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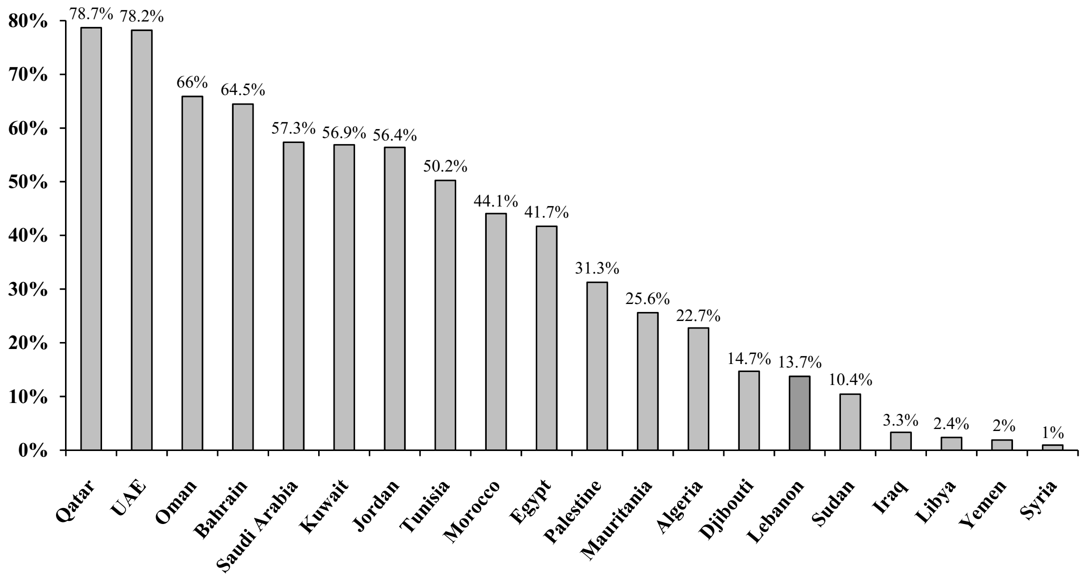
LEBANON THIS WEEK

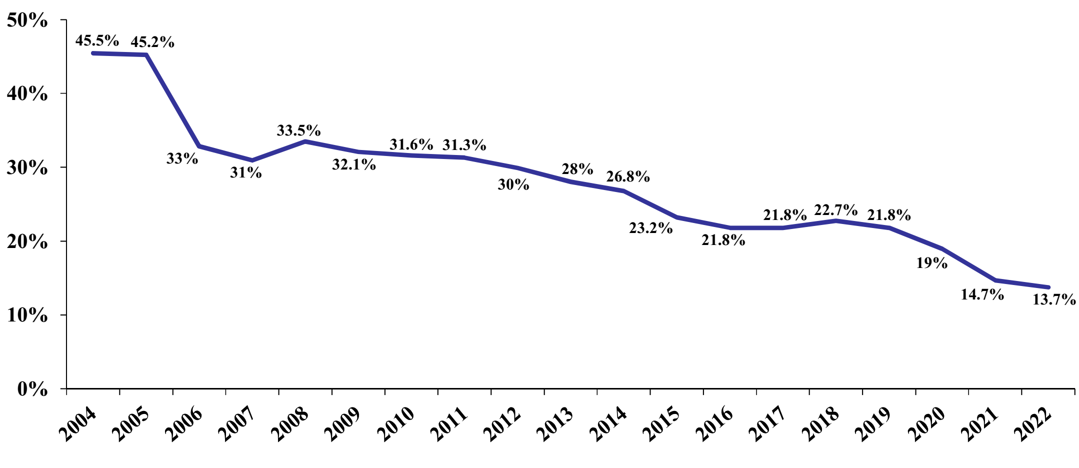
In This Issue

Charts of the Week

Percentile Rank of Arab Countries on the Rule of Law Indicator for 2022 (%)



Percentile Rank of Lebanon on the Rule of Law Indicator (%)



Source: World Bank Governance Indicators for 2022, Byblos Bank

Quote to Note

"Those were needed measures with or without the IMF program in order for Lebanon to start addressing the imbalances that exist both financially and economically."

The International Monetary Fund, referring to the need to enact the capital control law, the banking resolution framework, and the budget laws of 2022 and 2023

Number of the Week

$21.8bn: Size of the Lebanese economy in 2022, according to the International Monetary Fund

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"	75.45	0.5	50,926	42.7%
Solidere "B"	72.65	(5.2)	16,631	26.7%
Audi Listed	1.90	(13.6)	8,369	6.3%
BLOM GDR	2.15	(13.7)	5,000	0.9%
Byblos Common	0.76	(5.0)	543	2.4%
HOLCIM	60.00	(9.1)	375	6.6%
BLOM Listed	3.20	0.0	-	3.9%
Audi GDR	1.36	0.0	-	0.9%
Byblos Pref. 08	27.00	0.0	-	0.3%
Byblos Pref. 09	29.99	0.0	-	0.3%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Apr 2024	6.65	6.63	2,850.54
Jun 2025	6.25	6.63	259.08
Nov 2026	6.60	6.63	110.22
Mar 2027	6.85	6.63	97.63
Nov 2028	6.65	6.63	62.01
Feb 2030	6.65	6.63	47.75
Apr 2031	7.00	6.63	39.70
May 2033	8.20	6.63	30.49
Nov 2035	7.05	6.63	23.90
Mar 2037	7.25	6.63	21.29

Source: Refinitiv

	Oct 16-20	Oct 9-13	% Change	September 2023	September 2022	% Change
Total shares traded	81,844	251,906	(67.5)	1,102,733	4,715,731	(76.6)
Total value traded	$5,091,409	$13,446,256	(62.1)	$75,415,078	$34,022,646	121.7
Market capitalization	$17.68bn	$18.24bn	(3.1)	$18.26bn	$12.81bn	42.6

Source: Beirut Stock Exchange (BSE)

Ministry of Finance to implement tax incentives to startups, industrial and commercial firms

The Ministry of Finance issued Decision No. 721/1 dated October 3, 2023 about the implementation of articles 23, 25 and 26 of the Public Budget Law for 2022, or Law No. 10, of November 15, 2022. The decision was published in the Official Gazette on October 12, 2023.

Article 23 of the budget law provided manufacturing companies a tax exemption of 75% for five years on income from their industrial exports, on the condition that these earnings are repatriated to local banks or in case they finance domestic industrial activity. First, it said that the manufacturer has to submit proof in the form of a bank statement for fresh funds, or documents that show receipt of the funds through banks or financial institutions operating in Lebanon and disbursing them to importers directly. Second, it noted that only companies that have a license from the Ministry of Industry and that are properly registered at the Ministry of Finance and at one of the chambers of commerce qualify for the exemptions. Third, it indicated that the timeframe of the exemptions extends from January 1, 2022 until December 31, 2026, and that they will be reduced to 50% starting on January 1, 2027 in case the manufacturer continues to abide by the pre-set conditions.

Fourth, it stated that manufacturers that have been benefiting from the 50% tax exemptions on their earnings from exports as stipulated in Law 248/2014, or the Public Budget for 2014, will no longer benefit from the tax breaks starting on the date of the publication of the 2022 budget law on November 15, 2022. Fifth, it added that the tax exemptions apply only to the profits that companies generate from their industrial exports from Lebanon according to the ratified certificate of origin and to customs documents related to the transaction. It defined goods of Lebanese origin the goods that are produced in more than one country when they contain the standards that are stipulated in articles 26 and 27 of the Customs Law dated December 15, 2000.

Sixth, it said that companies that do not qualify for the tax exemptions are those that purchase industrial products from foreign markets in order to re-export them, firms that prepare or repackage foreign products in order to ship them abroad, as well as companies that provide scientific, intellectual, administrative and technical services to foreign clients, with the exception of the exports of information technology services. In addition, the firms that do not qualify for the tax exemptions include those that exploit subterranean resources, mines, quarries, and companies that produce cement and its derivatives, as well as water bottling firms and companies that exploit oil and gas in Lebanon's territorial waters, its Exclusive Economic Zone, and onshore.

In parallel, Article 25 exempted technology startups that get established within five years after the ratification date of the 2022 budget from the income tax for a five-year period from November 15, 2022 to November 15, 2027. First, it said that the company has to be established with the goal of developing a distinctive product or service, to launch it in the market. Second, it noted that the product or service has to fill a market gap, that it is seeing increased demand, or that it is irreplaceable. Third, it considered that the firm has to leverage technology and creativity to produce a new product or to provide a service that is better and more modern that what is present in the market.

Fourth, it said that at least 80% of the staff of the startup has to consist of Lebanese nationals throughout the five-year period, and that the firm will lose the exemption if this ratio falls below 80% in any of the five years. Fifth, it noted that the tax break is limited to the tax on the firm's commercial and industrial profits, and excludes all other tax categories. Sixth, it stipulated that startup firms that suspended their operations temporarily and that resumed work after the publication of the 2022 budget law cannot benefit from the tax exemptions. Seventh, it noted that startup firms that intend to benefit from the tax break have to inform in writing the tax administration at the Ministry of Finance.

Further, Article 26 exempted new industrial and commercial companies from paying the income tax, provided that they are established between November 15, 2022 and December 31, 2024, and that they are located in regions that the government intends to develop. First, it said that the tax exemption will be for seven years starting from the effective start of the firm's operations. Second, it indicated that it will reduce by 50% the registration fees on the company's vehicles and on the annual renewal of the fees. Third, it noted that it will exempt the firm from the construction fee on buildings that the company builds and uses. Fourth, it said that firms that plan to benefit from the tax break must have a minimum capital of $1m in "fresh dollars" that are transferred from abroad or paid in cash. Fifth, it stipulated that at least 60% of the staff of the industrial or commercial firms has to consist of Lebanese nationals, and that their number has to be at least 50 persons.

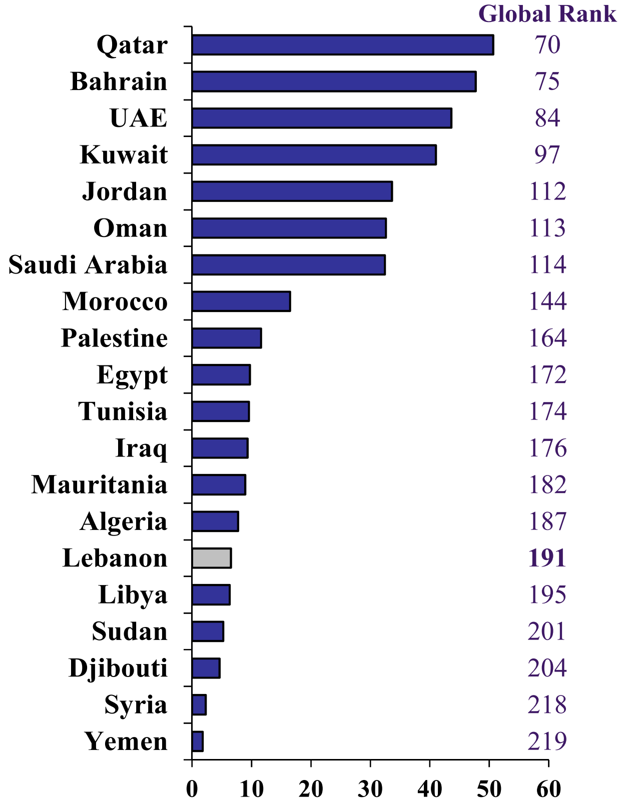
Broadband Internet speed in Lebanon is 191st fastest globally, 15th fastest among Arab countries in 2023

A survey published by Cable.co.uk, a price comparison site for telecommunications services, indicated that broadband Internet speed in Lebanon is the 191st fastest among 220 countries and territories around the world and the 15th fastest among 20 countries in the Arab region in 2023. Based on the same set of countries in the 2022 and 2023 surveys, Lebanon's global rank improved by three spots, while its regional rank advanced by one notch year-on-year. Research group M-Lab collected the data for the survey between July 1, 2022 and June 30, 2023, and Cable.co.uk compiled the figures. M-Lab is led by teams based at the non-profit organization Code for Science and Society, New America's Open Technology Institute, Google, and Princeton University's PlanetLab.

Globally, broadband Internet speed in Lebanon is faster than in Zambia, Bangladesh, and Libya among economies with a GDP of $10bn or more, while it is slower than in Malawi, Algeria, and Mali. The survey noted that it takes one hour, 44 minutes and 17 seconds to download a 5-gigabyte (GB) high-definition video in Lebanon. In comparison, it takes 13 minutes and 28 seconds to download a 5GB video in Qatar, the fastest rate among Arab countries; while it takes six hours, 20 minutes and 55 seconds to download such a video in Yemen, the slowest rate in the Arab region.

Also, the survey shows that broadband Internet speed in Lebanon stands at 6.55 megabytes per second (mbps) in 2023, up from 3.86 mbps in 2022. But it is significantly below the simple average broadband Internet speed of 46.6 mbps worldwide and of 19.1 mbps in Arab countries. Further, the country's broadband Internet speed lags the Gulf Cooperation Council (GCC) countries' average of 41.3 mbps and the non-GCC Arab countries' average of 9.6 mbps.

Broadband Internet Speed in Arab Countries in 2023 (megabytes per second)



Source: Cable.co.uk, Byblos Research

Jersey, an island country near the coast of northwest France, has the fastest broadband Internet speed in the world at 264.52 mbps this year, as the time required to download a 5GB video in the country stood at two minutes and 35 seconds. In contrast, Afghanistan has the slowest broadband Internet speed worldwide with a speed of 1.71 mbps, as it takes six hours, 38 minutes and 36 seconds to download a 5GB video in the island country.

International contributions to Lebanon Crisis Response Plan at $828m in first half of 2023

The United Nations indicated that international contributions to the Lebanon Crisis Response Plan (LCRP) reached $465.5m in the first half of 2023 and represented 13% of the $3.6bn that the LCPR appealed for to assist the affected Lebanese and non-Lebanese individuals in the country in 2023. It also noted that it carried $362.5m from funding it received in 2022, which is equivalent to 10% of the total funds it tried to raise in 2023, and resulted in total funding of $828m in the covered period. As such, it said that international contributions covered 23% of the funds it requested, resulting in a funding gap of $2.8bn, or 77%, in the first half 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.

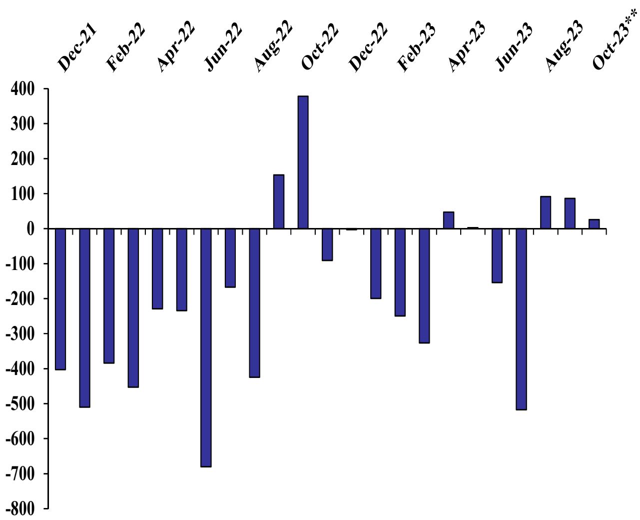
It pointed out that financial disbursements for the food security and agriculture sector reached $182.2m in the first half of 2023, or 22% of the total, followed by outlays for the education sector with $132.1m (16%), basic assistance with $112.5m (13.6%), support to the healthcare sector with $99.7m (12.1%), social protection with $97.8m (11.8%), the water sector with $79.7m (9.6%), livelihoods with $54.1m (6.5%), social stability with $48.2m (5.8%), shelter with $15.4m (1.9%), and the energy sector with $1.9m (0.2%).

The United Nations noted that it has raised under the LCPR $1.29bn in 2015, $1.28bn in 2016, $1.24bn in 2017, $1.2bn in 2018, $1.23bn in 2019, $1.44bn in 2020, $1.19bn in 2021, and $1.17bn in 2022.

Banque du Liban's foreign assets at $14bn, gold reserves at $17.4bn at mid-October 2023

Banque du Liban's (BdL) interim balance sheet shows that its total assets reached LBP1,582.9 trillion (tn), or the equivalent of $105.5bn, on October 15, 2023, constituting increases of 0.4% from LBP1,576.4tn ($105.1bn) at end-September 2023 and of 0.8% from LBP1,570.4tn ($104.7bn) at mid-September 2023. Assets in foreign currency stood at $14bn at mid-October 2023, representing a drop of $1.2bn, or of 8% from end-2022 and a decline of $1.05bn (-7%) from $15.04bn at mid-October 2022. Assets in foreign currency include $5.03bn in Lebanese Eurobonds, unchanged from a year earlier. The dollar figures up until the end of January 2023 are based on the official exchange rate of the Lebanese pound to the US dollar of LBP1,507.5 per dollar at the time, while the dollar figures starting in February 2023 are based on the new exchange rate of LBP15,000 per dollar.

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



*month-on-month change
**as at mid-October 2023, change from end-September 2023
Source: Banque du Liban, Byblos Research

BdL's gross foreign currency reserves, which consist of its assets in foreign currency excluding Lebanese Eurobonds, stood at $8.96bn at mid-October, 2023, constituting increases of $25.6m (+0.3%) from $8.94bn at end-September 2023 and of $53.6m (+0.6%) from $8.9bn at mid-September 2023. They dropped by $1.2bn (-11.7%) from the end of 2022 and by $1.05bn (-10.5%) from $10bn at mid-October 2022. Also, BdL's liquid foreign reserve assets stood at $8.78bn as at mid-October relative to $8.75bn at end-September 2023 and to $8.57bn at end-July 2023. The cumulative decline in BdL's gross foreign-currency reserves in the past 12 months is largely due the government's borrowing from BdL, to the financing of imports, such as wheat, medicine, medical equipment, and raw materials for agriculture and industry, as well as to the implementation of BdL circulars that allowed depositors to withdraw US dollar banknotes from their accounts or to buy dollar banknotes from BdL through commercial banks. It is also due to the steep drop in capital flows to Lebanon since September 2019, and to the near halt of inflows after the government decided to default on its Eurobonds obligations in March 2020. However, the decline in BdL's assets foreign currency was offset in part by the allocation of about $1.13bn in Special Drawing Rights that the IMF transferred to BdL's account on September 16, 2021.

Further, BdL's balance sheet shows that currency in circulation outside BdL stood at LBP60,970.4bn at mid-October 2023, representing decreases of 24% from LBP80,171.3bn at the end of 2022 and of 12.6% from LBP69,797.4bn at mid-October 2022.

In parallel, the value of BdL's gold reserves reached $17.37bn at mid-October 2023, constituting increases of $723m (+4.3%) from the end of 2022 and of $2.06bn (+13.4%) from $15.3bn at mid-October 2022. The value of gold reserves reached a peak $18.7bn at mid-April 2023. Also, the securities portfolio of BdL totaled LBP65,603.8bn, or $4.37bn, at mid-October 2023. In addition, loans to the local financial sector stood at LBP16,839.6bn, or $1.12bn; while the deposits of the financial sector reached LBP1,333.3tn, or $88.9bn, at mid-October 2023. In addition, public sector deposits at BdL stood at LBP157,264bn at mid-October 2023 and surged by LBP139,658.5bn from a year earlier.

Moreover, BdL split the "Other Assets" item on its balance sheet since last February into three items that consist of Other Assets, Revaluation Adjustments, and Foreign Currency Loans to the Public Sector. The item "Other Assets" reached LBP107,245.4bn, or $7.15bn at mid-October 2023, and increased by 3% from LBP104,086.1bn a month earlier. Also, the Revaluation Adjustments item on the asset side that comprises BdL losses, mainly from subsidies and transfers to the state-owned Electricité du Liban, stood at LBP654,839.6bn at mid-October relative to LBP651,501.7bn at end-September 2023. Further, the balance sheet shows that BdL's loans to the public sector totaled LBP249,262.3bn, equivalent to $16.62bn, as at mid-October 2023.

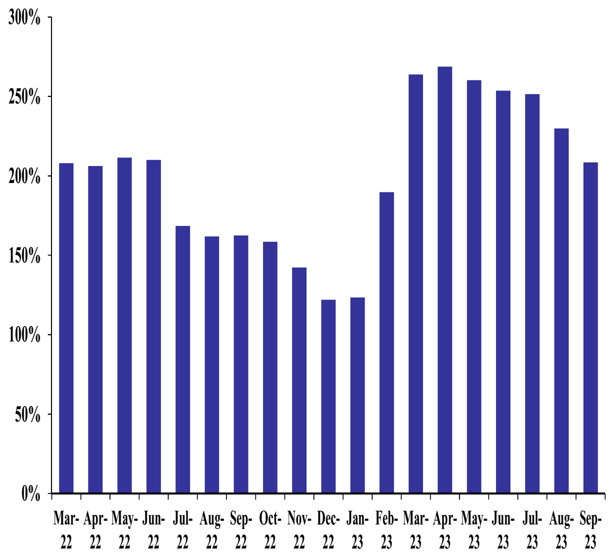
BdL indicated that it started in 2019 to make payments on behalf of the Lebanese government from its own foreign currency reserves, either against cash collateral in Lebanese pounds at the existing official exchange rate of LBP1,507.5 per dollar, which consists of public sector deposits, or in exchange for a pledge by the government to repay the amounts in the same foreign currency at a later stage. It said that the public sector's deposits valued in local currency exceeded the net cumulative balance for the payments it made on behalf of the government in foreign currency, which allowed BdL to maintain a net credit balance for public sector deposits. It noted that, after the modification of the exchange rate from LBP1,507.5 per dollar to LBP15,000 a dollar at the start of February 2023, the countervalue of the net cumulative balance of assets in foreign currencies exceeded the value of the cash collateral in Lebanese pounds, which resulted in a net debit balance in favor of BdL and required the presentation of the balance of overdraft of $16.523bn in loans to the public sector on the "assets" side. BdL noted that it opened a special account called the "Exchange Rate Stabilization Fund", in which it recorded all the transactions related to foreign-exchange intervention to stabilize the exchange rate starting in 2020. It said that the balance of the fund was LBP116.71tn at mid-October 2023.

Consumer Price Index up 208.5% year-on-year in September 2023

The Central Administration of Statistics' Consumer Price Index increased by 229.4% in the first nine months of 2023 from the same period of 2022. In comparison, it grew by 191.7% and by 132.1% in the first nine months of 2022 and 2021, respectively.

The CPI rose by 208.5% in September 2023 from the same month of 2022, and registered its 39th 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 the 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.

Annual Change in Consumer Price Index* (%)



**from the same month of the previous year*
Source: Central Administration of Statistics, Byblos Research

Imputed rent surged by 4.2 times in September 2023 from the same month of 2022, followed by the cost of alcoholic beverages & tobacco (3.8 times), the prices of food & non-alcoholic beverages and rates at restaurants & hotels (+3.4 times each), clothing & footwear (+3.3 times), healthcare costs (+3.2 times), actual rent (+3 times), and the prices of furnishings & household equipment and the cost of education (+2.9 times each). In addition, transportation cost rose by 176% year-on-year in September 2023, followed by the cost of recreation & entertainment (+162.3%), the prices of miscellaneous goods & services (+161%), the prices of water, electricity, gas & other fuels (+148%), and communication costs (+121%). Also, the distribution of actual rent shows that new rent surged by 403.3% and old rent increased by 50.6% in September from the same month of 2022.

In parallel, the CPI increased by 1.4% in September 2023 from the previous month, compared to a month-on-month rise of 1% in August 2023 and to a growth rate of 6.8% in July 2023. The cost of recreation & entertainment expanded by 5.4% in September 2023 from August 2023, followed by the prices of furnishings & household equipment (+3.5%), the prices of water, electricity, gas and other fuels (+3.1%), rates at restaurants & hotels (+2.4%), the prices of food & non-alcoholic beverages (+2.3%), the prices of miscellaneous goods & services (+1%), actual rent, the prices of alcoholic beverages & tobacco, and transportation costs (+0.6% each), imputed rent (+0.5%), the prices of clothing & footwear (+0.3%), the cost of education (+0.1%), and communication costs (+0.02%). In contrast, healthcare costs regressed by 0.1% month-on-month in September 2023. Also, the distribution of actual rent shows that new rent increased by 1%, while old rent was unchanged month-on-month in September 2023. Further, the CPI increased by 2.2% in the Nabatieh area, by 1.8% in the Bekaa, by 1.7% in Beirut, by 1.4% in Mount Lebanon, by 1.1% in the North, and by 0.7% in the South during September 2023 from the previous month. In parallel, the Fuel Price Index increased by 5% and the Education Price Index improved by 0.1% in September 2023.

Regional conflict clouds economic outlook

Standard Chartered Bank (SCB) projected Lebanon's real GDP to contract by 0.5% in 2023 and to grow by 1.5% in 2024, relative to its previous forecasts of a zero percent growth rate for this year a 3.5% expansion next year. It attributed its downward revisions of its growth projections to the recent military escalation on Lebanon's border with Israel, which it anticipated will further weigh on tourism activity and domestic demand.

It said that, prior to the escalation of the regional conflict in early October 2023, the Purchasing Managers' Index for Lebanon, an indicator of operating conditions in the private sector, regressed to below the 50-mark in September of this year, which reflects a contraction in economic activity during the month following two months of expansion. It also considered the economic recovery in the country to be more fragile than expected. It noted that the outlook is challenging, against a weak economic, financial and external backdrop, as well as low foreign currency reserves and still unconfirmed gas output prospects.

In parallel, SCB forecast Lebanon's public debt level to rise from 151% of GDP at the end of 2020, following the sovereign's default on its external obligations, to 232% of GDP at end-2023. It stressed that preserving foreign currency reserves is a key policy priority for monetary authorities given the lack of options to secure external funding. It considered that the planned replacement of Banque du Liban's (BdL) Sayrafa electronic platform, through which BdL has provided interbank liquidity in foreign currency since May 2021, with a new platform to be a positive step towards unifying the multiple exchange rates in the domestic market. However, it did not expect the authorities to secure a program with the International Monetary Fund (IMF) in the near term given the slow progress on the implementation of reforms amid the ongoing institutional vacuum. It pointed out that Lebanon has not previously had an IMF-supported program, but that the country received a cumulative $115m of emergency post-conflict assistance in the 2007-08 period following the 2006 war with Israel.

Lebanon in the News

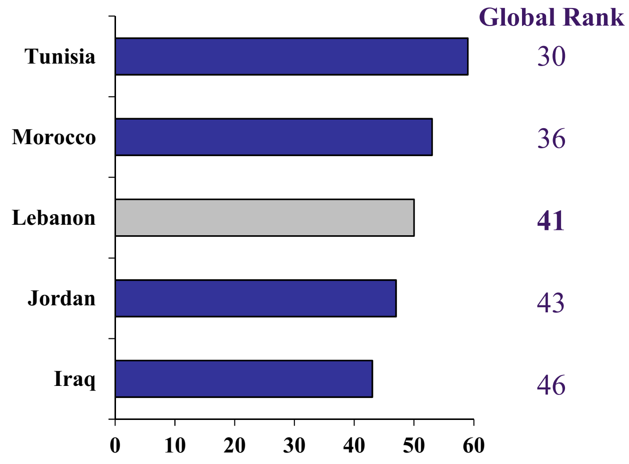
Lebanon ranks 41st globally, third in Arab world in Internet freedom

Independent think tank Freedom House ranked Lebanon in 41st place among 70 countries globally and in third place among 11 Arab countries on its Freedom on the Net Index for 2023. Based on the same set of countries, Lebanon's global rank deteriorated by four spots, while its regional rank decreased by one notch from the 2022 survey.

The survey measures the level of Internet and digital media freedoms across countries, and tracks the improvement or deterioration in Internet freedoms in each country. It focuses on the transmission and exchange of news and other politically relevant communication, as well as on the protection of users' rights to privacy and freedom from legal and extra-legal repercussions arising from their online activities. The survey covers the period from June 1, 2022 to May 31, 2023.

The index is composed of three categories that are Obstacles to Access, Limit on Content, and Violations of Users' Rights. The survey provides a numerical rating for each country from zero to 100, with 100 being the highest level of Internet freedom.

Freedom on the Net Index for 2023
Scores & Rankings of Top 5 Arab Countries



Source: Freedom House, Byblos Research

A country's score is the sum of its scores on the three categories, with the first category having a weight of 25%, the second one carrying a weight of 35%, and the third category having a weight of 40% on the index. The survey also places each country's level of Internet freedom in the 'Free,' 'Partly Free,' or 'Not Free' category based on the rating.

Globally, the level of Internet freedom in Lebanon is the same as in India, is higher than in Indonesia, Jordan and Cambodia, and is lower than in Sri Lanka, Uganda and Zimbabwe. Also, the level of Internet freedom in Lebanon trailed only Tunisia and Morocco among Arab countries. Lebanon received a score of 50 points in 2023, down from 51 points in the 2022 survey. Lebanon's score was lower than the global average score of 52.2 points, and came better than the Arab average score of 39.5 points. It was also higher than the Gulf Cooperation Council (GCC) countries' average score of 27.7 points and the non-GCC Arab countries' average of 44 points.

Lebanon ranked ahead of Uzbekistan and Libya, and trailed Zimbabwe and Russia on the Obstacles to Access category. This category evaluates the infrastructural and economic barriers to Internet access, the legal and ownership control over Internet service providers, and the independence of regulatory bodies. Lebanon ranked ahead of only Libya and Sudan among Arab countries. The survey indicated that the ongoing economic crisis in Lebanon has impacted telecommunications services, and users experienced service disruptions and reduced Internet speed during the reporting period.

Further, Lebanon preceded Morocco and Libya, and came behind Ukraine and Sri Lanka on the Limits on Content category. This category measures the legal regulations on content, the technical filtering and blocking of websites, self-censorship, the diversity of online news media, and the use of information and communication technologies for civic mobilization. Lebanon trailed only Tunisia among Arab countries. The survey noted that the government has started to block more content and has not been transparent about its decisions.

Finally, Lebanon ranked ahead of Nigeria and Zimbabwe, and came behind the Gambia and Ukraine on the Violations of Users' Rights category. This category includes surveillance, privacy, and repercussions for online activity. Regionally, Lebanon preceded all Arab countries on this category. The survey pointed out that the judiciary in the country lacks independence, as it is subject to considerable political influence.

In parallel, Lebanon came in the 'Partly Free' category, along with 32 countries globally and six Arab countries. In comparison, 17 countries worldwide came in the 'Free' category, and 21 countries that include five Arab economies came in the 'Not Free' segment.

Freedom House noted that Internet freedom in Lebanon was fragile during the period that the survey covered. It said that the ongoing economic crisis has created major financial obstacles for Internet service providers and users. It added that the Cybercrime and Intellectual Property Bureau summoned several high-profile online journalists and activists. In parallel, it indicated that residents suffer from pervasive corruption and major weaknesses in the rule of law, although they enjoy some civil liberties and media pluralism.

Components of the 2023 Freedom on the Net Index for Lebanon

	Global Rank	Arab Rank	Lebanon Score	Global Avge Score	Arab Avge Score
Obstacles to Access	60	9	9.0	15.0	12.2
Limits on Content	34	2	22.0	20.0	15.5
Violations of User Rights	29	1	19.0	17.2	11.9

Source: Freedom House, Byblos Research

Lebanese Petroleum Administration clarifies preliminary results of offshore gas exploration

The Lebanese Petroleum Administration (LPA) made public on October 19, 2023 the preliminary results of the exploration for gas in Block 9 of Lebanon's territorial waters. 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%.

The LPA indicated that it is clarifying several points following media disclosures about the absence of gas discoveries in Block 9. It said that it is waiting for the detailed technical report that TotalEnergies will prepare following the end of drilling activity in the Qana well in Lebanon's Exclusive Economic Zone, as well as the collection of data and samples from the well. It added that the choice of the well's location in the unexplored Qana Basin aimed to answer key questions about the future of offshore oil and gas exploration operations in the country's territorial waters.

It pointed out the necessity to confirm or deny the existence of gas reservoirs in Lebanon's territorial waters, as well as to study the quality of these reservoirs at a certain geological layer that is still unexplored in the eastern basin of the Mediterranean. It added that results show that the geological layers where gas had been discovered in the territorial waters of occupied Palestine (Israel) extend to Lebanese waters and that reservoirs of very good quality containing traces of gas exist on the site where the well in the Qana Basin was dug. As such, it stressed the importance of comparing the geological layers where gas was discovered in the territorial waters of occupied Palestine (Israel) with those in the Lebanese waters.

In parallel, the LPA indicated that the drilling reached the targeted layers and confirmed the presence of "good quality" gas in the drilled area of the basin. However, it noted that the discovery of the reservoir in the Qana Basin requires in-depth study for a more precise understanding in order to map this type of reservoirs in the basin and along Block 9 and the surrounding blocks, in order to determine the location of reservoirs that may contain commercial quantities of hydrocarbons. It reiterated that the results of the drilling show that the drilled site in Block 9 does not contain commercial quantities of gas.

It considered that TotalEnergies' priorities in the coming months will be to use the data and samples that it obtained from the well to draw up a more precise model of the Qana Basin with the aim to determine the geographic extent of the reservoirs that it discovered within the basin and the surrounding areas, and to have a higher probability of success for future gas discoveries in the Qana Basin and in its surroundings.

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. In September 2023, the Ministry of Energy & Water approved the request of TotalEnergies 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 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.

In parallel, the LPA indicated that the consortium of TotalEnergies, Eni Lebanon and QatarEnergy submitted two application bids prior to the deadline of October 2, 2023 to participate in Lebanon's second offshore licensing round for the exploration of Block 8 and Block 10 in Lebanon's maritime waters.

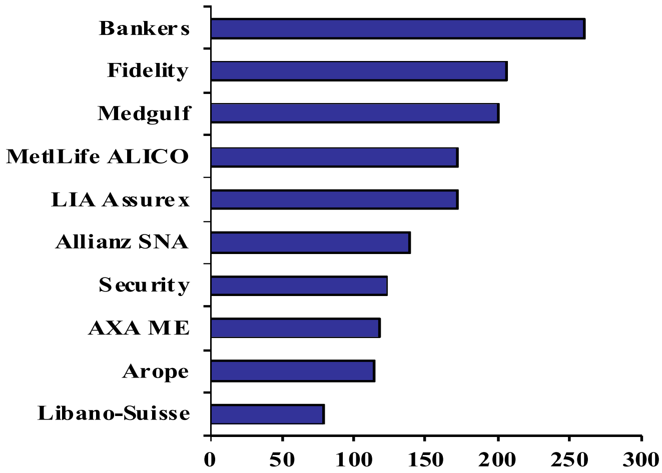
Top 10 insurers account for 64% of gross written premiums in 2022

Figures released by the Insurance Control Commission (ICC) show that the gross written premiums of 46 insurance companies operating in Lebanon reached LBP2,456.4bn in 2022, constituting a decrease of 4.5% from LBP2,573.1bn in 2021.

Bankers Assurance ranked in first place with LBP261bn in gross written premiums in 2022, followed by Fidelity Assurance & Reinsurance with LBP206.4bn, Mediterranean and Gulf Insurance and Reinsurance (MEDGULF) with LBP200.2bn, MetLife ALICO with LBP172.4bn, and LIA Assurex with LBP172.3bn. Byblos Bank's insurance affiliate, Adonis Insurance and Reinsurance Co. (ADIR), ranked in 15th place with gross written premiums at LBP50.5bn in 2022.

The composition of the top 10 insurers changed from 2021, as the ranking of Securité Assurance improved from 13th place in 2021 to seventh place in 2022, that of Fidelity Assurance & Reinsurance advanced by three notches to second place, and the rankings of LIA Assurex and Libano-Suisse increased by one spot each to fifth and 10th place, respectively, last year. In contrast, the rankings of Allianz SNA dropped by three spots and of MEDGULF regressed by one notch to sixth and third place, respectively, in 2022. Further, the rankings Bankers Assurance, MetLife ALICO, AXA Middle East, and Arope Inssurance were unchanged in 2022.

Gross Written Premiums of the Top 10 Insurers in 2022 (LBPbn)



Source: Insurance Control Commission, Byblos Research

In addition, four out of the top 10 insurers posted an increase in their gross written premiums last year. The gross written premiums of Securité Assurance surged by 66%, followed by an increase of 25.7% in those of Fidelity Assurance & Reinsurance, a growth of 8.4% in the premiums of Arope Insurance, and an uptick of 1.6% in the gross written premiums of MEDGULF. In contrast, the gross written premiums of Allianz SNA dropped by 29.5% in 2022, followed by a decline of 13.5% each in the premiums of AXA Middle East and of LIA Assurex, a decrease of 9% in those of Libano-Suisse, a contraction of 6.6% in the premiums of MetLife ALICO, and a retreat of 3.7% in those of Bankers Assurance. The top 10 insurers accounted for 64.4% of the insurance market in 2022 relative 64.2% in 2021, while the top 20 firms generated 85.4% of gross written premiums in 2022 compared to 87.3% in 2021.

Further, the gross claims settled by insurance companies totaled LBP2,333.8bn in 2022 and increased by 27% from LBP1,838.1bn in 2021. In parallel, the sector's acquisition expenses reached LBP493.7bn in 2022 relative to LBP463.2bn in 2021, while administrative costs totaled LBP506.4bn last year compared to LBP385.2bn in 2021. Also, the insurance sector registered net investment income of LBP56.9bn in 2022 relative to LBP130.7bn in 2021. In addition, the ratio of gross claims settled to gross written premiums stood at 95% last year compared to 71% in 2021. Further, the ratio of expenditures for acquisition and administration to gross written premiums reached 41% in 2022 relative to 33% in the previous year, and the ratio of net investment income to gross written premiums stood at 2% last year compared to 5% in 2021.

Outlook on Arabia Insurance ratings revised to 'stable'

Insurance rating agency A.M. Best affirmed the Financial Strength Rating of Arabia Insurance Company sal (AIC) 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 AIC's strong balance sheet, as well as its adequate operating performance, neutral business profile, and appropriate enterprise risk management. It attributed the outlook revision to its expectation that the insurer's rating fundamentals will remain resilient amid challenging economic and political conditions in Lebanon, and given that AIC reduced its exposure to the Lebanese market. It added that the outlook takes into account the AIC's decline of its debt level in recent periods, and expected further repayments in the near-term.

It noted that, according to A.M. Best's Capital Adequacy Ratio (BCAR), the strong risk-adjusted capitalization of AIC the end of 2022 supported the company's robust balance sheet. It said that the firm's utilization of its capital is largely driven by investment risks, reflecting AIC's exposure to equity and real estate investments, with certain holdings attracting additional concentration charges in the BCAR. It noted that its assessment factors-in the geographically diversified operations of AIC across the Middle East, which provide protection against the very high political, economic, and financial system risks in Lebanon.

Further, it pointed out that AIC has a track record of adequate operating performance, given that the insurer's weighted average return-on-equity ratio (ROE) stood at 1.7% in the 2018-22 period, although AIC reported ROEs of -6.4% in 2020 and of zero percent in 2021 due to the challenging conditions in Lebanon. It expected the forthcoming earnings of the insurer to improve in line with its 2022 results when the firm reported an ROE of 5.5% following a strong turnaround in underwriting performance. In addition, it anticipated future earnings to continue to benefit from management decisions to rationalize the firm's underwriting portfolio.

Net income of Syrian affiliates of Lebanese banks at SYP5.2bn in first half of 2023

Financial results issued by the affiliates of five out of six Lebanese banks in Syria show that their aggregate net profits reached SYP1,119.6bn in the first half of 2023 compared to net earnings of SYP93.8bn in the first half of 2022. In US dollar terms, the net profits of the five banks totaled $202.6m in the first half of 2023 compared to net earnings of $35.2m in the first half of 2022. Also, the depreciation of the Syrian pound from SYP3,015 against the US dollar at the end of 2022 to SYP6,532 per dollar at end-June 2023 resulted in unrealized foreign exchange gains on the banks' structural positions of SYP1,114.4bn in the first half of 2023. As such, the aggregate net income of the five banks becomes SYP5.2bn, or $0.9m, in the first half of 2023 when excluding foreign exchange gains on structural positions, relative to earnings of SYP539.1m or $0.2m in the same period of the previous year.

The profits of Banque BEMO Saudi Fransi surged by SYP399.6bn in the first half of 2023 from the same period of 2022, followed by an increase of SYP201.3bn in the net income of Byblos Bank Syria, a rise of SYP163.1bn in the earnings of Bank of Syria & Overseas, a growth of SYP156.8bn in the profits of Fransabank Syria, and an uptick of SYP105bn in the net income of Bank Al-Sharq, the affiliate of Banque Libano-Française. Further, the aggregate operating income of the five banks stood at SYP1,281.2bn in the first half of 2023 relative to SYP160.8bn in the first half of 2022.

In parallel, the banks' aggregate assets reached SYP6,754bn at the end of June 2023 and increased by 92.6% from SYP3,506.7bn at end-2022. The growth in assets was due to an increase of 109.5% in the assets of Byblos Bank Syria (+SYP386.3bn), a surge of 101% in the assets of Bank of Syria & Overseas (+SYP568.2bn), a rise of 100.7% in those of Bank Al Sharq (+SYP220.6bn), a growth of 87.4% in the assets of Banque BEMO Saudi Fransi (+SYP1,657.5bn), and an uptick of 87% in those of Fransabank Syria (+SYP414.5bn). The surge in assets was mainly driven by increases in cash and deposits at the Central Bank of Syria, as well as by surges in currency and deposits at other banks. In US dollar terms, the assets of the five banks stood at $1.03bn at end-June 2023, constituting a decrease of 17% from $1.25bn at the end of 2022.

Also, the banks' total loans amounted to SYP668.8bn at end-June 2023, representing an increase of 32% from SYP506.3bn at end-2022. The banks' customer deposits totaled SYP4,192bn at end-June 2023 and surged by 84.7% from SYP2,269.5bn at end-2022. Deposits at Banque BEMO Saudi Fransi stood at SYP2,501bn at the end of June 2023 and increased by 82.5% from the end of 2022, followed by deposits at Bank of Syria & Overseas with SYP750.9bn (+92.2%), Fransabank Syria with SYP442.3bn (+80.7%), Byblos Bank Syria with SYP301.3bn (+94%), and Bank Al Sharq with SYP196.5bn (+81.3%). The ratio of the banks' loans-to-customer deposits stood at 16% at end-June 2023 relative to 22.3% at end-2022. In parallel, the aggregate shareholders' equity of the five banks was SYP1,966.4bn at end-June 2023 and rose by 132.8% from SYP844.8bn at end-2022.

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

	Banque BEMO Saudi Fransi	Bank of Syria & Overseas	Fransabank Syria	Byblos Bank Syria	Bank Al-Sharq
Net Profits	438.62	178.09	172.30	217.39	113.16
Total Assets	3553.68	1130.44	891.07	739.10	439.64
% Change*	87.4%	101.1%	87.0%	109.5%	100.7%
Loans	392.01	34.38	122.06	75.89	44.43
% Change*	28.4%	-13.1%	50.6%	68.4%	25.7%
Customer Deposits	2500.98	750.90	442.28	301.32	196.50
% Change*	82.5%	92.2%	80.7%	94.1%	81.3%

**Change from end-2022*
Source: Banks' financial statements

Ratio Highlights

(in % unless specified)	2020	2021	2022	Change*
Nominal GDP ($bn)	24.7	20.5	21.8	1.3
Public Debt in Foreign Currency / GDP	56.8	188.1	189.8	1.7
Public Debt in Local Currency / GDP	93.8	302.1	277.7	(24.4)
Gross Public Debt / GDP	150.6	490.2	467.5	(22.7)
Trade Balance / GDP	(8.1)	(4.7)	(2.8)	1.9
Exports / Imports	31.3	28.5	18.3	(10.2)
Fiscal Revenues / GDP	16.0	9.8	6.3	(3.4)
Fiscal Expenditures / GDP	20.3	8.7	11.3	2.5
Fiscal Balance / GDP	(4.3)	1.1	(4.9)	-
Primary Balance / GDP	(1.0)	2.4	(4.3)	-
Gross Foreign Currency Reserves / M2	41.5	26.0	13.4	(12.6)
M3 / GDP	209.0	96.9	41.8	(55.2)
Commercial Banks Assets / GDP	296.2	127.1	46.4	(80.7)
Private Sector Deposits / GDP	219.2	94.1	34.5	(59.6)
Private Sector Loans / GDP	57.0	20.1	5.5	(14.6)
Private Sector Deposits Dollarization Rate	80.4	79.4	76.1	(3.3)
Private Sector Lending Dollarization Rate	59.6	56.3	50.7	(5.6)

**change in percentage points 22/21;*
Source: Banque du Liban, Ministry of Finance, Central Administration of Statistics, International Monetary Fund, 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	196	480
Nominal GDP (US$ bn)	24.7	18.0	18.3
Real GDP growth, % change	-25.9	-8.4	-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	8.7	6.6
Imports of goods and services	-33.4	-1.1	10.6
Consumer prices, %, average	84.9	154.8	171.2
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	30,313
Weighted average exchange rate LBP/US$	3,878	10,876	26,222

Source: Central Administration of Statistics, Institute of International Finance- May 2023

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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