of 2020. This constituted a drop of 46.4% in the first half of 2022 relative to decreases of 51.6% and 19% in the first six months of 2021 and 2020, respectively. The amount of returned checks in Lebanese pounds reached LBP111bn (\$73.6m) in the covered period and declined by 12% from the first half of 2021, while the amount of returned checks in foreign currencies was \$74m and contracted by 61.3% in the covered period. Also, there were 6,997 returned checks in the first half of 2022, down by 54.4% from 15,361 returned checks in the same period of 2021. The number of returned checks in foreign currencies reached 4,210 in the first half of 2022 and dropped by 55% from the same period of the previous year, while the number of returned checks in Lebanese pounds totaled 2,787 and retreated by 53.6% year-on-year.

Further, the amount of returned checks in domestic and foreign currencies stood at \$21.9m in June 2022 compared to \$29.9m in the previous month and to \$46.4m in June 2021. Also, there were 818 returned checks in June 2022, relative to 961 returned checks in May 2022 and to 2,260 checks in June 2021.

### Projected Maturities of Treasury Securities in LBP\* (LBP billions)



\*as at end-June 2022

Source: Association of Banks in Lebanon, Byblos Research

### Deterioration in industrial activity slows down in first quarter of 2022

Banque du Liban's quarterly survey about the opinions of business managers shows that the balance of opinions about industrial production was -44 in the first quarter of 2022, compared to -42 in the previous quarter and to -57 in the first quarter of 2021. The balance of opinions for the level of industrial production in the first quarter of 2022 reached its eighth lowest quarterly level between the first quarter of 2004 and the first quarter of 2022, after posting -66 in the second quarter of 2020, -64 in the third quarter of 2006 due to the Israeli war on Lebanon, -57 in the first quarter of 2021, -55 in the first quarter of 2020, -50 in the fourth quarter of 2019, -48 in the third quarter of 2020, and -45 in the fourth quarter of 2020. The balance of opinions for the first quarter of 2022 reflects the disruptions to economic activity following the worsening of economic and financial conditions in the country, the increase in energy prices, the start of the ban of Lebanese exports to some Arab countries, the fluctuation of the exchange rate of the Lebanese pound on the parallel market, as well as the impact of the explosion at the Beirut Port on August 4, 2020.

The business survey covers the opinions of managers of industrial enterprises about their businesses, in order to depict the evolution of a number of key economic variables. The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in a particular indicator and the proportion of those who reported a decline in the same indicator. The balance of opinions about industrial production was -14 in the North, -44 in the Bekaa, -56 in Beirut & Mount Lebanon, and -70 in the South.

The balance of opinions about demand for industrial goods stood at -51 in the first quarter of 2022 compared to -48 in the preceding quarter and to -63 in the first quarter of 2021. It was the lowest in the South at -73, followed by the Bekaa (-62), Beirut & Mount Lebanon (-59), and the North (-14). In parallel, the balance of opinions about the volume of investments in the industrial sector stood at -32 in the first quarter of 2022, unchanged from the preceding quarter and compared to -42 in the first quarter of 2021. It was the lowest in the South at -86, followed by Beirut & Mount Lebanon (-40), the Bekaa (-25), and the North (zero). In addition, the balance of opinions about the level of registered orders was -59 in the first quarter of 2022 relative to -62 in the previous quarter and to -73 in the first quarter of 2021. It was -86 in the South, the lowest across regions, followed by Beirut and Mount Lebanon (-62), the Bekaa (-56), and the North (-41).

Further, the balance of opinions about foreign demand for industrial goods stood at -20 during the first quarter of 2022 compared to -24 in the preceding quarter and to -26 in the first quarter of 2021. It was zero in the North, -21 in Beirut & Mount Lebanon and in the Bekaa, and -53 in the South. Also, the balance of opinions about the number of employees in the sector was -28 in the first quarter of 2022 relative to -34 in the preceding quarter and to -36 in the first quarter of 2021. It was -21 in Beirut & Mount Lebanon, -24 in the Bekaa, -34 in the North, and -45 in the South.

In parallel, the balance of opinions for the level of inventory of finished goods was -33 in the first quarter of 2022 compared to -40 in the previous quarter and to -54 in the first quarter of 2021. It stood at -11 in the North, -32 in Beirut and Mount Lebanon, -33 in the Bekaa, and -76 in the South. Also, the balance of opinions for the level of inventories of raw materials was -43 in the first quarter of 2022 relative to -47 in the preceding quarter and to -61 in the first quarter of 2021. It stood at -36 in Beirut and Mount Lebanon, -39 in the Bekaa, -44 in the North, and -77 in the South, the lowest across regions.

<b>Industrial Activity: Evolution of Opinions</b>				
<b>Aggregate results</b>	<b>Q1-19</b>	<b>Q1-20</b>	<b>Q1-21</b>	<b>Q1-22</b>
Production	-25	-55	-57	-44
Total demand	-28	-58	-63	-51
Foreign demand	-15	-33	-26	-20
Volume of investments	-12	-35	-42	-32
Inventories of finished goods	-6	-37	-54	-33
Inventories of raw material	-13	-48	-61	-43
Registered orders	-37	-64	-73	-59

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

### More than 90% of Lebanese can source funds in case of an emergency

The World Bank's Global Findex survey for 2021 shows that 90.5% of Lebanese respondents considered that, in case of an emergency, they can come up with funds within the next month, while 9.5% of Lebanese adults considered that it is not possible for them to source money within one month in case of an urgent situation. Also, the survey indicated that 55% of Lebanese adults who obtained emergency funds in 2021 borrowed the money from their family or friends. They were followed by 19.7% of respondents who used their salaries, 9.3% who tapped their savings, 2.3% who sold assets, and 1.4% who borrowed from a bank, an employer, or a private lender; while the remaining 2.9% of Lebanese adults resorted to other sources of money last year.

In comparison, the survey revealed that 88.2% of participants worldwide and 89.6% of surveyed individuals in the Middle East & North Africa region said that it is possible for them to come up with funds within one month, in case of an emergency. Globally, the share of adults in Lebanon who sourced funds within 30 days of an emergency in 2021 was higher than in Albania (90.4%), Cameroon (90.2%), and Namibia (89.9%), and lower than in Hungary (91%), Burkina Faso (90.8%) and Ecuador (90.6%).

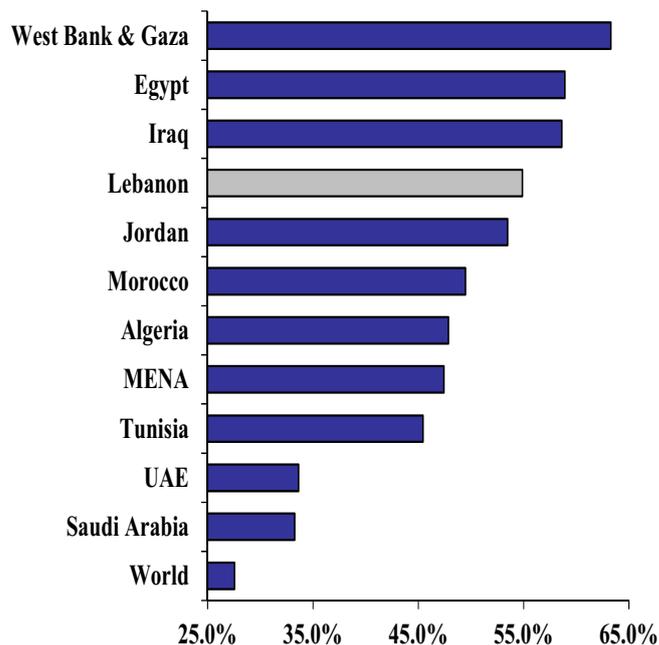
Further, 89% of Lebanese adults indicated that it is possible for them to come up with funds within seven days in case of an emergency. It said that 53.7% of Lebanese adults who obtained emergency funds within one week of an emergency in 2021 borrowed the money from their family or friends, 19.6% who used their salaries, 9.3% who tapped their savings, 2.3% who sourced money from selling assets, and 1.4% who borrowed from a bank, an employer, or a private lender; while the remaining 2.8% of Lebanese adults resorted to other sources of money last year.

In parallel, the survey indicated that 32% of Lebanese who are 25 years or older borrowed money in 2021, while 27.9% of Lebanese in the 15 to 24 year-old bracket borrowed funds last year. It added that 35% of participants who borrowed money were in the labor force, while 25.5% of respondents were outside the labor force.

Further, the survey revealed that 77.8% of respondents said that they were very worried about not being able to pay for medical costs in case of a serious illness or accident, 14.4% of surveyed Lebanese stated that they were less worried, while 7.7% of surveyed participants indicated that they could afford to pay for medical costs in case of a serious illness or accident. Also, it pointed out that 40.8% of respondents noted that they expressed concerns about not being able to pay school fees or fees for education, followed by 25% who said that they were not worried at all to pay fees for education, and 19.8% of participants were less worried about not being able to pay school fees or fees for education. In addition, the survey showed that 62.3% of Lebanese adults stated that they were very worried about not having enough money to cover their monthly expenses or bills, 25.2% indicated that they expressed less concerns about not having sufficient funds to pay for their monthly expenses or bills, while 12.3% pointed out that they could pay their monthly expenses or bills.

The World Bank issues the Global Findex database every three years and has started to produce the survey in 2011. The global opinion-polling firm Gallup Inc. conducted the survey in 2021 through telephone and face-to-face interviews with around 128,000 people from 123 countries that represent 91% of the global population.

Share of Individuals who Obtained Funds from their Families and Friends in 2021 (%)



Source: World Bank, Byblos Research

### **Market accessibility of Beirut Stock Exchange needs improvement in several areas**

In its annual assessment of the market accessibility of 84 developed, emerging and frontier equity markets, global portfolio analytics and indices provider MSCI, Inc. indicated that Lebanon falls in the "Standalone Markets" category, following its reclassification from "Frontier Market" status in February 2020. It evaluated the country's stock market based on five accessibility criteria that are openness to foreign ownership, ease of capital inflows and outflows, efficiency of the operational framework, the availability of investment instruments, and the stability of the institutional framework. It said that the five criteria reflect the views of international institutional investors, which generally put a strong emphasis on the equal treatment of investors, the free flow of capital, the cost of investment, unrestricted use of stock market data, and country-specific risks.

In terms of openness to foreign ownership, MSCI said that there are no constraints on foreign ownership of stocks listed on the Beirut Stock Exchange, except for Israeli nationals who are prohibited from investing in Lebanese companies. It noted that Lebanon could improve equal rights to foreign investors, as company-related information is not always readily available in English. As such, Lebanon is the only standalone market with a "no major issues" rating in terms of investor qualification requirements, as the remaining countries have a "no issues" rating. Also, it is one of seven standalone markets with a "no major issues" rating in terms of equal economic and voting rights to foreign investors. Further, Lebanon is one of 13 standalone markets with a "no issues" rating in terms of foreign room level, which mainly reflects the limit to foreign ownership in locally-listed companies. It is also one of 12 markets with a "no issues" rating in terms of foreign ownership limit.

Regarding capital inflows and outflows, the review said that, since October 2019, Lebanese authorities have put in place restrictions on the repatriation of funds outside Lebanon, and added that these measures have impacted the ability of foreign investors to transfer funds from investments on the local equity market. As such, MSCI indicated that Lebanon's ease of capital flows metric has an "improvements needed" rating. It also noted that there is no offshore currency market and that there are constraints on the onshore currency market, as foreign investors are not allowed to hold accounts denominated in Lebanese pounds and transactions in foreign currency must be linked to security transactions. As such, it placed Lebanon among five markets with an "improvements needed" rating in this area.

Regarding the efficiency of the operational framework, the assessment considered that the market entry process needs to improve, as the registration of foreign investors is mandatory and may take up to five days. Further, it said that not all market regulations are available in English, and that the flow of information can be enhanced, as detailed stock market information is not always disclosed in English. Lebanon is among five standalone markets that received a "no major issues" rating in terms of market regulations, and one of seven markets to get the same rating in terms of information flow.

In addition, the survey noted that almost all market infrastructure indicators need improvement, except for trading where Lebanon has a "no issues" rating. In terms of clearing and settlement procedures, the review said that there is no functioning nominee status as well as no omnibus structures, while overdraft facilities are prohibited. In terms of custody, it indicated that segregated custody and trading accounts are required in order to mitigate for the risk that derives from local brokers having unlimited access to trading accounts. It added that foreign investors do not have access to global custodians in the Lebanese market. In terms of registry and depository, it stated that not all listed shares are dematerialized, and that there is no central registry, with some securities registered at the issuer level. In terms of transferability, it said that in-kind transfers and off-exchange transactions are prohibited.

Finally, the review has an "improvements needed" rating on the stability of Lebanon's institutional framework, which reflects the political situation in the country. Lebanon's rating on this category is similar to the ratings of five other standalone markets. But the assessment did not rate Lebanon on the availability of investment instruments category. Lebanon, along with Argentina, Bosnia & Herzegovina, Botswana, Bulgaria, Jamaica, Malta, Palestine, Panama, Russia, Trinidad & Tobago, Ukraine, and Zimbabwe, are the only countries worldwide that fall under MSCI's definition of Standalone Markets.

In November 2007, MSCI included Lebanon in its MSCI Frontier Markets Index, a fully investable index for frontier equity markets. The index contains stocks from 24 developing markets in Asia Pacific, Emerging Europe, the Middle East & Africa, and the Americas.

### Gross written premiums up 9% to \$1.7bn in 2021, claims at \$1.2bn

Figures released by the Insurance Control Commission show that the gross written premiums of 46 licensed insurance companies in Lebanon totaled \$1.71bn in 2021, constituting an increase of 9.2% from \$1.56bn in 2020. Gross premiums reached \$475.3m in the first quarter of 2021, \$453.4m in the second quarter, \$392m in the third quarter, and \$380m in the fourth quarter of last year. They improved by 11.2% in the first three months of 2021, grew by 13% in the second quarter of the year, increased by 10% in the third quarter, and expanded by a marginal 0.4% in the fourth quarter of 2021 from the corresponding quarters of 2020.

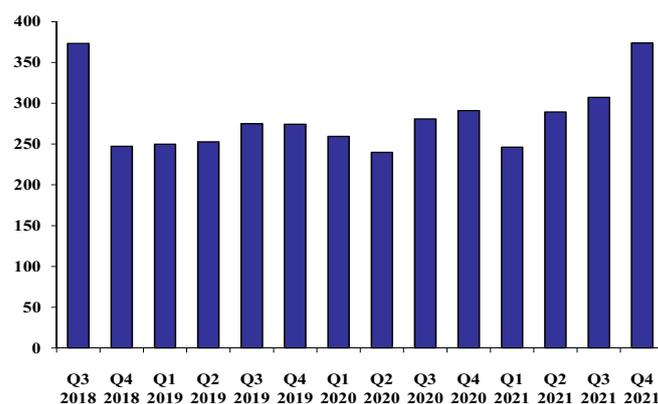
Medical insurance premiums totaled \$618.8m in 2021 and accounted for 36.3% of the sector's aggregate premiums. Motor insurance premiums followed with \$464.8m (27.2%), then life insurance premiums with \$348m (20.4%), and property & casualty premiums with \$275.1m (16.1%). Further, motor insurance premiums surged by 36.4%, property & casualty insurance premiums grew by 11.7%, and medical insurance premiums increased by 10% in 2021, while life insurance premiums declined by 16% last year.

Further, gross claims settled by insurance companies stood at \$1.22bn in 2021 and increased by 14% from \$1.07bn in 2020. Gross claims reached \$246.2m in the first quarter of 2021, \$289.2m in the second quarter, \$307.2m in the third quarter, and \$374m in the fourth quarter of last year. They declined by 5% in the first three months of 2021, expanded by 20.6% in the second quarter, grew by 9.4% in the third quarter, and rose by 28.5% in the fourth quarter of 2021 from the corresponding quarters of 2020.

Gross claims paid for the life insurance segment amounted to \$374.1m and accounted for 30.7% of total claims that insurers settled last year. Claims disbursed for the medical insurance category followed at \$330.5m (27.1%), then the motor segment at \$264.3m (21.7%), and the property & casualty segment at \$250.3m (20.5%). Also, property & casualty claims surged by 150.6% and motor insurance claims rose by 44.5% in 2021, while medical claims declined by 12.5% and life insurance claims decreased by 8.7% last year.

In parallel, the sector's acquisition expenses reached \$307.2m in 2021 relative to \$266m in 2020, while administrative costs totaled \$255.5m last year compared to \$204.2m in 2020. Also, the insurance sector registered net investment income of \$86.7m in 2021 relative to net investment losses of \$58.9m in 2020. In addition, the ratio of gross claims settled to gross written premiums stood at 71% last year compared to 68% in 2020. Further, the ratio of expenditures for acquisition and administration to gross written premiums reached 33% in 2021 relative to 30% in the previous year, and the ratio of net investment income to gross written premiums stood at 5% last year compared to -4% in 2020.

Paid Claims (US\$m)



Source: Insurance Control Commission, Byblos Research

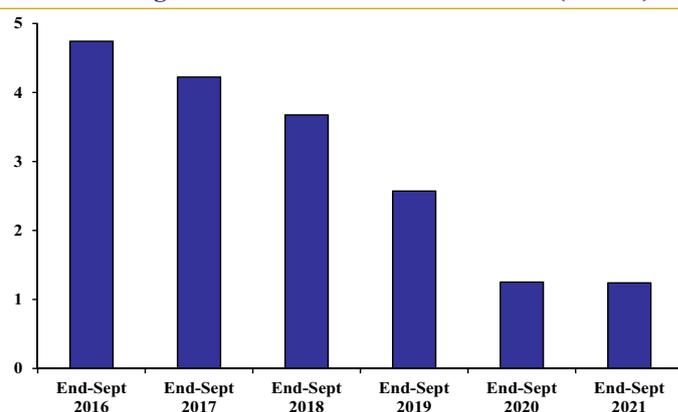
### Foreign investments of financial sector at \$1.24bn at end-September 2021

Figures issued by Banque du Liban (BdL) show that the net investment portfolio of Lebanese banks and financial institutions in foreign debt and equity securities totaled \$1.24bn at the end of September 2021, constituting decreases of 2.3% in the first nine months of the year from \$1.27bn at the end of 2020, of 1% from \$1.25bn at the end of September 2020, and of 51.7% from \$3.9bn at the end of September 2019. According to BdL, the figures cover the net assets of resident banks and financial institutions in foreign tradable debt and equity instruments. They help provide a clearer picture about the flow of funds from Lebanon and, therefore, about the balance of payments. Placements in equities reached \$830.4m at the end of September 2021 and accounted for 67% of the total, followed by investments in long-term debt securities at \$409.2m (33%), and investments in short-term debt securities at \$0.9m (0.1%). Investments in short-term debt securities declined by 17.6%, investments in long-term debt securities decreased by 4.8%, and placements in equities regressed by 1% in the first nine months of 2021.

The net investments of insurance companies in long-term debt securities totaled \$174.3m and accounted for 42.6% of the financial sector's aggregate investments in such securities at the end of September 2021. The investments of commercial banks in long-term debt securities, which consist of the banks' investments for their own account, on behalf of their clients and on a custodial basis, followed with \$141m (34.5%), then medium- and long-term banks with \$63.6m (15.5%), and financial institutions with \$30.4m (7.4%). Further, medium- and long-term banks' investments in equities reached \$248.1m and represented 30% of the financial sector's investments in such securities at the end of September 2021. Commercial banks followed with \$227.7m (27.4%), then financial institutions with \$189.1m (22.8%), insurers with \$165.2m (19.9%), and financial intermediaries with \$0.33m (0.04%). In parallel, insurance firms had \$0.9m invested in short-term debt securities at the end of September 2021 and were the only segment to place funds in such securities.

The distribution of investments by destination shows that the United States was the main recipient of equity investments of banks and financial institutions operating in Lebanon with \$248.7m, or 30% of the total at the end of September 2021. Luxembourg followed with equity investments of \$83.2m (10%), then the United Kingdom with \$70.9m (8.5%), Saudi Arabia with \$69.5m (8.4%), and France with \$67.7m (8.2%), while other countries accounted for the remaining 35%. In parallel, the United States was the recipient of \$64.5m or 15.8% of investments by Lebanese banks and financial institutions in long-term debt securities, followed by Ireland with \$51.4m (12.6%), Belgium with \$35m (8.6%), South Africa with \$26.9m (6.6%), and Türkiye with \$25.9m (6.3%), while other countries accounted for the balance of 50.2%. Further, the United Kingdom was the recipient of 71.4% of investments by Lebanese banks and financial institutions in short-term debt securities, followed by the European Union with 21.4%, while other countries accounted for the balance of 7.1%.

Foreign Investments of Financial Sector (US\$bn)



Source: Banque du Liban, Byblos Research

## Ratio Highlights

(in % unless specified)	2019	2020	2021	Change*
Nominal GDP (\$bn)	53.2	24.7	23.4	(1.3)
Public Debt in Foreign Currency / GDP	63.4	56.8	26.2	(30.6)
Public Debt in Local Currency / GDP	108.8	93.8	42.1	(51.7)
Gross Public Debt / GDP	172.3	150.6	68.3	(82.2)
Trade Balance / GDP	(29.2)	(12.2)	(6.6)	5.6
Exports / Imports	19.4	31.3	28.5	(2.8)
Fiscal Revenues / GDP	20.8	16.0	8.5	(7.5)
Fiscal Expenditures / GDP	31.8	20.3	9.8	(10.5)
Fiscal Balance / GDP	(11.0)	(4.3)	(1.3)	2.9
Primary Balance / GDP	(0.5)	(1.0)	(0.1)	1.0
Gross Foreign Currency Reserves / M2	70.2	41.5	26.0	(15.5)
M3 / GDP	252.9	209.0	90.8	(118.2)
Commercial Banks Assets / GDP	407.5	296.2	119.1	(177.1)
Private Sector Deposits / GDP	298.6	219.2	88.2	(131.0)
Private Sector Loans / GDP	93.6	57.0	18.9	(38.1)
Private Sector Deposits Dollarization Rate	76.0	80.4	79.4	(1.0)
Private Sector Lending Dollarization Rate	68.7	59.6	56.3	(3.3)

\*change in percentage points 21/20;

Source: Banque du Liban, Ministry of Finance, Central Administration of Statistics, Institute of International Finance, Byblos Research Estimates & Calculations

Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

## National Accounts, Prices and Exchange Rates

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

\*Average year-to-July 22, 2022

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

## Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's Investors Service	C	NP	-	C		-
Fitch Ratings	RD	C	-	CC	C	-
S&P Global Ratings	SD	SD	-	CC	C	Negative

Source: Rating agencies

### Banking Sector Ratings

	Outlook
Moody's Investors Service	Negative

Source: Moody's Investors Service



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