

LEBANON THIS WEEK

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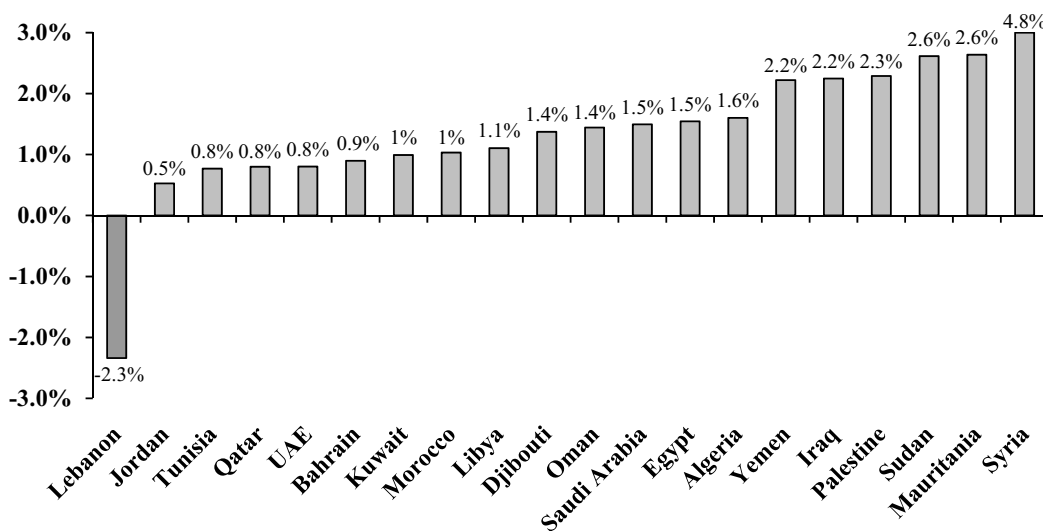
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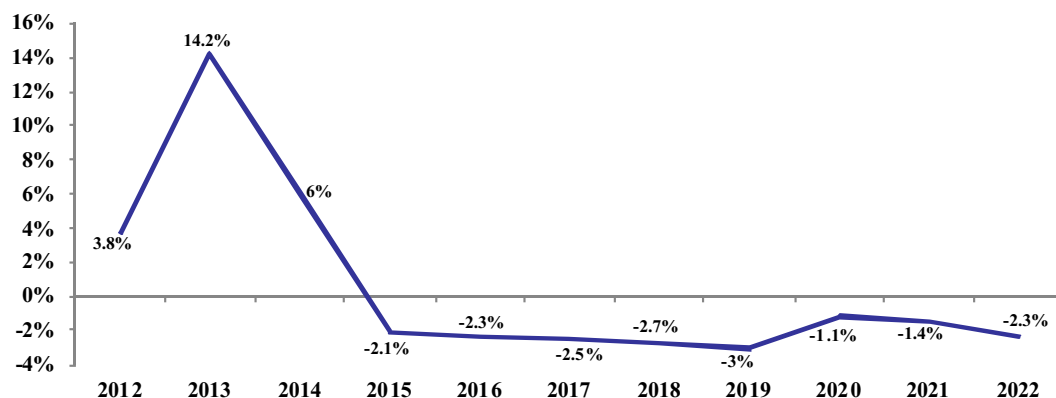
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Charts of the Week

Population Growth Rates in Arab Countries in 2022 (%)



Population Growth Rates in Lebanon (%)



Source: United Nations Population Division, Byblos Bank

Quote to Note

"From a geological point of view, I am positive."

Claudio Descalzi, Chief Executive Officer of Eni International BV, about the potential of gas discovery in Block 9 of Lebanon's territorial waters

Number of the Week

10: Number of months since Lebanon signed a Staff-Level Agreement with the International Monetary Fund

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 %
Audi GDR	1.39	6.1	148,849	1.1%	May 2023	6.40	6.75	4,562.69
Solidere "A"	64.55	1.7	84,079	42.8%	Apr 2024	6.65	6.75	410.18
Byblos Common	0.74	(1.3)	41,800	2.8%	Jun 2025	6.25	6.63	156.56
Audi Listed	1.56	7.6	27,930	6.1%	Nov 2026	6.60	6.63	85.7
BLOM GDR	2.90	9.4	24,000	1.4%	Mar 2027	6.85	6.63	77.86
Solidere "B"	64.05	1.1	16,506	27.6%	Feb 2030	6.65	6.63	42.44
HOLCIM	32.15	3.4	334	4.2%	Apr 2031	7.00	6.63	35.96
BLOM Listed	2.50	(6.0)	1	3.6%	May 2033	8.20	6.63	28.23
Byblos Pref. 08	27.00	0.0	-	0.4%	Nov 2035	7.05	6.63	22.49
Byblos Pref. 09	37.98	0.0	-	0.5%	Mar 2037	7.25	6.63	20.17

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

Source: Refinitiv

	Jan 30 - Feb 3	Jan 23-27	% Change	January 2023	January 2022	% Change
Total shares traded	343,999	250,426	37.4	25,094,470	729,260	3,341.1
Total value traded	\$6,787,761	\$6,687,619	1.5	\$52,671,810	\$14,095,694	273.7
Market capitalization	\$15.09bn	\$14.61bn	3.3	\$14.99bn	\$10.05bn	49.2

Source: Beirut Stock Exchange (BSE)



New official exchange rate goes into effect

Banque du Liban (BdL) Governor Riad Salamé declared that the new official exchange rate of the Lebanese pound against the US dollar went 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. The new rate of LBP15,000 per dollar replaced the official exchange rate of LBP1,507.5 per dollar that was in place since 1997 and that was pegged to the U.S. currency since then. Last November, Governor Salamé announced the modification of the official exchange rate and said that the market will operate based on the new rate and on the exchange 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.

In parallel, BdL issued multiple circulars to banks and financial institutions operating in Lebanon related to the modification of the official exchange rate. It issued Intermediate Circular 657/13526 dated January 20, 2023 about exceptional measures related to cash withdrawals from foreign currency accounts at banks that modified Basic Circular 151/13221 dated April 21, 2020. The new circular allows clients who have accounts in US dollars, or in any other foreign currency, at banks operating in Lebanon to withdraw banknotes in Lebanese pounds from these accounts at a fixed exchange rate of LBP 15,000 per US dollar instead of the LBP8,000 per dollar withdrawal rate that prevailed since December 9, 2021. In addition, BdL put a ceiling of \$1,600 on the monthly withdrawals per account instead of the \$3,000 limit that was in place since December 2021.

Also, BdL issued Intermediate Circular 658/13527 dated January 20, 2023 that modifies Basic Circular 158/13335 dated June 8, 2021 about exceptional measures related to the gradual disbursement of deposits in foreign currency from accounts that clients opened prior to October 31, 2019. Basic Circular 158/13335 indicated that eligible depositors can withdraw up to \$400 in foreign currency banknotes per month for a 12-month period, and up to the equivalent of \$400 converted to Lebanese pounds at the rate of LBP12,000 per US dollar, with half of the amount in Lebanese pounds disbursed in cash and the other half to be used through a payment card. The new circular stipulates that eligible depositors can withdraw up to the equivalent of \$400 converted to Lebanese pounds at the rate of LBP15,000 per US dollar instead of the LBP12,000 per dollar previously, and maintains the ceiling for the withdrawal of foreign currency banknotes at \$400 per month.

Further, BdL issued Intermediate Circular 656/13525 dated January 20, 2023 that modifies Basic Circular 81/7776 dated February 21, 2001 about the operations of banks and financial institutions that are related to credit, investment, shareholding, and participation. First, it removed the section that stipulates that banks and financial institutions should allow their clients to settle in Lebanese pounds the payments of retail loans denominated in US dollars based on the official exchange rate of LBP1,507.5 per US dollar. Second, it stipulated that banks and financial institutions operating in Lebanon should only accept the settlement of retail and non-retail loans that they extended in US dollars to non-residents, including to offshore companies, with fresh money transferred from abroad. The three circulars went into effect at the start of February.

In addition, BdL issued on January 20, 2023 Intermediate Circular 659/13528 about the foreign currency operations of banks and financial institutions operating in Lebanon, and about the regulatory framework for the capital adequacy of banks. First, BdL required banks to settle their short open foreign currency positions gradually over a five-year period, and asked them to close 20% of these positions each year until 2027. Second, it requested that banks refrain from distributing dividends on common shares for the financial years 2019, 2020, 2021 and 2022. Third, the circular stipulates that banks can add to their Common Equity Tier One capital up to 50% of the gains they realize from the revaluation of real estate assets that they own in full, and of the assets of real estate companies where a bank holds shares based on Article 153 of the Code of Money and Credit, as well as of the shareholding and long-term loans related to the participation in banks and financial institutions abroad purchased based on BdL's approval. The circular went into force upon its publication.

In parallel, the Ministry of Finance had announced last September the implementation of a new exchange rate to calculate customs tariffs. It stated that it will calculate customs tariffs for "non-essential" imported goods at the exchange rate of LBP15,000 per US dollar starting in November 2022, instead of the prevailing exchange rate of LBP1,507.5 per dollar at the time.

Lebanon's external debt at \$67bn at end-2021, accounts for 16% of the MENA region's external debt

Figures released by the World Bank show that the total external debt outstanding in Lebanon reached \$66.9bn at the end of 2021, constituting a decline of 3% from \$68.9bn at end-2020 and a rise of 40% from \$47.8bn at the end of 2010. Lebanon's total external debt accounted for 0.7% of the external debt in low- and middle-income countries and for 16% of the external debt of the Middle East & North Africa (MENA) region.

Lebanon's external debt grew by a compound annual growth rate (CAGR) of 2.8% during the 2010-21 period and regressed at a CAGR of 2% between 2017 and 2021 compared to CAGRs of 6.7% in the 2010-21 period and of 4.7% in the 2017-21 period for the external debt of low- and middle-income countries. The World Bank defines external debt as the sum of public and private long-term external debt, short-term debt, and credit from the International Monetary Fund. It represents the total debt owed to non-resident creditors and is repayable in both foreign and domestic currency.

The stock of long-term external debt in Lebanon reached \$52.9bn at the end of 2021 and accounted for 79% of the country's total external debt outstanding. Public and publicly-guaranteed debt represented 63% of long-term external debt in the country, while private non-guaranteed debt accounted for the remaining 37%. The World Bank defines private non-guaranteed debt as the obligations of private borrowers to non-resident creditors, which are not guaranteed for repayment by the government or any other public entity. In addition, short-term external debt stood at \$12.9bn at end-2021 and accounted for 19.2% of Lebanon's external debt, while the use of IMF credit amounted to \$1.12bn at end-2021 and represented 1.7% of the total.

Further, Lebanon's stock of short-term external debt rose by 26.6%, while its long-term external debt declined by 9.4% in 2021. Lebanon's stock of short-term external debt increased by a CAGR of 8% during the 2017-21 period, its long-term external debt posted a CAGR of -4.1%, and the use of credit from the IMF surged by a CAGR of 32.4% during the covered period. Also, the country's stock of short-term external debt increased by a CAGR of 11.3% during the 2010-21 period, its use of IMF credit expanded by a CAGR of 9.1%, and its long-term external debt grew by a CAGR of 1.6% during the covered period.

In parallel, Lebanon's ratio of total external debt-to-Gross National Income (GNI) was 382% at the end of 2021, up from 278% at end-2020 and relative to 126% at the end of 2010. In comparison, the debt-to-GNI ratio reached 26% in low- and middle-income countries and 30% in the MENA region at end-2021. Further, Lebanon's official foreign currency reserves were equivalent to 28% of its external debt stock at the end of 2021 relative to 36% at end-2020 and 66% at the end of 2010. In comparison, official foreign currency reserves in low- and middle-income countries were equivalent to 69% of their external debt stock at end-2021.

Lebanon's Long-Term External Debt Stock by Creditor Type (US\$m)

	2010	2017	2018	2019	2020	2021
Long-term external debt stocks	43,857	65,127	73,834	68,663	58,435	52,916
Public and publicly guaranteed debt:	20,386	29,987	33,072	33,319	33,361	33,277
<i>Multilateral</i>	1,368	1,333	1,369	1,373	1,461	1,469
<i>Bilateral</i>	990	692	574	502	476	423
<i>Bondholders</i>	17,422	27,768	30,964	31,314	31,314	31,314
<i>Commercial banks and others</i>	606	194	164	130	109	71
Private non-guaranteed debt:	23,471	35,140	40,763	35,343	25,074	19,639
<i>Bondholders</i>	500	300	600	600	600	600
<i>Commercial banks and others</i>	22,971	34,840	40,163	34,743	24,474	19,039

Source: World Bank

Tourism receipts up 86% to \$2.2bn in the first half of 2022

Figures released by Banque du Liban (BdL) show that revenues generated from tourism activity in Lebanon, defined by BdL as "Travel Services", totaled \$2.16bn in the first half of 2022, constituting an increase of 86% from \$1.16bn in the same period of 2021. Tourism revenues amounted to \$968.7m in the first quarter and \$1.2bn in the second quarter of 2022. They jumped by 112.5% in the first three months of 2022 from the same quarter of 2021, and surged by 68.8% in the second quarter of 2022 from the same period of 2021.

Tourism receipts in the first half of 2022 reached their second lowest level for the period since the first six months of 2004, with a low of \$1.16bn in the first half of 2021. Tourism receipts in Lebanon averaged \$2.7bn in the corresponding period of each year during the 2002-2021 period, compared to an average of \$2.7bn during the first half of each year in the 2002-21. BdL's figures are the only official data on receipts from tourism activity in Lebanon and on tourism spending abroad by Lebanese citizens.

The increase in tourism revenues in the covered period mirrors the recovery in tourism activity, following the gradual lifting of the 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.

In parallel, outbound tourism spending from Lebanon reached \$1.3bn in the first half of 2022, and increased by 102.5% from \$636.6m in the first half of 2021. It totaled \$596.5m in the first quarter and \$692.8m in the second quarter of 2022. They rose by 119.3% in the first three months of 2022 from the same quarter of 2021, and climbed by 90% in the second quarter of 2022 from the same period of 2021.

The increase in outbound tourist spending is due to the relaxation of travel restrictions in many countries and the resumption of normal activity following the lifting of lockdown and social distancing measures that governments imposed to contain the spread of the coronavirus. In addition, outbound tourism spending in the first half of 2022 reached their third lowest level for the period since the first six months of 2004, with a low of \$636.6m in the first half of 2021. In comparison, it averaged \$1.8bn during the first half of each year in the 2002-21 period.

As such, net tourism receipts totaled \$875.4m in the first half of 2022 and increased by 65.8% from \$528.1m in the same period of 2021. Net tourism receipts averaged \$926.5m during the first half of each year in the 2002-21 period.

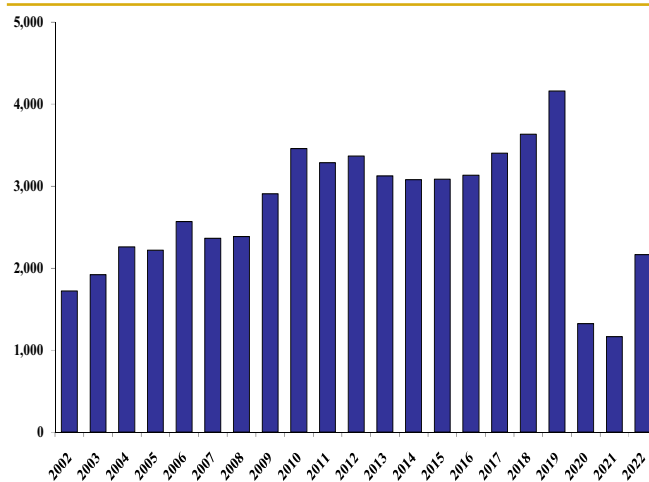
Net foreign assets of financial sector down \$3.2bn in 2022

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 \$3.2bn in 2022, compared to decreases of \$1.96bn in 2021 and of \$10.55bn in 2020.

The cumulative deficit in 2022 was caused by a drop of \$3.04bn in the net foreign assets of BdL and by a decrease of \$153m in those of banks and financial institutions. Further, the net foreign assets of the financial sector increased by \$17.1m in December 2022 compared to decreases of \$354.4m in November 2022 and of \$384.4m in December 2021. The December increase was caused by an increase of \$22.5m in those of banks and financial institutions, which was partly offset by a decline of \$5.4m in the net foreign assets of BdL.

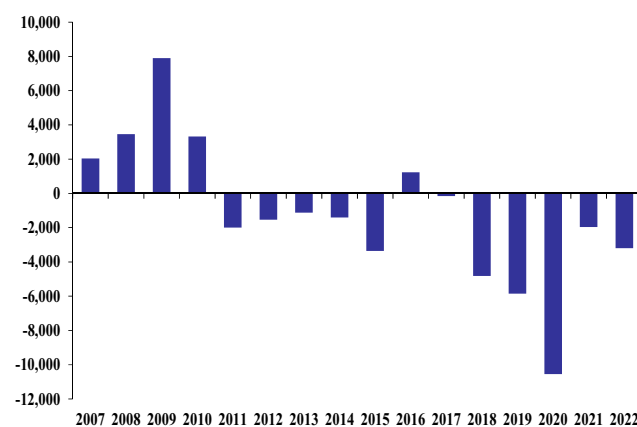
The cumulative decrease in the banks' net foreign assets is mostly due to a decline in their foreign liabilities. The decline in the banks' foreign assets was mostly due to a contraction of banks' claims on non-resident customers, and in claims non-resident financial sector; while the decrease in foreign 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.

Tourism Receipts (US\$m)



Source: Banque du Liban, Byblos Research

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



Source: Banque du Liban, Byblos Research

Sovereign rating upgrade contingent on debt restructuring and reforms

In its regular update on Lebanon's credit profile, Moody's Investors Service indicated that the strength of the sovereign's credit is that the commitment for international donor support to Lebanon is conditional on the implementation of a reform program with the International Monetary Fund (IMF). In contrast, it said the credit's challenges consist of the severe economic, financial and social crisis that the country is facing, very weak institutions and governance strength, as well as the significant depreciation of the Lebanese pound against the US dollar on the parallel market and the associated surge in inflation rates that are eroding the purchasing power of households.

It considered that Lebanon's credit profile is determined by four factors. First, it said the country's Economic Strength level of 'b2' reflects the small size of the economy, weak growth potential and its eroded competitiveness. It added that the country is facing a significant economic adjustment in order to transition towards a more sustainable growth model. Second, it noted that Lebanon's score of 'caa3' on the Strength of Institutions and Governance reflects the country's weak governance framework, with very weak fiscal policy effectiveness, as well as the "severely constrained" effectiveness of monetary and financial policy amid rising economic and external challenges. Third, it indicated that Lebanon's Fiscal Strength level of 'ca' points to the government's highly leveraged balance sheet and captures the government's suspension of interest payments following its decision to default on its Eurobonds obligations in March 2020. It considered that the public debt's trajectory remains particularly sensitive to a contraction in economic activity, and to inflation and foreign-exchange dynamics, which underscores the potential for further loss accumulation by bond holders in the absence of a debt restructuring agreement with the support of the IMF. Fourth, it noted that Lebanon's score of 'ca' on the Susceptibility to Event Risk category, which assesses a country's vulnerability to sudden events that would materially impact the government's creditworthiness, is driven by the government's liquidity risk, banking sector risk, and external vulnerability risk. Also, the agency said that the country's Government Liquidity Risk score of 'ca' reflects the drying up of the government's traditional funding sources and its closed access to international capital markets due to the previous government's default on its Eurobonds obligations, in addition to the drawdown of BdL's usable foreign currency reserves.. Also, it noted that the External Vulnerability Risk score of 'ca' points to the depreciation of the pound on the parallel market, due to the insufficient foreign currency buffers to support the official peg of the exchange rate, while authorities are trying simultaneously to provide the necessary funding of key imports at subsidized exchange rates.

In parallel, the agency pointed out that Lebanon's 'C' issuer rating, which is the lowest on its rating scale and is 11 notches below investment grade, reflects its assessment that the losses incurred by bondholders through Lebanon's default are likely to exceed 65%. It added that it is unlikely to upgrade the rating before the restructuring of the public debt, given the extent of the macroeconomic, financial and social challenges. It noted that a substantial upgrade of the rating would be conditional on the key drivers of the country's debt dynamics, such as economic growth, interest rates, privatization revenues, and the ability to generate and sustain large primary surpluses, to evolve in a way that would ensure the sustainability of the public debt in the future.

Health Ministry unveils Lebanon National Health Strategy

The Lebanese Ministry of Public Health, with the support of the World Health Organization, unveiled the "Lebanon National Health Strategy: Vision 2030", which lays out five areas for strategic investment for the recovery of the healthcare sector in the country. It noted that the longstanding inefficiencies of the country's healthcare system include the predominance of tertiary care over preventive and primary care, a weak public healthcare sector, a pluralistic financing system, and a supply-induced demand with unsustainable and unrealistic expectations.

The strategy identified five areas for strategic investments to support the recovery of the healthcare sector. First, it stipulated that authorities should expand universal healthcare coverage needs to ensure "access for all" to timely, quality and people-centered care, with the necessary arrangements to avoid exposing users to financial hardship. Second, it noted that authorities should focus on healthcare promotion and disease prevention, mainly through intervention at the policy, prevention, screening, and management levels to reduce high-impact healthcare risks. Third, it said that authorities need to focus on emergency healthcare preparedness response and recovery, as well as on improving the country's readiness to face catastrophic health incidents and pandemics. Fourth, it stressed that authorities should invest in healthcare governance for the public interest, which aims to re-establish trust in healthcare authorities and align governmental and non-governmental resources with national goals and the public interest. Fifth, the strategy called for investing in a healthcare information system for the proper implementation of the plan's strategic objectives. It added that digitalization will provide evidence for decision-making, help avoid duplications in coverage and utilization of services, serve to identify vulnerable populations, include indicators, monitor patient safety, as well as ensure transparency and accountability of all involved parties.

In parallel, the ministry considered that the proper financing of the sector could be secured from international donations and soft loans as a transition bridge to move from the ongoing humanitarian and emergency support to sustainable financing. It suggested for authorities to establish a Health Crisis Response and Recovery Fund based on adequate governance and transparency principles. Also, it called for the establishment of a National Health Crisis Response and Recovery Council, in order bring together the major stakeholders and agencies that are active players in the sector. It said that the council will serve as a forum for broadening policy dialogue to develop coherent healthcare sector policies and as an oversight on the healthcare crisis response and recovery fund.

Further, it stressed that the strategy's implementation should result in an integrated, equitable and people-centered healthcare system that effectively protects and improves the health status of the population. It added that the strategy will ensure universal healthcare coverage with sustainable financing sources, address the key determinants of healthcare, aims to respond to emerging threats, as well as adapt to any potential social, economic or political crises.

Stock market capitalization up 49% to \$15bn at end-January 2023

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 25.1 million shares in January 2023, constituting a jump of 3,341% from 729,260 shares traded in January 2022 and an increase of 162% from 9.6 million shares in December of last year. Also, aggregate turnover amounted to \$52.7m, and surged by 273.7% from a turnover of \$14.1m in January 2022, while it dropped by 40.8% from a turnover of \$89m in December 2022. Further, the market capitalization of the BSE stood at \$15bn at the end of January 2023, representing a rise of 49.2% from \$10.1bn a year earlier, with real estate equities accounting for 70% of the total, followed by banking stocks (25.2%), and industrial shares (4.7%). The market liquidity ratio was 0.35% at the end of January 2023 compared to 0.6% at the end of 2022 and to 0.14% a year earlier.

Banking stocks accounted for 98% of the trading volume in January 2023, followed by real estate equities (2%) and industrial shares. Also, real estate equities accounted for 56% of the aggregate value of shares traded, followed by banking stocks (44%), and industrial shares (0.002%). The average daily traded volume for January 2023 was 1.25 million shares for an average daily amount of \$2.6m. In comparison, the average daily traded volume for January 2022 was 36,463 shares for an average daily amount of \$0.71m.

In parallel, the Capital Markets Authority's (CMA) Market Value-Weighted Index for stocks traded on the BSE increased by 10% in January 2023, while the CMA's Banks Market Value-Weighted Index was nearly unchanged from the end of 2022. 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 4.8% and 5.1%, respectively, during the covered month, given that the shares had market weights of 42.6% and 27.5%, respectively, on the last trading day in January 2023, the highest among listed companies on the BSE. The rise in the prices of Solidere shares was 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.

World Food Program outlines country strategy for 2023-25 period

The World Food Program (WFP) indicated that its new Country Strategic Plan 2023-25 for Lebanon aims to provide food needs to vulnerable Lebanese citizens and to refugees in Lebanon. It said that its strategic direction and priorities for the next three years consist of ensuring the essential needs of vulnerable Lebanese and refugees and strengthening their resilience at the household and community levels, while also supporting the Lebanese government to build sustainable institutions and provide adequate social safety nets against current and future shocks. It noted that it will continue to distribute in-kind food assistance to vulnerable Lebanese affected by the economic crisis through its plan for the 2023-25 period, given the continued economic challenges and persistent high inflation rates in Lebanon. Also, it expected to provide \$463m in assistance in the first half of 2023.

First, it pointed out that it is collaborating closely with the government and the World Bank to expand the National Poverty Targeting Program (NPTP) and to improve the implementation of the social safety net system in the country. It expected the NPTP to reach 75,000 households in the first quarter of 2023, or about 430,000 individuals, that include 64,000 households that are already enrolled in the program. It indicated that it began expanding the scope of money transfer for the NPTP assistance through Money Transfer Operators (MTOs) to improve the safety of the NPTP's cash assistance. It noted that the utilization of MTOs aims to reduce travel time and costs for beneficiaries and to provide a wider network of redemption points.

Second, the WFP said that it aims to target 100,000 Lebanese and Syrian students through the distribution of school snacks in 115 primary schools across Lebanon and to promote a healthy school environment for all communities, in coordination with the Ministry of Education and Higher Education (MEHE) and cooperating partners. It noted that the participating schools are located in vulnerable communities across the country, and that the composition of the snack package aims to address the dietary diversity and malnutrition among targeted students. Also, it indicated that it plans to reach 155,000 students by the end of 2025 to encourage healthy dietary practices and increase school enrolment. It pointed out that it will develop a home-based school feeding pilot program to promote and increase the procurement of fresh, nutritious, and locally-produced food, which would, in turn, benefit local farmers, support the local economy and strengthen local food systems. Also, it said that it is supporting the government and the MEHE to develop a national roadmap for the establishment of a national school-feeding program aligned with the five-year National General Education Plan for the 2021-25 period.

Third, the WFP indicated that it will expand its reach in the next three years to cover more females and males who have limited income, and will support key sectors in Lebanon, such as the agriculture sector, to improve long-term self-reliance of vulnerable females and males in order to ensure better food security and access to livelihood. It noted that it will work to strengthen the performance and inclusiveness of food systems, and improve natural resource management and climate adaptation practices. First, it will try to increase the employability of vulnerable individuals, as it will support skills enhancement in agriculture, hospitality, food preparation and processing, and digital skills. Second, it will support forestry and strengthen the capacity of non-profit organizations to implement climate adaptation measures. Third, it will provide training for livestock farmers on climate-smart practices and establish agricultural labs.

Banque du Liban's foreign assets at \$15bn, gold reserves at \$17.6bn at end-January 2023

Banque du Liban's (BdL) interim balance sheet reached \$191bn on January 31, 2023, constituting increases of 0.7% from \$189.7bn at end-2022 and of 18% from \$164bn a year earlier. Assets in foreign currency totaled \$14.9bn at end-January 2023, representing a decrease of \$258.8m, or of 1.3%, from the end of 2022 and a drop of \$2.33bn (-13.5%) from \$17.3bn at end-January 2022. 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 \$9.95bn at end-January 2023, constituting decreases of \$32.4m (-0.3%) from \$9.98bn in mid-January and of \$199.1m (-2%) from \$10.15bn at the end of 2022. They dropped by \$2.33bn (-19%) from \$12.28bn at end-January 2022. 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 LBP75,056bn at the end of January 2023, constituting a decrease of 6.4% from LBP80,171.3bn at end-2022, and a surge of 78% from LBP42,145.5bn at end-January 2022. Also, the item "other assets" on BdL's balance sheet reached LBP142,408bn at end-January 2023, representing an increase of 55.7% from LBP91,482bn a year earlier.

In parallel, the value of BdL's gold reserves amounted to \$17.57bn at end-January 2023, constituting increases of \$919.3m (+5.5%) from the end of 2022 and of \$1.06bn (+6.4%) from \$16.5bn at end-January 2022. The value of gold reserves reached a peak of \$18.15bn at mid-April 2022. Also, the securities portfolio of BdL totaled \$39.9bn at end-January 2023, representing declines of \$258.8m (-0.6%) from the end of 2022 and of \$1.47bn (-3.5%) from \$41.4bn a year earlier. In addition, loans to the local financial sector totaled LBP17,741.8bn, as they regressed by 1.4% from the end of 2022 and declined by 13.7% from end-January 2022. Further, the deposits of the financial sector reached LBP160,849bn at end-January 2023 and decreased by LBP4,424bn from a year earlier. Also, public sector deposits at BdL stood at LBP21,186.3bn (\$14.1bn) at end-January 2023, as they rose by LBP1,844.8bn (\$1.2bn) from the end of the previous year and surged by LBP10,741.8bn (\$7.1bn) from end-January 2022.

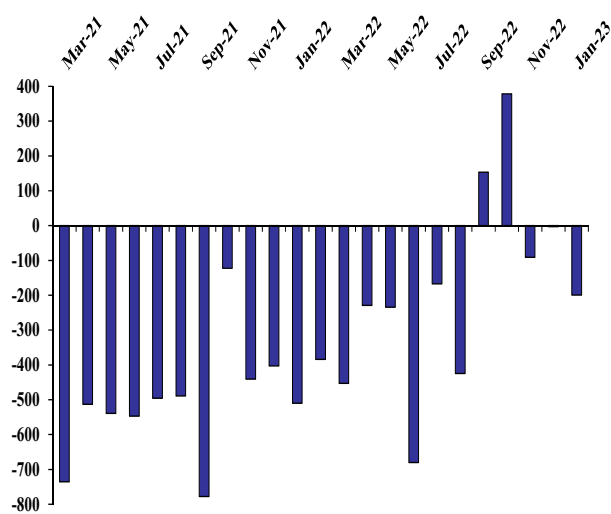
Qatar lifts ban on imports of Lebanese crops

The Ministry of Agriculture announced that Qatar will lift its ban on the import of grass and leafy crops from Lebanon. In October 2021, the Qatari authorities suspended the imports of some vegetables from Lebanon, including mint, parsley, coriander, thyme, and "mulukhiyah". Qatar's Public Health Ministry attributed the ban at the time to high levels of chemical residues, pesticides and E-coli bacteria in analyzed samples from Lebanon. But it declared recently that Lebanese exporters have abided by the conditions set by the Qatari authorities, which led to the decision to lift the ban and reinstate the import of the products.

The Qatari import ban was not the only such ban imposed on Lebanon's produce in recent years. In April 2021, Saudi Arabia announced that it suspended the imports of fruits and vegetables from Lebanon, as well as the transit of such products through its territory to other markets. The Saudi authorities attributed their decision to their finding that these products have been used to smuggle illegal substances to the Kingdom. Saudi Arabia said that the ban will continue until Lebanese authorities provide documented guarantees that they will take the necessary actions to stop such operations.

In parallel, according to the latest figures released by the Lebanese Customs, exports of Lebanese vegetable products reached \$498m in 2021 and \$316m in 2022.

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



*as at end-January 2023

Source: Banque du Liban, Byblos Research

Lebanon ranks 150th globally, 14th among Arab countries on corruption perception index for 2022

Transparency International, a global anti-corruption advocacy association, ranked Lebanon in 150th place among 180 countries around the world and in 14th place among 19 Arab countries on its Corruption Perceptions Index for 2022. In comparison, Lebanon came in 154th place globally and in 14th place regionally on the 2021 index. Based on the same set of countries in the 2021 and 2022 surveys, Lebanon's rank improved by four spots, while its regional rank was unchanged year-on-year. Lebanon ranked in the 17th percentile worldwide on the 2022 Index, which means that the perceived level of corruption in the country was lower than the level of graft in only 17% of the countries covered by the index.

The organization uses data sources from independent institutions specializing in governance and business climate analysis, in order to assess the perceived degree of corruption in the public sector of each country. The rankings are based on scores that range from zero to 100, with lower scores denoting a higher perception of corruption.

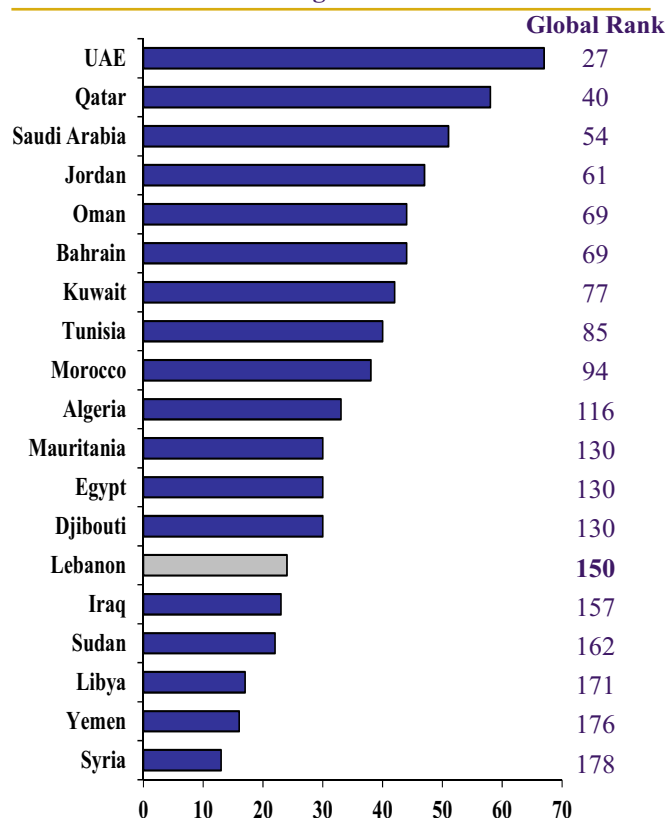
Globally, Lebanon is perceived to have the same level of corruption as Afghanistan, Cambodia, the Central African Republic, Guatemala, Nigeria and Tajikistan. It is also considered to have a lower level of graft than Azerbaijan, Honduras, Iraq, Myanmar and Zimbabwe, and a higher level of corruption than Bangladesh, Guinea and Iran.

Lebanon received a score of 24 points, unchanged from the 2021 survey and constituting its lowest score since the organization changed its methodology for the index in 2012. In comparison, Lebanon posted a score of 28 points in each of the 2015, 2016, 2017, 2018 and 2019 surveys, and a score of 25 in the 2020 survey. Lebanon's score in 2022 came below the global average score of 43 points and the Arab region's average score of 35.2 points. Also, Lebanon's score was lower than the Gulf Cooperation Council (GCC) countries' average score of 51 points and the average score of non- GCC Arab countries of 27.9 points.

Lebanon was among 31 countries globally that received a score between 20 and 29 points, a category that the organization classified as the third worst among 10 categories globally in terms of corruption perception. Denmark, Finland and New Zealand were perceived as the least corrupt countries worldwide, while the survey found Somalia to be the most corrupt country in the world.

Transparency International indicated that Lebanon has been without a functioning government since the end of October, which has delayed the implementation of crucial reforms to improve economic and monetary governance in the country. Further, it pointed out that the anti-corruption law that Parliament enacted in 2020 to rectify corruption-related cases in the country is insufficient, given the persistence of transparency gaps in the National Anti-Corruption Commission and the subsequent public procurement law that the Parliament voted in 2021. It considered that the existing conflicts between political parties will worsen without decisive political reforms to reign in corruption.

**Corruption Perceptions Index 2022
Scores & Rankings of Arab States**



Source: Transparency International, Byblos Research

Private sector deposits down \$48.6bn in 2019-2022 period

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets stood at \$169.1bn at the end of 2022, constituting a decline of 3.3% from \$174.8bn at the end of 2021. The dollar figures are based on the official exchange rate of the Lebanese pound to the US dollar of LBP1,507.5 per dollar at end-2022. Loans extended to the private sector reached \$20.05bn at the end of 2022 and contracted by 27.7% from a year earlier. Loans to the resident private sector totaled \$18bn, constituting a decline of 27.6% from the end of 2021. Also, credit to the non-resident private sector amounted to \$2.04bn at the end of 2022, and decreased by 28% from the end of 2021. In nominal terms, credit to the private sector declined by \$7.7bn in 2022 relative to a drop of \$8.5bn in 2021, as lending to the resident private sector retreated by \$6.9bn and credit to the non-resident private sector regressed by \$794m last year. Further, loans extended to the private sector contracted by \$39.3bn (-66.2%) since the start of 2019, with loans denominated in Lebanese pounds shrinking by LBP12,655.4bn (-46%) and loans denominated in foreign currency dropping by \$30.9bn (-75.3%). The dollarization rate of private sector loans regressed from 56.3% at end-2021 to 50.7% at the end of 2022. The average lending rate in Lebanese pounds was 4.56% in December 2022 compared to 7.14% a year earlier, while the same rate in US dollars was 4.16% relative to 6% in December 2021.

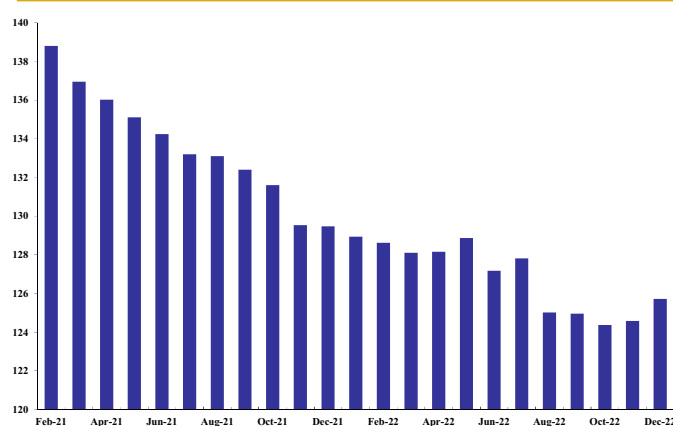
In addition, claims on non-resident financial institutions reached \$4.2bn at the end of 2022, constituting a decrease of \$389m (-8.2%) in 2022. Also, claims on non-resident financial institutions dropped by \$2.6bn (-38%) from the end of August 2019 and by \$7.8bn (-65%) since the start of 2019. Further, deposits at foreign central banks totaled \$804.5m, constituting a decrease of \$232m (-22.4%) from the end of 2021. In addition, the banks' claims on the public sector reached \$11.5bn at end-2022, down by \$5.2bn (-31%) from the end of 2021. The banks' holdings of Lebanese Treasury bills stood at LBP12,707bn (\$8.4bn) at the end of 2022, down by 30.4% from LBP18,256bn (\$12.1bn) at end-2021, while their holdings of Lebanese Eurobonds reached \$2.9bn at end-2022 and decreased by 33.6% from \$4.4bn at end-2021. Further, the deposits of commercial banks at Banque du Liban amounted to \$105.5bn at the end of 2022, down by \$3.5bn (-3.2%) from \$109bn at end-2021.

In parallel, private sector deposits totaled \$125.7bn at the end of 2022 and regressed by 3% from a year earlier. Deposits in Lebanese pounds reached LBP45,373.7bn (\$30bn) at end-2022, as they increased by 13% from the end of 2021; while deposits in foreign currency reached \$95.6bn, and regressed by 7% from a year earlier. Resident deposits totaled \$102.3bn at the end of 2022 and decreased by \$2.6bn (-2.5%) from the end of 2021, while non-resident deposits reached \$23.4bn at end-2022, down by \$1.14bn (-4.7%) in 2022. Resident deposits in Lebanese pounds stood at LBP42,336bn, or the equivalent of \$28.1bn at end-2022, constituting an increase of LBP5,237bn, or of 14%, from the end of 2021, while those in foreign currency totaled \$74.2bn at end-2022 and decreased by \$6.1bn (-7.6%) in 2022. Also, non-resident deposits in Lebanese pounds and in foreign currency regressed by 1.1% and 5%, respectively, in 2022.

Private sector deposits declined by \$3.8bn in 2022, with deposits in Lebanese pounds increasing by LBP5,202.7bn, or the equivalent of \$3.5bn, and foreign currency deposits shrinking by \$7.2bn. 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, by \$63.1m in September, and by \$587m in October 2022, while they increased by \$54.8m in April, by \$712.2m in May, by \$643.2m in July, by \$204.7m in November, and by \$1.14bn in December 2022. Private sector deposits in Lebanese pounds increased by LBP1,955bn (\$1.3bn), or by 7% in December 2022, while those in foreign currency decreased by \$812m (-0.8%). 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 \$48.6bn (-28%) since the start of 2019, with deposits in Lebanese pounds shrinking by LBP31,823.1bn, or the equivalent of \$21.1bn (-41.2%) and foreign currency deposits dropping by \$27.5bn (-22.3%). The decrease is due largely to the repayment of loans by companies and individuals from deposits, to the hoarding of cash at households, to companies paying their foreign obligations, to deposit outflows, to the discounting of checks, and to regular monthly withdrawals by depositors. The dollarization rate of private sector deposits was 76.1% at end-2022, relative to 79.4% at end-2021.

Further, the liabilities of non-resident financial institutions reached \$4.3bn at the end of 2022 and decreased by 11.5% from \$4.9bn at the end of 2021. Also, the average deposit rate in Lebanese pounds was 0.6% in December 2022 compared to 1.09% a year earlier, while the same rate in US dollars was 0.06% relative to 0.19% in December 2021. In addition, the banks' aggregate capital base stood at LBP27,568.5bn (\$18.3bn) at the end of 2022, as it increased by LBP2,796.2bn (\$1.85bn), or by 11.3% from end-November 2022 and by LBP757.6bn (\$502.6m) or by 2.8% from \$17.8bn at the end of 2021.

Private Sector Deposits (US\$bn)



Source: Banque du Liban, Byblos Research

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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