

LEBANON THIS WEEK

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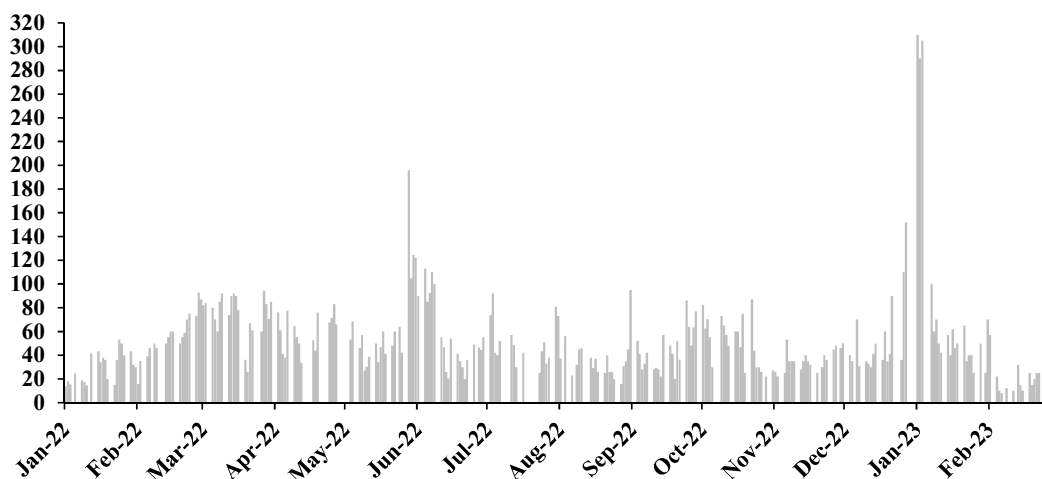
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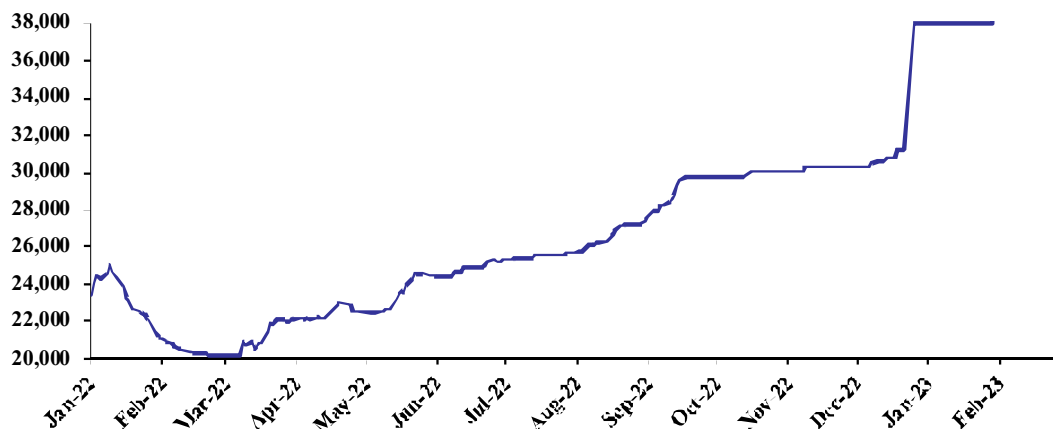
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Charts of the Week

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



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



*until February 28, 2023

Source: Banque du Liban, Byblos Bank

Quote to Note

"It is paralyzing the State at all levels, profoundly undermining its ability to address the urgent socioeconomic, financial, security and humanitarian challenges."

The International Support Group for Lebanon, on the ramifications of a prolonged presidential vacuum

Number of the Week

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

Lebanon in the News

\$m (unless otherwise mentioned)	2020	2021	2022	% Change*	Dec-21	Nov-22	Dec-22
Exports	3,544	3,887	3,492	-10.2%	616	274	272
Imports	11,310	13,641	19,053	39.7%	1,269	1,584	1,251
Trade Balance	(7,765)	(9,754)	(15,562)	59.5%	(653)	(1,310)	(979)
Balance of Payments	(10,551)	(1,960)	(3,197)	63.1%	(384)	(354)	17
Checks Cleared in LBP	19,937	18,639	27,146	45.6%	1,738	3,003	3,686
Checks Cleared in FC	33,881	17,779	10,288	-42.1%	1,079	767	577
Total Checks Cleared	53,818	36,418	37,434	2.8%	2,818	3,770	4,263
Fiscal Deficit/Surplus**	(2,709)	1,457	-	-	-	-	-
Primary Balance**	(648)	3,323	-	-	-	-	-
Airport Passengers	2,501,944	4,334,231	6,360,564	46.8%	455,087	446,450	551,632
Consumer Price Index	84.9	154.8	171.2	1,645bps	224.4	142.4	122.0

\$bn (unless otherwise mentioned)	Dec-21	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	% Change*
BdL FX Reserves	13.65	10.63	10.78	10.60	10.40	10.40	(23.8)
In months of Imports	-	-	-	-	-	-	-
Public Debt	100.37	103.65	102.71	101.94	-	-	-
Bank Assets	174.82	168.75	167.01	164.64	165.05	169.06	(3.3)
Bank Deposits (Private Sector)	129.47	125.02	124.96	124.37	124.57	125.72	(2.9)
Bank Loans to Private Sector	27.72	22.82	22.28	21.93	21.29	20.05	(27.7)
Money Supply M2	52.41	50.87	62.15	72.31	71.40	77.34	47.6
Money Supply M3	133.38	127.71	138.46	148.13	147.09	152.29	14.2
LBP Lending Rate (%)	7.14	4.85	5.09	5.00	5.30	4.56	(258)
LBP Deposit Rate (%)	1.09	0.60	0.66	0.70	0.65	0.60	(49)
USD Lending Rate (%)	6.01	5.51	4.61	5.11	4.35	4.16	(185)
USD Deposit Rate (%)	0.19	0.10	0.09	0.10	0.07	0.06	(13)

*year-on-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"	82.20	19.8	54,859	45.9%	May 2023	6.40	6.75	6,295.36
Audi GDR	1.39	0.0	16,000	0.9%	Apr 2024	6.65	6.75	462.73
Solidere "B"	80.15	12.6	14,981	29.1%	Jun 2025	6.25	6.75	162.73
Byblos Common	0.75	0.0	4,000	2.4%	Nov 2026	6.60	6.75	87.27
Audi Listed	1.56	0.0	800	5.1%	Mar 2027	6.85	6.75	79.10
HOLCIM	31.30	(2.6)	250	3.4%	Feb 2030	6.65	6.75	42.67
BLOM GDR	2.90	0.0	-	1.2%	Apr 2031	7.00	6.75	36.09
BLOM Listed	2.50	0.0	-	3.0%	May 2033	8.20	6.75	28.27
Byblos Pref. 08	27.00	0.0	-	0.3%	Nov 2035	7.05	6.75	22.48
Byblos Pref. 09	37.98	0.0	-	0.4%	Mar 2037	7.25	6.75	20.15

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

Source: Refinitiv

	Feb 27 - Mar 3	Feb 20-24	% Change	February 2023	February 2022	% Change
Total shares traded	91,690	71,996	27.4	397,775	1,217,016	(67.3)
Total value traded	\$5,304,389	\$4,431,253	19.7	\$16,431,863	\$15,255,094	7.7
Market capitalization	\$17.90bn	\$15.98bn	12.1	\$16.32bn	\$9.81bn	66.5

Source: Beirut Stock Exchange (BSE)



Lebanon ranks 164th globally, 13th among Arab countries in economic freedom, economy remains "repressed"

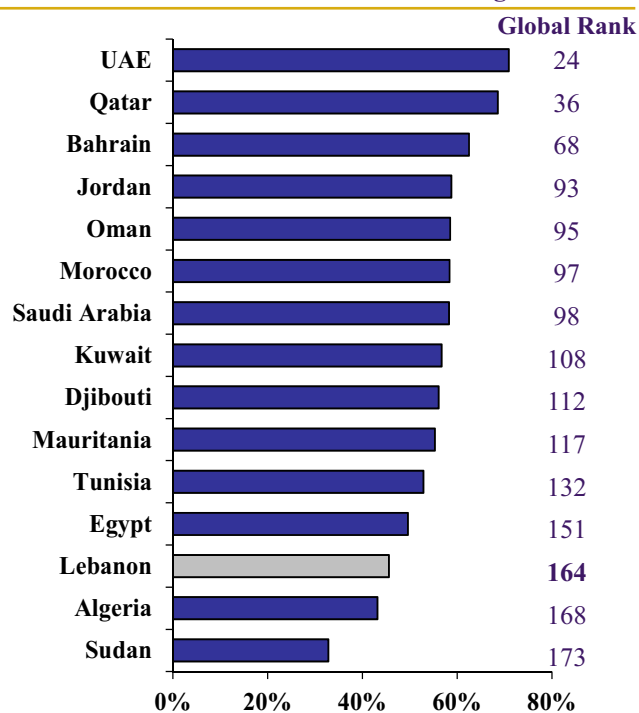
The Heritage Foundation's Index of Economic Freedom for 2023, a broad indicator of economic freedom in 176 countries, ranked Lebanon in 164th place worldwide and in 13th place among 15 Arab countries that have a full dataset. In comparison, Lebanon ranked in 162nd place globally and in 13th place regionally in 2022, while it came in 154th place worldwide and in 13th place among Arab countries on the 2021 index and in 91st place among 177 countries globally and in ninth place in the Arab world in the 2013 survey.

The index evaluates individual economies based on 12 equally-weighted broad factors of economic freedom divided into four pillars that are the Rule of Law, the size of the Government, Regulatory Efficiency, and Market Openness. A country's score ranges between zero and 100, with 100 reflecting the country with the highest possible level of economic freedom. The index also places each country in one of five categories of economic freedom that consist of a "free", "mostly free", "moderately free", "mostly unfree", and "repressed" economy.

Globally, Lebanon has a higher level of economic freedom than Bolivia, Algeria and Iran, and a lower level than the Democratic Republic of Congo, Zambia and Turkmenistan among economies with a GDP of \$10bn or more. Lebanon's level of economic freedom reached 45.6% in the 2023 survey relative to 47.3% in 2022, 51.4% in the 2021 survey, and 59.5% in 2013. Lebanon's score in 2023 came well below the global and the Arab levels of economic freedom of 59.3% and 55.2%, respectively. Also, its score was lower than the Gulf Cooperation Council (GCC) countries' average score of 62.6% and the average score of non-GCC Arab countries of 50.3%. Lebanon's economic freedom status remains in the "repressed" category for the second consecutive year, after having maintained in the "mostly unfree" category for nine consecutive years during the 2013-21 period and in the "moderately free" category in 2011 and 2012.

The Heritage Foundation attributed the decline in Lebanon's score in the 2023 survey mainly to lower scores on the Monetary Freedom, the Investment Freedom and the Financial Freedom indicators. The survey considered that the entrepreneurial environment, characterized by political instability and regulatory inefficiency, discourages the dynamic growth of private investments. It noted that commercial regulations remain onerous and that corruption is rampant in the public sector. It indicated that the protection of property rights is weak in the absence of a properly functioning legal framework. In parallel, Lebanon preceded Bangladesh and trailed Angola globally, while it came ahead of only Sudan among Arab countries on the Government Integrity Indicator. This category assesses the extent of government intervention in economic activity and the degree of corruption that follows. Also, Lebanon ranked ahead of Cameroon and behind Gabon globally, while it preceded Djibouti, Mauritania and Sudan regionally on the Business Freedom Indicator, which reflects the ability to create, operate and close an enterprise. This category also measures the extent that the regulatory and infrastructure environments limit the efficient operation of businesses. Further, Lebanon came ahead of Dominican Republic and trailed Chad globally, while it ranked behind only the UAE, Jordan, Tunisia and Bahrain regionally on the Labor Freedom Indicator, which assesses the legal and regulatory framework of a country's labor market.

**Index of Economic Freedom for 2023
Arab Countries' Scores & Rankings**



Source: Heritage Foundation, Byblos Research

Economic Freedom in Lebanon by Category

	Arab Rank	Global Rank	Lebanon Score	Change in Score*	Long-Term Trend**	Arab Ave	Global Ave
Property Rights	12	140	33.1%	↓	-33.8%	48.7%	54.9%
Judicial Effectiveness	13	144	22.6%	↓	n/a	31.1%	49.8%
Government Integrity	14	153	25.0%	↓	+126.0%	39.3%	45.5%
Tax Burden	7	31	89.7%	↑	-7.2%	87.6%	78.2%
Government Spending	4	56	80.7%	↑	+92.6%	67.3%	64.1%
Fiscal Health	6	108	44.1%	↑	n/a	43.7%	54.8%
Business Freedom	13	137	48.1%	↓	-31.3%	55.8%	60.8%
Labor Freedom	5	121	53.3%	↓	n/a	50.1%	56.1%
Monetary Freedom	14	171	19.5%	↓	-75.6%	68.8%	72.5%
Trade Freedom	7	89	71.4%	↓	+95.1%	68.1%	69.6%
Investment Freedom	13	149	30.0%	↓	-40.0%	52.0%	56.8%
Financial Freedom	12	131	30.0%	↓	-57.1%	50.0%	48.8%

*year-on-year; ** Change in score from 2000

Source: Heritage Foundation, Byblos Research



Lebanon receives 2.5% of IMF regional technical assistance between November 2022 and January 2023

The International Monetary Fund's Middle East Technical Assistance Center (METAC) indicated that Lebanon received 2.5% of the center's delivery of technical assistance to member countries during the third quarter of the fiscal year that ends in April 2023, or between November 2022 and January 2023. In comparison, Lebanon did not receive any technical assistance in the first and the second quarters of FY2022/23. METAC provided two technical assistance projects in revenue administration to Lebanon in the third quarter of FY2022/23. It indicated that it has planned nine technical assistance projects for Lebanon in FY2022/23, the fourth highest number of such projects among member countries, behind Egypt (14 projects), Jordan (12 projects), and Iraq and Morocco (10 projects each).

In terms of revenue administration, METAC assisted the Ministry of Finance in developing a reform governance framework for the ministry, with a detailed action plan for its implementation. It said that it developed the framework based on a review of the existing tax reform governance framework and a series of presentations and discussions with officials based on international good practices.

In addition, METAC provided a follow-up technical assistance to the Lebanese Customs Authority (LCA) on "Short-and-Medium-Term Actions for Stabilizing Revenue Administration." It said that the mission helped the LCA design its new organizational structure and reactivate its legal committee in charge of drafting the new customs code. It added that it supported the LCA in developing a detailed roadmap for the implementation of the remaining immediate and short-term priorities.

The IMF established METAC in Beirut in October 2004 to serve Afghanistan, Algeria, Djibouti, Egypt, Iraq, Jordan, Lebanon, Libya, Morocco, Palestine, Sudan, Syria, Tunisia, and Yemen. The center's mandate is to assist in capacity-building, facilitate the reform process in member countries, and support the region's integration in the world economy.

Delays in structural reforms to aggravate economic crisis

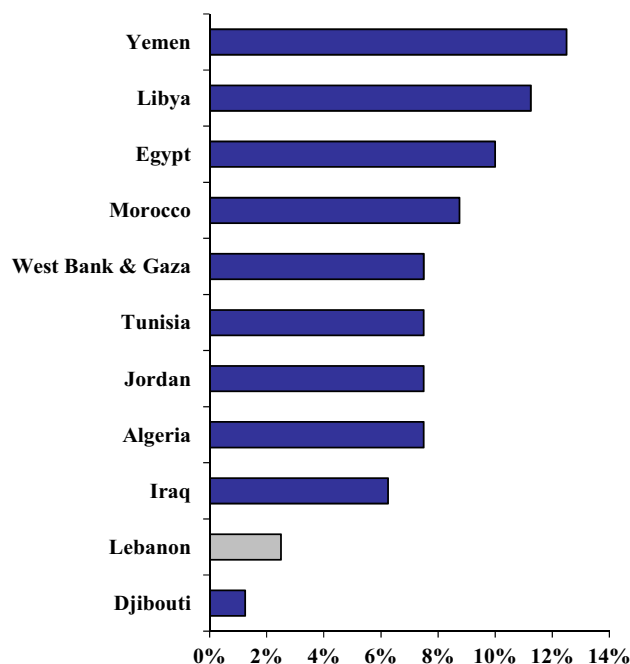
Goldman Sachs considered that there are few signs for the resolution of the economic and financial crisis that Lebanon has been going through since late 2019. It said that, in April 2022, the Lebanese authorities reached a Staff-Level Agreement (SLA) with the International Monetary Fund (IMF) on a \$3bn Extended Fund Facility. It expected that the IMF Executive Board's approval of the funds would potentially unlock about \$6.4bn in outstanding multilateral and bilateral financial support that international institutions and countries pledged at the CEDRE Conference in April 2018. It indicated that the SLA outlined a set of prior actions that Lebanese authorities need to carry out in order for the IMF's Executive Board to approve the \$3bn facility. But it noted that the authorities have been very complacent in implementing the necessary measures, mainly due to political gridlock and delays since October 2022 in electing a president for the country. As a result, it projected real GDP growth in Lebanon to contract by 2% in 2023 and for economic activity to expand by 5.7% in 2024, mainly due to favorable base effects and in case authorities implement the much-needed structural and fiscal reforms.

In parallel, it pointed that the economic and social consequences of the authorities' inaction are evident, as the exchange rate of the Lebanese pound against the US dollar has continued to depreciate on the parallel market and has reached about LBP80,000 per dollar. It anticipated that the depreciation of the pound in recent weeks will fuel an acceleration in the inflation rate from already high levels. It forecast the inflation rate to average 143.4% in 2023 and expected it to moderate to an average of 57% in 2024. 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 starting on February 1, 2023.

In addition, it indicated that the banking sector has been calling for the enactment of a capital controls law that would organize access to foreign currency deposits at banks operating in Lebanon, as informal restrictions on withdrawals have been in place since late 2019, but it added that the lack of legal basis for the main premise of such a law has left banks at risk of litigation.

It considered that the first step towards the resolution of the crisis would be the election of a new president and the consequent formation of a new government, which it anticipated could take several weeks or months. Still, it expressed concerns about the ability of a new government to push through Parliament the necessary prior actions that the IMF has requested for the disbursal of funds, and in its capacity to resolve in the near term Lebanon's economic crisis and the sovereign's default.

Allocation by Country of Full-Time Equivalent Resources in Third Quarter of Fiscal Year 2022/23



Source: International Monetary Fund, Byblos Research

Ministry of Finance raises dollar exchange rate for customs by 200%

The Ministry of Finance announced the increase of the monthly average of the exchange rate of the Lebanese pound for calculating the taxes and fees at customs on imported goods and products from LBP15,000 per US dollar to LBP45,000 per dollar. The ministry attributed its decision to several factors. First, it cited the paralysis of public administrations and institutions due to the absence of workers and employees from their work because of the prevailing elevated cost of living. Second, it noted the Council of Ministers' decision to provide a transportation allowance of five liters of gasoline per day to public school teachers in order to salvage the school year. Third, it referred to the Council of Ministers' plan to give all public sector and municipalities' workers and employees a transportation allowance of five liters of gasoline per day, as well as an allowance for daily productivity for those who come to work, in an attempt to convince them to suspend their strike. Fourth, it pointed to the Council of Ministers' decision to increase the transportation allowance for the military. Fifth, it considered that these increases and allowances would contribute to reviving work in the public sector, which will have a positive impact on economic activity in the country. Sixth, it noted the need to find the financial resources to cover these allocations and to avoid triggering an increase in inflationary pressures on the consumer basket. Seventh, it pointed out that the exchange rate of the Lebanese pound exceeded LBP80,000 per US dollar on the parallel market and LBP45,000 on Banque du Liban's Sayrafa electronic exchange platform.

As such, the ministry said that the exchange rate for March of the currencies of Lebanon's main import sources are LBP48,207 for the euro, LBP54,384 for the British pound, LBP48,642 for the Swiss franc, LBP338.34 for the Japanese yen, LBP6,579 the Chinese yuan, LBP2,388 for the Turkish lira, LBP1,476 for the Egyptian pound, LBP17.91 for the Syrian pound, as well as LBP45,000 for the US dollar. It added that it may increase the rates in the future, depending on the government's needs. The ministry had raised the exchange rate of the US dollar for customs purposes from LBP1,507.5 to LBP15,000 per dollar in the fourth quarter of last year.

Payments to poor households extended under "Aman" program

The Ministry of Social Affairs announced that it will extend for an additional six months the Emergency Social Safety Net Project (ESSN), known as "Aman", for 76,000 families that benefited from the project in 2022. It indicated that it will disburse to the covered households one cash payment in US dollars for January and February 2023 starting from March 15, 2023. Further, it noted that the "Aman" program aims to target 74,000 new households in 2023. It said that it will organize home visits to Lebanese families who were previously registered on the DAEM Social Safety Net electronic platform, by its inspectors and the coordinators from the World Food Program. It indicated that the visits will start in April 2023 and will last for five months. It pointed out that the households will undergo a computerized evaluation process to select the poorest among them that will benefit from the one-year program, with retroactive effect from January 2023. It added that payments to the first group will take place at the end of May 2023.

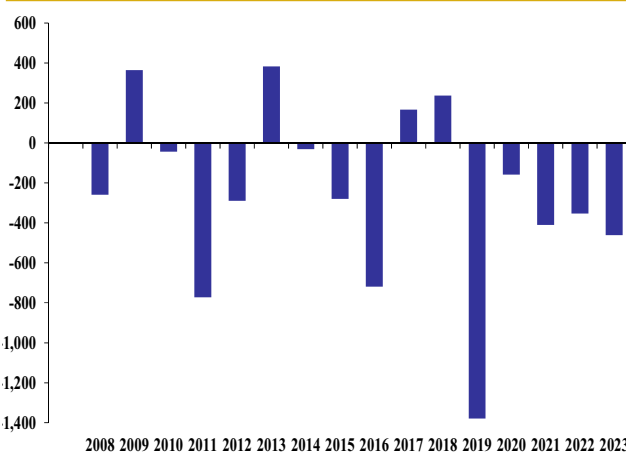
The government announced on March 14, 2022 the beginning of payments of cash transfers to 150,000 extremely poor Lebanese households under the ESSN project that the World Bank is financing. The announcement follows the completion of the registration process of Lebanese households on the DAEM Social Safety Net that is managed by the Impact platform, the first e-government platform in Lebanon, under the supervision of the government's Central Inspection Department. The program provides nearly 680,000 individuals a monthly cash transfer of \$20 per household member with a maximum of \$120 per family, in addition to a fixed amount of \$25 per household. It also covers the direct cost of schooling for 87,000 children between the ages of 13 and 18 years among extremely vulnerable households, in order to prevent students from dropping out of school. In parallel, the Ministry of Social Affairs launched on December 1, 2021 the registration platform for the electronic cash card assistance that aims to help 700,000 vulnerable families cope with the increase in the cost of living in the country. The ministry indicated that Lebanese authorities have secured a \$246m loan from the World Bank to fully fund the ESSN, or "Aman" project, and said that all payments for the program will be denominated in US dollars.

Net foreign assets of financial sector down \$461.5m in January 2023

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 \$461.5m in January 2023, compared to an increase of \$17.1m in December 2022 and to a decline of \$353m in January 2022. The decline in net foreign assets of the financial sector in January 2022 was caused by a drop of \$260.9m in the net foreign assets of BdL and by a decline of \$200.6m in those of banks and financial institutions.

The 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 on the non-resident financial sector; while the decrease in foreign liabilities was driven mainly by the contraction 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.

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



*in January of each year

Source: Banque du Liban, Byblos Research

Banque du Liban's foreign assets at \$14.7bn, gold reserves at \$16.7bn at end-February 2023

Banque du Liban's (BdL) interim balance sheet shows that its total assets reached LBP1,528.4 trillion (tn), or the equivalent of \$101.9bn, on February 28, 2023, constituting an increase of 0.4% from LBP1,523tn (\$101.5bn) at mid-February 2023. Assets in foreign currency reached \$14.7bn at the end of February 2023, representing a decrease of \$448.4m, or of 3%, from the end of 2022 and a drop of \$2.2bn (-13%) from \$16.9bn at end-February 2022. Assets in foreign currency include \$5.03bn in Lebanese Eurobonds, unchanged from a year earlier. The dollar figures up until the end of January 2023 are based on the official exchange rate of the Lebanese pound to the US dollar of LBP1,507.5 per dollar at the time, while the dollar figures starting in February 2023 are based on the new official exchange rate of LBP15,000 per dollar.

BdL's gross foreign currency reserves, which consist of its assets in foreign currency excluding Lebanese Eurobonds, stood at \$9.7bn at end-February 2023, constituting decreases of \$79.4m (-0.8%) from \$9.95bn at mid-February 2023 and of \$249.4m (-2.5%) from \$9.95bn at end-January 2023. They dropped by \$448.4m (-4.4%) in the first two months of 2023 and by \$2.2bn (-18.5%) from \$11.9bn at end-February 2022.

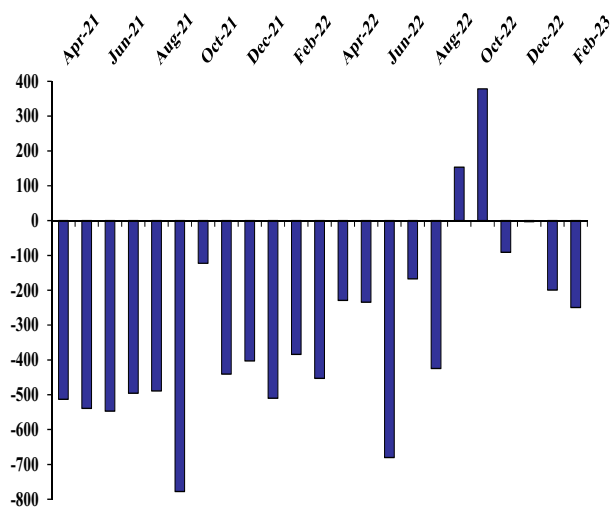
The cumulative decline of BdL's gross foreign-currency reserves in the past 12 months is largely due to the financing of the imports of hydrocarbons, wheat, medicine, medical equipment, a large number of food and non-food items, and raw materials for agriculture and industry, as well as to the implementation 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 LBP83,289bn at the end of February 2023, constituting an increase of 3.9% from LBP80,171.3bn at end-2022, and a surge of 106.4% from LBP40,357.6bn at end-February 2022.

In parallel, the value of BdL's gold reserves amounted to \$16.7bn at end-February 2023, constituting an increase of \$44.7m (+0.3%) in the first two months of 2023 and a decrease of \$850.8m (-4.8%) from \$17.5bn at end-February 2022. The value of gold reserves reached a peak of \$18.15bn at mid-April 2022. Also, the securities portfolio of BdL totaled LBP68,015.3bn or \$4.5bn at end-February 2023. In addition, loans to the local financial sector stood at LBP17,131.3bn, or \$1.14bn; while the deposits of the financial sector reached LBP1,345.7tn or \$89.7bn at end-February 2023. In addition, public sector deposits at BdL stood at LBP73,971.7bn at end-February 2023 and surged by LBP54,630.3bn from a year earlier.

Moreover, the balance sheet shows that BdL's loans to the public sector totaled LBP247,748bn (\$16.5bn) at end-February 2023. BdL indicated that it started in 2019 to make payments on behalf of the Lebanese government from its own foreign currency reserves, either against cash collateral in Lebanese pounds at the existing official exchange rate of LBP1,507.5 per dollar, which consists of public sector deposits, or in exchange for a pledge by the government to repay the amounts in the same foreign currency at a later stage. It said that the public sector's deposits valued in local currency exceeded the net cumulative balance for the payments it made on behalf of the government in foreign currency, which allowed BdL to maintain a net credit balance for public sector deposits. It noted that, after the modification of the exchange rate from LBP1,507.5 per dollar to LBP15,000 a dollar at the start of February 2023, the countervalue of the net cumulative balance of assets in foreign currencies exceeded the value of the cash collateral in Lebanese pounds, which resulted in a net debit balance in favor of BdL and required the presentation of \$16.5bn in loans to the public sector on the "assets" side.

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



Source: Banque du Liban, Byblos Research

Nearly 64% of Treasury securities in Lebanese pounds have seven-year maturities or longer as at end January-2023

Figures released by the Association of Banks in Lebanon show that the face value of outstanding Treasury securities denominated in Lebanese pounds reached LBP90,230bn at the end of January 2023 compared to LBP89,577bn at the end of January 2022. The outstanding Treasury securities denominated in Lebanese pounds were equivalent to \$59.9bn at the end of January 2023 based on the official exchange rate of the Lebanese pound to the US dollar at the time, but they become equivalent to \$2.4bn based on the Sayrafa exchange rate of the Lebanese pound to the US dollar of LBP38,000 per dollar at the end of January. The weighted interest rate on Lebanese Treasury securities denominated in Lebanese pounds was 6.39% in January 2023 compared to 6.58% in January 2022.

The distribution of outstanding Treasury securities shows that 10-year Treasury bonds totaled LBP 34,565bn and accounted for 38.3% of aggregate securities denominated in Lebanese pounds at the end of January 2023, followed by seven-year Treasury bills with LBP18,692bn five-year Treasury securities with LBP17,009bn (19%), three-year Treasury bonds with LBP5,660bn (6.3%), two-year Treasury bonds with LBP4,749bn (5.3%), one-year Treasury securities with LBP3,989bn (4.4%), 12-year T-bills with LBP3,076bn (3.4%), 15-year Treasury securities with LBP1,417bn (1.6%), six-month T-bills with LBP864bn (1%), and three-month Treasury bonds with LBP209bn (0.2%). As such, 64% of outstanding Treasury securities have seven-year maturities or longer and 83% have five-year maturities or more.

In parallel, LBP1,026bn in outstanding Treasury securities denominated in Lebanese pounds matured in January 2023, of which 34.6% consisted of seven-year Treasury bills, 29.3% were five-year T-bills, 10.7% consisted of three-year Treasury securities, 10% were six-months Treasury bills, 6.8% were 12-months Treasury bills, 6.4% consisted three-months T-bills, and 1.9% were two-year Treasury bills. According to ABL, LBP16,101bn in outstanding Treasury bonds in Lebanese pounds will mature in 2023.

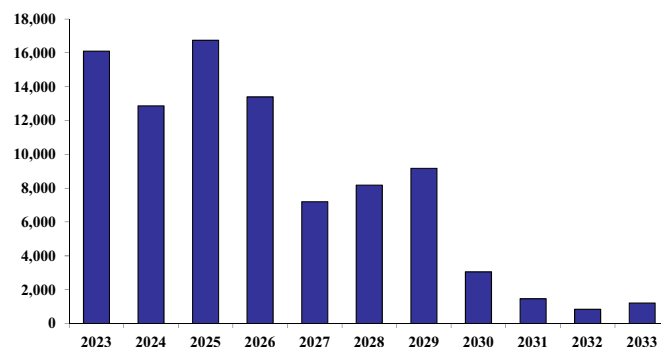
Transport Ministry allocates land at Beirut Port for offshore logistics services

The Ministry of Public Works & Transport declared that it has allocated 34,000 square meters at the Port of Beirut for petroleum activities related to exploration and drilling for oil and gas in Lebanon's offshore territorial waters. It said that it selected docks 3, 4 and 5 for this operation, given their strategic location for vessels and other services. It added that international standards for logistical services indicate that each offshore block requires 50,000 square meters of land for its logistical needs. Further, the ministry revealed that the State Consultative Council approved a project decree to establish a new specialized port.

In parallel, TotalEnergies EP Block 9 (TotalEnergies), in its capacity as the operator of Block 9 in Lebanon's offshore territorial waters, announced that it is seeking expressions of interest for potential participation in the upcoming calls for tender covering logistics services. It said that the services that are 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%.

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



*as at end-January 2023

Source: Association of Banks in Lebanon, Byblos Research

Private sector deposits down \$48.5bn since start of 2019

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets stood at \$168bn at the end of January 2023, constituting declines of 0.6% from \$169bn at the end of 2022 and of 3.6% from \$174.3bn at end-January 2022. 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-January 2023.

Loans extended to the private sector reached \$19.6bn at the end of January 2023 and contracted by 2.4% from the end of 2022 and by 27.5% from a year earlier. Loans to the resident private sector totaled \$17.7bn, constituting declines of 2% from the end of 2022 and of 27% from a year earlier. Also, credit to the non-resident private sector amounted to \$1.9bn at the end of January 2023, and decreased by 5.7% from the end of 2022 and by 30.6% from the end of January 2022.

In nominal terms, credit to the private sector declined by \$473m in January 2023, as lending to the resident private sector decreased by \$355.8m and credit to the non-resident private sector regressed by \$117m in the covered month. Further, loans extended to the private sector contracted by \$39.8bn (-67%) since the start of 2019, with loans denominated in Lebanese pounds shrinking by LBP12,797bn (-46.4%) and loans denominated in foreign currency dropping by \$31.3bn (-76.2%). The dollarization rate of private sector loans regressed from 56% at the end of January 2022 to 50% at end-January 2023. The average lending rate in Lebanese pounds was 5.61% in January 2023 compared to 6.4% a year earlier, while the same rate in US dollars was 5.38% relative to 6.15% in January 2022.

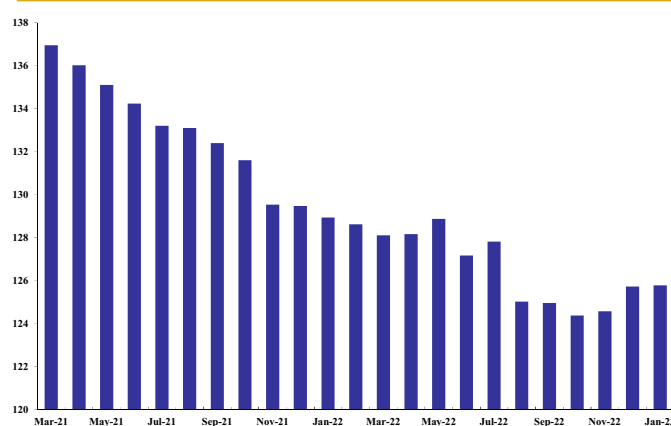
In addition, claims on non-resident financial institutions reached \$4.16bn at the end of January 2023, constituting decreases of \$36m (-1%) from the end of 2022 and of \$396.3m (-8.7%) from end-January 2022. Also, claims on non-resident financial institutions dropped by \$5bn (-54.4%) from the end of August 2019 and by \$7.82bn (-65.3%) since the start of 2019. Further, deposits at foreign central banks totaled \$814.3m, constituting an increase of \$9m (+1.2%) from the end of 2022 and a decrease of \$281.6m (-25.7%) from end-January 2022. In addition, the banks' claims on the public sector reached \$11.48bn at end-January 2023, down by \$50m (-0.4%) from the end of 2022 and by \$3.9bn (-25.2%) from the end of January 2022. The banks' holdings of Lebanese Treasury bills stood at LBP12,685.4bn (\$8.4bn), while their holdings of Lebanese Eurobonds reached \$2.9bn at the end of January 2023. Further, the deposits of commercial banks at Banque du Liban amounted to \$106.2bn at the end of January 2023, up by \$778.7m (+0.7%) from \$105.5bn at end-2022 and down by \$4.2bn (-3.8%) from \$110.4bn at the end of January 2022.

In parallel, private sector deposits totaled \$125.8bn at the end of January 2023, nearly unchanged from the end of 2022, while they regressed by 2.5% from a year earlier. Deposits in Lebanese pounds reached LBP45,789.2bn (\$30.4bn) at end-January 2023, as they increased by 13.8% from a year earlier; while deposits in foreign currency reached \$95.4bn, and regressed by 6.7% from end-January 2022. Resident deposits totaled \$102.4bn at the end of January 2023, down by \$2.2bn (-2.1%) from a year earlier, while non-resident deposits reached \$23.3bn at end-January 2023 and declined by \$940.2m (-4%) from the end of January 2022. Resident deposits in Lebanese pounds stood at LBP42,738bn, or the equivalent of \$28.35bn at end-January 2023, constituting an increase of LBP402bn, or of 1%, from the end of 2022, while those in foreign currency totaled \$74.1bn and decreased by \$5.8bn (-7.3%) from end-January 2022. Also, non-resident deposits in Lebanese pounds increased by 2.4%, while non-resident deposits in foreign currency regressed 4.4%, respectively, from a year earlier.

Private sector deposits declined by \$57.5m in January 2023, with deposits in Lebanese pounds increasing by LBP415.5bn, or the equivalent of \$275.6m, and foreign currency deposits shrinking by \$218.2m. In addition, private sector deposits dropped by \$15.4bn in 2019, by \$19.7bn in 2020, by \$9.7bn in 2021 and by \$3.75bn in 2022, including a decrease of \$10.7bn between September and December 2019. As such, aggregate private sector deposits contracted by \$48.5bn (-27.8%) since the start of 2019, with deposits in Lebanese pounds shrinking by LBP31,407.6bn, or the equivalent of \$20.8bn (-40.7%) and foreign currency deposits dropping by \$27.7bn (-22.5%). 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 75.9% at end-January 2023, relative to 76.1% at end-2022 and to 79.3% at the end of January 2022.

Further, the liabilities of non-resident financial institutions reached \$4.37bn at the end of January 2023 and contracted by 10% from \$4.9bn from a year earlier. Also, the average deposit rate in Lebanese pounds was 0.73% in January 2023 compared to 1.03% a year earlier, while the same rate in US dollars was 0.09% relative to 0.18% in January 2022. In addition, the banks' aggregate capital base stood at LBP17,442.5bn (\$11.6bn) at the end of January 2023, as it decreased by LBP10,126.1bn (\$6.7bn) or by 36.7% from end-2022 and by LBP6,598.1bn (\$4.4bn) or by 27.4% from \$15.9bn at the end of January 2022.

Private Sector Deposits (US\$bn)



Source: Banque du Liban, Byblos Research

Stock market capitalization up 67% to \$16.3bn at end-February 2023

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 25.5 million shares in the first two months of 2023, constituting a jump of 1,210% from 1.95 million shares traded in the same period of 2022; while aggregate turnover amounted to \$69.1m and surged by 135.4% from a turnover of \$29.4m in the first two months of 2022. Further, the market capitalization of the BSE stood at \$16.3bn at the end of February 2023, representing a rise of 66.5% from \$9.8bn a year earlier, with real estate equities accounting for 72.5% of the total, followed by banking stocks (23%), and industrial shares (4.5%). The market liquidity ratio was 0.42% at the end of February 2023 compared to 0.3% a year earlier.

Banking stocks accounted for 97.2% of the trading volume in the first two months of 2023, followed by real estate equities (2.8%) and industrial shares (0.01%). Also, real estate equities accounted for 66% of the aggregate value of shares traded, followed by banking stocks (34%), and industrial shares (0.1%). The average daily traded volume for the first two months of 2023 was 670,848.6 shares for an average daily amount of \$1.8m. The figures represent a surge of 1,072% of the average daily traded volume and an increase of 110.7% of the average daily value in the covered period.

In parallel, the Capital Markets Authority's (CMA) Market Value-Weighted Index for stocks traded on the BSE increased by 39.5% in the first two months of 2023, while the CMA's Banks Market Value-Weighted Index declined by a marginal 0.2% 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 18.5% and 17.8%, respectively, during the covered month, given that the shares had market weights of 44.2% and 28.3%, respectively, on the last trading day in February 2023, the highest among listed companies on the BSE. The rise in the prices of Solidere shares has been 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.

Régie launches new product line and barcoded stamp application

The Régie Libanaise des Tabacs & Tombacs announced on February 26, 2023 the launch of a new production line that will be added to the Régie's existing 13 lines, as well as the launch of a barcoded stamp application. It indicated that it will manufacture the cigarettes of the international company Von Eicken and will use Italian packaging equipment and German rolling machines with a production capacity of 8,000 cigarettes per minute. It said that it currently produces 62 international and national cigarette brands, as well as three varieties of molasses with 26 flavors. It added that it will install a new production line in April 2023, which will increase its number of production lines to 15.

It pointed out that the launch of the barcoded stamp is a pioneering step that falls within the strategy of fighting smuggling, in line with international practices with regard to of the World Health Organization's protocol of combating illegal tobacco trade. It noted that each cigarette package that it produces will carry a unique identifier that will ensure the traceability of the package from its place of production to its retail point of retail sale. Further, it said that the adoption of a commercial formula for selling tobacco products takes into account an average dollar exchange rate, which has an effective impact in reducing smuggling. In June 2019, the Régie indicated that smuggling represents a significant threat to its revenue base, and that the black market for tobacco accounted for 30% to 35% of the total tobacco market in Lebanon at the time. It estimated the direct losses from the tobacco black market at \$100m per year, while it said that the effective losses amount to \$300m when factoring in forgone revenues from the government's inability to increase the prices of tobacco products amid the existence of the black market. In addition, it indicated that it adopted a commercial strategy to combat the illegal trade of tobacco products by producing cigarettes at competitive prices.

The Régie is a public organization that is supervised by the Ministry of Finance. It manages the plantation, manufacturing, trade and transport of tobacco in Lebanon, and has agreements with British American Tobacco, Japan Tobacco International, Philip Morris International, and Imperial Tobacco to manufacture many of their cigarette brands. It pointed out that it continues to support 25,000 Lebanese farmers by purchasing their crops in cash dollars in order to support them and their return to agriculture. The Régie estimated that its profits exceeded LBP1,350bn in 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



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