

LEBANON THIS WEEK

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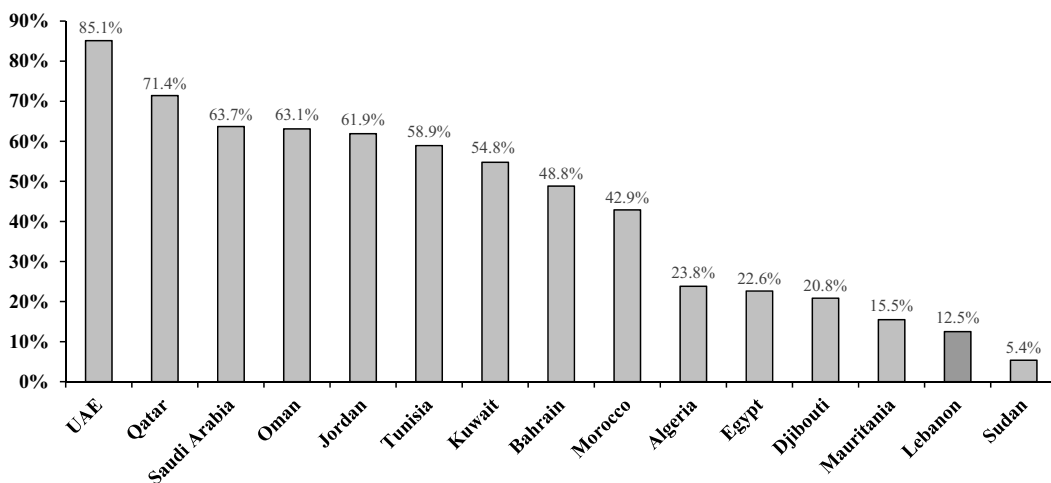
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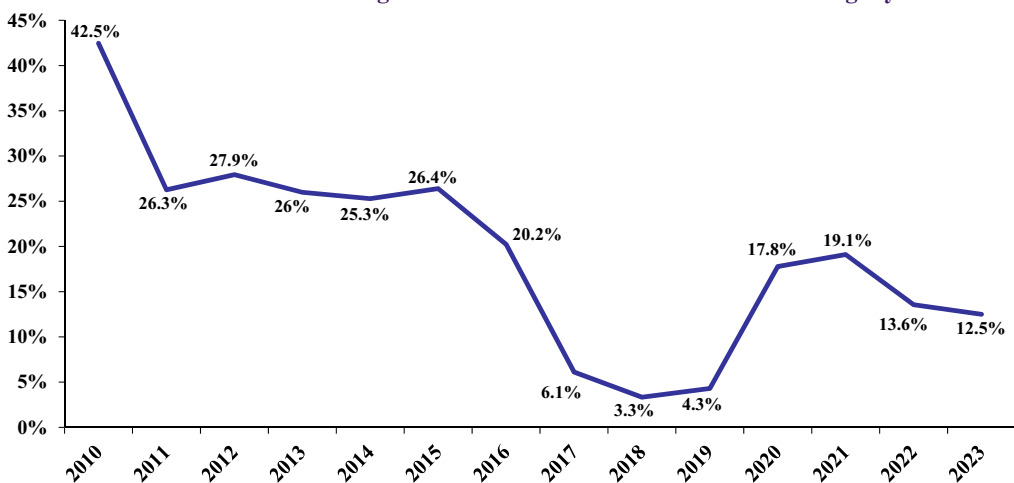
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Charts of the Week

Percentile Rankings of Arab Countries in terms of Government Integrity for 2023*



Percentile Rankings of Lebanon in terms of Government Integrity



*Government Integrity is defined as the level of government intervention in economic activity and the degree of corruption that follows
 Source: Heritage Foundation, Index of Economic Freedom for 2023, Byblos Bank

Quote to Note

"The impact of the presidential vacuum, that is approaching its fifth month, is contributing to the paralysis of state institutions at a time when the country is most in need of urgent and efficient state action."

The United Nations Special Coordinator for Lebanon Joanna Wronecka, on the cost of the ongoing presidential vacuum

Number of the Week

76%: Percentage decline in the commercial banks' foreign currency-denominated loans to the private sector between end-2019 and end-2022, according to Banque du Liban

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	27,14	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	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"	85.60	(12.7)	114,793	46.3%	May 2023	6.40	6.5	8,928.38
Byblos Common	0.73	1.4	84,448	2.2%	Apr 2024	6.65	6.5	520.24
Solidere "B"	84.50	(15.5)	55,042	29.7%	Jun 2025	6.25	6.5	171.66
Audi Listed	1.51	0.7	22,582	4.8%	Nov 2026	6.60	6.5	90.42
BLOM GDR	2.50	0.0	-	1.0%	Mar 2027	6.85	6.5	81.79
Audi GDR	1.34	0.0	-	0.9%	Feb 2030	6.65	6.5	43.73
HOLCIM	32.00	0.0	-	3.4%	Apr 2031	7.00	6.5	36.92
BLOM Listed	2.50	0.0	-	2.9%	May 2033	8.20	6.5	28.87
Byblos Pref. 08	27.00	0.0	-	0.3%	Nov 2035	7.05	6.5	22.92
Byblos Pref. 09	37.98	0.0	-	0.4%	Mar 2037	7.25	6.5	20.53

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

Source: Refinitiv

	Mar 20-24	Mar 13-17	% Change	February 2023	February 2022	% Change
Total shares traded	279,939	191,719	46.0	397,775	1,217,016	(67.3)
Total value traded	\$15,420,736	\$13,299,140	16.0	\$16,431,863	\$15,255,094	7.7
Market capitalization	\$18.48bn	\$20.70bn	(10.7)	\$16.32bn	\$9.81bn	66.5

Source: Beirut Stock Exchange (BSE)



International Monetary Fund calls for urgent structural reforms

In its Staff Concluding Statement or of its Article IV Consultation with Lebanon, the International Monetary Fund (IMF) called on the Lebanese government, Parliament and Banque du Liban (BdL) to act together rapidly and decisively to address the country's weaknesses, to stabilize the economy, and to pave the way for a strong and sustainable recovery. It indicated that, despite the severity of socioeconomic conditions in the country that call for immediate and decisive action, there has been limited progress in implementing the comprehensive package of economic reforms that the Lebanese government pledged within the framework of the Staff Level Agreement that the two sides signed last April. It considered that inaction to address longstanding institutional and structural weaknesses undermines Lebanon's long-term economic potential.

In parallel, the IMF said that, after contracting by about 40% since the start of the crisis, economic activity in Lebanon has somewhat stabilized in 2022, driven mainly by a slight recovery in tourism activity, further deleveraging of the corporate sector, and sustained strong remittance inflows that have supported domestic consumption. However, it pointed out that the inflation rate is still in triple digits due to the substantial depreciation of the exchange rate of the Lebanese pound, large increases in money supply, and the multiple exchange rates of the US dollar in the domestic market. Also, it noted that the government is relying on the monetization of the fiscal deficit, the accumulation of arrears, and donor assistance to finance the fiscal deficit that exceeded 5% of GDP in 2022. It anticipated that the deficit would be wider if the authorities include ongoing quasi-fiscal operations in the budget. In addition, it estimated that the current account deficit exceeded 25% of GDP in 2022, due mainly to elevated global oil and food prices, and to accelerating imports ahead of the preset date of the exchange rate adjustment for customs purposes. It noted that foreign currency reserves at BdL, excluding gold, declined from \$36bn prior the crisis to about \$10bn at the end of 2022.

It considered that the lack of much needed reforms and a prolonged status quo would further undermine trust in Lebanon's institutions, and that additional delays in implementing reforms will keep economic activity subdued, with irreversible consequences, especially for low- to middle-income households. It also expected that authorities will continue to draw down BdL's foreign currency reserves and that the depreciation of the exchange rate on the parallel market and spiraling inflation rates will accelerate the already high dollarization rate of the cash economy. It anticipated that the size of the informal sector will expand, which would limit the scope for taxation and further reduce public spending, as well as increase the risk of illicit activities in the economy.

The IMF indicated that the urgent implementation of reforms would reverse the prevailing trends and would lead to stability and growth. First, it called on authorities to develop a medium-term fiscal strategy to restore debt sustainability and create space for increasing social and development spending through the adoption of the 2023 budget. It said that the budget should account for a unified market exchange rate for customs and tax purposes, adjust specific taxes to inflation, and take the first steps toward restoring the normal functioning of the public administration. It also noted that authorities will have to strengthen public finances in the coming years by broadening the tax base, closing existing loopholes, and improving tax compliance. In addition, it urged authorities to develop a strategy to eliminate losses at state-owned enterprises (SOEs), to phase out transfers from the budget, particularly to the energy sector, to improve the public administration, and to reform the pension system. It considered that the authorities' implementation of gradual fiscal consolidation measures is critical to complement the needed debt restructuring, which should aim to reduce the public debt level to a sustainable level in the medium term.

Second, it urged the authorities to implement a credible restructuring of the financial system in order to support the economic recovery through the acknowledgement of the substantial losses that the financial sector incurred, respecting the hierarchy of claims, protecting small depositors, and limiting the recourse to the public sector. Also, it stressed that viable banks should be restructured and recapitalized in a timely manner, while non-viable banks should exit the market. Third, it called on authorities to unify the multiple exchange rates of the US dollar in the domestic market, as well as to tighten monetary policy in order to rebuild the monetary authorities' credibility and improve the external position of the economy. It expected that the unification of the exchange rates will remove market distortions, eliminate rent-seeking opportunities, reduce pressures on BdL's foreign currency reserves, and pave the way for a market-determined exchange rate. Also, it said that authorities should implement temporary capital controls to preserve the limited foreign currency resources in the financial system. In addition, it anticipated that a tighter monetary policy, following the unification of the exchange rates, will help reduce the inflation rate, and stressed that authorities should strictly prohibit the monetization of the fiscal deficit.

Fourth, the IMF urged authorities to strengthen the public finance management framework for the proper oversight of public finances, and to improve fiscal discipline and the transparency of budgetary process. It also stressed the need to reform SOEs in order to ensure adequate governance, transparency, financial and operational viability, better services delivery, and to contain fiscal risks. It highlighted the urgent need to address longstanding issues in the electricity sector through the swift implementation of the reforms that the Cabinet already approved in March 2022. Fifth, it called on authorities to enhance the governance, anti-corruption, and anti-money laundering/combating the financing of terrorism frameworks.

Finally, the IMF stressed that the collaboration and support from Lebanon's multilateral and bilateral partners is critical for the successful implementation of the authorities' reform efforts. But it noted that this support is contingent on Lebanon's commitment to implement a comprehensive and ambitious reforms program to address current challenges and to place the economy on a sustainable path, including under an IMF-supported program.



Lebanon ranks 41st worldwide, third in Arab region in terms of global connectedness

The DHL's 2022 Global Connectedness Index (GCI) ranked Lebanon in 41st place among 171 countries around the world and in third place among 17 Arab countries. In comparison, Lebanon came in 44th place globally and in fourth place regionally in the 2021 index, as well as in 47th place worldwide and in fourth place among Arab economies in the 2012 survey. Based on the same set of countries in the 2021 and 2022 surveys, Lebanon's global rank improved by three spots and its Arab rank increased by one notch from the 2021 survey.

The index measures the level of globalization of countries in terms of the size and the geographical distribution of the flows of trade, capital, data, as well as persons to and from a country. The index is a composite of two sub-indicators that are the Depth Sub-Indicator and the Breadth Sub-Indicator. A country's overall score on the index ranges from zero to 100, with a higher score reflecting a better performance in terms of global connectedness. The countries included in the GCI represent 96% of the world's population and 99.7% of global GDP.

Globally, the Lebanese economy is more connected than the economies of New Zealand, Latvia and Saudi Arabia, and is less connected than Lithuania, Iceland and Japan among economies with a GDP of \$10bn or more. Lebanon received a score of 60.8 points, up from 58 points in the preceding survey. Lebanon's score is higher than the global average score of 48.2 points and the Arab average score of 47.3 points. Also, Lebanon's score came higher than the Gulf Cooperation Council (GCC) countries' average score of 60.5 points and the average score of non-GCC Arab countries of 40.2 points. The Netherlands is the most globally connected country with a score of 84.6 points, while Guinea-Bissau has the least connected economy in the world with a score of 20.5 points.

Lebanon ranks in 26th place globally and in third place regionally on the Depth Sub-Indicator. This category measures a country's international flows of products and services, capital, information and people, relative to the size of its domestic economy. Globally, Lebanon ranked ahead of Portugal and Oman, and came behind Switzerland and Sweden on this category. It trailed only the UAE and Bahrain in the Arab region. Lebanon received a score of 34.9 points on this category, higher than the global average score of 26.8 points and the Arab region's average score of 26.4 points.

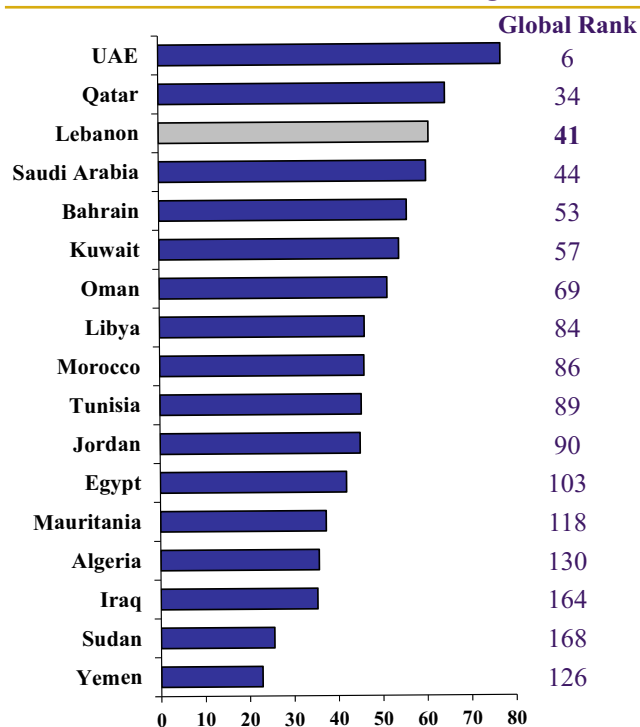
Also, Lebanon ranks in 57th place globally and in fifth place regionally on the Breadth Sub-Indicator. This category measures the geographical distribution of a country's international flows of trade, capital, information and people. Globally, Lebanon preceded Vietnam and Estonia, and trailed Panama and Pakistan on this category. It also came behind only the UAE, Saudi Arabia, Qatar, and Egypt on this category. Lebanon received a score of 25.8 points on this category, higher than the global average score of 21.4 points and the Arab average score of 20.9 points.

Opened letters of credit at \$268m for imports and \$101m for exports in 2022

Figures released by Banque du Liban show that the amount of letters of credit (LCs) opened to finance imports to Lebanon totaled \$268.3m in 2022, constituting a surge of 138.3% from \$112.6m in 2021. Opened LCs for imports stood at \$63.7m in the first quarter, \$84.6m in the second quarter, \$58m in the third quarter, and \$62m in the fourth quarter of 2022. Further, utilized credits for imports reached \$223.2m in 2022, representing a rise of 257% from \$115.5m in 2021, and were equivalent to 93.3% of opened LCs for imports in the covered period. They totaled \$33.3m in the first quarter, \$75.8m in the second quarter, \$81.7m in the third quarter, and \$32.5m in the fourth quarter of 2022. Also, outstanding import credits stood at \$64.2m at the end of 2022 compared to \$29.3m a year earlier. In addition, the aggregate amount of inward bills for collection reached \$191.2m in 2022, down by 9.8% from \$212m in 2021. The outstanding amount of inward bills for collection was \$38m at the end of 2022 relative to \$45.3m at end 2021.

In parallel, the amount of documentary LCs opened to finance exports from Lebanon totaled \$100.8m in 2022, constituting a decrease of 7.2% from \$108.7m in 2021. Opened LCs for exports amounted to \$28.3m in the first quarter, \$9.6m in the second quarter, \$24m in the third quarter, and \$31.4m in the fourth quarter of 2022. Further, utilized credits for exports reached \$77.2m in 2022 and rose by 12% from \$69m in utilized credits in 2021. They were equivalent to 76.6% of opened LCs for exports in the covered period. Also, outstanding export credits stood at \$102.3m at the end of 2022 compared to \$101.2m a year earlier. In addition, the aggregate amount of outward bills for collection amounted to \$143.3m in 2022 and decreased by 30.4% from \$206.1m in 2021. They totaled \$53m in the first quarter, \$41.3m in the second quarter, \$29.5m in the third quarter and \$19.6m in the fourth quarter of 2022. The outstanding amount of outward bills for collection reached \$156m at the end of 2022 relative to \$199.3m at end 2021.

DHL Global Connectedness Index for 2022 Arab Countries' Scores & Rankings



Source: DHL, Byblos Research

Consumer Price Index up 190% year-on-year in February 2023

The Central Administration of Statistics' Consumer Price Index increased by 156% in the first two months of 2023 from the same period of 2022. In comparison, it grew by 226.9% and by 151.5% in the first two months of 2022 and 2021, respectively.

The CPI rose by 189.7% in February 2023 from the same month of 2022, while it registered its 32nd consecutive triple-digit increase since July 2020. The cumulative surge in the inflation rate is due in part to the inability of authorities to monitor and contain retail prices, as well as to the fluctuation of the Lebanese pound's exchange rate on the parallel market and the 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.

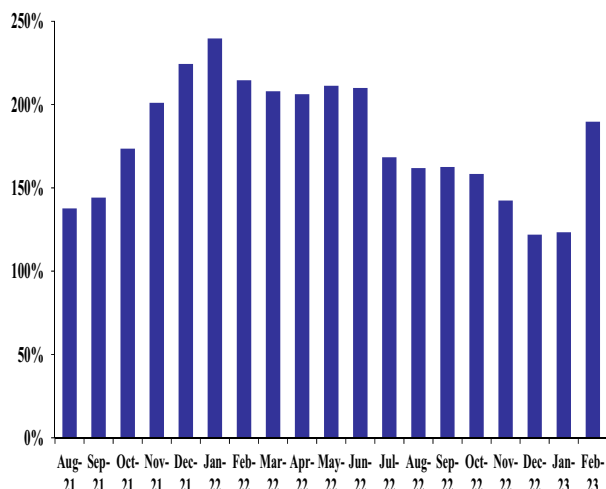
Communication costs surged by 4.8 times in February 2023 from the same month of 2022, followed by healthcare costs (+4.2 times), the cost of alcoholic beverages & tobacco (+3.1 times), the prices of furnishings & household equipment, the prices of clothing & footwear and the rates at restaurants & hotels (+3.7 times each), the prices of food & non-alcoholic beverages (+3.6 times), the prices of miscellaneous goods & services (+3.2 times), the prices of water, electricity, gas & other fuels (+3.1 times), and transportation costs (+3 times). In addition, the cost of education jumped by 192.2% year-on-year in February 2023, followed by the cost of recreation & entertainment (+181.2%), imputed rent (+21.6%), and actual rent (+20.9%). Also, the distribution of actual rent shows that new rent grew by 25.8% and old rent increased by 14.2% in February 2023 from the same month of 2022.

In parallel, the CPI increased by 25.5% in February 2023 from the previous month, compared to a month-on-month rise of 8.4% in January 2023 and to a growth of 6.7% in December 2022.

The prices of alcoholic beverages & tobacco surged by 64.6% in February 2023 from January 2023, followed by the prices of furnishings & household equipment (+58.2%), the cost of healthcare (+42.2%), the rates at restaurants & hotels (+14%), the prices of food & non-alcoholic beverages (+40.4%), the prices of miscellaneous goods & services (+29.3%), the prices of clothing & footwear (+29%), the cost of transportation (+26.5%), the cost of recreation & entertainment (+21.5%), actual rent (+14.3%), the prices of water, electricity, gas and other fuels (+13.6%), imputed rent (+11.4%), the cost of communication (+10.3%), and the cost of education (1.2%). Also, the distribution of actual rent shows that new rent grew by 16% and old rent expanded by 11.9% in February 2023 from the previous month.

Further, the CPI increased by 29.8% in the Nabatieh, by 29.2% in the North, by 29.5% in Beirut, by 28.2% in the South, by 26.7% in the Bekaa, and by 22.1% in Mount Lebanon February 2023 from the previous month. In parallel, the Fuel Price Index surged 43.3% and the Education Price Index increased by 2.9% month-on-month in February 2023.

Annual Change in Consumer Price Index* (%)



*from the same month of the previous year

Source: Central Administration of Statistics, Byblos Research

Gross public debt at \$102bn at end-November 2022 at official exchange rate, and at \$44bn at Sayrafa rate

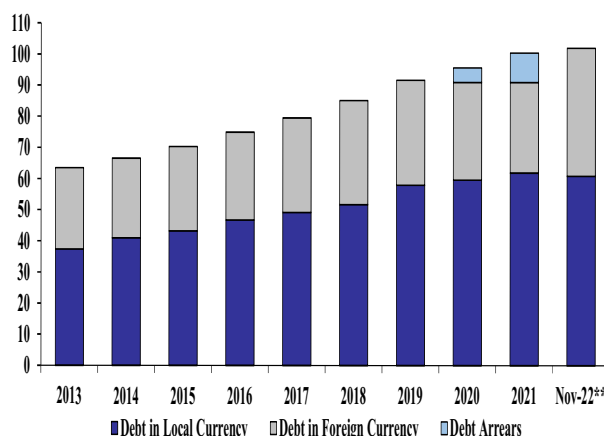
Figures issued by the Ministry of Finance show that Lebanon's gross public debt reached \$101.94bn at the end of November 2022, constituting increases of 1.6% from \$100.4bn at the end of 2021 and of 1.5% from \$100.4bn at the end of November 2021. The dollar figures are converted at the official exchange rate of the Lebanese pound against the US dollar of LBP1,507.5 per dollar at the time. The gross public debt grew by \$1.6bn in the first 11 months of 2022 relative to an increase of \$4.8bn in the same period of 2021. The size of the gross public debt becomes \$44.1bn when the portion of the debt denominated in Lebanese pounds is converted to US dollars at the exchange rate of LBP30,300 per dollar that prevailed on Banque du Liban's (BdL) Sayrafa electronic exchange platform at the end of November 2022. Conversely, the public debt becomes LBP1,336.2 trillion when the dollar-denominated debt is converted to Lebanese pounds at the same rate.

Debt denominated in Lebanese pounds totaled LBP91,767bn at the end of November 2022, the equivalent of \$60.9bn at the official exchange rate, or \$3.03bn at the Sayrafa rate, and regressed by 1.6% in the first 11 months of 2022 and by 2% from a year earlier; while the debt denominated in foreign currency stood at \$41.1bn and increased by 6.6% in the first 11 months of 2022 and by 7.2% from the end of November 2021. The breakdown of the foreign currency debt shows that investors' holdings of Eurobonds and special Treasury bills in foreign currencies amounted to \$39bn at the end of November 2022, followed by loans by multilateral institutions with \$1.6bn, and by foreign governments with \$451.7m. Eurobonds and special Treasury bills in foreign currencies increased by 6.8% in the first 11 months of 2022 and by 7.4% from the end of November 2021. On March 7, 2020, the Lebanese government at the time decided to default on the \$1.2bn Eurobond that was due on March 9, 2020. It also announced on March 23, 2020 that Lebanon will discontinue payments on all of its outstanding Eurobonds. According to the Ministry of Finance, about \$13.5bn of the debt stock denominated in foreign currency were in arrear as at October 2022, the latest available figures.

Local currency debt accounted for 59.7% of the gross public debt at the end of November 2022 and foreign currency-denominated debt represented the balance of 40.3%, compared to 61.8% and 38.2%, respectively, a year earlier. The weighted interest rate on outstanding Treasury bills was 6.41% in November 2022, while the weighted life of Treasury bills and bonds was 1,299 days. BdL held 37.6% of the public debt at end-November 2022, followed by non-bank resident financial institutions (12%), and commercial banks (10.2%); while other investors, including foreign investors, held 38.3% of the debt, and multilateral institutions and foreign governments accounted for the remaining 2% of the public debt.

BdL held 63% of the Lebanese pound-denominated public debt at the end of November 2022 compared to 61.7% a year earlier, while commercial banks accounted for 17% of the local debt relative to 23.8% at end-November 2021. Also, public agencies, financial institutions and the public held 20% of the local debt at the end of November 2022 compared to 14.5% a year earlier. Further, investors in Eurobonds and in special Treasury bills in foreign currencies held 95% of the foreign currency-denominated debt at the end of November 2022, followed by multilateral institutions with 3.8%, and foreign governments with 1.1%. In addition, the latest available figures show that the gross market debt accounted for about 51% of the public debt. The gross market debt is the total public debt less the portfolios of BdL, the National Social Security Fund, as well as bilateral and multilateral loans.

Lebanon's Gross Public Debt* (US\$bn)



*at official exchange rate

**arrears were not provided for the month of November

Source: Ministry of Finance, Byblos Research

Nearly 65% of Treasury securities in Lebanese pounds have seven-year maturities or longer as at end-February 2023

Figures released by the Association of Banks in Lebanon show that the face value of outstanding Treasury securities denominated in Lebanese pounds reached LBP89,527bn at the end of February 2023 compared to LBP90,013bn at the end of February 2022. The outstanding Treasury securities denominated in Lebanese pounds were equivalent to \$5.97bn at the end of February 2023 based on the official exchange rate of the Lebanese pound to the US dollar, but they become equivalent to \$1.9bn based on the Sayrafa exchange rate of the Lebanese pound to the US dollar of LBP45,400 per dollar at the end of February. The weighted interest rate on Lebanese Treasury securities denominated in Lebanese pounds was 6.38% in February 2023 compared to 6.55% in February 2022.

The distribution of outstanding Treasury securities shows that 10-year Treasury bonds totaled LBP 34,565bn and accounted for 38.6% of aggregate securities denominated in Lebanese pounds at the end of February 2023, followed by seven-year Treasury bills with LBP18,692bn (21%), five-year Treasury securities with LBP16,427bn (18.3%), three-year Treasury bonds with LBP5,600bn (6.3%), two-year Treasury bonds with LBP4,749bn (5.3%), one-year Treasury securities with LBP3,694bn (4.1%), 12-year T-bills with LBP3,076bn (3.4%), 15-year Treasury securities with LBP1,417bn (1.6%), six-month T-bills with LBP960bn (1.1%), and three-month Treasury bonds with LBP347bn (0.4%). As such, 64.5% of outstanding Treasury securities have seven-year maturities or longer and 83% have five-year maturities or more.

In parallel, LBP1,221bn in outstanding Treasury securities denominated in Lebanese pounds matured in February 2023, of which 47.7% consisted of five-year Treasury bills, 33.3% were 12-months Treasury bills, 8.1% consisted three-months T-bills, 6.2% were six-months Treasury bills, and 5% consisted of three-year Treasury securities. According to ABL, LBP15,286bn in outstanding Treasury bonds in Lebanese pounds will mature in 2023.

International community provides allowance to teachers and school personnel

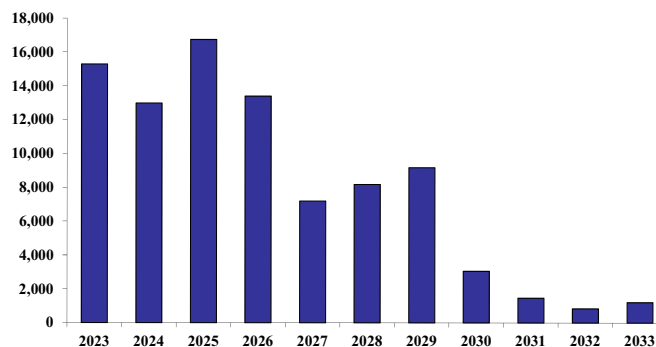
The World Bank, the United Nations International Children's Emergency Fund (UNICEF), and the United Kingdom's Foreign, Commonwealth and Development Office (FCDO), in agreement with Ministry of Education and Higher Education (MEHE), announced that they will provide financing, on an exceptional basis for the academic year 2022-2023, to fund the allowances of eligible teachers and school personnel that have been negatively impacted by the prevailing economic and financial crisis. The payments are part of the Teachers' Productivity Allowance Program that will support eligible public-school teachers and personnel, and provide them with incentives to come to school and deliver lessons in the first and second school shifts. The three organizations noted that additional donor financing is contingent on three commitments from the Lebanese government, which are the verification that only eligible personnel receive the allowance, the government's contribution to the financing of the program, and the implementation of efficiency measures that will allow the government to self-finance personnel adequately and in a timely manner in the next school year.

In early March 2023, the UNICEF disbursed \$13.7m to 1,074 public schools, including 342 afternoon-shift establishments, as essential contributions to the "School Funds and Parent Council Funds". It also disbursed the first payment of the productivity allowances to 13,160 contracted teachers and administrative staff for the month of October 2022 on a retroactive basis from the grant, and paid the salaries of contracted teachers. It also highlighted the need for additional investments in the education sector, given that such funding has stalled in the last four years. It considered that enrolling and retaining more students at schools, mainly the current 700,000 out-of-school children, requires multi-year investments from the Lebanese government.

The World Bank urged the authorities to prioritize the extension of the allocated funding that was deposited in the Treasury in order to allow the productivity allowance payments to continue until the end of the school year and to ensure that schools remain open for children to continue to have access to learning.

Further, the three organizations encouraged the Lebanese government to implement reforms that are related to the efficiency, transparency, and sustainability of the education sector in order to ensure learning continuity in subsequent academic years. They anticipated that, in the absence of increased government funding, enhanced transparency of public expenditures, and efficient utilization of personnel to teach students, the Lebanese government will not be able to pay teachers in an adequate and timely manner in the next academic year, which could result in another year with strikes and school closures.

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



*as at end-February 2023

Source: Association of Banks in Lebanon, Byblos Research

Transportation Ministry announces new terminal at Beirut-Rafic Hariri International Airport

The Ministry of Public Works and Transport announced the construction of a new terminal at the Beirut-Rafic Hariri International Airport (HIA). It said that the airport's expansion aims to improve its ability to cope with traffic growth, as the number of passengers utilizing the airport has exceeded its capacity of 6 million passengers. It added that the new terminal will process 3.5 million passengers per year, will be used for chartered and low-cost flights, and will have six docking stands for airplanes, in addition to remote ones. It pointed out that the Lebanese Air Transport Charter company will finance the construction of the new terminal and expected it to be completed in the first quarter of 2027. Further, it said that the Irish company Daa International will operate the terminal starting in 2027. It anticipated that the new terminal will generate revenues ranging between \$30m and \$40m annually for the Treasury for a period of 25 years. Also, it pointed out that the new terminal will create 500 direct jobs and 2,000 indirect jobs.

The government launched in October 2018 the preparatory phase for the expansion of the Beirut-Rafic Hariri International Airport, which consists of the preparation of financial, technical and legal feasibility studies for the project. Further, the ministry signed an agreement with national flag carrier Middle East Airlines in March 2017 to prepare a master plan for the expansion of the airport.

Figures released by HIA show that 898,643 passengers utilized the airport (arrivals, departures and transit) in the first two months of 2023, constituting a surge of 30% from 691,279 passengers in the same period of 2022. The number of arriving passengers reached 409,845 passengers in the first two months of 2023 and rose by 31% from 313,200 passengers in the same period of 2022, while the number of departing passengers totaled 487,010 in the first two months 2023 and increased by 30% from 374,258 passengers in the same period last year. In parallel, the airport's aircraft activity totaled 8,209 take-offs and landings in the first two months of 2023, representing a rise of 21.7% from 6,743 takeoffs and landings in the same period last year.

UN disburses \$975m in food assistance in 2022

The United Nations (UN) indicated that international contributions to the food security and agriculture component of the Lebanon Crisis Response Plan (LCRP) reached \$975m in 2022. The food security and agriculture program aims to provide food assistance to vulnerable households. It added that international contributions totaled \$352m in the first quarter, \$183m in the second quarter, \$277m in the third quarter, and \$163m in the fourth quarter of 2022. It also noted that it carried \$228.1m from funding it received in 2021, which is equivalent to 23.4% of the total appealed funds for 2022. The LCRP 2022-2023 is a joint initiative between the Lebanese government and international and national partners that aims to address challenges posed by the large presence of Syrian refugees in the country. The plan comes after the expiration of the LCRP for the 2015-2016 and the 2017-2021 periods.

Also, the UN indicated that it distributed cash-based food assistance to 1.76 million individuals across Lebanon in 2022 who consist of 1.15 million displaced Syrians, or 65.5% of the total, followed by 551,756 vulnerable Lebanese citizens (31.3%), 31,466 Palestinian refugees from Syria (1.8%), and 26,174 Palestinian refugees in Lebanon (1.5%).

Further, it said that the LCRP support resulted in the injection of \$225.8m in the Lebanese economy in the form of cash assistance in 2022. It noted that it disbursed cash-based food assistance to 1.57 million households and redeemed emergency cash assistance to 32,736 farmers to support the agriculture sector last year.

Further, it provided training in the agriculture sector to 5,368 individuals. It noted that 3,221 were Lebanese, or 60% of the total, followed by 1,986 displaced Syrians (37%), and 161 Palestinian refugees and refugees from other nationalities (3%). It said that 51% of vulnerable individuals who received cash based food assistance were males, while the remaining 49% were females.

In parallel, the UN indicated that it distributed \$299.7m in 2022 to improve access to comprehensive primary healthcare, and to facilitate access to hospitals to people in need as part of the LCPR. It also noted that it carried \$41.9m from the funding that it received in 2021 for this project.

Also, it indicated the LCRP assisted 1.72 million individuals across Lebanon in 2022 who consisted of 954,450 Lebanese citizens, or 55.4% of the total compared to 48% in 2021, followed by 744,372 displaced Syrians (43.2% of the total), 19,053 Palestinian refugees in Lebanon (1.1%), and 6,208 Palestinian refugees from Syria (0.4%).

Further, the UN said that it conducted 3.28 million subsidized primary healthcare consultations on vulnerable individuals, including 145,776 subsidized ante-natal care consultations and 132,568 subsidized mental health consultations. Also, it provided acute disease medication to 504,427 patients and chronic disease medication to 204,270 patients. In addition, it vaccinated 386,758 children under five years old, and financially supported 93,630 vulnerable individuals to improve their access to hospital care.



Lebanon has high potential to become outsourcing hub

The Boston Consulting Group (BCG) indicated that Lebanon has great potential to supply talent for outsourced jobs in light of its highly qualified, multilingual, and cost competitive labor force, given that the future of job outsourcing is evolving. However, it noted that the challenges that the country is facing, including political and economic risks, may threaten its outsourcing prospects. But it pointed out that Lebanon is well positioned to supply talent in six areas that are customer relationship management services; software & applications development, integration and implementation; engineering design and consulting services; marketing services; business consulting and market research services; and telemedicine and remote education services.

Further, it said that Lebanon offers various outsourcing jobs in business processes, in information technology, and in knowledge process services. It indicated that the transformation of Lebanon into an outsourcing hub is one of the key recommendations in the Economic Vision for Lebanon, which the Lebanese government developed and adopted in 2018.

In addition, the BCG identified several advantages of utilizing outsourcing opportunities in Lebanon to serve offshore markets. First, it said that Lebanon has a highly qualified and easily accessible skilled labor force, as its educational system is one of the best in the Middle East and North Africa region. Second, it indicated that Lebanon has a cost-competitive trilingual workforce. Third, it noted that the country benefits from a well-established outsourcing industry and integrated platforms to identify and hire new employees for outsourcing purposes. Fourth, it said that Lebanon has a strong and innovative startup ecosystem that the private sector supports. Fifth, it indicated that the government has facilitated the setup of outsourcing by providing licenses to call centers. Sixth, it pointed out that Lebanon has a large network of co-working spaces with proper infrastructure. Seventh, it noted that the corporate tax rate in Lebanon is low and is fixed at 17%.

In contrast, it said that Lebanon needs to address several challenges in order for the outsourcing sector to reach its full potential. It indicated that the drawbacks in the country include the high risk of business disruptions due to political and economic instability, the absence of operational special economic zones to incentivize outsourcing business, and limited government investment in outsourcing businesses. It added that other disadvantages include the weak enforcement of intellectual property rights protection and the absence of data protection laws, low-grade physical infrastructure with multiple vulnerabilities, lagging telecommunications infrastructure that require significant improvements, as well as the limited involvement of the government and the private sector to skill, re-skill and up-skill talents in the country.

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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