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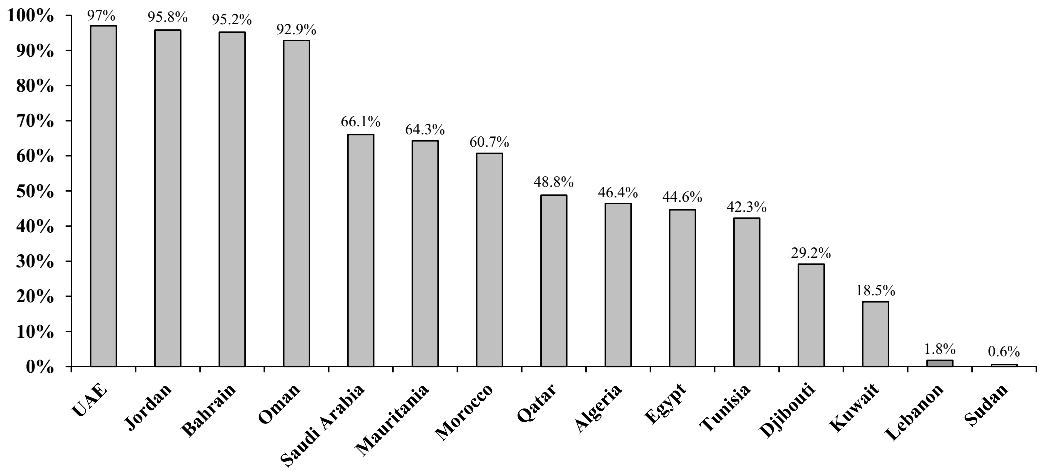
LEBANON THIS WEEK

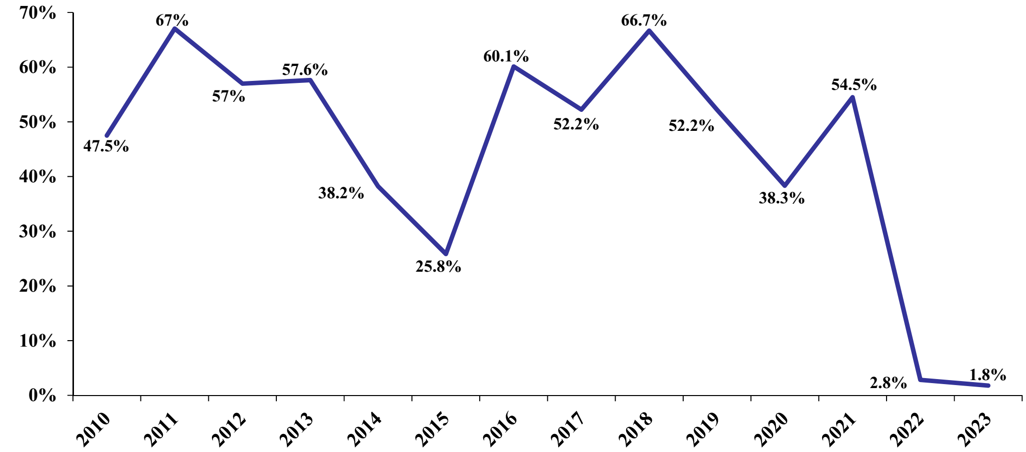
In This Issue

Charts of the Week

Percentile Rankings of Arab Countries in terms of Monetary Freedom for 2023*



Percentile Ranking of Lebanon in terms of Monetary Freedom



**The Heritage Foundation defines monetary freedom as a measure of price stability with an assessment of price controls*
Source: Heritage Foundation Index of Economic Freedom for 2023, Byblos Bank

Quote to Note

"With or without an IMF program, decisive structural reforms are necessary to enable Lebanon's economic recovery."

The Ambassadors of Canada, France, Germany, Italy, Japan, the United Kingdom, the United States, and the European Union in Beirut, on the urgency of implementing structural reforms

Number of the Week

6: Number months that Lebanon has been without a president

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	101.81	1.4
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
Solidere "A"	89.10	1.0	33,782	46.2%
Solidere "B"	88.25	0.5	16,078	29.7%
Byblos Common	0.70	(6.7)	8,400	2.1%
Audi GDR	1.38	0.0	1,500	0.9%
Audi Listed	1.50	(17.1)	1,350	4.6%
BLOM GDR	2.50	2.0	1,000	1.0%
HOLCIM	42.10	5.2	98	4.3%
BLOM Listed	2.55	(36.1)	1	2.8%
Byblos Pref. 08	27.00	0.0	-	0.3%
Byblos Pref. 09	37.98	0.0	-	0.4%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
May 2023	6.40	6.0	24521.74
Apr 2024	6.65	6.0	653.51
Jun 2025	6.25	6.0	189.76
Nov 2026	6.60	6.0	96.70
Mar 2027	6.85	6.0	87.16
Feb 2030	6.65	6.0	45.86
Apr 2031	7.00	6.0	38.61
May 2033	8.20	6.0	30.08
Nov 2035	7.05	6.0	23.83
Mar 2037	7.25	6.0	21.32

Source: Refinitiv

	Apr 25-28	Apr 18-20	% Change	April 2023	April 2022	% Change
Total shares traded	63,069	65,577	(3.8)	315,447	2,124,884	(85.2)
Total value traded	$4,450,456	$3,684,983	20.8	$17,282,146	$30,360,019	(43.1)
Market capitalization	$19.30bn	$19.64bn	(1.8)	$19.30bn	$10.59bn	82.1

Source: Beirut Stock Exchange (BSE)

Lebanon in the News

Resolution of sovereign default unlikely in near term

Global Investment Bank Goldman Sachs indicated that it has been two and a half years since the previous Lebanese government took the decision to default on its external debt obligations, which has accelerated the country's slide into an economic crisis. it said, since then, economic activity contracted by 50% in real terms, inflation rose to an average of 200% in the past year, the currency lost 95% of its value against the US dollar on the parallel market, and the financial system has faced losses of about $70bn.

In addition, it said that the Lebanese authorities reached a Staff-Level Agreement with the International Monetary Fund (IMF) on a $3bn Extended Fund Facility in April 2022, but that the political stalemate in the country has prevented progress on the extensive prior actions that the IMF required of Lebanon. It noted that, following last May's parliamentary elections, Prime Minister Najib Mikati returned as Prime Minister designate, but he has yet to form a government, with the current Cabinet acting in a caretaker capacity with limited ability to take decisions. It added that President Michel Aoun's six-year term came to an end in October 2022 with Parliament failing to elect a successor after repeated attempts, leaving Lebanon with a presidential vacuum for the past six months, a caretaker Cabinet for nearly a year, and a parliament with questionable prerogatives to legislate in the absence of a president.

In parallel, Goldman Sachs considered that the improvement in relations between Saudi Arabia and Iran could help break the local political deadlock, in case the two countries put substantial pressure on their local political allies. But it noted that there has been little evidence of this so far, and that it could take months to have a functioning government. Still, it expressed concerns about the ability a properly functioning Cabinet to push through Parliament the necessary prior actions to secure an IMF deal. As such, it expressed skepticism about a near-term resolution of Lebanon's economic crisis and of the sovereign default on its external obligations in the near term.

It estimated that real GDP contracted by 3.6% in 2022 and projected it to shrink by 2% in 2023, but to rebound to an average growth rate of 5.1% in the 2024-25 period. It added that the average inflation rate reached 169.3% in 2022 and anticipated it to decline to 143.4% in 2023 and to 57% in 2024. Further, it projected the fiscal deficit to narrow from 3.2% of GDP in 2022 to 1.5% of GDP in 2023, and for the primary deficit to shrink from 2.7% of GDP in 2022 to 1.2% of GDP in 2023 and 0.2% of GDP in 2024. Further, it forecast the current account deficit to narrow from 23.8% of GDP in 2022 to 8.7% of GDP in 2023, and projected foreign currency reserves at Banque du Liban to decrease from $10.4bn at the end of 2022 to $9bn at end-2023.

Institutional vacuum is obstacle to addressing multiple crises

Standard Chartered Bank (SCB) projected economic activity in Lebanon to be flat in 2023, as it anticipated domestic demand to remain constrained by the depreciation of the exchange rate on the parallel market and by elevated inflation rates. But it expected the country's real GDP growth rate to accelerate to 3.5% in 2024.

Also, it indicated that foreign currency reserves at Banque du Liban declined from $28.2bn at the end of March 2020, when Lebanon defaulted on its external debt obligations, to $10.4bn at end-2022. It anticipated that the sustained decline in foreign currency reserves will continue to put pressure on the exchange rate of the Lebanese pound, unless authorities develop a viable financial rescue and economic reforms plan that is embraced by various stakeholders. However, it did not expect this scenario to materialize, given the institutional vacuum and political stalemate that the country is facing.

As such, it anticipated that Lebanon will continue to be at risk of a protracted vicious cycle of currency weakness and high inflation rates. It projected estimated that the exchange rate would depreciate further on the parallel market by the end of 2023, and noted the significant uncertainties given the limited visibility on the political front and on the reforms timeline. Also, it anticipated the average inflation rate at 200% in 2023 compared to a previous forecast of 175% for this year, given its expectations of a weaker currency on the parallel market. It indicated that the inflation rate fell from a peak of about 240% annually at the start of 2022 to 122% year-on-year at end-2022, but it considered that additional weakness in the exchange rate on the parallel market is likely to push the inflation rate to exceed 200% in 2023.

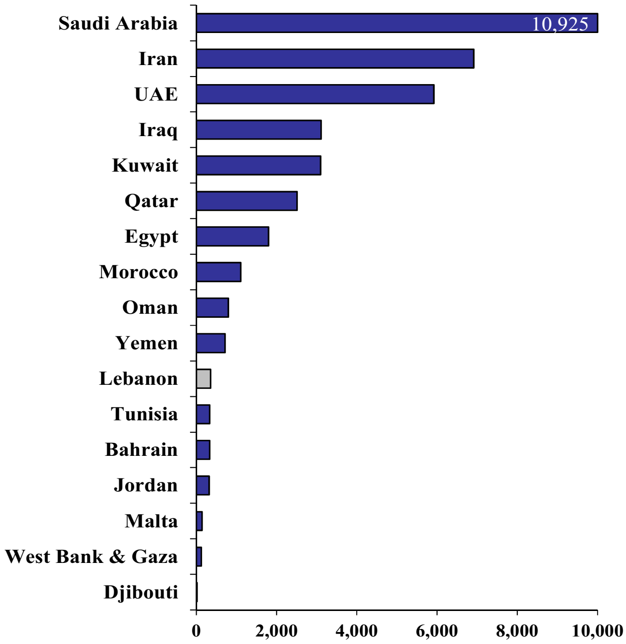
In parallel, SCB considered that Lebanon's prolonged institutional vacuum continues to hinder the authorities' response to the country's multiple crises, and did not expect the authorities to step up efforts in 2023 on the reforms that are needed to secure the approval of the International Monetary Fund on the disbursal of the $3bn Extended Fund Facility. Further, it anticipated a protracted and fractious process before Parliament elects a new president. It also did not expect the current Prime Minister-designate to be able to form a new government in the foreseeable future, given that the composition of a new Cabinet is tied to the outcome of the presidential elections.

Lebanon's aggregate wealth at $354bn at end-2018, up by 48% from 1995

The World Bank estimated the aggregate wealth of Lebanon at $353.9bn at the end of 2018 compared to $239.2bn at the end of 1995. As such, it noted that the country's aggregate wealth rose by 48% during the 1995-2018 period. It defined a nation's wealth as the portfolio of assets that form the productive base of the national economy. It said that the assets consist of renewable natural capital, non-renewable natural capital, produced capital, human capital, as well as the country's net foreign assets, and that it calculates the total wealth of a country by aggregating all the components of wealth. It added that it reports the data in 2018 US dollar terms at market exchange rates.

It indicated that it uses a country-specific GDP deflator for all natural capital components to bring the nominal values to constant 2018 US dollars at market exchange rates. It said that the GDP deflator reduces the price effects but may not eliminate all capital gains or losses that would be captured if it applies a commodity-specific price deflator. It pointed out that this approach allows for consistency in cross-country analysis, even though it has its limitations compared to country-specific assessments. Also, it said that it uses regional or income group averages to fill gaps for missing data in order to maximize country coverage, and that it calculates missing values by linearly extrapolating from past trends.

Aggregate Wealth in Countries in the Middle East & North Africa Region (US$bn)



Source: World Bank, Byblos Research

The World Bank estimated that Lebanon's human capital, which takes into account the knowledge, skills, and experience of the country's workforce, stood at $232.63bn at the end of 2018; while the nation's produced capital, which consists of machinery, structures, equipment, and urban land, reached $181.7bn at end-2018. Also, it assessed Lebanon's renewable natural capital, which is composed of forests, mangroves, fisheries, agricultural land and protected areas, at $15.9bn at the end of 2018. In addition, it said that it did not factor-in non-renewable natural capital, such as fossil fuel energy and 10 metals and minerals. Finally, it indicated that the country's net foreign assets, which include portfolio equity, debt securities, foreign direct investments and other financial capital held in other countries, decreased by $76bn in 2018.

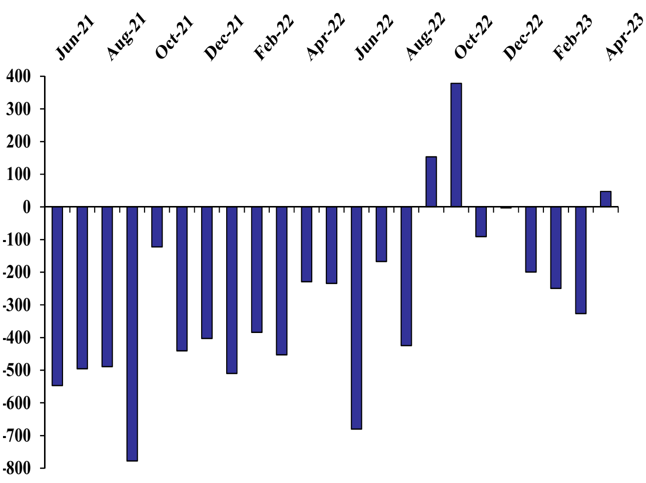
In comparison, it assessed the aggregate wealth of upper-middle income countries (UMICs) at $365.8 trillion at the end of 2018. It estimated the human capital in UMICs at $242.2 trillion, followed by their produced capital at $94.5 trillion, their renewable natural capital at $15.6 trillion and their non-renewable natural capital at $13.3 trillion at end-2018, while it assessed that net foreign assets of UMICs increased by $249.2bn in 2018. Further, it estimated the aggregate wealth of the low- and-middle income economies of the Middle East and North Africa (MENA) region at $14.8 trillion at the end of 2018. It estimated the human capital in the region's low- and-middle income countries at $5.25 trillion, followed by their produced capital at $4.5 trillion, their non-renewable natural capital at $4.4 trillion and their renewable natural capital at $856.2bn at end-2018, while it estimated that the net foreign assets of low- and-middle income economies of the MENA region declined by $245bn in 2018.

Globally, Lebanon ranked in 88th place among 146 countries worldwide in terms of aggregate wealth. Lebanon's total wealth was higher than the wealth of Estonia ($349bn), Iceland ($348.1bn) and Zimbabwe ($336.7bn), and lower than the wealth of Uganda ($444.6bn), Nepal ($429.2bn) and Azerbaijan ($361bn). Also, Lebanon's aggregate wealth was higher than Tunisia ($333.7bn), Jordan ($321.6bn), the West Bank & Gaza ($120.9bn) and Djibouti ($18.2bn) among MENA low- and-middle income countries. Lebanon's total wealth accounted for 0.03% of the global wealth, for 0.1% of the aggregate wealth of UMICs and for 2.4% of the total wealth of MENA low-and-middle income countries at end-2018. The United States had the world's highest aggregate wealth at $285 trillion, while Iran accumulated $6.92 trillion as at the end of 2018, the highest among MENA low- and-middle income countries.

Banque du Liban's foreign assets at $14.5bn, gold reserves at $18.3bn at end-April 2023

Banque du Liban's (BdL) interim balance sheet shows that its total assets reached LBP1,531.6 trillion (tn), or the equivalent of $102.1bn, on April 30, 2023, constituting increases of 0.2% from LBP1,528.7 ($101.9bn) at mid-April 2023 and of 0.6% from LBP1,520.2tn ($101.3bn) at end-March 2023. Assets in foreign currency reached $14.45bn at the end of April 2023, representing a decline of $727.5m, or of 4.8%, from the end of 2022 and a drop of $1.79bn (-11%) from $16.2bn at end-April 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 exchange rate of LBP15,000 per dollar.

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



*month-on-month change
Source: Banque du Liban, Byblos Research

BdL's gross foreign currency reserves, which consist of its assets in foreign currency excluding Lebanese Eurobonds, stood at $9.43bn on April 30, 2023, constituting a decrease of $39.8m (-0.4%) from $9.46bn at mid-April 2023 and an increase of $47.3m (+0.5%) from $9.38bn at end-March 2023. They dropped by $727.5m (-7.2%) from the end of 2022 and by $1.79bn (-16%) from $11.22bn at end-April 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, 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 International Monetary Fund transferred to BdL's account on September 16, 2021.

Further, BdL's balance sheet shows that currency in circulation outside BdL stood at LBP67,336.4bn at the end of April, 2023, constituting a decrease of 16% from LBP80,171.3bn at the end of 2022, and a surge of 63.6% from LBP41,151.4bn at end-April 2022. Also, the item "Other Assets" on BdL's balance sheet reached LBP162,870.6bn, or $10.8bn at end-April 2023, representing an increase of 7.7% from LBP151,195.1bn ($10.08bn) a month earlier.

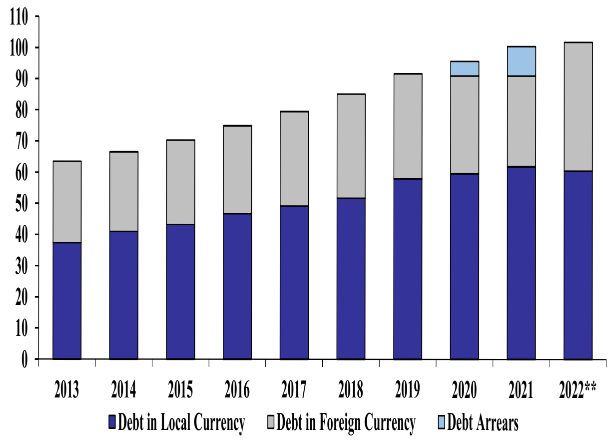
In parallel, the value of BdL's gold reserves reached $18.3bn at end-April 2023, constituting a rise of $1.64bn (+9.9%) from the end of 2022 and an increase of $641.04m (+3.6%) from $17.65bn at end-April 2022. The value of gold reserves reached a peak $18.7bn at mid-April 2023. Also, the securities portfolio of BdL totaled LBP67,289.3bn, or $4.5bn, at end-April 2023. In addition, loans to the local financial sector stood at LBP16,517.5bn, or $1.1bn; while the deposits of the financial sector reached LBP1,350.1tn or $90.1bn at the end of April 2023. In addition, public sector deposits at BdL stood at LBP86,397bn at end-April 2023 and surged by LBP70,930.4bn from a year earlier.

In addition, the balance sheet shows that BdL's loans to the public sector totaled LBP248,279bn, equivalent to $16.5bn, as at end-April 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.

Gross public debt at $102bn at end-2022 at official exchange rate, and at $43.7bn at Sayrafa rate

Figures issued by the Ministry of Finance show that Lebanon's gross public debt reached $101.8bn at the end of 2022, constituting increases of 1.4% from $100.4bn at the end of 2021 and of 6.5% from $95.6bn at the end of 2020. 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 $1.4bn in 2022 relative to an increase of $4.8bn in 2021. The size of the gross public debt becomes $43.7bn when the portion of the debt denominated in Lebanese pounds is converted to US dollars at the exchange rate of LBP38,000 per dollar that prevailed on Banque du Liban's (BdL) Sayrafa electronic exchange platform at the end of 2022. Conversely, the public debt becomes LBP1,662 trillion when the dollar-denominated debt is converted to Lebanese pounds at the same rate.

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



**at officical exchange rate of LBP1,507.5 per US dollar*
Source: Ministry of Finance, Byblos Research

Debt denominated in Lebanese pounds totaled LBP91,169bn at the end of 2022, the equivalent of $60.5bn at the official exchange rate, or $2.4bn at the Sayrafa rate, and regressed by 2.2% in 2022 and increased by 1.6% from end-2020; while the debt denominated in foreign currency stood at $41.3bn and increased by 7.6% in 2022 and by 14.7% from the end of 2020. The breakdown of the foreign currency debt shows that investors' holdings of Eurobonds and special Treasury bills in foreign currencies amounted to $39.3bn at the end of 2022, followed by loans by multilateral institutions with $1.6bn, and by foreign governments with $455.7m. Eurobonds and special Treasury bills in foreign currencies increased by 7.5% in 2022. 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 59.4% of the gross public debt at the end of 2022 and foreign currency-denominated debt represented the balance of 40.6%, compared to 61.6% and 38.4%, respectively, a year earlier. The weighted interest rate on outstanding Treasury bills was 6.42% in December 2022, while the weighted life of Treasury bills and bonds was 1,275 days. BdL held 37.4% of the public debt at end-2022, followed by non-bank resident financial institutions (12%), and commercial banks (10%); while other investors, including foreign investors, held 38.6% 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 2022 compared to 62.2% a year earlier, while commercial banks accounted for 17% of the local debt relative to 22.7% at end-2021. Also, public agencies, financial institutions and the public held 20% of the local debt at the end of 2022 compared to 15% 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 2022, followed by multilateral institutions with 3.9%, 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.

Stock market capitalization up 82% to $19.3bn at end-April 2023

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 26.9 million shares in the first four months of 2023, constituting a jump of 378.8% from 5.6 million shares traded in the same period of 2022; while aggregate turnover amounted to $144.2m and surged by 77.4% from a turnover of $81.2m in the first four months of 2022. Further, the market capitalization of the BSE stood at $19.3bn at the end of April 2023, representing an increase of 82.1% from $10.6bn a year earlier, with real estate equities accounting for 76% of the total, followed by banking stocks (19%), and industrial shares (5%). The market liquidity ratio was 0.7% at the end of April 2023 compared to 0.8% a year earlier.

Banking stocks accounted for 94.1% of the trading volume in the first four months of 2023, followed by real estate equities (5.8%) and industrial shares (0.1%). Also, real estate equities accounted for 83% of the aggregate value of shares traded, followed by banking stocks (16.8%), and industrial shares (0.3%). The average daily traded volume for the first four months of 2023 was 358,470 shares for an average daily amount of $1.9m. The figures represent a surge of 391.5% of the average daily traded volume and an increase of 82.2% of the average daily value in the covered period.

Occupancy rate at Beirut hotels at 36.2% in first two months of 2023

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 36.2% in the first two months of 2023 relative to 39% in the same period of 2022, and compared to an average rate of 67% in 13 Arab markets included in the survey. The occupancy rate at Beirut hotels was the lowest in the region in the first two months of the year, while it was the fourth lowest in the first two months of 2022. The occupancy rates at Beirut hotels was 36.8% in January and 35.6% in February 2023, compared to 34.7% in January and 43.8% in February 2022. The occupancy rate at hotels in Beirut decreased by 2.8 percentage points in the first two months of 2023 from the same period of 2022. In comparison, the average occupancy rate in Arab markets expanded by 12.4 percentage points in the covered period.

Hotel Sector Performance in First Two Months of 2023

	Occupancy Rate (%)	RevPAR (US$)	RevPAR % change
Abu Dhabi	83	99	41.0
Dubai	84	310	6.7
Madina	90	135	91.2
Cairo	75	103	161.2
Makkah	88	147	227.7
Riyadh	77	160	29.7
Doha	57	66	13.8
Jeddah	49	81	9.2
Beirut	**36**	**15**	**-44.3**
Muscat	66	96	68.6
Amman	44	60	43.8
Manama	65	100	79.8
Kuwait City	56	110	28.5

Source: EY, Byblos Research

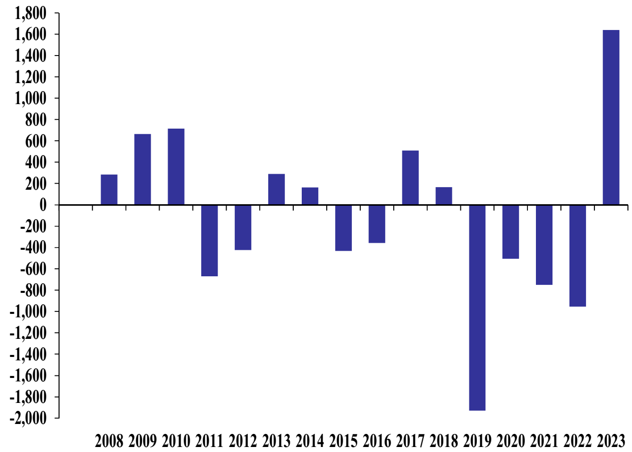
Also, the average rate per room at Beirut hotels was LBP3.6m ($41) in the first two months of 2023, relative to LBP1.4m ($69) in the same period of 2022 and constituting the lowest rate in the region. EY indicated that it based its average rate per room at Beirut hotels on the exchange rate of the Lebanese 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 $161.8 that increased by $16.9, or by 11.7%, from $144.8 in the same period of 2022. The average rate per room at Beirut hotels was LBP2.9m ($50) in January and LBP4.4m ($51) in February 2023 compared to LBP1.4m ($69) in January and LBP1.4m ($67) in February 2022.

Further, revenues per available room (RevPAR) amounted to LBP1.3m ($15) at Beirut hotels in the covered period compared to LBP551,630 ($27) in the first two months of 2022, and were the lowest in the region. In comparison, the average RevPAR in Arab markets stood at $114 in the covered period. EY indicated that it used the same methodology to calculate the RevPAR as it did for the average rate per room. The RevPAR at hotels in Beirut reached LBP1.06m ($18) in January and LBP1.58m ($18) in February 2023 compared to LBP505,622 ($24) in January and LBP602,568 ($29) in February 2022. Madinah in Saudi Arabia had the highest hotel occupancy rate in the region at 90.2% in the first two months of 2023, while Dubai registered the highest average rate per room at $367 and the highest RevPAR at $310 in the covered period.

Net foreign assets of financial sector up $1.64bn in first two months of 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, increased by $1.64bn in the first two months of 2023, compared to decreases of $954.9m in the same period of 2022 and of $751.2m in the first two months of 2021.

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



*in first two months of each year
Source: Banque du Liban, Byblos Research

The cumulative surplus in the first two months of 2023 was caused by an increase of $2.14bn in the net foreign assets of banks and financial institutions, which was partly offset by a drop of $501.7m in those of BdL. Further, the net foreign assets of the financial sector rose by $2.1bn in February 2023 compared to declines of $461.5m in January 2023 and of $601.8m in February 2022. The February increase was caused by a surge of $2.3bn in the net foreign assets of banks and financial institutions, which was partly offset by a decrease of $240.8m in those of BdL.

The cumulative increase in the banks' net foreign assets is mostly due to a decline in their foreign liabilities. The decrease in foreign liabilities was driven mainly by the contraction in liabilities to the non-resident financial sector and in non-resident customer deposits. In parallel, the decline in BdL's net foreign assets was due in part to the financing of the imports of 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.

Banque du Liban establishes clearing and settlement operations for fresh funds

Banque du Liban (BdL) issued Basic Circular 165/13548 dated April 19, 2023 addressed to banks and financial institutions about electronic settlement operations for "Fresh Funds". It stated that it issued the circular following the upgrade of BdL's national payment system (NPS) to include the electronic transfers, clearing and settlement of "fresh funds".

Article 1 stipulates that BdL defines "fresh funds" as money transferred from abroad and/or funds received in foreign currency banknotes after November 17, 2019, as well as the amounts that have been or will be deposited in cash in "fresh" Lebanese pounds accounts and that meet the conditions of Basic Circular 150/13217 dated April 9, 2020. Article 2 asks banks and financial institutions that are enrolled in the BdL-NPS system to comply with the provisions and rules of this circular. Article 3 indicates that settlement operations for fresh funds will be subject to the settlement and clearing operations related to bank transfers and electronic clearing according to the content of Basic Circular 127/11081 dated June 27, 2012 about BdL's Real Time Gross Settlements, and of Basic Circular 130/11597 of November 6, 2023 about BdL's Clearing and Settlement Arrangements for Retail Payments (CLEAR), provided that the settlements take place exclusively through the new accounts as defined in the circular.

Article 4 asked all participating institutions in the BdL-NPS system to open new accounts at BdL in Lebanese pounds and in US dollars by the end of April 2023 to be used exclusively for the clearing of checks and for the electronic transfers of "fresh funds", in addition to Direct Debits and Credit Transfers files in the BdL-CLEAR system that are in "fresh funds". It added that participants have to deposit the banknotes in the new accounts in order to ensure there are enough "fresh funds" to implement the settlement operations through the BdL-NPS system, and that each bank has to determine the amounts it wants to deposit in the accounts as long as there are enough funds to execute the settlement operations. It stated that, in case the funds in the accounts are insufficient to cover the settlement operations, the concerned bank will be subject to the clauses of Law 2/67 dated January 16, 1967 about the non-payment of banks, and will have to pay a penalty of at least LBP1bn. In addition, BdL can levy an amount that is equivalent to twice the shortfall in the Lebanese pounds account from any of the bank's accounts at BdL in Lebanese pounds, other than "fresh funds" accounts. Further, it asked banks to submit to BdL's Directorate of Monetary Operations requests for checkbooks to be used exclusively for withdrawals from the new accounts, and prohibited banks from issuing bankers' checks in "fresh funds" drawn on their accounts at BdL except for the concerned bank to withdraw banknotes from these accounts. It also asked banks to send to the Directorate of Payment Systems to participate in the New Stream Agreements for the clearing of checks and for Small Credit Transfers and Direct Debits for "fresh funds".

Article 5 stipulates that BdL will link the new accounts to an additional SWIFT code in order to identify the bank as a "fresh funds" participant. Article 6 indicates that BdL will execute daily clearing operations for checks in "fresh funds". Article 10 prohibits participating banks to make transfers from or to "fresh funds" accounts to and from any other accounts at BdL. Further, Article 12 said that transfers and clearing operations in "fresh funds" will start on June 1, 2023.

TotalEnergies selects offshore drilling contractor for Block 9

TotalEnergies EP Block 9 (TotalEnergies), in its capacity as the operator of Block 9 in Lebanon's offshore territorial waters, announced that it has signed a contract with the offshore drilling firm Transocean Ltd. to lease from it a rig that will drill for gas in Block 9. The drilling rig, Transocean Barent, is a self-propelled platform currently operating in the North Sea. TotalEnergies said that it has signed the contract along with its partners in Block 9 Eni International and QatarEnergy. The agreement with Transocean Ltd. includes 67 days of operations, the cost of sailing the rig to the drilling site in Block 9, as well as the cost of the rig’s return to the North Sea.

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 Créocean 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.

Earlier this year, TotalEnergies 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 required to conduct petroleum activities in Block 9 consist of Logistics Base Services, Marine Gas Oil Supply, Vessel Support Services, and Helicopter Services.

The U.S. firm Transocean Ltd. is the world's largest offshore drilling contractor in terms of revenues, is based in Switzerland, and has offices in 20 countries. It is a provider of offshore contract drilling services for oil and gas wells, and specializes in deepwater and harsh environment drilling operations. According to the company, the firm owns or has partial ownership interests in and operates a fleet of 37 mobile offshore drilling units that consist of 27 ultra-deepwater floaters and 10 harsh environment floaters. In addition, the firm is building one ultra-deepwater drillship and holds a non-controlling ownership interest in a company that is building one ultra-deepwater drillship.

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%.

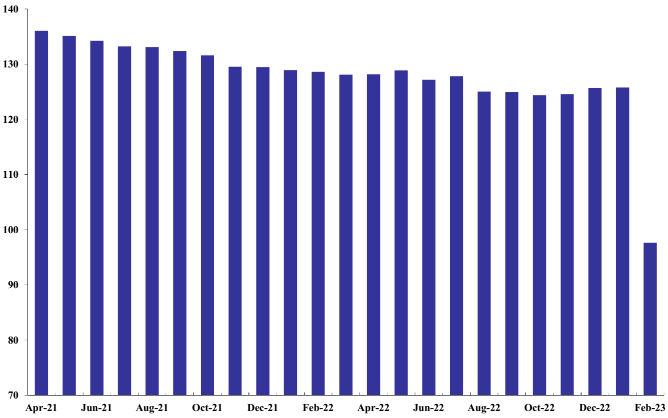
Corporate Highlights

Private sector deposits at $98bn at end-February 2023 based on new exchange rate

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets stood at LBP1,725.1 trillion (tn) ($115bn) at the end of February 2023. The dollar figures are based on the official exchange rate of the Lebanese pound to the US dollar of LBP1,507.5 per dollar until the end of January 2023 and of LBP15,000 per dollar in February 2023.

Loans extended to the private sector totaled LBP159tn at the end of February 2023, with loans to the resident private sector reaching LBP140tn and credit to the non-resident private sector amounting to LBP18.8tn at the end of February 2023. Loans extended to the private sector in Lebanese pounds reached LBP16.3tn at the end of February 2023, constituting an increase of 9.7% in the first two months of the year and a decline of 8.6% from end-February 2022, while loans in foreign currency totaled $9.5bn at the end of February 2023 and contracted by 6.5% from end-2022 and by 36% from end-February 2022.

Private Sector Deposits (US$bn)



Source: Banque du Liban, Byblos Research

In nominal terms, credit to the private sector in Lebanese pounds increased by LBP1.4tn in the first two months of 2023 relative to a decline of LBP403.5bn in the same period of 2022, while lending to the private sector in foreign currency decreased by $662m in the first two months of 2023 relative to a contraction of $757.3m in the same period of 2022. Further, loans extended to the private sector in Lebanese pounds shrank by LBP11.2tn (-40.7%) and loans denominated in foreign currency decreased by $31.6bn (-77%) since the start of 2019. The dollarization rate of private sector loans surged from 55.6% at end-February 2022 to 89.7% at the end of February 2023 due to the new exchange rate of LBP15,000 per dollar that went into effect on February 1, 2023. The average lending rate in Lebanese pounds was 4.75% in February 2023 compared to 5.69% a year earlier, while the same rate in US dollars was 5.17% relative to 5.5% in February 2022.

In addition, claims on non-resident financial institutions reached $4.1bn at the end of February 2023, constituting decreases of $73.1m (-1.7%) in the first two months of 2023 and of $407.6m (-9%) from a year earlier. Also, claims on non-resident financial institutions dropped by $5bn (-54.8%) from the end of August 2019 and by $7.9bn (-65.6%) since the start of 2019. Further, deposits at foreign central banks totaled $821.8m, constituting an increase of $17.3m (+2.1%) in the first two months of 2023 and a decrease of $248.2m (-23.2%) from a year earlier. In addition, the banks' claims on the public sector reached LBP55.5tn at end-February 2023 based on the new exchange rate. The banks' holdings of Lebanese Treasury bills stood at LBP12.4tn, while their holdings of Lebanese Eurobonds reached $2.8bn at end-February 2023 relative to $4.4bn a year earlier. Further, the deposits of commercial banks at Banque du Liban amounted to LBP1,266.9tn ($84.5bn) at the end of February 2023, up from LBP159tn at end-2022 and from LBP165.4tn at the end of February 2022.

In parallel, private sector deposits totaled LBP1,464.8tn at the end of February 2023, or $97.7bn based on the new exchange rate. Deposits in Lebanese pounds reached LBP45.1tn at end-February 2023, as they regressed by 0.7% from the end of 2022 and increased by 11% from a year earlier; while deposits in foreign currency stood at $94.6bn, and retreated by 1% in the first two months of the year and by 7% from the end of February 2022. Resident deposits accounted for 78% and non-resident deposits represented 22% of total deposits at end-February 2023.

Private sector deposits in Lebanese pounds decreased by LBP314bn and foreign currency deposits regressed by $969m in the first two months of 2022. 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 $11.4bn between September and December 2019. Further, aggregate private sector deposits in Lebanese pounds shrank by LBP32.1tn (-41.6%) and foreign currency deposits declined by $28.4bn (-23.1%) since the start of 2019. The dollarization rate of private sector deposits changed from 76.1% at the end of 2022 and 79.1% at end-February 2022 to 97% at end-February 2023 due to the effects of the new exchange rate on the Lebanese pound component of the balance sheet.

Further, the liabilities of non-resident financial institutions reached $3.3bn at the end of February 2023 and decreased by 23% from $4.3bn at the end of February 2022. Also, the average deposit rate in Lebanese pounds was 0.71% in February 2023 compared to 0.99% a year earlier, while the same rate in US dollars was 0.09% relative to 0.17% in February 2022. In addition, the banks' aggregate capital base stood at LBP74.2tn ($4.9bn) at the end of February 2023, up by LBP46.7tn, from LBP27.6tn at the end of 2022, and by LBP50bn, from LBP24.2tn at end-February 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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