

LEBANON THIS WEEK

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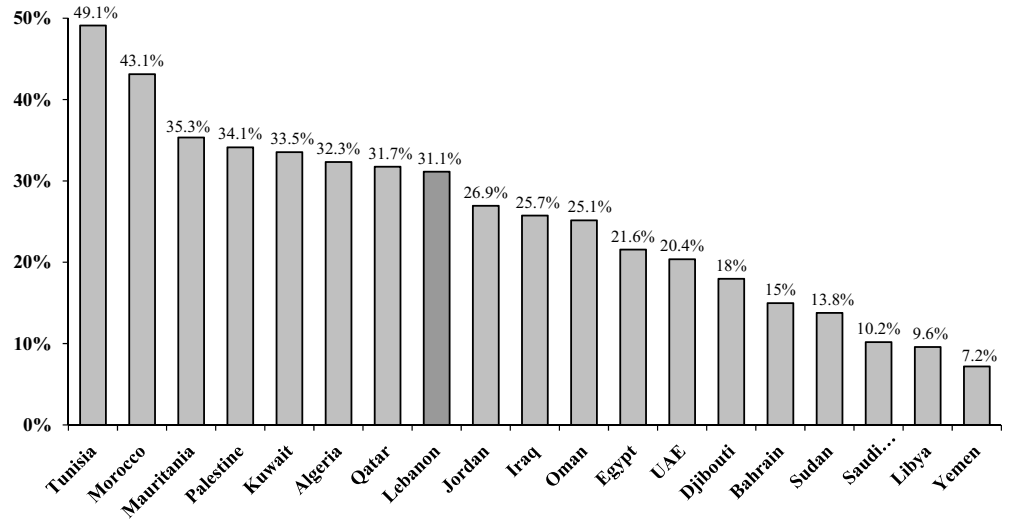
Foreign investments of financial sector at \$1.3bn at end-June 2022

Net profits of Syrian affiliates of Lebanese banks at SYP162bn in 2022

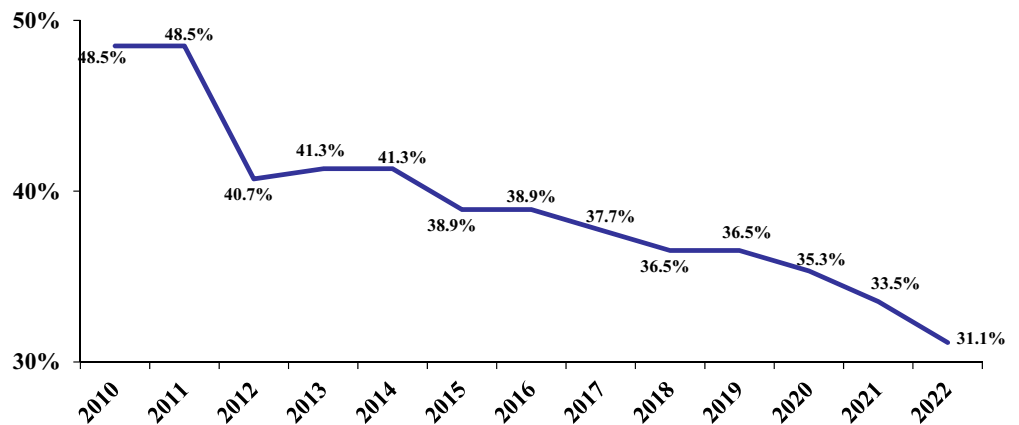
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Charts of the Week

Percentile Rankings of Arab countries on the EIU Democracy Index for 2022



Percentile Rankings of Lebanon on the EIU Democracy Index



Source: Economist Intelligence Unit, Byblos Bank

Quote to Note

"It is a serious attempt for a promising exploration in the eastern Mediterranean basin."

The Minister of State for Energy Affairs of Qatar and CEO of QatarEnergy Saad Sherida al-Kaabi, on the upcoming offshore drilling in Block 9 of Lebanon's territorial waters

Number of the Week

66%: Percentage drop in the commercial banks' loans to the private sector during the 2019-2022 period, according to Banque du Liban

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"	68.60	2.5	59,092	42.9%	May 2023	6.40	6.88	5,541.32
Byblos Common	0.75	0.0	5,000	2.7%	Apr 2024	6.65	6.88	440.57
Solidere "B"	71.20	9.5	4,830	29.0%	Jun 2025	6.25	6.88	158.94
Audi GDR	1.39	0.0	-	1.0%	Nov 2026	6.60	6.88	85.87
Audi Listed	1.56	0.0	-	5.7%	Mar 2027	6.85	6.88	77.90
BLOM GDR	2.90	0.0	-	1.3%	Feb 2030	6.65	6.88	42.19
HOLCIM	32.15	0.0	-	3.9%	Apr 2031	7.00	6.88	35.70
BLOM Listed	2.50	0.0	-	3.4%	May 2033	8.20	6.88	27.99
Byblos Pref. 08	27.00	0.0	-	0.3%	Nov 2035	7.05	6.88	22.27
Byblos Pref. 09	37.98	0.0	-	0.5%	Mar 2037	7.25	6.88	19.96

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

Source: Refinitiv

	Feb 20-24	Feb 13-17	% Change	January 2023	January 2022	% Change
Total shares traded	71,996	27,884	158.2	25,094,470	729,260	3,341.1
Total value traded	\$4,431,253	\$1,172,897	277.8	\$52,671,810	\$14,095,694	273.7
Market capitalization	\$15.98bn	\$15.43bn	3.6	\$14.99bn	\$10.05bn	49.2

Source: Beirut Stock Exchange (BSE)



Draft capital controls law imposes restrictions on foreign transfers and cash withdrawals

The latest version of the capital controls draft law indicates that the proposed law aims to put restrictions on bank transfers abroad, on conversions to foreign currencies and on cash withdrawals in a transparent way, in order to prevent a further deterioration of the exchange rate of the Lebanese pound, protect Banque du Liban's reserves in foreign currency, restore liquidity to the banking sector, as well as to protect depositors. It stated that the proposed law contributes to financial stability and to the continuity of banks in Lebanon, which constitute two key conditions for the resumption of normal financial transactions.

Article 1 states that the rights of depositors, which are enshrined in the constitution and the law, cannot be violated or compromised, and that the exceptional and temporary restrictions on bank transfers and cash withdrawals that are in the articles of this draft law, and the content of any other law, do not constitute a threat to depositors' rights and to their deposits.

Article 3 of the law mandates the formation of a "special committee" that consists of the Minister of Finance, the Governor of Banque du Liban (BdL) or one of his vice governors, a judge, and four experts. It said that the four experts will be selected from a list of candidates submitted by multiple stakeholders. It added that the lawyers' syndicate should submit three names, the Economic & Social Council should propose three names, the syndicates of doctors and pharmacists should suggest three names, and the association of certified accountants should offer three names. It added that the four experts will be appointed through a decree that the Council of Ministers issues, based on the recommendation of the Prime Minister. It said that, in case any of the syndicates does not submit names within a month, the government will select the expert members of the committee. In addition, it said that the "special committee" can seek the help of outside experts when it deems appropriate. It added that the committee's administrative decisions are subject to review by the Consultative Council, and the decisions related to private rights are subject to review in front of the appropriate judge. It noted that the Council of Ministers will determine the mechanism of the committee's work and will issue the related organizational and implementation decrees, according to the suggestions of a ministerial committee that will rely on the articles of the law for its recommendations.

Article 4 of the law bans the cross-border transfer of funds, as well as external current account payments and transfers in any currency from any bank account or from the account of an intermediary, including from fiduciary accounts. The draft law provides several exceptions to this rule. First, it exempts from these restrictions "fresh money" and new transfers, as defined by this law, as it stipulates that the funds remain classified as "fresh money" even if the client requests their conversion in part or in full to another currency, or requests their transfer to an account at another local bank or at a foreign bank, on the condition that the transfer takes place through a correspondent bank, or if a payment is made directly from the account where the funds were originally deposited. Second, it exempts from the restrictions the transfers or payments on behalf of the Lebanese government and transfers or payment transactions for BdL based on the Code of Money and Credit, except for private or personal accounts at BdL, which will be subject to the restrictions. Third, it also exempts current expenditures that cover medical and hospitalization abroad for cases that cannot be treated in Lebanon, as well as current payments to cover the expenses of Lebanese students who have been registered at a foreign educational institution prior to December 31, 2020.

Article 5 states that BdL will ensure the stability of the foreign exchange market based on the actual exchange rate of the Lebanese pound to the US dollar, according to the Code of Money and Credit, especially articles 75 and 229 of the code.

Article 6 stipulates that all cash withdrawals, except from "fresh" deposit accounts, will be subject to restrictions that the "special committee" will determine. It said that the committee will recommend the amount of monthly foreign currency withdrawals, with a minimum of \$800 per month in cash or through bank cards, and that it can modify the amount depending on the evolution of monetary and financial conditions in the country and the living conditions of citizens.

Article 7 states that all local transfers and payments have to take place in Lebanese pounds, except in cases that the committee determines. It said that the "special committee" will determine limits on inter-bank transfers in the national currency and in foreign currencies, as well as on the usage of checks among banks.

Article 8 stipulates that the Banking Control Commission of Lebanon (BCCL) will exercise its responsibilities according to the Code of Money and Credit, and that the "special committee" will submit regular or *ad hoc* reports to the BCCL.

Article 9 notes that, in case a natural or legal person breaks the law or provides incomplete or inaccurate information, the law imposes a financial penalty of up to 20% of the transaction's amount and obliges the person to return the amount in full, as well as imposes a late administrative penalty of 0.5% of the transaction's amount until the case is settled. It stated that the Beirut courts are the only authorized body to examine the breaches of the law. In terms of penal sanctions, it notes that the committee has to submit the breaches to the Office of the Public Prosecutor, which will take the appropriate measures based on the content of the law.

Article 10 stipulates that, in order to protect the rights of all depositors and their right to recover their bank deposits, including through their recourse to the judicial system, the law suspends all court rulings and decisions that are enforceable in Lebanon and abroad, which have been issued prior to the enactment of this law but that have not been enforced yet, as well as suspends all future decisions that will be issued after the law goes into effect that are in violation of the law. It added that the decisions will be suspended until the expiration of the law's timeframe.



Consumer Price Index up 123.5% in January 2023

The Central Administration of Statistics' Consumer Price Index increased by 123.5% in January 2023 from the same month of 2022, while it registered its 31st consecutive triple-digit increase since July 2020. In comparison, the CPI rose by 239.7% in January 2022 from the same month of 2021.

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 lifting of subsidies on hydrocarbons and on a range of basic products, 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. In addition, the government's increase of telecommunication rates in July contributed to inflationary pressures.

The cost of communication surged by 4.3 times in January 2023 from the same month of 2022, followed the cost of education (+2.9 times), healthcare costs (+2.8 times), rates at restaurants & hotels (+2.7 times), the prices of water, electricity, gas and other fuels and the cost of clothing & footwear (+2.6 times each), the prices of food & non-alcoholic beverages, the cost of recreation & entertainment, the prices of miscellaneous goods & services and the cost of transportation (+2.4 times each), and the cost of alcoholic beverages & tobacco and the prices of furnishings & household equipment (+2.1 times each). In addition, the cost of imputed rent grew by 9.2% year-on-year in January 2023, followed by actual rent (+5.7%). Also, the distribution of actual rent shows that new rent rose by 8.4% and old rent increased by 2% in January 2023 from the same month of 2022.

In parallel, the CPI expanded by 8.4% in January 2023 from the previous month, compared to a month-on-month rise of 6.7% in December 2022 and an increase of 3.7% in November 2022. Rates at restaurants & hotels surged by 18% in January 2023 from December 2022, followed by the prices of clothing & footwear (+11.4%), the prices of food & non-alcoholic beverages (+11.3%), the cost of healthcare (+11%), the cost of transportation (+10.6%), the prices of water, electricity, gas and other fuels (+10.5%), the prices of furnishings & household equipment (+10.1%), the cost of communication (+6%), the cost of recreation & entertainment (+5.7%), the prices of alcoholic beverages & tobacco (5.2%), imputed rent and actual rent (+0.4% each), while the prices of miscellaneous goods & services rose by +20%. Also, the distribution of actual rent shows that new rent grew by 0.6% and old rent expanded by 0.2% in January 2023 from the previous month. In addition, the cost of education was unchanged in January 2023 from the preceding month.

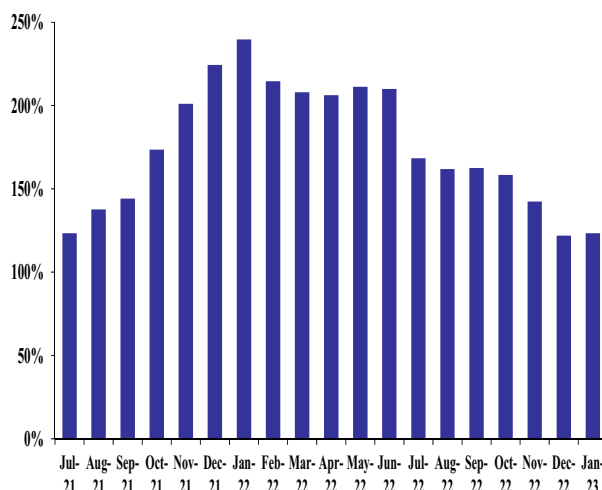
Further, the CPI increased by 9.9% in the Nabatieh, by 8.6% in Mount Lebanon, by 8.4% in the North, by 8.3% in Beirut, by 7.7% in the Bekaa, and by 7.6% in the South during January 2023 from the previous month. In parallel, the Education Price Index was unchanged in January 2023 from the preceding month, and the Fuel Price Index increased by 20% month-on-month in January 2023.

TotalEnergies announces calls for tender related to Block 9 logistics services

TotalEnergies EP Block 9 (TotalEnergies), in its capacity as the operator of Block 9 in Lebanon's offshore territorial waters, declared that it has launched preparations for the start of offshore drilling activities in the block. As such, it announced that it is currently seeking expressions of interest for potential participation in the upcoming calls for tender covering logistics services. It said that the services required to conduct petroleum activities in Block 9 consist of Logistics Base Services, Marine Gas Oil Supply, Vessel Support Services, and Helicopter Services. It added that eligible firms must be Lebanese companies that are majority-owned or controlled by Lebanese nationals, and must have the capability to perform properly the services described in the relevant Call for Tender.

TotalEnergies EP Liban sal announced on January 29, 2023 that it will start offshore drilling in Block 9 of Lebanon's territorial waters in the third quarter of this year, following the U.S.-brokered maritime agreement to delineate the maritime border between Lebanon and Israel that was sealed last October. It indicated that it launched the call for tenders to lease a drilling rig and expected to select the rig in the first quarter of 2023. 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. Earlier this year, the specialized French company Créocéan conducted an Environmental Baseline Survey (EBS) in Block 9 as part of the Environmental Impact Assessment ahead of the planned offshore activities. The EBS aims to confirm the acceptability of the gas exploration project and will identify mitigation measures according to the sensitivity of the environment. The Right Holders in Block 9 are the operator TotalEnergies EP Block 9 that holds a 35% stake, as well as the non-operators Eni Lebanon BV that has a 35% interest and QatarEnergy International Investments (2) LLC that holds a share of 30%.

Annual Change in Consumer Price Index* (%)



*from the same month of the previous year

Source: Central Administration of Statistics, Byblos Research

Occupancy rate at Beirut hotels at 48.7%, room yields up 21.6% in 2022

EY's benchmark survey of the hotel sector in the Middle East indicates that the average occupancy rate at four- and five-star hotels in Beirut was 48.7% in 2022 relative to 42.3% in 2021, and compared to an average rate of 60.3% in 13 Arab markets included in the survey. The occupancy rate at Beirut hotels was the second lowest in the region in 2022, while it was the sixth lowest in 2021. The occupancy rates at Beirut hotels was 34.7% in January, 43.8% in February, 55.7% in March, 25.8% in April, 52.5% in May, 60.4% in June, 75% in July, 64% in August, 68.5% in September, 41% in October, 39.3% in November, and 42.2% in December 2022. In comparison, it was 29.5% in January, 17% in February, 33.7% in March, 34.6% in April, 50% in May, 54% in June, 76% in July, 59% in August, 45.4% in September, 35.3% in October, 30.5% in November, and 40.2% in December 2021. The occupancy rate at hotels in Beirut increased by 6.3 percentage points in 2022 from 2021. In comparison, the average occupancy rate in Arab markets grew by 11.8 percentage points in the covered period.

Hotel Sector Performance in 2022			
	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Abu Dhabi	76	68	17.1
Dubai	73	246	36.7
Madina	74	108	135.2
Cairo-City	71	73	108.0
Makkah	67	111	195.9
Riyadh	63	113	38.5
Doha	60	100	36.6
Jeddah	55	130	28.0
Beirut	49	22	21.6
Muscat	52	66	121.3
Amman	49	72	66.8
Manama	50	76	52.7
Kuwait City	46	103	15.9

Source: EY, Byblos Research

Also, the average rate per room at Beirut hotels was \$46 in 2022 relative to \$43 in 2021 and constituted the lowest rate in the region. EY indicated that it based its average rate per room at Beirut hotels on the exchange rate of the Lebanese pound to the US dollar that the hotels used at the time of the client's booking. The average rate per room in Beirut was lower than the regional average of \$163 that increased by \$28.85 (+21.5%) from \$134.2 in 2021. The average rate per room at Beirut hotels was \$69 in January, \$66.7 in February, \$64.6 in March, \$72.3 in April, \$79 in May, \$75 in June, \$88 in July, \$87 in August, \$68.6 in September, \$51 in October, \$49 in November and \$54 in December 2022. In comparison, it was \$73 in January, \$81.8 in February, \$72.5 in March, \$90 in April, \$103 in May, \$59 in June, \$68 in July, \$73.3 in August, \$64 in September, \$52 in October, \$67 in November, and \$72 in December 2021.

Further, revenues per available room (RevPAR) were \$22 at Beirut hotels in 2022 compared to \$18 in 2021, and were the lowest in the region. EY indicated that it used the same methodology to calculate the RevPAR as it did for the average rate per room. The RevPAR at Beirut hotels rose by 21.6% in 2022 and posted the third lowest increase regionally in the covered period. The RevPAR at hotels in Beirut were \$24 in January, \$29.3 in February, \$36 in March, \$18.7 in April, \$42 in May, \$45 in June, \$66 in July, \$55.8 in August, \$47 in September, \$21 in October, \$19 in November, and \$23 in December 2022. In comparison, they were \$21 in January, \$14 in February, \$24.4 in March, \$31.2 in April, \$51 in May, \$32 in June, \$51 in July, and \$43.3 in August, \$29 in September, \$24 in October, \$21 in November, and \$29 in December 2021. Abu Dhabi had the highest hotel occupancy rate in the region at 75.6% in 2022, while Dubai registered the highest average rate per room at \$339 and the highest RevPAR at \$246 in 2022.

Banque du Liban extends implementation of Circular 161 for one additional month

Banque du Liban (BdL) issued Intermediate Circular 660/13535 dated February 22, 2023 addressed to banks, which extends until March 31, 2023 the clauses of Basic Circular 161/13384 dated December 16, 2021 about exceptional measures related to cash withdrawals from accounts at commercial banks in Lebanon. Circular 161 stipulated that BdL will provide banks with US dollar banknotes instead of supplying them with Lebanese pound banknotes, at the daily exchange rate of the Lebanese pound to the dollar, based on the operations conducted on BdL's Sayrafa electronic exchange platform on the previous day. It added that the supply of the dollar banknotes will consist of the preset monthly ceiling for each bank.

Also, BdL asked all banks to disburse the dollar banknotes in full to their clients at the Sayrafa exchange rate as specified, instead of settling the depositors' withdrawal amounts or cash operations at counters in Lebanese pounds, based on the authorized ceiling for each client. Further, it noted that clients can submit a written request in case they do not want to withdraw their monthly ceiling in US dollars. But the banks' quotas have been insufficient to meet the dollar amounts for the withdrawals of depositors, which prompted BdL to issue a follow up decision on January 11, 2022 that authorized banks to purchase US dollar banknotes from the latter with the Lebanese pounds that they hold, or from their clients' holdings of Lebanese pounds banknotes, at the exchange rate of the dollar on BdL's Sayrafa electronic exchange platform.

However, BdL put a ceiling of \$500 per month on these exchanges starting in June of 2022 and reduced it to \$400 per month starting in October 2022. This constitutes the 14th extension of Circular 161, as the latter it was originally set to expire at the end of 2021, but BdL extended its clauses until the end of January of 2022, the end of February, the end of March, the end of April, the end of May, the end of July, the end of August, the end of September, the end of October, the end of November, the end of December 2022, the end of January and the end of February 2023, with the possibility of extending the circular further.

Industrial activity improves in relative terms in third quarter of 2022

Banque du Liban's quarterly survey about the opinions of business managers shows that the balance of opinions about industrial production was -1 in the third quarter of 2022, compared to -36 in the previous quarter and to -44 in the third quarter of 2021. The balance of opinions for the level of industrial production in the third quarter of 2022 reached its 10th lowest quarterly level between the first quarter of 2004 and the first quarter of 2022, after posting -66 in the second quarter of 2020, -64 in the third quarter of 2006 due to the Israeli war on Lebanon, -57 in the first quarter of 2021, -55 in the first quarter of 2020, -50 in the fourth quarter of 2019, -48 in the third quarter of 2020, -45 in the fourth quarter of 2020, -44 in the first quarter of 2022, and -36 in the third quarter of 2022. The balance of opinions for the third quarter of 2022 reflects the disruptions to economic activity following the worsening of economic and financial conditions in the country, the increase in energy prices, the start of the ban of Lebanese exports to some Arab countries, the fluctuation of the exchange rate of the Lebanese pound on the parallel market, as well as the relative adjustment of the private sector to the ongoing crisis.

The business survey covers the opinions of managers of industrial enterprises about their businesses, in order to depict the evolution of a number of key economic variables. The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in a particular indicator and the proportion of those who reported a decline in the same indicator. The balance of opinions about industrial production was +14 in Beirut & Mount Lebanon, +9 in the Bekaa, -3 in the North, and -75 in the South.

The balance of opinions about demand for industrial goods stood at -1 in the third quarter of 2022 compared to -34 in the preceding quarter and to -46 in the third quarter of 2021. It was the lowest in the South at -78, followed by the North (-3), the Bekaa (+9), and Beirut & Mount Lebanon (+14). In parallel, the balance of opinions about the volume of investments in the industrial sector stood at -20 in the third quarter of 2022 compared to -31 in the preceding quarter and compared to -34 in the third quarter of 2021. It was the lowest in the South at -75, followed by Beirut & Mount Lebanon (-28), the Bekaa (-1), and the North (zero). In addition, the balance of opinions about the level of registered orders was -47 in the third quarter of 2022 relative to -46 in the previous quarter and to -62 in the third quarter of 2021. It was -78 in the South, the lowest across regions, followed by Beirut and Mount Lebanon (-47), the North (-40), and the Bekaa (-38).

Further, the balance of opinions about foreign demand for industrial goods was zero during the third quarter of 2022 compared to -24 in the preceding quarter and to -18 in the third quarter of 2021. It was +32 in Beirut & Mount Lebanon, zero in the North, -18 in the Bekaa, and -67 in the South. Also, the balance of opinions about the number of employees in the sector was -16 in the third quarter of 2022 relative to -23 in the preceding quarter and to -36 in the third quarter of 2021. It was zero in Beirut & Mount Lebanon, -5 in the Bekaa, -35 in the North, and -55 in the South.

In parallel, the balance of opinions for the level of inventory of finished goods was -24 in the third quarter of 2022 compared to -32 in the previous quarter and to -40 in the third quarter of 2021. It stood at -3 in the North, -22 in the Bekaa, -27 in Beirut and Mount Lebanon, and -60 in the South. Also, the balance of opinions for the level of inventories of raw materials was -33 in the third quarter of 2022 relative to -40 in the preceding quarter and to -43 in the third quarter of 2021. It stood at -23 in the Bekaa, -27 Beirut and Mount Lebanon, -42 in the North, and -60 in the South, the lowest across regions.

Industrial Activity: Evolution of Opinions				
Aggregate results	Q3-19	Q3-20	Q3-21	Q3-22
Production	-33	-48	-44	-1
Total demand	-36	-52	-46	-1
Foreign demand	-24	-30	-18	-0
Volume of investments	-20	-26	-34	-20
Inventories of finished goods	-13	-45	-40	-24
Inventories of raw material	-22	-50	-43	-33
Registered orders	-44	-61	-62	-47

Source: Banque du Liban Business Survey for Third Quarter of 2022

More than 42% of residents to face food security crisis in first four months of 2023

In its first comprehensive analysis of the level of food insecurity in Lebanon, the United Nations' Food and Agriculture Organization (FAO) considered that the economic and financial crisis that the country has been facing since October 2019 has significantly undermined the food security of both Lebanese residents and Syrian refugees. It based its findings on the classification of Lebanese and Syrians living in Lebanon among five categories of Integrated Food Security Phase Classification (IPC), which are (1) Minimal/None, (2) Stressed, (3) Crisis, (4) Emergency, and (5) Catastrophe/Famine. It noted that the IPC is a set of tools and procedures to classify the severity and characteristics of acute food and nutrition crises, as well as chronic food insecurity, based on international standards. It noted that the IPC analysis aims to inform emergency response as well as medium and long-term food security policy and programming.

It defines Acute Food Insecurity as "any manifestation of food insecurity found in a specified area at a specific point in time of a severity that threatens lives or livelihoods, or both, regardless of the causes, context or duration. It is highly susceptible to change and can occur and manifest in a population within a short amount of time, as a result of sudden changes or shocks that negatively impact on the determinants of food insecurity."

The FAO estimated through the analysis that it carried out in the country's 26 districts showed that, between January and April 2023, about 2.26 million Lebanese residents and Syrian refugees, or the equivalent of 42% of the analyzed population in Lebanon, will be in the "Crisis" phase, or in a worse category. It added that individuals who are classified in IPC Phase 3 or in a worse segment require urgent humanitarian action to reduce food gaps, protect and restore livelihoods, and prevent acute malnutrition. It attributed the high level of individuals that will face high levels of food insecurity to a further deterioration of the economic situation in the country, to the depreciation of the Lebanese pound against the US dollar, to the protracted period of surging inflation rates, as well as to soaring global commodity prices. Also, it said that the share of residents and refugees that will be in the "Crisis" phase or worse is five percentage points higher than the share of persons who had the same food insecurity levels during the September-December 2022 period.

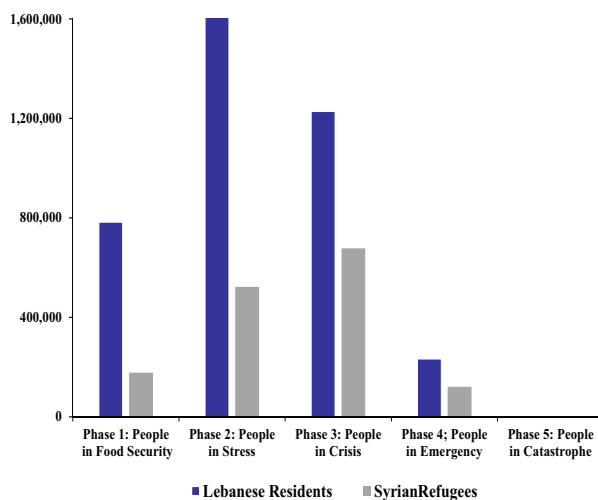
It estimated that a total of 1.91 million individuals, or 35% of the analyzed population, will be in the "Crisis" phase, while 354,000 persons, or 7% of the total, will fall in the "Emergency" stage in the first four months of 2023. Also, it estimated that 1.46 million Lebanese residents, or 38% of the Lebanese resident population, and 0.8 million Syrian refugees, or 53% of the total number of Syrian refugees in Lebanon, will be in IPC Phase 3 or in a worse category. It also forecast that 233,000 Lebanese residents, or 6% of the resident population, and 121,000 Syrian refugees, or 8% of total Syrian refugees in Lebanon, will be in the "Emergency" stage during the covered period.

Further, it projected that Lebanese residents in 22 out of the 26 districts will be in the "Crisis" segment during the January-April 2023 period. Also, it anticipated that the highest incidence of acute food insecurity will be in the Akkar, Baalbek, and El Hermel regions, and that between 60% and 65% of the population of these three districts will be in the IPC Phase 3 or in a worse category, while 15% of the population in the three districts will be in the "Emergency" segment. In addition, it expected that the Akkar district will have the highest number of Lebanese residents with "high food insecurity" in absolute terms between January and April 2023, with over 190,000 people in the "Crisis" category or worse. It anticipated that Baabda would follow with 165,000 persons, then Baalbek (115,000 individuals) and Tripoli (100,000 persons).

Also, it projected that Syrian refugees living in 23 out of the 26 districts will be in the "Crisis" segment for the first four months of 2023. It also anticipated that 65% of Syrian refugee households in the El Hermel and Marjaayoun areas will fall in IPC Phase 3 or in a worse category, and for 60% of the Syrian refugee population in the Baalbek, Beirut, Koura, Minnieh-Dennie, Tripoli and West Bekaa regions to belong to the "Crisis" segment or worse in the covered period. In addition, it expected the Zahlé district to host 135,000 Syrian refugees who are in the IPC Phase 3 or worse category, followed by Baalbek with 108,000 persons and Akkar with 108,000 individuals.

In parallel, the FAO considered that the key drivers of food insecurity in Lebanon in the first four months of 2023 will be the surging inflation rates, the further depreciation of the Lebanese pound against the US dollar on the parallel market, as well as higher global commodity prices and the loss of the purchasing power of households. It also attributed the anticipated high levels of food insecurity across the country to uncertainties about Lebanon's governance structure, which is likely to further delay the implementation of reforms. It stressed the need for urgent action to reduce food consumption gaps and to protect the livelihoods of populations in the "Emergency" and "Crisis" categories by improving access to food through appropriate modalities.

Population Breakdown according to Food Insecurity Levels between January and April 2023



Source: FAO, Byblos Research

Sovereign ratings upgrade contingent on the restructuring of foreign currency debt

S&P Global Ratings indicated that Lebanon's long- and short-term foreign currency sovereign credit ratings of Selective Default ('SD/SD') are 12 notches below investment grade and reflect the government's decision to default on Lebanon's foreign currency debt obligations, as authorities announced in March 2020 that Lebanon would stop paying its obligations on its sovereign Eurobonds. It added that the country's long- and short-term local currency ratings of 'CC/C', with a 'negative' outlook on the long-term local currency ratings, point to the agency's view that the government will likely decide to restructure its Lebanese-pound denominated debt as part of a broader restructuring program to place the public debt on a sustainable path.

The agency anticipated the Lebanese caretaker government to face more challenges to implement the prior actions in the April 2022 Staff Level Agreement with the International Monetary Fund (IMF), as long as Parliament has not elected a new president for the country. As such, it expected the unpredictable policy environment to cause further delays in the government's reform process, but considered that the Lebanese authorities' clear acknowledgement of the steps they need to take prior to signing a deal with the IMF is a positive sign. It added that the \$3bn Extended Fund Facility with the IMF would unlock further official support that is crucial for stabilizing and rebuilding the economy.

It noted that Parliament approved last September the budget law for 2022 and a second version of the banking secrecy law that was revised to international standards, while the audit of the foreign asset position of Banque du Liban (BdL) was completed last year. It added that the government devalued the official exchange rate of the national currency from LBP1,507.5 per US dollar to LBP15,000 per dollar effective February 1, 2023, and considered that this move falls short of the unification of the multiple exchange rates in the economy. Also, it pointed out that there is limited progress on enacting a capital controls law, while the Cabinet's approval of a banking sector restructuring plan and the parliamentary approval of the bank resolution legislation remain contentious. Further, it expected that an evaluation of the 14 largest banks in the country will take place in the next few months, which will help determine the recapitalization requirements for the restructuring of the financial sector.

In parallel, S&P considered that financial support from multilateral organizations and bilateral partners will be crucial for the success of any reform plan that the authorities will adopt. It noted that, despite the currency devaluation, the new exchange rate still does not reflect the economy's fundamentals and that there are still multiple exchange rates in the country. It anticipated that the official exchange rate will further depreciate in the next two to three years and stabilize at about LBP46,000 per US dollar by the end of 2026, but it considered that there are significant uncertainties about the path of the exchange rate.

In addition, it indicated that the public debt level has been substantially affected by the sharp depreciation of the exchange rate, which increases the value in Lebanese pounds of the foreign currency-denominated debt. It noted that this effect is only partially offset by the impact of inflation on nominal GDP. It added that the fiscal position is facing strict funding constraints, and anticipated that the accumulation of government arrears on its payments for goods and services, and on some allowances, would weigh on fiscal flexibility in the medium- to long term. It also noted that drawdowns on foreign currency reserves partially funded the current account deficit, and considered that BdL has only limited buffers to counter a further deterioration in the balance of payments, despite expectations of a narrower current account deficit in the 2023-26 period.

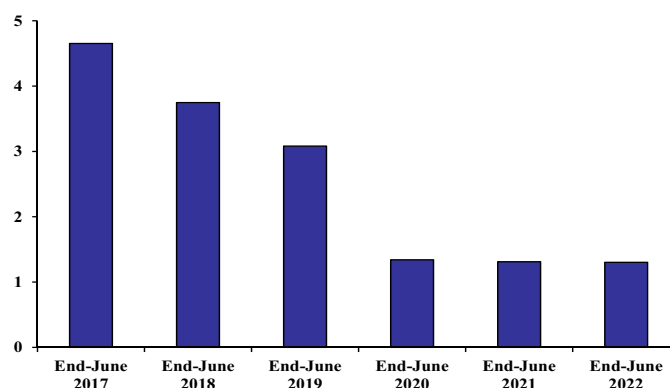
In parallel, the agency indicated that it could downgrade Lebanon's local currency ratings in case the government signals that it is considering the restructuring of the Lebanese pound-denominated debt. But it noted that it could revise the outlook to 'stable' or upgrade the ratings in case the government decides that a restructuring of foreign currency-denominated debt is sufficient to place the public debt stock on a sustainable path. Under this scenario, the agency considered that the likelihood of a restructuring of the Lebanese pound-denominated commercial debt would decline. Also, it said that it would upgrade Lebanon's long-term foreign currency sovereign issuer credit rating from 'SD' and the country's issue ratings from 'D' in case the government completes the restructuring of its foreign debt. It noted that the upgrade would reflect Lebanon's post-restructuring creditworthiness, and would take into consideration the resulting debt burden and macroeconomic policy prospects. It added that its post-restructuring ratings tend to be in the 'CCC' or low 'B' categories, depending on the sovereign's new debt structure and its capacity to support the debt.



Foreign investments of financial sector at \$1.3bn at end-June 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 \$1.3bn at the end of June 2022, constituting a decrease of 16% in the first half of the year from \$1.55bn at the end of 2021 and a decline of 0.7% from \$1.3bn at the end of June 2021. 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 \$653.9m at the end of June 2022 and accounted for 50.2% of the total, followed by investments in long-term debt securities at \$645.2m (49.5%), and investments in short-term debt securities at \$3.4m (0.3%). Placements in equities declined by 24.6% and investments in long-term debt securities regressed by 5.3%, while investments in short-term debt securities surged by 264.3% in the first half 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 \$289.6m and accounted for 45% of the financial sector's aggregate investments in such securities at the end of June 2022. The net investments of medium- and long-term banks followed with \$158.1m (24.5%), then insurance companies with \$175m (27.1%), and financial institutions with \$22.6m (3.5%). Further, medium- and long-term banks' investments in equities reached \$206m and represented 31.5% of the financial sector's investments in such securities at the end of June 2022. Financial institutions followed with \$169.6m (26%), then commercial banks with \$161.3m (24.7%), insurers with \$116.8m (18%), and financial intermediaries with \$0.27m (0.04%). In parallel, insurance firms had \$3.3m invested in short-term debt securities at the end of June 2022, while the placements of other financial institutions were negligible.

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 \$155.7m, or 23.8% of the total at the end of June 2022. The United Kingdom followed with equity investments of \$81.2m (12.4%), then the Netherlands with \$59.4m (9%), Saudi Arabia with \$54.1m (8.3%), and Luxembourg with \$50.7m (7.8%), while other countries accounted for the remaining 38.7%. In parallel, France was the recipient of \$127.6m or 19.8% of investments by Lebanese banks and financial institutions in long-term debt securities, followed by the United Kingdom with \$115m (17.8%), the United States with \$88.8m (13.8%), Switzerland with \$56m (8.7%), and Ireland with \$49.6m (7.7%), while other countries accounted for the balance of 32.3%. Further, the United States was the recipient of 74.5% of investments by Lebanese banks and financial institutions in short-term debt securities, followed by the United Kingdom with 19.6%, and the European Union with 6%.

Net profits of Syrian affiliates of Lebanese banks at SYP162bn in 2022

Preliminary financial results issued by the affiliates of six Lebanese banks operating in Syria show that their aggregate net profits reached SYP161.7bn in 2022 relative to net earnings of SYP389.8bn in 2021. The Syrian pound depreciated from SYP2,512 against the US dollar at the end of 2021 to SYP3,015 per dollar at the end of 2022.

The profits of Banque BEMO Saudi Fransi dropped by SYP52bn in 2022, followed by a decline of SYP51.5bn in the net income of Byblos Bank Syria, a decrease of SYP43.7bn in the earnings of Bank of Syria & Overseas, a contraction of SYP30.6bn in the profits of Syria Gulf Bank, the affiliate of First National Bank, a reduction of SYP27.2bn in the net income of Fransabank Syria, and a retreat of SYP23.2bn in the earnings of Bank Al-Sharq, the affiliate of Banque Libano-Française.

In parallel, the banks' aggregate assets reached SYP4,522bn at the end of 2022 and increased by 22% from SYP3,706.7bn at end-2021. The rise in assets was due to a rise of 36.7% in the assets of Syria Gulf Bank (+SYP272.7bn), a jump of 26.3% in those of Banque BEMO Saudi Fransi (+SYP395bn), a growth of 17% in the assets of Bank of Syria & Overseas (+SYP81.4bn), an uptick of 14.8% in those of Byblos Bank Syria (+SYP45.5bn), and an expansion of 5.2% in the assets of Fransabank Syria (+SYP23.7bn). In contrast, the assets of Bank Al Sharq stood at SYP219bn at the end of 2022 and regressed by 1.4% (-SYP3.1bn) from the end of 2021. In US dollar terms, the assets of the six banks increased from \$1.48bn at the end of 2021 to \$1.5bn at end-2022.

In addition, the aggregate shareholders' equity of the six banks reached SYP906bn at end-2022, constituting a rise of 21.7% from SYP744.3bn at end-2021; in US dollar terms, the banks' shareholders' equity stood at \$300.5m at the end of 2022 relative to \$296.3m at end-2021. The six banks have yet to publish their detailed financial results for 2022.



Ratio Highlights

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

*change in percentage points 21/20;

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

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

National Accounts, Prices and Exchange Rates

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

*Average year-to-July 22, 2022

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

Ratings & Outlook

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

Source: Rating agencies

Banking Sector Ratings

	Outlook
Moody's Investors Service	Negative

Source: Moody's Investors Service



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

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BYBLOS BANK GROUP

LEBANON

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

IRAQ

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

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

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

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

ARMENIA

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

NIGERIA

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

BELGIUM

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

UNITED KINGDOM

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

FRANCE

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

ADIR INSURANCE

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