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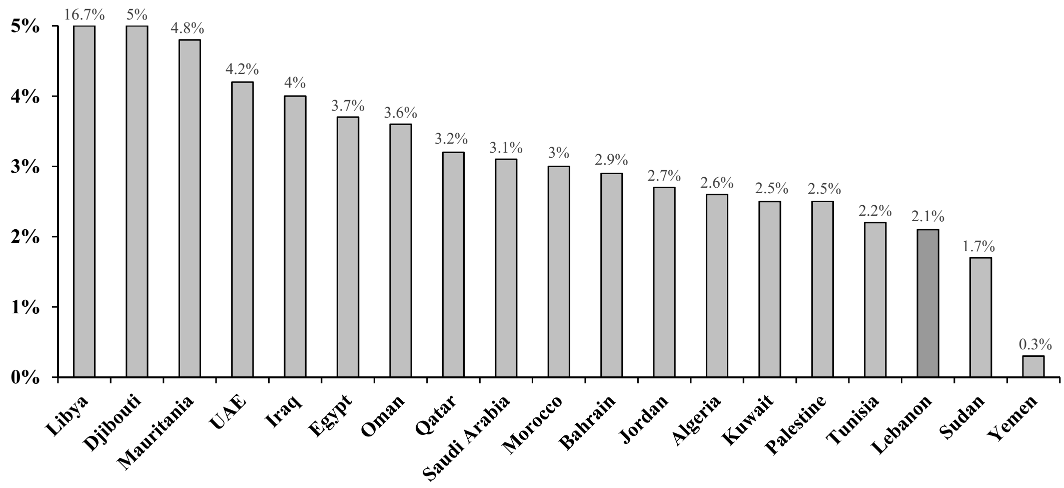
LEBANON THIS WEEK

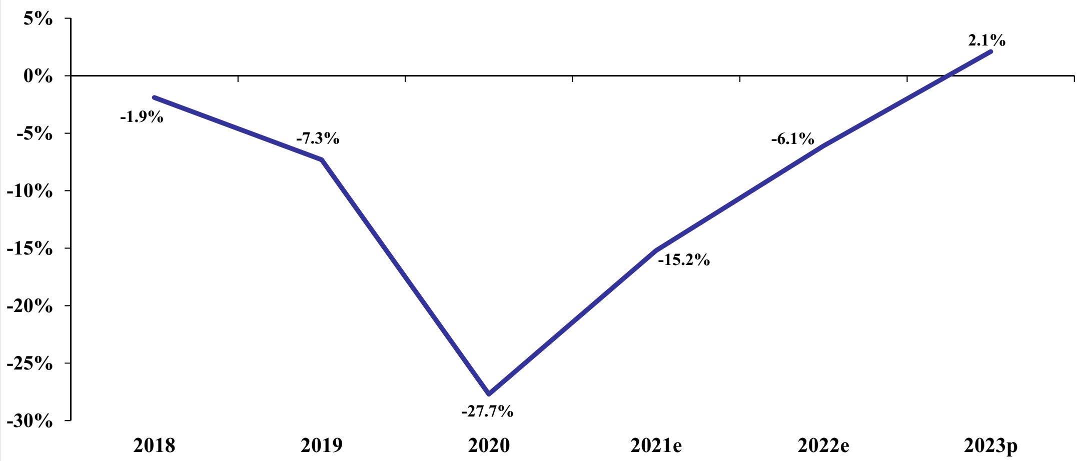
In This Issue

Charts of the Week

Projected Real GDP Growth Rates of Arab Countries in 2023 (%)



Real GDP Growth Rates in Lebanon (%)



Source: Arab Monetary Fund, Byblos Bank

Quote to Note

"The Ministerial Council called on all Lebanese parties to respect the constitutional deadlines and the Lebanese people's aspirations to elect a president for the country in accordance with the Lebanese constitution."

The Ministerial Council of the Gulf Cooperation Council countries, on the delays in electing a President of the Republic

Number of the Week

$6.97bn: Aggregate amount of transactions on Banque du Liban's Sayrafa electronic exchange platform in the first five months of 2023

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"	83.40	(1.3)	56,765	44.3%
Byblos Common	0.80	6.7	35,000	2.4%
Solidere "B"	83.05	(1.1)	19,200	28.7%
Audi GDR	1.36	(0.7)	10,150	0.9%
BLOM GDR	2.50	0.0	9,303	1.0%
HOLCIM	55.40	20.2	1,716	5.7%
Audi Listed	1.70	0.0	-	5.3%
Byblos Pref. 09	29.99	0.0	-	0.3%
BLOM Listed	2.56	0.0	-	2.9%
Byblos Pref. 08	27.00	0.0	-	0.3%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Apr 2024	6.65	5.75	855.73
Jun 2025	6.25	5.75	208.83
Nov 2026	6.60	5.75	102.34
Mar 2027	6.85	5.75	91.87
Nov 2028	6.65	5.75	60.68
Feb 2030	6.65	5.75	47.49
Apr 2031	7.00	5.75	39.85
May 2033	8.20	5.75	30.94
Nov 2035	7.05	5.75	24.44
Mar 2037	7.25	5.75	21.84

Source: Refinitiv

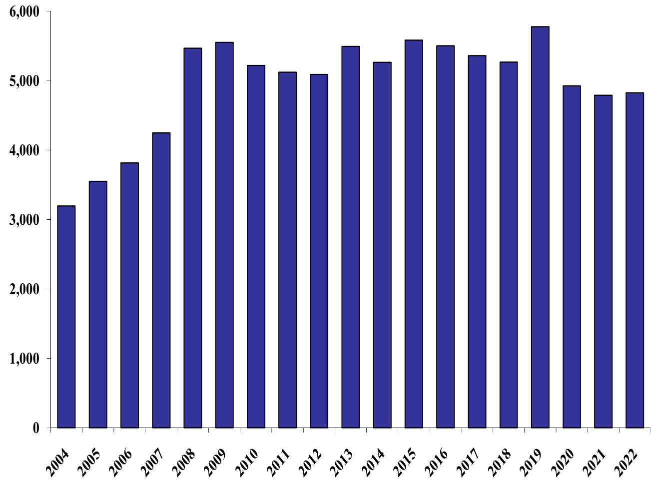
	Jun 5-9	May 29 - Jun 2	% Change	May 2023	May 2022	% Change
Total shares traded	135,054	143,520	(5.9)	817,904	1,659,677	(50.7)
Total value traded	$6,500,110	$6,264,135	3.8	$29,115,048	$55,621,005	(47.7)
Market capitalization	$18.82bn	$18.79bn	0.2	$18.93bn	$14.78bn	28.1

Source: Beirut Stock Exchange (BSE)

Remittance inflows up 1% to $4.8bn in first nine months of 2022

Figures released by Banque du Liban (BdL) show that the inflows of expatriates' remittances to Lebanon totaled $4.82bn in the first nine months of 2022, constituting an increase of 0.7% from $4.79bn in the same period of 2021. Remittance inflows to Lebanon reached $1.57bn in the first quarter, $1.6bn in the second quarter, and $1.64bn in the third quarter of 2022. They declined by 2.5% in the first quarter of 2022 and by 0.6% in the second quarter last year from the same quarters of 2021, while they grew by 5.2% in the third quarter of 2022 from the corresponding period of the previous year. The figures include workers' remittances and the compensation of employees, according to the World Bank's definition of remittances with workers' remittances accounting for 97.4% of the total. BdL's figures are the only official data on remittance flows to and from Lebanon.

Remittance Inflows to Lebanon (US$m)*



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

In addition, remittance inflows in the first nine months of 2022 reached their second lowest level for the period since the first nine months of 2008, with a high of $5.8bn in the first nine months of 2019. They averaged $4.75bn in the corresponding period of each year during the 2002-2021 period, with an average of $3.4bn during the first nine months of each year in the 2002-07 period and to an average of $5.3bn in the first nine months of each year of the 2008-2021 period.

In parallel, remittance outflows from Lebanon amounted to $1.3bn in the first nine months of 2022, constituting a decline of 12% from $1.47bn in the same period of 2021. Remittance outflows from Lebanon totaled $424m in the first quarter, $431.5m in the second quarter, and $434.2m in the third quarter of 2022. They contracted by 16% in the first quarter last year, by 12.7% in the second quarter, and by 7.1% in the third quarter of 2022 from the corresponding quarters of 2021.

In addition, remittance outflows in the first nine months of 2022 reached their lowest level for the period since the first nine months of 2002, with a high of $4.1bn in the first nine months of 2009. They averaged $3bn in the first nine months of each year in the 2002-2021 period, with an average of $2.6bn during the first nine months of each year of the 2002-07 period and an average of $3.1bn in the first nine months of each year of the 2008-2021 period.

As such, net remittance inflows to Lebanon totaled $3.5bn in the first nine months of 2022, constituting an increase of 6.3% from $3.3bn in the same period of 2021. Net remittance inflows to Lebanon in the first nine months of 2022 reached their highest level for the period since the first nine months of 2002. They averaged $1.75bn in the first nine months of each year in the 2002-2021 period, relative to an average of $769.5m during the first nine months of each year during the 2002-07 period and an average of $2.2bn in the first nine months of each year of the 2008-2021 period.

Opened letters of credit at LBP529bn for imports and LBP61bn for exports in first quarter of 2023

Figures released by Banque du Liban show that the amount of letters of credit (LCs) opened to finance imports to Lebanon totaled LBP529.2bn in the first quarter of 2023, or the equivalent of $54.7m, compared to LBP96bn ($63.7m) in the same quarter of 2022. The dollar figures are based on the official exchange rate of the Lebanese pound to the US dollar of LBP1,507.5 per dollar until the end of January 2023 and of LBP15,000 per dollar staring in February 2023. Further, utilized credits for imports reached LBP539.2bn ($48.5m) in the covered quarter, and increased from LBP50.2bn ($33.3m) in the first quarter of 2022. They were equivalent to 102% of opened LCs for imports in the covered quarter. Also, outstanding import credits stood at LBP2,132.7bn ($205.7m) at the end of March 2023 compared to LBP243bn at end-March 2022 ($161.1m). In addition, the aggregate amount of inward bills for collection reached LBP509bn ($52.6m) in the first quarter of 2023 relative to LBP77.8bn ($51.6m) in the same quarter of 2022. The outstanding amount of inward bills for collection was LBP881.5bn ($94m) at the end of March 2023, while it was LBP208.7bn ($138.4m) at end-March 2022.

In parallel, the amount of documentary LCs opened to finance exports from Lebanon totaled LBP60.8bn ($4.7m) in the first quarter of 2023 compared to LBP42.7bn ($28.3m) in in the same quarter of 2022. Further, utilized credits for exports reached LBP157.3bn ($18.5m) in the covered quarter relative to LBP39.5bn ($26.2m) in in utilized credits in the first quarter of 2022. They were equivalent to 258.7% of opened LCs for exports in the covered quarter. Also, outstanding export credits stood at LBP2,832.1bn ($273.5m) at the end of March 2023 compared to LBP429.4bn ($284.8m) a year earlier. In addition, the aggregate amount of outward bills for collection amounted to LBP586bn ($45.2m) in the first quarter of 2023 relative to LBP79.7bn ($58.9m) in in the same quarter last year. The outstanding amount of outward bills for collection reached LBP4,758.2bn ($464.8m) at the end of March 2023, while it was LBP856.3bn ($568m) at end-March 2022.

Clearing and settlement operations for fresh funds to go into effect on June 12

Banque du Liban (BdL) issued Intermediate Circular 669/13555 dated June 7, 2023 addressed to banks and financial institutions that modifies Basic Circular 165/13548 about the electronic transfers, clearing and settlement operations for “fresh funds”.

First, it stipulated that banks can issue checks denominated in Lebanese pounds that are drawn on their “fresh funds” accounts at BdL for the exclusive payment of taxes and fees, including the value-added tax, customs fees, and dues related to public sector entities such as ministries, municipalities, and public agencies and authorities. It added that the value of the check must not exceed LBP99bn. Second, it said that the electronic transfers, clearing and settlement operations for “fresh funds” will start on June 12, 2023.

BdL issued Circular 165/13548 on April 19, 2023, following the upgrade of its national payment system (NPS) to include the electronic transfers, clearing and settlement of "fresh funds".

Article 1 of the circular 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 its accounts as long as there are enough funds to execute the settlement operations. 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.

Energy Ministry signs Memorandum of Understanding on renewable energy cooperation

The Ministry of Energy & Water announced that it has signed a Memorandum of Understanding with the Power Construction Corporation of China, or PowerChina, for technical cooperation in the development of renewable energy in Lebanon, especially the generation of hydropower and solar energy.

The installed capacity of hydropower plants in Lebanon totals 282 megawatts (MW) and is distributed among five river streams that consist of the Litani/Alawli River with 199 MW, the Nahr Ibrahim River (32 MW), the Kadisha Valley (21 MW), Nahr el Bared (17 MW), and the Safa Spring (13 MW). But most, if not all, of the existing hydropower plants require extensive rehabilitation, upgrades or complete replacement of the installed units in order to optimize their energy production, given that most of the units have exceeded their expected technical lifetime. As such, the actual generation capacity is limited to nearly 190 MW.

According to the United Nations Development Program, the possibilities for the development of hydropower in Lebanon range from the rehabilitation and upgrade of the existing units, to the installation of new hydro units on the main river streams, and the development of the micro-hydro potential on small streams and non-river sources such as irrigation storage reservoirs and related channels, water distribution networks, electric plants outfalls, and large waste water treatment plants inlets and outfalls.

PowerChina is a leading engineering and construction company and the country's biggest power construction operator. It also engages in power investments, as well as provides operation and maintenance services for power stations, and has a strong position in the hydraulic and hydropower construction market. The company has designed more than 80% and built more than 65% of medium and large power plants in China. The firm, which operates in 130 countries, is one of the largest power construction enterprises in the world. It accounted for more than 50% of the medium and large-sized water conservancy and hydropower construction market in the world in 2021.

Market accessibility of Beirut Stock Exchange needs improvement in several areas

In its annual assessment of the market accessibility of 83 developed, emerging and frontier equity markets, global portfolio analytics and indices provider MSCI, Inc. indicated that Lebanon falls in the "Standalone Markets" category, following its reclassification from "Frontier Market" status in February 2021. It evaluated the country's stock market based on five accessibility criteria that are openness to foreign ownership, ease of capital inflows and outflows, efficiency of the operational framework, the availability of investment instruments, and the stability of the institutional framework. It said that the five criteria reflect the views of international institutional investors, which generally put a strong emphasis on the equal treatment of investors, the free flow of capital, the cost of investment, unrestrictive use of stock market data, and country-specific risks.

In terms of openness to foreign ownership, MSCI said that there are no constraints on foreign ownership of stocks listed on the Beirut Stock Exchange, except for Israeli nationals who are prohibited from investing in Lebanese companies. It noted that Lebanon could improve equal rights to foreign investors, as company-related information is not always readily available in English. As such, Lebanon is the only standalone market with a "no major issues" rating in terms of investor qualification requirements, as the remaining countries have a "no issues" rating. Also, it is one of seven standalone markets with a "no major issues" rating in terms of equal economic and voting rights to foreign investors. Further, Lebanon is one of 12 standalone markets with a "no issues" rating in terms of foreign room level, which mainly reflects the limit to foreign ownership in locally-listed companies. It is also one of 11 markets with a "no issues" rating in terms of foreign ownership limit.

Regarding capital inflows and outflows, the review said that, since October 2019, Lebanese authorities have put in place restrictions on the repatriation of funds outside Lebanon, and added that these measures have impacted the ability of foreign investors to transfer funds from investments on the local equity market. As a result, MSCI indicated that Lebanon's ease of capital flows metric has an "improvements needed" rating. It also noted that there is no offshore currency market and that there are constraints on the onshore currency market, as foreign investors are not allowed to hold accounts denominated in Lebanese pounds and transactions in foreign currency must be linked to security transactions. As such, it placed Lebanon among six markets with an "improvements needed" rating in this area.

Regarding the efficiency of the operational framework, the assessment considered that the market entry process needs to improve, as the registration of foreign investors is mandatory and may take up to five days. Further, it said that not all market regulations are available in English, and that the flow of information can be enhanced, as detailed stock market information is not always disclosed in English. Lebanon is among seven standalone markets that received a "no major issues" rating in terms of market regulations, and one of seven markets to get the same rating in terms of information flow.

In addition, the survey noted that almost all market infrastructure indicators need improvement, except for trading, where Lebanon has a "no issues" rating. In terms of clearing and settlement procedures, the review said that there is no functioning nominee status as well as no omnibus structures, while overdraft facilities are prohibited. In terms of custody, it indicated that segregated custody and trading accounts are required in order to mitigate for the risk that derives from local brokers having unlimited access to trading accounts. It added that foreign investors do not have access to global custodians in the Lebanese market. In terms of registry and depository, it stated that not all listed shares are dematerialized, and that there is no central registry, with some securities registered at the issuer level. In terms of transferability, it said that in-kind transfers and off-exchange transactions are prohibited. Also, it noted that Lebanon is among 11 standalone markets that received a "no issues" rating on the availability of investment instruments category.

Finally, the review has an "improvements needed" rating on the stability of Lebanon's institutional framework, which reflects the political situation in the country. Lebanon's rating on this category is similar to the ratings of Argentina, Palestine, Ukraine, and Zimbabwe. Lebanon, along with Argentina, Bosnia & Herzegovina, Botswana, Bulgaria, Jamaica, Malta, Palestine, Panama, Trinidad & Tobago, Ukraine, and Zimbabwe, are the only countries worldwide that fall under MSCI's definition of Standalone Markets.

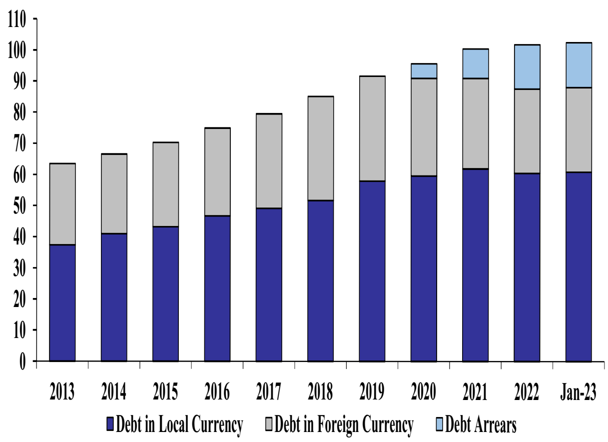
In November 2007, MSCI included Lebanon in its MSCI Frontier Markets Index, a fully investable index for frontier equity markets. The index contains stocks from 25 developing markets in Asia Pacific, Emerging Europe, the Middle East & Africa, and the Americas.

Gross public debt at $102.5bn at end-January 2023 at official exchange rate, and at $44bn at Sayrafa rate

Figures issued by the Ministry of Finance show that Lebanon's gross public debt reached $102.5bn at the end of January 2023, constituting increases of 0.6% from $101.8bn at the end of 2022 and of 3.2% from $99.3bn at the end of January 2022. 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 $652.1m in January 2023 relative to a decrease of $1.1bn in January 2022. The size of the gross public debt becomes $44bn 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 January 2023. Conversely, the public debt becomes LBP1,671.6 trillion when the dollar-denominated debt is converted to Lebanese pounds at the same rate.

Debt denominated in Lebanese pounds totaled LBP91,795bn at the end of January 2023, the equivalent of $60.9bn at the official exchange rate, or $2.42bn at the Sayrafa rate, and grew by 0.7% in January 2023 and by 0.6% from end-January 2022; while the debt denominated in foreign currency stood at $41.6bn and expanded by 0.6% from end-2022 and by 7.3% from the end of January 2022.

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



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

The breakdown of the foreign currency debt shows that investors' holdings of Eurobonds and special Treasury bills in foreign currencies amounted to $39.5bn at the end of January 2023, followed by loans by multilateral institutions with $1.6bn, and loans by foreign governments with $455.7m. Eurobonds and special Treasury bills in foreign currencies increased by 0.6% from the end of 2022 and by 7.4% from end-January 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 $14.4bn of the debt stock denominated in foreign currency were in arrear as at January 2023.

Local currency debt accounted for 59.4% of the gross public debt at the end of January 2023 and foreign currency-denominated debt represented the balance of 40.6%, compared to 61% and 39%, respectively, a year earlier. The weighted interest rate on outstanding Treasury bills was 6.39% in January 2023, while the weighted life of Treasury bills and bonds was 1,247 days. BdL held 37% of the public debt at end-January 2023, followed by non-bank resident financial institutions (12.4%), 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 62% of the Lebanese pound-denominated public debt at the end of January 2022 compared to 63.8% a year earlier, while commercial banks accounted for 17% of the local debt relative to 21% at end-January 2022. Also, public agencies, financial institutions and the public held 21% of the local debt at the end of January 2023 compared to 15.2% 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 January 2023, 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.

Syndicate of Food Importers simulation shows cost of imported goods at different customs tariffs

The Syndicate of Food Importers in Lebanon assessed the impact of the increase in the exchange rate at customs on the price of imported goods that are sold in the country. In its simulation, it assumed that the cost of the product is $100, that the exchange rate is LBP100,000 per US dollar on the parallel market, and that the value added tax (VAT) is 11% on all items.

It pointed out that the items that are not exempt from the VAT are still subject to an additional "fixed" customs rate of 3%, or LBP259,500 at the current customs exchange rate of LBP86,500, before the VAT is levied on the merchandise. It noted that, for an imported product that is not subject to customs fees, the VAT would be applied to LBP8,909,500 and would be equivalent to LBP980,045, for a total tax of LBP1,239,545 ($12.4). As such, the total value of the merchandise in US dollars would become $112.4 and the effective tax rate on this good would be 12.4%. In comparison, the effective tax rate was 8.6% when the customs exchange rate was LBP60,000 per US dollar, and would reach 14.3% in case authorities modify the customs exchange rate to LBP100,000 per dollar.

It indicated that, for a product that is subject to a 5% customs fee and that is exempt from the VAT, the customs fee would be equivalent to LBP432,500 ($4.325) at the current exchange rate at customs of LBP86,500. As such, the value of the merchandise in US dollars would reach $104.33 and the effective tax rate on the product would be 4.33%. In comparison, the effective tax rate was 3% when the customs exchange rate was LBP60,000 per dollar and would reach 5% in case authorities modify the customs rate to LBP100,000 per dollar. However, if the product is not exempt from the VAT, the customs fee would be equivalent to LBP692,000, the VAT would be applied to LBP9,342,000 and would be equivalent to LBP1,027,620, for a total tax of LBP1,719,620 ($17.2). As such, the total cost of the merchandise in US dollars would reach $117.2 with an effective tax rate of 17.2%. In comparison, the effective tax rate was 11.9% when the customs exchange rate was LBP60,000 per dollar, and would reach 20% in case authorities modify the customs rate to LBP100,000 per dollar.

Further, it noted that, for an imported product that is subject to a 10% customs fee and that is exempt from the VAT, the customs fee would be equivalent to LBP865,000 ($8.65) at the current exchange rate at customs of LBP86,500. As a result, the cost of the product would become $108.65 for an effective tax rate of 8.65%. In comparison, the effective tax rate was 6% when the exchange rate at customs was LBP60,000 per dollar and would reach 10% in case authorities modify the customs rate to LBP100,000 per dollar. However, if the product is not exempt from the VAT, the customs fee would be equivalent to LBP1,124,500, the VAT would be applied to LBP9,774,500 and would be equivalent to LBP1,075,195, for a total tax of LBP2,199,695 ($22). As such, the aggregate cost of the merchandise in US dollars would become $122 and the effective tax rate on the product would be 22%. In comparison, the effective tax rate was 15.3% when the exchange rate at customs was LBP60,000 per dollar, and would reach 25.4% in case authorities modify the customs rate to LBP100,000 per dollar.

In addition, it said that a product that is subject to a 15% customs fee and that is exempt from the VAT would be subject to a customs fee of LBP1,297,500 ($12.975) at the current exchange rate at customs of LBP86,500. As a result, the cost of the product becomes $112.98 and the effective tax rate on the merchandise would be 12.98%. In comparison, the effective tax rate was 9% when customs exchange rate was LBP60,000 per US dollar, and would reach 15% in case authorities modify the customs rate to LBP100,000 per dollar. However, if the item is not exempt from the VAT, the customs fee would be equivalent to LBP1,557,000, the VAT would be applied to LBP10,207,000 and would be equivalent to LBP1,122,770, for a total tax of LBP2,679,770 ($26.8). As such, the aggregate cost of the merchandise in US dollars would become $126.8 for an effective tax rate of 26.8%. In comparison, the effective tax rate would have been 18.6% for a customs exchange rate of LBP60,000 per US dollar, and would reach 31% in case authorities modify the customs rate to LBP100,000 per dollar.

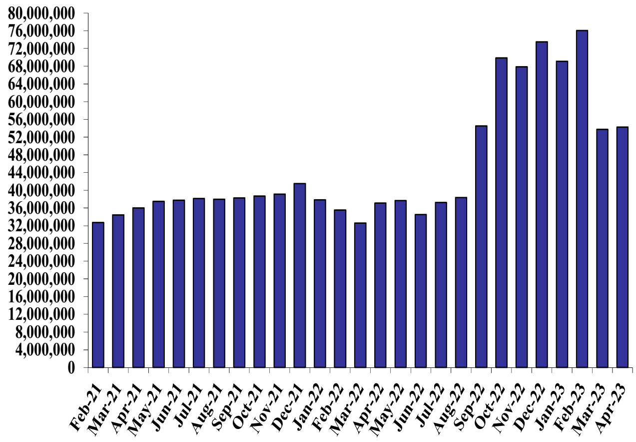
Further, it noted that, for a product that is subject to a customs tariffs of 25% fee and that is exempt from the VAT, the customs fee would be LBP2,162,500 ($21.625) at the current exchange rate at customs of LBP86,500. As such, the cost of the product in US dollars would reach $121.63 and the effective tax rate on that good would be 21.63%. In comparison, the effective tax rate was 15% when the customs exchange rate was LBP60,000 per dollar, and would reach 25% in case authorities modify the customs rate to LBP100,000 per dollar. But if the product is not exempt from the VAT, the customs fee would be equivalent to LBP2,422,000, the VAT would be applied to LBP11,072,000 and would be equivalent to LBP1,217,920, for a total tax of LBP3,639,920 ($36.4). As such, the total cost of the product in US dollars becomes $136.4 and the effective tax rate on that good would be 36.4%. In comparison, the effective tax rate was 25.2% when the customs exchange rate was LBP60,000 per dollar, and would reach 42.1% in case authorities modify the customs rate to LBP100,000 per dollar.

Finally, it indicated that, for a product that is subject to a customs tariff of 35% and that is exempt from the VAT, the customs fee would be equivalent to LBP3,027,500 ($30.275) at the current exchange rate at customs of LBP86,500. As such, the cost of the product would reach $130.28 and the effective tax rate on that good would be 30.28%. In comparison, the effective tax rate was 21% when the customs exchange rate was LBP60,000 per dollar, and would reach 35% in case authorities modify the customs rate to LBP100,000 per dollar. However, if the item is not exempt from the VAT, the customs fee would be equivalent to LBP3,287,000, the VAT would be applied to LBP11,937,000 and would be equivalent to LBP1,313,070, for a total tax of LBP4,600,070 ($46). As such, the aggregate cost of the product in US dollars becomes $146 and the effective tax rate on that good would be 46%. In comparison, the effective tax rate was 32% when the exchange rate at customs was LBP60,000 per dollar, and would reach 53.2% in case authorities modify the customs rate to LBP100,000 per dollar.

Currency in circulation down 26% in first four months of 2023

Figures released by Banque du Liban show that money supply M1, which includes currency in circulation and demand deposits in Lebanese pounds, reached LBP90,916.2bn at the end of April 2023, constituting a decrease of 8% from LBP98,780.4bn at the end of 2022 and a surge of 57.5% from LBP57,729bn at end-April 2022. Currency in circulation stood at LBP54,274bn at the end of April 2023, as it decreased by 26.2% from LBP73,514bn at end-2022 and expanded by 46% from LBP37,137.4bn at end-April 2022. Also, demand deposits in local currency stood at LBP36,642.2bn at the end of April 2023, representing increases of 45% from the end of 2022 and of 78% from end-April 2022. Money supply M1 expanded by 5% in April from LBP86,633.4bn at end-March 2023, with currency in circulation growing by 1% and demand deposits in local currency increasing by 11.4% month-on-month.

Currency in Circulation (LBP millions)



Source: Banque du Liban, Byblos Research

In addition, money supply M2, which includes M1 and term deposits in Lebanese pounds, reached LBP108,136.6bn at the end of April 2023, constituting a contraction of 7.2% from LBP116,582.5bn at the end of 2022 and a jump of 40.3% from LBP77,073.1bn a year earlier. Term deposits in Lebanese pounds totaled LBP17,220.5bn at the end of April 2023, and regressed by 3.3% from LBP17,802.2bn at end-2022 and by 11% from LBP19,344.1bn at end-April 2022. Money supply M2 increased by 4% in April from LBP103,837.6bn at end-March 2023, with term deposits in local currency, nearly unchanged month-on-month.

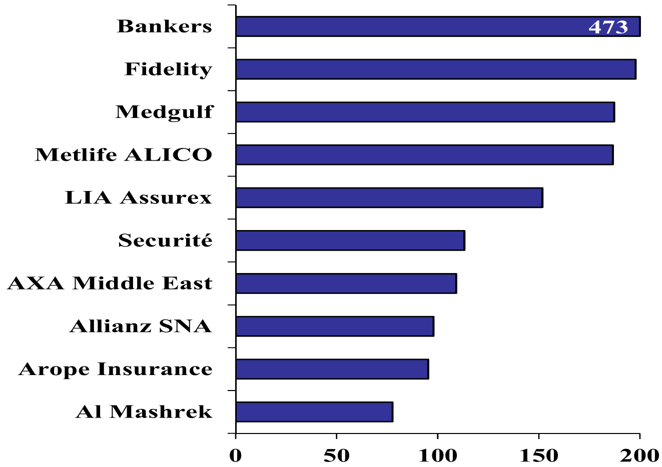
Further, broad money supply M3, which includes M2, deposits in foreign currency and debt securities issued by the banking sector, reached LBP1,208.2 trillion (tn) at the end of April 2023, with deposits in foreign currency totaling LBP1,096.1tn and debt securities of the banking sector amounting to LBP3,968.4bn at the end of the April. Also, money supply M3 was nearly unchanged from LBP1,207tn at the end of March 2023, with deposits in foreign currency regressing by 0.3% and debt securities issued by the banking sector contracting by 2.3% month-on-month. In parallel, M3 surged by LBP978,622.1bn in the first four months of 2023 due to a jump of LBP753,930bn in net claims on the public sector, a rise of LBP206,112.6bn in the net foreign assets of deposit-taking institutions, and an increase of LBP109,294.6bn in the claims on the private sector, which were offset in part by a decline of LBP90,714.8bn in other items.

Corporate Highlights

Non-life premiums up 19% to LBP2,443bn in 2022

The annual survey by *Al-Bayan* magazine of the insurance sector in Lebanon shows that total non-life premiums generated by 38 insurance companies operating in the country reached LBP2,443.4bn, or the equivalent of $1.62bn in 2022, constituting an increase of 19% from LBP2,055.4bn ($1.36bn) in 2021. The dollar figures are converted at the official exchange rate of the Lebanese pound to the US dollar of LBP1,507.5 per dollar at that time. In comparison, non-life premiums increased by 16.2% in 2021 and by 2% in 2020, while they decreased by 3% in 2019, and grew by 3.4% in 2018 and by 2.3% in 2017. Based on the same set of insurance companies in 2021 and 2022, non-life premiums amounted to LBP2,409.1bn ($1.6bn) in 2022, and grew by 18.6% from LBP2,032bn ($1.35bn) in 2021. The magazine indicated that the insurers started to sell policies in "fresh US dollars" since June 2022.

Non-Life Premiums of the Top 10 Insurers in 2022 (LBPbn)

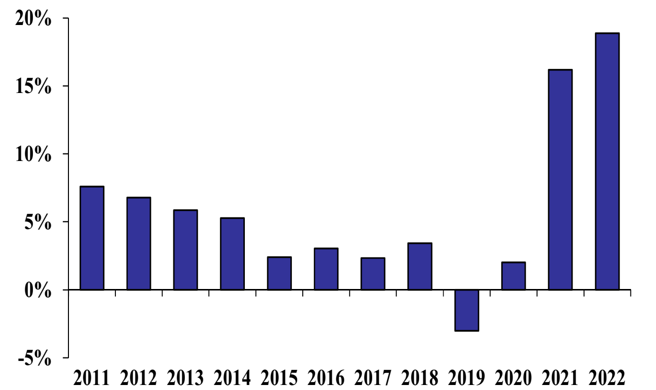


Source: Al-Bayan, Byblos Research

Bankers Assurance ranked in first place with LBP473bn in non-life premiums in 2022, followed by Fidelity Assurance & Reinsurance with LBP197.9bn, Mediterranean and Gulf Insurance and Reinsurance (MEDGULF) with LBP187.3bn, MetLife ALICO with LBP186.7bn, and LIA Assurex with LBP151.8bn. Byblos Bank's insurance affiliate, Adonis Insurance and Reinsurance Co. (ADIR), ranked in 15th place with non-life premiums of LBP41.7bn in 2022.

The composition of the top 10 insurers changed from 2021, as the ranking of MetLife ALICO improved by nine spots from 13th place in 2021 to fourth place in 2022, that of Securité Assurance advanced by four notches from 10th place to sixth place, the ranking of Al Mashrek Insurance increased by two spots from 12th place to 10th place, and that of Fidelity Assurance & Reinsurance improved by two notches from fourth to second place. In contrast, the rankings of LIA Assurex and Allianz SNA regressed by two spots each to the fifth and eighth place, respectively, while the rank of MEDGULF deteriorated by one notch to third place in 2022. Also, the rankings of Bankers Assurance, AXA Middle East, and Arope Insurance were unchanged last year.

Percentage Change in Non-Life Premiums



Source: Al-Bayan, Byblos Research

In addition, four out of the top 10 insurers posted a decline in their non-life premium last year, while the premiums of the remaining six insurers increased in 2022. Further, there were eight declines and eight advances in the rankings of the top 20 insurers in Lebanon, while the rankings of four insurers were unchanged.

The top 10 insurers accounted for 69.2% of the non-life insurance market in 2022, relative 67.5% in 2021, to 66.3% in 2020 and to 64.2% in 2019; while the top 20 insurers represented 88.4% of premiums in 2022 compared to 90.5% in 2021, 89.3% in 2020 and 86.5% in 2019.

Import activity of top five shipping firms and freight forwarders down 9% in first quarter of 2023

Figures released by the Port of Beirut show that the aggregate volume of imports by the top five shipping companies and freight forwarders through the port reached 48,159 20-foot equivalent units (TEUs) in the first quarter of 2023, constituting a decrease of 9% from 52,897 TEUs in the same quarter of 2022. The five shipping and freight forwarding firms accounted for 83.7% of imports to the Lebanese market in the covered period. Merit Shipping handled 16,335 TEUs in the first quarter of 2023, equivalent to 19.3% of the total import freight market to Lebanon. Mediterranean Shipping Company (MSC) followed with 13,606 TEUs (16%), then MAERSK with 9,293 TEUs (11%), Sealine Group with 5,141 TEUs (6.1%), and Gezairi Transport with 3,784 TEUs (4.5%). Sealine Group registered a surge of 119% in imports in the first quarter of 2023, the highest growth rate among the covered companies, while MSC posted a decline of 28%, the steepest decline among the five firms in the covered quarter. Also, the import shipping operations of the top five firms through the port increased by 3% in March 2023 from the preceding month.

In parallel, the aggregate volume of exports by the top five shipping and freight forwarding firms through the Port of Beirut reached 18,437 TEUs in the first quarter of 2023, constituting a decrease of 5.6% from 19,524 TEUs in the first quarter of 2022. The five shipping companies and freight forwarders accounted for 93% of exported Lebanese cargo in the covered quarter. Merit Shipping handled 10,050 TEUs of freight in the first quarter of the year, equivalent to 50.6% of the Lebanese cargo export market. MAERSK followed with 5,094 TEUs (25.7%), then MSC with 1,267 TEUs (6.4%), Sealine Group with 1,174 TEUs (5.9%), and Gezairi Transport with 736 TEUs (3.7%). MAERSK posted a rise of 35% in exports in the first quarter of 2023, the highest growth rate among the covered companies, while Sealine Group registered a decrease of 30.4%, the steepest decline among the five firms in the covered period. The export-shipping operations of the top five companies decreased by 14.2% in March 2023 from the previous month.

CMA CGM ratings upgraded with 'stable' outlook

Moody's Investors Service upgraded the corporate family rating of the Lebanese-owned and France-based container-shipping firm CMA CGM from 'Ba2' to 'Ba1', as well as its probability of default rating from 'Ba2-PD' to 'Ba1-PD'. Also, it revised the outlook on the ratings from 'positive' to 'stable'.

It attributed its decision to the company's diversified business profile, given that CMA CGM reinvested its cash flow into the business and expanded its footprint in logistics and container terminals, as well as purchased more energy efficient vessels. Also, it indicated that the ratings are supported by strong liquidity, a conservatively leveraged balance sheet, and the continued increase in the assets ratio that stood at 68% at end-2022. It added that the 'stable' outlook reflects constant debt ratios, as it expected that the firm's debt will remain below three times its earnings before interest, taxes, depreciation and amortization (EBITDA), and that its retained cash flow will be equivalent to nearly 30% of the company's net debt in the next 12 to 18 months. However, it anticipated the EBIT margin of CMA CGM at between 1% and 2% in 2024, as it considered that the firm's strong liquidity and balance sheet will more than offset the temporary headwinds the industry will experience during the next 18 months.

Further, it noted that the company plans to acquire the logistics business of French conglomerate Bolloré SE, where the current bid stands at €4.65bn. As a result, it expected that CMACGM will be the fifth largest third-party-logistics company in the world, with pro forma revenues of around $24bn in 2022. In addition, it pointed out that the company invested around €400m in Air France-KLM Group's rights issue in June 2022, which made CMA CGM the third largest shareholder with a stake of 9% in the airline. It said that the two companies formed a joint venture in air cargo.

In parallel, it considered that the implementation of cost-cutting initiatives, as well as the enforcement of rigid price discipline, will be key to limit the negative impact from the expected overcapacity in the market in the next 18 months, although some carriers reported negative EBIT margins during the first quarter of 2023, as a result of a decrease in demand and low spot freight rates. It indicated that CMACGM was able to reduce its operating cost per shipped container by around 16% in the first quarter of 2023 from the fourth quarter of 2022, and by 10% from the first quarter of 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	1,507.5
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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