Issue 744 | October 3-15, 2022

BYBLOS BANK SAL
Economic Research & Analysis Department

LEBANON THIS WEEK

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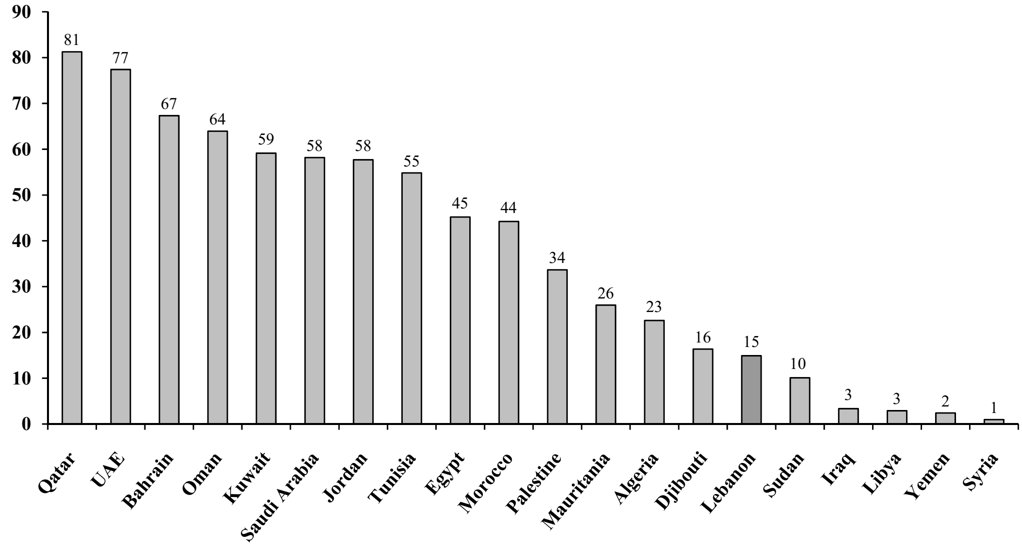
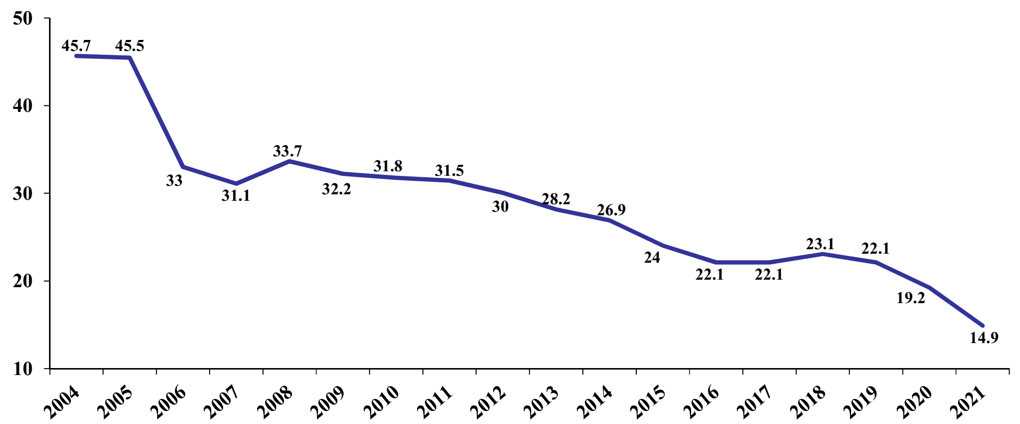
Charts of the Week

Percentile Rank of Arab Countries on the Rule of Law Indicator for 2021 (%)



Percentile Rank of Lebanon on the Rule of Law Indicator (%)



Source: World Bank Governance Indicators for 2021, Byblos Bank

Quote to Note

"It would only materialize as a source of growth and opportunities for Lebanon if we are to have a clear commitment on a political level to work for the stability of Lebanon."

Ms. Kristalina Georgieva, Managing Director of the International Monetary Fund, on the way for the Lebanese economy to benefit from the maritime border arrangement between Lebanon and Israel

Number of the Week

62%: Percentage decline in loans to the private sector between the start of 2019 and the end of August 2022

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
Solidere "A"	54.00	5.0	63,542	40.7%
Solidere "B"	54.00	1.9	8,014	26.4%
Audi GDR	1.48	5.0	7,100	1.3%
BLOM Listed	3.04	3.8	6,750	4.9%
Byblos Common	0.60	0.0	500	2.6%
HOLCIM	28.00	(9.7)	15	4.1%
Audi Listed	1.41	0.0	-	6.2%
BLOM GDR	2.50	0.0	-	1.4%
Byblos Pref. 08	27.00	0.0	-	0.4%
Byblos Pref. 09	37.98	0.0	-	0.6%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Jan 2023	6.00	6.13	5,573.28
Apr 2024	6.65	6.13	303.91
Jun 2025	6.25	6.13	138.75
Nov 2026	6.60	6.13	80.96
Mar 2027	6.85	6.13	74.10
Feb 2030	6.65	6.13	41.81
Apr 2031	7.00	6.13	35.66
May 2033	8.20	6.13	28.22
Nov 2035	7.05	6.13	22.61
Mar 2037	7.25	6.13	20.32

Source: Refinitiv

	Oct 11-14	Oct 3-7	% Change	September 2022	September 2021	% Change
Total shares traded	85,921	123,968	(30.7)	4,715,731	3,142,850	50.0
Total value traded	$3,862,983	$2,818,099	37.1	$34,022,646	$52,497,394	(35.2)
Market capitalization	$13.28bn	$12.99bn	2.3	$12.81bn	$10.04bn	27.6

Source: Beirut Stock Exchange (BSE)

Maritime deal to support Lebanon's credit profile in long term

Fitch Ratings considered that the U.S. brokered agreement on the disputed maritime border between Lebanon and Israel could facilitate the development of gas fields in the region and enhance Lebanon's long-term economic prospects. It added that these benefits, along with the authorities' commitment to broader reforms, could be positive for Lebanon's credit profile. Still, it noted that the outcome of the agreement is highly uncertain at this stage and that the deal faces significant implementation risks.

It indicated that official statements state that Lebanon would get full rights for gas exploration and production in the Qana field, whose development has been delayed by the maritime dispute. It added that, following the deal, the Lebanese government called on Total E&P Liban sal, which leads the consortium that was awarded an exploration license for Block 9 where most of the Qana field lies and for Block 4, to begin gas exploration immediately.

However, the agency considered that the prospects for gas production are unclear, and that the volume of gas reserves in the Qana field are unknown, given that drilling in Block 4 in the center of Lebanon's territorial waters in 2020 did not reveal commercially viable gas volumes. It added that it would take years to produce any gas output, and anticipated that the country's political environment would hamper the development of an appropriate legal framework for the exploration and extraction of gas.

In parallel, it said that Lebanon continues to face major challenges in the short- to medium terms. It pointed out that the Executive Board of the International Monetary Fund (IMF) has yet to approve the disbursal of a $3bn Extended Fund Facility (EFF) as part of the Staff-Level Agreement (SLA) that the IMF signed with Lebanese authorities on April 7, 2022, given that the government has not implemented yet the prior actions stipulated in the SLA.

Also, it did not expect the maritime deal to affect the near-term prospects for the resolution of Lebanon's sovereign default, and added that the IMF's approval of the EFF is an important step towards the sovereign's emergence from default. However, it anticipated that potential gas production could positively impact Lebanon's credit profile by improving the country's external position, in case gas output materializes in significant volumes.

Last August, Fitch affirmed Lebanon's long-term foreign currency Issuer Default Rating (IDR) at 'Restricted Default' and the country's long-term local currency IDR at 'CC'. It also affirmed the Country Ceiling at 'CCC'. It indicated that Lebanon remains in 'Restricted Default' on its foreign currency-denominated debt, following the government's decision to suspend payments of the principal and interest on the Eurobond that matured in March 2020 and to stop payments on its outstanding stock of Eurobonds pending a restructuring of the public debt. It added that the government continues to pay interest to private creditors on its Lebanese pounds-denominated debt, but that significant uncertainties remain about a potential restructuring of the debt in local currency.

Maritime agreement is credit positive for Lebanon, will not change sovereign ratings

Moody's Investors Service considered that the U.S. brokered maritime border agreement between Lebanon and Israel is credit positive for Lebanon because it establishes the necessary geopolitical security conditions for international energy companies to start exploration and for the eventual recovery of Lebanon's hydrocarbon resources.

It said that the final ratification of the agreement allows for the start of gas exploration at the Qana field in Block 9 and anticipated that the recovery of any hydrocarbons in Lebanon would take about three to four years. But it added that harnessing potential gas resources will help alleviate the country's chronic electricity deficit, kick-start an economic recovery, and signal to foreign investors the improvement of Lebanon's business environment. It also expected Lebanon's maritime border resolution with Israel to ease other regional geopolitical concerns, including the transmission of natural gas from Egypt via Syria through the Arab Gas Pipeline, in order to alleviate the chronic power shortages in the country. It noted that importing gas from Egypt depends on financing from the World Bank, which is contingent on the authorities' implementation of reforms, including an audit of the state-owned and money-losing Electricité du Liban and a shift towards more cost-effective electricity tariffs.

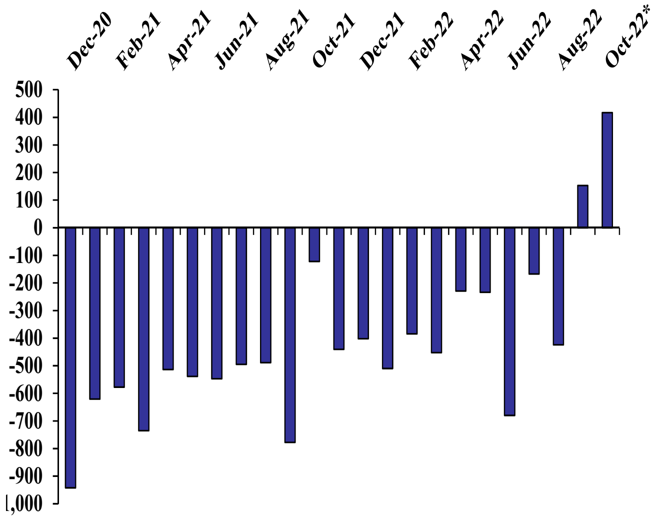
In parallel, the agency considered that the Staff-Level Agreement between the International Monetary Fund (IMF) and Lebanon on a $3bn four-year Extended Fund Facility is an opportunity for Lebanon to attract external financial support, but it pointed out that the implementation of the prior actions that the IMF requires has been slow since the May 2022 parliamentary elections. Further, it considered that domestic political risks will remain significant, despite the improved geopolitical prospects.

In addition, it did not expect to change Lebanon's sovereign rating of 'C' in the absence of a comprehensive restructuring of the public debt, given its expectation of losses in excess of 65% for private sector creditors and the extent of the country's challenges. In July 2020, Moody's downgraded Lebanon's sovereign ratings from 'Ca' to 'C', which is 11 notches below investment grade and is the lowest rating on the agency's rating scale, given the recurring delays in the implementation of fiscal and economic policy reforms. It also said that the 'C' rating reflects the losses that bondholders would incur as a result of the government's decision on March 2020 to default on its foreign currency Eurobonds.

Banque du Liban's foreign assets at $15bn, gold reserves at $15.3bn at mid-October 2022

Banque du Liban's (BdL) interim balance sheet reached $184.8bn on October 15, 2022, constituting increases of 13.2% from $163.2bn at end-2021 and of 14.7% from $161.1bn a year earlier. Assets in foreign currency totaled $15.04bn at mid-October 2022, representing a decrease of $2.8bn, or of 15.6%, from the end of 2021 and a drop of $3.7bn (-19.9%) from $18.8bn at mid-October 2021. Assets in foreign currency include $5.03bn in Lebanese Eurobonds, unchanged from a year earlier. The dollar figures are based on the official exchange rate of the Lebanese pound to the US dollar.

Change in Gross Foreign Currency Reserves (US$m)



**as at mid-October 2022*
Source: Banque du Liban, Byblos Research

BdL's gross foreign currency reserves, which consist of its assets in foreign currency excluding Lebanese Eurobonds, stood at $10bn at mid-October 2022 and increased by $139.15m (+1.4%) from $9.87bn at the end of September 2022, and expanded by $417.2m (+4.3%) from $9.6bn at mid-September 2022. They dropped by $2.8bn (-21.8%) from $12.8bn at the end of 2021 and by $3.7bn (-27.2%) from $13.7bn at mid-October 2021. The cumulative decline of BdL's gross foreign-currency reserves in the past 12 months is largely due to the financing of the imports of hydrocarbons, wheat, medicine, medical equipment, a large number of food and non-food items, and raw materials for agriculture and industry, as well as to the implementation of BdL circulars that allowed depositors to withdraw US dollar banknotes from their accounts or to buy dollar banknotes from BdL through commercial banks. It is also due to the steep drop in capital flows to Lebanon since September 2019, and to the near halt of inflows after the government decided to default on its Eurobonds obligations in March 2020. However, the decline in BdL's assets foreign currency was offset in part by the allocation of about $1.13bn in Special Drawing Rights that the IMF transferred to BdL's account on September 16, 2021.

In parallel, the value of BdL's gold reserves amounted to $15.3bn at mid-October 2022, constituting decreases of $1.28bn (-7.7%) from the end of 2021 and of $1.26bn (-7.6%) from $16.58bn at mid-October 2021. The value of gold reserves reached a peak of $18.15bn at mid-April 2022. Also, the securities portfolio of BdL totaled $40.92bn at mid-October 2022, representing declines of $352m (-0.9%) from the end of 2021 and of $24.1m (-0.1%) from $40.95bn a year earlier. In addition, loans to the local financial sector totaled $12.6bn, as they regressed by 8.4% from the end of 2021 and by 9% from mid-October 2021. Further, the deposits of the financial sector stood at $106.9bn at mid-October 2022 and grew by $399.3m from a year earlier. In addition, public sector deposits at BdL stood at LBP17,605.5bn ($11.7bn) at mid-October 2022, as they rose by LBP5,914bn ($3.9bn) from the end of the previous year and surged by LBP7,475.1bn ($4.9bn) from mid-October 2021.

Coincident Indicator down 18% in first four months of 2022

Banque du Liban's (BdL) Coincident Indicator, an index of economic activity in Lebanon, stood at 113.3 in April 2022 compared to 124.6 in the previous month and to 142.6 in April 2021. The Coincident Indicator, an average of eight weighted economic indicators, decreased by 20.5% in April 2022 from the same month of the previous year and regressed by 9.1% from March 2022, reflecting the deterioration of economic and financial conditions in the country.

The indicator averaged 118 in the first four months of 2022, constituting a decline of 17.6% from an average of 143.2 in the same period of 2021 and representing its lowest level in the first four months of a year since the 111 mark it recorded in 1994. The percentage drop in the indicator is the third steepest in the first four months of a year since BdL launched the indicator in 1993. The indicator declined by 35.6% in the first four months of 2021 and by 27.1% in the same period of 2020.

Further, the indicator averaged 131.9 in the 12 months ending April 2022, compared to an average of 134.3 in the 12-month period ending March 2022 and to an average of 153.8 in the 12 months ending April 2021. As a result, the 12-month average coincident indicator regressed by 1.8% month-on-month and dropped by 14.3% year-on-year.

In parallel, the indicator declined eight times and improved 22 times in the month of April since 1993. Also, it averaged 140.3 in 2021, constituting a decline of 22.2% from an average of 180.2 in 2020 and representing its eighth lowest level since the 99.1 mark it recorded in 1993. The percentage drop in the indicator is the second steepest since BdL launched the indicator in 1993. The steepest decline was 38.4% in 2020. The indicator averaged 256.6 in 2012, 264.7 in 2013, 273.2 in 2014, 278.6 in 2015, 289.5 in 2016, 305.9 in 2017, 307.7 in 2018, and 292.6 in 2019.

Banque du Liban issues directives to address suspension of LIBOR and EURIBOR usage

Banque du Liban (BdL) issued Intermediate Circular 640/13475 dated September 23, 2022 addressed to banks and financial institutions about the ceasing of the usage of the London Interbank Offered Rate (LIBOR) and the Euro Interbank Offered Rate (EURIBOR) in financial transactions starting on July 1, 2023. As such, it modified Basic Circular 23/6116 dated March 7, 1996, Basic Circular 25/6180 of May 31, 1996, Basic Circular 30/6367 dated November 9, 1996, and Basic Circular 84/7835 of June 2, 2001. The circular asked banks to replace LIBOR and EURIBOR rates with the following formulas, depending on the loans.

First, the circular asked banks and financial institutions to calculate every three months the interest rates on subsidized loans in foreign currency for the replacement cost of damaged or destroyed buildings during the 2006 Israeli war by using the three-month average Term Secured Overnight Financing Rate (SOFR), plus the credit spread adjustment of the International Swaps and Derivatives Association (ISDA), plus a rate of 3%. The SOFR has become an established benchmark rate for new US dollar loans in the U.S. syndicated loan market.

Second, it said that banks should calculate interest rates on loans in US dollars to productive sectors that benefit from subsidized interest rates, except for loans guaranteed by the Kafalat Corporation, by using three-month average Term SOFR, plus the ISDA credit spread adjustment, plus a rate of 7.5%; and to calculate interest rates on such loans in foreign currencies using the same formula plus a rate of 7.075%. It added that interest rates on loans in US dollars extended to finance environmentally-friendly projects and that benefit from subsidies on interest rates should be based on the three-month average Term SOFR, plus the ISDA credit spread adjustment, plus a rate of 4.5%.

Third, it asked banks to calculate interest rates on loans in US dollars to productive sectors that benefit from subsidized interest rates, except for loans that the Kafalat Corporation guarantees, by using the three-month average Term SOFR, plus the ISDA credit spread adjustment, plus a rate of 7.5%. It added that interest rates on loans in US dollars extended to finance environmentally-friendly projects that benefit from subsidies on interest rates and that exceed $20,000 should be calculated based on the three-month average Term SOFR, plus the ISDA credit spread adjustment, plus a rate of 5.5%; while the calculation of interest rates on loans in US dollars to productive sectors that benefit from subsidized interest rates and that are guaranteed by the Kafalat Corporation must use the three-month average Term SOFR, plus the ISDA credit spread adjustment, plus a rate of 6%.

Fourth, the circular modified the basis for calculating the average interest rates on savings plans for getting a housing loan as follows. It said that the interest rate on savings in US dollars should be the six-month average Term SOFR, plus the ISDA credit spread adjustment, less 1%. Also, it noted that lending rates in foreign currency should not exceed half the rate on the six-month average Term SOFR, plus the ISDA credit spread adjustment, plus 3%.

Fifth, it said that the calculation of interest rates on loans extended in US dollars to finance the environmental part of environmentally-friendly projects that benefit from interest rate subsidies through the deduction of term liabilities from reserve requirements should be the based on the three-month average Term SOFR, plus the ISDA credit spread adjustment, plus a rate of 5%. It added that the calculation of interest rates on such loans in euros should be based on the three-month compounded average rate of the Euro short-term rate (ESTR), plus the ISDA credit spread adjustment, plus a rate of 5%, to be calculated annually. Further, it indicated that, after the expiration of the seven-year period for interest subsidies on the loan, the calculation of the interest rate on US dollar loans should be based on three-month average Term SOFR, plus the ISDA credit spread adjustment, plus a rate of 1.5%; while the interest rates on such loans in euros should be based on the three-month compounded average rate of the Euro short-term rate (ESTR), plus the ISDA credit spread adjustment, plus a rate of 1.5%, to be calculated annually.

BdL stated that these modifications will go into effect on July 1, 2023, and that banks have until June 30, 2023 to adjust the contracts and information systems related to the calculations of interest rates in this circular, and to inform their clients about these modifications.

Banque du Liban facilitates early settlement of loans

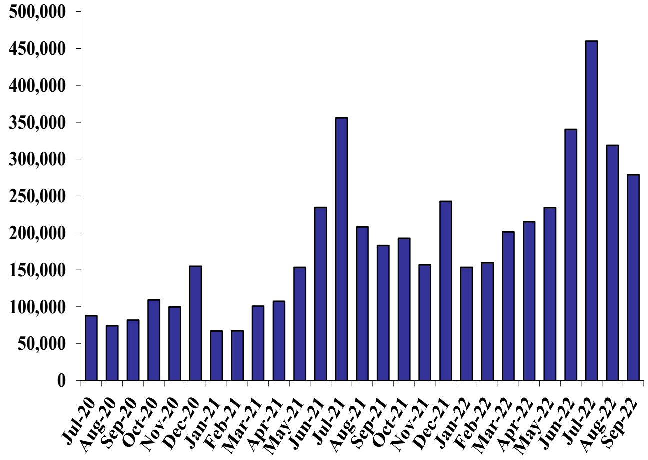
Banque du Liban (BdL) issued on October 12, 2022 Intermediate Circular 646/13487 addressed to banks and financial institutions that modifies Basic Circular 23/6116 of March 7, 1996 about facilities that BdL can extend to banks, and Basic Circular 84/7835 dated June 2, 2001 about reserve requirements. The circular allowed, on an exceptional basis, the early settlement of loans in their original currency without the pre-authorization of BdL. The decision covers all types of housing loans, loans extended to pursue higher education, and environmental loans that do not exceed LBP30m.

In addition, the circular exempts bank clients from any penalties related to the early settlement of mortgages of subsidized mortgages in case the housing loan was extended seven years ago or earlier. It added that BdL will suspend subsidies on each of the pre-settled loans once the bank informs BdL's Finance Unit and provides it with the schedule of the new settlement. Further, it noted that the Banking Control Commission of Lebanon will conduct the necessary due diligence with banks to verify that the loans have been used for their original aim.

Number of airport passengers up 55% in first nine months of 2022

Figures released by the Beirut-Rafic Hariri International Airport (HIA) show that 4.84 million passengers utilized the airport (arrivals, departures and transit) in the first nine months of 2022, constituting a surge of 55.2% from 3.12 million passengers in the same period of 2021, and relative to 1.76 million passengers in the first nine months of 2020 and to 7.04 million passengers in the same period of 2019. The increase in the number of airport passengers in the first nine months of the year is due to low base effects from the imposition of strict lockdown measures in the country in the early part of 2021 to contain the spread of the coronavirus, the subsequent resumption of normal activity and the lifting of lockdown measures in 2022, and to the rolling back of most travel restrictions around the world this year. The number of arriving passengers reached 2.36 million passengers in the first nine months of the year and jumped by 59.8% from 1.48 million passengers in the same period of 2021, compared to 807,949 travelers in the first nine months of 2020. Also, the number of departing passengers totaled 2.46 million in the first nine months of 2022 and increased by 54.3% from 1.59 million travelers in the same period of last year, relative to 915,823 passengers in the first nine months of 2020.

Number of Arriving Passengers



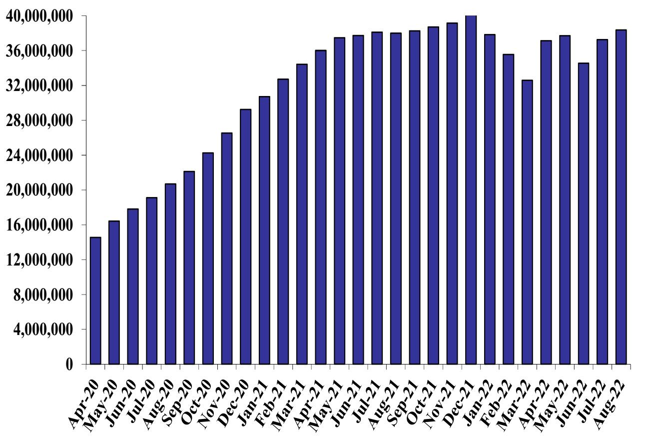
Source: Beirut-Rafic Hariri International Airport

In parallel, the airport's aircraft activity totaled 39,588 take-offs and landings in the first nine months of 2022, representing a rise of 38% from 28,700 takeoffs and landings in the same period of last year. In comparison, aircraft activity increased by 47% in the first nine months of 2021 and dropped by 65.6% in the same period of 2020. In addition, the HIA processed 43,762 metric tons of freight in the first nine months of 2022 that consisted of 21,474 tons of import freight and 22,287 tons of export freight. Middle East Airlines had 14,797 flights in the covered period and accounted for 37.4% of HIA's total aircraft activity.

Broad money supply down 4% in first eight months of 2022, currency in circulation down 8%

Figures released by Banque du Liban show that money supply M1, which includes currency in circulation and demand deposits in Lebanese pounds, reached LBP58,782.7bn at the end of August 2022, constituting an uptick of 1.5% from LBP57,937bn at end-2021 and an increase of 12% from LBP52,465.4bn at end-August 2021. Currency in circulation stood at LBP38,367bn at the end of August 2022, as it declined by LBP3,147.7bn (-7.6%) from LBP41,515bn at end-2021 and grew by 1% from LBP37,992bn at end-August 2021. Also, demand deposits in local currency stood at LBP20,415.6bn at end-August 2022, representing an expansion of 24.3% in the first eight months of the year and a rise of 41% from end-August 2021. Money supply M1 declined by 4.4% in August from LBP61,513.7bn at end-July 2022, with currency in circulation increasing by 3% and demand deposits in local currency decreasing by 16% month-on-month. The increase in the money supply largely reflects the migration of term deposits to demand deposits, as well as the shift to a cash-based economy.

Currency in Circulation (LBP Millions)



Source: Banque du Liban, Byblos Research

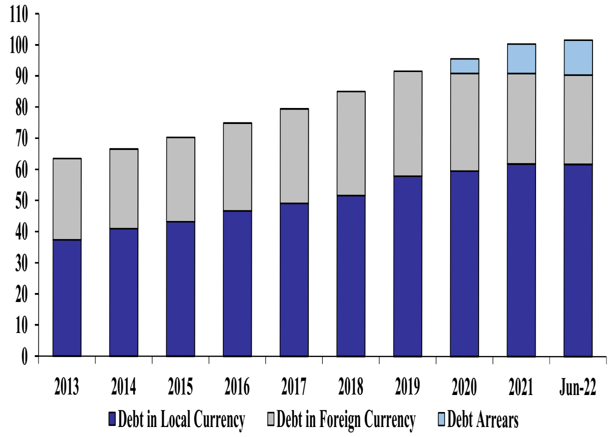
In addition, money supply M2, which includes M1 and term deposits in Lebanese pounds, totaled LBP76,680.6bn at the end of August 2022, constituting a decline of 3% from LBP79,007bn at the end of 2021 and an uptick of 2% from LBP75,146.5bn a year earlier. Term deposits in Lebanese pounds totaled LBP17,897.8bn at the end of August 2022, as they declined by 15% from LBP21,070bn at end-2021 and by 21% from LBP22,681bn at end-August 2021. Money supply M2 decreased by 3.8% in August from LBP79,686.6bn at end-July 2022, with term deposits in local currency regressing by 1.5% month-on-month.

Further, broad money supply M3, which includes M2, deposits in foreign currency and debt securities issued by the banking sector, reached LBP192,515.4bn at the end of August 2022, constituting decreases of 4.3% from end-2021 and of 4.1% from LBP200,810.7bn at end-August 2021. Deposits in foreign currency totaled LBP115,438bn at end-August 2022, down by 5.2% from end-2021 and by 8% from end-August 2021. Also, debt securities issued by the banking sector amounted to LBP396.8bn at the end of August 2022 compared to LBP334bn at end-2021 and to LBP327.6bn at end-August 2021. Money supply M3 decreased by 1.6% from LBP195,584.8bn at end-July 2022, with deposits in foreign currency were nearly unchanged and debt securities issued to residents by the banking sector improving by 0.7% month-on-month. In parallel, M3 decreased by LBP8,554.3bn from end-2021 due to a decline of LBP7,645.5bn in the claims on the private sector, a retreat of LBP6,686bn in the net claims on the public sector, and a downturn of LBP5,599.2bn in the net foreign assets of deposit-taking institutions, which was partly offset by an increase of LBP11,376.2bn in other items.

Gross public debt at $102bn at end-June 2022 at official exchange rate, and at $43.7bn at Sayrafa rate

Figures issued by the Ministry of Finance show that Lebanon's gross public debt reached $101.7bn at the end of June 2022, constituting increases of 1.3% from $100.4bn at the end of 2021 and of 4.1% from $97.8bn at the end of June 2021. The dollar figures are converted at the official exchange rate of the Lebanese pound against the US dollar. The gross public debt grew by $1.35bn in the first half of 2022 relative to an increase of $2.2bn in the same period of 2021. The size of the gross public debt becomes $43.7bn when the portion of the debt denominated in Lebanese pounds is converted to US dollars at the exchange rate of LBP 25,200 per dollar that prevailed on Banque du Liban's (BdL) Sayrafa electronic platform at the end of June 2022. Conversely, the public debt becomes LBP1,100.7 trillion when the dollar-denominated debt is converted to Lebanese pounds at the same rate.

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



**at officical exchange rate*
Source: Ministry of Finance, Byblos Research

Debt denominated in Lebanese pounds totaled LBP93,074bn at the end of June 2022, or the equivalent of $61.7bn at the official exchange rate, nearly unchanged from the end of 2021 and constituting an increase of 2.1% from a year earlier; while the debt denominated in foreign currency stood at $40bn and grew by 3.8% in the first half of 2022 and by 7.2% from the end of June 2021. On March 7, 2020, the Lebanese government at the time decided to default on the $1.2bn Eurobond that was due on March 9, 2020. It also announced on March 23, 2020 that Lebanon will discontinue payments on all of its outstanding Eurobonds. According to the Ministry of Finance, about $11.3bn of the debt stock denominated in foreign currency were in arrear as at June 2022.

Local currency debt accounted for 60.7% of the gross public debt at the end of June 2022 and foreign currency-denominated debt represented the balance of 39.3%, compared to 61.9% and 38.1%, respectively, a year earlier. The weighted interest rate on outstanding Treasury bills was 6.5% in June 2022, while the weighted life of Treasury bills and bonds was 1,404 days. BdL held 39% of the public debt at end-June 2022, followed by commercial banks (12%), and non-bank resident financial institutions (10%); while other investors, including foreign investors, held 37.3% of the debt, and multilateral institutions and foreign governments accounted for the remaining 2% of the public debt.

BdL held 64% of the Lebanese pound-denominated public debt at the end of June 2022 compared to 61.6% a year earlier, while commercial banks accounted for 19.6% of the local debt relative to 25% at end-June 2021. Also, public agencies, financial institutions and the public held 16.3% of the local debt at the end of June 202 compared to 13.3% a year earlier. Further, investors in Eurobonds and in special Treasury bills in foreign currencies held 94.8% of the foreign currency-denominated debt at the end of June 2022, followed by multilateral institutions with 4%, and foreign governments with 1.2%. In addition, the latest available figures show that the gross market debt accounted for about 51% of the public debt. The gross market debt is the total public debt less the portfolios of BdL, the National Social Security Fund, as well as bilateral and multilateral loans.

Treasury transfers to Electricité du Liban down 42% to $537m in 2021

Figures released by the Ministry of Finance show that Treasury transfers to Electricité du Liban (EdL) totaled LBP810bn, or $537.3m, in 2021, constituting a decline of 42% from LBP1,393bn or from $924m in 2020. The dollar figures are converted at the official exchange rate of the Lebanese pound against the US dollar. According to the ministry, reimbursements for the purchase of natural gas, fuel and gas oil reached $524.7m in the covered period, or 97.7% of transfers; while EdL's debt servicing represented the balance of around $2.7m, or 0.5% of the total.

The decline in transfers is mainly due to a decrease of $397.3m in reimbursements for the purchase of natural gas, fuel and gas oil, which mostly consist of payments to the Kuwait Petroleum Corporation and to the Algerian energy conglomerate Sonatrach. Reimbursements decreased by 43% in 2021, while debt servicing dropped by 29.2%.

Treasury transfers to EdL accounted for 5.3% of budgetary primary expenditures in 2021 relative to 8.5% in 2020. They constituted the fourth largest expenditure item, or 4.5% of overall fiscal spending, after personnel cost with 54.8%, debt servicing with 14.4%, and payments to municipalities with 6%. EdL transfers were equivalent to 5.1% of GDP in 2012, 4.3% of GDP in 2013, 4.4% of GDP in 2014, 2.3% of GDP in 2015, 1.8% of GDP in 2016, 2.5% of GDP in 2017, 3.2% of GDP in 2018, 2.8% of GDP in 2019, 1.3% of GDP in 2020, and 2.3% of GDP in 2021.

Banque du Liban tightens oversight of import operations of subsidized products

Banque du Liban (BdL) issued Intermediate Circular 644/13484 dated October 7, 2022 addressed to banks that modifies Basic Circular 52/7144 dated October 30, 1998 about documentary credits related to exceptional measures about import and export operations. The circular asked banks to get BdL's pre-approval to open documentary credits or to settle the invoices related to the import of oil derivatives such as gasoline, diesel oil, and gas; and to provide BdL's Foreign Exchange and International Operations Department with the final commercial invoice, the bill of lading, and the discharge record of the transaction.

In addition, BdL issued Intermediate Circular 643/13483 dated October 7, 2022 addressed to banks and financial institutions that modifies Basic Circular 23/6116 dated March 7, 1996 about facilities that BdL can provide to banks and financial institutions. First, it stated that banks can request foreign currency from BdL to cover the exact amount of the commercial invoices for the exclusive import of wheat, as the original circular included oil derivatives as well. Also, it indicated that banks may request foreign currency from BdL to cover the percentage of the amount of invoices that the Ministry of Public Health determines for the import of medicines, medical products and milk for babies up to one-year old, as well as for medical products that are used in the local production of pharmaceuticals, as this percentage was 85% in the original circular. Second, it indicated that banks have to verify at their own responsibility the veracity and accuracy of the documents that they submit, and that the commercial invoices and documentary credits are for the exclusive coverage of the import of these products and are destined for local consumption based on the demand in the Lebanese market.

Third, it noted that the client has to settle to the bank the amounts specified in Lebanese pounds and in cash based on the exchange rate of BdL's operations with commercial banks. It added that the bank has to deposit this amount in banknotes at BdL in order to secure the equivalent in foreign currency for the import operation. Fourth, it asked banks to get from all of their clients that benefit from the terms of this circular their signed authorization that allows BdL, its affiliated institutions and the concerned banks to lift the banking secrecy on all the information related to these import operations.

Compensation of public sector personnel accounts for 56% of public expenditures in first 11 months of 2021

Figures issued by the Ministry of Finance show that the compensation of public-sector personnel totaled LBP9,106bn in the first 11 months of 2021, constituting an increase of 1.8% from LBP8,947bn ($5.9bn) in the same period of 2020. The compensation of public-sector personnel is equivalent to $6.04bn when converted at the official exchange rate of the Lebanese pound to the US dollar, but becomes $442m when it is converted at the exchange rate of LBP20,600 per dollar that prevailed on Banque du Liban's Sayrafa electronic platform at the end of November 2021. Salaries, wages and related benefits accounted for 60.7% of the total, followed by retirement benefits (31.6%), transfers to public institutions to cover salaries (4.3%), and end-of-service indemnities (3.3%). Further, end-of-service indemnities declined by 23.2% and transfers to public institutions to cover salaries dipped by 8%, while retirement salaries grew by 10.2% and wages and related benefits were nearly unchanged in the covered period. The compensation of public-sector personnel represented the largest component of current primary spending and accounted for 77% of such expenditures in the first 11 months of 2021 compared to 72.3% in the same period of 2020. It also represented 55.6% of fiscal spending in the first 11 months last year relative to 51% in the same period of the previous year, while it absorbed 50.7% of public revenues in the first 11 months of 2021 compared to 66.2% of government receipts in the same period of 2020.

In parallel, salaries, wages and related benefits paid to public-sector workers amounted to LBP5,530bn ($3.67bn at the official exchange rate) in the first 11 months of 2021 compared to LBP5,510bn in the same period of 2020. This category includes basic salaries, employment benefits, allowances, contributions to civil servants' cooperatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly civil and religious judges, and employees at the Parliament. The breakdown of salaries, wages and related benefits paid to public-sector employees shows that other payments given to non-military bodies declined by LBP56bn ($37.2m), while basic salaries increased by LBP40bn ($26.5m), allowances expanded by LBP36bn ($23.9m), and benefits grew by LBP2bn ($1.3m) year-on-year. Benefits include payments for transportation, overtime and family-related benefits, while other payments to non-military bodies consisted of the State's contribution to mutual funds and to the National Social Security Fund, as well as bonuses, among others. Allowances expanded by 5.3% to LBP721bn ($478.3m) in the first 11 months of 2021, benefits increased by 1.1% to LBP178bn ($118.1m), basic salaries improved by 1% to LBP4,238bn ($2.8bn), while other payments decreased by 14.1% to LBP342bn ($227m), from the first 11 months of 2020.

In addition, salaries and benefits of military personnel reached LBP3,540bn and accounted for 64% of salaries, wages and related benefits paid to public sector workers in the first 11 months of 2021. The salaries and benefits of personnel in public education followed with LBP1,059bn (19.2% of the total), then civil staff with LBP595bn (10.8%), the government's contributions to the Civil Servants Cooperative with LBP285bn (5.2%), and the salaries and benefits of customs employees with LBP51bn (0.9%). Also, the Lebanese Army's salaries and benefits totaled LBP2,252bn and represented 63.6% of the salaries and benefits of military personnel. The salaries of the Internal Security Forces followed with LBP962bn (27.2%), then those of the General Security Forces with LBP242bn (6.8%), and the salaries of State Security Forces with LBP85bn (2.4%).

ESCWA and Economy Ministry to develop plan to jump start the economy

The Ministry of Economy and Trade (MoET), with the support of the United Nations Economic and Social Commission for Western Asia (ESCWA), launched on October 3, 2022 the "Enhancing Integrated National Development Planning", which is a project for the development of an operational plan to jump start the Lebanese economy.

The ESCWA pointed out the need for a short- to medium term economic revival plan that will boost productivity and competitiveness, improve the business environment to attract new capital, as well as create job opportunities and limit the emigration of the skilled labor. It said that the plan aims to link these objectives to short- and medium term actions, which will be consolidated from previous national and sectoral development plans that the Lebanese government developed and that international organizations advocated.

In addition, it pointed out that fundamental reforms are crucial for reviving the Lebanese economy, but that the plan aims to identify specific short-term actions in agribusiness, tourism and the digital economy, in order to initiate the recovery. It indicated that the three targeted sectors face serious challenges that consist of low productivity and competitiveness, and ineffective value chains for agribusiness; weak investments in hospitality infrastructure in the tourism sector; and weak virtual and physical infrastructure in the digital economy. Also, it noted that the ESCWA will support the MoET in assessing the impact of the recommended policies on the three sectors in particular and on the economy in general, as well as in identifying key performance indicators. It added that targeted reforms in the three sectors aim to support the recovery of the economy by 2025.

Further, it pointed out that the development of the plan will be based on ESCWA's planning guidelines and best practices. First, it indicated that the plan will build on previous plans, with an objective to consolidate, combine, and complete what authorities and stakeholders have previously initiated. It expected such revisions to identify strengths and shortcomings of previous plans, which would allow to build on them in order to formulate a plan that consolidates and completes previous efforts. It also anticipated that conducting evidence-based analysis will result in a clear understanding of the current status of the economy and its sectors, and will identify its needs, challenges, and opportunities. Second, it said that the plan intends to be operational and to focus on the implementation of established actions and programs, which should be part of Lebanon's short-term priorities.

Third, it noted that the plan will be linked to budgetary resources to ensure its implementation. Fourth, it pointed out that the operational plan will not be limited to the three identified sectors, and that the project will extend across other sectors of the economy during the preparation and implementation phases. Fifth, it said that the plan will be flexible and adaptable to changes and shocks.

In parallel, the ESCWA pointed out that the planned budget for the project will be between $300,000 and $500,000, and that its implementation will start in 2022 for a duration of six to eight months.

Banque du Liban updates banks' foreign currency liquidity requirements

Banque du Liban (BdL) issued on October 7, 2022 Intermediate Circular 645/13485 addressed to banks and to their auditors that modifies Basic Circular 154/13262 dated August 27, 2020 about the exceptional measures that banks operating in Lebanon have to take. The circular noted that each bank should have an account at foreign correspondent banks that is not subject to any obligations in foreign currency, and that has funds that are equivalent to at least 3% of the aggregate amount of the bank's total deposits in foreign currency as at the end of September 2022. In comparison, Basic Circular 154 stipulated that banks should have an account at foreign correspondent banks by the end of February 2021 that is not subject to any obligations in foreign currency, and which has funds that are equivalent to at least 3% of the aggregate amount of the bank's total deposits in foreign currency as at end-July 2020. Figures issued by BdL show that foreign currency deposits of the private sector at commercial banks were $115bn at the end of July 2020 and declined to $98bn at the end of August 2022, the latest available figure.

In parallel, BdL kept the other terms of Basic Circular 154 unchanged. It originally requested banks to conduct a proper valuation of their assets and liabilities in order for them to be able to meet all capitalization, solvency and liquidity requirements. Also, the circular stipulated that, in order to boost the banks' liquidity profiles, especially at their foreign corresponding banks, Lebanese banks should encourage customers who transferred abroad the equivalent of $500,000 or more since July 2017, to deposit the equivalent of 15% of the transferred amount in a "special account" with a term maturity of five years. In addition, it asked banks to encourage importers to transfer from abroad the equivalent of 15% of the aggregate amount of letters of credits that they opened in any of the preceding four years, to place these funds in a "special account", and block them for five years. Further, it indicated that each bank should also ask its chairman, members of the Board of Directors, major shareholders and senior executives, as well as its customers that are identified as "politically-exposed persons" and who transferred abroad more than $500,000 or its equivalent in other foreign currencies since July 2017, to deposit 30% of such funds and block them for five years.

The circular said that the amounts deposited in the "special accounts" will be exempt from reserve requirements and from mandatory placements at BdL. It noted that "special accounts" could bear interest rates and are exempt from the interest rate cap that BdL imposed on customer deposits in Basic Circular 147 that it issued in September 2019. Also, it asked banks to assure the customers who transfer back the money that they will unequivocally recuperate their deposits at maturity. It added that banks should use the deposits in these accounts to facilitate transactions that boost economic activity in Lebanon.

Import activity of top five shipping firms and freight forwarders up 14% in first seven months of 2022

Figures released by the Port of Beirut show that the aggregate volume of imports by the top five shipping companies and freight forwarders through the port totaled 130,155 20-foot equivalent units (TEUs) in the first seven months of 2022, constituting an increase of 13.7% from 114,458 TEUs in the same period of 2021. The five shipping and freight forwarding firms accounted for 85.6% of imports to the Lebanese market in the covered period. Merit Shipping handled 46,127 TEUs in the first seven months of 2022, equivalent to 24% of the total import freight market to Lebanon. Mediterranean Shipping Company (MSC) followed with 42,467 TEUs (22%), then MAERSK with 20,431 TEUs (10.6%), Lotus Shipping with 10,017 TEUs (5.2%), and Gezairi Transport with 9,827 TEUs (5%). MSC registered a rise of 40.2% in imports in the first seven months of 2022, the highest growth rate among the covered companies, while Gezairi Transport posted a decline of 21.8%, the steepest decline among the five firms in the covered period. Also, the import shipping operations of the five companies through the port decreased by 8.6% in July 2022 from the preceding month.

In parallel, the aggregate volume of exports by the top five shipping and freight forwarding firms through the Port of Beirut reached 39,689 TEUs in the first seven months of 2022, constituting a growth of 1.2% from 39,221 TEUs in the same period of 2021. The five companies accounted for 93.5% of exported Lebanese cargo in the covered period. Merit Shipping handled 24,331 TEUs of freight in the first seven months of the year, equivalent to 57.3% of the Lebanese cargo export market. MAERSK followed with 7,785 TEUs (18.3%), then MSC with 3,409 TEUs (8%), Sealine Group with 2,669 TEUs (6.3%), and Gezairi Transport with 1,495 TEUs (3.5%). MSC registered an increase of 49.7% in exports in the first seven months of 2022, the highest growth rate among the covered companies, while Gezairi Transport posted a decrease of 22.5%, the steepest decline among the five firms in the covered period. The export-shipping operations of the five companies expanded by 6.5% in July 2022 from the previous month.

Ratio Highlights

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

**change in percentage points 21/20;*
Source: Banque du Liban, Ministry of Finance, Central Administration of Statistics, Institute of International Finance, Byblos Research Estimates & Calculations
Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

National Accounts, Prices and Exchange Rates

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

**Average year-to-July 22, 2022*
Source: Central Administration of Statistics, Institute of International Finance- June 2022

Ratings & Outlook

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

Source: Rating agencies

Banking Sector Ratings	Outlook
Moody's Investors Service	Negative

Source: Moody's Investors Service

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