

LEBANON THIS WEEK

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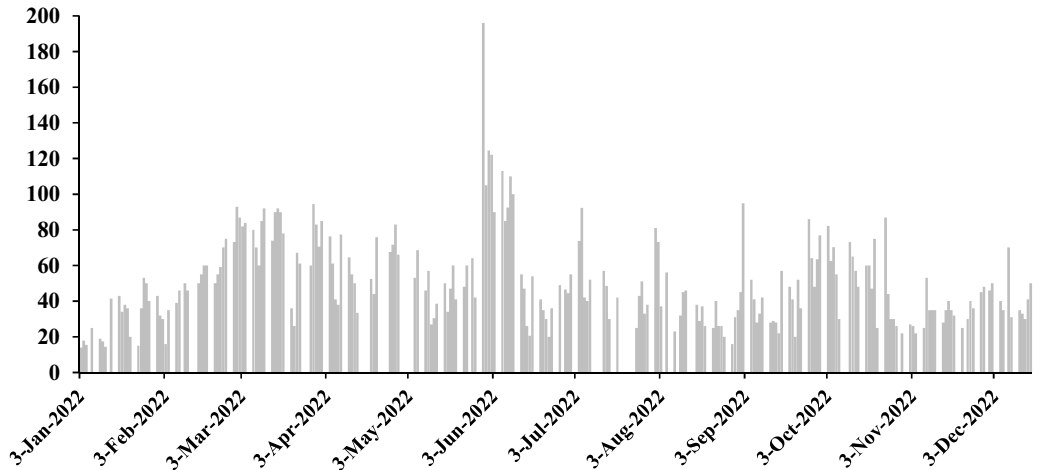
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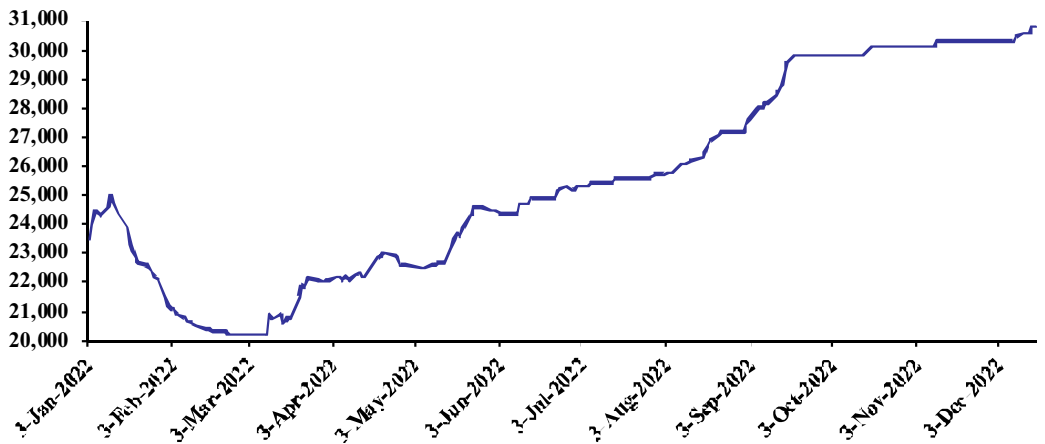
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Charts of the Week

Daily Volume of Transactions on Banque du Liban's Sayrafa Platform since the start of 2022* (in US\$ million)



Daily Exchange Rate of the Lebanese pound against the US dollar on the Sayrafa Platform (since the start of 2022*)



*until December 16, 2022
 Source: Banque du Liban, Byblos Bank

Quote to Note

"Bold actions are needed and time is running out."

The ambassadors to Lebanon of the Group of Seven advanced economies, on the urgent need to elect a president and form a government in order to address the prevailing socioeconomic challenges through structural reforms

Number of the Week

10: Number of times the Lebanese Parliament has convened since September 29 and has failed to elect a president for the country

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"	55.30	1.7	404,348	41.3%	Jan 2023	6.00	5.75	15,948.30
Solidere "B"	53.75	(0.5)	266,113	26.1%	Apr 2024	6.65	5.75	381.06
BLOM Listed	2.66	(12.5)	10,000	4.3%	Jun 2025	6.25	5.75	155.89
Audi GDR	1.30	(7.1)	5,000	1.2%	Nov 2026	6.60	5.75	87.47
Byblos Common	0.60	0.0	4,000	2.5%	Mar 2027	6.85	5.75	79.68
Audi Listed	1.45	0.0	-	6.4%	Feb 2030	6.65	5.75	43.99
BLOM GDR	2.50	0.0	-	1.4%	Apr 2031	7.00	5.75	37.36
HOLCIM	31.00	0.0	-	4.5%	May 2033	8.20	5.75	29.41
Byblos Pref. 08	27.00	0.0	-	0.4%	Nov 2035	7.05	5.75	23.48
Byblos Pref. 09	37.98	0.0	-	0.6%	Mar 2037	7.25	5.75	21.07

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

Source: Refinitiv

	Dec 12-16	Dec 5-9	% Change	November 2022	November 2021	% Change
Total shares traded	689,461	662,917	4.0	2,846,751	978,219	191
Total value traded	\$35,729,505	\$10,775,750	231.6	\$70,830,164	\$15,321,865	362.3
Market capitalization	\$13.40bn	\$13.41bn	(0.1)	\$13.35bn	\$10.35bn	29.0

Source: Beirut Stock Exchange (BSE)



TotalEnergies to start drilling in Block 9 in first quarter of 2023

TotalEnergies EP Liban sal announced on December 12, 2022 that the company will launch its offshore drilling operations in Block 9 of Lebanon's territorial waters in the first quarter of 2023, following the U.S.-brokered maritime agreement to delineate the maritime border between Lebanon and Israel that was sealed last October of this year. It indicated that it launched the call for tenders to secure the drilling rig and expected to select the rig in the first quarter of next year. It said that it has placed pre-orders with suppliers for the equipment it needs to begin the exploration of oil and gas, and pointed out that it will finalize the environmental studies phase of the project by the end of June 2023. Further, it noted that TotalEnergies teams are collaborating with the Lebanese Petroleum Administration in order to achieve the objective of the company and its partner Italy's Eni International BV to complete the drilling as soon as possible in 2023. It added that its exploration team in Beirut will reach more than 20 employees by the end of March 2023.

TotalEnergies EP Liban sal, which is the operator of the consortium that won bids for the exploration of oil and gas in Block 4 and Block 9 of Lebanon's territorial waters, announced in April 2020 that the results of the drilling of Lebanon's first exploration well of oil and gas were "negative". It indicated that it found evidence of traces of gas in the well, which confirms the presence of a hydrocarbon system in Lebanon's territorial waters. However, it said that it did not find reservoirs in the Tamar formation, which was the main target of the exploration well that is located 30 kilometers offshore of Beirut. It pointed out that despite the "negative" results, the exploration has provided valuable information that will be incorporated in future complementary studies about the exploration potential of Lebanon's offshore Exclusive Economic Zone. Also, On October 27, 2022, Lebanon and Israel officially approved a United States-brokered agreement that delineates for the first time the maritime border of the two sides, which opens up offshore energy exploration in Block 9.

The Council of Ministers approved in 2012 the launch of the first offshore licensing round for the exploration of oil and gas in Lebanon's offshore territorial waters. Further, the government published in 2017 the decrees that govern the division of Lebanon's maritime waters into 10 blocks, and the tender protocol for the award of exploration and production agreements. Further, the Lebanese government signed on February 9, 2018 the first exploration and production agreements with a consortium that consists of France's TotalEnergies, Italy's Eni International and Russia's Novatek for oil and gas exploration and production in Block 4 and Block 9.

Energy Ministry launches process to establish Electricity Regulatory Authority

The Ministry of Energy & Water (MoEW) unveiled the recruitment process for selecting the president and the board members of the Lebanon Electricity Regulatory Authority (ERA). It said that the recruitment procedures will be based on open competition among candidates who meet a set of general and specific requirements in terms of knowledge, professional and technical expertise. It added that it will establish an independent committee that is composed of local and international experts to evaluate the candidates, and that the committee will conduct the recruitment process according to best practices of member countries of the European Union. It specified that the deadline for candidates to submit the required documents is December 31, 2022. Also, the ministry considered that the establishment of the ERA and the recruitment of its members are the only remaining conditions of the World Bank to approve a loan to finance the transport of gas and electricity from Egypt and Jordan, respectively, to Lebanon as per the agreements that the three countries have already signed.

Law 462 of September 2002 separates the role of the ministry from the role of the regulator. According to the MoEW, the law transfers key regulatory functions to the ERA but leaves some gaps and also overlaps with the ministry's policy-making roles.

The mandate of the ERA consists of preparing studies related to the general master plan for the power sector in the generation, transmission and distribution fields; preparing decrees and regulations related to the implementation of the law; and providing comments on draft laws and decrees about the electricity sector. Further, it should promote investments in the electricity sector; ensure and encourage competition in the sector; determine and classify the various categories of generation, transmission and distribution services; set the ceiling of the prices of generation services and tariffs; as well as formulate the technical and environmental standards and rules and control their implementation.

In addition, the ERA has to determine the rules and standards of the licenses and authorizations; issue, renew, suspend, amend and cancel licenses and authorizations; as well as ensure the compliance of the holders of generation and distribution licenses and authorizations and of the transmission sector, with the laws, regulations, agreements, and conditions of the licenses and authorizations, and with the tender documents. Also, the ERA's mandate includes ensuring that all holders of licenses and authorizations benefit equally from the transmission equipment according to the tariffs set; verify the smooth running of the generation, transmission and distribution services; and examine and approve the requests for license and authorization holders to modify the services that they have to offer.

Moreover, the ERA has to prepare an annual report on its activities and submit it to the Council of Ministers; act as an intermediary and as an arbitral committee in order to resolve disputes between the licensees; and take any decision, measure, or any other action specified in the present law and regulations in force.

The government controls the electricity sector in Lebanon through the state-owned and money-losing Electricité du Liban, which operates as a monopoly, even though Law 462 provides for the privatization of the production and distribution of electricity.



Banque du Liban's foreign assets at \$15.3bn, gold reserves at \$16.4bn at mid-December 2022

Banque du Liban's (BdL) interim balance sheet reached \$189.6bn on December 15, 2022, constituting increases of 16.2% from \$163.2bn at end-2021 and of 15.7% from \$164bn a year earlier. Assets in foreign currency totaled \$15.25bn at mid-December 2022, representing a decrease of \$2.58bn, or of 14.5%, from the end of 2021 and a drop of \$2.84bn (-15.7%) from \$18.1bn at mid-December 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 \$10.22bn at mid-December 2022, constituting an increase of \$63.4m (+0.6) from \$10.16bn at the end of November 2022 and a decrease of \$24.4m (-0.2%) from \$10.26bn at mid-November 2022. They dropped by \$2.58bn (-20.1%) from \$12.8bn at the end of 2021 and by \$2.84bn (-21.7%) from \$13.06bn at mid-December 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.

Further, BdL's balance sheet shows that currency in circulation outside BdL stood at LBP74,773.3bn at mid-December 2022, constituting a rise of 94.4% from LBP38,456bn at mid-June 2022, a jump of 63.4% from LBP45,761.3bn at end-2021, and a surge of 64% from LBP45,560bn at mid-December 2021.

In parallel, the value of BdL's gold reserves amounted to \$16.4bn at mid-December 2022, constituting a decrease of \$213m (-1.3%) from the end of 2021 and an increase of \$76.8m (+0.5%) from \$16.3bn at mid-December 2021. The value of gold reserves reached a peak of \$18.15bn at mid-April 2022. Also, the securities portfolio of BdL totaled \$40.3bn at mid-December 2022, representing declines of \$1.02bn (-2.5%) from the end of 2021 and of \$993.2m (-2.4%) from \$41.25bn a year earlier. In addition, loans to the local financial sector totaled \$11.9bn, as they regressed by 12.8% from the end of 2021 and from mid-December 2021. Further, the deposits of the financial sector stood at \$105.9bn at mid-December 2022 and decreased by \$609.2m from a year earlier. In addition, public sector deposits at BdL stood at LBP19,474.7bn (\$12.9bn) at mid-December 2022, as they rose by LBP7,783.1bn (\$5.2bn) from the end of the previous year and surged by LBP8,246.6bn (\$5.5bn) from mid-December 2021.

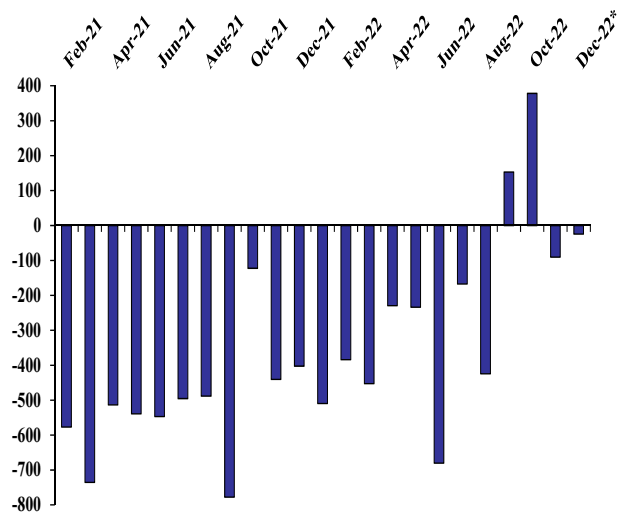
European Union allocates €229m in assistance to Lebanon for 2023

The European Union (EU) announced that it has allocated €229m to support Lebanon and its citizens in 2023 amid the prevailing economic crisis, in order to implement reforms and to improve the country's economic prospects. As such, it identified the priorities to earmark the new financial package.

First, it indicated that it aims to enhance good governance and support reforms. It said that it will assist Lebanon in implementing reforms related to the public administration that focus on integrity, transparency and accountability, in line with the opportunities that the recent Staff-Level Agreement with the International Monetary Fund identified. It added that the assistance will target reforms in civil service, public financial management, and access to public information. Second, it noted that it will work with the Lebanese government and civil society stakeholders to empower Lebanese females and contribute to gender equality. It pointed out that it will help increase the leadership of females as well as their participation in political and public arenas, and work on creating an environment to improve female representation in the workforce. It added that it will support the implementation of legislation to protect females from all forms of violence. Third, it stated that it will support Lebanon's transition to renewable energy, under the priority of promoting a green and sustainable recovery. It said that it will fund energy efficiency equipment in public sector buildings and contribute to a more efficient provision of public services. It pointed out that it will focus on increasing the competitiveness of Lebanese industries, mainly in the agro-food sector, by promoting entrepreneurship, innovation and technology transfers for sustainable energy solutions. Fourth, it said that it will continue to provide significant assistance to vulnerable Lebanese and Syrian refugees and help them access vital services in education, healthcare, social protection, and water provision.

In parallel, the EU noted that, since 2012, the European Commission has allocated over €2.4bn in financial aid and technical assistance to Lebanon.

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



*as of mid-December 2022

Source: Banque du Liban, Byblos Research

Trade deficit widens by 60% to \$14.6bn in first 11 months of 2022

Figures issued by Lebanese Customs show that total imports reached \$17.8bn in the first 11 months of 2022, constituting an increase of 44% from \$12.4bn in the same period of 2021; while aggregate exports totaled \$3.2bn and declined by 1.6% from \$3.27bn in the first 11 months of 2021. As such, the trade deficit widened by 60.2% to \$14.6bn in the first 11 months of 2022 from the same period last year, due to a rise of \$5.4bn in imports compared to a downturn of \$50.8m in exports. The coverage ratio, or the exports-to-imports ratio, was 18% in the first 11 months of 2022 relative to 26.4% in the same period of 2021.

Non-hydrocarbon imports increased by \$3.8bn, or by 43.8%, to \$12.6bn in the first 11 months of 2022; while the imports of oil & mineral fuels grew by \$1.6bn, or by 44%, to \$5.2bn. Oil & mineral fuels accounted for 29% of the imports bill in the covered period, unchanged from the same period last year. Lebanon imported 5.5 million tons of oil & mineral fuel in the first 11 months of 2022 relative to 6.7 million tons in the same period of 2021. The rise in non-hydrocarbon imports is mainly due to the stocking of imported goods in anticipation of the increase in the exchange rate for customs, as stipulated in the budget for 2022, while the jump in hydrocarbon imports is due to the surge in global oil prices following Russia's invasion of Ukraine.

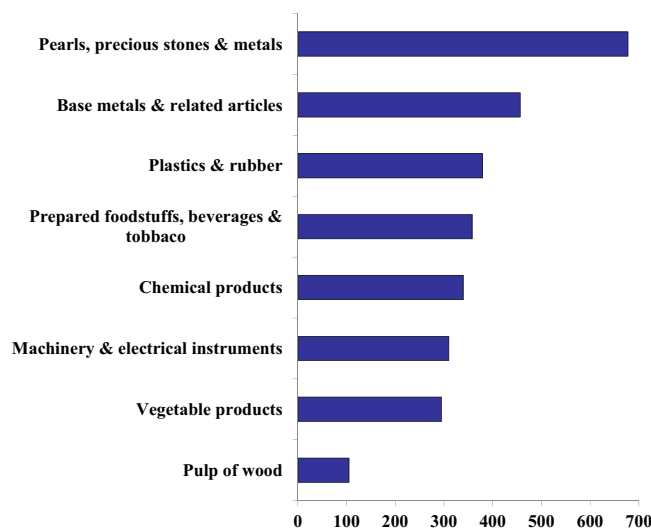
The decrease in exports was due to a drop of \$241.7m, or of 26.3%, in the exports of pearls, precious stones & metals in the first 11 months of 2022; a decline of \$168.4m (-36.4%) in the exports of vegetable products; a decrease of \$28.8m (-74%) in the exports of live animals and animal products; a contraction of \$19m (-31%) in exported vehicles, aircraft, vessels, transport equipment, and a downturn of \$11.4m (-3.1%) in the exports of prepared foodstuffs, beverages, and tobacco.

Exports to Syria rose by 320.6% in the first 11 months of 2022, those to Türkiye jumped by 87.2%, exported goods to South Korea increased by 31.8%, exports to Iraq expanded by 29%, those to Jordan improved by 12.8%, and exports to Egypt picked up by 2.2%. In contrast, exported goods to Switzerland dropped by 66.4% in the covered period, those to Qatar declined by 26.8%, exports to the U.S. decreased by 21%, and those to the UAE contracted by 12.2%. Also, re-exports totaled \$299.6m in the first 11 months of 2022 compared to \$331.5m in the same period of 2021. The Port of Beirut was the exit point for 45.5% of Lebanon's exports in the first 11 months of 2022, followed by the Hariri International Airport (29.4%), the Masnaa crossing point (13.4%), the Port of Tripoli (9%), the Port of Saida (1.8%), the Abboudieh crossing point (0.7%), and the Arida crossing point (0.3%).

Lebanon's main non-hydrocarbon imports were machinery & electrical instruments that reached \$2.3bn in the first 11 months of 2022 and increased by 123.3% from the same period of 2021. The imports of vehicles, aircraft & vessels followed with \$1.9bn (+99%), then imported pearls, precious stones & metals with \$1.6bn (+41.2%); the imports of chemical products with \$1.1bn (-20%); the imports of prepared foodstuffs with \$941.6m (+25.6%); imported vegetable products with \$910.8m (+20.6%); base metals with \$768.9m (+56.8%); and plastics & rubber with \$579.1m (+30%). The Port of Beirut was the entry point for 63.6% of Lebanon's merchandise imports in the first 11 months of 2022, followed by the Hariri International Airport (18.7%), the Port of Tripoli (10.5%), the Masnaa crossing point (4.1%), the Port of Saida (2.7%), the Arida crossing point (0.2%), the Abboudieh crossing point (0.1%), and the Port of Tyre (0.03%).

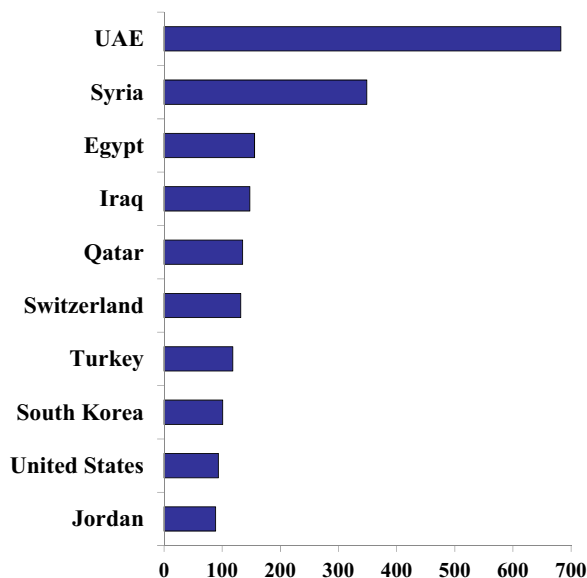
China was the main source of imports with \$2.5bn and accounted for 14% of the total in the first 11 months of 2022, followed by Türkiye with \$2.24bn (12.6%), Greece with \$1.7bn (9.7%), Italy with \$967.3m (5.4%), the U.S. with \$921.7m (5.2%), the UAE with \$665.8m (3.7%), Germany with \$631.2m (3.5%), Switzerland with \$601.2m (3.4%), India with \$534m (3%), and Egypt with \$468m (2.6%). Further, imported goods from India surged by 143.3% in the first 11 months of 2022, followed by imports from China (+124.3%), Switzerland (+104%), Türkiye (+78.4%), Italy (+72.2%), Egypt (+58%), Greece (+40.4%), the U.S. (+33%), and Germany (+12.2%). In contrast, imported goods from the UAE declined by 9% in the covered period.

Main Lebanese Exports in First 11 Months of 2022 (US\$m)



Source: Lebanese Customs Administration, Byblos Research

Main Destinations of Lebanese Exports in First 11 Months of 2022 (US\$m)



Source: Lebanese Customs Administration, Byblos Research

Tourist spending down 31%, number of refunds up 5% in first nine months of 2022

Figures issued by Global Blue, the value-added tax (VAT) refund operator for international shoppers, show that spending by visitors in Lebanon declined by 31% in the first nine months of 2022 from the same period last year, while they increased by 31% in the third quarter of 2022 from the same quarter last year. The figures cover purchases on which visitors claimed VAT refunds. Spending above €5,000 per visitor accounted for 63% of total expenditures by visitors in the first nine months of 2022, followed by expenditures between €1,500 and €5,000 (18%), spending between €750 and €1,500 and expenditures between €300 and €750 (7% each), and outlays of less than €300 (5%). Spending by tourists in Lebanon fell by 36% in January from the same month last year, while it grew by 149% in February, then it declined by 37% in March, by 80% in April, by 37% in May, by 60% in June, by 3% in July, while it increased by 21% in August and 89% in September 2022 from the corresponding months of the previous year.

Further, visitors from the UAE accounted for 16% of tourist expenditures in the first nine months of 2022, followed by visitors from Kuwait, Saudi Arabia and Syria with 6% each, Qatar with 5%, and Egypt with 4%; while visitors from other countries represented the remaining 53%. Also, spending by travelers from Kuwait increased by 14% in the first nine months of 2022, followed by expenditures from Saudi Arabia (+8%). In contrast, spending by tourists from Egypt fell by 52% in the first nine months of this year, followed by expenditures by visitors from Syria (-42%), the UAE (-31%), and Qatar (-28%), while the outlays of visitors from other countries declined by 34%. In comparison, spending by travelers from Saudi Arabia surged by 90% in the third quarter of 2022 from the same quarter of the previous year, followed by expenditures from the UAE (+43%), Kuwait (+18%), and Qatar (+8%). In contrast, spending by tourists from Egypt dropped by 46% in the third quarter of 2022, followed by expenditures by visitors from Syria (-32%), while the outlays of visitors from other countries increased by 45%.

In addition, Beirut attracted 82% of aggregate expenditures in the first nine months of 2022, followed by the Metn area with 16%, and the Baabda & Aley region with 1%. In parallel, fashion & clothing accounted for 71% of total spending in the first nine months of this year, followed by disbursements on watches & jewelry with 22%, outlays at department stores with 3%, payments on sports equipment & clothing and spending on home & garden products with 1% each. Spending on sports equipment & clothing dropped by 60% during the covered period, expenditures on home & garden products decreased by 51%, spending on department stores declined by 47%, expenditures on fashion & clothing regressed by 32%, and outlays on watches & jewelry contracted by 21%, and while spending on other categories dipped by 43% in the covered period.

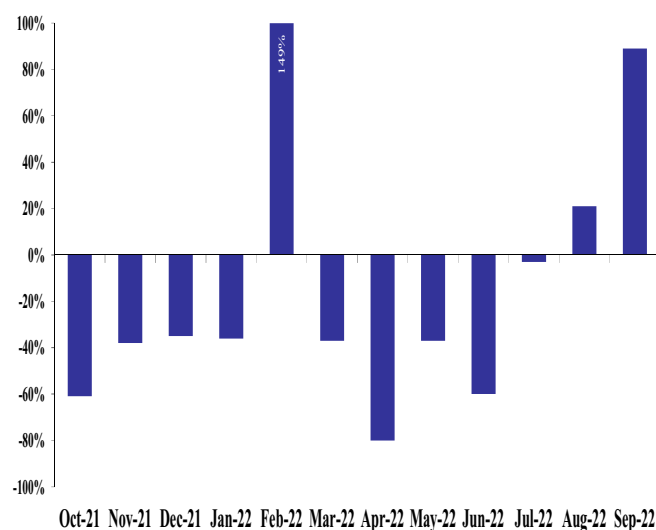
In parallel, the total number of refund transactions by visitors increased by 5% in the first nine months of 2022 from the same period last year, with the number of refund transactions by visitors declining by 14% in the third quarter of 2022 from the same quarter of 2021. Visitors from the UAE accounted for 14% of the number of refund transactions in the first nine months of 2022 from the same period of 2021, followed by those from Syria (11%), Egypt (9%), Saudi Arabia (8%), Qatar (4%), and Kuwait (3%), while other countries represented the remaining 52%. Refund transactions for amounts of less than €300 accounted for 59% of the total number of refunds, followed by spending that ranges from €300 to €750 (19%), outlays of between €750 and €1,500, disbursements of €1,500 to €5,000 (9% each), and payments that exceed €5,000 (5%).

Telecommunications Ministry signs agreement with Cyta to build new subsea cable

The Ministry of Telecommunications signed an agreement with the Cyprus Telecommunications Authority (Cyta) to start the construction and maintenance of CADMOS-2, a new subsea telecommunications cable between Lebanon and Cyprus, in order to improve Internet connectivity in Lebanon and support the country's information and communication technology sector. The ministry indicated that Cyta will bear the entire cost of the project, and expected the new cable to be operational by the end of 2024. It added that the cable will replace the old CADMOS cable, which was built in 1995 and that should be de-commissioned, given that its lifespan is about to expire.

Further, the ministry noted that the initial stage of the bidding process will start in early 2023 in cooperation with Cyta. It said that the existing CADMOS cable provides significant Internet capacity and constitutes a safety connection in case of a breakdown in the IMEWE submarine network, which is a communication cable system between India and France that has been in operation since 2009 and that was connected to Lebanon in November 2011. The ministry and Cyta announced back in 2011 their intention to build the Europa Cable System to replace the existing CADMOS cable.

Change in Visitors' Spending (Year-on-Year)



Source: Global Blue, Byblos Research

Low prospects for near term resolution of government default

Global investment bank Goldman Sachs indicated that the previous Lebanese government's decision to default on its Eurobonds obligations in March 2020 has accelerated the country's slide into the crisis, with economic activity shrinking by about 50% in real terms since then, inflation rates rising to an average of 200% in the past year, the Lebanese pound losing 95% of its value against the US dollar on the parallel market, in addition to losses that have crippled the financial system. It added that the current political impasse is likely to delay the already lagging efforts at reforms and progress on the agreement with the International Monetary Fund (IMF). It noted that the impact of the COVID-19 pandemic, the blast at the Port of Beirut in August 2020 that killed over 200 people and destroyed large areas of the capital, and, more recently, an outbreak of cholera, have compounded the challenges of the economic and financial crisis. As such, it projected real GDP to shrink by 3.6% in 2022 and by 2% in 2023, and for economic activity to expand by 5.7% in 2024, supported by favorable base effects.

It noted that the April 2022 Staff Level Agreement between the Lebanese authorities and the IMF provided some optimism for investors and depositors. However, it considered that the extensive list of prior actions that the IMF required in order to unlock the \$3bn four-year Extended Fund Facility continue to present a major obstacle, given the weak policy environment and deep political divisions. It said that the political environment has become even more challenging, as President Michel Aoun's six-year term came to an end with Parliament failing to elect a successor after repeated attempts, and with the current Cabinet acting in a caretaker capacity with limited prerogatives. It considered that it may take many months to elect a new president and to form a functioning government, and that, even in this case, the Cabinet could face difficulties to push through Parliament the necessary prior actions to secure funding from the IMF and international partners.

In parallel, it expected that the depreciation of the exchange rate on the parallel market and the ongoing economic uncertainties about the country's outlook make the estimates of the recovery value of Lebanese Eurobonds highly uncertain. But it estimated that the recovery values on the restructured debt are likely to range between 16 cents and 20 cents per US dollar, assuming a coupon on the restructured debt of 12% and depending on the exit yield.

International contributions to Lebanon Crisis Response Plan at \$812m in first nine months of 2022

The United Nations indicated that international contributions to the Lebanon Crisis Response Plan (LCRP) reached \$812m in the first nine months of 2022 and represented 24% of the \$3.4bn that the LCPR appealed for to assist the affected Lebanese and non-Lebanese individuals in the country in the covered period. It added that international contributions totaled \$352m in the first quarter, \$183m in the second quarter, and \$277m in the third quarter 2022. It also noted that it carried \$330.4m from funding it received in 2021, which is equivalent to 10% of the total appealed funds for 2022. As such, it said that international contributions covered 34% of the funds it requested, resulting in a funding gap of \$2.3bn, or 66% in the covered period.

The LCRP 2022-2023 is a joint initiative between the Lebanese government and international and national partners that aims to address challenges posed by the large presence of Syrian refugees in the country. The plan comes after the expiration of the LCRP for the 2015-2016 and the 2017-2021 periods.

It pointed out that financial disbursements for the education sector reached \$279.2m in the first nine months of 2022, or 24% of the total, followed by outlays for the food security and agriculture sector with \$175.5m (15%), basic assistance with \$164.3m (14.2%), support to the healthcare sector with \$147m (12.7%), social protection with \$114.5m (10%), funds to the water sector with \$106.2m (9.2%), livelihoods with \$90m (7.8%), social stability with \$42.6m (3.7%), shelter with \$21m (1.8%), and the energy sector with \$19.8m (1.7%).

In parallel, the UN indicated that international contributions for the basic assistance track of the LCRP reached \$141.1m in the first nine months of 2022 compared to \$151.6m in the same period of 2021. They consisted of \$25m in the first quarter, \$51.3 in the second quarter, and \$64.8m in the third quarter of 2022. They represented 26.6% of the \$530m that the LCPR appealed for to assist affected Lebanese and non-Lebanese individuals in the country in the first nine months of the year. It also noted that \$20m were carried over from funding received in 2021, which is equivalent to 3.8% of the total appealed funds.

Also, the UN indicated that it distributed the LCRP assistance to 1,438,490 individuals across Lebanon in the first nine months of 2022 who consist of 1.03 million displaced Syrians, or 71.7% of the total, followed by 365,860 vulnerable Lebanese citizens (25.4%), 30,030 Palestinian refugees from Syria (2.1%), and 11,660 Palestinian refugees in Lebanon (0.8%).

Further, it said that the LCRP support resulted in the injection of \$165.7m in the Lebanese economy in the form of cash assistance in the covered period. It disbursed \$57.6m as regular cash transfers to Syrian, Lebanese and Palestinian households in the first quarter, \$61.85m in the second quarter, and \$46.3m in the third quarter of 2022. It noted that it disbursed cash assistance to 266,473 households with multi-sector cash transfers in the covered period, which consist of 192,098 Syrian households or 72% of the total, followed by 64,427 Lebanese households (24.2%), and 9,948 Palestinian families (3.7%). In addition, it pointed out that 127,422 Lebanese, Syrian and Palestinian households received cash from the UNICEF Integrated Child Well-Being Program.

In parallel, the UN stated that the Mount Lebanon region accounted for 35% of cash assistance for Syrian refugees in the first nine months of 2022, followed by the North (17%), the Bekaa (16%), the South (9%), the Baalbeck-Hermel governorate and the Akkar administrative district (8% each), the Nabatieh area (5%), and Beirut (3%).

Amount of cleared checks down 1%, returned checks down 41.5% in first 11 months of 2022

The amount of cleared checks reached LBP50,008bn, or the equivalent of \$33.2bn, in the first 11 months of 2022, constituting a decline of 1.3% from LBP50,663bn (\$33.6bn) in the same period of 2021. In comparison, the amount of cleared checks dropped by 31.5% in the first 11 months of 2021 and regressed by 3.2% 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 LBP35,367bn in the first 11 months of 2022 and increased by 39% from the same period last year, while the amount of cleared checks in foreign currency was \$9.7bn and dropped by 42% in the covered period. Also, there were 1.48 million cleared checks in the first 11 months of 2022, down by 50% from 2.95 million checks in the same period of the previous year. The dollarization rate of cleared checks regressed from 49.7% in the first 11 months of 2021 to 29.3% in the same period of 2022, while the number of checks denominated in foreign currency accounted for 45.3% of cleared checks in the covered period compared to 52% in the same period of 2021.

In addition, the amount of cleared checks totaled LBP5,683bn (\$3.8bn) in November 2022, down by 13.6% from LBP6,576bn (\$4.4bn) in the preceding month and increased by 36% from LBP4,181bn (\$2.8bn) in November 2021. The amount of cleared checks in Lebanese pounds reached LBP4,527bn in November 2022, as it decreased by 12.2% from LBP5,158bn in October 2022 and surged by 64.6% from LBP2,751bn in November 2021. Further, the amount of cleared checks in foreign currency was \$767m in November 2022, and declined by 18.5% from the previous month and by 19.2% from November 2021. There were 80,795 cleared checks in November 2022 relative to 93,322 cleared checks in the preceding month and to 202,925 cleared checks in November 2021.

In parallel, the amount of returned checks in local and foreign currencies was LBP466bn (\$309m) in the first 11 months of 2022 compared to LBP796bn (\$528m) in the same period of 2021 and to LBP1,355bn (\$898.9m) in the first 11 months of 2020. This constituted a drop of 41.5% in the first 11 months of 2022 relative to decreases of 41.3% and 38.4% in the first 11 months of 2021 and 2020, respectively. The amount of returned checks in Lebanese pounds reached LBP256bn in the covered period and increased by 4.5% from the first 11 months of 2021, while the amount of returned checks in foreign currency was \$140m and contracted by 61.7% in the covered period. Also, there were 10,493 returned checks in the first 11 months of 2022, down by 56.2% from 23,972 returned checks in the same period of 2021. The number of returned checks in foreign currency reached 6,258 in the first 11 months of 2022 and dropped by 57.4% from the same period of 2021, while the number of returned checks in Lebanese pounds totaled 4,235 and retreated by 54.4% year-on-year.

Further, the amount of returned checks in domestic and foreign currencies stood at \$37.14m in November 2022 compared to \$48.4m in the previous month and to \$63.7m in November 2021. Also, there were 800 returned checks in November 2022, relative to 677 returned checks in October 2022 and to 1,584 checks in November 2021.



Central Bank of Iraq withdraws licenses of two Lebanese banks

The Central Bank of Iraq (CBI) approved on November 27, 2022 the withdrawal of the licenses of Crédit Libanais sal and Banque Libano-Française sal in Iraq and the de-listing of their names from the list of banks operating in the country. The CBI approved on June 21, 2020 the request of the two banks to close their branches in Iraq. It indicated that its decision is conditional on the two banks fulfilling all of their obligations towards depositors, customers and employees in the country. Crédit Libanais and Banque Libano-Française submitted their request to exit the Iraqi market to the CBI on May 28 and on June 5, 2020, respectively.

The CBI introduced on November 11, 2019 new requirements for foreign banks operating in the country. It required banks to cap at 30% the percentage of deposits in foreign currency or at 20% the share of equity that the banks can invest outside of Iraq, and gave the banks until the end of 2019 to abide by the new conditions. In addition, the CBI imposed on May 21, 2020 stricter capital and liquidity measures on Lebanese banks specifically, following the repeated downgrades of Lebanon's sovereign ratings, particularly S&P Global Ratings' downgrade of the sovereign rating to 'Selective Default' on March 11, 2020. It first asked Lebanese banks operating in Iraq, which have not yet met the end of 2019 deadline for the ceilings on foreign currency liquidity outside Iraq, to immediately transfer the required amount of deposits or capital to the country. It also asked the branches of Lebanese banks in Iraq to transfer all of their deposits that are kept abroad to correspondent banks that are rated 'B' or higher, and to place them in an account at correspondent banks that is separate from the account of their parent banks that are rated lower than 'B'.

Credit Libanais posts losses of LBP388bn in 2021

The consolidated balance sheet of Credit Libanais sal shows audited consolidated net losses of LBP388.1bn, or the equivalent of \$257.4m in 2021, relative to losses of LBP36.8bn (\$24.4m) in 2020. The dollar figures are based on the official exchange rate of the Lebanese pound to the US dollar. The bank's net interest income reached LBP617.6bn in 2021, constituting an increase of 37.3% from LBP449.7bn in 2020; while its net earnings from fees & commission stood at LBP50.2bn in 2021 compared to LBP41.7bn in 2020. Further, the bank's net operating losses totaled LBP141.5bn in 2021 relative to net operating income of LBP233.55bn in 2020, mainly as a result of net trading losses of LBP298.4bn last year. In addition, the bank's operating expenditures reached LBP246.04bn in 2021, down by 0.7% from LBP247.8bn in the last year, with personnel cost accounting for 46.2% of the total.

In parallel, the bank's aggregate assets stood at LBP13,652.5bn (\$9.1bn) at the end of 2021 and regressed by 7.6% from LBP14,777.5bn (\$9.8bn) at end-2020. Net loans & advances to customers totaled LBP2,127.4bn (\$1.4bn) at the end of 2021 and decreased by 31.7% from LBP3,115.6bn (\$2.07bn) at end-2020. Further, customer deposits reached LBP10,383.6bn (\$6.88bn) and regressed by 7.9% from LBP11,275.9bn (\$7.5bn) at end-2020. Also, net loans & advances to related parties amounted to LBP3.3bn (\$42.2m), while deposits from related parties stood at LBP132bn (\$87.5m) at end-2021. In parallel, the bank's shareholders' equity was LBP1,195.5bn at the end of 2021 and declined by 8.3% from LBP1,303bn at end-2020.

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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