

## LEBANON THIS WEEK

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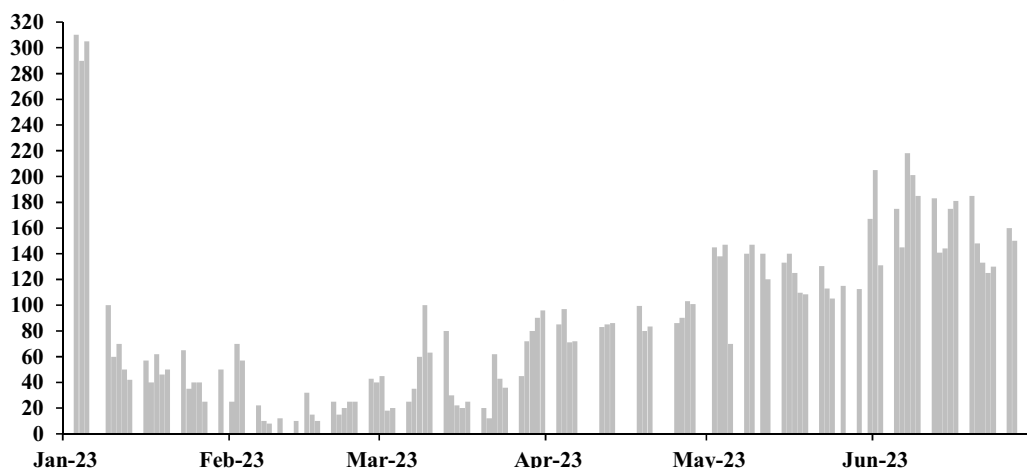
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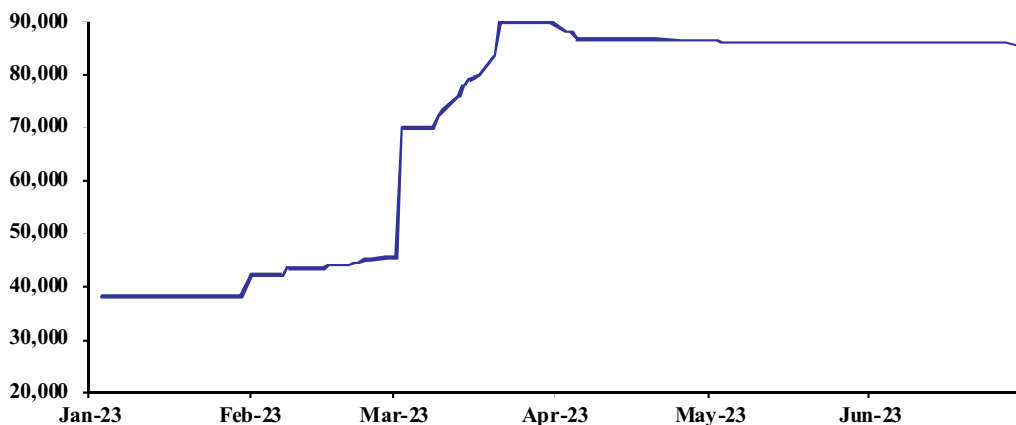
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### Charts of the Week

**Daily Volume of Transactions on Banque du Liban's Sayrafa Platform in First Half of 2023 (US\$ million)**



**Daily Exchange Rate of the Lebanese pound against the US dollar on the Sayrafa Platform (in First Half of 2023)**



Source: Banque du Liban, Byblos Bank

### Quote to Note

"Any continuation of the unsustainable status quo will only further prolong and complicate Lebanon's recovery and compound the hardships faced by the people."

*The International Support Group for Lebanon, on the cost of the ongoing institutional paralysis on the country*

### Number of the Week

**8:** Number of months that Lebanon has been without a President

## Lebanon in the News

\$m (unless otherwise mentioned)	2020	2021	2022	% Change*	Dec-21	Nov-22	Dec-22
Exports	3,544	3,887	3,492	-10.2%	616	274	272
Imports	11,310	13,641	19,053	39.7%	1,269	1,584	1,251
Trade Balance	(7,765)	(9,754)	(15,562)	59.5%	(653)	(1,310)	(979)
Balance of Payments	(10,551)	(1,960)	(3,197)	63.1%	(384)	(354)	17
Checks Cleared in LBP	19,937	18,639	27,14	45.6%	1,738	3,003	3,686
Checks Cleared in FC	33,881	17,779	10,288	-42.1%	1,079	767	577
Total Checks Cleared	53,818	36,418	37,434	2.8%	2,818	3,770	4,263
Fiscal Deficit/Surplus**	(2,709)	1,457	-	-	-	-	-
Primary Balance**	(648)	3,323	-	-	-	-	-
Airport Passengers	2,501,944	4,334,231	6,360,564	46.8%	455,087	446,450	551,632
Consumer Price Index	84.9	154.8	171.2	1,645bps	224.4	142.4	122.0

\$bn (unless otherwise mentioned)	Dec-21	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	% Change*
BdL FX Reserves	13.65	10.63	10.78	10.60	10.40	10.40	(23.8)
In months of Imports	-	-	-	-	-	-	-
Public Debt	100.37	103.65	102.71	101.94	101.94	101.81	1.4
Bank Assets	174.82	168.75	167.01	164.64	165.05	169.06	(3.3)
Bank Deposits (Private Sector)	129.47	125.02	124.96	124.37	124.57	125.72	(2.9)
Bank Loans to Private Sector	27.72	22.82	22.28	21.93	21.29	20.05	(27.7)
Money Supply M2	52.41	50.87	62.15	72.31	71.40	77.34	47.6
Money Supply M3	133.38	127.71	138.46	148.13	147.09	152.29	14.2
LBP Lending Rate (%)	7.14	4.85	5.09	5.00	5.30	4.56	(258)
LBP Deposit Rate (%)	1.09	0.60	0.66	0.70	0.65	0.60	(49)
USD Lending Rate (%)	6.01	5.51	4.61	5.11	4.35	4.16	(185)
USD Deposit Rate (%)	0.19	0.10	0.09	0.10	0.07	0.06	(13)

\*year-on-year

Source: Association of Banks in Lebanon, Banque du Liban, Ministry of Finance, Central Administration of Statistics, Byblos Research

## Capital Markets

Most Traded Stocks on BSE*	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Solidere "A"	77.40	2.8	323,136	43.8%	Apr 2024	6.65	6.50	910.57
Solidere "B"	75.00	(0.1)	123,797	27.6%	Jun 2025	6.25	6.50	205.13
Byblos Common	0.78	5.4	20,000	2.5%	Nov 2026	6.60	6.50	99.15
Audi GDR	1.38	0.0	9,000	0.9%	Mar 2027	6.85	6.50	88.89
Audi Listed	1.71	0.0	-	5.7%	Nov 2028	6.65	6.50	58.49
BLOM GDR	2.25	0.0	-	0.9%	Feb 2030	6.65	6.50	45.70
HOLCIM	55.40	0.0	-	6.1%	Apr 2031	7.00	6.50	38.32
Byblos Pref. 09	29.99	0.0	-	0.3%	May 2033	8.20	6.50	29.70
BLOM Listed	2.56	0.0	-	3.1%	Nov 2035	7.05	6.50	23.45
Byblos Pref. 08	27.00	0.0	-	0.3%	Mar 2037	7.25	6.50	20.95

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

Source: Refinitiv

	Jun 26-27	Jun 19-23	% Change	June 2023	June 2022	% Change
Total shares traded	475,933	134,827	253.0	1,157,356	1,556,020	(25.6)
Total value traded	\$28,731,805	\$4,519,923	535.7	\$63,989,737	\$57,103,187	12.1
Market capitalization	\$17.68bn	\$17.45bn	1.3	\$17.68bn	\$14.35bn	23.2

Source: Beirut Stock Exchange (BSE)



### **IMF outlines restructuring strategy for banking sector**

In its Article IV Country Report on Lebanon, the International Monetary Fund (IMF) indicated that, in 2017, the Lebanese banking system had enough foreign assets to cover almost all of the foreign currency deposits at commercial banks, but it considered that the gap between the system's assets and liabilities widened since then due to the government's spending at preferential exchange rates, the continued financing of subsidized imports, and Banque du Liban's (BdL) interventions to support the exchange rate, which led to the decline in the amount of recoverable deposits.

Further, it estimated the losses of the financial sector at about \$70bn as a result of the depreciation of the exchange rate of the Lebanese pound to the US dollar, the size of the banks' non-performing loans to the private sector, the eventual restructuring of the foreign currency and Lebanese pound components of the public debt, and BdL's operations that include financial operations in the years before the crisis and large quasi-fiscal operations and various deposit withdrawal schemes during the crisis. It indicated that determining the exact magnitude of the financial system's losses requires a comprehensive bank-by-bank asset quality review and the completion of the public debt restructuring, and estimated that BdL will end up with a negative equity of nearly \$60bn and a net open foreign currency position of a similar magnitude.

The IMF considered that the sovereign will not be able to recapitalize BdL at this scale given the unsustainable public debt position, which, in turn, will require writing off \$60bn of the commercial banks' claims on BdL. As such, it expected that this large transfer of BdL losses to the banks' balance sheets would result in their severe undercapitalization and would require upfront actions to address the losses. It said that the actions consist of the use of internal recapitalization mechanisms through a reduction of the overall deposits by a combination of writing-off the capital, subordinated debt instruments, and related-party deposits of banks; the conversion of deposits into equity or long-term bonds in banks; and the conversion of foreign currency deposits to Lebanese pounds at non-market rates. But it declared that the swap of deposits into equity or long-term bonds might discourage new shareholders from participating in the banks' recapitalization and will affect the banks' profitability, which would have implications for the banks' potential viability after the restructuring.

In parallel, it indicated that banks hold about \$100bn in foreign currency deposits, and that preliminary calculations suggest that, despite the write-offs, it might be possible to fully protect deposits up to \$100,000, which would result in \$33.14bn in aggregate protected deposits. However, it pointed out that there may be other large depositors that warrant protection due to their social relevance, such as the accounts of pension funds, insurers, and other public interest institutions. As such, it anticipated that expanding protection to such deposits will inevitably lead to a lower deposit protection threshold for other depositors. It stressed that, for banks to be viable, current shareholders or new investors will have to commit new capital to bring the bank's capital above the required minimum, and will benefit from time-bound regulatory forbearance until the full capital is restored. It added that non-viable banks that fail to meet these thresholds would exit the market, either through liquidation or a merger with stronger banks.

However, the IMF pointed out that the Lebanese government and Parliament have not been able to reach a consensus, or to convince depositors and the general public, on the banking sector's rehabilitation strategy, given the detrimental implications of the measures on depositors. But it indicated that the involved stakeholders have proposed several modifications to facilitate progress toward a bank restructuring strategy, such as converting "ineligible" deposits, estimated at about 25% of foreign currency deposits to Lebanese pounds at non-market exchange rates or incurring a haircut; and convincing depositors to forego their interest earnings if the principal amounts are preserved.

Also, it expected that the recapitalization of BdL through the government's issuance of a marketable bond would reduce the write-off of BdL's foreign currency liabilities to commercial banks and benefit the whole pool of depositors. However, it anticipated that this approach would be viable in case the size and terms of the bond do not jeopardize the public debt's sustainability. In addition, it said that the use of revenue streams from reformed and revamped state-owned enterprises could be used to recapitalize BdL, which would reduce the losses to commercial banks and to depositors. But it stressed that any recourse to public resources to compensate depositors, including the establishment of a Deposit Recovery Fund, should be limited and consistent with debt sustainability objectives.

Further, it said that several stakeholders have suggested using a share of future budget surpluses to compensate depositors if certain conditions are met. But it cautioned that the introduction of state contingent payouts could complicate discussions with external creditors, and that links to budget surpluses could incentivize policymakers to scale back on much needed social and infrastructure spending in order to "deliver" higher surpluses.

### Cost of living in Beirut is 290<sup>th</sup> highest in the world, sixth highest among Arab cities

The Mid-2023 Cost of Living Index, produced by crowd-sourced global database Numbeo, ranked the cost of living in Beirut as the 290<sup>th</sup> highest among 549 cities around the world and the sixth highest among 31 Arab cities. Also, the cost of living in Beirut was the highest among 70 cities in lower-middle income countries (LMICs) included in the survey. In comparison, the cost of living in Beirut was the 12<sup>th</sup> highest among 510 cities around the world, as well as the highest among 29 Arab cities and among 73 cities in LMICs included in the Mid-2022 survey. Beirut ranked in the 47<sup>th</sup> percentile worldwide on the Mid-2023 survey, which means that the cost of living in the city is higher than in about 47% of cities covered by the survey. The index is an indicator of the prices of consumer goods, such as groceries, meals and drinks at restaurants, transportation, and utilities. Numbeo benchmarks the index against New York City. It also issues a Rent Index, which is an estimate of apartment rents in a city compared to New York City rents. Numbeo relies on residents' inputs and uses data from official sources to compute the indices.

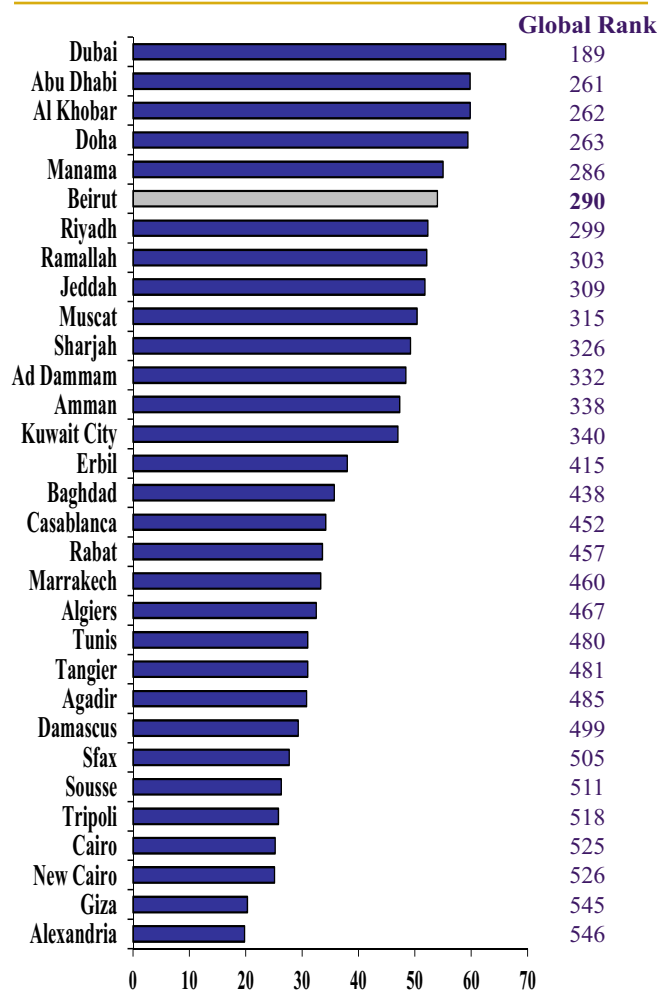
According to the Cost of Living Index, consumer goods in Beirut are costlier than they are in Bratislava in Slovakia, in Italy's Palermo, and in Zagreb in Croatia; while they are less expensive than in Paphos in Cyprus, in Kingston upon Hull in the United Kingdom, and in Taichung in Taiwan. Beirut received a score of 54 points on this index, which means that the prices of consumer goods in Beirut are 46% lower than those in New York City.

In parallel, the Rent Index ranked Beirut in 310<sup>th</sup> place globally, in eighth place among Arab cities, and in third place among cities in LMICs. Globally, renting an apartment in Beirut is similar to the rent in Rimini in Italy and Kingston in Jamaica; while it is more expensive than rent in Italy's Cagliari, Braga in Portugal, and Tallinn in Estonia; and is less expensive than in Havana in Cuba, Alicante in Spain, and Szczecin in Poland. Further, Dubai, Doha, Abu Dhabi, Kuwait City, Manama, Riyadh, and Sharjah are the only Arab cities that have more expensive rents than Beirut; while Douala in Cameroon and Dakar in Senegal are the only cities among LMICs with more expensive rents. Beirut received a score of 18.6 points on the index, which means that rent in Beirut is 81.4% less expensive than it is in New York City.

Also, the Groceries Index, which is an estimate of grocery prices in a city compared to prices in New York City, ranked Beirut in 393<sup>rd</sup> place globally and in 12<sup>th</sup> place among Arab cities and among cities in LMICs. Globally, groceries in Beirut are more expensive than in Novi Sad in Serbia, Johor Bahru in Malaysia, and Hanoi in Vietnam; while they are cheaper than in Davao in the Philippines, Yerevan in Armenia, and Krakow in Poland. Further, groceries in Beirut are less expensive than in Dubai, Al Khobar, Doha, Ramallah, Abu Dhabi, Riyadh, Ad Dammam, Jeddah, Manama, Muscat, and Amman, among Arab cities. In addition, grocery prices in Abidjan in Côte d'Ivoire, Ho Chi Minh City in Vietnam, and Davao in the Philippines are higher than prices in Beirut; while grocery prices in Hanoi, Algiers, and Ulaanbaatar in Mongolia are lower than they are in Beirut, among LMICs. Beirut received a score of 36.8 points on this index, which means that groceries in Beirut are 63.2% less expensive than they are in New York City.

Finally, the Restaurant Index, which compares the prices of meals and drinks at restaurants and pubs relative to prices in New York City, ranked Beirut in 338<sup>th</sup> place globally, in 10<sup>th</sup> place among Arab cities and in fourth place among cities in LMICs. Globally, meals and drinks at restaurants and pubs in Beirut are more expensive than they are in Klaipeda in Lithuania, in Riyadh, and in Vigo in Spain; while they are cheaper than in Mexico's Guadalajara, Funchal in Portugal, and Oradea in Romania. Further, the prices of meals and drinks in Dubai, Abu Dhabi, Doha, Manama, Al Khobar, Kuwait City, Muscat, Amman, and Ramallah are higher than prices in Beirut; while Douala, Dakar, and Amman are the only cities among LMICs with more expensive meals and drinks than Beirut. The Lebanese capital received a score of 41.3 points on the index, which means that prices at restaurants and pubs in Beirut are 58.7% less expensive than they are in New York City.

Cost of Living Index for Mid-2023  
Scores & Rankings of Arab Cities



Source: Numbeo, Byblos Research

### **Energy Ministry extends deadline for second licensing round for offshore oil & gas exploration and production**

The Ministry of Energy & Water announced on June 27, 2023 that it has extended the deadline for the submission of applications for the second licensing round for offshore oil and gas exploration in Lebanon's territorial waters until October 2, 2023. It said that it took this decision based on the recommendation of the Lebanese Petroleum Administration (LPA), and in order to allow companies currently operating in Lebanon's territorial waters and other firms to prepare the necessary documentation, which would create an acceptable level of competition among the applicants. It added that interested companies must submit Licensing Round Applications to the ministry and to the LPA, as per the procedure defined in the tender protocol. The ministry had extended six times already the deadline to participate in the second licensing round for offshore oil and gas exploration.

First, it postponed the deadline from the end of January 2020 to the end of April of the same year in response to requests from international oil companies to allow them to complete their administrative, technical and financial preparations. Second, it extended the deadline from the end of April to June 1, 2020, and then it postponed it for a third time on May 29, 2020, citing the outbreak of the coronavirus pandemic. Also, it extended it a fourth time to June 15, 2022, postponed it for the fifth time to December 15, 2022, and extended it for a sixth time to June 30, 2023.

The Council of Ministers approved in April 2019 the launch of the second licensing round for offshore oil and gas exploration and production in Lebanon's territorial waters. Eight blocks are open for bidding for the second licensing round that consist of Block 1 and Block 2, which are located in the north of Lebanon's offshore Exclusive Economic Zone; Block 3, Block 5, Block 6 and Block 7 in the center of the zone; as well as Block 8 and Block 10 that are in the south of Lebanon's territorial waters.

TotalEnergies EP Liban sal, which is the operator of the consortium that won bids for the exploration of oil and gas in Block 4 and Block 9 of Lebanon's territorial waters, announced in April 2020 that the results of the drilling of Lebanon's first exploration well of oil and gas in Block 4 were "negative". It indicated that it found evidence of traces of gas in the well, which confirms the presence of a hydrocarbon system in Lebanon's territorial waters. However, it said that it did not find reservoirs in the Tamar formation, which was the main target of the exploration well that is located 30 kilometers offshore of Beirut. It pointed out that despite the "negative" results, the exploration has provided valuable information that will be incorporated in future complementary studies about the exploration potential of Lebanon's offshore Exclusive Economic Zone.

In parallel, TotalEnergies EP Liban sal announced on January 29, 2023 that it will start offshore drilling in Block 9 of Lebanon's territorial waters in the third quarter of this year, following the U.S.-brokered maritime agreement to delineate the maritime border between Lebanon and Israel that was sealed last October. Last April, it announced that it has signed a contract with the offshore drilling firm Transocean Ltd. to lease from it a rig that will drill for gas in Block 9. It also said that it has placed pre-orders with suppliers for the equipment it needs to begin the exploration of oil and gas, and pointed out that it will finalize the environmental studies' phase of the project by the end of June 2023. Further, the company announced that it is seeking expressions of interest for potential participation in the upcoming calls for tender covering logistics services to conduct petroleum activities in Block 9, such as Logistics Base Services, Marine Gas Oil Supply, Vessel Support Services, and Helicopter Services.

The Right Holders in Block 9 are the operator TotalEnergies EP Block 9 that holds a 35% stake, as well as the non-operators Eni Lebanon BV that has a 35% interest and QatarEnergy International Investments (2) LLC that holds a share of 30%.

### **Economy Ministry and WFP sign cooperation agreement to monitor market prices**

The Ministry of Economy & Trade announced that it has signed a cooperation agreement with the United Nations' World Food Program (WFP). The agreement stipulates that the WFP will provide technical assistance to the ministry to establish an information system for market prices that will help produce periodic reports about the average monthly prices of food products in the local market, in order to raise transparency in merchandise pricing and improve consumer protection.

The ministry indicated that the close cooperation between the WFP on one hand, and the Directorate General of the Ministry of Economy & Trade and the Consumer Protection Directorate on the other hand, allowed the ministry to benefit from the experience of the WFP in the Lebanese market, particularly in terms of the distribution of food products. It added that the WFP's on-the-ground track record resulted in a large database for product prices.

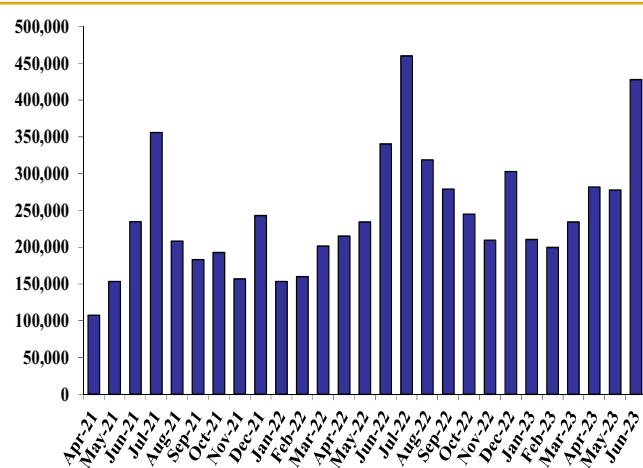
It noted that the agreement aims to consolidate the work of the Consumer Protection Directorate with the capacity of the WFP to monitor prices, produce reports, and to benefit from the databases that it has compiled over the years. It added that the WFP has provided the ministry with a modern digital platform to assist the ministry's inspectors in producing monthly reports on the markets and to monitor the prices of basic goods.

Figures issued by the Central Administration of Statistics show that the Consumer Price Index (CPI) increased by 224% in the first five months of 2023 from the same period of 2022. In comparison, it grew by 215.2% and by 138% in the first five months of 2022 and 2021, respectively. The CPI rose by 260.2% in May 2023 from the same month of 2022, and registered its 35th consecutive triple-digit increase since July 2020, with the prices of food & non-alcoholic beverages increasing by 400% between May 2022 and May 2023. Further, the CPI jumped by 3,573% between the end of 2019 and the end of May 2023, while the prices of food & non-alcoholic beverages surged by 16,125% in the same timeframe.

### Number of airport passengers up 23% in first half of 2023

Figures released by the Beirut-Rafic Hariri International Airport (HIA) show that 3.17 million passengers utilized the airport (arrivals, departures and transit) in the first half of 2023, constituting increases of 22.8% from 2.58 million passengers in the same period of 2022, and of 119.5% from 1.44 million passengers in the first half of 2021. The number of arriving passengers reached 1.63 million passengers in the first half of 2023, and grew by 25.1% from 1.3 million passengers in the same period of 2022 and by 123.2% from 730,794 passengers in the first half of 2021. Also, the number of departing passengers totaled 1.53 million in the first half of 2023, and increased by 21.2% from 1.26 million passengers in the same period of last year and by 123.5% from 684,205 passengers in the first half of 2021. The increase in the number of airport passengers in the covered period is due in part to the rolling back of most travel restrictions around the world in light of the receding threat of the coronavirus pandemic, and the subsequent increase in mobility amid the resumption of normal activity.

### Number of Arriving Passengers



Source: Beirut-Rafic Hariri International Airport

In parallel, the airport's aircraft activity totaled 26,785 take-offs and landings in the first half of 2023, representing an increase of 19% from 22,531 takeoffs and landings in the same period last year. In comparison, aircraft activity rose by 49.7% in the first half of 2022 and by 18.5% in the same period of 2021.

In addition, the HIA processed 27,932 metric tons of freight in the first half of 2023 that consisted of 15,351 tons of import freight and 12,581 tons of export freight. Middle East Airlines had 11,753 flights in the covered period and accounted for 43.9% of HIA's total aircraft activity.

### UN disburses \$65m in healthcare assistance in first quarter of 2023

The United Nations (UN) indicated that international contributions to the healthcare component of the Lebanon Crisis Response Plan (LCRP) reached \$25m in the first quarter of 2023, and represented 8% of the \$317.8m that the LCPR appealed for to assist the affected Lebanese and non-Lebanese individuals in the country in 2023. The healthcare program aims to improve access to comprehensive primary healthcare, to facilitate access of individuals to hospitals and advanced referral care, control the outbreak of infectious diseases, as well as improve access to basic services and information. It also noted that it carried \$40m from funding it received in 2022, which is equivalent to 13% of the total appealed funds for 2023. As such, it said that international contributions covered 21% of the funds it requested, resulting in a funding gap of \$252.8m, or 79%, in the first quarter of 2023.

The LCRP 2022-2023 is a joint initiative between the Lebanese government and international and national partners that aims to address challenges posed by the large presence of Syrian refugees in the country. The LCRP for 2023 includes 118 partner organizations and aims to reach 3.2 million crisis-affected persons in Lebanon, who consist of 1.5 million displaced Syrians, 1.5 million vulnerable Lebanese citizens, 180,000 Palestinian refugees in Lebanon, and 31,400 Palestinian refugees from Syria. The plan comes after the expiration of the LCRP for the 2015-2016 and the 2017-2021 periods.

Also, the UN indicated that it provided healthcare services to 419,784 individuals across Lebanon in the first quarter of 2023 who consist of 230,689 vulnerable Lebanese citizens, or 55% of the total, followed by 185,396 displaced Syrians (44.2%), 3,425 Palestinian refugees in Lebanon (0.8%), and 274 Palestinian refugees from Syria (0.07%).

Further, it pointed out that it subsidized primary healthcare consultations to 801,098 vulnerable individuals. It added that it subsidized ante-natal care consultations to 50,392 persons and supported 34,333 vulnerable individuals with mental health consultations. Also, it provided acute disease medication to 378,673 patients and chronic disease medication to 281,261 patients. In addition, it vaccinated 131,973 children under five years old, and financially supported 22,301 vulnerable individuals to improve their access to hospital care.

### Monetary damages from quarrying activities at \$2.4bn in 2007-2018 period

The Lebanese Ministry of Environment and the United Nations Development Program (UNDP) estimated the monetary damages from quarrying activity across Lebanon at \$2.39bn during the 2007-2018 period. The ministry and the UNDP conducted the study to highlight the severity of land degradation in Lebanon, due to the poorly managed quarrying sector, among other factors. The study also estimates the dues owed to the National Treasury from the mismanagement of the quarrying sector, based on a survey that the Lebanese Armed Forces (LAF) implemented. The LAF carried out the quarrying survey between 2020 and 2022 and provided data on 1,235 parcels of land, with a total surveyed area where quarrying activities took place of 15.1 square kilometers (km<sup>2</sup>) and an extracted volume of rocks and sand of 196.9 million cubic meters (m<sup>3</sup>). The study aggregated 1,235 parcels in 372 clusters, given that several operators could quarry one parcel, while one operator could quarry several parcels.

The results of the survey show that infringements by operators on other parcels of land reached an average of 26% of all examined clusters, with infringements reaching 47% of clusters in the Akkar region, followed by infringements in North Lebanon (37%), the Beqaa (35%) and Baalbeck-Hermel (29%). Also, the survey found that Mount Lebanon is the most affected region from quarrying, with \$845m in monetary damages and 4.27 km<sup>2</sup> in quarried area, while the extracted volume of rocks and sands in the Baalbeck-Hermel region was 53 million m<sup>3</sup>, highest among all administrative districts.

#### Quarry Areas, Extraction, and Monetary Damages by Mohafaza

Governorates	Quarry Parcel #	Cluster #	Area Used m <sup>2</sup>	Volume Extracted m <sup>3</sup>	Regulatory & Fiscal US\$m	COED US\$m	Rehabilitation US\$m	Compensations US\$m	Infringement # of Clusters	LAF Dues US\$m	Volume/Area m <sup>3</sup> /m <sup>2</sup>
Beqaa	130	34	1,736,682	35,346,733	138	15	129	282	12	0.09	20.4
Hermel	367	124	3,286,229	41,369,099	187	20	243	450	36	0.24	12.6
Mount Lebanon	416	102	4,275,833	52,998,594	290	239	316	845	19	0.28	12.4
Akkar	72	15	222,390	3,655,189	18	11	16	45	7	0.05	16.4
North	129	35	2,828,175	33,823,070	181	14	209	405	13	0.09	12.0
Nabatieh	52	23	1,450,609	17,020,299	63	15	107	186	6	0.03	11.7
South	69	39	1,352,844	12,668,579	65	17	100	182	3	0.05	9.4
<b>Total</b>	<b>1,235</b>	<b>372</b>	<b>15,152,762</b>	<b>196,871,923</b>	<b>943</b>	<b>330</b>	<b>1,121</b>	<b>2,394</b>	<b>96</b>	<b>0.82</b>	<b>13.0</b>

Source: UNDP

In parallel, the survey indicated that some operators are legally, and possibly illegally, quarrying on government land, and stressed that authorities should review contractual concessions to verify their legitimacy and take the necessary judicial and enforcement actions to stop the infringement on government land. Also, it said that some operators are quarrying on 149 non-cadastered parcels, or parcels that are not registered in the cadaster.

It added that some operators are illegally using adjacent parcels or quarrying on neighboring parcels on a surface area of 378,192 m<sup>2</sup> with an extracted volume of 7.5 million m<sup>3</sup>. It pointed out that the study does not account for these infringements in the estimation of the regulatory and fiscal, the cost of environmental degradation (COED), and rehabilitation monetary damages. Further, it noted that the LAF reported unavailable land ownership and operator disinformation, mainly in the Mayrouba and Hrajel regions of the Kesrouan region, and requires immediate attention and investigation to resolve these issues, in order to stop the severe degradation of the hardscape and to address the prevalence of lawlessness.

The survey noted that the estimates for legal compensations include monetary damages only, which consist of penalties for delays, and non-compliance fees according to the law. It added that monetary damages consist of regulatory and fiscal compensations that include quarrying permit renewals, quarry stamps, municipality permit fees, penalties for mismanagement; the cost of environmental degradation; as well as compensations for the rehabilitation of the degraded landscape.

### **World Bank approves \$200m loan to support farmers and SMEs in agri-food sector**

The World Bank indicated that it has approved a \$200m loan to support farmers and small and medium enterprises (SMEs) in the Lebanese agri-food sector. It said that the Green-Agri Food Transformation for Economic Recovery (GATE) project aims to improve the productivity of the agriculture sector and enhance access of Lebanese agri-food products to regional and global markets. It added that the new financing provides an integrated support package that aims to address the challenges that farmers and agri-food SMEs have been facing as a result of the prevailing crisis in the country.

It pointed out that Lebanon's agri-food sector provides livelihoods to approximately 20% of the population and contributes to food security. However, it noted that the rise in the global prices of fertilizers and fuel has severely impacted agricultural production in the country, farmers and agri-food SMEs have lost access to finance due to the financial crisis, and the sector's viability has been further threatened by the deterioration in basic infrastructure and the provision of public services.

It estimated that the GATE project aims to support about 80,000 farmers in rural areas across the country, or about 50% of farmers in Lebanon, through various project activities such as financing and capacity building, while approximately 110 municipalities will benefit from improved services and infrastructure. Also, it said that the project aims to provide livelihood opportunities to more than 22,000 farmers and workers and create around 2,200 new job prospects through improved production capacity at beneficiary SMEs, as well as through the rehabilitation of agriculture-related infrastructure. It also expected a broader range of stakeholders, such as aggregators, traders and exporters and other ecosystem stakeholders, to benefit from the increased efficiency of marketing, the development of innovations in digital agriculture, improved food safety and quality, and export opportunities.

It added that the project will help rehabilitate and upgrade selected irrigation schemes, wastewater and solid waste management facilities, farmers exhibition centers, and the rehabilitation of "rural feeder" roads and the construction of hill lakes. Also, it expected the project to strengthen food security and safety management processes, as well as improve agri-food export promotion and marketing systems.

In parallel, the World Bank noted that the Council for Development and Reconstruction will lead the project's implementation, the Kafalat Corporation will administer the loans to agri-food SMEs, and that the Green Plan, in close coordination with the respective municipalities and unions of municipalities, will implement the infrastructure works in rural communities.

Further, it said that a third-party monitoring agent will ensure that all contracts that are implemented under the project are effectively processed and implemented through regular verification missions and reporting processes, while an independent external auditor will audit all project operations including cross-verification of the data between the third-party monitoring agent reports and the reports produced by the implementing parties.



### **Stock market capitalization up 23% to \$17.7bn at end-June 2023**

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 28.9 million shares in the first half of 2023, constituting a jump of 226.8% from 8.8 million shares traded in the same period of 2022; while aggregate turnover amounted to \$237.3m and increased by 22.3% from a turnover of \$194m in the first half of 2022. Further, the market capitalization of the BSE stood at \$17.7bn at the end of June 2023, representing an increase of 23.2% from \$14.3bn a year earlier, with real estate equities accounting for 71.4% of the total, followed by banking stocks (21.5%), and industrial shares (7.2%). The market liquidity ratio was 1.3% at the end of June 2023 compared to 1.4% a year earlier.

Banking stocks accounted for 90.3% of the trading volume in the first half of 2023, followed by real estate equities (9.6%) and industrial shares (0.1%). Also, real estate equities accounted for 88.9% of the aggregate value of shares traded, followed by banking stocks (10.8%), and industrial shares (0.3%). The average daily traded volume for the first half of 2023 was 250,961 shares for an average daily amount of \$2.06m. The figures represent a surge of 232.5% of the average daily traded volume and an increase of 24.4% of the average daily value in the covered period.

In parallel, the Capital Markets Authority's (CMA) Market Value-Weighted Index for stocks traded on the BSE increased by 58.4% in the first half of 2023, while the CMA's Banks Market Value-Weighted Index regressed 3% from the end of 2022. The increase in the Market Value-Weighted Index is mainly due to the rise in the prices of Solidere 'A' and Solidere 'B' shares by 27% and 24.3%, respectively, in the first half of 2023, given that the shares had market weights of 43.8% and 27.6%, respectively, on the last trading day in June 2023, the highest among listed companies on the BSE. The rise in the prices of Solidere shares has been mainly driven by the increase in demand for the shares from several bank depositors, given that they consider it a way to channel their deposits out of the banking sector in light of the government's economic rescue plan that stipulates the conversion of deposits into bank shares as part of the restructuring of the banking sector.

### **Banks and financial institutions to continue paying dues on their bonds at local banks**

Banque du Liban (BdL) issued Intermediate Circular 672/13561 dated June 27, 2023 addressed to banks, financial institutions and auditors in Lebanon that modifies Basic Circular 36/6856 of December 19, 1997 about bonds issued by banks and financial institutions, Basic Circular 147/7224 dated February 11, 1999 about regulations to issue Certificates of Deposits and interbank certificates, and Basic Circular 61/13100 dated September 3, 2019 about the opening of bank accounts. The circular extended until December 31, 2023 the articles and sections in the three basic circulars that are related to Intermediate Circular 541/13187.

BdL issued Intermediate Circular 541/13187 on January 30, 2020 that amended Basic Circular 36 and Basic Circular 61. The circular stipulated that banks and financial institutions operating in Lebanon have to pay the principal and coupons of the bonds that they issued, and that are held by a custodian in Lebanon, in accounts at banks operating in the country. It said that the same rules will apply to the payments of the principal and interest on Certificates of Deposits and interbank certificates issued by banks and financial institutions that are held by a local custodian. It added that the measures that the clearing house MidClear introduced on foreign transfers will apply to the payments of principal and coupons of the aforementioned bonds and certificates. The decisions under Intermediate Circular 541 applied for a period of six months starting on January 30, 2020, but BdL has extended them repeatedly for six-month periods, with Intermediate Circular 672 extending the measures until the end of 2023.

## 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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