

LEBANON THIS WEEK

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Corporate Highlights

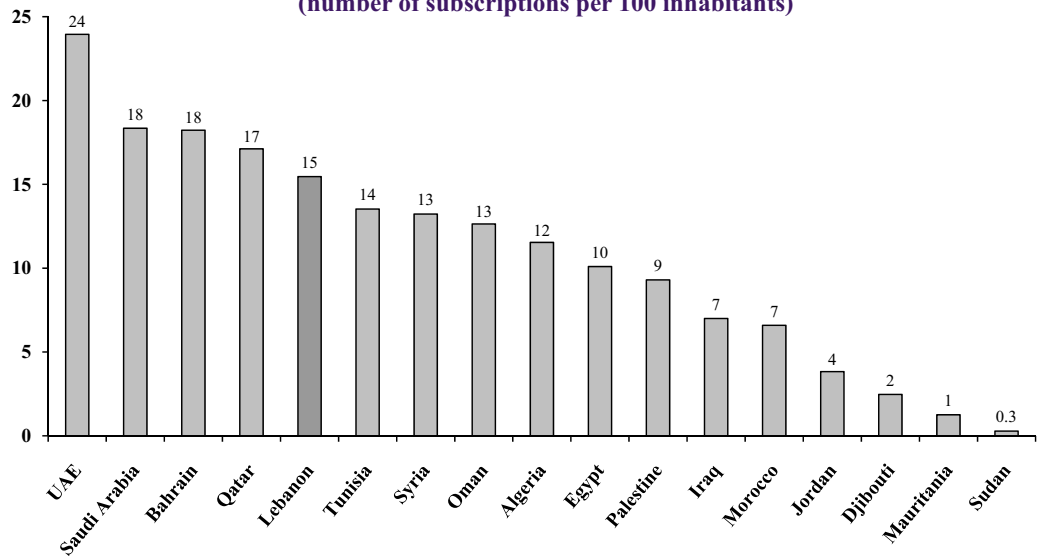
Term deposits account for 56% of customer deposits at end-September 2022

Foreign investments of financial sector at \$1.5bn at end-March 2022

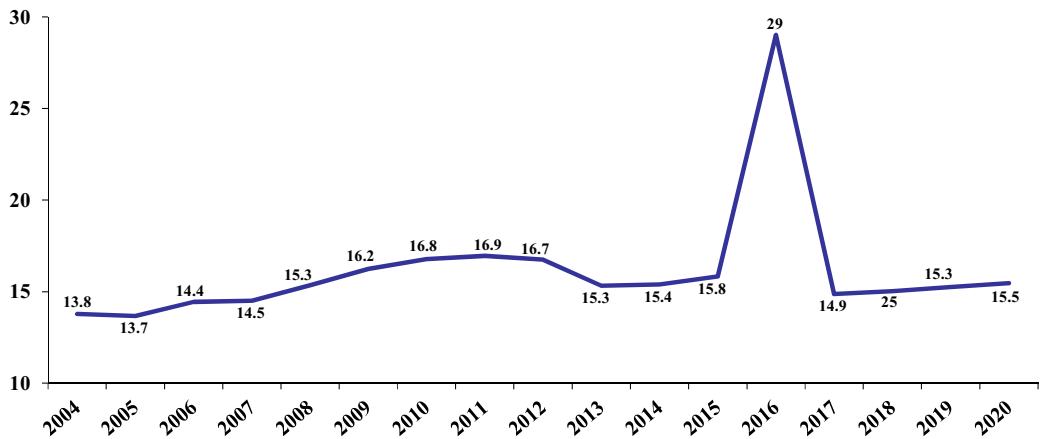
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Charts of the Week

Penetration of Fixed Telephone Lines in Arab Countries in 2021
 (number of subscriptions per 100 inhabitants)



Penetration of Fixed Telephone Lines in Lebanon
 (number of subscriptions per 100 inhabitants)



Source: International Telecommunication Union, Byblos Bank

Quote to Note

"Lebanon requires quick and decisive action to address its economic, financial and humanitarian crises."

The International Support Group for Lebanon, on the need to have fully functioning state institutions that can deliver for Lebanese citizens and address their needs

Number of the Week

6: Number of times the Lebanese Parliament has convened since the end of September and has failed to elect a President of the Republic

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 %
HOLCIM	32.00	3.2	1,865,468	4.6%	Jan 2023	6.00	5.75	10,173.91
Solidere "A"	56.20	(2.4)	106,052	41.2%	Apr 2024	6.65	5.75	355.76
Solidere "B"	54.75	(4.0)	60,839	26.1%	Jun 2025	6.25	5.75	151.21
Byblos Common	0.60	5.3	31,121	2.5%	Nov 2026	6.60	5.75	85.95
BLOM Listed	2.90	(3.3)	13,550	4.6%	Mar 2027	6.85	5.75	78.42
BLOM GDR	2.80	1.4	3,499	1.5%	Feb 2030	6.65	5.75	43.60
Audi Listed	1.41	0.0	-	6.1%	Apr 2031	7.00	5.75	37.07
Audi GDR	1.49	0.0	-	1.3%	May 2033	8.20	5.75	29.24
Byblos Pref. 08	27.00	0.0	-	0.4%	Nov 2035	7.05	5.75	23.36
Byblos Pref. 09	37.98	0.0	-	0.6%	Mar 2037	7.25	5.75	20.98

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

Source: Refinitiv

	Nov 21-25	Nov 14-18	% Change	October 2022	October 2021	% Change
Total shares traded	2,080,529	327,942	534.4	2,422,324	1,964,896	23.3
Total value traded	\$57,879,645	\$3,725,167	1,453.7	\$27,576,340	\$21,414,837	28.8
Market capitalization	\$13.65bn	\$13.92bn	(2.0)	\$13.41bn	\$10.21bn	31.3

Source: Beirut Stock Exchange (BSE)



New official exchange rate to go into effect at start of February 2023

Banque du Liban (BdL) Governor Riad Salamé declared that the new official exchange rate of LBP15,000 per US dollar will go into effect on February 1, 2023, as part of the measures to unify the multiple exchange rates of the dollar that prevail in the Lebanese economy. He added that this process started with the adoption by the Ministry of Finance of a new exchange rate of LBP15,000 per dollar for customs tariffs. He noted that the new exchange rate will apply to deposit withdrawals that fall under BdL circulars 151 and 158, instead of the current rates of LBP8,000 and LBP12,000, respectively. He also stated that the BdL circulars will remain operational, except if the Lebanese Parliament enacts a capital controls law, as this law will supersede all circulars and will lead to their suspension, and as BdL will have to deal with banks and depositors based on the content of the capital controls law.

Further, Governor Salamé said that the market will operate based on the new official exchange rate and the rate that prevails on BdL's Sayrafa electronic exchange platform, given that the unification of the exchange rates cannot take place in one shot. He noted that this constitutes the first phase of the unification process until demand and supply transactions on the Sayrafa platform become the only reference for the determination of the exchange rate. He added that BdL will be monitoring the fluctuations of the exchange rate and that currency in circulation amounts to LBP 70 trillion currently, and affirmed that BdL can sterilize this amount in full by injecting \$1bn in the market in order to prevent steep fluctuations.

In parallel, he indicated that BdL is trying to manage the prevailing crisis through the multiple circulars that it has issued, as the crisis included challenges that are beyond the scope of BdL. He noted that the most significant development was the decision by the previous government to default on Lebanon's Eurobond obligations, which isolated Lebanon from international financial markets and rendered the flow of foreign currency to Lebanon more difficult, while the COVID-19 pandemic had a negative impact on the local and global economies.

In addition, Governor Salamé said that BdL's indicators point towards a real GDP growth rate of about 2% for the Lebanese economy in 2022, as imports have increased and the country had a favorable tourism season during the summer. But he noted that the problem lies in the public sector that constitutes a burden on the economy, and stressed the need to address this sector while reforms have focused only on the private sector and the banking system, and have ignored much-needed reforms in the public sector. He added that the financing of the three-fold increase in the wages and salaries of public sector workers and employees is the responsibility of the government and not BdL, given that if BdL prints money to fund this increase, it will trigger higher inflation rates than the inflation generated from the depreciation of the exchange rate on the parallel market. As such, he stressed the need for reform measures in the public sector and for the government to increase its revenues to finance the wage increase, given that BdL cannot address all the existing challenges by itself. He added that the public sector's wages and salaries totaled LBP1.3 trillion prior to the increase and will become LBP3.3 trillion after it, which means that BdL will have to inject \$340m in the next three months to cover the withdrawals of salaries from banks in US dollars through the Sayrafa platform based on Circular 161. He also said that BdL will manage to secure this amount from its dealings in the market through the Sayrafa platform and by other means, without weakening BdL's capabilities. He added that BdL does not withdraw US dollars from the market and holds them, but rather it redistributes dollar banknotes to individuals through the implementation of circulars, and that the dollars no longer go to importers as used to be the case during the period of import subsidies.

Banque du Liban announce completion of special audit of gold reserves

Banque du Liban (BdL) announced on November 24, 2022 the completion of the audit process of Lebanon's gold reserves that consist of bullions and coins. It said that BdL's external auditor selected and mandated a specialized international auditing firm, in coordination and agreement with the International Monetary Fund (IMF), to conduct the audit. It noted that the completion of the special purpose audit of BdL's foreign asset position comes at the request of the IMF and aims to improve the transparency of BdL. Further, BdL declared that the firm concluded after it conducted its audit that the BdL's gold assets that consist of gold bullions and coins correspond exactly to the journal entries in BdL's accounting books.

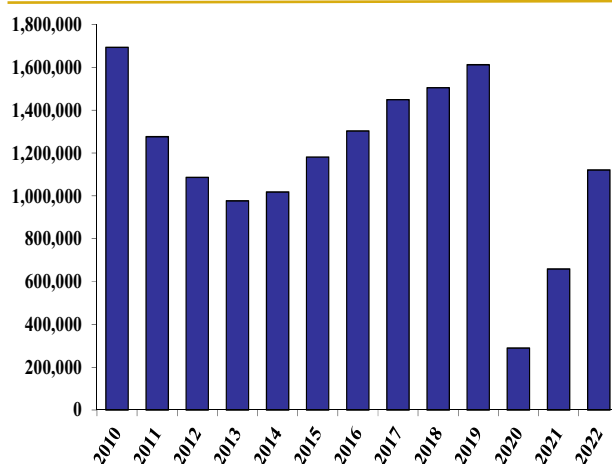
Lebanon has 9.25 million ounces of gold. BdL's interim balance sheet shows that the value of Lebanon's gold reserves amounted to \$16.4bn at mid-November 2022, constituting a decrease of \$223m, or of 1.3%, from the end of 2021. The value of gold reserves reached a peak of \$18.15bn at mid-April 2022.

Lebanese authorities reached a Staff-Level Agreement (SLA) with the IMF on April 7, 2022 on a \$3bn four-year Extended Fund Facility to support a comprehensive economic and financial reform program. The SLA includes nine prior actions that consist of auditing BdL's foreign assets, as well as the enactment of an emergency bank resolution legislation, the amendment of the banking secrecy law, the enactment of the 2022 budget, the approval of a medium-term fiscal and debt restructuring strategy, the unification of the exchange rates, the implementation of capital controls, and the initiation of an evaluation of each of the country's 14 largest banks.

Tourist arrivals up 70% in first nine months of 2022

Figures compiled by the Ministry of Tourism indicate that the number of incoming visitors to Lebanon totaled 1.12 million tourists in the first nine months of 2022, constituting a surge of 70% from 659,030 tourists in the same period of 2021 and a jump of 288% from 288,914 visitors in the first nine months of 2020. The number of incoming visitors reached 62,340 in January, 67,800 in February, 82,810 in March, 87,579 in April, 115,469 in May, 154,740 in June, 238,506 in July, 172,962 in August, and 138,721 in September 2022 compared to 23,560 visitors in January, 22,747 in February, 36,953 in March, 39,661 in April, 63,699 in May, 104,950 in June, 179,096 in July, 108,413 in August, and 79,951 in September 2021. This constituted increases of 164.6% in January, 198% in February, 124% in March, 120.8% in April, 81.3% in May, 47.4% in June, 33.2% in July, 59.5% in August, and 73.5% in September 2022 from the corresponding months of the previous year. The increase in the number of visitor arrivals in the first nine months of 2022 is due to the resumption of normal activity following the lifting of lockdown and social distancing measures in the country that the authorities imposed to contain the spread of the coronavirus, as well to the relaxation of travel restrictions in the main country sources of visitors to Lebanon. The figures exclude Lebanese, Syrian and Palestinian arrivals.

Number of Tourist Arrivals to Lebanon*



*in first nine months of each year

Source: Ministry of Tourism, Byblos Research

Visitors from European countries accounted for 39.5% of the total in the first nine months of 2022, followed by those from Arab countries with 27%, the Americas with 21.6%, Oceania with 4.2%, Asia with 3.9%, and Africa with 3.7%. On a country basis, tourists from the Iraq accounted for 14.5% of total visitors in the first nine months of 2022, followed by visitors from the United States (11.9%), France (8.9%), Germany (7.9%), Canada (7.1%), Egypt and Sweden (4.4% each), Jordan (3.9%), England (3.4%), Türkiye (1.8%), Kuwait (1.7%), Brazil and Italy (1.3% each), Venezuela (0.5%), Saudi Arabia (0.2%), and the UAE (0.05%); while other countries accounted for the remaining of 26.7%. Further, the number of visitors from Oceania surged by 884.6% in the first nine months of 2022 from the same period last year, followed by those from Asia (+78.2%), the Americas (+74%), the Arab countries (+72%), Europe (+54.3%), and Africa (+52.7%).

World Food Program allocates \$5.4bn in assistance to Lebanon

The Executive Board of the World Food Program (WFP) announced the allocation of \$5.4bn to Lebanon for the 2023-2025 period to support about one million Lebanese citizens and one million displaced Syrians during the covered period. It indicated that it will allocate the aid equally between Lebanese citizens and displaced Syrians who are in the country.

Further, the WFP said that it has provided since 2012 support to displaced Syrians who are in Lebanon and that it will continue to provide emergency assistance in kind and in cash. It added that it has disbursed \$700m per year in financial assistance, with 70% of the amount earmarked to displaced Syrians and 30% to Lebanese citizens. In addition, the agreement stipulates that the products purchased as part of the food aid program should originate entirely from Lebanese producers and farmers.

In parallel, the WFP noted that it is coordinating with the Ministry of Social Affairs in the implementation of the National Poverty Targeting Program (NPTP), Lebanon's first targeted social safety net project, which assists Lebanese living in extreme poverty and delivers social transfers and services to them to improve their living standard. Under the NPTP, the WFP provides \$20 per individual to buy food and \$25 per household per month to cover other essential needs. It indicated that, under the NPTP, it assisted 352,800 Lebanese individuals, or 63,000 vulnerable families as at October 2022 and expected to support 75,000 vulnerable Lebanese households by December 2022.

Further, it pointed out that it allocated \$23m in October 2022 to support 1,773,200 beneficiaries in Lebanon through cash-based transfers and the distribution of food parcels. It indicated that it provided assistance in October 2022 to 1,082,300 Syrian refugees, 685,400 Lebanese citizens, and 5,500 refugees carrying other nationalities. It said that 1,050,300 Syrian and non-Syrian refugees received cash assistance in October, in addition to 352,000 Lebanese citizens who received cash assistance through the Government's Emergency Social Safety Net program. It added that it supported 298,700 vulnerable Lebanese individuals, or 77,800 households, with food parcels in October, as part of its response to the ongoing economic crisis in the country.

The WFP noted that its strategic direction and priorities for the next three years, through the new Country Strategic Plan 2023-25, focuses on ensuring the essential needs of vulnerable Lebanese and refugees in the country, and on strengthening resilience at the household and community levels. It noted that donors that support the NPTP consist mainly of Canada, the European Commission, France, Germany, Ireland, Italy, and Norway.



Reforms complacency could jeopardize deal with International Monetary Fund

The World Bank projected Lebanon's real GDP to shrink by 5.4% in 2022 following a contraction of 7% in 2021, as it expected the authorities' macroeconomic policy response to the ongoing crises in the country to remain inadequate. It added that its projections takes into account a minimum level of stability on the political and security levels, but not hyperinflation or a complete depletion of foreign currency reserves at Banque du Liban (BdL) in 2022. It expected that the linkages between the exchange rate, currency in circulation, and the inflation rate to continue to shape the country's macroeconomic outlook.

It indicated that the Lebanese pound has lost more than 95% of its value on the parallel market since the start of the crisis, and that the first-degree effect of this sharp depreciation has been triple-digit inflation rates and a very sharp increase in currency in circulation in the domestic economy. As such, it considered that policies with implications on narrow money supply, such as the "lirafication" of deposits and monetization of the fiscal deficit, will continue to put upward pressure on inflation. It projected the Consumer Price Index (CPI) to rise by 150% in 2021 and 186% in 2022, despite the relative deceleration in the growth of currency in circulation in the first eight months of 2022. It attributed the surging inflation rate to the lifting of subsidies on certain goods that are included in the composition of the CPI, and to the increased dollarization in the Lebanese economy, specifically in the services sector where prices are converted at the more depreciated exchange rate that prevails on the parallel market.

In addition, it anticipated the current account deficit to widen from 12.5% of GDP in 2021 to 14.2% of GDP in 2022, in the absence of a macro-financial stabilization strategy, and for the wider deficit to negatively affect foreign currency reserves at BdL. It attributed the deterioration of the current account metric mainly to an 8% contraction in nominal GDP in 2022, as well as to a slight widening of the trade deficit this year, due to higher imports in the first seven months of the year in anticipation of the modification of the exchange rate at customs for certain imported goods.

Further, it estimated that the fiscal balance shifted from a deficit of 3.3% of GDP in 2020 to a surplus of 0.7% of GDP in 2021, and forecast a surplus of 0.5% of GDP in 2022 amid the decline in public revenues and expenditures levels. As such, it noted that the public debt level declined from 179.2% of GDP at the end of 2020 to 172.5% of GDP by end-2021, and forecast it to rise to 180.7% of GDP by the end of 2022.

In parallel, the World Bank noted that its economic forecast reflects the lack of political will for the implementation of comprehensive reforms, as well as the prevailing institutional vacuum in the country. It considered that the Lebanese political elite has been resistant to comprehensive reforms despite the multi-faceted crisis that the country has been facing for the past three years. It considered that this complacency will add significant delays for the Executive Board of the International Monetary Fund (IMF) to approve the disbursement of a \$3bn under the Extended Fund Facility as part of the Staff-Level Agreement that the IMF signed with Lebanese authorities on April 7, 2022.

First steps to increase electricity supply under way

The Ministry of Energy & Water announced that Coral Energy DMCC won a tender for the purchase of gas oil, and Vitol Bahrain won two tenders for the purchase of 'Grade A' fuel oil and 'Grade B' fuel oil to operate the power plants of the state-owned Electricité du Liban (EdL). The ministry launched on October 28, 2022 three tenders for the purchase of 'Grade A' fuel oil and 'Grade B' fuel oil and gas oil for the benefit of EdL. It indicated that it launched the tenders following the approval of the Prime Minister, Banque du Liban, and the Ministry of Finance to secure the necessary financing to purchase oil derivatives to operate the power plants of EdL, in order to increase power supply to between eight and 10 hours of electricity per day at an estimated cost of \$150m per month. The plan to reform the electricity sector aims to address power shortages by raising EdL's output to 1,150 megawatts at an average generation cost of 10 cents per kilowatt-hours (kWh) in the short term. Coral Energy DMCC, BB Energy trading, and Vitol Bahrain participated in the tenders. According to the terms and conditions of the tenders, the winning firms will deliver the fuel oil between December 1 and December 10, 2022.

In parallel, the ministry announced on October 2022 that EdL will increase its tariffs starting in November 2022. As such, EdL, which has been collecting tariffs in Lebanese pounds at the official exchange rate of the pound to the US dollar, issued a new detailed list of tariffs, which is the first change in prices since 1994 when tariffs were set based on an oil price of \$23 per barrel. It indicated that the new electricity tariffs will range from \$0.10 for consumption of less than 100 kWh per month to \$0.27 per kWh for higher consumption levels. Prior to the changes, electricity tariffs ranged from LBP35 per 100 kWh to LBP200 per 500 kWh. It pointed out that it will cancel the prevailing preferential tariffs for the agricultural, industrial, and tourism sectors, and for houses of worship. It said that it will cancel the tariffs of \$0.1 per kWh for consumption of less than 100 kWh for these sectors, and instead will apply a new tariff of \$0.27 per kWh, regardless of the level of consumption. Also, it indicated that the new tariffs will apply to all large public areas, such as shopping centers, supermarket and hotels, among others, with no difference between daytime, nighttime, and peak hours consumption.

Further, EdL noted that it will collect the new fees and tariffs in Lebanese pounds, and that it will calculate the amounts based on the exchange rate of the pound to the US dollar on Banque du Liban's Sayrafa electronic exchange platform. It said that it will adjust the tariffs every one or two months, according to the real cost of electricity production that is based on the global prices of oil and its derivatives. It indicated that it is working on completing technical preparations in its electronic billing center in order to set the new tariffs, and that it will collect invoices based on the new tariffs starting in February 2023.



Amount of cleared checks down 5%, returned checks down 41% in first 10 months of 2022

The amount of cleared checks reached LBP44,325bn, or the equivalent of \$29.4bn, in the first 10 months of 2022, constituting a decline of 4.6% from LBP46,482bn (\$30.8bn) in the same period of 2021. In comparison, the amount of cleared checks dropped by 31.7% in the first 10 months of 2021 and regressed by 0.8% in the same period of 2020 from the corresponding periods of the preceding year. The dollar figures are converted at the official exchange rate of the Lebanese pound to the US dollar. The amount of cleared checks in Lebanese pounds reached LBP30,840bn in the first 10 months of 2022 and increased by 35.7% from the same period last year, while the amount of cleared checks in foreign currency was \$8.9bn and dropped by 43.2% in the covered period. Also, there were 1.39 million cleared checks in the first 10 months of 2022, down by 49% from 2.74 million checks in the same period of the previous year. The dollarization rate of cleared checks regressed from 51% in the first 10 months of 2021 to 30.4% in the same period of 2022, while the number of checks denominated in foreign currency accounted for 46% of cleared checks in the covered period compared to 52.3% in the same period of 2021.

In addition, the amount of cleared checks totaled LBP6,576bn (\$4.4bn) in October 2022, up by 79% from LBP3,672bn (\$2.4bn) in the preceding month and by 99.3% from LBP3,300bn (\$2.2bn) in October 2021. The amount of cleared checks in Lebanese pounds reached LBP5,158bn in October 2022, as it increased by 83% from LBP2,817bn in September 2022 and surged by 163.7% from LBP1,956bn in October 2021. Further, the amount of cleared checks in foreign currency was \$941m in October 2022, and grew by 66% from the previous month and by 5.6% from October 2021. There were 93,322 cleared checks in October 2022 relative to 80,864 cleared checks in the preceding month and to 190,453 cleared checks in October 2021.

In parallel, the amount of returned checks in local and foreign currencies was LBP410bn (\$272m) in the first 10 months of 2022 compared to LBP700bn (\$464.3m) in the same period of 2021 and to LBP1,269bn (\$841.8m) in the first 10 months of 2020. This constituted a drop of 41.4% in the first 10 months of 2022 relative to decreases of 44.8% and 26% in the first 10 months of 2021 and 2020, respectively. The amount of returned checks in Lebanese pounds reached LBP221bn in the covered period and increased by 8.3% from the first 10 months of 2021, while the amount of returned checks in foreign currency was \$126m and contracted by 61.8% in the covered period. Also, there were 9,693 returned checks in the first 10 months of 2022, down by 56.7% from 22,388 returned checks in the same period of 2021. The number of returned checks in foreign currency reached 5,714 in the first 10 months of 2022 and dropped by 58% from the same period of 2021, while the number of returned checks in Lebanese pounds totaled 3,979 and retreated by 54.5% year-on-year.

Further, the amount of returned checks in domestic and foreign currencies stood at \$48.4m in October 2022 compared to \$20.6m in the previous month and to \$57m in October 2021. Also, there were 677 returned checks in October 2022, relative to 536 returned checks in September 2022 and to 1,679 checks in October 2021.

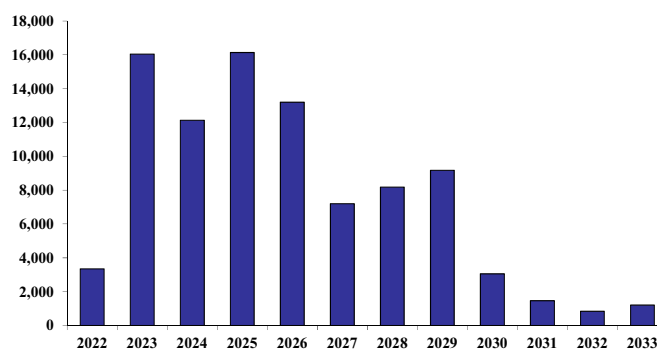
More than 63% of Treasury securities in Lebanese pounds have seven-year maturities or longer

Figures released by the Association of Banks in Lebanon show that the face value of outstanding Treasury securities denominated in Lebanese pounds reached LBP91,985bn at the end of September 2022 compared to LBP90,616bn at the end of September 2021. The outstanding Treasury securities denominated in Lebanese pounds were equivalent to \$61bn at the end of September based on the official exchange rate of the Lebanese pound to the US dollar, but they become equivalent to \$3.04bn based on the Sayrafa exchange rate of the Lebanese pound to the US dollar of LBP29,800 per dollar at the end of September. The weighted interest rate on Lebanese Treasury securities denominated in Lebanese pounds was 6.4% in September 2022 compared to 6.57% in September 2021.

The distribution of outstanding Treasury securities shows that 10-year Treasury bonds totaled LBP34,565bn and accounted for 37.6% of aggregate securities denominated in Lebanese pounds at the end of September 2022, followed by seven-year Treasury bills with LBP19,247bn (21%), five-year Treasury securities with LBP18,445bn (20%), three-year Treasury bonds with LBP5,948bn (6.5%), one-year Treasury securities with LBP4,175bn (4.5%), two-year Treasury bonds with LBP3,793bn (4.1%), 12-year T-bills with LBP3,076 (3.3%), 15-year Treasury securities with LBP1,417bn (1.5%), six-month T-bills with LBP1,047bn (1.1%), and three-month Treasury bonds with LBP272bn (0.3%). As such, 63.4% of outstanding Treasury securities have seven-year maturities or longer and 83.4% have five-year maturities or more.

In parallel, LBP2,507bn in outstanding Treasury securities denominated in Lebanese pounds matured in September 2022, of which 36% consisted of 10-year Treasury bills, 26.4% were five-year T-bills, 16.2% consisted of six-months Treasury bonds, 13.5% were seven-year Treasury securities, 5% consisted of two-year Treasury bills, 2.2% were three-year Treasury bonds, 0.6% consisted of one-year T-bills, and 0.3% were three-months Treasury securities. According to ABL, LBP3,350bn in outstanding Treasury bonds in Lebanese pounds will mature in the remainder of 2022 and LBP16,043bn will come due in 2023.

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



*as at end-September 2022

Source: Association of Banks in Lebanon, Byblos Research

Lebanon ranks 130th globally, sixth in Arab region in terms of bribery risks

TRACE, a non-profit international business association that aims to assess the multidimensional nature of bribery, compliance and good governance, ranked Lebanon in 130th place among 194 countries, territories and autonomous regions around the world and in sixth place among 19 Arab countries on its Bribery Risk Matrix for 2022. Lebanon ranked in the 33rd percentile worldwide in 2022, which means that 67% of jurisdictions have a lower level of bribery risk than Lebanon, while it ranked in the 68th percentile among Arab economies, which means that 32% of Arab countries have a lower bribery risk level than Lebanon. Also, Lebanon came in 27th place among 53 lower middle-income countries (LMICs) included in the matrix. In comparison, the matrix ranked Lebanon in 145th place among 194 jurisdictions around the world and in 10th place among 19 Arab countries in 2021. Based on the same set of countries included in the 2021 and 2022 Bribery Risk Matrix, Lebanon's global rank rose by 15 spots and its Arab rank improved by four notches in 2022.

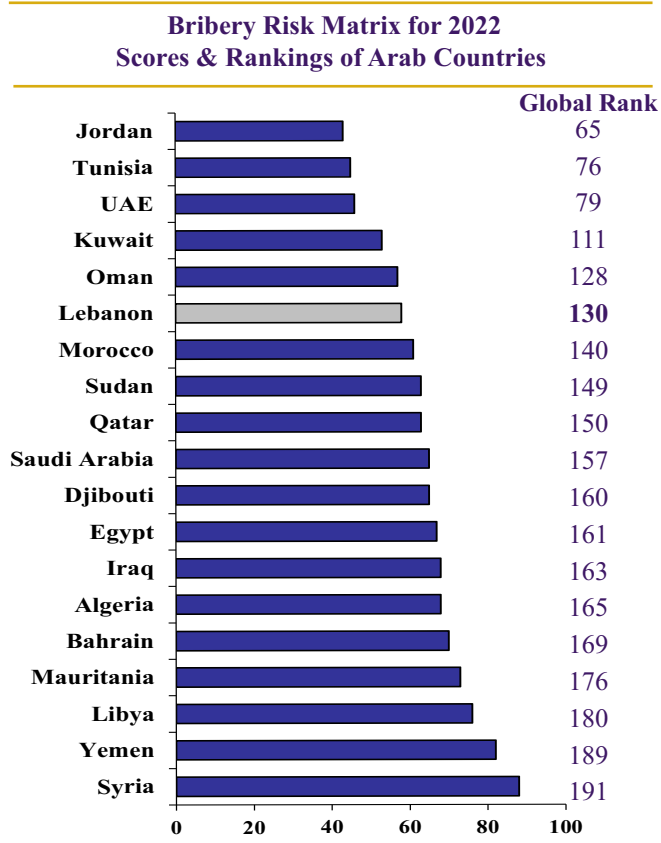
The matrix aims to quantify bribery risks in a given country and to help companies gauge the risks of encountering bribery practices in the public sector of jurisdictions where they aim to conduct business. It is a composite of four risk categories that are Business Interactions with Government, Anti-Bribery Deterrence and Enforcement, Government and Civil Service Transparency, and Capacity for Civil Society Oversight. The rankings are based on scores that range from zero to 100, with a score of 100 reflecting the highest risk of graft. The overall score of a country is the weighted average of the four scores on each category.

Globally, Lebanon has a higher level of bribery risk than Vietnam, Türkiye and Oman, and a lower bribery risk level than Uzbekistan, Niger and Zambia among economies with a GDP of \$10bn or more. Also, Lebanon preceded Papua New Guinea and Bolivia, and came behind Tanzania and Kenya among LMICs; while it trailed only Jordan, Tunisia, the UAE, Kuwait, and Oman in the Arab world. Lebanon received a score of 58 points in the 2022 survey, unchanged from 2021. Lebanon's score came higher than the global average score of 49.3 points, but it was lower than the Arab region's average score of 63.7 points, and was nearly the same as the LMICs' average score of 58 points. Further, it was lower than the Gulf Cooperation Council's (GCC) average score of 59 points and the non-GCC Arab countries' average score of 65.9 points.

Lebanon preceded Mauritania and Bahrain, and trailed Nicaragua and Iraq globally on the Anti-Bribery Deterrence and Enforcement category. This factor identifies factors to deter bribery through societal attitudes and through governmental enforcement. Lebanon came ahead of Mauritania and Cameroon and ranked behind the Philippines and Nicaragua among LMICs, while it ranked ahead of only Mauritania, Bahrain, Sudan, Yemen and Syria in the Arab world.

Further, Lebanon tied with Benin, Algeria and Laos, preceded Angola and Saudi Arabia, and trailed Cuba and Cameroon worldwide on the Government and Civil Service Transparency category. This factor addresses the accessibility of information about the public sector and verifies if there are regulations addressing conflicts of interest for civil servants. Lebanon came ahead of Angola and Iran, and behind Côte d'Ivoire and Cameroon among LMICs, while it tied with Algeria, ranked ahead of Saudi Arabia and Iraq, and trailed Bahrain and Morocco among Arab countries.

Finally, Lebanon tied with Poland, Ecuador, Ukraine and Paraguay, ranked ahead of Bolivia and Moldova, and came behind Brazil and North Macedonia globally on the Capacity for Civil Society Oversight category. This factor assesses the freedom and strength of non-governmental institutions to act as a check on public corruption. Lebanon preceded Bolivia and Nepal, and trailed Indonesia and Mongolia among LMICs, while it came in second place after Tunisia regionally.



Source: TRACE

Components of the 2022 Bribery Risk Matrix for Lebanon

	Global Rank	LMICs Rank	Arab Rank	Lebanon Score	Global Avg Score	LMICs Avg Score	Arab Avg Score
Business Interactions with Government	110	20	8	57.0	52.0	61.0	60.3
Anti-Bribery Deterrence and Enforcement	173	48	14	79.0	51.1	59.6	71.2
Government and Civil Service Transparency	151	36	9	68.0	52.1	62.1	68.0
Capacity for Civil Society Oversight	86	11	2	36.0	40.4	47.5	60.4

Source: TRACE, Byblos Research

Consumer Price Index up 159% year-on-year in October 2022

The Central Administration of Statistics' Consumer Price Index increased by 186.4% in the first 10 months of 2022 from the same period of 2021. In comparison, it grew by 137.8% and by 73.4% in the same periods of 2021 and 2020, respectively.

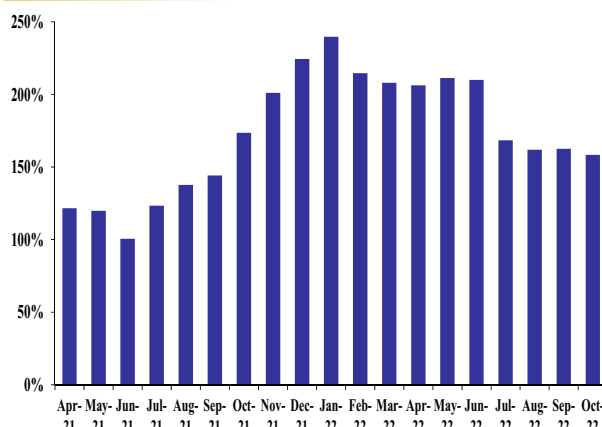
The CPI rose by 158.5% in October 2022 from the same month of 2021 and registered its 28th consecutive triple-digit increase since July 2020. The cumulative surge in the inflation rate is due in part to the inability of authorities to monitor and contain retail prices, as well as to the fluctuation of the Lebanese pound's exchange rate on the parallel market and the gradual lifting of subsidies on hydrocarbons, which have encouraged opportunistic wholesalers and retailers to raise the prices of consumer goods disproportionately. In addition, the smuggling of subsidized imported goods has resulted in shortages of these products locally, which contributed to the rise in prices. Further, the emergence of an active black market for gasoline in the summer of 2021 has put upward pressure on prices and on inflation at the time, but the lifting of subsidies on gasoline and the resulting disappearance of the retail black market for this product did not translate into a decline in prices.

The cost of healthcare surged by 3.7 times in October 2022 from the same month of 2021, followed by the prices of miscellaneous goods & services (+3.6 times), the prices of water, electricity, gas & other fuels (+3.5 times), communication costs (+3.3 times), transportation costs and the prices of food & non-alcoholic beverages (+3 times each), rates at restaurants & hotels and the cost of education (+2.9 times each), the prices of clothing & footwear, the cost of alcoholic beverages & tobacco and the prices of furnishings & household equipment and the cost of recreation & entertainment (+2.5 times each). In addition, the cost of imputed rent grew by 6.7% year-on-year in October 2022, followed by actual rent (+4.8%). Also, the distribution of actual rent shows that new rent grew by 6.4% and old rent increased by 2.5% in October 2022 from the same month of 2021.

In parallel, the CPI expanded by 14.6% in October 2022 from the previous month, compared to a month-on-month rise of 8.4% in September 2022 and an increase of 7.6% in August 2022. The cost of education surged by 186% in October 2022 from September, followed by the cost of recreation & entertainment (+29.7%), clothing & footwear prices (+27.4%), the prices of alcoholic beverages & tobacco (+11.5%), transportation costs (+10%), the prices of food & non-alcoholic beverages (+9%), the prices of water, electricity, gas and other fuels (+8.2%), rates at restaurants & hotels (+4.2%), the cost of miscellaneous goods & services (+4%), the prices of furnishings & household equipment and healthcare costs (+3.3%), imputed rent (+0.6%), and actual rent (+0.2%). In addition, communication costs were unchanged in October 2022 from the preceding month.

Further, the CPI increased by 16.5% in the North, by 14.6% in Mount Lebanon and in the South, by 14.4% in Beirut, by 12.9% in the Bekaa, and by 12.7% in the Nabatieh are during October 2022 from the previous month. In parallel, the Education Price Index surged by 176.8% in October 2022 from the preceding month, and the Fuel Price Index increased by 11.7% month-on-month in October 2022.

Annual Change in Consumer Price Index (%)



Source: Central Administration of Statistics, Byblos Research

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

Figures issued by Banque du Liban about the distribution of bank deposits at commercial banks in Lebanon show that aggregate deposits, which include demand deposits and term deposits, stood at \$133.1bn at the end of September 2022, constituting a decrease of \$6.2bn, or of 4.5%, in the first nine months of the year from \$139.3bn at the end of 2021.

Total deposits include private sector deposits that reached \$125bn, deposits of non-resident financial institutions that amounted to \$4.4bn, and public sector deposits that stood at \$3.8bn at the end of September 2022. The dollar figures are converted at the official exchange rate of the Lebanese pound to the US dollar.

Term deposits in all currencies reached \$74.2bn at the end of September 2022 and declined by \$12.8bn, or by 14.7%, from \$87bn at end-2021; while they accounted for 55.8% of total deposits in Lebanese pounds and in foreign currency as at end-September 2022 relative to a share of 62.5% at the end of 2021.

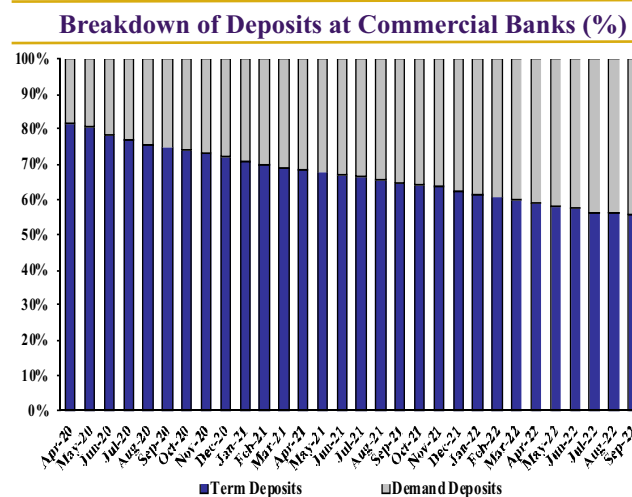
The decline in term deposits is due a drop of 40.7% in the term deposits in Lebanese pounds of the public sector, a decrease of 17.7% in the term deposits of the non-resident financial sector, a decline of 17.3% in the term deposits in Lebanese pounds of the resident private sector, a retreat of 13.7% in the foreign currency-denominated term deposits of the resident private sector, a contraction of 10.2% in the term deposits of non-residents, and a downturn of 7.5% in foreign currency-denominated term deposits of the public sector. The decline in term deposits is due to cash withdrawals and to the migration of funds from term to demand deposits, amid the confidence crisis that started in September 2019. Aggregate term deposits declined by \$92.3bn since the end of September 2019.

Further, foreign currency-denominated term deposits of the resident private sector reached \$42.5bn and accounted for 32% of aggregate deposits at the end of September 2022. Term deposits of non-residents followed with \$15bn (11.3%), then term deposits in Lebanese pounds of the resident private sector with \$11.3bn (8.5%), term deposits of the non-resident financial sector with \$2.8bn (2%), term deposits of the public sector in Lebanese pounds with \$2bn (1.5%), and term deposits of the public sector in foreign currency with \$651m (0.5%).

In parallel, demand deposits in all currencies at commercial banks stood at \$58.9bn at the end of September 2022 and increased by \$6.6bn, or by 12.6%, from \$52.3bn at end-2021. They accounted for 44.2% of total deposits at end-September 2022 relative to a share of 37.5% at the end of 2021. The increase in demand deposits was mainly due to a rise of \$3.7bn in demand deposits in Lebanese pounds of the resident private sector, a growth of \$2.1bn in foreign currency-denominated demand deposits of the resident private sector, an increase of \$562m in demand deposits of non-residents, an expansion of \$130.3m in demand deposits of the non-resident financial sector, an upturn of \$79.6m in demand deposits in Lebanese pounds of the public sector, and a rise of \$77.4m in demand deposits in foreign currency of the public sector.

Also, demand deposits in foreign currency of the resident private sector totaled \$33.1bn and represented 25% of deposits at end-September 2022. Demand deposits in Lebanese pounds of the resident private sector followed with \$14.6bn (11%), then demand deposits of non-residents with \$8.4bn (6.3%), demand deposits of the non-resident financial sector with \$1.6bn (1.2%), demand deposits in Lebanese pounds of the public sector with \$822.4m (0.6%), and demand deposits in foreign currency of the public sector with \$326.5m (0.2%).

Based on the latest available figures, Beirut and its suburbs accounted for 66.3% of private-sector deposits and for 49.8% of the number of depositors at the end of June 2022. Mount Lebanon followed with 14.9% of deposits and 18.7% of beneficiaries, then South Lebanon with 7.2% of deposits and 11.2% of depositors, North Lebanon with 6.6% of deposits and 12% of beneficiaries, and the Bekaa with 5% of deposits and 8.4% of depositors.

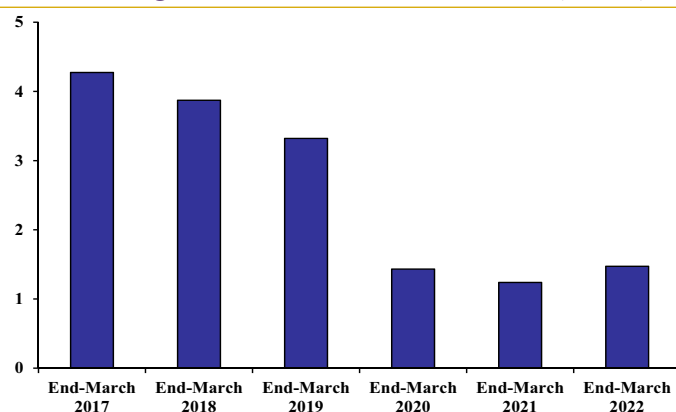


Source: Banque du Liban

Foreign investments of financial sector at \$1.5bn at end-March 2022

Figures issued by Banque du Liban (BdL) show that the net investment portfolio of Lebanese banks and financial institutions in foreign debt and equity securities totaled \$1.47bn at the end of March 2022, constituting a decrease of 5.1% in the first quarter of the year from \$1.55bn at the end of 2021 and a decline of 55.7% from \$3.3bn at the end of March 2019. According to BdL, the figures cover the net assets of resident banks and financial institutions in foreign tradable debt and equity instruments, on behalf of their clients and on a custodial basis mostly. Placements in equities reached \$798.3m at the end of March 2022 and accounted for 54.3% of the total, followed by investments in long-term debt securities at \$672.2m (45.7%), and investments in short-term debt securities at \$0.86m (0.1%). Placements in equities regressed by 8%, investments in short-term debt securities declined by 7.1%, and investments in long-term debt securities decreased by 1.4% in the first quarter of 2022.

Foreign Investments of Financial Sector (US\$bn)



Source: Banque du Liban, Byblos Research

The investments of commercial banks in long-term debt securities, totaled \$278m and accounted for 41.4% of the financial sector's aggregate investments in such securities at the end of March 2022. The net investments of medium- and long-term banks followed with \$197m (29.3%), then insurance companies with \$173.5m (25.8%), and financial institutions with \$23.5m (3.5%). Further, medium- and long-term banks' investments in equities reached \$227m and represented 28.5% of the financial sector's investments in such securities at the end of March 2022. Financial institutions followed with \$218.2m (27.3%), then commercial banks with \$198.5m (25%), insurers with \$154.2 (19.3%), and financial intermediaries with \$0.33m (0.04%). In parallel, insurance firms had \$0.86m invested in short-term debt securities at the end of March 2022 and were the only segment to place funds in such securities.

The distribution of investments by destination shows that the United States was the main recipient of equity investments of banks and financial institutions operating in Lebanon with \$211.8m, or 26.5% of the total at the end of March 2022. The United Kingdom followed with equity investments of \$94.7m (12%), then Saudi Arabia with \$72.8m (9.12%), the Netherlands with \$72.6m (9.1%), and Luxembourg with \$63.6m (8%), while other countries accounted for the remaining 35.4%. In parallel, the United Kingdom was the recipient of \$130.3m or 19.4% of investments by Lebanese banks and financial institutions in long-term debt securities, followed by France with \$114.8m (17%), the United States with \$94.06m (14%), Switzerland with \$61m (9%), and Ireland with \$47.6m (7%), while other countries accounted for the balance of 33.4%. Further, the United Kingdom was the recipient of 77% of investments by Lebanese banks and financial institutions in short-term debt securities, followed by the European Union with 23%.



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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