

LEBANON THIS WEEK

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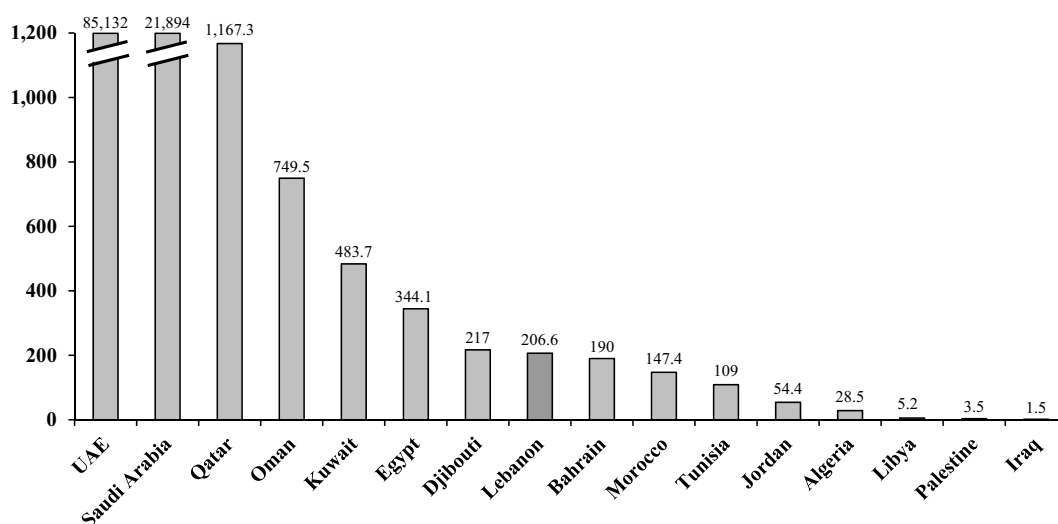
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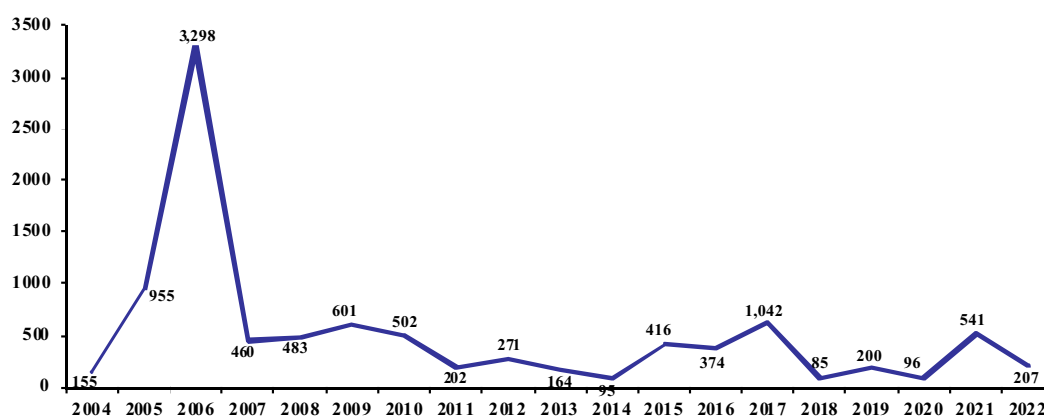
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Charts of the Week

Greenfield Foreign Direct Investment Outflows from Arab Countries in 2022
(in US\$ millions)



Greenfield Foreign Direct Investment Outflows from Lebanon
(in US\$ millions)



Source: UNCTAD, Byblos Bank

Quote to Note

"While the recent policy decisions by Banque du Liban are a welcome initial step, a permanent solution requires comprehensive policy decisions from Parliament and the Government."

The International Monetary Fund, on the need for the executive and legislative branches to participate in the implementation of structural reforms

Number of the Week

11: 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" | 76.05 | (4.6) | 20,174 | 41.6% | Apr 2024 | 6.65 | 8.13 | 1,736.95 |
| Solidere "B" | 77.40 | 0.1 | 2,696 | 27.5% | Jun 2025 | 6.25 | 8.13 | 220.00 |
| HOLCIM | 65.00 | (1.5) | 760 | 6.9% | Nov 2026 | 6.60 | 8.13 | 97.90 |
| BLOM GDR | 2.50 | 0.0 | - | 1.0% | Mar 2027 | 6.85 | 8.13 | 87.09 |
| Audi GDR | 1.16 | 0.0 | - | 0.8% | Nov 2028 | 6.65 | 8.13 | 56.01 |
| Byblos Common | 0.71 | 0.0 | - | 2.2% | Feb 2030 | 6.65 | 8.13 | 43.35 |
| Audi Listed | 2.20 | 0.0 | - | 7.1% | Apr 2031 | 7.00 | 8.13 | 36.16 |
| BLOM Listed | 3.00 | 0.0 | - | 3.5% | May 2033 | 8.20 | 8.13 | 27.87 |
| Byblos Pref. 08 | 27.00 | 0.0 | - | 0.3% | Nov 2035 | 7.05 | 8.13 | 21.90 |
| Byblos Pref. 09 | 29.99 | 0.0 | - | 0.3% | Mar 2037 | 7.25 | 8.13 | 19.53 |

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

Source: Refinitiv

| | Sep 25-29 | Sep 18-22 | % Change | September 2023 | September 2022 | % Change |
|-----------------------|-------------|-------------|----------|----------------|----------------|----------|
| Total shares traded | 26,030 | 190,983 | (86.4) | 1,102,733 | 4,715,731 | (76.6) |
| Total value traded | \$1,830,247 | \$7,010,712 | (73.9) | \$75,415,078 | \$34,022,646 | 121.7 |
| Market capitalization | \$18.26bn | \$18.64bn | (2.0) | \$18.26bn | \$12.81bn | 42.6 |

Source: Beirut Stock Exchange (BSE)



Political stalemate delaying reforms

The European Bank for Reconstruction and Development (EBRD) considered that the ongoing political deadlock in Lebanon weighed on the economic recovery in the country in 2022, as the authorities achieved limited progress on critical reforms. It estimated that real GDP growth was zero percent last year following contractions of 10% in 2021 and 25.9% in 2020. In comparison, it estimated that real GDP growth in the 37 countries under the EBRD's coverage decelerated from 7.3% in 2021 to 3.3% in 2022, and that economic activity in the Southern & Eastern Mediterranean (SEM) region expanded by 3.3% last year relative to a growth rate of 6.2% in 2021. The EBRD's countries in the SEM region consist of Egypt, Jordan, Lebanon, Morocco, and Tunisia.

It considered that uncertainties have increased about a potential program for Lebanon with the International Monetary Fund (IMF), given that the momentum for reforms has stalled, which has delayed the country's access to international capital markets and led to the further drawdown of Banque du Liban's foreign currency reserves. Also, it pointed out that multiple exchange rates continue to prevail in the domestic market, despite the government's decision to devalue the exchange rate from LBP1,507.5 per US dollar to LBP15,000 per dollar on February 1, 2023. It added that the exchange rate on the parallel market depreciated in the first quarter of the year, but stabilized at about LBP89,500 per afterwards. It said that the inflation rate has been in triple digits and reached 251% annually in July 2023, due mainly to rising energy and food prices, supply chain disruptions, and the pass-through effect of the depreciation of the exchange rate. It added that elevated global inflation rates and the lifting of the remaining government subsidies on several basic products and services have reduced the purchasing power of large segments of the population, which was exacerbated by electricity and fuel shortages, as well as by limited access to basic services.

In parallel, the EBRD estimated that economic activity in Lebanon grew by 1% in the first half of 2023 but projected real GDP growth at zero percent in full year 2023 relative to a previous growth forecast of 1% for this year, given the political inaction and stalled reform efforts. It expected economic activity to accelerate by 3% in 2024, in case the authorities overcome political hurdles, step up efforts to successfully implement the much-needed structural and fiscal reforms in line with the IMF-supported program that would secure the \$3bn Extended Fund Facility, which, in turn, would allow negotiations to resume with international partners on additional external funding. In comparison, it forecast economic activity in the 37 countries under the EBRD's coverage to expand by 2.4% in 2023 and by 3.2% next year, while it projected real GDP growth in the Southern & Eastern Mediterranean region to accelerate by 3.7% this year and 3.9% in 2024.

Energy Ministry approves modification of coordinates for drilling well in Block 9

The Ministry of Energy & Water approved the request of TotalEnergies EP Block 9 (TotalEnergies), which is the operator of the consortium that won bids for the exploration of oil and gas in Block 9 of Lebanon's territorial waters, to modify the coordinates of the Qana 31/1 well in the block.

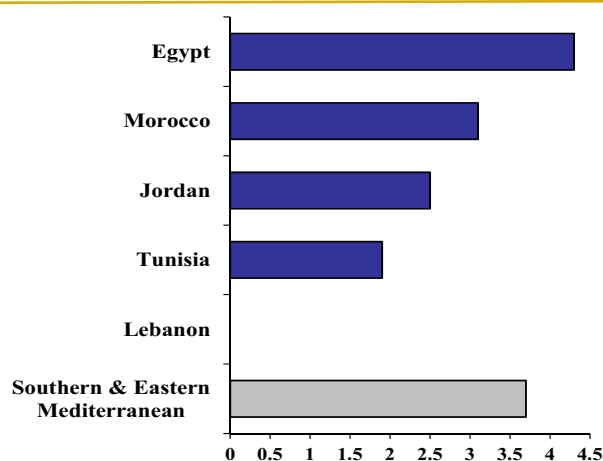
The ministry indicated that it approved the request based on a letter from the operator dated September 6, 2023 to modify the coordinates of the Qana 31/1 well in Block 9 and to update the drilling license that the ministry issued on August 16, 2023, as well as based on the recommendation of the Lebanese Petroleum Administration (LPA) dated September 12, 2023. It said that the operator informed the ministry and the LPA about the technical difficulties that it has faced during the drilling operations, and that the ministry and the LPA have verified, based on the daily reports from the drilling rig Transocean Brents, that the operator has started drilling in Block 9 according to the license that the ministry granted to the operator on August 16, 2023. It added that the drilling has reached a depth of 1,713 meters underwater out of a depth of 1,678 meters, which means that it has drilled 35 meters below the seabed.

Further, the operator noted that it could not continue to drill in the original site due to the presence of rocks that prevent the insertion of the 36-inch wide iron device inside the seabed. It added that it faced the option of either changing the location of the well to a nearby area to avoid the rocks, or utilizing a 40-inch wide drilling head to insert the 36-inch iron shirt based on the geological report of August 31, 2023. As such, TotalEnergies indicated that, given the extended period of time that the second option will take, it chose the first option, which is to modify the well's location by 31.7 meters from the original site.

TotalEnergies launched on August 24, 2023 exploratory offshore drillings for gas in Block 9 in Lebanon's Exclusive Economic Zone. It announced on August 16, 2023 the arrival of the drilling rig Transocean Barents to Block 9 at 120 kilometers off the coast of Beirut. The rig is a self-propelled platform that has been operating in the North Sea. The agreement with Transocean Ltd. includes 67 days of operations, the cost of sailing the rig to the drilling site in Block 9, as well as the cost of the rig's return to the North Sea. The ministry expects TotalEnergies to reveal the results of the drilling and exploration by the end of the year.

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%.

Projected Real GDP Growth Rates in 2023 (%)



Source: EBRD, Byblos Research

Lebanon ranks 117th globally, 12th among Arab countries on global adaptation index

The Global Adaptation Initiative's Country Index for 2023 ranked Lebanon in 117th place among 185 countries globally and in 12th place among 19 Arab economies. In comparison, Lebanon ranked in 118th place globally and in 12th place regionally on the 2022 index, while it came in 104th place worldwide and in 11th place among 19 Arab countries on the 2013 index. Based on the same set of countries, Lebanon's global rank improved by one spot from the 2022 survey, while its regional rank was unchanged year-on-year.

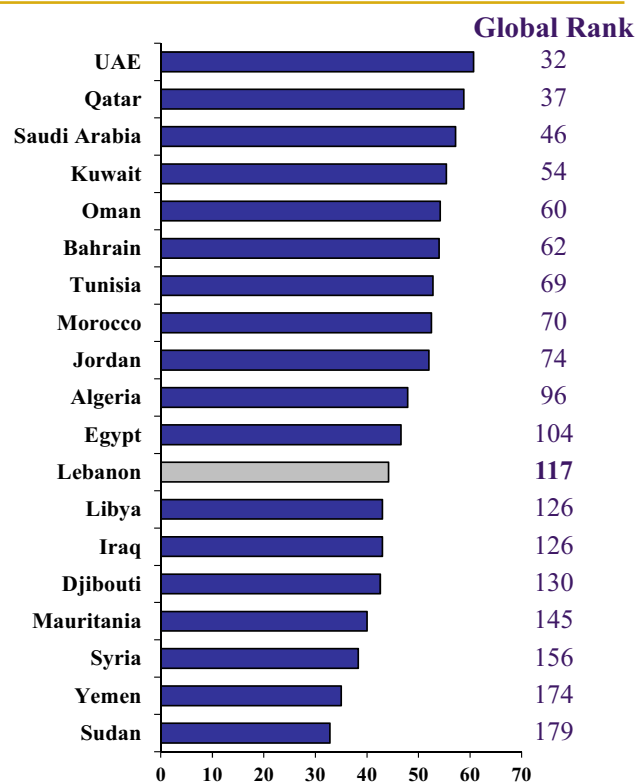
The index, which is issued by the U.S.-based Notre Dame University, summarizes a country's vulnerability to climate change and to other global challenges relative to its readiness to improve resilience. It aims to help governments, businesses, and communities prioritize investments for a more efficient response to the immediate global challenges ahead. It is composed of 45 indicators grouped in two dimensions of adaptation that are Vulnerability and Readiness. A country's overall score ranges from zero to 100, with a higher score reflecting a low level of vulnerability to climate change and a high level of readiness.

Globally, Lebanon had the same level of adaptation practices to climate change and global challenges as Turkmenistan, a higher level than Guatemala, Laos and the Philippines, and a lower level than Ghana, Ecuador and India among economies with a GDP of \$10bn or more. Also, Lebanon received a score of 44.18 points on the 2023 index, down from 44.23 points in the 2022 survey and compared to 45.5 points in the 2013 survey. Lebanon's score in 2023 was lower than the global average of 49.6 points. It also came below the average of Gulf Cooperation Council (GCC) countries of 56.7 points and the Arab average score of 47.9 points, but came higher than the average of non-GCC economies of 43.9 points. The survey indicated that the current vulnerabilities of Lebanon are manageable, but improvements in readiness will help the country better adapt to future challenges.

Lebanon ranked in 103rd place globally and in 12th place among Arab countries on the Vulnerability Dimension. Lebanon preceded Saudi Arabia and Moldova, and trailed Georgia and Panama worldwide on the Vulnerability Dimension. This category measures a country's exposure, sensitivity and capacity to adapt to the negative effects of climate change. The dimension assesses the vulnerability of a country to climate change and to other global challenges by considering six life-supporting sectors that are food, water, health, ecosystem service, human habitat, and infrastructure. Lebanon ranked ahead of Saudi Arabia and Oman, and came behind Morocco and Tunisia in the Arab world on this category.

Further, Lebanon ranked in 161st place globally and in 15th place regionally on the Readiness Dimension. Globally, Lebanon preceded Uganda and Papua New Guinea, and trailed Mali and Bolivia on this dimension. This category measures a country's ability to leverage investments and convert them to adaptation actions by considering the levels of economic, governance, and social readiness. Also, Lebanon ranked ahead of only Libya, Sudan, Yemen, and Syria on this category.

**Global Adaptation Initiative Index for 2023
Arab Countries Scores & Rankings**



Source: University of Notre Dame, Byblos Research

Components of the 2023 Global Adaptation Initiative Index for Lebanon

| | Global Rank | Arab Rank | Lebanon Score | Global Avg Score | Arab Avg Score |
|----------------------|-------------|-----------|---------------|------------------|----------------|
| Vulnerability | 103 | 12 | 0.40 | 0.43 | 0.43 |
| Ecosystem Services | 87 | 11 | 0.47 | 0.46 | 0.48 |
| Food | 149 | 19 | 0.34 | 0.45 | 0.46 |
| Health | 91 | 10 | 0.44 | 0.46 | 0.47 |
| Human Habitat | 121 | 10 | 0.48 | 0.51 | 0.48 |
| Infrastructure | 51 | 6 | 0.34 | 0.30 | 0.30 |
| Water | 81 | 13 | 0.35 | 0.36 | 0.39 |
| Readiness | 161 | 15 | 0.29 | 0.43 | 0.39 |
| Economic Readiness | 156 | 18 | 0.29 | 0.43 | 0.47 |
| Governance Readiness | 169 | 14 | 0.27 | 0.49 | 0.39 |
| Social Readiness | 109 | 12 | 0.30 | 0.37 | 0.31 |

Source: University of Notre Dame, Byblos Research

Consumer Price Index up 230% year-on-year in August 2023

The Central Administration of Statistics' Consumer Price Index increased by 233% in the first eight months of 2023 from the same period of 2022. In comparison, it grew by 197.3% and by 130% in the first eight months of 2022 and 2021, respectively.

The CPI rose by 229.8% in August 2023 from the same month of 2022, and registered its 38th consecutive triple-digit increase since July 2020. The cumulative surge in the inflation rate is due in part to the repeated increase in customs tariffs, to the rise of telecommunications rates and electricity tariffs, and to the inability of authorities to monitor and contain retail prices. It is also due to the fluctuation of the Lebanese pound's exchange rate on the parallel market and to the lifting of subsidies on hydrocarbons and on a range of basic products in 2021 and 2022, which have encouraged opportunistic wholesalers and retailers to raise the prices of consumer goods disproportionately. In addition, the smuggling of subsidized imported goods has resulted in shortages of these products locally, which contributed to the rise in prices.

The cost of alcoholic beverages & tobacco surged by 4.6 times in August 2023 from the same month of 2022, followed by imputed rent (4.2 times), the prices of food & non-alcoholic beverages and rates at restaurants & hotels (+3.7 times each), clothing & footwear (+3.5 times), healthcare costs (+3.4 times), transportation cost (+3.3 times), and the prices of furnishings & household equipment (+3.1 times). In addition, actual rent rose by 203.2% year-on-year in August 2023, followed by the cost of education (+192%), the prices of miscellaneous goods & services (+180.3%), the cost of recreation & entertainment (+154.7%), the prices of water, electricity, gas & other fuels (+155.4%), and communication costs (+135.2%). Also, the distribution of actual rent shows that new rent surged by 398.7% and old rent increased by 50.6% in August from the same month of 2022.

In parallel, the CPI increased by 1% in August 2023 from the previous month, compared to a month-on-month rise of 6.8% in July 2023 and to a growth rate of 7.2% in June 2023.

Transportation costs expanded by 4.8% in August 2023 from July 2023, followed by the prices of food & non-alcoholic beverages (+4.7%), healthcare costs (1.8%), rates at restaurants & hotels (+1.4%), and the prices of alcoholic beverages & tobacco (+0.2%). In contrast, the prices of furnishings & household equipment declined by 8% month-on-month in August 2023, followed by the prices of water, electricity, gas and other fuels (-2.5%), the prices of clothing & footwear (-1.8%), the cost of recreation & entertainment (-1%), the prices of miscellaneous goods & services (-0.8%), and communication costs (-0.02%). Further, the cost of education, actual rent, and imputed rent were unchanged in August 2023 from the previous month. Also, the distribution of actual rent shows that new and old rent were unchanged month-on-month in August 2023.

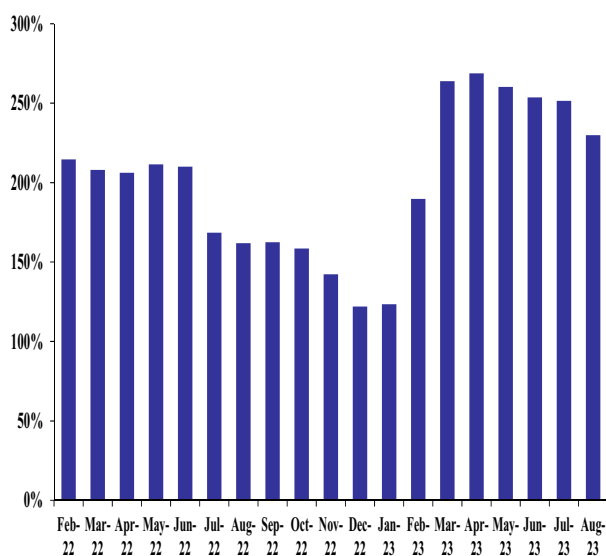
Further, the CPI increased by 2.1% in the Nabatieh area, by 2% in the Bekaa, by 1.4% in Mount Lebanon, and by 0.8% in the North during August 2023 from the previous month. In contrast, the CPI regressed by 1.7% in Beirut and by 0.5% in the South month-on-month in August 2023. In parallel, the Fuel Price Index increased by 7.8%, while the Education Price Index was unchanged in August 2023.

Port of Beirut processes 2.6 million tons of freight in first half of 2023

Figures released by the Port of Beirut show that the port processed 2.55 million tons of freight in the first half of 2023, constituting an increase of 4.1% from 2.45 million tons of freight in the same period of 2022. Imported freight totaled 2.14 million tons in the first half of 2023, up by 5.3% from 2.03 million tons in the same period last year, and accounted for 84% of total processed freight. In addition, the volume of exported cargo reached 412,000 tons in the first half of this year, representing a decrease of 2% from 420,000 tons in the same period of 2022, and accounted for 16% of aggregate freight in the covered period. A total of 629 vessels docked at the port in the first half of 2023, constituting a rise of 12% from 561 ships in the same period last year. The port handled 445,000 tons of freight in June 2023, down by 2.8% from 458,000 tons in May 2023. In addition, 116 vessels docked at the port in June 2023 compared to 110 ships in the previous month.

In parallel, the Port of Tripoli processed 1.9 million tons of freight in the first half of 2023, representing a rise of 300,239 tons (+19%) from 1.57 million tons in the same period of 2022. Imported freight totaled 750,449 tons in the first half of 2023 and dropped by 208,898 tons (-21.8%) from 959,347 tons in the same period last year. Imports accounted for 40.2% of freight activity in the covered period. In parallel, the volume of cargo that was exported through the port reached 1.1 million tons in the first half of 2023, constituting a surge of 509,137 tons (+83.5%) from 609,396 tons in the same period of the previous year, and represented 59.8% of total freight in the covered period. A total of 398 vessels docked at the port in the first half of 2023, constituting a decrease of 12.3% from 454 ships in the same period last year. Also, 74 vessels docked at the port in June 2023 compared to 83 ships in May 2023.

Annual Change in Consumer Price Index* (%)



*from the same month of the previous year

Source: Central Administration of Statistics, Byblos Research

Trade deficit narrows by 17% to \$8.6bn in first eight months of 2023

Preliminary figures issued by Lebanese Customs show that total imports reached \$10.3bn in the first eight months of 2023, constituting a decrease of 19.5% from \$12.8bn in the same period last year; while aggregate exports totaled \$1.7bn and declined by 29.4% from \$2.4bn in the first eight months of 2022. As such, the trade deficit narrowed by 17.2% from \$10.4bn in the first eight months of 2022 to \$8.6bn in the first eight months of 2023, due to a contraction of \$2.5bn in imports compared to a downturn of \$708m in exports. The coverage ratio, or the exports-to-imports ratio, was 16.6% in the first eight months of 2023 relative to 18.9% in the same period of 2022.

Non-hydrocarbon imports decreased by \$1.5bn, or by 16.7%, to \$7.6bn in the first eight months of 2023; while the imports of oil & mineral fuels declined by \$963.7m, or by 26.4%, to \$2.7bn. Oil & mineral fuels accounted for 26.2% of the imports bill in the covered period compared to 28.6% in the first eight months of 2022. Lebanon imported 3.53 million tons of oil & mineral fuel in the first eight months of 2023 relative to 3.83 million tons in the same period last year.

The decrease in exports was due to a drop of \$281.6m, or of 81%, in the exports of plastics & rubber in the first eight months of 2023; a decline of \$110.1m (-40%) in the exports of chemical products; a decrease of \$99m (-20.6%) in exported pearls, precious stones & metals; a contraction of \$89.5m (-25.6%) in the exports of base metals; and a downturn of \$56.8m (-31%) in the exports of vegetable products.

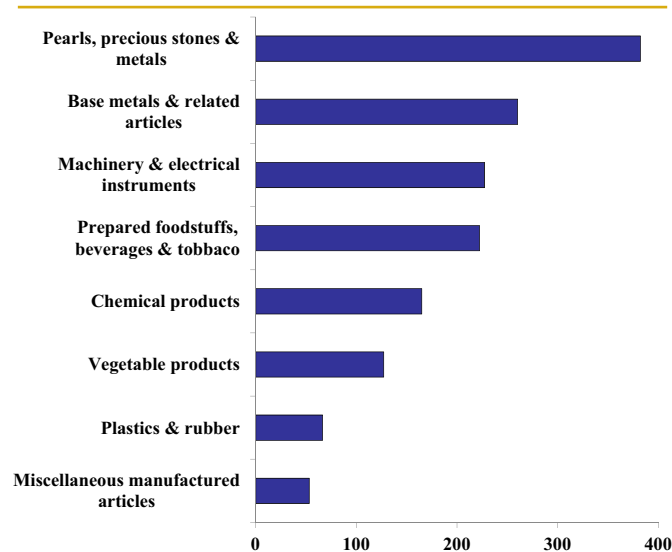
Exports to Türkiye surged by 25% in the first eight months of 2023. In contrast, exported goods to Syria dropped by 80% in the covered period, those to Kuwait declined by 34.6%, exported goods to Qatar decreased by 28.4%, those to the UAE contracted by 24.7%, exports to Iraq dipped by 22.4%, those to Jordan retreated by 21.7%, exports to Switzerland shrank by 18.5%, those to the U.S. regressed by 16.6%, and exported goods to Egypt decreased by 14.2%.

Re-exports totaled \$279.3m in the first eight months of 2023 compared to \$233.2m in the same period of 2022. The Port of Beirut was the exit point for 50% of Lebanon's exports in the first eight months of 2023, followed by the Hariri International Airport (31.2%), the Port of Tripoli (8%), the Masnaa crossing point (6%), the Port of Saida (3%), the Abboudieh crossing point (1%), and the Arida crossing point (0.5%).

In parallel, Lebanon's main non-hydrocarbon imports were pearls, precious stones & metals that reached \$1.5bn in the first eight months of 2023 and increased by 30.3% in the covered period. The import of machinery & electrical instruments followed with \$1.03bn (-39%), then imported chemical products with \$754.9m (-3.3%); the import of prepared foodstuffs with \$616.6m (-7%); the import of vehicles, aircraft & vessels with \$609.6m (-56%); imported vegetable products with \$577m (-16%); base metals with \$495m (-12%); live animals and animal products with \$380.5m (-0.8%); plastics & rubber with \$334m (-23.3%); and textiles \$319.8m (+7.7%). The Port of Beirut was the entry point for 62.2% of Lebanon's merchandise imports the first eight months of 2023, followed by the Hariri International Airport (24.8%), the Port of Tripoli (8.7%), the Port of Saida (2%), the Masnaa crossing point (1.9%), the Abboudieh crossing point (0.22%), the Arida crossing point (0.17%), and the Port of Tyre (0.02%).

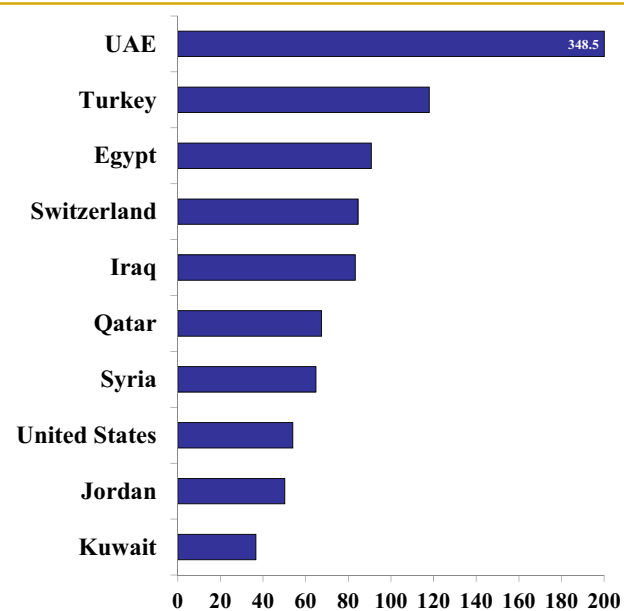
China was the main source of imports with \$1.26bn and accounted for 12.3% of the total in the first eight months of 2023, followed by Greece with \$1.1bn (10.7%), Switzerland with \$1.03bn (10%), Türkiye with \$834.4m (8%), Italy with \$578.5m (5.6%), the U.S. with \$440.1m (4.3%), the UAE with \$325.3m (3.2%), Germany with \$323m (3.1%), Egypt with \$303.6m (3%), and Russia with \$301m (2.9%). Further, imported goods from Switzerland surged by 154% in the first eight months of 2023 from the same period last year, followed by imports from Russia (+36%). In contrast, imported goods from Türkiye contracted by 44.5% in the covered period, followed by imports from the UAE (-38%), the U.S. (-31.7%), China (-30.8%), Germany (-27.2%), Greece (-14.6%), Egypt (-5%), and Italy (-3.8%).

Main Lebanese Exports in First Eight Months of 2023 (US\$m)



Source: Lebanese Customs Administration, Byblos Research

Main Destinations of Lebanese Exports in First Eight Months of 2023 (US\$m)



Source: Lebanese Customs Administration, Byblos Research

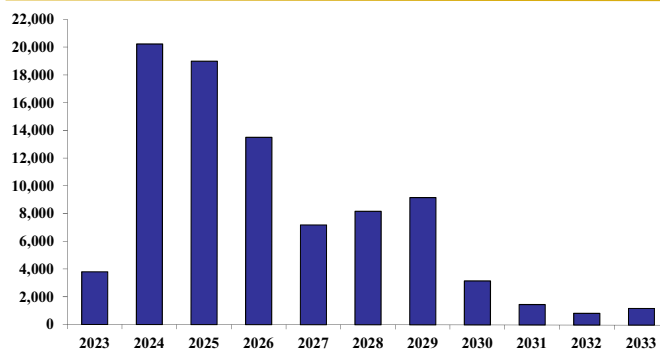
More than 63% of Treasury securities in Lebanese pounds have seven-year maturities or longer at end-August 2023

Figures released by the Association of Banks in Lebanon show that the face value of outstanding Treasury securities denominated in Lebanese pounds reached LBP87,776bn at the end of August 2023 compared to LBP93,672bn at end-August 2022. The outstanding Treasury securities were equivalent to \$5.85bn at the end of August 2023 based on the new official exchange rate of LBP15,000 per US dollar, but they become equivalent to \$980.7m based on the parallel market exchange rate of LBP89,500 per dollar at the end of August. The weighted interest rate on Lebanese Treasury securities denominated in Lebanese pounds was 6.37% in August 2023 compared to 6.44% in August 2022.

The distribution of outstanding Treasury securities shows that 10-year Treasury bonds totaled LBP 33,520bn and accounted for 38.2% of aggregate securities denominated in Lebanese pounds at the end of August 2023, followed by seven-year Treasury securities with LBP17,593bn (20%), five-year Treasury bills with LBP13,026bn (14.8%), one-year T-bills with LBP7,112bn (8%), two-year Treasury bonds with LBP5,983bn (6.8%), three-year Treasury bills with LBP4,684bn (5.3%), 12-year Treasury bonds with LBP3,076bn (3.5%), 15-year Treasury securities with LBP1,417bn (1.6%), six-month T-bills with LBP1,007bn (1.1%), and three-month Treasury bonds with LBP358bn (0.4%). As such, 63.3% of outstanding Treasury securities have seven-year maturities or longer and 78.2% have five-year maturities or more.

In parallel, LBP5,579bn in outstanding Treasury securities denominated in Lebanese pounds matured in August 2023. The distribution of maturing securities shows that 47.5% consisted of one-year Treasury bills, 38% were five-year Treasury bonds, 3.7% consisted of seven-year Treasury securities and two-year T-bills, 3% were six-month Treasury bills, 2% consisted of three-month Treasury T-bills, and 1.9% were three-year Treasury securities. According to ABL, LBP3,797bn in outstanding Treasury bonds in Lebanese pounds will mature in the rest of 2023.

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



*as at end-August 2023

Source: Association of Banks in Lebanon, Byblos Research



Import activity of top five shipping firms and freight forwarders down 6% in first half 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 104,283 20-foot equivalent units (TEUs) in the first half of 2023, constituting a decrease of 5.6% from 110,464 TEUs in the same period last year. The five shipping and freight forwarding firms accounted for 85.4% of imports to the Lebanese market in the covered period. Merit Shipping handled 35,696 TEUs in the first half of 2023, equivalent to 19% of the total import freight market to Lebanon. Mediterranean Shipping Company (MSC) followed with 32,163 TEUs (17%), then MAERSK with 19,082 TEUs (10.2%), Sealine Group with 9,497 TEUs (5%), and Gezairi Transport with 7,695 TEUs (4%). Sealine Group registered a surge of 48.6% in imports in the first half of 2023, the highest growth rate among the covered companies, while Gezairi Transport posted a decline of 12.2%, the steepest decline among the five firms in the covered period. Also, the import shipping operations of the top five firms through the port decreased by 8% in June 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 38,176 TEUs in the first half of 2023, constituting an increase of 8.4% from 35,215 TEUs in the same period of 2022. The five shipping companies and freight forwarders accounted for 94% of exported Lebanese cargo in the covered quarter. Merit Shipping handled 21,276 TEUs of freight in the first half of the year, equivalent to 52.5% of the Lebanese cargo export market. MAERSK followed with 9,204 TEUs (22.6%), then Sealine Group with 3,488 TEUs (8.6%), MSC with 2,405 TEUs (6%), and Gezairi Transport with 1,687 TEUs (4%). Sealine Group posted a rise of 44% in exports in the first half of 2023, the highest growth rate among the covered companies, while MSC registered a decrease of 19%, the steepest decline among the five firms in the covered period. The export-shipping operations of the top five companies declined by 20% in June 2023 from the previous month.

Bank of Beirut declares net losses of LBP593.4bn in 2022

Bank of Beirut sal, one of six listed banks on the Beirut Stock Exchange, announced audited consolidated net losses of LBP593.4bn in 2022 compared to net profits of LBP4.9bn in 2021. The bank's net interest income amounted to LBP735.2bn in 2022 and increased by 3.4% from LBP710.8bn in the previous year; while its net fees & commissions income reached LBP30.1bn last year relative to LBP98.8bn in 2021. Further, the bank's net operating losses totaled LBP126bn in 2022 compared to net operating income of LBP361.5bn in the preceding year. In parallel, the bank's operating expenditures stood at LBP467.7bn in 2022 relative to LBP327.5bn in 2021, with staff expenses accounting for 58.3% of the total.

Further, the bank's total assets reached LBP17,155.3bn at the end of 2022 and declined by 6% from LBP18,255.5bn at end-2021. Loans & advances to customers totaled LBP3,532.7bn at end-2022 and decreased by 23.2% from a year earlier. Also, loans & advances to related parties stood at LBP41bn at end-2022 relative to LBP44.6bn a year earlier. Customer deposits and those from related parties totaled LBP14,013.1bn and decreased by 3.3% from LBP14,498bn at end-2021. Further, the bank's equity reached LBP1,380.5bn at the end of 2022, down by 31.4% from LBP2,013.1bn at the end of 2021.

Outlook on Arab Re's ratings revised to 'stable' on robust balance sheet position

Insurance rating agency A.M. Best affirmed the Financial Strength Rating of Arab Reinsurance Company sal (Arab Re) at 'B-' (Fair) and its long-term Issuer Credit Rating at 'bb-' (Fair). It also revised the outlook on the two ratings from 'negative' to 'stable'. It indicated that the credit ratings reflect Arab Re's strong balance sheet, as well as its adequate operating performance, limited business profile, and marginal enterprise risk management. It attributed the outlook revision to its expectation that the rating fundamentals of the reinsurance firm will remain resilient amid challenging economic and political conditions in Lebanon.

It noted that Arab Re has a material exposure to Lebanon and has sizeable investments in the country. It said that the reinsurer has grown its offshore asset portfolio, which has helped strengthen the company's risk-adjusted capitalization, as measured by its liquidity and A.M. Best's Capital Adequacy Ratio (BCAR), despite the country's economic and political challenges in recent years. It pointed out that the improvement in Arab Re's BCAR has made its balance sheet more resilient to asset-side stress tests. It added that the strength of the company's balance sheet is supported by its risk-adjusted capitalization, which reached its strongest level at year-end 2022. However, it indicated that elevated investment risks in Lebanon constrain the firm's capitalization metrics. Also, it noted that the ratio of liquid assets to net technical provisions was 128% at the end of 2022 compared to 114% in 2021. Further, it said that capital controls imposed in Lebanon are constraining the firm's ability to pay its claims, given that it is finding difficulties to service foreign liabilities with assets held in Lebanon.

In addition, it pointed out that a cumulative \$27.5m of impairments related to the holdings of Lebanese government bonds and deposits, as well as a \$2.9m in net losses related to the explosion at the Port of Beirut, have negatively affected the firm's net income between 2019 and 2021. But it indicated that Arab Re posted profitable operating results in four of the past five years, with a weighted average return on equity of 3% between 2018 and 2022. Also, it noted that positive underwriting results in 2021 and 2022 reflect management's actions to address its portfolio, including exiting under-performing businesses and the revision of underwriting guidelines.

In parallel, it said that Arab Re has a niche position in its core markets in the Middle East and North Africa region based on its original role as a reinsurer for Arab insurance markets and longstanding relationships with its cedants. It considered that the growth potential of the company is limited despite its geographical reach, as reinsurance markets in the region remain highly competitive.

Stock market capitalization up 43% to \$18.3bn at end-September 2023

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 32.6 million shares in the first nine months of 2023, constituting a jump of 106.8% from 15.8 million shares traded in the same period of 2022; while aggregate turnover amounted to \$386.6m and increased by 24% from a turnover of \$312m in the first nine months of 2022. Further, the market capitalization of the BSE stood at \$18.3bn at the end of September 2023, representing an increase of 42.6% from \$12.8bn a year earlier, with real estate equities accounting for 69.2% of the total, followed by banking stocks (22.7%), and industrial shares (8.1%). The market liquidity ratio was 2.1% at the end of September 2023 compared to 2.4% a year earlier. Also, banking stocks accounted for 85.6% of the trading volume in the first nine months of 2023, followed by real estate equities (14.3%) and industrial shares (0.1%). Also, real estate equities accounted for 92.4% of the aggregate value of shares traded, followed by banking stocks (7.2%), and industrial shares (0.3%). The average daily traded volume for the first nine months of 2023 was 185,271 shares for an average daily amount of \$2.2m. The figures represent a surge of 109.2% of the average daily traded volume and an increase of 25.4% 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 59% in the first nine months of 2023, while the CMA's Banks Market Value-Weighted Index grew by 1.3% 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 25% and 28.3%, respectively, in the first nine months of 2023, given that the shares had market weights of 41.6% and 27.5%, respectively, on the last trading day in September 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.

Net income of Syrian affiliates of Lebanese banks at SYP8.2bn in first quarter of 2023

Financial results issued by the affiliates of five out of six Lebanese banks in Syria show that their aggregate net profits reached SYP481.6bn in the first quarter of 2023 compared to net earnings of SYP1.06bn in the first quarter of 2022. In US dollar terms, the net profits of the five banks totaled \$106.5m in the first quarter of 2023 compared to net earnings of \$0.4m in the first quarter of 2022. Also, the depreciation of the Syrian pound from SYP3,015 against the US dollar at the end of 2022 to SYP4,522 per dollar at the end of March 2023 resulted in unrealized foreign exchange gains on the banks' structural positions of SYP381.9bn in the first quarter of 2023. The aggregate net income of four out of the five banks becomes SYP8.2bn, or \$1.8m, in the first quarter of 2023 when excluding foreign exchange gains on structural positions, relative to earnings of SYP3.8bn or \$1.5m in the same quarter of the previous year, as one of the banks did not provide figures for unrealized foreign exchange gains.

The profits of Banque BEMO Saudi Fransi surged by SYP187bn in the first quarter of 2023 from the first quarter of 2022, followed by an increase of SYP77bn in the net income of Bank of Syria & Overseas, and a rise of SYP74.6bn in the earnings of Fransabank Syria. Also, the profits of Byblos Bank Syria shifted from losses of SYP2.2bn in the first quarter of 2022 to profits of SYP91.5bn in the first quarter of 2023, and the earnings of Bank Al-Sharq, the affiliate of Banque Libano-Française shifted from losses of SYP305.6m to net income of SYP48bn in the first quarter of 2023. Further, the aggregate operating income of the five banks stood at SYP557.1bn in the first quarter of 2023 relative to SYP32.5bn in the first quarter of 2022.

In parallel, the banks' aggregate assets reached SYP4,939.2bn at the end of March 2023 and increased by 40.8% from SYP3,506.7bn at end-2022. The growth in assets was due to an increase of 55.3% in the assets of Byblos Bank Syria (+SYP195bn), a rise of 44.3% in those of Bank Al Sharq (+SYP97bn), a surge of 44.2% in the assets of Bank of Syria & Overseas (+SYP248.5bn), an expansion of 38.6% in those of Fransabank Syria (+SYP183.8bn), and an uptick of 37.3% in the assets of Banque BEMO Saudi Fransi (+SYP708.1bn). In US dollar terms, the assets of the five banks stood at \$1.1bn at end-March 2023, constituting a decrease of 21.8% from \$1.4bn at the end of 2022.

Also, the banks' total loans amounted to SYP557.5bn at end-March 2023, representing an increase of 10% from SYP506.3bn at end-2022. The banks' customer deposits totaled SYP3,116bn at end-March 2023 and surged by 37.3% from SYP2,269.5bn at end-2022. The ratio of the banks' loans-to-customer deposits stood at 17.9% at end-March 2023 relative to 22.3% at end-2022. In parallel, the aggregate shareholders' equity of the five banks was SYP1,327.8bn at end-March 2023 and rose by 57.2% from SYP844.8bn at end-2022.

Results of Affiliates of Lebanese Banks in Syria in First Quarter of 2023 (SYPbn)

| | Banque BEMO Saudi Fransi | Fransabank Syria | Syria Gulf Bank | Byblos Bank Syria | Bank Al-Sharq |
|-------------------|--------------------------------|---------------------|-----------------------|-------------------------|------------------|
| Net Profits | 189.88 | 77.32 | 74.90 | 91.54 | 47.99 |
| Total Assets | 2,604.29 | 810.77 | 660.31 | 547.78 | 316.06 |
| % Change* | 37.3% | 44.2% | 38.6% | 55.3% | 44.3% |
| Loans | 327.61 | 34.85 | 100.40 | 53.22 | 41.48 |
| % Change* | 7.3% | -11.9% | 23.9% | 18.1% | 17.4% |
| Customer Deposits | 1,844.29 | 546.66 | 329.10 | 247.56 | 148.42 |
| % Change* | 34.6% | 39.9% | 34.5% | 59.5% | 37.0% |

*Change from end-2022

Source: Banks' financial statements

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 | - | RD | RD | - |
| 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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