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LEBANON THIS WEEK

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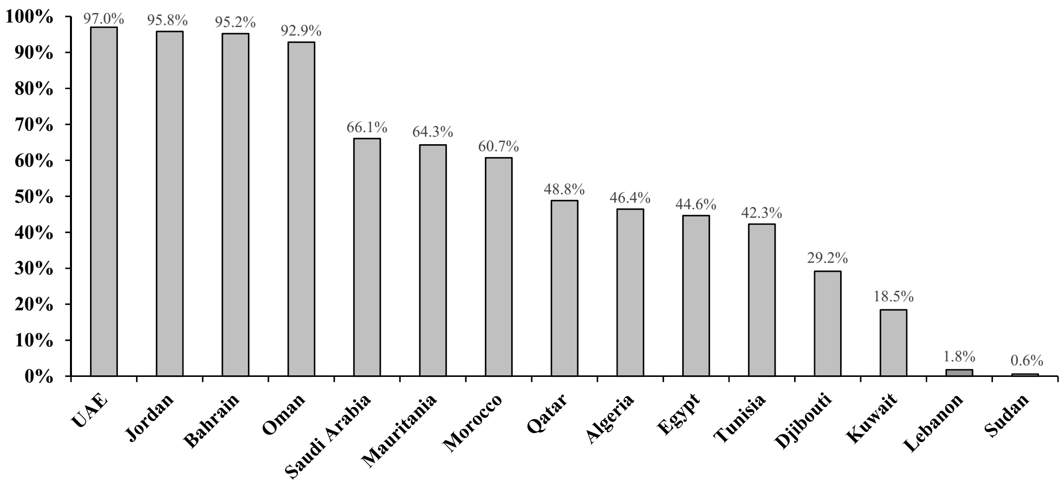
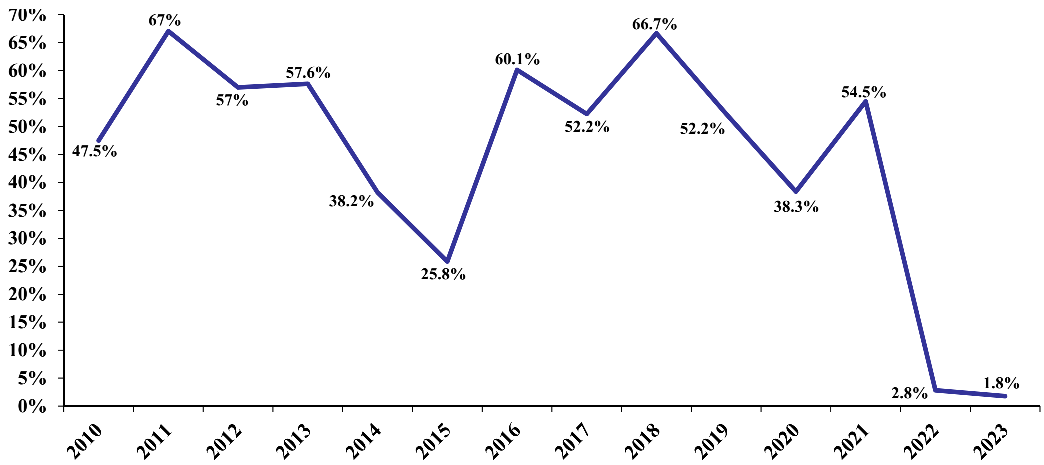
Charts of the Week

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



Percentile Rankings of Lebanon in terms of Trade Freedom



**The Heritage Foundation defines trade freedom as a composite measure of the absence of tariff and non-tariff barriers that affect imports and exports of goods and services*

Source: Heritage Foundation Index of Economic Freedom for 2023, Byblos Bank

Quote to Note

"There has been limited progress in implementing the comprehensive package of economic reforms that are set out in the Staff Level Agreement."

The International Monetary Fund, on the slow pace of Lebanese authorities in carrying out structural reforms

Number of the Week

720%: Increase in telecommunications tariffs in the 12-months ending March 2023, according to the Central Administration of Statistics' Consumer Price Index

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
BLOM Listed	2.56	0.4	250,000	3.0%
Solidere "A"	81.35	(4.8)	69,526	45.0%
Byblos Common	0.70	0.0	44,500	2.2%
Solidere "B"	80.40	(5.5)	26,883	28.9%
BLOM GDR	2.50	0.0	13,000	1.0%
Audi GDR	1.38	0.0	1,000	0.9%
HOLCIM	46.08	0.0	-	5.0%
Audi Listed	1.50	0.0	-	4.9%
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	5.75	59,008.69
Apr 2024	6.65	5.75	723.62
Jun 2025	6.25	5.75	198.38
Nov 2026	6.60	5.75	99.70
Mar 2027	6.85	5.75	89.73
Feb 2030	6.65	5.75	46.90
Apr 2031	7.00	5.75	39.44
May 2033	8.20	5.75	30.69
Nov 2035	7.05	5.75	24.28
Mar 2037	7.25	5.75	21.71

Source: Refinitiv

	May 8-12	May 2-5	% Change	April 2023	April 2022	% Change
Total shares traded	405,109	69,954	479.1	315,447	2,124,884	(85.2)
Total value traded	$8,524,197	$6,036,929	41.2	$17,282,146	$30,360,019	(43.1)
Market capitalization	$18.08bn	$18.80bn	(3.8)	$19.30bn	$10.59bn	82.1

Source: Beirut Stock Exchange (BSE)

Government details treatment of bank deposits

The government submitted to Parliament the details of its draft law on restoring balance to the financial sector. It considered that, given the large financial gap on the balance sheet of Banque du Liban (BdL), the latter cannot reimburse commercial banks over the short and medium terms their placements in foreign currency, which is an obstacle for banks to return these funds to depositors. It considered that bank deposits are "unsecured credit" and, therefore, are unprotected outside of the regulations that guarantee a share of bank deposits.

It estimated customer deposits in foreign currency at $93.5bn and the sound assets of the banks at $21bn. It said that the assets, which have various levels of liquidity, consist of about $10bn in reserve requirements at BdL, nearly $4bn in placements at non-resident financial institutions against an equal amount of placements by non-resident financial institutions at local banks, $6bn in credit to the private sector that are performing loans, and a portfolio of sovereign Eurobonds with a market value of less than $1bn.

Second, it estimated the "financial gap" at BdL and commercial banks at $71.3bn. It calculated the losses on BdL's balance sheet at $58.2bn that consist of $53bn from the policy of supporting the exchange rate of the Lebanese pound for many years, $2.8bn as a result of the previous government's decision to default on its Eurobonds obligations, and $2.4bn in other losses. Further, it estimated the losses at commercial banks at $13bn that consist of $6bn from the depreciation of the exchange rate of the Lebanese pound, $2bn in losses as a result of the previous government's decision to default on its external debt obligations, and $5bn in non-performing loans to the private sector and other losses.

Third, it estimated the exposure of commercial banks to BdL at $85.2bn that the latter used as follows: $35bn to support the exchange rate of the Lebanese pound, $10bn to finance the government, including the electricity sector, $20bn in negative spreads on interest rates that it paid and received, $5bn in subsidized loans for housing and other sectors, and $5.2bn in sovereign Eurobonds, in addition to liquid reserve requirements of $10bn.

Fourth, it said that the plan to reestablish balance to the financial sector consists of, first, restoring the solvency of BdL though the State's contribution of $2.5bn from the issuance of sovereign securities, and by gradually closing the deficit in BdL's capital in Lebanese pounds. Second, restructuring and recapitalizing viable commercial banks, after they absorb the losses, through new capital injections. Third, liquidating the banks that cannot meet the thresholds for solvency and liquidity within a determined timeframe.

Fifth, it noted that the plan consists of the State's contribution, to the extent that it can, in restoring BdL's solvency, given that its contribution has to take into consideration prioritizing public expenditures and the sustainability of its debt. It added that the plan stipulates respecting the hierarchy of claims in allocating losses at commercial banks through shareholders' equity first, followed by bondholders, and deposits of related parties. Also, it stated that the plan preserves the rights of depositors, but that recovering the deposits in full requires long periods of time that will depend on the pace of structural reforms, on restoring confidence in the banking sector, and on the economic recovery.

Sixth, the government suggests that it will preserve all deposits up to $100,000. It said that the assets of the banking sector could be enough to reimburse these deposits in US dollars but, in case this is not possible, a share of the amount will be paid in dollars and the rest in Lebanese pounds at the market rate. It noted that repaying $100,000 to all depositors means that 88% of customers will get back all of their deposits within a specific timeframe. It added that part of the deposits that exceed $100,000 will be transferred to the Deposit Recovery Fund (DRF) that the government intends to establish, and the other part will be converted to shares in viable banks as part of the recapitalization of each bank.

Seventh, it said that the breakdown of deposits at the end of 2022 shows that deposits of less than $100,000 amounted to $15.7bn and accounted for 17% of the total; deposits between $100,000 and $1m reached $41.2bn and represented 44% of the total; deposits of $1m to $5m totaled $19.1bn and accounted for 20% of aggregate deposits; and deposits that exceed $5m stood at $17.4bn and represented 19% of the total.

Eighth, the plan estimates the "non-eligible" deposits at $22bn currently compared to $31.5bn at end-June 2021. It defined "non-eligible" deposits as funds that depositors converted from Lebanese pounds to US dollars after October 2019 at the prevailing official exchange rate of LBP1,500 to the dollar at the time. Ninth, the plan stipulates that it will write off from deposit accounts that exceed $100,000 the "excess interest rates" that they have earned since 2015, and estimated at $5bn the aggregate interest income that will be written off.

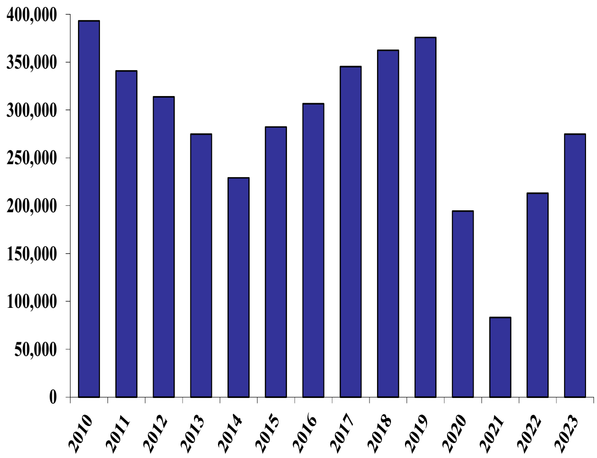
Tenth, the plan forces depositors that have funds in excess of $1m to submit proof to banks about the source of their deposits, and estimated at $5bn, or 5.3% of the total, the deposits that face doubts about their legitimacy. Eleventh, it authorizes depositors to convert voluntarily their dollar deposits to Lebanese pounds at an exchange rate that is lower than the market rate, in an aggregate maximum of $4bn, or 4.3% of total deposits. Twelfth, the plan stipulates the conversion of up to $12bn in deposits to financial instruments in the capital of the viable banks. Thirteenth, it estimated at $69.8bn the aggregate deposits that the plan has categorized. Fourteenth, it stipulates that the deposits that exceed $100,000 and that have not been addressed will be converted to financial instruments in the DRF. It added that the liabilities of the DRF will consist of the banks' assets that exceed the amount needed to cover deposits of up to $100,000, such as the banks' placements at the central bank and their investments in BdL's Certificates of Deposits; the stolen, ill-gotten and smuggled funds that the authorities recover; as well as a share of the banks' profits.

Lebanon in the News

Tourist arrivals up 29% in first quarter of 2023

Figures compiled by the Ministry of Tourism indicate that the number of incoming visitors to Lebanon totaled 274,787 tourists in the first quarter of 2023, constituting an increase of 29% from 212,950 tourists in the same quarter of 2022 and a surge of 230% from 83,260 visitors in the first quarter of 2021. The number of incoming visitors reached 88,378 in January, 85,682 in February, and 100,727 in March 2023 compared to 62,340 visitors in January, 67,800 in February, and 82,810 in March 2022. This constituted increases of 41.8% in January, 26.4% in February, and 21.6% in March 2023 from the corresponding months of the previous year. The figures exclude Lebanese, Syrian and Palestinian arrivals.

Number of Tourist Arrivals to Lebanon*



**in first quarter of each year*
Source: Ministry of Tourism, Byblos Research

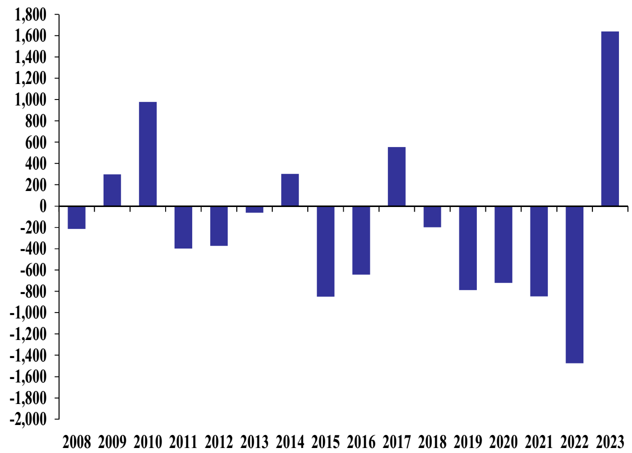
Visitors from European countries totaled 108,334 tourists and accounted for 39.4% of incoming visitors the first quarter of 2023, followed by those from Arab countries with 83,947 visitors (30.5%), the Americas with 44,721 tourists (16.3%), Asia with 17,496 visitors (6.4%), Africa with 11,601 tourists (4.2%), and Oceania with 8,657 visitors (3.2%). Further, the number of visitors from Asia surged by 70% in the first quarter of 2023 from the same period last year, followed by those from Europe (+37.7%), the Americas (+26.5%), Oceania (+26.3%), Africa (+17.5%), and the Arab countries (+16.85). Regionally, tourists from Iraq totaled 42,898 visitors and accounted for 51% of Arab tourists in the first quarter of 2023, followed Egypt with 14,527 visitors (17.3%), Jordan with 11,823 tourists (14.1%), Kuwait with 5,480 visitors (6.5%), Qatar with 1,472 tourists (1.8%), Bahrain with 1,098 visitors (1.3%), Saudi Arabia with 890 tourists (1.1%), and the UAE with 180 visitors (0.2%); while tourists from other Arab countries accounted for the remaining 6.6%.

The increase in the number of visitor arrivals in the first quarter of 2023 is due to the resumption of normal activity following the lifting of lockdown and social distancing measures in the country that the authorities imposed to contain the spread of the coronavirus, to the relaxation of travel restrictions in the main country sources of visitors to Lebanon, as well as to promotion campaigns by the Ministry of Tourism and to the competitive advantage that Lebanon represents in terms of the combination of attractiveness and pricing.

Net foreign assets of financial sector up $1.2bn in first quarter 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 $1.17bn in the first quarter of 2023, compared to decreases of $1.47bn in the same quarter of 2022 and of $847.2m in the first quarter of 2021.

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



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

The cumulative surplus in the first quarter of 2023 was caused by an increase of $2bn in the net foreign assets of banks and financial institutions, which was partly offset by a drop of $830.1m in those of BdL. Further, the net foreign assets of the financial sector decreased by $135.1m in March 2023 compared to a surge of $2.1bn in February 2023 and to a decline of $518.5m in March 2022. The March decline was caused by decreases of $135.1m in the net foreign assets of banks and financial institutions and of $328.4m 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.

Reforms-minded President and Cabinet to pave way for structural reforms

The Institute of International Finance (IIF) considered that the regular political and institutional stalemates in the country, weak governance in the public sector, as well as the failed attempts to address the policy distortions in the economy, have contributed to inconsistent and counterproductive macroeconomic policies that have amplified the three-year old economic and financial crisis. It pointed out that these shortcomings reflect fundamental political and economic factors, such as rampant corruption in the public sector, interference in the judicial system, and significant institutional weaknesses. It noted that the authorities have been complacent in their efforts to implement the prior actions that they agreed to in the Staff-Level Agreement that they signed with the International Monetary Fund (IMF) in April 2022, and considered that most of the political actors see the implementation of the prior actions as a threat to their political base. It noted that the extended absenteeism of public sector workers that led to the paralysis of public services, the contraction in output, the use of the previous official exchange rate for customs purposes, continued tax evasion, and the increase in the size of the informal economy, has reduced the government's revenues and weighed on public finances.

The IIF considered that authorities can reestablish financial stability and address structural bottlenecks to kick start the economic recovery in case they have the will to implement political reforms and a comprehensive and credible medium-term structural reforms plan that is supported by the IMF and the World Bank. However, it pointed out that a reformist President and Cabinet are critical pre-requisites for the successful implementation of the program. It added that authorities should aim to unify the multiple exchange rates that currently prevail in the domestic market, which would encourage remittance inflows through banks, as well as raise public revenues from customs, the value added tax and the income tax. It expected that a unified exchange rate will also boost competitiveness and transparency, eliminate the distortions associated with the prevailing multiple exchange rates, and minimize rent-seeking activities that increase the risks of corruption. Also, it pointed out that authorities should publish the audit of Banque du Liban (BdL), strengthen prudential regulations and oversight, as well as develop a strategy to restructure the banking system that avoids haircuts on deposits. It added that the government should impose temporary capital controls to limit access to foreign currency and help narrow the current account deficit and that, in order to achieve debt sustainability, it needs to restructure the foreign component of the public debt. In addition, it noted that the authorities have to urgently implement reforms in the electricity, telecommunications and water sectors, as well as in the ports systems and other state-owned enterprises, such as strongly regulating and privatizing these utilities. Finally, it pointed out that the government has to establish a comprehensive social protection system to safeguard the most vulnerable segments of the population.

The IIF considered two scenarios for the Lebanese economy, given the uncertain political prospects. In its optimistic scenario, it assumed that the political parties may reach an arrangement that will lead to the election of a pro-reforms President, the formation of a reform-minded Cabinet, and the appointment of a new governor at the BdL. It expected this scenario to pave the way for the implementation of the prior actions included in the Staff-Level Agreement with the IMF and for the consequent approval of the IMF's Executive Board of the $3bn Extended Fund Facility by September 2023, which would trigger the flow of adequate external financing from the international community. Under this scenario, it expected nominal GDP to regain its 2018 level by 2026, and for rapid real GDP growth to be driven by net exports and public investments. It also anticipated the authorities to unify the multiple exchange rates at the start of the program with the IMF and to adopt a floating exchange rate regime, which could allow inflationary pressures to subside to double digits in 2024 and to single digits by 2025, driven by the expected appreciation of the unified exchange rate. In addition, it forecast the fiscal primary balance to improve, in case public revenues significantly increase following the unification of the exchange rate for customs purposes. It added that a potential IMF-supported program could put Lebanon's elevated public debt level on a downward path through its restructuring and the implementation of fiscal reforms. Further, it projected the current account deficit to narrow to about 6% of GDP by 2026, if Lebanon's relations with Gulf Cooperation Council countries improve, including the lifting of the ban on Lebanese exports, and in case of a strong recovery in the exports of goods and tourism receipts.

In parallel, in its pessimistic scenario, it assumed that authorities will continue to delay the implementation of reforms and that, as a result, the IMF-supported program will not take off, and financial support from the international community will not be forthcoming. As such, it anticipated that the Lebanese pound's exchange rate on the parallel market would resume its depreciation, the inflation rate would remain in triple digits, real GDP growth will stagnate at less than 1%, and nominal GDP will remain below $23bn in the next four years. Also, it projected the current account deficit to remain wide, and forecast foreign currency reserves at BdL to decline further to less than $1bn by the end of 2026.

Medium-Term Scenarios for the Lebanese Economy

		Optimistic Scenario				**Pessimistic Scenario**			
	2022e	**2023**	**2024**	**2025**	**2026**	**2023**	**2024**	**2025**	**2026**
Nominal GDP (LBP trillion)	480.0	1,355	2,064	2,408	2,695	1,728	5,064	13,302	32,360
Nominal GDP (US$ bn)	18.3	21.4	37.3	46.3	53.7	19.0	18.7	20.9	22.9
Real GDP Growth, (% Change)	-2.5	2.3	5.3	7.6	8.6	-2.2	-1.0	0.3	0.6
Consumer Prices, Avge, (% Change)	171.2	176.2	32.8	5.9	4.5	254.3	203.5	162.8	146.5
Weighted Exch. Rate, Avge, LBP/$	26,222	63,270	55,300	51,982	50,163	90,837	270,200	637,000	1,415,000
Current Account Balance, (% of GDP)	-38.9	-20.9	-9.6	-7.4	-6.4	-27.9	-27.5	-20.7	-18.0
Official Reserves* (US$bn)	10.6	9.3	15.5	22.3	29.0	8.2	5.6	3.2	0.5

**Official reserves exclude gold and BdL holdings of government Eurobonds*

Source: Institute of International Finance, May 2023

Capital Markets Authority asks financial firms to raise capital by 10 times

The Capital Markets Authority (CMA) issued on April 5, 2023 Announcement No. 93 that asks licensed financial institutions to raise their minimum capital by 10 times within six months from the date of the announcement, in order to conduct activities related to financial instruments, according to the rules and regulations about the licensing and registration in financial markets under Series 2000.

The CMA specified that firms require a minimum capital of LBP6bn in order to conduct activities that consist of dealing with or trading financial instruments from the firm's or the client's account; selling, buying or receiving an order to buy or sell a financial instrument; as well as representing and distributing a foreign collective investment scheme. Further, it said that firms that provide activities that consist of market making or liquidity provisioning; managing subscriptions in financial products or distributing them, or insuring subscriptions in financial instruments, require a capital of LBP15bn. Also, it noted that companies that provide financial advisory services to individuals about the benefits and risks of their investment or their dealings with any type of financial instrument; that offer subscriptions in financial instruments and private or public subscriptions; that provide financial advice about investments, about dealing with financial instruments, and about the finances of a company, as well as about mergers and acquisitions, require a minimum capital of LBP1.5bn. It added that these services do not include the execution of orders from clients, which requires a specific permit.

In addition, it stipulated that financial firms need to have a minimum capital of LBP3bn to organize or structure operations related to financial instruments, introducing individuals to financial instruments, and organizing operations in financial instruments. It added that this includes financial agreements for the company, mergers and acquisitions deals, offering subscriptions in financial instruments, as well as offering private or public subscriptions.

Moreover, the CMA indicated that firms require a capital of LBP30bn in order to manage a financial instrument or a portfolio of financial products on behalf of clients, as well as to manage collective investment schemes. Further, it said that companies need a capital of LBP60bn in order to provide custodial services, including for the trading of financial instruments on behalf of an individual. This includes providing custodial services for clients and for collective investment schemes; as well as managing the rights, benefits and procedures related to a financial instrument.

The CMA had issued on July 28, 2022 Announcement No. 84 that required licensed financial institutions to raise their capital by 20% by the end of 2022. It said that the new decision supersedes the content of Announcement No. 84, and that the new requirement for financial institutions to increase their capital by 10 times applies to the existing capital prior to the July 2022 announcement.

Ministry of Finance raises exchange rate of US dollar for customs for fourth time in seven months

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 LBP60,000 per US dollar to LBP86,000 per dollar starting on May 13, so that the new rate converges with the exchange rate of the US dollar on Banque du Liban's Sayrafa electronic exchange platform.

The ministry attributed its decision to the deterioration of the economic and financial situation in Lebanon that has led to the paralysis of public administrations and institutions due to the strike of workers and employees from their work because of the prevailing elevated cost of living. It added that the Council of Ministers has approved a series of increases and allowances that will contribute to the resumption of work at public sector agencies and departments. As a result, it noted the need to secure financial resources to cover these allocations and to avoid triggering an increase in inflationary pressures. Further, it pointed out that the exchange rate of the Lebanese pound exceeded LBP90,000 per US dollar on the parallel market and stood at LBP86,300 per dollar on Banque du Liban's Sayrafa electronic exchange platform at the time of the decision.

As such, the ministry said that the exchange rate for the currencies of Lebanon's main import sources become LBP86,000 for the US dollar, LBP93,832 for the euro, LBP106,697 for the British pound, LBP94,910 for the Swiss franc, LBP23,415 for the UAE dirham, LBP12,493 the Chinese yuan, LBP4,466 for the Turkish lira, LBP2,781 for the Egyptian pound, LBP1,049 for the Indian rupee, and LBP646.8 for the Japanese yen, among others.

The ministry 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, as well as to LBP45,000 per dollar in the first quarter of 2023, and to LBP60,000 per dollar from May 2 until May 12, 2023. It added that the new rate will remain in force from May 13 until May 31, 2023.

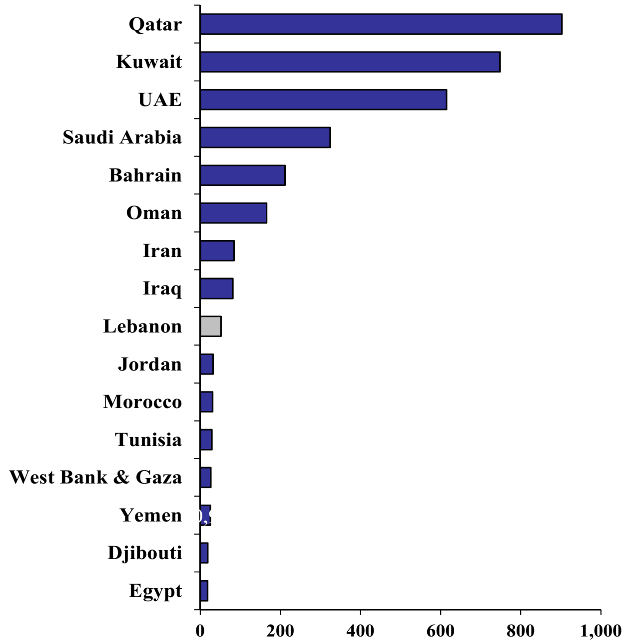
Figures issued by Lebanese Customs show that total imports reached $19.1bn in 2022, and rose by 40% from $13.6bn in 2021. Non-hydrocarbon imports increased by $3.7bn, or by 38%, to $13.5bn in 2022; while the imports of oil & mineral fuels grew by $1.7bn, or by 44%, to $5.6bn. Lebanon's main non-hydrocarbon imports were machinery & electrical instruments that reached $2.5bn and increased by 108% in 2022. The imports of vehicles, aircraft & vessels followed with $2bn (+78%), then imported pearls, precious stones & metals with $1.7bn (+35.8%); the imports of chemical products with $1.2bn (-20.2%); the imports of prepared foodstuffs with $1bn (+25%); imported vegetable products with $989.8m (+18.4%); base metals with $824m (+46%); and plastics & rubber with $629.4m (+28%). Also, China was the main source of imports with $2.7bn and accounted for 14% of the total in 2022, followed by Türkiye with $2.4bn (12.7%), Greece with $1.8bn (9.5%), Italy with $1.1 (5.6%), the U.S. with $967.8m (5%), the UAE with $685.7m (3.6%), Germany with $664.7m (3.5%), Switzerland with $631m (3.3%), India with $590.5m (3.1%), and Egypt with $529m (2.8%).

Lebanon's wealth per capita at $51,673 at end-2018

The World Bank estimated wealth per capita in Lebanon at $51,673 at the end of 2018 compared to $67,780 at the end of 1995. As such, it noted that the country's wealth per capita declined by 23.8% during the 1995-2018 period. It defined 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. The decrease of wealth per capita during the 1995-2018 period is due mainly to the rapid increase in the resident population of Lebanon due to the massive influx of Syrian citizens as a result of the conflict in their country that erupted in 2011.

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.

Per Capita Wealth in Countries in the Middle East & North Africa Region (US$)



Source: World Bank, Byblos Research

Lebanon's wealth per capita was the 77th highest among 146 countries worldwide. Globally, the wealth per capita in Lebanon is higher than the wealth per capita in the Maldives ($50,795), Indonesia ($48,046) and Armenia ($48,031), and is lower than it is in Guyana ($62,740), Ukraine ($55,272), and North Macedonia ($54,085). In comparison, the wealth per capita in upper-middle income countries (UMICs) reached $141,682, while it stood at $46,645 in low- and-middle income economies of the Middle East and North Africa (MENA) region at the end of 2018.

In parallel, the World Bank estimated that Lebanon's per capita human capital, which takes into account the knowledge, skills, and experience of the country's workforce, stood at $33,966 at the end of 2018, which was the 70th highest worldwide. Globally, the country's per capita human capital came higher than the corresponding figure in Eswatini ($30,873), North Macedonia ($30,543) and Armenia ($28,775), and was lower than it was in the Maldives ($37,819), South Africa ($36,610), and Jamaica ($34,144). In comparison, the per capita human capital in UMICs reached $93,794, while it stood at $16,555 in low- and-middle income economies of the MENA region at the end of 2018.

Also, Lebanon's produced capital per capita, which consists of machinery, structures, equipment, and urban land, reached $26,481 at end-2018, which was the 65th highest worldwide. Globally, the nation's produced capital per capita was higher than the corresponding figure in Iran ($26,359), the Dominican Republic ($25,684) and the Maldives ($24,074), and came lower than it was in Botswana ($28,552), Bulgaria ($27,918), and Venezuela ($26,689). In comparison, the produced capital per capita in UMICs was $36,606 at end-2018, while it stood at $14,218 in low- and-middle income economies of the MENA region at the end of 2018.

In addition, Lebanon's renewable natural capital per capita, which consists of forests, mangroves, fisheries, agricultural land and protected areas, stood at $2,323 at the end of 2018, the 118th highest worldwide. Globally, the country's renewable natural capital per capita was higher than the corresponding figure in India ($2,272), Pakistan ($2,235) and El Salvador ($2,214), and came lower than it was in the Philippines ($2,380), Sri Lanka ($2,349), and Burkina Faso ($2,331). In comparison, the renewable natural capital per capita in UMICs reached $6,040, while it stood at $2,700 in low- and-middle income economies of the MENA region at the end of 2018.

Further, Lebanon's net foreign assets per capita, which include portfolio equity, debt securities, foreign direct investments and other financial capital held in other countries, decreased by $11,097 in 2018, which constitutes the 10th steepest decline worldwide. Globally, the decline of the country's net foreign assets per capita was steeper than the decrease in the corresponding figure for Mongolia (-$10,840), Oman (-$9,390) and Latvia (-$8,623), and came lower than the decline in Panama (-$15,788), Slovakia (-$13,077), and the Maldives (-$11,328). In comparison, the net foreign assets per capita of UMICs rose by $97, while they declined by $773 in the low-and-middle income economies of the MENA region in 2018.

Banque du Liban issues directives on electronic banking and financial transactions

Banque du Liban (BdL) issued Intermediate Circular 667 dated April 13, 2023 to banks, financial institutions, and institutions that conduct electronic financial operations in Lebanon that amends Basic Circular 69/7548 dated March 3, 2000.

Article 1 prohibited electronic transactions through fixed and mobile devices among clients of different banks that exceed $10,000, except for receiving client requests for bank transfers.

Article 2 authorized financial or banking operations from fixed and mobile devices through applications or software programs by using cards and/or bank accounts of clients at different banks on the following conditions. First, that the institution gets the prior approval of BdL for utilizing the applications or software, as well as for the technical and operational procedures to conduct these transactions. Second, that the non-bank financial institution (NBFI) maintains at all times a capital of at least LBP50bn, and that it rebuilds its capital within six months in case it incurs losses. Third, that the non-bank institution starts its operations within six months of receiving the operating license. It added that it can extend the timeframe by another six months in case of exceptional or urgent reasons, based on a decision by the Central Council, and that it will withdraw the license if the institution stopped its work for six consecutive months. Fourth, that operations between clients are executed instantly and are settled between the accounts of banks at BdL. Fifth, that the amount that each client sends through the application does not exceed LBP15m per day and LBP150m per month for operations in Lebanese pounds, and $300 per day and $3,000 or their equivalent in foreign currency per month. Sixth, that the amount that each client receives through the application does not exceed LBP15m per day and LBP150m per month for operations in Lebanese pounds, and $600 per day and $6,000 or their equivalent in foreign currency per month. It added that BdL may exceptionally approve a higher ceiling for the received amounts if the recipient is a "moral person" such as a merchant, and industrialist, or a member of a liberal profession. Seventh, that the commission on these operations does not exceed 0.5% of the amount of each operation. Eighth, that these operations conform to all laws and regulations related to compliance and fighting money laundering. Ninth, that BdL's Directorates of Payment System and of Foreign Exchange receive on a monthly basis the number and amount of these operations.

Article 3 authorized NBFIs that provide financial or banking operations from fixed and mobile devices through applications or software programs to include "electronic wallets" among their services, based on several conditions that include: First, to place in a dedicated and independent bank account opened in the name of the service provider the full amount of the "electronic wallet". Second, that the amount in "electronic wallets" does not exceed LBP150m or $3,000 per "natural person", or LBP4bn or $50,000 for a "moral person". Third, that the amount that each client sends through the "electronic wallet" does not exceed LBP15m per day and LBP150m per month for operations in Lebanese pounds; and does not exceed $300 daily and $3,000 monthly or their equivalent in foreign currency. Fourth, that the amount that each client receives through the "electronic wallet" does not exceed LBP15m per day and and LBP150m per month for operations in Lebanese pounds; and does not exceed $300 daily and $3,000 monthly or their equivalent in foreign currency. It added that BdL may exceptionally approve a higher ceiling for the received amounts if the recipient is a "moral person". Fifth, to allow the user to replenish the "electronic wallet" in cash and/or from bank cards or bank accounts, and/or from another "electronic wallet". Sixth, to grant the user the right to transfer the amount in his/her "electronic wallet" to his/her bank account and/or withdraw it in cash. Seventh, it prohibited foreign exchange operations on the "electronic wallet". Eighth, that operations abide by all the rules and regulations related to compliance and to fighting money laundering. Ninth, to apply enhanced due diligence procedures when onboarding new clients that use "electronic wallets".

Article 4 stipulates that NBFIs should receive BdL's pre-approval for identifying their on-boarding of new customers through the electronic know-your-customer procedure for opening accounts that do not exceed $10,000, and/or to conduct banking and financial operations. Further, to verify the client's identity by implementing the enhanced due diligence procedures, adopting digital identification systems that include identity proofing and enrolment, the authentication of the client's digital entity based on the recommendations of the Financial Action Task Force Guidance on Digital IDs, and to monitor electronic transaction on an ongoing basis.

Parliament modifies public procurement law

The Lebanese Parliament enacted on April 18, 2023 Law No. 309, which modified Public Procurement Law 244/2021 that went into effect on July 29, 2022. The changes covered articles 7, 11, 19, 46, 60, 76, 100 and 101 of the original law. The government attributed its submission of the modifications to Parliament to the fact that the practical implementation of the law for a period of six months showed obstacles and difficulties in applying certain clauses and articles of the law, and to the need to implement changes to increase its effectiveness and simplify its implementation. The modifications went into effect upon their publication in the Official Gazette on April 26, 2023.

First, the changes in Article 7 mandate that the applicants should disclose all the involved parties in the public procurement process of goods and services, as well as identify the rights and responsibilities of all of the beneficial owners.

Second, the modifications of Article 11 about planning the procurement process requested the purchasing party to in the procurement process to send its completed plan to the Public Procurement Authority (PPA) within two months of the start of each fiscal year. It added that the PPA will consolidate all the plans of the buying parties from the public sector into a comprehensive one that covers the entire fiscal year and that it will publish the final plan within 30 business days of the date authorities finalize it. However, it pointed out that the Lebanese armed forces and the security agencies are exempt from these requirements.

Third, the changes to Article 19 about the pre-qualifications of the bidders stipulate that the PPA should pre-approve the standards and procedures that are used to verify the pre-qualifications of bidders. Also, the changes stipulate that the PPA, along with the relevant parties, will set the classification criteria for similar transactions.

Fourth, the modifications to Article 46 about the conditions for consensual agreements with hospitals, medical centers and laboratories, added that such agreements should not constitute unfair competition for the private sector.

Fifth, the changes to Article 76 stipulate the need to verify the qualifications of the members of the procurement committees and to include, when necessary, the compatibility of these qualifications with the required levels of expertise and experience.

Sixth, the modifications to Article 100 state that the selection of the members of the procurement committees will be based on criteria that the PPA will set, on the condition that the priority will be given to persons who are trained in public procurement.

Seventh, the changes to Article 101, stipulate that the selection of the members of the committees that will receive the tender and other documents will be based on criteria that the PPA will set, on the condition that the priority will be given to persons who are trained in public procurement. Also, the modification states that the PPA will accept a signed statement from the beneficial owners that includes the details of the services and works provided, in case it is not possible to submit an invoice, and that submitting the invoice will be sufficient if it is not possible to get two offers.

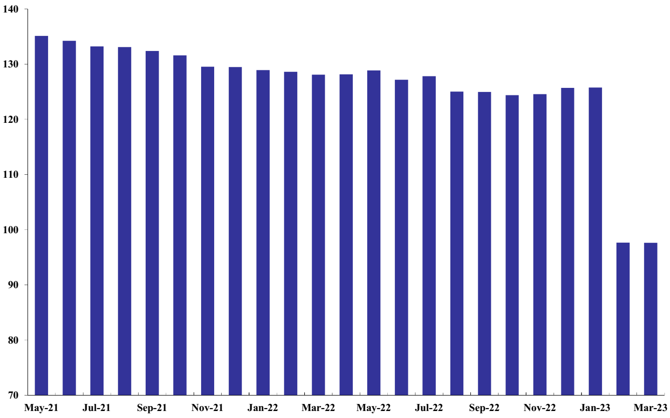
Law 244/2021, which converted the public procurement department at the Central Inspection Administration into the PPA, among other changes, aimed to usher a modern and transparent procurement system in the public sector. The Lebanese Parliament enacted on June 30, 2021 the new public procurement law, which aimed to limit the proliferation of public transactions and establish a central mechanism for public procurement.

Corporate Highlights

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

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets stood at LBP1,727.2 trillion (tn) ($115.1bn) at the end of March 2023, nearly unchanged from end-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 staring in February 2023.

Private Sector Deposits (US$bn)



Source: Banque du Liban, Byblos Research

Loans extended to the private sector totaled LBP150tn at the end of March 2023, constituting a decrease of 5.6% from LBP159tn at end-February 2023. Loans to the resident private sector reached LBP131.4tn at end-March 2023 and contracted by 6% from LBP140bn a month earlier, while credit to the non-resident private sector amounted to LBP18.6tn at the end of March 2023 and regressed by 1.4% from LBP18.8tn at end-February 2023. Loans extended to the private sector in Lebanese pounds reached LBP14.3tn at the end of March 2023, constituting decreases of 12.4% from LBP16.3tn at end-February 2023 and of 18% from end-March 2022; while loans in foreign currency totaled $9.1bn at the end of March 2023 and contracted by 4.8% in the previous month, by 11% in the first quarter of the year, and by 37% from end-March 2022.

In nominal terms, credit to the private sector in Lebanese pounds decreased by LBP586.1bn in the first quarter of 2023 relative to a decline of LBP821.3bn in the same period of 2022, while lending to the private sector in foreign currency decreased by $1.1bn in the first quarter of 2023 relative to a contraction of $1.2bn in the same period of 2022. Further, loans extended to the private sector in Lebanese pounds shrank by LBP13.2tn (-48%) and loans denominated in foreign currency decreased by $32.1bn (-78%) since the start of 2019. The dollarization rate of private sector loans changed from 55.4% at end-March 2022 to 90.5% at the end of March 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 5.61% in March 2023 compared to 5.58% a year earlier, while the same rate in US dollars was 4.04% relative to 5.72% in March 2022.

In addition, claims on non-resident financial institutions reached $4.1bn at the end of March 2023, constituting a decrease of $70.9m (-1.7%) in the first quarter of 2023 and an increase of $42.6m (+1%) 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 $799.6m at the end of March, constituting a decrease of $22.1m (-2.7%) from end-February 2023, of $4.8m (-0.6%) in the first quarter of 2023, and of $314.2m (-28.2%) from end-March 2022. In addition, the banks' claims on the public sector reached LBP55tn at end-March 2023 based on the new exchange rate, down from LBP55.5tn at end-February 2023. The banks' holdings of Lebanese Treasury bills stood at LBP12.1tn, while their holdings of Lebanese Eurobonds reached $2.8bn at end-March 2023 relative to $4.5bn a year earlier. Further, the deposits of commercial banks at Banque du Liban amounted to LBP1,270.5tn ($84.7bn) at the end of March 2023, compared to LBP1,267tn at end-February 2023.

In parallel, private sector deposits totaled LBP1,464.4tn at the end of March 2023, or $97.6bn based on the new exchange rate, nearly unchanged from the end of February 2023. Deposits in Lebanese pounds reached LBP52.4tn at end-March 2023, as they increased by 16.3% from the previous month, by 15.5% from the end of 2022, and by 27.3% from a year earlier; while deposits in foreign currency stood at $94.1bn and regressed by 0.5% from end-February 2023, by 1.6% in the first quarter of the year, and by 6.6% from the end of March 2022. Resident deposits accounted for 78% and non-resident deposits represented 22% of total deposits at end-March 2023.

Private sector deposits in Lebanese pounds increased by LBP7.3tn from end-February 2023 and by LBP7tn in the first quarter of the year, while foreign currency deposits regressed by $517m from end-February 2023 and by $1.5bn from end-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 LBP24.8tn (-32%) and foreign currency deposits declined by $28.9bn (-23.5%) since the start of 2019. The dollarization rate of private sector deposits changed from 78.7% at end-March 2022 and 76.1% at the end of 2022 to 96.4% at end-March 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 $3.2bn at the end of March 2023 and decreased by 2.4% from $3.3bn at end-February 2023, by 25% from $4.3bn at end 2022, and by 26.8% from $4.4bn at the end of March 2022. Also, the average deposit rate in Lebanese pounds was 0.63% in March 2023 compared to 0.87% a year earlier, while the same rate in US dollars was 0.07% relative to 0.16% in March 2022. In addition, the banks' aggregate capital base stood at LBP73.1tn ($4.9bn) at the end of March 2023, down by LBP1.1tn from LBP74.2tn at end-February 2023.

BLOM Bank posts profits of LBP17.2bn in first quarter of 2023

BLOM Bank sal, one of Lebanon's listed banks on the Beirut Stock Exchange, declared unaudited net profits of LBP17.2bn, or $1.1m based on the new official exchange rate, compared to earnings of LBP2.1bn ($1.4m) in the same quarter of 2022. The dollar figures for the first quarter of 2022 and full year 2022 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 for the first quarter of 2023 are based on the new exchange rate of LBP15,000 per dollar. The bank's net interest income reached LBP2,121.2bn ($141.4m) in the first quarter of 2023 relative to LBP556.2bn ($369m) in the same quarter of 2022, while its net earnings from fees & commission stood at –LBP278.1bn (-$18.5m) compared to –LBP26.5bn ($17.5m) in the first quarter of 2022, mainly due to fees and commission expenses of LBP361.6bn ($24.1m) that outweighed receipts from fees and commission of LBP639.7bn ($42.6m). Also, the bank's net operating income totaled LBP1,638.1bn ($109.2m) in the first quarter of 2023 compared to LBP228.1bn ($151.3m) in the same quarter of last year. In parallel, the bank's operating expenditures reached LBP1,373.2bn ($91.5m) in the covered period relative LBP179.6bn ($119.1m) in the first quarter of 2022, with personnel cost accounting for 63.4% of the total in the first quarter of 2023.

Also, the bank's aggregate assets amounted to LBP279.7 trillion (tn) ($18.6bn) at the end of March 2023 compared to LBP38.9tn ($25.8bn) at end-2022 and to LBP39.7tn ($26.3bn) at end-March 2022. Further, net loans & advances to customers totaled LBP15.4tn ($1bn) at end-March 2023 relative to LBP2.6tn ($1.7bn) at end-2022, while net loans & advances to related parties stood at LBP49.6bn ($3.3m). In addition, customer deposits reached LBP249.3tn ($16.6bn) at end-March 2023 compared to LBP30.7tn ($20.4bn) at end-2022, with deposits from related parties standing at LBP635.5bn ($42.4m). In parallel, the bank's shareholders' equity was LBP19.2tn ($1.3bn) at end-March 2023 relative to LBP4.7n ($3.1bn) at end-2022. The surge in the Lebanese pound figures is due to the effect of the new exchange rate on the Lebanese pound component of the balance sheet.

The bank indicated that it is required to comply with all the circulars that Banque du Liban (BdL) issues, as stipulated in the Code of Money & Credit. As such, it noted that it calculated the expected credit losses in accordance with specific ratios listed in BdL's Basic Circular 44 dated March 25, 1998 about the capital adequacy regulatory framework for banks operating in Lebanon, and according to Circular 543 dated February 3, 2020. It pointed out that the deterioration of economic and monetary conditions in the country, as well the lack of an agreement on an economic and financial recovery plan at the time, make it difficult to estimate the negative impact of the crisis on financial statements according to the International Accounting Standards.

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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