BOARD OF DIRECTORS REPORT

Part 1

GENERAL ECONOMIC DEVELOPMENTS

01 The Lebanese Economy

Gross Domestic Product, Growth Rate and Inflation

1

In 2021, the severity of the economic contraction that Lebanon has been suffering since 2018, has eased, despite the persistence of challenges, some of which have even exacerbated, which weighed on the economic activity and growth and weakened the social, monetary and financial conditions. These challenges were represented by the persistence of political turmoil, the weakness of treatments in terms of reform measures and an appropriate and effective financial and monetary policy, as well as the continuation of the effects of the Corona pandemic. All of these factors have negative repercussions on consumption and investment as for the uncertainty, anxiety, weak income and other matters that they create. The latest data indicated a contraction of the real GDP by 5% in 2021, compared to a contraction of 25.9% in 2020, accompanied by a delay of about 13 months to form a government in September and the suspension of the Council of Ministers sessions after about a month from this date. In addition, a political crisis with the countries of the Gulf emerged in the last quarter of the year, and security events occurred such as the events of Tayouneh, an increase in the number of Corona cases and the recurring closure and restriction of some economic activities and sectors, especially in the first and third quarters of the aforementioned year.

According to the Economic Recovery Plan prepared by the official authorities, the GDP at current prices is estimated at about LBP 201,266 billion in 2021, and the inflation rate at 154.8%. It expects a decline in real GDP contraction from 5% in 2021 to 2.5% in 2022, as well as inflation rate to drop to 96.9% if the aforementioned plan and the program of the International Monetary Fund are adopted. The World Bank estimated the GDP at USD 22.1 billion in 2021 while the Institute of International Finance (IIF) estimated it at USD 21.4 billion. According to the Central Administration of Statistics (CAS) figures, the GDP at current prices reached LBP 95,700 billion in 2020 (USD 24.7 billion at an exchange rate of LBP 3,878.1) compared to LBP 80,196 billion in 2019 (USD 53.2 billion at the official exchange rate of LBP 1,507.5). The overall demand dropped due to the economic, financial and political crises that emerged during the last quarter of 2019 and in the absence of confidence and stability in the country, as well as the lack of liquidity, the increase of prices, the depreciation of the exchange rate, among other factors, whereas the GDP deflator reached 60.4% in 2020 and 4.7% in 2019. However, the average inflation rate measured by the variation of consumer prices – and according to CAS - reached 84.9% in 2020 compared to 2.9% in 2019 along with the deterioration of the exchange rate in the parallel market from LBP 2,100 at the end of 2019 to LBP 8,400 at the end of 2020.

Indicators of Real Economy

	2018	2019	2020	2021*
Real Growth Rate (%)	-1.9	-6.9	-25.9	-5.0
Change of the average consumer price Index %	6.1	2.9	84.9	154.8
GDP Deflator %	4.9	4.7	60.4	
GDP (LBP billion)	82,764	80,196	95,700	201,266
GDP (USD billion)	54.9	53.2	24.7	19.9
Current Account Balance (USD billion)*	-15.7	-14.4	-3.9	-2.8
Current Account Balance / GDP (%)*			-15.8	-14.0

Source: Central Administration of Statistics
* From the Economic Recovery Plan prepared by the Lebanese government.

Deficit and balance of payments

2

As previously stated, the deteriorating political performance, political bickering and time-wasting persisted in 2021 instead of rushing the required structural and sectoral reforms, starting to address the sources of dilapidation and corruption and launching a rescue program with the International Monetary Fund. It is expected that the budget's deficit reaches approximately 2.8% of GDP in 2021 (4.3% in 2020) and public debt to GDP 360.7% (150.6% in 2020). However, if we calculate the public debt according to the market exchange rate, and not as per the official exchange rate, it will total USD 10 billion (quasi-equally between LBP and foreign currencies) and represent 50% of GDP. The apparent improvement in the budget hides the decline in the actual value of expenditures and the significant deterioration in the purchasing value of salaries resulting from the significant devaluation of the exchange rate. The steady rise in the public debt to GDP ratio shows also the effects of the decline in the value of the national currency. The bleeding in the external balance of payments decreased recording an USD 1,961 million deficit, whereas the current account deficit, as per the latest official expectations, almost reached USD 2,789 million in 2021, which is 14.0% of GDP, compared to USD 3,860 million in 2020, which is 15.8% of GDP. Also, total banks' deposits and assets declined even more in 2021 with depositors continuously using massively their savings to purchase properties and real estate, settling debts with banks, making domestic cash savings in LBP and USD, and withdrawing money for consumption purposes because of the decline in their income and purchasing power, along with higher unemployment. BDL foreign currency reserves also decreased to reach very low levels, making it difficult to continue for a long time, and without a program with the IMF that would consist as a starting point for restoring cash flows to acceptable levels, to finance imports even for basic needs.

Main Economic Indicators in 2020 and 2021

	2020	2021
BDL Coincident Indicator (average)	180.2	140.3
Real estate sales operations (Number)	82,202	110,881
Real estate transactions (number)	164,067	200,734
Value of real estate sales (LBP billion)	21,688	23,546
Collected real estate fees (LBP billion)	1,158.9	1,349.5
Construction permits area (000 s.m)	5,478	9,554
Cement deliveries (000 tons)	1,958	1,951
Total value of Checks cleared (USD million)	53,827	36,425
Number of ships	1,377	1,168
Weight of unloaded merchandises (tons)	3,727,676	3,784,840
Weight of shipped merchandises (tons)	803,257	861,573
Number of unloaded containers	136,728	144,867
Port of Beirut revenues (USD million)	110.6	78.3*
Agricultural imports (000 USD)	1,416	1,335
Agricultural exports (000 USD)	274	538
Weight of agricultural imports (000 tons)	2,073	1,822
Weight of agricultural exports (000 tons)	413	403
Weight of unloaded merchandises (000 tons)	13,475	12,124
Number of arrivals	1,172,049	2,070,631
Number of departures	1,268,200	2,206,216

* Till October

Reforms First

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As it has become known, the Lebanese economy needs a rescue plan more than ever, with the cooperation of all parties. Such rescue plan would be implemented and would address the roots of the crisis reflected in the structural economic imbalances, the chronic weakness of Lebanon's economic productivity and growth rates, the high cost of doing business, extensive corruption, plundering and waste of the country's capabilities, as well as the weakening of the State and preventing it from performing its basic functions. The most urgent issue lies in accelerating Lebanon's implementation of a comprehensive reform program with the International Monetary Fund. In fact, in April 2022, a staff-level agreement concerning a set of macroeconomic policies was signed with the IMF for a 4-year extended fund facility of $3 billion. This agreement is a major step towards addressing the crisis, but the final agreement is subject to IMF Management and the Executive Board approval after the timely implementation of all prior actions by Lebanese authorities and confirmation of international partners' financial support.

The Lebanese government approved the last version of its plan for economic and financial recovery on May 20, 2022, and as previous versions, it was negatively exposed to the banking sector, both commercial banks and the Central Bank, which incited the Association of Banks to justify its opposition to it, knowing that it had prepared and published its contribution and approach for Lebanon's financial and economic recovery in 2020.

The Lebanese government plan for economic and financial recovery

Losses are estimated at around USD 70 billion (distributed between BDL (60 billion) and banks around 10 billion) due to the deterioration of the exchange rate, the increase in non-performing loans and the expected restructuring of the public debt. In addition to the contribution in capital (bail in), there will be a limited lirafication for foreign currency accounts compared to a previous larger lirafication, in order to avoid inflationary burdens and pressure on the exchange rate. The plan also adheres to general principles of future commitment with bondholders and good faith for a future discussion with them in order to reach an agreement on the terms of the restructuring.

The comprehensive economic reform program, which will hopefully be supported by the International Monetary Fund and international partners, must be sequential to bring back the economy on the right track, stabilize prices and avoid large fluctuations in the exchange rate.

There are seven goals to the economic reform program with the IMF: **first,** restore macroeconomic stability and stimulate economic growth.

Second, consolidate public finances in parallel with the goals of debt stabilization, strengthening social safety nets, and infrastructure rehabilitation. **Third,** ensure the fair allocation of the financial sector losses. **Fourth,** allow the banking sector to resume its activity in granting credit to the private sector. **Fifth,** refocusing monetary policy on its mission of stabilizing prices and ending the financing of the budget deficit. **Sixth,** take measures to reform society indicators torn by the rise of poverty and the growing income inequality. **Finally,** improve corporate governance in the public sector, the transparency and the accountability.

There are nine prior procedures to be implemented before initiating the agreement with the IMF. **First,** the government's approval on a banks' restructuring strategy. **Second,** the parliament's approval on an appropriate legislation for banking reform. **Third,** initiate an externally assisted bank-to-bank evaluation by reputable international companies. **Fourth,** the parliament's approval of an amended bank Secrecy Law. **Fifth,** the completion of the purpose audit of Banque du Liban foreign assets, based on approved reference terms adopted by the IMF. **Sixth,** the government's approval of a medium-term fiscal and debt restructuring strategy. **Seventh,** the parliament's approval of the 2022 draft budget law. **Eighth,** the unification of the exchange rates. **Nineth,** voting of a law to establish controls on international transfers and cash withdrawals (Capital Control).

Concerning the restructuring of the financial sector, three phases have been identified. The first phase includes the basic requirements to complete the audit of the Banque du Liban, the elaboration and issuance of an emergency law to reform the banking sector and the conduct of an external bank-to-bank evaluation by reputable international companies. The second phase includes the fair and equitable management of losses that respects the hierarchy of rights and protects small depositors (up to USD 100,000 for each depositor in each bank), as well as the restructuring of accounts. The third phase is related to the recapitalization of banks in order to identify the viable ones and liquidate the non-viable banks within the framework of the new emergency banking reform plan.

The financial reform plan includes initiatives to boost revenues: rebuild the capacity to collect taxes and customs, collect all taxes at a unified exchange rate, including the base for evaluating imports, adjust some fees according to the new unified exchange rate, measures in import management to improve compliance, broaden the tax base and gradually increase legal rates. Meanwhile, the rationalization of spending will include: increase social spending, enhance education and health spending to improve the effectiveness of public social spending, absorb the partial recovery of employees and other expenses that have significantly eroded in the past two years due to high inflation, revamp capital spending to rehabilitate worn out infrastructure and boost growth, review public spending to help improve its efficiency and effectiveness and identify possible ways to prioritize and simplify spending, downsize the public sector and freeze hiring.

"ABL's Contribution to the Government's Financial Recovery Plan"

The contribution called upon all parties to cooperate, take responsibility and assume the consequences. It includes various orientations or comprehensive axes:

First, public debt restructuring would mitigate the negative impacts bared by depositors and the overall economy. It would also prevent defaulting on both treasury bills and placements denominated in LBP at BDL, knowing the devastating damages default can have on the return of confidence and the country's future. ABL's contribution estimates the need for USD 8 billion over five years as foreign funding, instead of USD 28 billion as mentioned in the Government's plan.

Second, establishing a national fund that would preserve the State's full ownership of its assets, and would allow the Central Bank to cancel its state debts estimated at USD 40 billion. ABL's contribution also suggests negotiations between banks and the State to restructure banks' debts in terms of lengthening debt maturities and reducing their returns, whereby the public debt to GDP ratio would decrease from 171%, which is the current ratio, to 74% by 2030, without having to apply a haircut on debts and deposits.

Third, a fiscal adjustment that would generate a reasonable primary surplus of 2.1% instead of 4.8%, which would not negatively affect the social conditions of the low-income Lebanese groups in the medium-term. To this end, the Association suggests the creation of a social safety net with a value of at least 4% of GDP during the whole period of fiscal adjustment.

Fourth, adopting a monetary policy based on the exchange rate unification, where it would progressively treat the external imbalances and control the very strong inflationary pressures. It is also important to adopt a managed-float exchange system where the Central Bank interferes to avoid sharp fluctuations. It is worth mentioning that maintaining a local currency exchange rate in the next phase needs an effective treatment of two issues: the current account deficit and the fiscal deficit, which fuel each other.

Fifth, an organized restructuring of banks, case by case, managed by the monetary and supervisory authorities by virtue of the Code of Money and Credit, along with the adoption of international banking standards within an appropriate timeline allowed by the Basel Agreements. Such an approach determines the market's structure including mergers and acquisitions. It is also required not to overlook the value of the in-kind guarantees taken against the loan portfolio and the value of the declared and implicit provisions.

Sixth, diversifying and restructuring the Lebanese economy including structural reforms in its fight against rampant corruption, reducing the cost of doing business in Lebanon, and adopting policies that would reduce the size of parallel and unlicensed economic activities.

02 Public Finances and public debt

Public Deficit

1

The total public balance registered a surplus of LBP 1,418 billion during the first ten months of 2021 compared to a deficit of LBP 4,244 billion during the same period of 2020. And until we have complete figures for 2021, we can note that the total public deficit reached LBP 4,083 billion in 2020, that is 4.3% of GDP and it is expected to decrease to 2.8% in 2021 as per the latest available official data. During the first ten months of 2021, the primary balance registered a surplus of LBP 3,740 billion compared to a LBP 1,738 billion deficit during the same period of the previous year. And the primary deficit reached LBP 977 billion in 2020 (1% of total GDP) and it is expected to decrease to around 0.2% in 2021.

Revenues

2

Total government revenues amounted to LBP 16,139 billion during January-October 2021 compared to LBP 12,023 billion during the same period of the previous year, thus increasing by LBP 4,116 billion or 34.2%, due to the improvement in the tax collection after having significantly decreased in 2020 following the forced closure to prevent the spread of Corona virus. Total revenues amounted to LBP 15,342 billion in 2020 or 16% of GDP and it is expected to decrease to around 6.3% in 2021 as per the World Bank report.

In details, when comparing figures during the first ten months of 2020 and 2021, we notice an increase in both tax revenues by LBP 3,753 and non-tax revenues by LBP 553 billion, while Treasury receipts decreased by LBP 190 billion.

Tax Revenues

3

As for tax revenues, we notice an increase in most of their components when compared between the first ten months of the years 2020 and 2021, especially domestic taxes on goods and services (including VAT that increased by LBP 2,184 billion due to the increase of goods and services prices), as well as taxes on income, profits and capital gains due to the exceptional increase in income tax on profits (+ LBP 1,338 billion), part of it resulting from commercial banks settling the exceptional tax related to their turnover in 2019, knowing that income revenues from tax on interest income, one of the components of the taxes on income, profits and capital gains, decreased by LBP 790 billion, in parallel with the decline in interest rates on deposits in the Lebanese market.

Expenditures and Debt Service

4

Total government expenditures decreased to LBP 14,721 billion during the first ten months of 2021 compared to LBP 16,247 billion in the same period of the previous year, that is by LBP 1,526 billion or 9.4%. Noting that public expenditures reached LBP 19,425 billion in 2020 or 20.3% to GDP and are expected to drop to 7.3% in 2021 as per the World Bank report. In details, debt service decreased by LBP 164 billion: to LBP 2,322 billion during January-October 2021 compared to LBP 2,486 billion during the same period of the previous year, knowing that debt service started declining after the Lebanese government announced a default on Eurobonds (principal and coupon) in March 2020 as well as the interest rates decrease on LBP Treasury bills (noting that these latter declined in March and April 2020 and were stable since then). Also, primary expenditure (excluding debt service) dropped to LBP 12,399 billion during January-October 2021 compared to LBP 13,761 billion during the same period in 2020 with a decrease in each of the expenditures related to previous budgets by LBP 1,029 billion, the transfers to EDL by LBP 416 billion to reach LBP 698 billion till October 2021, and the Treasury payments by LBP 394 billion.

It should be noted that public spending during the first ten months of 2021 reflects the effects of the exchange rate support policy for consumer and operating spending, and it did not include social assistance approved by the government for employees in the public sector. This is why it appears to be relatively low compared to the expected spending after the end of the subsidy policy and social assistance payments.

Comparison of the budget law for the years 2021 and 2022* and realized figures in 2020

LBP billion	Law Draft 2022	Law Draft 2021	Realized in 2020
Budget expenditures	49,417	18,778	18,032
Advance to EDL	5,250	1,500	1,393
Total expenditures	**54,667**	**20,278**	**19,425**
Budget Revenue	39,154	13,426	13,686
Treasury Receipts	1,502	568	1,656
Total Revenue	**40,656**	**13,994**	**15,342**
Public Balance	**-14,011**	**-6,284**	**-4,083**
Primary Balance	**-7,896**	**-3,153**	**-977**

Source: MOF

* 2022 figures were estimated according to an exchange rate of LBP 20,000/$.

Budget law draft for 2021 and 2022

5

It is worth noting that till the preparation of this report, public spending is not based on a budget law, but rather on draft laws for the years 2021 and 2022 that haven't been approved yet. In the 2021 budget draft law, expenditures were estimated at LBP 20,278 billion, including LBP 1,500 billion for EDL. Total revenues were estimated at LBP 13,994 billion, which bring the expected public deficit for the aforementioned year to LBP 6,284 billion. The budget draft law for 2021 includes the National Solidarity Tax on deposits (1% on deposits ranging between USD 1 and USD 20 million, 1.5% on deposits ranging between USD 20 and USD 50 million, and 2% on deposits exceeding USD 50 million), as well as deduction on banks' placements and Treasury bills (30% on interests that exceed 3% in foreign currencies and 5% in LBP).

The government also completed the draft budget law for the year 2022, where expenditures were estimated at LBP 54,667 billion (of which 5,250 billion for EDL), compared to LBP 40,657 billion for revenues, which bring the total deficit to about LBP 14,000 billion or around 26% of total expenditures and about 7.1% of estimated GDP. This budget is of exceptional importance, both internally and externally, as it is a mandatory passage for Lebanon's agreement with the IMF on a financing program. However, there are significant gaps in this draft budget, mainly the absence of transparency and reform measures, as well as the adoption of multiple exchange rates.

In terms of expenses, it does not include Eurobonds and it has not established a rescheduling plan with investors. It is also noticeable that the government's investment spending has been lowered. In addition, a substantial part of the accumulated government debt to NSSF has been written off. In terms of revenues, the draft budget did not include reform measures with regards to the tax system. It only raised revenues by increasing some taxes and fees such as VAT and custom tariff to be calculated at SAYRAFA rate set by BDL. On the other hand, the draft budget included some exceptions, of which: tax exemptions for start-ups that will be established during the next five years, provided that 80% of their employees are Lebanese; in addition to granting incentives to companies as well as industrial and commercial corporations that carry out their main activities in areas that the government wants to develop. The draft budget exempted the indemnities paid to employees and workers that were dismissed from work or resigned from the income tax, during the period of July 1st, 2019 to December 31st, 2021. It also exempted the salaries of employees who had a permanent disability as a result of Beirut Port explosion from the tax on salaries and wages. It also exempted devices and equipment that operate on solar energy to generate electric power from VAT and customs duties.

Detailed Table on Public Expenditures & Revenues (LBP Billion)

	January-October 2020	January-October 2021	2021 Budget Law	2022 Draft Budget Law
Total Revenue	**12,023**	**16,139**	**13,994**	**40,657**
Tax Revenue	**8,493**	**12,245**	**10,473**	**33,600**
o/w				
Taxes on income, profits and Capital gains	4,006	4,956	4,899	5,902
tax on interest income	*2,787*	*1,997*	*2,003*	*2,091*
Domestic Taxes on Goods and Services	1,949	4,120	3,767	19,738
VAT	*1,482*	*3,666*	*2,433*	*12,606*
Taxes on Property	1,095	1,458	923	2,929
Taxes on International Trade	1,056	1,279	471	3,383
Other Tax Revenues	387	432	414	1,648
Non-tax revenues	**2,187**	**2,740**	**2,953**	**5,556**
Income from public institutions and Government properties	1,335	1,839	2,022	2,350
Administrative fees and Charges administrative fees	566	576	589	2,858
Penalties and Confiscations	17	19	18	17
Other non-tax revenues	269	306	325	331
Treasury receipts	**1,343**	**1,154**	**568**	**1,502**
Total Expenditures	**16,247**	**14,721**	**20,278**	**54,667**
o/w				
Transfers to EDL institution	1,114	698	1,500	5,250
Salaries, wages, and other benefits	8,211	8,272	11,812	25,660
Debt service	2,486	2,322	3,131	7,617
Capital Expenditure	392	195	735	2,213
Public Balance	**-4,224**	**+1,418**	**-6,284**	**-14,010**
Primary Balance	**-1,738**	**+3,740**	**-3,153**	**-6,393**

Source: Ministry of Finance

Public Debt

6

Total public debt reached LBP 151,309 billion (USD 100.4 billion at the official exchange rate) at the end of 2021 compared to LBP 144,108 billion (equivalent to USD 95.6 billion) at end of 2020, thus registering an increase of LBP 7,201 billion or 5.0% in 2021 compared to a lower increase amounting to LBP 5,958 billion or 4.3% in 2020. Gross public debt to GDP reached 150.6% at end 2020 and would attain 360.7% at end 2021 according to official estimates, due to the higher inflation rate coupled with a rapid depreciation in the exchange rate. It is important to mention that the public debt evaluated in US dollars, at the parallel market exchange rate, decreased significantly from USD 75.3 billion at end 2019 to USD 46.8 billion at end 2020 and then to USD 41.9 billion at end 2021. The public debt in Lebanese pounds amounted to USD 3.4 billion at the end of 2021, after it had fallen to USD 10.7 billion at the end of 2020 from USD 41.6 billion at the end of 2019.

Going back to figures at the official exchange rate, the increase in gross public debt in 2021 resulted from the increase in the public debt in Lebanese pounds by LBP 3,485 billion, to amount to LBP 93,247 billion at the end of the aforementioned year, as well as the increase in foreign currency debt by the equivalent of LBP 3,716 billion or USD 2.5 billion, to amount to LBP 58,062 billion at end December 2021. Thus, the LBP public debt represented 61.6% of total public debt against 38.4% for debt in foreign currency.

7

The increase in **public debt in LBP** in 2021 is attributed to the subscriptions of the Banque du Liban in LBP Treasury bills, even if at a slower pace than the previous two years. Its portfolio amounted to LBP 58,002 billion at end of 2021, registering an LBP 2,923 billion increase compared to an LBP 4,362 billion increase in 2020 and an LBP 11,711 billion increase in 2019. Thus, the BDL share in LBP public debt rose to 62.2% at the end of 2021 from 61.4% at the end of 2020. On the other hand, banks' contribution in financing public debt in LBP decreased to 22.7% from 25.8% at the end of the two years respectively. The non-banking sector share rose to 15.1% at the end of 2021 (with the increase in subscriptions by public institutions, most notably the NSSF) compared to 12.9% at the end of 2020.

8

Public debt denominated in foreign currencies, increased to the equivalent of LBP 58,062 billion at the end of 2021 compared to LBP 54,346 billion at the end of 2020. The Lebanese government announcement to stop paying all Eurobonds and their proceeds in March 2020 had harmful repercussions on several levels, of which the value of arrears on the foreign debt that reached about LBP 14,240 billion until the end of December 2021 (an increase of LBP 7,060 billion from the end of 2020). At the end of 2021, the public debt in foreign currencies was distributed as follows: USD 36.5 billion in Eurobonds (of which 4.2 billion belonging to the Banque du Liban and 4.4 billion to banks, after taking provisions into account, around USD 5 billion to Banque du Liban and USD 10 billion to banks, without taking provisions into account, and the rest is distributed to other internal and external parties), and USD 2.0 billion for bilateral and multilateral parties.

9

At the end of 2021, the **net public debt**, calculated after subtracting public sector deposits at the banking system, amounted to LBP 132,071 billion (USD 87.6 billion based on the official exchange rate) compared to LBP 128,975 billion (USD 85.6 billion) at the end of 2020, thus registering an increase of 2.4% in 2021 compared to a higher increase of 5.3% in 2020. The public sector deposits with the central bank increased from LBP 6,838 billion at the end of 2020 to LBP 11,692 billion at the end of 2021, while the public sector deposits with banks decreased from LBP 8,295 billion to LBP 7,546 billion in the two consecutive dates.

Public debt 2019 – 2021 (End of the period – LBP billion)

	2019	2020	2021	Change % 2020/2019	Change % 2021/2020
Gross Public Debt	**138,150**	**144,108**	**151,309**	**+4.3**	**+5.0**
- Debt in LBP	87,279	89,762	93,247	+2.8	+3.9
- Debt in Foreign Currencies	50,871	54,346	58,062	+6.8	+6.8
Public Sector Deposits at the Banking System	15,677	15,133	19,238	-3.5	+27.1
Net Public Debt	122,473	128,975	132,071	+5.3	+2.4

Source: BDL

10

Interest rates on LBP Treasury bills remained unchanged in 2021 on all categories, following a decline ranging from 180 and 300 basis points in 2020. As for the weighted average interest rate on the total portfolio, it slightly increased to 6.55% at the end of 2021 compared to 6.52% at the end of 2020, while the average life for this portfolio decreased to 4,16 years compared to 4.65 years at the end of the two years respectively.

Yields on regular LBP Treasury bills

	3-M	6-M	12-M	24-M	36-M	64-M	84-M	120-M
Dec 2019	5.3%	5.85%	6.50%	7.00%	7.50%	8.00%	9.00%	10.00%
Dec 2020	3.5%	4.00%	4.50%	5.00%	5.50%	6.00%	6.50%	7.00%
The decrease 2020/2019 (bp)	*180*	*185*	*200*	*200*	*200*	*200*	*250*	*300*
Dec 2021	3.5%	4.00%	4.50%	5.00%	5.50%	6.00%	6.50%	7.00%

Source: BDL

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In the **Eurobonds market**, the weighted interest rate on this portfolio attained 7.38% and the weighted life 7.84 years at the end of February 2020, which is the last given data before the government announced that it stopped paying all Eurobonds.

03 Monetary developments

General Overview

1

Since the last quarter of 2019, **monetary conditions** have witnessed a clear and accelerating deterioration that continued during 2020 and 2021 – two years considered to be the worst in 30 years, where the value of the Lebanese pound collapsed in the parallel market to record unprecedent levels (till the preparation of this report). BDL's total liquid assets in foreign currencies also decreased significantly to USD 12.3 billion at the end of March 2022, compared to USD 13.6 billion at the end of 2021 and USD 18.6 billion at the end of 2020 (USD 29.6 billion at the end of 2019).

2

In keeping with the developments taking place, especially the crisis that Lebanon has been going through since the last quarter of 2019, and taking into consideration the remaining capacities, the Banque du Liban has taken a series of exceptional regulatory measures in an attempt to limit the decline in its foreign currency reserves, to calm the pace of fluctuations in the LBP exchange rate in the parallel market, to reactivate the work of banks operating in Lebanon, and to support the economy and the citizens. A full summary of these measures is available in the annual report for the year 2020.

However, the measures taken by the Banque du Liban in managing the crisis did not succeed in stopping the ongoing collapse, but only in slowing its pace. Regarding liquidity in Lebanese pounds, the Central Bank tried, on one hand, to reduce losses in the value of deposits in foreign currencies by allowing their withdrawal at the exchange rate of 3,900 LBP per USD (then at the rate of 8,000 LBP per USD in late 2021). On the other hand, BDL rationed the liquidity that could be obtained with the aim of limiting the deterioration of the LBP exchange rate in particular. The Banque du Liban also secured, during 2020 and 2021, Lebanon's financing needs for importing subsidized vital commodities, part of them according to the official exchange rate and the other part according to the platform's exchange rate. This contributed to slowing down the decline of the LBP exchange rate against the dollar in the parallel market. In this context, we point out that at a time when the BDL wanted the subsidized goods to be allocated exclusively for local consumption according to the needs of the Lebanese market, it was partially exploited in various ways whether in smuggling operations and reselling the subsidized goods abroad, or by storage operations in order to sell the goods later at a higher price, which led to a rapid and unnecessary depletion of the foreign currency assets of the BDL.

It is also worth mentioning that controlling the downward trend of the exchange rate cannot succeed with temporary solutions that will only work for a short period of time, but rather by restoring the confidence factor inside Lebanon and also from abroad, given the need for new funds to enter the country. This requires the intention and the will to build a real state that places the interest of the country and citizens above every consideration, and works to revitalize and strengthen the economy. The exchange rate is, after all, the mirror of the economy.

Statistical Data

3

• **Pressure continued on the Lebanese pound** at a strong pace throughout 2021 and until the preparation of this report, as the LBP/USD rate declined at a rapid and sometimes unjustified pace in the parallel market. The dollar was traded at prices that reached LBP 30,000 and sometimes more, while the rate of 3,900 LBP per USD then 8,000 LBP per USD has been adopted for cash withdrawals from accounts in foreign currencies. The use of the official exchange (1507.5 LBP per USD) rate was limited to repaying personal loans granted in dollars.

Going back to the evolution of the LBP/USD exchange rate during 2021 and the first months of 2022 in the parallel market, it deteriorated almost continuously from about LBP 8,400 per USD at the end of 2020 to around LBP 19,000 per USD in July and August 2021. The exchange rate improved in September with the formation of a government after a vacuum that lasted for more than a year and at a sensitive time, but it returned to deterioration and reached about 27,500 LBP per USD at the end of 2021. At the beginning of 2022, it continued its decline, reaching LBP 33,700 per USD on January 11, 2022, before it improved and stabilized approximately at around 23,000 LBP per USD for a period of two and a half months, after the volume of operations on "Sayrafa" platform increased steadily. However, the tension before the parliamentary elections, the state of uncertainty and anxiety from the coming days on the political and economic levels, the fear from ceasing Sayrafa platform, among other factors, contributed to the depreciation of the LBP exchange rate to a new record level of 38,000 LBP/USD on May 27. This led the Central Bank to intervene on the same day and issue a statement[1] to all holders of Lebanese pounds, whether citizens and institutions[2], which resulted in a significant and rapid improvement in the exchange rate of around LBP 10,000 to reach LBP 27,500 LBP/USD within few hours.

In general, several factors contributed to the deterioration of the exchange rate of the national currency against the dollar in the parallel market. There is a commercial demand for the dollar to secure the import of goods for which the Banque du Liban does not secure dollars (their size has increased with time), in addition to a demand by individuals, whose pace increases from time to time, with the aim of preserving the value of their savings or for the purpose of speculation, and also with the aim of transferring cash abroad. As for the dollar supply, it is fed in particular by remittances from abroad, as well as by the expenses of expatriates and tourists inside Lebanon, and by the proceeds from goods exports, and dollars banknotes that were previously stored in homes and companies/institutions[3]. The high level of anxiety resulting from the worsening political situation, including the government vacuum for more than a year and the lack of agreement on exits to the existing crisis, as well as the political tension before the parliamentary elections and the prevailing ambiguity regarding the post-parliamentary elections stage, are all factors that played a major and negative role in the foreign exchange market, whereby it increased the demand for the dollar and decreased the supply.

• No significant conversions of deposits from the national currency to the US dollar were recorded in 2021, as these operations stopped since the second half of 2020. It is worth reminding that **huge conversion of deposits from LBP to USD were recorded in 2020 and 2019**, with an estimated value of nearly USD 10 billion and USD 15 billion in the aforementioned years respectively. It is worth noting that the private sector deposit dollarization rate in commercial banks remained within the range of 65% in the years 2014-2017, then registered a gradual increase in the subsequent period to reach 80.4% at the end of 2020, before decreasing slightly to 79.4% at the end of 2021. Of course, this was reflected in the Liabilities/commitments of the BDL towards banks in dollars, which expanded significantly as a result of these conversions, but started to decrease in the second half of 2020 with ongoing LBP withdrawals from foreign currency accounts following BDL circulars No. 151 and 158, as well as USD cash withdrawals according to BDL circular 158[4], in addition to the fact that conversions of deposits from LBP to USD are not allowed except on a very small scale.

• The **LBP currency in circulation** outside the banking system increased to unprecedented levels, reaching LBP 41,515 billion at the end of 2021, compared to LBP 29,242 billion at the end of 2020 and LBP 9,818 billion at the end of 2019, i.e., an increase of approximately LBP 12,000 billion or 42% in 2021, following a huge increase of LBP 20,000 billion or 200% in 2020, with negative repercussions on the exchange and inflation rates. The Central Bank was able to reduce the amount of LBP cash in circulation to LBP 32,597 billion at the end of March 2022, after activating work on the "Sayrafa" platform, following exceptional measures related to cash withdrawals through BDL circular No.161, and also especially by allowing banks to buy USD banknotes from BDL without a specific ceiling against Lebanese pounds banknotes they have or their clients have at "Sayrafa" exchange rate.

As it became clear, the Lebanese economy has turned into a **cash economy**. This is due to a number of reasons, in particular the preference of Lebanese for cash during this critical period characterized by considerable degree of uncertainty, the continuous deterioration in the LBP exchange rate, the ceilings set by banks on cash withdrawals, the banks' cessation of opening documentary credits, and also the money creation in Lebanese pounds according to circular No. 151/2020 and its amendments and circular

[1] Based on circular 161 and its effects and on articles 75 and 83 of the Code of Money and Credit.
[2] To submit requests to Lebanese banks in order to exchange Lebanese pounds for dollars at the "Sayrafa" platform rate, to be fully processed within 24 hours. This offer was open and available daily.

[3] Most of them are expected to improve in the coming period.
[4] Partially financed by the reduction of the FC required deposit ratio at BDL, from 15% to 14%.

No. 158/2021, in addition to other reasons. The same behavior or trend was recorded with regard to dollar banknotes, which were also widely stored in homes and institutions[5].

• On the other hand, the **Interbank Rate in LBP** recorded low levels of 3% in general with limited operations due to the decline in the banking activity and its limitation to a large extent on securing deposit withdrawals, in addition to the fact that the conversion of deposits from LBP to USD is not allowed anymore. The interest rates on deposits continued to decrease in 2021 by 170 basis points for the LBP term deposits and 94 basis points for the USD term deposits, but at a slower pace than the previous year where it recorded a significant decline of 490 basis points for the LBP term deposits and 412 basis points for the USD term deposits, since the central bank had imposed ceilings on the interest rates on deposits, as there was no need for these rates to remain high. **Interest rates on all categories of Treasury bills** remained stable in 2021, knowing that they were reduced by 180 to 300 basis points in March and April 2020.

• **The Central Bank was the main, if not the only financier** who secured in recent years public sector financing needs in LBP at existing market interest rates or at reduced rates. The portfolio of Treasury bills in LBP owned by the BDL recorded a continuous increase in the past years, to new historical levels[6], reaching LBP 58,002 billion at the end of 2021, compared to LBP 55,079 billion at the end of 2020 (LBP 50,717 billion at the end of 2019). The central bank's share out of the total portfolio of TB's increased to 62.4% at the end of 2021, compared to 61,6% at the end of 2020 (58,3% at the end of 2019).

• The central bank's total liquid assets in foreign currencies continued to decrease and reached USD 13.6 billion at the end of 2021, compared to USD 18.6 billion at the end of 2020 and USD 29.6 billion at the end of 2019. Noting that these liquid assets include the special drawing rights SDRs that Lebanon obtained from the IMF and which was deposited at the Central Bank[7]. BDL's placements in local and international securities in foreign currencies[8] also decreased to USD 4.2 billion at the end of 2021, compared to USD 5.5 billion at the end of 2020 and USD 7.7 billion at the end of 2019. BDL's foreign assets (excluding gold) declined to USD 17.8 billion at the end of 2021, compared to USD 24.1 billion at the end of 2020 and USD 37.3 billion at the end of 2019. This resulted in particular from the use of these assets to provide dollars at the official exchange rate or at the platform rate[9] to support the import of selected vital commodities such as petroleum products, medicines, flour, raw materials, among others[10], and also from the implementation of BDL Circular No. 158[11] since July 2021, which is partially financed from reducing the percentage of required deposits at the Central Bank from 15% to 14%. We note in this context that the value of BDL's gold reserves decreased to USD 16.6 billion at the end of 2021 compared to USD 17.3 billion at the end of 2020, due to the decline in the gold ounce price. Lebanon ranked 20th internationally and 2nd in the MENA region in terms of country reserves according to the list published by the "World Gold Council" in May 2022.

[5] Estimated at USD 7 billion in the first quarter of 2020.
[6] Even though at a slower pace.
[7] USD 1.135 billion, of which a small portion was used till date.
[8] Starting November 2017, the BDL's foreign assets include the internationally traded Lebanese government's sovereign bonds issued in FC and held by BDL.
[9] Or sometimes at a different rate.
[10] To which we add for 2020 the withdrawal of a deposit in favor of one of the European investment funds that had been placed with the Central Bank several months ago, as well as the fact that BDL granted loans in dollars to banks during the crisis.
[11] Allowing the beneficiary to receive USD 400 per month in cash.

Monetary Aggregates

4

In 2021, the monetary aggregate in the broad sense "M3" recorded a slight increase by 0.5% after declining for the first time in its history in 2019 and 2020 at a rate of 4.8% and 1.4% respectively. Of course, the creation of money in LBP through BDL circular No. 151 then circular No. 158 played a major role in limiting its decline in 2020 and in its slight increase in 2021. M3 increased to LBP 201,070 billion at the end of 2021, compared to LBP 200,052 billion at the end of 2020 (LBP 202,831 billion at the end of 2019). The dollarization rate of M3 continued to decline to 60.71% at the end of 2021, compared to 66.25% at the end of 2020, particularly affected by the significant increase in the components of the money supply in Lebanese pounds M1, especially the cash in circulation in LBP outside the banking system" and the decrease of deposits in foreign currencies according to circulars No. 151 and 158.

The following table summarizes the main components that affected the monetary aggregate M3 and contributed to its slight increase of LBP 1,018 billion in 2021. We will focus on three components that had a clear contractionary effect on M3. **First**, the loans granted to the private sector continued to decline in the aforementioned year by LBP 11,295 billion, which is explained by the repayment of loans by some individuals and institutions in cash or through bank deposits, and the scarcity or even absence of new loans. **Second**, the net claims on public sector continued to decline for the second consecutive year, by LBP 8,784 billion. **Third**, the net foreign assets of the banking system (excluding gold) that continued the downward trend recorded since 2011, even if at a slower pace, decreasing by around USD 2 billion in 2021 after a huge decline by about USD 10.5 billion in the previous year. On the other hand, the significant increase in "other net items"[12] compensated to a large extent the contractionary effect of the aforementioned items on M3. Knowing that the "other net items" include, among others, the "other assets" item from the BDL's balance sheet that witnessed a significant increase in 2021 and where the difference between the value of dollar deposits that were withdrawn in LBP according to circular No. 151 (i.e., 3900 LBP/USD, then 8000 LBP/USD) and to circular No. 158 (12000 LBP/USD) and their value calculated according to the official exchange rate (1507.5 LBP/USD) is registered.

[12] The "other net items" include many items from BDL's and banks' balance sheets, mainly: tangible and intangible fixed assets, other assets, capital accounts, and other liabilities.

Evolution of money supply and its counterparts (End of period – LBP billion)

	2019	2020	Change 2020/2019	2021	Change 2021/2020
Currency in circulation	9,818	29,242	+19,424	41,515	+12,273
Demand deposits in LBP	6,802	10,914	+4,112	16,422	+5,508
Money in LBP (M1)	16,620	40,156	+23,536	57,937	+17,781
Money and quasi-money in LBP (M2)	63,484	67,510	+4,026	79,007	+11,497
Money and quasi-money in LBP & FC (M3)	**202,831**	**200,052**	**-2,779**	**201,070**	**+1,018**
Currency in circulation/M3	4.84%	14.62%		20.65%	
Counterparts					
Net foreign assets	37,823	27,028	-10,795	22,950	-4,078
o/w: gold	21,013	26,116	+5,103	25,019	-1,097
foreign currencies	16,810	912	-15,898	-2,069	-2,981
Net claims on public sector	84,150	76,290	-7,860	67,506	-8,784
Valuation adjustment	-12,835	-17,383	-4,548	-17,872	-489
Claims on private sector	70,814	51,964	-18,850	40,669	-11,295
Other items (net)	22,879	62,153	+39,274	87,817	+25,664

Source: BDL

Inflation

5

The inflation rate for the average period rose to new record level[13] of 154.8% in 2021, after reaching 84.9% in 2020 (2.9% in 2019), according to the Consumer Price Index issued by the Central Administration of Statistics (CAS). This resulted mainly from the noticeable decline in the exchange rate of the Lebanese pound against the dollar in the parallel market, which directly and completely affected the prices of imported goods[14]. The price of local goods and services were also affected, albeit in a lesser degree and to a different extent. This also resulted from the almost complete lifting of subsidies on gasoline and medicines, and from the complete lifting of subsidies on other products, mainly diesel, at a time where the economic activity has become largely dependent on private generators after the sharp decline in electricity production. Of course, the lifting of subsidies in the last quarter of 2021 had repercussions on the prices of all goods and services. In addition, the prices of global commodities such as foodstuffs, metals and oil rose significantly due to the improvement in the global economic activity compared to the previous year with the regression of the Covid-19 pandemic.

As for 2022, it is expected that the inflation rate will reach a high level as well, and things may worsen dramatically in case there will be no breakthroughs in the political situation after the elections, as well as the failure to quickly address the economic, financial and monetary conditions that deteriorated significantly. This will lead to a big additional deterioration in the LBP exchange rate in the parallel market, and thus a significant increase in prices. Also, the decline in the BDL's foreign currency gross reserves to very low levels may lead the central bank, sooner or later, to stop securing dollars on Sayrafa platform for depositors and traders according to Circular No. 161, as well as for importers of gasoline, which may put additional pressure on the exchange rate and on prices. Also, the trend of global commodity prices such as foodstuffs, oil and metals does not constitute a helping factor, given their increase in the first months of this year due to the war in Ukraine, and the expectation of a further increase in the coming months for several reasons, including the difficulty of discharging Ukrainian products by sea and land.

We note that the consumer price index issued by the CAS registered an increase of 216.3% in the first four months of 2022 compared to the same period in 2021, and an increase of 96.7% in the first four months of 2022 compared to the average CPI in 2021.

[13] Since 1992, i.e., since approximately 30 years.
[14] Goods that do not benefit from any subsidies.

04 External Payments

Current Account and Balance of Payments

1

According to the latest data issued by Banque du Liban, the estimated current account deficit in Lebanon increased slightly to about USD 1.9 billion in the first half of 2021 (i.e. around USD 3.5 billion on an annual basis) compared to a deficit of USD 1.8 billion during the same period of 2020 (USD 3.0 billion in 2020), given that the trade deficit in goods (FOB)[15] increased to about USD 4.3 billion from USD 3.0 billion in the two aforementioned periods respectively, while the estimated surplus in the balances of services, current transfers and income increased significantly to around USD 2.4 billion from USD 1.2 billion. It is estimated that the deficit in the current account in 2021 will reach a level close to or even lower than the level recorded in 2020, with the possibility of a significant improvement in the balance of services and in the current transfers with the improvement of the global economic activity, offsetting the increase in the trade balance deficit[16].

Based on the above and on estimates of the gross domestic product for the year 2021, evaluated in dollars, it is estimated that the current account deficit/GDP ratio has ranged between 15 to 17% in 2021, compared to 12.0% in 2020, recording a lower level compared to those recorded in previous years; 21.1% in 2019, 24.3% in 2018 and 21.3% as the average for the ten-year period from 2010 to 2019. Despite its decline, this ratio remains very high by all international standards, as the current account surplus to GDP, for example, reached 3.6% in the MENA region, 4.4% in the Arab countries and 0.9% in emerging markets and developing economies.

[15] The trade balance deficit recorded in the balance of payments differs from the deficit published by the Lebanese customs, as it includes on the exports side the following: re-exported goods, goods exported temporarily for transformation (recycled), or re-exported after local processing, and repair on goods.
[16] It increased by about USD 2 billion in 2021.

2

The expatriates' remittances to Lebanon increased by about 6.5% in 2021 to reach USD 6.6 billion, according to the latest World Bank estimates, compared to USD 6.2 billion in 2020, making Lebanon the third regionally after Egypt and Morocco, knowing that these estimates may sometimes differ from those of the IMF and the Banque du Liban.

The regularity and level of these transfers reflect the size of the Lebanese diaspora in all parts of the world, the high efficiency that it enjoys in various fields and its continuous social and economic connection with their families and their country. These remittances played a key role in the resilience of the Lebanese residents in the face of the successive crises that the country has known since 2019.
According to BDL estimates, the net current transfers increased to more than USD 2.4 billion in the first half of 2021 (the latest data available), compared to USD 1.9 billion during the same period of 2020, i.e. by 24.2%, because the transfers that were sent from Lebanon also declined significantly (-20%) in light of their related higher costs and the decrease in the number of foreign workers in Lebanon, which in turn improved the net current transfers.

3

The high current account deficit in Lebanon, which is affected to a large extent by the huge deficit in the trade balance - one of the major structural imbalances in the Lebanese economy- is financed through the capital and financial accounts, i.e., through the net capital inflows in various forms, including direct investments, portfolio investments, deposits at banks, foreign net loans from abroad to the public and private sectors, and through the use of the BDL's reserves in foreign currencies if necessary as was the case for the years 2018 to 2021.

The Banque du Liban figures for the first half of the year 2021 show that there is a positive net balance in both the capital account and foreign direct investments, with a value that did not exceed USD 600 million only, while a negative net balance was recorded in the portfolio investment account and other investments, amounting to USD 2.4 billion. That is, these combined balances did not cover, as was the case previously, any part of the deficit in the current account amounting to USD 1.9 billion, but rather added to it a net negative balance of USD 1.8 billion, which required the use of BDL's reserves of about USD 3.7 billion to cover these deficits. The balance of payments figures issued by the Banque du Liban indicated the use of more than USD 3.5 billion in foreign currency reserves due to a positive net balance of USD 300 million in the "unrecorded transactions" item. Noting that the deficit in the balance of payments, measured approximately by the change in the net foreign assets of the banking system, i.e., banks and the Banque du Liban, amounted to

USD 1.8 billion in the first half of 2021.

Going back to the year 2020, the data published by the Banque du Liban show that there was a positive net balance in each of the capital account, foreign direct investments, and portfolio investments, amounting to USD 4.1 billion, but was offset by a negative net balance in "other investments" account amounting to USD 6.1 billion, which means that these balances, combined, did not cover any part of the current account deficit (USD 3.0 billion), but rather added a net negative balance of USD 2.0 billion to it, which necessitated the use of BDL's reserve to cover the deficit, i.e. USD 5.0 billion. However, the balance of payments figures issued by the Banque du Liban indicated the use of approximately USD 13.2 billion in foreign currency reserves to cover an additional USD 8.2 billion for unrecorded transactions in any of the above-mentioned accounts. Noting that the deficit in the balance of payments, roughly measured by the change in the net foreign assets of the banking system, i.e., banks and the Banque du Liban, amounted to USD 10.6 billion in the aforementioned year.

4

According to the data provided by the BDL and adopted in the report of UNCTAD on investments in the world, it is estimated that net foreign direct investments inflows to Lebanon declined significantly to about USD 104 million in the first half of the year 2021, compared to about USD 921 million in the same period of 2020 and USD 1,295 million in the year 2020. This decrease is normal with the lack of confidence of investors abroad in light of the uncertainty surrounding Lebanon's political and economic future.

Foreign direct investments inflows to Lebanon declined sharply according to the same source, to about USD 137 million in the first half of 2021, compared to USD 951 million in the same period of 2020 and USD 1,306 million in the year 2020. It is to mention that foreign direct investments previously financed a large part of the current account deficit, and were largely concentrated in the real estate sector, which makes them different from the nature of foreign direct investments in many emerging economies, where they are more diversified and affect several economic sectors.

5

According to the Customs Higher Council, the value of **imported goods** increased to USD 13,641 million in 2021, compared to USD 11,310 million in 2020 i.e., by USD 2,331 million (+20.6%), after a noticeable decline by USD 7.9 billion in 2020 (-41.2%) as a result of the economic, financial and monetary crisis. The value of imported goods from most customs items witnessed an increase, which differed from one item to another, and came in general as a result of the increase in imported quantities and/or prices. In 2021, the value of imported goods was particularly affected by the increase in imports of transport equipment (+ USD 650 million), mineral products consisting mainly of petroleum derivatives (+ USD 633 million), precious and semi-precious metals and stones (+ USD 344 million), and machinery and mechanical appliances (+ USD 284 million).

Imports of goods

	2018	2019	2020	2021
Value – USD million	19,980	19,239	11,310	13,641
Change - %	+2.0	-3.7	-41.2	+20.6
Quantities – Thousand tons	15,855	19,351	13,475	12,124
Change - %	-16.4	+22.0	-30.4	-10.0

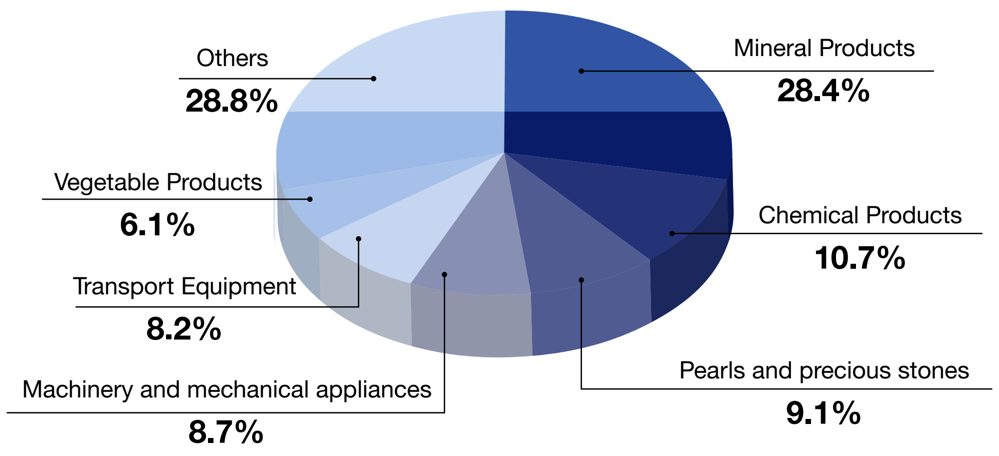
Source: Customs Higher Council.

On the other hand, imported quantities recorded a decrease of 10.0% in 2021 and by 1,351 thousand tons, reaching 12,124 thousand tons in 2021, compared to 13,475 thousand tons in the previous year. They were particularly affected by the decline in the imported quantities of mineral products that weigh heavily, by 1,484 thousand tons, or by 17.1%, while most customs items recorded an increase in the imported quantities, which differed from one item to another. Thus, after excluding mineral products, the imported quantities of other goods increased on average by a moderate rate of 2.8%.

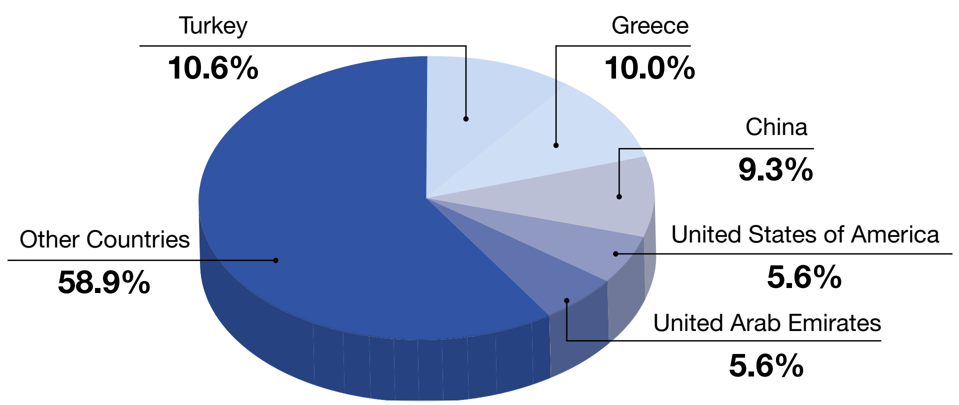
Although the value of imported goods has returned to rise, its level recorded in 2021, as well as in 2020, remains below the previously recorded levels, which reached a yearly average of USD 20.0 billion in the period 2008-2019. This emerging or new trend in imported goods is considered positive, despite its close connection to the financial crisis that Lebanon is experiencing, as it is useful and required for Lebanon to control the import bill to the maximum extent, after it constituted in the past years a major weakness for the economy and a depletion of reserves or liquid assets in foreign currencies, especially since an important part of the subsidized imports, including petroleum derivatives, as confirmed by all the facts and observations, was smuggled into Syria due to the loose borders that are under the control of forces outside the state's authority.

The two graphs below summarize the distribution of imported goods by type and country of origin in 2021.

Main imported products in % of the total in 2021



Imports by countries of origin in % of the total in 2021



6

On the other hand, the value of **exported goods** increased to USD 3,887 million in 2021 compared to USD 3,544 million in 2020, i.e., by an amount of USD 343 million or by 9.7%. This improvement was mainly affected by the increase in the value of exports of "Miscellaneous manufactured articles", specifically in the "wood furniture" item by about USD 284 million, and in the value of vegetable products by USD 265 million, which had the best year ever, thus compensating for the decline in the value of exports of precious and semi-precious stones and metals (- USD 392 million), while the export value of all other goods increased by 10% in general. Thus, exports of goods have recorded a good performance in the year 2021 as in the two previous years, and their highest level since 2014, and approached the threshold of USD 4 billion, while exports did not exceed USD 3 billion in the years 2015-2018.

On the other hand, the exported quantities decreased by 6.4% in 2021, reaching 1,768 thousand tons, compared to 1,889 thousand tons in the previous year. This is due to the decline in the exported quantities of mineral products that weigh heavily, by about 193 thousand tons or a ratio of by 90%. When excluding this item, the exported quantities of all other goods would have registered a moderate increase of 4.3%.

The price differences, as a result of their decrease in Lebanon due to the low cost of labor, explain, at least in part, the improvement in the competitiveness of Lebanese goods in foreign markets, which made exports maintain their volume and even increase slightly.

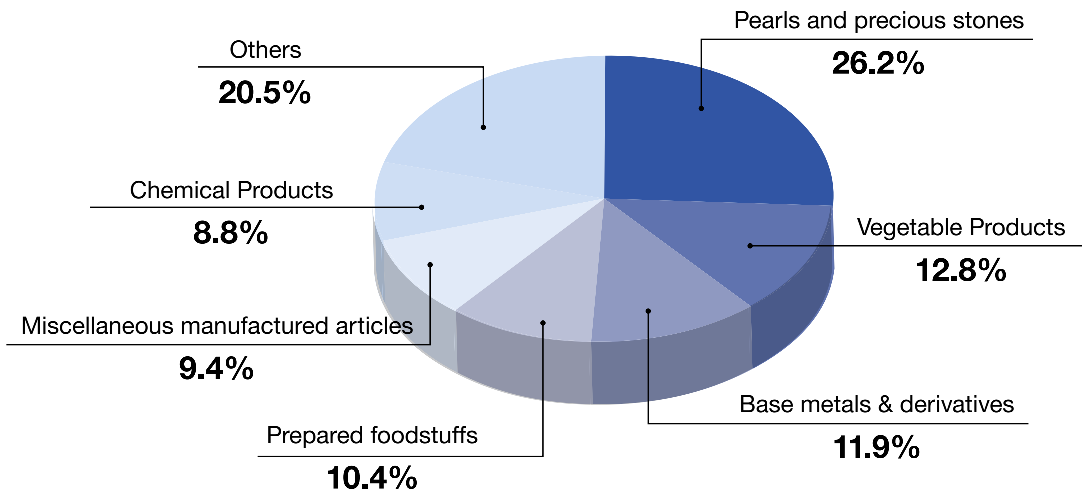
Exports of goods

	2018	2019	2020	2021
Value – USD million	2,952	3,731	3,544	3,887
Change - %	+3.8	+26.4	-5.0	+9.7
Quantities – Thousand tons	1,840	1,677	1,889	1,768
Change - %	-5.0	-8.9	+12.6	-6.4

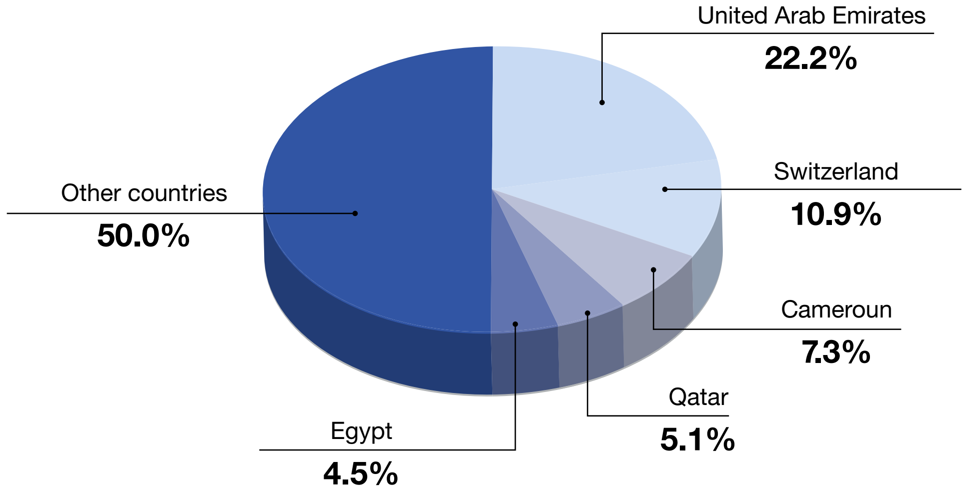
Source: Customs Higher Council.

The two graphs below highlight the main exported Lebanese products and the main countries of destination in 2021.

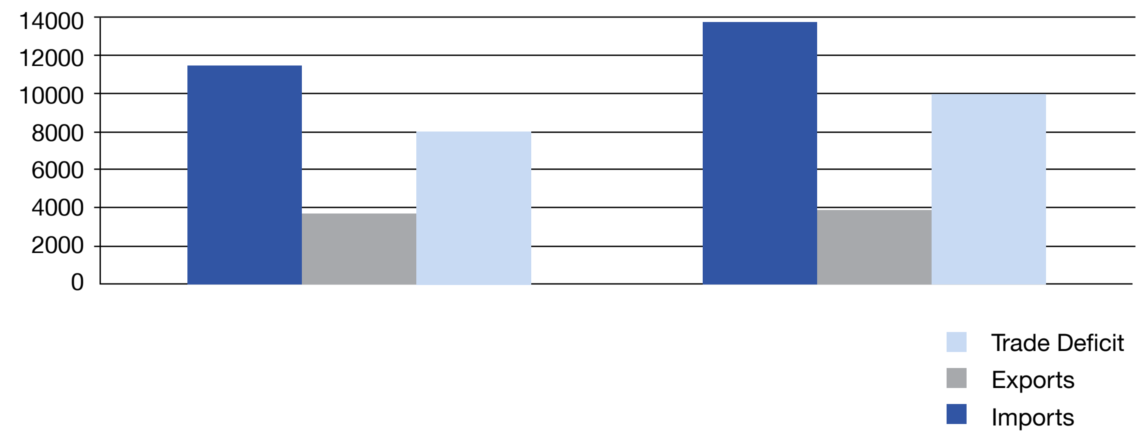
Main exported products in % of the total in 2021



Exports by countries of destination in % of the total in 2021



Lebanon's Foreign Trade- USD million



05

Banking activity in 2021

1

At the end of 2021, total assets of commercial banks operating in Lebanon reached LBP 263,717 billion (the equivalent of USD 174.9 billion at the official exchange rate), compared to LBP 283,474 billion (the equivalent of USD 188.0 billion) at the end of 2020, thus decreasing by 7%, after a decrease of 13.3% and 13.1% in 2020 and 2019 respectively. The continued contraction of banking activity and the disruption of the role of banks in the development of the national economy was accompanied by the persistence of the political, economic and financial crisis that the country is experiencing[17], and is reflected through the decline of main items in the balance sheet such as loans and deposits that are subject to rationing in withdrawals according to the circulars of the Banque du Liban.

2

The table below shows the share of the liabilities of commercial banks in terms of absolute value and relative importance of the total. At the end of 2021, the share of resident private sector deposits was 60% of total assets, non-resident private sector deposits (14%), capital accounts (10.1%), public sector deposits (2.9%), non-resident financial sector liabilities (2.8%) and other liabilities (10.2%)[18].

Commercial Banks' Liabilities at the end of the period (Billion LBP and %)

	2019		2020		2021	
	Value	%	Value	%	Value	%
Resident private sector deposits	190,566	58.3	168,519	59.4	158,178	60.0
Public sector deposits	7,379	2.3	8,264	2.9	7,538	2.9
Non-resident private sector deposits	48,920	15.0	41,233	14.5	36,996	14.0
Non-resident financial sector liabilities	13,310	4.1	9,924	3.5	7,343	2.8
Capital accounts	31,240	9.6	30,045	10.6	26,740	10.1
Other liabilities	35,382	10.8	25,489	9.0	26,922	10.2
Total	**326,797**	**100.0**	**283,474**	**100.0**	**263,717**	**100.0**

Source: BDL.

[17] Starting December 2019, and according to IAS 32 "Financial Instruments: Presentation" and the disclosure on offsetting financial assets and financial liabilities in IRFS 7, banks have offset their loans granted by BDL in LBP with their corresponding placements at BDL in LBP that have the same maturity dates. It is worth noting that total assets/liabilities, banks' deposits at BDL, and unclassified liabilities are all published on this basis.

[18] It is worth mentioning that "other liabilities" started to increase in May 2006 and continued to increase in the following three years because of the financial operations conducted by the BDL. The size of said operations was great to contain the pressures on the monetary situation that accompanied the deteriorating economic and financial situation, coupled with rumors affecting the Lebanese pound. We note that "other liabilities" usually include loans granted by BDL, interbank operations conducted between branches inside with branches abroad and other liabilities. They constitute an additional source of financing along with deposits and capital.

Deposits

3

At the end of 2021, **total deposits**, which includes deposits of resident private sector (including financial sector), non-resident private sector, and deposits of some public institutions reached LBP 202,712 billion (the equivalent of USD 134.5 billion at the official exchange rate), compared to LBP 218,016 billion (USD 144.6 billion) at the end of 2020. Thus, total deposits decreased by 7% with a value of LBP 15,304 billion (the equivalent of USD 10,152 million at the official exchange rate) after decreasing by 11.7% with a value of LBP 28,849 billion (the equivalent of USD 19,137 million) in 2020 (a decrease of 8.3% with a value of LBP 22,309 billion or the equivalent of USD 14,799 million in 2019). This decrease is due to the repayment of loans as shown in the below table in the placements section, and to the deposit withdrawals within the ceilings and conditions applied, in addition to the decrease in flows and transfers from abroad to feed deposits. The total decrease in deposits in the past three years (2019-2021) amounted to approximately USD 44 billion.

4

The distribution of private sector deposits by brackets as at the end of December 2021 shows that deposits of less than LBP 5 million (at the official rate) belong to 56% of the total number of accounts, and their share constitutes only 0.7% of the total value of deposits. Deposits of more than LBP 300 million belong to about 5% of the total accounts, while their share constitutes 71% of the total deposits. As for deposits of more than LBP 3,000 million, they belong to about 0.3% of the number of accounts and represent about 31% of the total value of deposits.

Deposits' Concentration at end 2021 (in LBP million)

	Number of accounts	Share %	Total value of deposits	Share %
Less than LBP 5 million	1,324,249	56.24%	1,296,085	0.69%
LBP 5 million – LBP 30 million	450,983	19.15%	6,343,872	3.36%
LBP 30 million – LBP 75 million	220,155	9.35%	10,697,049	5.67%
LBP 75 million – LBP 150 million	144,051	6.12%	15,237,426	8.08%
LBP 150 million – LBP 300 million	101,264	4.30%	21,063,436	11.17%
Total 1	**2,240,702**	**95.17%**	**54,637,868**	**28.97%**
LBP 300 million – LBP 750 million	76,166	3.23%	35,420,859	18.78%
LBP 750 million – LBP 1,500 million	22,692	0.96%	23,081,687	12.24%
LBP 1,500 million – LBP 3,000 million	8,787	0.37%	17,625,317	9.35%
LBP 3,000 million – LBP 4,500 million	2,512	0.11%	8,994,655	4.77%
LBP 4,500 million – LBP 7,500 million	1,722	0.07%	9,717,387	5.15%
LBP 7,500 million – LBP 15,000 million	1,150	0.05%	11,537,478	6.12%
LBP 15,000 million – LBP 30,000 million	462	0.02%	9,316,286	4.94%
LBP 30,000 million – LBP 75,000 million	202	0.01%	8,678,303	4.60%
LBP 75,000 million – LBP 150,000 million	41	0.00%	4,343,290	2.30%
More than LBP 150,000	20	0.00%	5,252,893	2.79%
Total 2	**113,754**	**4.83%**	**133,968,155**	**71.03%**
Total	**2,354,456**	**100.00%**	**188,606,023**	**100.00%**

Source: BDL

5

In detailing the private sector deposits' decline by type of currency, it appears that deposits in Lebanese pounds decreased by LBP 1,010 billion, that is 2.5% in 2021, compared to a decline of LBP 16,239 billion, or 28.3%, in 2020. Deposits in foreign currency also decreased by LBP 13,568 billion and by 8% in 2021, compared to a decrease of LBP 13,494 billion, and by 7.4% in 2020. Accordingly, the dollarization rate of the private sector deposits decreased to 79.4% at end 2021 after increasing significantly to 80.4% at the end of 2020 (the highest in 13 years), compared to 76% at the end of 2019 and 70.6% at the end of 2018.

6

On the other hand, resident private sector deposits share represented 78% of total deposits at end 2021 (77.3% at the end of 2020), that of non-resident private sector 18.3% (18.9% in 2020), and that of the public sector 3.7% (3.8% in 2020). It should be noted that deposits include certificates of deposits issued by banks which amounted to USD 300 million at the end of 2021.

7

Bank deposits are concentrated in Beirut and its suburbs which attracted around 66.3% of total deposits at the end of 2021, allocated to 49.9% of the total number of depositors, whereas 33.7% of the deposits belong to other regions and were allocated to 50.1% of total depositors, indicating a difference in the average deposit value between Beirut & suburbs and the other regions.

Private Sector Deposits in Commercial Banks

USD Million	End of December 2019	End of December 2020	End of December 2021	Change 2020/2019	Change 2021/2020
Residents Deposits	**126,412**	**111,787**	**104,928**	**-14,625**	**-6,859**
- In LBP	34,950	25,061	24,610	-9,889	-451
- In FC	91,462	86,726	80,318	-4,735	-6,408
Non-Residents Deposits	**32,451**	**27,352**	**24,542**	**-5,099**	**-2,810**
- In LBP	3,140	2,257	2,038	-883	-219
- In FC	29,311	25,095	22,504	-4,216	-2,591
Total Deposits	**158,863**	**139,140**	**129,470**	**-25,193**	**-9,670**
- In LBP	38,090	27,318	26,648	-10,772	-670
- In FC	120,773	111,822	102,822	-8,951	-9,000

Source: BDL

8

Pursuant to the intermediate circular 536 issued by BDL on December 4, 2019 (followed by intermediate circular 544 of February 13, 2020), and under applicable restrictions, interest rates continued to decrease in 2021. The average interest rate on deposits denominated in Lebanese pounds reached 1.09% in December 2021 compared to 2.64% in December 2020 (7.36%

in December 2019). The average interest rate on new or renewed USD deposits decreased to 0.19% compared to 0.94% and 4.62% in the three consecutive dates. According to circular 536, banks operating in Lebanon were required to adhere to the maximum interest rate on deposits after 4/12/2019, which is 5% on deposits in foreign currencies and 8.5% on deposits in Lebanese pounds. As for the intermediate circular 544, these rates became 2% on deposits for one month, 3% on deposits for six months, 4% on deposits for a year and above for foreign currencies; 5.5%, 6.5% and 7.5% for the same terms, respectively, for the Lebanese pound for deposits received or renewed by banks after February 13, 2020.

Exceptional measures

It is important to mention that in order to preserve the public interest under the current exceptional circumstances the country is witnessing, and according to the governor's authority to secure BDL's activity based on the principle of the continuity of the public utility, BDL successively issued several circulars. **Basic Circular 148** known as the USD 3,000 circular for small depositors (those whose total deposit accounts' value, regardless of their type or term, does not exceed LBP 5 million or USD 3,000 at the date of issuance of said decision). **Basic Circular 151** issued in April 2020 allows customers who request to withdraw from their accounts or receivables in USD or in other foreign currencies to receive the equivalent amount in LBP in accordance with the ceilings set by the bank and at the electronic platform' rate. This rate was set at LBP 3,900 for withdrawals from banks and said circular was extended till September 2021 through BDL **Intermediate Circular 581** issued at the end of March 2021. Then this rate increased to LBP 8,000 with a ceiling of USD 3,000 for each account per month and this decision was extended by virtue of **circulars 596 and 601** till 30/6/2022.

As for **Basic Circular 158** issued in June 2021, it aimed at a gradual payment of foreign currency deposits, as it allowed the withdrawal of a monthly amount of USD 400 to be paid in banknotes to the account holder or by a transfer to abroad or by bank cards; and a monthly equivalent of USD 400 in Lebanese pounds at the rate of LBP 12,000 per dollar, of which 50% is paid in banknotes and 50% through bank cards.

The **Basic Circular 161** issued in December 2021 stipulated that BDL shall provide banks with US dollar banknotes, at the LBP/USD daily exchange rate applied on "Sayrafa" the day before, within the amount remaining from the current monthly limit specified for each bank. Then BDL issued a statement announcing the increase of the monthly quota against banknotes in Lebanese pounds.

Capital Accounts

9

At the end of 2021, capital accounts of commercial banks operating in Lebanon reached LBP 26,740 billion (the equivalent of USD 17.7 billion at the official exchange rate), compared to LBP 30,045 billion in December 2020 (the equivalent of USD 19.9 billion), thus decreasing by 11% compared to a lower decrease of 3.8% in 2020 (after an increase of 2.8% in 2019). The decline in capital accounts is due to the losses incurred by banks after taking large provisions in anticipation of sovereign and private sector risks, as well as to the increase of operational costs. At the end of December 2021, capital accounts represented 10.1% of the consolidated balance sheet (10.6% at the end of 2020). The supplementary capital, which includes subordinated bonds and some types of preferred shares, remains low as it represented 5.6% of capital accounts at the end of 2021 (6.7% at the end of 2020).

10

It should be noted that banks will bear a portion of the losses in the financial sector. Their capital is threatened due to their great exposure to the sovereign debt, especially in foreign currencies (Eurobonds, certificates of deposit at BDL and deposits at BDL), in addition to the losses associated with the exchange rate fluctuation, especially the difference between the official rate and the rate fixed as per BDL Circular 151. Another reason is the increased risk of non-performing loans, especially loans in foreign currencies granted to the private sector. Looking at the figures, non-performing loans increased from 8.7% of total loans to the private sector at the end of 2019 to 15.6% at the end of 2020 and then to 18.8% at the end of 2021. The ratio of provisions to doubtful loans reached 53.6% then 52.3% and 57% in the three mentioned dates respectively. The Central Bank has asked banks to increase their capital under Intermediate Circular 532, which aims to deal with the foreign currencies' liquidity crisis in the short term, as well as to enhance banks' solvency to face the increase of non-performing loans and expand the margin of safety in the case of the book reduction application.

11

As a reminder, Basic Circular 44 was amended through Intermediate Circular 567 issued in August 26, 2020 requesting banks to increase their capital by December 31, 2021 at the latest, by 20% of their common equity tier one capital as of December 31, 2018, through new instruments of any type of capital tools in foreign currencies that can be accepted within the various categories of specified capital accounts. In addition, BDL issued Circular 154 related to exceptional measures to revive the activity of banks operating in Lebanon, requesting them to constitute a foreign account free of any obligations at their correspondent banks abroad before 28/2/2021. Such account shall be at no time below 3% of the concerned bank's total foreign-currency deposits as on 31/7/2020.

Placements of the Banking Sector

12

At the end of December 2021, the share of claims on resident private sector decreased to 14.2% of total assets, the share of claims on public sector to 9.8%, and the share of foreign assets to 6.9%, while the share of banks' deposits with BDL increased to 62.3% of the total as shown in the table below.

Commercial Banks' Assets at the end of the period (Billion LBP and %)

	2019		2020		2021	
	Value	%	Value	%	Value	%
Reserves	178,208	54.5	168,142	59.3	168,501	63.9
o/w: deposits with BDL	177,468	54.3	166,477	58.7	164,277	62.3
Claims on customers and financial sector (resident)	66,627	20.4	48,288	17.0	37,501	14.2
Claims on the public sector	43,240	13.2	31,745	11.2	25,713	9.8
Foreign assets	26,534	8.1	21,141	7.5	18,253	6.9
o/w: claims on NR financial sector	10,202	3.1	7,110	2.5	6,919	2.6
claims on NR customers	8,400	2.6	6,235	2.2	4,275	1.6
Resident private sector securities portfolio	2,413	0.7	2,445	0.9	2,954	1.1
Fixed assets & unclassified assets	9,775	3.0	11,713	4.1	10,795	4.1
Total	**326,797**	**100.0**	**283,474**	**100.0**	**263,717**	**100.0**

Source: BDL.

Claims on Private Sector

13

Claims on resident and non-resident private sector continued to decrease to amount to the equivalent of LBP 41,776 billion at the end of 2021, compared to LBP 54,523 billion at the end of December 2020 and LBP 75,027 billion at the end of December 2019. Thus, registering a 23.4% decrease in 2021 compared to a higher decrease of 27.3% in 2020 (-16.2% in 2019). This decline is attributed to the banking liquidity crisis, in addition to the absence of an appropriate environment for any new loans and debt settlements using deposits.

14

Claims on non-resident private sector, of which a large part is related to the financing of projects for Lebanese businesses abroad, particularly in Arab and African countries, represented 10.2% of the total loans granted to the private sector at the end of December 2021 (11.4% at the end of 2020).

15

On the other hand, the ratio of loans in foreign currencies to deposits in foreign currencies decreased to 15.2% at the end of December 2021 compared to 19.3% at the end 2020 and 28.3% at end 2019. Also, the loans in LBP to deposits in LBP decreased to 45.3% compared to 53.5% (40.9%) at the end of the three mentioned dates respectively.

16

With the decrease of loans in LBP by 17% in 2021 (-6.2% in 2020) and the decline of loans in FC by 27.7% in 2021 (-37% in 2020), the dollarization rate of loans dropped to 56.3% at end 2021 compared to 59.6% at the end of 2020.

17

The interest rates on new or renewed loans maintained, in general, their declining trend in 2021, as the average lending rate on the USD loans decreased from 10.84% in December 2019 to 6.73% in December 2020 and then to 6.01% in December 2021. The average lending rate on the LBP loans also decreased from 9.09% to 7.77% and then to 7.14% in the three mentioned dates consecutively.

Private sector loans in Commercial banks

USD Million	End of December 2019	End of December 2020	End of December 2021	End of 2020/2019	End of 2021/2020
Claims on Resident	**44,197**	**32,032**	**24,876**	**-12,165**	**-7,156**
- In LBP	13,853	13,051	10,913	-802	-2,138
- In FC	30,345	18,981	13,963	-11,364	-5,018
Claims on non-resident	**5,572**	**4,136**	**2,836**	**-1,436**	**-1,300**
- In LBP	1,720	1,563	1,209	-157	-354
- In FC	3,852	2,573	1,627	-1,279	-946
Total Claims	**49,769**	**36,168**	**27,712**	**-13,601**	**-8,456**
- In LBP	15,573	14,614	12,122	-959	-2,492
- In FC	34,197	21,554	15,590	-12,643	-5,964

Source: BDL

Claims on Public Sector

18

Commercial banks' claims on public sector reached LBP 25,713 billion at the end of 2021, compared to LBP 31,745 billion at the end of the previous year, thus decreasing by 19% following a 26.6% decrease in 2020 and a 14.6% decrease in 2019.

19

In details, commercial banks Lebanese Treasury bills portfolio amounted to LBP 18,205 billion at the end of 2021 compared to LBP 17,266 billion at the end of 2020, while their Eurobonds portfolio, net of provisions, amounted to USD 4,419 million (the equivalent of LBP 6,661 billion at the official rate), compared to USD 9,391 million (LBP 14,157 billion) in the two mentioned dates consecutively, and it constituted 4.3% of total FC deposits at the end of 2021 compared to 8.4% at the end of the previous year.

20

As a result, the share of the claims on the public sector in LBP increased from 55.4% at the end of 2020 to 72% at the end of 2021, and that in foreign currencies decreased from 44.6% to 28% at the end of the two mentioned dates consecutively.

Foreign Assets

21

Commercial banks' placements with the non-resident financial sector amounted to USD 4.6 billion at the end of 2021, without any significant change compared to the end of 2020, when they amounted to USD 4.7 billion, knowing that these placements had significantly declined by 30.3% in 2020 and 43.6% in 2019. The ratio of these placements out of the private sector deposits in FC slightly increased to 4.5% at the end of 2021, compared to 4.3% at the end of the previous year. It should be noted that the placements of commercial banks in the non-resident financial sector, net of non- resident financial sector liabilities, amounted to USD - 0.3 billion at the end of 2021, compared to USD - 1.9 billion at the end of 2020.

Banks were able to constitute liquidity in foreign currency in the context of their commitment to the requirements imposed by the Central Bank, particularly by virtue of Circulars 154 and 158.

Deposits with BDL

22

At the end of 2021, deposits of commercial banks at BDL in LBP and FC amounted to LBP 164,277 billion (the equivalent of USD 109 billion) compared to LBP 166,477 billion (USD 110.4 billion) at the end of the previous year, decreasing by 1.3% following a 6.2% decrease in 2020. These deposits include the required reserves imposed on banks (which was reduced by BDL as per Intermediate Circular 586 dated June 8, 2021) and free deposits in LBP and USD, in addition to the certificates of deposits issued by BDL to banks. CDs in LBP reached LBP 43,177 billion at the end of 2021 (LBP 45,211 billion at the end of 2020), and CDs in USD settled at USD 22.5 billion at end 2020 and 2021. It is noteworthy that deposits at BDL represent the major part of the banking sector's losses constituting about 80% of the total customers' deposits at banks at the end of 2021.