

LEBANON THIS WEEK

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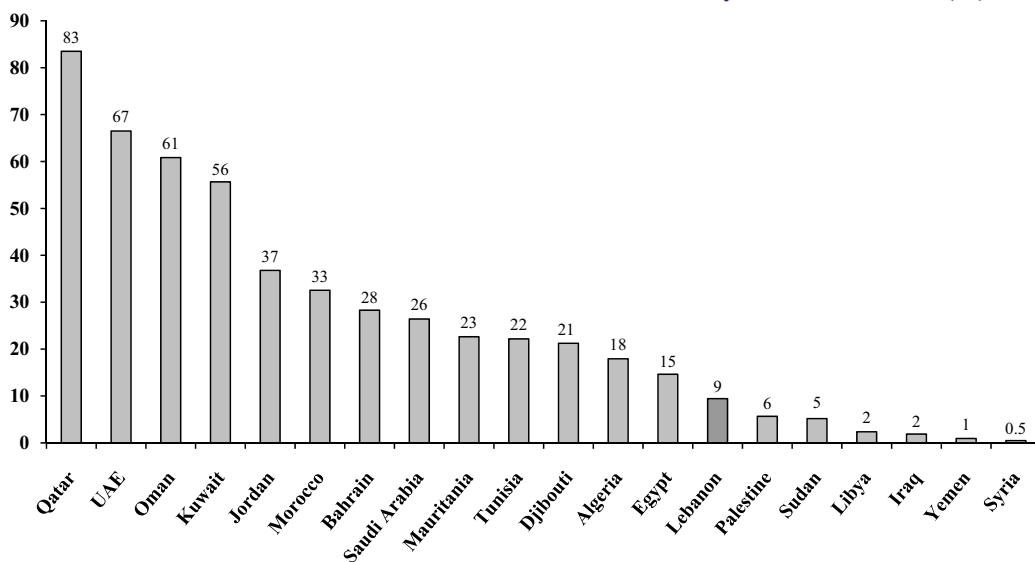
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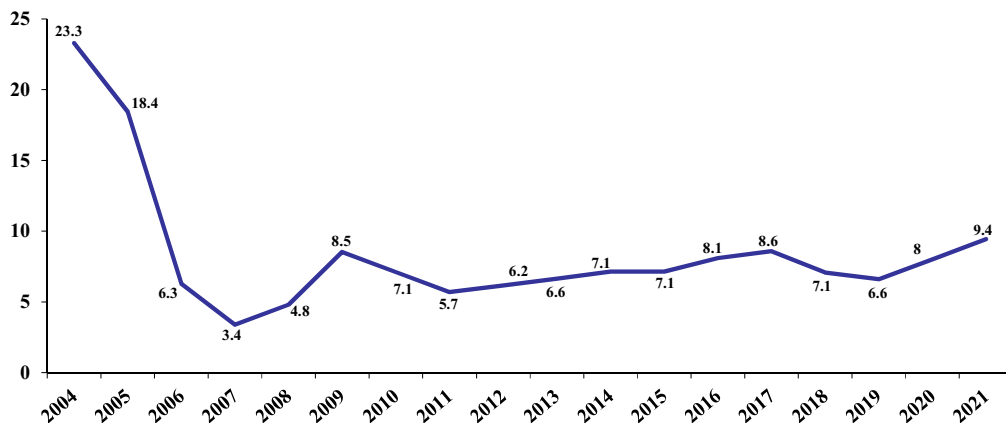
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Charts of the Week

Percentile Rank of Arab Countries on the Political Stability Indicator for 2021 (%)



Percentile Rank of Lebanon on the Political Stability Indicator (%)



Source: World Bank Governance Indicators for 2021, Byblos Bank

Quote to Note

"Lebanon needs fully functioning state institutions that can pursue comprehensive reforms with a strategic vision that generates substantive change for the public good."

The International Support Group for Lebanon, on the need for the country's constitutional and public institutions to deliver for Lebanese citizens and address their needs

Number of the Week

107: Lebanon's rank out of 140 countries on the Regulatory Enforcement component of the World Justice Project's Rule of Law Index for 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)	940.5	-	(30)	-	-
Primary Balance**	(287)	(648)	2,481	-	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	100.37	5.0
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 10 months of the year

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

Capital Markets

Most Traded Stocks on BSE*	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Solidere "A"	56.40	5.3	46,543	41.0%	Jan 2023	6.00	5.88	7,300.83
Byblos Common	0.60	3.4	43,868	2.5%	Apr 2024	6.65	5.88	329.53
Audi Listed	1.55	9.9	22,275	6.6%	Jun 2025	6.25	5.88	145.36
Solidere "B"	55.50	2.1	11,630	26.2%	Nov 2026	6.60	5.88	83.73
BLOM GDR	2.76	0.4	8,001	1.5%	Mar 2027	6.85	5.88	76.51
Audi GDR	1.40	0.0	5,000	1.2%	Feb 2030	6.65	5.88	42.85
HOLCIM	31.00	(5.6)	159	4.4%	Apr 2031	7.00	5.88	36.49
BLOM Listed	3.00	0.0	-	4.7%	May 2033	8.20	5.88	28.83
Byblos Pref. 08	27.00	0.0	-	0.4%	Nov 2035	7.05	5.88	23.07
Byblos Pref. 09	37.98	0.0	-	0.6%	Mar 2037	7.25	5.88	20.72

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

Source: Refinitiv

	Oct 31 - Nov 4	Oct 24-28	% Change	October 2022	October 2021	% Change
Total shares traded	140,476	2,072,811	(93.2)	2,422,324	1,964,896	23.3
Total value traded	\$3,338,504	\$16,282,267	(79.5)	\$27,576,340	\$21,414,837	28.8
Market capitalization	\$13.76bn	\$13.34bn	3.1	\$13.41bn	\$10.21bn	31.3

Source: Beirut Stock Exchange (BSE)

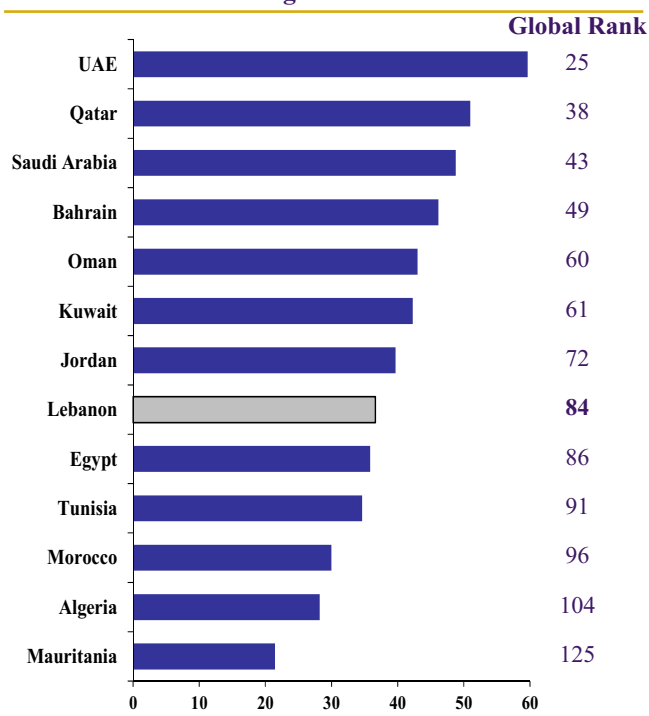


Lebanon ranks 84th globally, eighth in Arab region in terms of talent competitiveness

The France-based INSEAD business school's Global Talent Competitiveness Index (GTCI) ranked Lebanon in 84th place among 133 countries around the world and in eighth place among 13 Arab countries for 2022. Lebanon also came in eighth place among 37 lower middle-income countries (LMICs) included in the survey. In comparison, the index ranked Lebanon in 71st place among 134 countries around the world and in eighth place among 13 Arab countries in 2021. Based on the same set of countries included in the 2021 and 2022 surveys, Lebanon's global rank deteriorated by 13 spots in 2022, while its Arab rank was unchanged from the 2021 survey. INSEAD published the index in collaboration with the U.S.-based research and educational Portulans Institute and the Singapore-based Human Capital Leadership Institute.

The index measures a country's ability to attract, develop and retain talent. It assesses the steps and decisions that countries take to develop and acquire talented individuals, as well as a country's ability to provide the set of skills required to have a productive, innovative and competitive economy. The index is a composite of six pillars grouped in two sub-indices that are the Talent Competitiveness Input Sub-Index and the Talent Competitiveness Output Sub-Index. A country's score is the simple average of its scores on the six pillars, with a higher score reflecting a better performance in terms of talent competitiveness. The countries included in the GTCI represent 93% of the world's population and 98% of global GDP.

Global Talent Competitiveness Index for 2022 Scores & Rankings in Arab Countries



Source: INSEAD, Byblos Research

Globally, the talent level in Lebanon is more competitive than talent in Paraguay, Egypt and Ecuador, and is less competitive than talent in the Philippines, Türkiye and Indonesia among economies with a GDP of \$10bn or more. Lebanon preceded Egypt, Tunisia and Sri Lanka, and trailed Vietnam, the Philippines and Indonesia among LMICs; while it came ahead of Egypt, Tunisia, Morocco, Algeria and Mauritania in the Arab world. Also, Lebanon received a score of 36.6 points in the 2022 survey, down by 17.6% from 44.4 points in the 2021 survey. Lebanon's score came lower than the global average score of 43 points and the Arab region's average score of 39.8 points, but it was higher than the LMIC's average score of 30 points. Further, it was lower than the Gulf Cooperation Council's (GCC) average score of 48.5 points, but was higher than the non-GCC countries' average score of 32.3 points.

Lebanon preceded Oman, Saudi Arabia and Malaysia, while it trailed Poland, Armenia and Argentina globally on the Talent Competitiveness Input Sub-Index. This category covers the policies, resources and efforts that a country can use to promote its talent competitiveness. It consists of four pillars that show how much the regulatory, market, and business environments support a favorable climate for talent to develop and thrive. It focuses on what countries are doing to attract, grow and retain talented individuals. Lebanon ranked second behind Mongolia among LMICs, while it trailed only the UAE, Kuwait and Qatar among Arab economies on this category.

Also, Lebanon ranked ahead Bolivia, Ghana and Egypt, while it came behind the Philippines, Tunisia and Bosnia & Herzegovina worldwide on the Talent Competitiveness Output Sub-Index. This category measures the quality of talent in a country that results from domestic policies, resources, and efforts. It is composed of two pillars that assess the current situation of a particular country in terms of vocational and technical skills, as well as in terms of global knowledge skills. Lebanon preceded Bolivia, Ghana and Egypt, and trailed Indonesia, the Philippines and Tunisia among LMICs on this category; while it ranked ahead of only Egypt, Morocco, Algeria, and Mauritania in the Arab world.

Components of the 2022 Talent Competitiveness Index for Lebanon

	Global Rank	LMICs Rank	Arab Rank	Lebanon Score
Talent Competitiveness Input	57	2	4	
Enablers	92	15	11	35.3
Attract	80	7	8	47.9
Grow	68	5	6	31.7
Retain	100	18	12	37.3
Talent Competitiveness Output	90	9	9	
Vocational & Technical Skills	74	7	7	42.9
Global Knowledge Skills	55	5	3	24.7

Source: INSEAD, Byblos Research

Banque du Liban's foreign assets at \$15.3bn, gold reserves at \$15.1bn at end-October 2022

Banque du Liban's (BdL) interim balance sheet reached \$188.3bn at the end of October 2022, constituting increases of 15.4% from \$163.2bn at end-2021 and of 16.4% from \$161.8bn a year earlier. Assets in foreign currency totaled \$15.3bn at end-October 2022, representing a decrease of \$2.55bn, or of 14.3%, in the first 10 months of 2022 and a drop of \$3.4bn (-18.2%) from \$18.7bn at the end of 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.

BdL's gross foreign currency reserves, which consist of its assets in foreign currency excluding Lebanese Eurobonds, stood at \$10.25bn at the end of October 2022, constituting increases of \$239.3m (+2.4%) from \$10bn at mid-October 2022, and of \$378.5m (+3.8%) from \$9.87bn at end-September 2022. They dropped by \$2.55bn (-20%) in the first 10 months of the year from \$12.8bn at the end of 2021 and by \$3.4bn (-25%) from \$13.64bn at end-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 stood at \$15.14bn at the end of October 2022, constituting a decrease of \$1.45bn (-8.8%) in the first 10 months of the year and a decline of \$1.4bn (-8.4%) from \$16.5bn at end-October 2021. The value of gold reserves reached a peak of \$18.15bn at mid-April 2022. Also, the securities portfolio of BdL totaled \$40.8bn at end-October 2022, decreasing by \$409m (-1%) in the first ten months of the year and decreasing by \$162.1m (-0.4%) from \$41bn a year earlier. In addition, loans to the local financial sector totaled LBP18,509.8bn (\$12.3bn) at end-October, as they regressed by 10.5% from the end of 2021 and by 11% from a year earlier. Further, the deposits of the financial sector stood at \$107bn at end-October 2022 and decreased by \$128.4m from a year earlier. In addition, public sector deposits at BdL stood at LBP18,208.6bn (\$12.1bn) at end-October 2022, as they rose by LBP6,517bn (\$4.3bn) in the first 10 months of the year and surged by LBP8,071bn (\$5.3bn) from the end of October 2021.

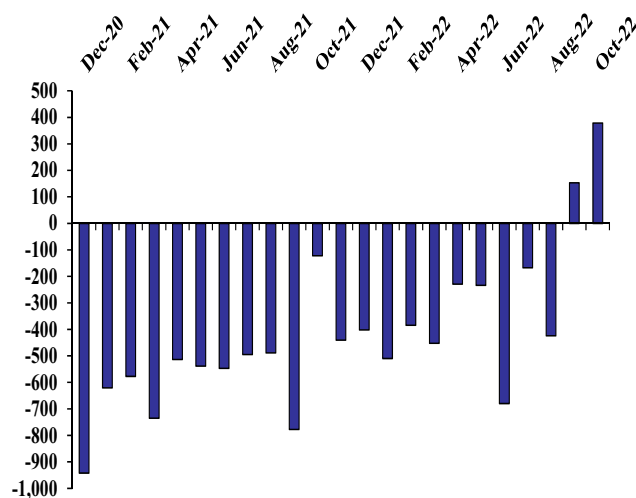
Banking sector has 902 branches at end-June 2022

Figures issued by Banque du Liban (BdL) show that the Lebanese banking sector had 902 local and foreign branches at the end of June 2022, constituting a decline of 65 branches, or of 6.7% from 967 branches at end-2021, a drop of 115 branches (-11.3%) from 1,017 branches at the end of June 2021, and a decrease of 239 branches (-21%) from 1,141 branches at the end of June 2020.

Commercial banks had 881 local and foreign branches in total at the end of June 2022 compared to 946 branches at end-2021, to 996 branches at the end of June 2021, and to 1,120 branches at the end of June 2020. Further, medium- and long-term banks had 21 branches in Lebanon at the end of June 2022, unchanged from a year earlier and from end-June 2020. In parallel, commercial banks operating in Lebanon had 51 branches outside the country at the end of June 2022 compared to 53 branches at the end of 2021 and at the end of June 2021.

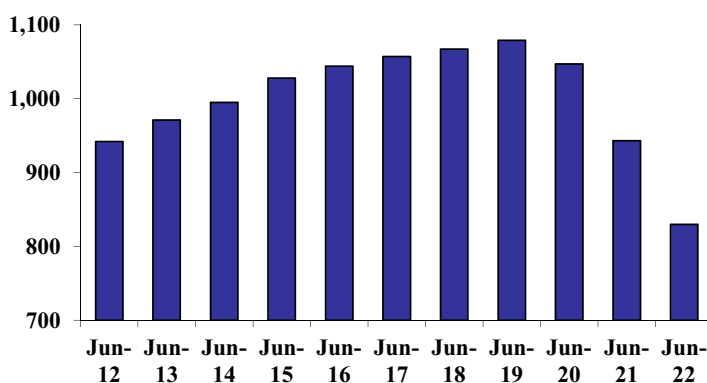
The breakdown of commercial banks' branches shows that banks had 830 local branches at the end of June 2022, down by 63 branches from 893 branches at the end of 2021, by 113 branches from 943 branches at end-June 2021, and by 217 branches from 1,047 branches at the end of June 2020. There were 434 branches of commercial banks in Beirut & its suburbs that accounted for 52.3% of total branches in the country at the end of June 2022, followed by 167 branches in Mount Lebanon (20.1%), 87 branches in North Lebanon (10.5%), 86 branches in South Lebanon (10.4%), and 56 branches in the Bekaa region (6.7%). Also, nine foreign commercial banks operating in the country had 21 branches and four Islamic banks had 12 branches at the end of June 2022. In addition, there were 12 e-branches that offer banking services through interactive and automated machines at end-June 2022. Further, there were 46 commercial banks and 15 medium- and long-term banks operating in Lebanon at the end of June 2022, unchanged from a year earlier.

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



Source: Banque du Liban, Byblos Research

Number of Branches of Commercial Banks in Lebanon



Source: Banque du Liban, Byblos Research

Cost of sending remittances from several sources increases in third quarter of 2022

Figures issued by the World Bank show that the cost of sending \$500 in remittances from the United States to Lebanon was 5.27% in the third quarter of 2022, constituting a decrease from 5.54% in the second quarter of 2022 and an increase from 4.56% in the third quarter of 2021. The cost includes the transaction fee and exchange rate margin, and represents the average cost of transferring money through commercial banks and money transfer operators. In nominal terms, the cost of sending \$500 from the U.S. to Lebanon was \$31.6 in the third quarter of 2022, relative to \$27.7 in the preceding quarter and compared to \$22.8 in the third quarter of 2021. Lebanon was the ninth most expensive destination for sending \$500 from the U.S. among 42 countries with available data.

Further, the cost of sending remittances from Canada to Lebanon was 6.59% in the third quarter of 2022 for a transfer of CAD500, representing an increase from 6.47% in the second quarter of 2022 and a decrease from 7.25% in the third quarter of 2021. In nominal terms, the cost of sending CAD500 from Canada to Lebanon was CAD32.93 in the third quarter of 2022 relative to CAD32.37 in the previous quarter and to CAD36.24 in the third quarter of 2021. Lebanon was the second most expensive destination for sending CAD500 from Canada among 15 countries with available data.

Also, the cost of sending remittances from Australia to Lebanon reached 5.94% in the third quarter of 2022 for a transfer of AUD500, constituting an increase from 5.57% in the second quarter of 2022 and a decline from 7.38% in the third quarter of 2021. The cost of sending AUD500 from Australia to Lebanon was AUD29.71 in the third quarter of 2022 relative to AUD27.86 in the preceding quarter and to AUD36.9 in the third quarter of 2021. Lebanon was the fourth costliest destination for sending AUD500 from Australia among 16 countries with available data.

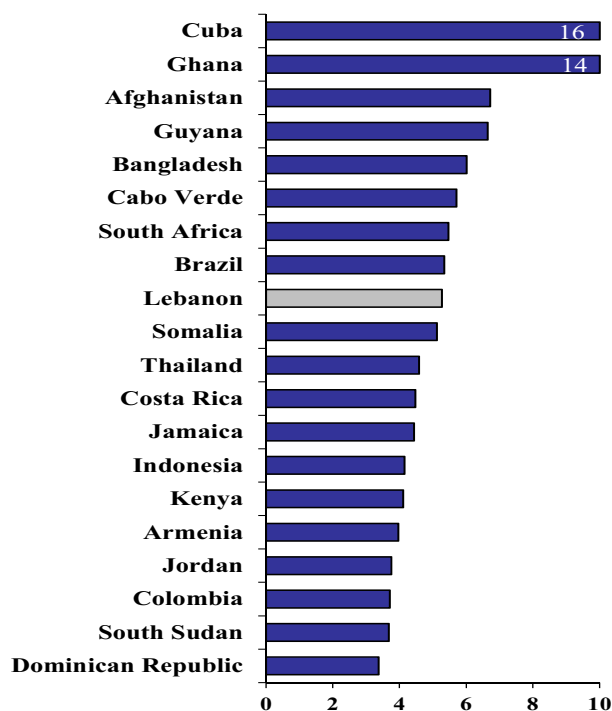
Also, the cost of sending remittances from France to Lebanon was 5.64% in the third quarter of 2022 for a transfer of €345, representing an increase from 5.29% in the second quarter of 2022 and a decrease from 7.18% in the third quarter of 2021. In nominal terms, the cost of sending €345 from France to Lebanon was €19.47 in the third quarter of 2022 relative to €18.26 in the previous quarter and to €24.76 in the third quarter of 2021. Lebanon was the fifth most expensive destination for sending €345 from France among 16 countries with available data.

Further, the cost of sending remittances from the United Kingdom to Lebanon reached 7.88% in the third quarter of 2022 for a transfer of £300, constituting increases from 5.42% in the second quarter of 2022 and from 7.8% in the third quarter of 2021. In nominal terms, the cost of sending £300 from the UK to Lebanon was £23.63 in the third quarter of 2022 relative to £16.27 in the preceding quarter and to £23.4 in the third quarter of 2021. Lebanon was the sixth most expensive destination for sending £300 from the UK, among 33 countries with available data.

Also, the cost of sending remittances from Germany to Lebanon was 6.91% in the third quarter of 2022 for a transfer of €345, representing increases from 5.74% in the second quarter of 2022 and from 4.89% in the third quarter of 2021. In nominal terms, the cost of sending €345 from Germany to Lebanon was €23.83 in the third quarter of 2022 relative to €19.8 in the previous quarter and to €16.87 in the third quarter of 2021. Lebanon was the fourth most expensive destination for sending €345 from Germany among 24 countries with available data.

Finally, the cost of sending remittances from Saudi Arabia to Lebanon reached 3.38% in the third quarter of 2022 for a transfer of SAR1,870, equivalent to \$500, decreasing from 3.49% in the second quarter of 2022 and increasing from 3.16% in the third quarter of 2021. In nominal terms, the cost of sending SAR1,870 from Saudi Arabia to Lebanon was SAR63.14 in the third quarter of 2022, relative to SAR65.2 in the preceding quarter and to SAR59.03 in the third quarter of 2021. Lebanon was the fifth most expensive destination for sending SAR1,870 from Saudi Arabia among 17 countries with available data.

Costliest Destinations for Sending Remittances from the United States* (%)



*cost of sending \$500 from the U.S.

Source: World Bank, Byblos Research

Number of airport passengers up 52% in first 10 months of 2022

Figures released by the Beirut-Rafic Hariri International Airport (HIA) show that 5.36 million passengers utilized the airport (arrivals, departures and transit) in the first 10 months of 2022, constituting a surge of 51.7% from 3.53 million passengers in the same period of 2021, and relative to 1.99 million passengers in the first 10 months of 2020 and to 7.7 million passengers in the same period of 2019. The increase in the number of airport passengers in the first 10 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, to the rolling back of most travel restrictions around the world this year, and to the influx of a large number of Lebanese expatriates during the summer season. The number of arriving passengers reached 2.6 million passengers in the first 10 months of the year and jumped by 56% from 1.67 million passengers in the same period of 2021, compared to 917,216 travelers in the first 10 months of 2020. Also, the number of departing passengers totaled 2.73 million in the first 10 months of 2022 and increased by 50.8% from 1.81 million travelers in the same period of last year, relative to 1.04 million passengers in the first 10 months of 2020.

In parallel, the airport's aircraft activity totaled 43,895 take-offs and landings in the first 10 months of 2022, representing a rise of 35.4% from 32,409 takeoffs and landings in the same period of last year. In comparison, aircraft activity increased by 48% in the first 10 months of 2021 and dropped by 65% in the same period of 2020.

In addition, the HIA processed 49,313 metric tons of freight in the first 10 months of 2022 that consisted of 24,225 tons of import freight and 25,087 tons of export freight. Middle East Airlines had 16,388 flights in the covered period and accounted for 37.3% of HIA's total aircraft activity.

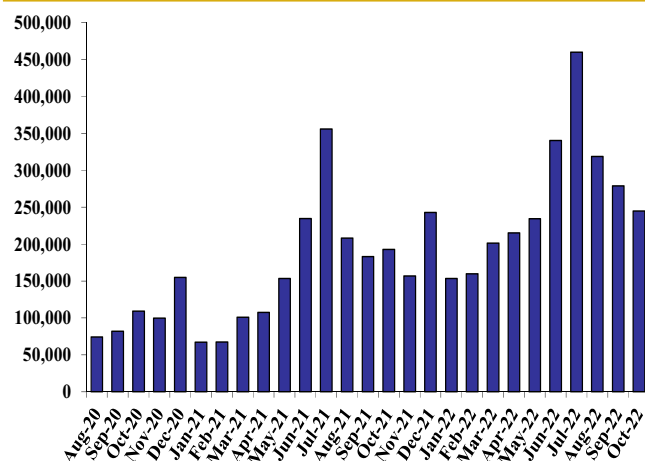
Net foreign assets of financial sector down \$3bn in first nine months of 2022

Figures issued by Banque du Liban (BdL) show that the net foreign assets of the financial sector, which are a proxy for Lebanon's balance of payments, declined by \$3.05bn in the first nine months of 2022, compared to decreases of \$1.6bn in the same period of 2021 and of \$9.6bn in the first nine months of 2020.

The cumulative deficit in the first nine months of 2022 was caused by a drop of \$3.32bn in the net foreign assets of BdL, which was partly offset by an increase of \$269.4m in those of banks and financial institutions. Further, the net foreign assets of the financial sector increased by \$48.5m in September 2022 compared to a decline of \$314.3m in August 2022 and to an expansion of \$784.6m in September 2021. The September increase was caused by a growth of \$161.2m in the net foreign assets of BdL, which was partly offset by a decrease of \$112.6m in those of banks and financial institutions.

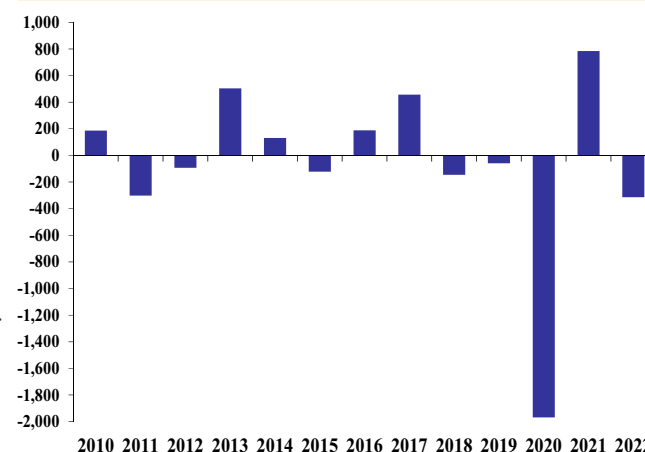
The cumulative increase in the banks' net foreign assets is mostly due to a decline in their foreign liabilities. The decrease in foreign liabilities was driven mainly by the contraction in liabilities to the non-resident financial sector and in non-resident customer deposits. In parallel, the drop in BdL's net foreign assets was due in part to the financing of the imports of hydrocarbons, wheat, medicine, medical equipment, and raw materials for agriculture and industry; as well as to the implementation of BdL circulars that allowed depositors to withdraw US dollar banknotes from their accounts or to buy dollar banknotes from BdL through commercial banks.

Number of Arriving Passengers



Source: Beirut-Rafic Hariri International Airport

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



*in September of each year

Source: Banque du Liban, Byblos Research

Banque du Liban reduces interest rates on banks' dollar deposits and Certificates of Deposits

Banque du Liban (BdL) issued on November 1, 2022 Intermediate Circular 648/13495 addressed to banks and financial institutions that modifies Basic Circular 14/5258 dated September 17, 2020 related to the opening of deposit accounts in foreign currency at BdL, and Basic Circular 67/7534 dated March 2, 2000 about BdL's issuance of Certificates of Deposits in US dollars.

First, the circular stipulates that BdL will reduce by 50% the interest rates that it pays on the commercial banks' term deposits in foreign currency placed at BdL, and that the latter will, on an exceptional basis, continue to pay half of the interest rates in US dollars and the other half in Lebanese pounds. Second, BdL said that it will reduce by 50% the interest rates that it pays on the Certificates of Deposits in US dollars that it has issued and that are held by commercial banks; and that it will, on an exceptional basis, continue to pay half of the interest rates in US dollars and the other half in Lebanese pounds. Third, it noted that the terms of the circular apply for a period of six months from the date of its issuance.

BdL issued Intermediate Circular 536/13157 on December 4, 2019 that stipulates that BdL will, exceptionally and for a period of six months, apply new rules on the interest income it pays on term deposits that banks placed in US dollars at BdL and on the Certificates of Deposits that it issued in US dollars. Specifically, BdL indicated that it will pay 50% of the interest income in US dollars and 50% in Lebanese pounds on these dollar instruments. It then extended the terms of the circular for 12 months until the end of June 2021, for six months until the end of June 2022, and for an additional six months until the end of 2022.

Commercial activity improves in relative terms in second quarter of 2022

Banque du Liban's quarterly business survey about the opinions of business managers shows that the balance of opinions for the volume of commercial sales reached -31 in the second quarter of 2022, relative to -52 in the first quarter of 2022 and to -65 in the second quarter of 2021. The balance of opinions for the second quarter of 2022 reflects the disruptions to economic activity following the worsening of economic and financial conditions in the country, as well as the relative adjustment of the private sector to the ongoing crisis. The balance of opinions for the volume of commercial sales in the second quarter of 2022 reached its tenth lowest quarterly level since 2004, after posting -74 in the second quarter of 2020, -73 in the third quarter of 2006 due to the Israeli war on Lebanon, -71 in the first quarter of 2021, -70 in the first quarter of 2005 following the assassination of Prime Minister Rafic Hariri, -68 in the third quarter of 2020, -65 in the second quarter of 2021, -61 in the third quarter of 2021, -59 in the fourth quarter of 2021, and -52 in the first quarter of 2022.

The survey covers the opinions of enterprise managers about their business activity in order to depict the evolution of a number of key economic variables. The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in an indicator and the proportion of those who reported a decline in the same indicator. The balance of opinions was the lowest in the South at -54, followed by Beirut and Mount Lebanon (-31), the Bekaa (-25), and the North (-22). The survey shows that the balance of opinions about the sales of food items was -15 in the second quarter of 2022, relative to -36 in the first quarter of 2022 and to -52 in the second quarter of 2021. Also, the balance of opinions about the sales of non-food products was -37 in the covered quarter, relative to -58 in the previous quarter and to -72 in the second quarter of 2021; while it was -39 for inter-industrial goods, compared to -62 in the first quarter of 2022 and relative to -66 in the second quarter of 2021.

Further, the balance of opinions for inventory levels of finished goods in all commercial sub-sectors was -34 in the second quarter of 2022, compared to -43 in the previous quarter and to -53 in the second quarter of 2021. Opinions about the level of inventories were the lowest in the South region as they reached -61, followed by the North (-44), the Bekaa area (-30), and the Beirut and Mount Lebanon (-19). Also, the balance of opinions about the number of employees in the sector was -22 in the second quarter of 2022 compared to -23 in the preceding quarter and to -36 in the second quarter of 2021. It was the lowest in South at -51, followed by the North (-40), the Bekaa (-18), and the Beirut & Mount Lebanon (-3). Also, the balance of opinions about the number of employees in the sector was -22 in the second quarter of 2022 compared to -23 in the preceding quarter and to -36 in the second quarter of 2021. The balance of opinions about the number of employees was -54 in the South, -31 in Beirut & Mount Lebanon, -25 in the Bekaa, and -22 in the North.

Commercial Activity: Year-on-Year Evolution of Opinions				
Aggregate results	Q2-19	Q2-20	Q2-21	Q2-22
Sales volume	-30	-74	-65	-31
Number of employees	-7	-40	-36	-22
Inventories of finished goods	-7	-47	-53	-34
Q2-22 Regional results	Beirut / Mount Lebanon	North	South	Bekaa
Sales volume	-31	-22	-54	-25
Inventories of finished goods	-19	-44	-61	-30

Source: Banque du Liban business survey for second quarter of 2022

Private sector deposits down \$49.3bn since start of 2019

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets stood at \$167bn at the end of September 2022, constituting declines of 4.5% from \$174.8bn at the end of 2021 and of 7.1% from \$179.7bn at end-September 2021. The dollar figures are based on the official exchange rate of the Lebanese pound to the US dollar.

Loans extended to the private sector reached \$22.3bn at the end of September 2022 and decreased by 19.6% in the first nine months of 2022 and by 25.7% from a year earlier. Loans to the resident private sector totaled \$19.9bn, constituting declines of 20% from the end of 2021 and of 24.5% from end-September 2021. Also, credit to the non-resident private sector amounted to \$2.35bn at the end of September 2022, and contracted by 17% from the end of 2021 and by 35% from the end of September 2021.

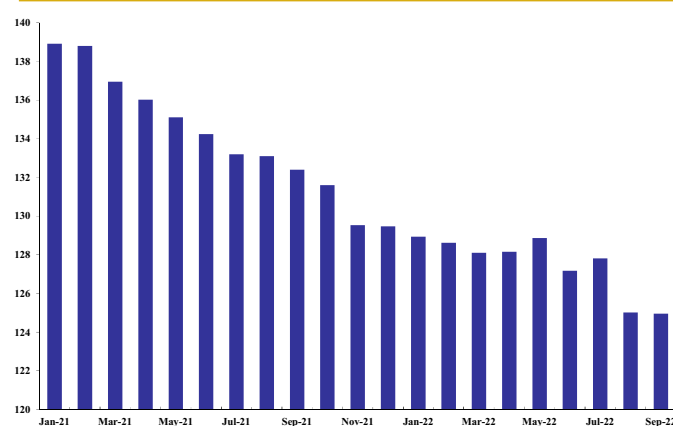
In nominal terms, credit to the private sector decreased by \$5.4bn in the first nine months of 2022 relative to a drop of \$6.2bn in the same period of 2021, as lending to the resident private sector retreated by \$4.95bn and credit to the non-resident private sector regressed by \$481.4m in the covered period. Further, loans extended to the private sector contracted by \$37.1bn (-62.5%) since the start of 2019, with loans denominated in Lebanese pounds shrinking by LBP11,694bn (-42.4%) and loans denominated in foreign currency dropping by \$29.3bn (-71.4%). The dollarization rate of private sector loans regressed from 58.2% at end-September 2021 to 52.8% at the end of September 2022. The average lending rate in Lebanese pounds was 5.09% in September 2022 compared to 7.65% a year earlier, while the same rate in US dollars was 4.61% relative to 6.34% in September 2021.

In addition, claims on non-resident financial institutions reached \$4bn at the end of September 2022, constituting decreases of \$598m (-13%) in the first nine months of 2022 and of \$732.2m (-15.5%) from a year earlier. Also, claims on non-resident financial institutions dropped by \$5.1bn (-56.3%) from the end of August 2019 and by \$8bn (-66.7%) since the start of 2019. Further, deposits at foreign central banks totaled \$1.05bn, constituting increases of \$10m (+1%) in the first nine months of 2022 and of \$58.3m (+6%) from a year earlier. In addition, the banks' claims on the public sector reached \$13.2bn at end-September 2022, down by \$3.5bn (-21%) in the first nine months of the year and by \$5.5bn (-29.4%) from the end of September 2021. The banks' holdings of Lebanese Treasury bills stood at \$9.3bn, while their holdings of Lebanese Eurobonds reached \$3.7bn at end-September 2022. Further, the deposits of commercial banks at Banque du Liban (BdL) amounted to \$108.3bn at the end of September 2022, down by \$668.5m (-0.6%) from \$109bn at end-2021 and by \$219.3m (-0.2%) from \$108.5bn at the end of September 2021.

In parallel, private sector deposits totaled \$125bn at the end of September 2022 and regressed by 3.5% in the first nine months of 2022 and by 5.7% from end-September 2021. Deposits in Lebanese pounds reached LBP42,075.3bn (\$27.9bn) at end-September 2022, as they increased by 4.7% from the end of 2021 and by 5.6% from a year earlier; while deposits in foreign currency reached \$97.1bn, and regressed by 5.6% in the first nine months of the year and by 8.5% from the end of September 2021. Resident deposits totaled \$101.6bn at the end of September 2022 and decreased by \$3.4bn (-3.2%) from the end of 2021, while non-resident deposits reached \$23.4bn at end-September 2022, down by \$1.1bn (-4.7%) in the first nine months of the year. Resident deposits in Lebanese pounds stood at LBP39,047.9bn, or the equivalent of \$25.9bn at end-September 2022, constituting an increase of LBP1,948.7bn, or of 5.3%, in the first nine months of the year, while those in foreign currency totaled \$75.7bn at end-September 2022 and decreased by \$4.7bn (-5.8%) in the covered period. Non-resident deposits in Lebanese pounds and in foreign currency regressed by 1.4% and 5%, respectively, in the first nine months of 2022. Private sector deposits declined by \$4.5bn in the first nine months of 2022, with deposits in Lebanese pounds increasing by LBP1,904.3bn, or the equivalent of \$1.3bn, and foreign currency deposits shrinking by \$5.8bn. Private sector deposits declined by \$535m in January, by \$319.6m in February, by \$513m in March 2022, by \$1.7bn in June, by \$2.8bn in August and by \$63.1m in September, while they increased by \$54.8m in April, by \$712.2m in May and by \$643.2m in July 2022. In addition, private sector deposits dropped by \$15.4bn in 2019, by \$19.7bn in 2020 and by \$9.7bn in 2021, including a decrease of \$10.7bn between September and December 2019. As such, aggregate private sector deposits contracted by \$49.3bn (-28.3%) since the start of 2019, with deposits in Lebanese pounds shrinking by \$23.3bn (-45.5%) and foreign currency deposits contracting by \$26bn (-21%). The decrease is due largely to the repayment of loans by companies and individuals, to the hoarding of cash at households, to companies paying their foreign obligations, and to deposit outflows. The dollarization rate of private sector deposits was 77.7% at end-September 2022, relative to 79.4% at end-2021 and to 80% a year earlier.

Further, the liabilities of non-resident financial institutions reached \$4.4bn at the end of September 2022 and decreased by 11% from \$4.9bn at the end of September 2021. Also, the average deposit rate in Lebanese pounds was 0.66% in September 2022 compared to 1.53% a year earlier, while the same rate in US dollars was 0.09% relative to 0.26% in September 2021. The ratio of private sector loans to deposits stood at 17.8% at end-September 2022 compared to 22.6% a year earlier. The banks' aggregate capital base totaled LBP25,191.1bn (\$16.7bn) at the end of September 2022, down by LBP1,619.8bn (\$1.1bn) or by 6% from \$17.8bn at the end of 2021, and by LBP296.4bn (\$196.6m) or by 1.2% from \$16.9bn at end-September 2021.

Private Sector Deposits (US\$bn)



Source: Banque du Liban, Byblos Research

Stock market capitalization up 31% to \$13.4bn at end-October 2022

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 18.2 million shares in the first 10 months of 2022, constituting a decrease of 33.5% from 27.4 million shares traded in the same period of 2021; while aggregate turnover amounted to \$339.4m and increased by 7% from a turnover of \$316.8m in the first 10 months of 2021. The market capitalization of the BSE reached \$13.4bn at the end of October 2022, representing a rise of 31.3% from \$10.2bn a year earlier, with real estate equities accounting for 67% of the total, followed by banking stocks (27.8%), and industrial shares (5.1%). The market liquidity ratio was 2.5% at the end of October 2022 compared to 3.1% a year earlier.

Banking stocks accounted for 79% of the trading volume in the first 10 months of 2022, followed by real estate equities (20.3%) and industrial shares (0.6%). Also, real estate equities accounted for 94.7% of the aggregate value of shares traded, followed by banking stocks (4.5%) and industrial shares (0.8%). The average daily traded volume for the first 10 months of 2022 was 91,863 shares for an average daily amount of \$1.71m. The figures represent a drop of 40.2% of the average daily traded volume and a decline of 3.7% of the average daily value in the covered period.

In parallel, the Capital Markets Authority's (CMA) Market Value-Weighted Index for stocks traded on the BSE surged by 196% in the first 10 months of 2022, while the CMA's Banks Market Value-Weighted Index regressed by 17.7% in the covered period. The increase in the Market Value-Weighted Index is mainly due to the rise in the prices of Solidere 'A' and Solidere 'B' shares by 67.8% and 62%, respectively, from the end of 2021, given that the shares had market weights of 41% and 26.2%, respectively, on the last trading day in October, the highest among listed companies on the BSE. The rise in the prices of Solidere shares is mainly driven by the increase in demand for the shares from several bank depositors, given that they consider it a way to channel their deposits out of the banking sector in light of the government's economic rescue plan that stipulates the conversion of deposits into bank shares as part of the restructuring of the banking sector.

Banque du Liban issues directives to address suspension of LIBOR for subsidized interest rates

Banque du Liban (BdL) issued on October 4, 2022 Intermediate Circular 642/13482 addressed to banks, financial institutions and leasing companies that modifies Basic Circular 80/7743 dated January 2, 2001 related to the subsidies of interest rates on loans to the agricultural, industrial and tourism sectors. It said that it issued the circular because the London Interbank Overnight Rate (LIBOR) will cease to be utilized as a reference rate in global markets starting on July 1, 2023, and due to the need to transition to alternative interest rates.

First, the circular stipulates that the new subsidized interest rates on loans in US dollars to the agricultural, industrial and tourism sectors should not exceed 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 7%. The SOFR has become an established benchmark rate for new US dollar loans in the U.S. syndicated loan market. It added that the interest rates should be calculated on the date of the signing of the loan contract, and should be recalculated and collected every three months at the end of March, June, September and December of each year.

Second, the circular indicates that the new subsidized interest rates on loans in euros to the agricultural, industrial and tourism sectors should not exceed the three-month compounded average rate of the Euro short-term rate (ESTR), plus the ISDA credit spread adjustment, plus a rate of 7%. It added that the interest rates should be calculated on the date of the signing of the loan contract and should be recalculated and collected every three months at the end of March, June, September, and December of each year.

Third, 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.

Ratio Highlights

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

*change in percentage points 21/20;

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

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

National Accounts, Prices and Exchange Rates

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

*Average year-to-July 22, 2022

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

Ratings & Outlook

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

Source: Rating agencies

Banking Sector Ratings

	Outlook
Moody's Investors Service	Negative

Source: Moody's Investors Service



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

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BYBLOS BANK GROUP

LEBANON

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

IRAQ

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

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

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

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

ARMENIA

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

NIGERIA

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

BELGIUM

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

UNITED KINGDOM

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

FRANCE

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

ADIR INSURANCE

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