

LEBANON THIS WEEK

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Stock market capitalization up 25% to \$16.7bn at end-November 2023

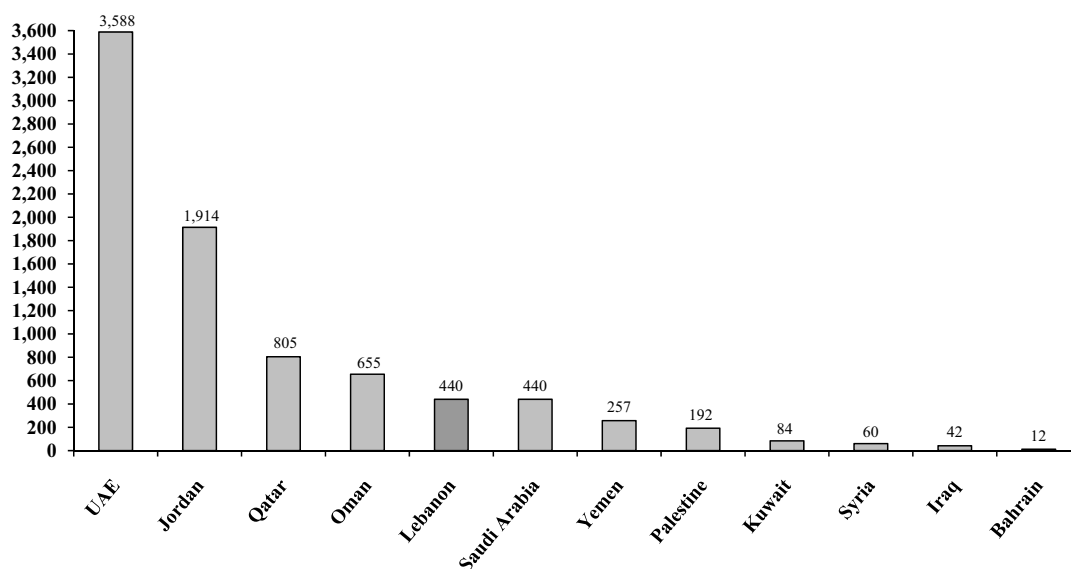
Foreign investments of financial sector at \$1.3bn at end-2022

Net income of Syrian affiliates of Lebanese banks at SYP4.4bn in first nine months of 2023

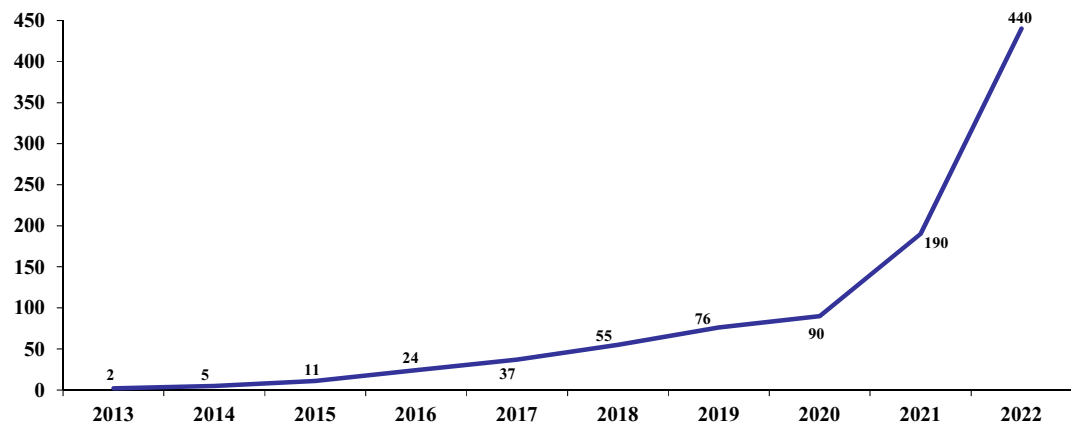
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Charts of the Week

Capacity of Solar Energy in Select Arab Countries in 2022 (megawatts)



Capacity of Solar Energy in Lebanon (megawatts)



Source: International Renewable Energy Agency, Byblos Bank

Quote to Note

"The losses are covered from general reserves and, in case these reserves are not available or are insufficient, the losses are covered by payments from the Treasury."

Article 113 of the Code of Money and Credit, on the responsibility of the Ministry of Finance to cover the losses that Banque du Liban may incur

Number of the Week

13: Number of months since Lebanon has been without a President

Lebanon in the News

\$m (unless otherwise mentioned)	2022	Jan-Aug 2022	Jan-Aug 2023	% Change*	Aug-22	Dec-22	Aug-23
Exports	3,492	2,411	1,704	-29.4%	282	272	89
Imports	19,053	12,773	10,285	-19.5%	1,964	1,251	487
Trade Balance	(15,562)	(10,362)	(8,582)	-17.2%	(1,682)	(979)	(397)
Balance of Payments	(3,197)	(3,101)	1,071	-	(314)	17	145
Checks Cleared in LBP	27,146	15,167	6,820**	-55.0%	2,470	3,686	338**
Checks Cleared in FC	10,288	7,436	2,590**	-65.2%	787	577	188**
Total Checks Cleared	37,434	22,603	9,410**	-58.4%	3,257	4,263	526**
Fiscal Deficit/Surplus	-	-	-	-	-	-	-
Primary Balance	-	-	-	-	-	-	-
Airport Passengers	6,360,564	4,194,798	5,005,141	19.3%	793,287	551,632	914,262
Consumer Price Index	171.2	197.3	233.0	3,563bps	161.9	122.0	229.8

\$bn (unless otherwise mentioned)	Dec-22	Aug-22	May-23	Jun-23	Jul-23	Aug-23	% Change*
BdL FX Reserves	10.40	10.63	9.72	9.29	8.76	8.82	-17.0%
In months of Imports	-	-	-	-	-	-	-
Public Debt	101.81	103.65	-	-	-	-	-
Bank Assets	169.06	168.75	115.21	116.43	117.19	113.72	-32.6%
Bank Deposits (Private Sector)	125.72	125.02	97.31	97.40	96.35	95.59	-23.5%
Bank Loans to Private Sector	20.05	22.82	9.53	9.30	9.04	8.92	-60.9%
Money Supply M2	77.34	50.87	8.10	8.80	7.01	6.64	-87.0%
Money Supply M3	152.29	127.71	80.76	81.10	79.09	78.38	-38.6%
LBP Lending Rate (%)	4.56	4.85	3.53	4.24	3.60	3.77	(108)
LBP Deposit Rate (%)	0.60	0.60	0.84	0.67	0.81	0.41	(19)
USD Lending Rate (%)	4.16	5.51	2.30	2.02	2.61	2.40	(311)
USD Deposit Rate (%)	0.06	0.10	0.09	0.05	0.08	0.03	(7)

*year-on-year

**checks figures do not include compensated checks in fresh currencies

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"	68.00	(2.0)	19,522	40.8%	Apr 2024	6.65	5.63	4,408.76
Solidere "B"	65.05	(2.9)	6,413	25.4%	Jun 2025	6.25	5.63	315.61
Byblos Common	0.70	0.0	5,000	2.4%	Nov 2026	6.60	5.63	124.26
BLOM Listed	3.01	0.0	-	3.9%	Mar 2027	6.85	5.63	109.32
Audi Listed	2.35	0.0	-	8.3%	Nov 2028	6.65	5.63	68.09
Audi GDR	1.11	0.0	-	0.8%	Feb 2030	6.65	5.63	52.01
BLOM GDR	2.50	0.0	-	1.1%	Apr 2031	7.00	5.63	43.05
HOLCIM	61.05	0.0	-	7.2%	May 2033	8.20	5.63	32.90
Byblos Pref. 08	27.00	0.0	-	0.3%	Nov 2035	7.05	5.63	25.69
Byblos Pref. 09	29.99	0.0	-	0.4%	Mar 2037	7.25	5.63	22.85

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

Source: Refinitiv

	Nov 27 - Dec 1	Nov 20-24	% Change	November 2023	November 2022	% Change
Total shares traded	30,935	322,820	(90.4)	466,274	2,846,751	(83.6)
Total value traded	\$1,778,368	\$3,069,092	(42.1)	\$11,062,142	\$70,830,164	224.9
Market capitalization	\$16.65bn	\$16.91bn	(1.6)	\$16.72bn	\$13.35bn	21.6

Source: Beirut Stock Exchange (BSE)



New plan suggests comprehensive macro-financial restructuring strategy to exit crisis

The Center for International Development at Harvard University proposed a strategy for Lebanon's economic recovery that addresses the multiple dimensions of the crisis in the country and that jump-starts the economy. As such, it suggested to establish an alternative monetary and exchange rate regime, a strategy to resolve the insolvencies of the government, Banque du Liban (BdL) and the banking system; a stronger fiscal framework; and a sustainable growth strategy for the economy.

First, the plan calls on Lebanese authorities to adopt the full dollarization of the economy as soon as they deem it feasible. It considered that the benefits of full dollarization outweigh its costs, given the de facto highly dollarized economy and banking system, BdL's current low monetary policy credibility, and the fact that the most feasible alternative is a managed float exchange rate regime.

Second, the plan proposes a comprehensive macro-financial restructuring strategy in order to overcome the insolvencies at BdL and in the banking system. It urged the authorities to prioritize the recovery of the commercial banking system in order for the economy to regain access to efficient payment systems and credit facilities. It said that the challenge facing the commercial banking system is that the main assets of banks, which are US dollar deposits at BdL, have lost most of their value due to BdL's own insolvency as a result of substantial currency mismatches on its balance sheet that it accumulated mostly in the process of funding the public sector.

As such, it stipulated that about \$76bn of the banks' foreign currency deposits at BdL should be converted into interim banking restructuring certificates. It added that these certificates will consist of new instruments that will represent a claim on the government, and that 90% of these certificates will be distributed to bank clients in exchange for their foreign currency deposits above a threshold that it tentatively estimated at \$100,000 to \$150,000. As such, it expected that the remaining deposits at BdL and at banks that will not be converted to certificates will be more than fully backed by BdL's foreign currency reserves. It also anticipated that, through this mechanism, both the banks and BdL will be de facto capitalized, which will allow the banking system to resume domestic credit operations, even if the authorities need more time to complete the restructuring of the public debt.

Further, it noted that, in order for this restructuring to be successful, authorities will need to introduce immediately capital controls until the banking restructuring is finalized, as it expected that such controls will prevent speculative transactions that could jeopardize an orderly and fair restructuring. It added that the authorities should lift capital controls on most transactions for individuals once the restructuring is completed, and ease more gradually the restrictions on business transactions.

Third, the plan indicated that the bulk of the insolvency in the financial system will be transferred to the government through the mechanism of the interim certificates. As such, it estimated that, following the exchange of foreign currency deposits at banks for banking restructuring certificates, Lebanon's public debt will be about \$107bn, which will include Eurobonds and the newly-issued certificates. As such, it expected the authorities and the International Monetary Fund (IMF) to agree on a macro-fiscal framework that includes Lebanon's growth path, fiscal balances, additional borrowing requirements, and a sustainable debt level to anchor negotiations for the restructuring of the country's public debt.

Fourth, the plan proposes a gradual fiscal adjustment that can provide the government with the resources needed for the recovery of basic public services and of critical infrastructure, in order to jump start the economic recovery. It noted that the proposed fiscal adjustment should be gradual in order to balance the immediate needs for reconstruction and recovery of public services with the medium-term needs to service the resulting public debt. It said the adjustment targets a primary fiscal surplus of 3% of GDP by 2030, which would be sufficient to service a public debt level of 75% of GDP. It added that the transition will require additional financing from the IMF and other multilateral organizations, estimated at about \$8bn, and a haircut on the existing public debt and the interim certificates in order for the debt to become sustainable.

Also, it said that the government will need to shore up its revenue base, including through improving tax collection, increasing the value-added tax (VAT) rate, and reducing tax exemptions. It also expected public revenues to grow as a result of the recovery of nominal GDP and due to the fact that tariffs and the VAT on imports will be collected in dollars. In addition, it encouraged the authorities to create an asset recovery institution in order to recover the funds that were transferred abroad illegally during the crisis, which it considered key to increase fairness and political support for the needed adjustments.

Fifth, the plan stipulates the development of new drivers of growth to narrow the gap between the actual and potential growth of the Lebanese economy. It noted that the economic measures will have to not only restore the previous economic structure, but to increasingly rely on newer sources of growth based on the country's evolving comparative advantages.

Banque du Liban's foreign assets at \$14.3bn, gold reserves at \$18.8bn at end-November 2023

Banque du Liban's (BdL) interim balance sheet shows that its total assets reached LBP1,602.6 trillion (tn), or the equivalent of \$106.8bn, on November 30, 2023, constituting increases of 0.2% from LBP1,599tn (\$106.6bn) at mid-November 2023 and of 0.5% from LBP1,594.2tn (\$106.3bn) at end-October 2023. Assets in foreign currency stood at \$14.3bn at end-November 2023, representing a drop of \$905m, or of 6% from the end of 2022 and a decline of \$908.2m (-6%) from \$15.28bn at end-November 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.

BdL's gross foreign currency reserves, which consist of its assets in foreign currency excluding Lebanese Eurobonds, stood at \$9.25bn at end-November 2023, constituting increases of \$66.1m (+0.7%) from \$9.18bn at mid-November 2023 and of \$134.15m (+1.5%) from \$9.11bn at end-October 2023. They dropped by \$905m (-9%) from the end of 2022 and by \$908.2m (-9%) from \$10.16bn at end-November 2022. Also, BdL's liquid foreign reserve assets stood at \$9.06bn at end-November 2023 relative to \$9bn as at mid-November 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.

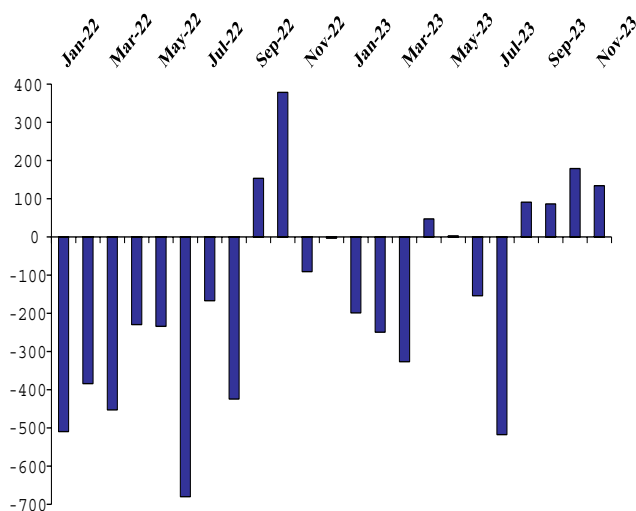
Further, BdL's balance sheet shows that currency in circulation outside BdL stood at LBP56,696.2bn at end-November 2023, representing decreases of 29.3% from LBP80,171.3bn at the end of 2022 and of 21.6% from LBP72,340.7bn at end-November 2022.

In parallel, the value of BdL's gold reserves reached a new peak of \$18.8bn at end-November 2023, constituting increases of \$2.15bn (+13%) from the end of 2022 and of \$2.57bn (+15.8%) from \$16.2bn at end-November 2022. Also, the securities portfolio of BdL totaled LBP64,910.3bn, or \$4.33bn, at end-November 2023. In addition, loans to the local financial sector stood at LBP16,282.3bn, or \$1.1bn; while the deposits of the financial sector reached LBP1,335.1tn, or \$89bn, at end-November 2023. In addition, public sector deposits at BdL stood at LBP176,805.6bn at end-November 2023 and surged by LBP157,514bn 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 LBP112,635bn, or \$7.51bn at end-November 2023, and increased by 3.2% from LBP109,158.3bn 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 LBP644,768.8bn at end-November relative to LBP652,646.1bn at mid-November 2023. Further, the balance sheet shows that BdL's loans to the public sector totaled LBP249,198.5bn, equivalent to \$16.61bn, as of end-November 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 \$16.52bn 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 LBP127.51tn at mid-November 2023.

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



*month-on-month change

Source: Banque du Liban, Byblos Research

Government modifies contributions to National Social Security Fund

Government Decree no. 12599, which modified the contributions to the Family Allowances category at the National Social Security Fund (NSSF) and its distribution among the spouse and children, went into effect after its publication in the Official Gazette on November 30, 2023. The Council of Ministers approved the decree on November 16, 2023. The decree stipulates that the NSSF will raise the ceiling for the calculation of the Family Allowances contributions to LBP2.25m that consist of LBP600,000 for the spouse and LBP330,000 for each child for up to five children. Also, it said that it has raised the ceiling for the calculation of the Family Allowances contributions for public drivers who drive their own car by LBP1.3m that consist of LBP500,000 for the spouse and LBP160,000 for each child up to five children. As such, it has raised the ceiling for the calculation of the Family Allowances contributions from LBP3.425m to LBP5.675m for workers and from LBP3.425m to LBP4.725m for public drivers.

In parallel, the NSSF had issued on October 25, 2022 Memo 694 related to the application of Government Decree no. 10958. The NSSF indicated that it has raised the ceiling for the calculation of the Sickness & Maternity and the Family Allowances contributions by LBP600,000 each. As such, it raised the ceiling for the Sickness & Maternity contribution from LBP5m to LBP5.6m, and the ceiling for the Family allowances contributions from LBP2.825m to LBP3.425m. It noted that the contributions of the employer and the employee remain unchanged at 8% and 3%, respectively for the Sickness & Maternity segment, and at 6% for the employer's share for the Family allowance.

The government attributed the new adjustment to the deterioration of the exchange rate of the Lebanese pound and to the increase in the prices of goods and services, which have reduced the purchasing power of workers in the public and private sectors.

Ministry of Agriculture signs agreement with FAO to support agricultural sector

The Ministry of Agriculture and the United Nations' Food and Agriculture Organization (FAO) signed an agreement to launch a project that will increase the resilience of food systems in Lebanon. They said that the project aims to support the adoption of proper agricultural practices and to improve the performance of stakeholders in the fruits and vegetables value chains.

Further, they indicated that the project intends to improve the resilience of the value chains of fruits and vegetables to climate and economic shocks. They noted that the project will support small-scale fruits and vegetables farmers, especially female farmers, as well as will help their community to increase their technical and organizational skills. In addition, they pointed out that the project aims to support input producers, processors and traders at the production, marketing and processing levels, as well as to help them become more competitive and responsive to the needs of farmers. They added that the project will help farmers, their associations and cooperatives to coordinate their strategies and activities, as well as to produce safer, healthier and more affordable food.

In parallel, the ministry and the FAO indicated that Canada will fund the project through a CA\$20m grant in order to support the sustainability of the agricultural sector in Lebanon. Also, the ministry noted that it has signed recently four new projects with the FAO that are funded with a donation from Denmark, a grant from the European Union, and funds from Japan. It considered that these projects will strengthen the Lebanese agricultural sector in the execution of the strategic plan that the ministry is implementing.

European Union provides €15m in humanitarian assistance to vulnerable individuals

The European Union (EU) announced on November 24, 2023 the release of €15m in humanitarian aid for the most vulnerable individuals in Lebanon, which include displaced Syrians and vulnerable Lebanese citizens, as well as for individuals in need in Syria.

It indicated that the new humanitarian package consists of €11.5m for Syria and €3.5m for Lebanon. It said that it will provide life-saving humanitarian assistance, including food assistance and water, as well as sanitation and hygiene support for individuals who need it the most. Further, it pointed out that it will provide the humanitarian support on a need basis and that the aid will be delivered through non-governmental organizations, United Nations (UN) agencies, and international organizations.

The EU considered that Lebanon is affected by alarming levels of food insecurity, poor condition of the healthcare system, as well as increasing challenges to its public education system. It said that the elevated inflation rate in the country and lack of access to basic services are impacting large parts of the population, and that the impact of the economic crisis continues to affect the resilience of refugees and Lebanese citizens.

Also, the EU noted that the new allocation brings the total humanitarian assistance earmarked in 2023 to over €67m for people in need in Lebanon and €186.5m in Syria. It added that it has provided €2.7bn to support vulnerable individuals in Lebanon since 2011, which include more than €867m in humanitarian aid.



Banking Control Commission issues directives to banks on calculations of foreign exchange positions

The Banking Control Commission of Lebanon (BCCL) issued Circular 300 dated November 27, 2023 addressed to banks and auditors about the calculation of foreign exchange positions, the accounting treatment related to any changes in the exchange rate of the Lebanese pound, and the calculation of the maximum allowed limit for the banks' foreign exchange positions.

First, it indicated that banks have to calculate the open foreign exchange position for each currency separately. It noted that the open foreign exchange position consists of the on- balance sheet and off-balance sheet net position. It added that the net position on the balance sheet consists of the monetary assets plus the non-monetary assets in foreign currency calculated at fair value or at the value based on the equity method, minus the monetary liabilities in foreign currency. Also, it said that the off-balance sheet net position is calculated as the foreign currency receivables minus the foreign currency payables that result from currency forwards, swaps, futures and options contracts, as well as from other contracts related to obligations on currency swaps. It added that the calculation of monetary assets and liabilities has to be based on International Accounting Standards (IAS), and that they cannot deduct the components of shareholders' equity that are denominated in foreign currency and that are considered capital instruments according to IAS when calculating the open foreign exchange position. Also, it stated that banks have to calculate the net trading position for each currency separately as the net trading position minus the special foreign exchange position per currency. It added that the calculation of the net trading position in foreign currency should consist of the sum of the short and long trading positions.

Second, regarding the accounting treatment of the modification of the foreign exchange rate, it said that banks have to apply IAS to address the change in the exchange rate of the Lebanese pound when preparing financial statements in Lebanese pounds as follows: banks have to translate the amount of the monetary assets and liabilities to Lebanese pounds at the foreign currency rate adopted for transactions with banks as at the date of the preparation of the financial statements, and must register the foreign exchange differences in Lebanese pounds in the profit and loss statement. Also, it said that banks have to translate to Lebanese pounds non-monetary assets in foreign currency at fair value or based on the equity method at the foreign currency rate adopted for transactions with banks as at the date of the preparation of the financial statements, and that they have to register the foreign exchange differences in Lebanese pounds in the profits and loss statement or in the Tier One capital based on the type of the assets and the relevant IAS. It added that banks have to abide by all fair value conditions included in international financial reporting standards (IFRS) in order to reflect the effective value as at the date of disclosure of financial instruments at fair value. Also, it noted that they have to translate to Lebanese pounds non-monetary assets at cost and non-monetary liabilities at the historical exchange rate or at the exchange rate used on the date of booking the transaction in financial statements. Further, it said that they have to translate to Lebanese pounds the components of shareholders' equity instruments in foreign currency that are considered capital instruments according to IAS at the historical exchange rate that is used in transactions with banks on the date of booking the transaction in financial statements.

Regarding the preparation of financial statements, it asked banks to register in Lebanese pounds in the financial position, as part of the components of shareholders' equity, the difference in valuation resulting from using the equity method for valuing participations at affiliates. Further, banks have to register the foreign exchange differences on debt instruments at fair value through other comprehensive income (OCI) in Lebanese pounds in the profit and loss statement according to IFRS; while they have to register the change in the value of these instruments in the financial position in the entry "cumulative change on the holding of bank certificates and financial instruments classified at fair value against OCI". Banks have to include the valuation differences for equity and shares at face value through OCI in the item "cumulative change in banking certificates and financial instruments at fair value against OCI", and must register in Lebanese pounds the changes in foreign exchange related to these instruments in the financial position in the same item based on IFRS requirements.

In addition, it stated that banks have to register in Lebanese pounds the value of investments, including participations in affiliates, in the equity of Lebanese companies in case the equity issuance was in the local currency. In contrast, it said that, in case the bank booked these investments in foreign currency, it has to convert them to Lebanese pounds based on the historical exchange rate if the investment was categorized at cost, or at the exchange rate for transactions with banks at the date of preparing the financial statements in case the investment is at fair value or is based on the equity method.

In the case of applying IAS on the consolidated financial statements of banks in Lebanese pounds, it asked banks to translate the assets and liabilities from consolidation with foreign affiliates at the exchange rate used for transactions with banks; and to translate the components of Tier One capital in foreign currency from the consolidation with foreign affiliates at the historical exchange rate or the exchange rate used on the date of registering the transaction in financial statements. Further, banks have to register in Lebanese pounds the foreign exchange differences from the consolidation with foreign affiliates as part of Tier One capital through OCI.

Third, regarding the calculation of the maximum allowed limit for foreign exchange positions, it said that banks have to calculate the allowed limit mentioned in Banque du Liban Basic Circular 32 dated April 24, 1997 on a standalone basis that is limited to the banks' branches in Lebanon. It added that banks have to utilize the "Tier One capital to calculate the other regulatory ratios" mentioned in BCCL Circular 277 dated May 21, 2014 to calculate the maximum allowed limit for foreign exchange positions.

In parallel, it canceled BCCL Circular 197 about foreign exchange positions at banks and financial institutions, BCCL memo 15/2017 about the weekly reporting of foreign exchange positions, BCCL memo 6/2021 about disclosures related to changes on foreign exchange positions, BCCL memo 5/2022 about the disclosure of details of some items in the financial position, while it suspended the implementation of BCCL Circular 290 about the banks' long fixed foreign exchange positions.

Lebanon ranks 120th globally, 12th among Arab countries on ESG index for 2022

Global Risk Profile, a Swiss company specializing in third-party risk management-related services, ranked Lebanon in 120th place among 183 countries around the world and in 12th place among 19 Arab countries on its Environment, Social, and Governance (ESG) Index for 2022. Lebanon also came in 22nd place among 54 lower middle-income countries (LMICs) included in the survey. Lebanon ranked in the 34th percentile worldwide on the 2022 index, which means that the risk level related to environmental, social, and governance issues is higher than in 66% of economies covered by the survey.

The index assesses the risk level in a country related to climate change measures, biodiversity and the health of the ecosystem, social rights, civil and political rights, collective rights, as well as the levels of health and safety. It includes 65 variables that are grouped among three sub-indices that are the Human Rights Sub-Index, the Environment Sub-Index, and the Health & Safety Sub-Index. The first sub-index carries a weight of 50% on the index, while the second and third sub-indices have weights of 30% and 20%, respectively. A country's overall score ranges from zero to 100, with a score of zero corresponding to the lowest level of ESG risk and a score of 100 reflecting the highest risk level.

Lebanon received a score of 50.5 points in the 2022 survey, compared to the global average score of 44.9 points, the Arab region's average score of 50.4 points, and the LMICs' score of 52.8 points. Also, Lebanon's score came higher than the Gulf Cooperation Council (GCC) countries' average score of 42.9 points and lower the average score of non-GCC Arab countries of 53.9 points.

Globally, Lebanon has a higher ESG risk level than Algeria, China and Benin, and a lower risk level than Nicaragua, Gabon and Rwanda among economies with a GDP of \$10bn or more. Further, Lebanon preceded Nicaragua, Senegal and Ghana, while it trailed Morocco, Algeria and Benin among LMICs. Regionally, Lebanon ranked ahead of Iraq, Egypt, and Djibouti, and came behind Libya, Morocco, and Algeria among Arab countries.

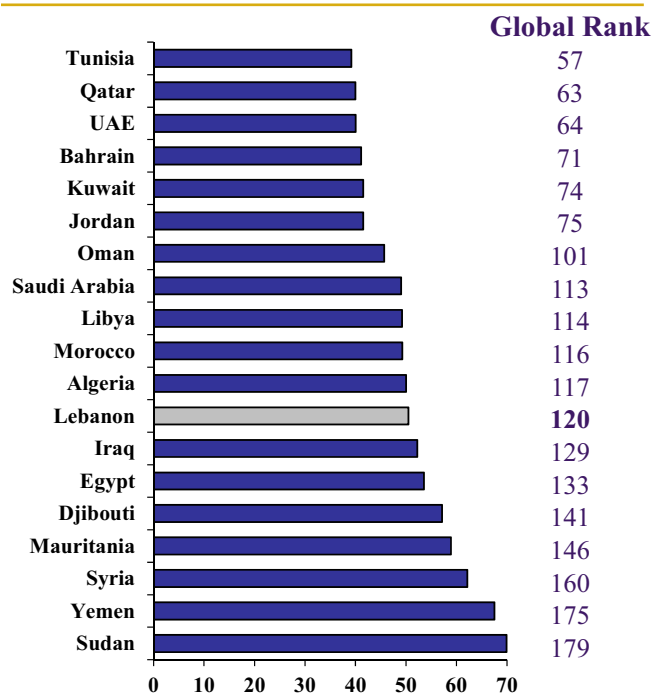
Nearly 62% of Treasury securities in Lebanese pounds have seven-year maturities or longer at end-October 2023

Figures released by the Association of Banks in Lebanon show that the face value of outstanding Treasury securities denominated in Lebanese pounds reached LBP88,392bn at the end of October 2023 compared to LBP90,487bn at end-October 2022. The outstanding Treasury securities were equivalent to \$5.9bn at the end of October 2023 based on the new official exchange rate of LBP15,000 per US dollar, but they become equivalent to \$985.4m based on the prevailing parallel market exchange rate of LBP89,700 per dollar at the end of last October. The weighted interest rate on Lebanese Treasury securities was 6.32% in October 2023 compared to 6.41% in October 2022.

Also, the distribution of outstanding Treasury securities shows that 10-year Treasury bonds totaled LBP 32,951bn and accounted for 37.3% of aggregate securities denominated in Lebanese pounds at the end of October 2023, followed by seven-year Treasury securities with LBP17,223bn (19.5%), five-year Treasury bills with LBP12,776bn (14.5%), one-year T-bills with LBP7,936bn (9%), two-year Treasury bonds with LBP5,777bn (6.5%), three-year Treasury bills with LBP5,662bn (6.4%), 12-year Treasury bonds with LBP3,076bn (3.5%), 15-year Treasury securities with LBP1,417bn (1.6%), six-month T-bills with LBP1,196bn (1.4%), and three-month Treasury bills with LBP378bn (0.4%). As such, 61.8% of outstanding Treasury securities have seven-year maturities or longer and 76.3% have five-year maturities or more.

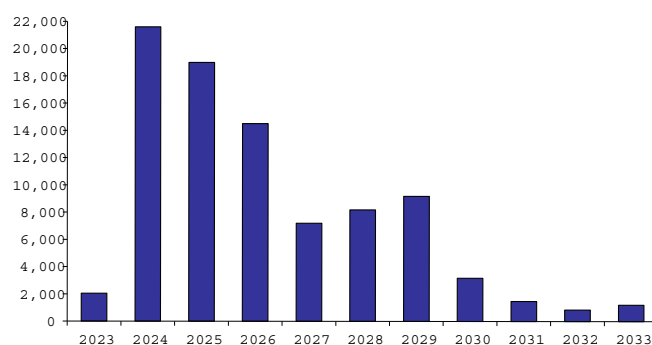
In parallel, LBP482bn in outstanding Treasury securities denominated in Lebanese pounds matured in October 2023. The distribution of maturing securities shows that 31% consisted of five-year Treasury bonds, 22.6% were seven-year Treasury securities, 21.4% consisted of six-month Treasury bills, 20.5% were three-month T-bills, 3% consisted of one-year Treasury securities, and 1.5% were three-year Treasury bonds. According to ABL, LBP2,050bn in outstanding Treasury bonds in Lebanese pounds will mature in the rest of 2023.

ESG Index for 2022 Arab Countries' Scores & Rankings



Source: Global Risk Profile., Byblos Research

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



*as at end-October 2023

Source: Association of Banks in Lebanon, Byblos Research

Stock market capitalization up 25% to \$16.7bn at end-November 2023

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 34.6 million shares in the first 11 months of 2023, constituting a surge of 64.3% from 21 million shares traded in the same period of 2022; while aggregate turnover amounted to \$487.2m and increased by 18.8% from a turnover of \$410.3m in the first 11 months of 2022.

Further, the market capitalization of the BSE stood at \$16.7bn at the end of November 2023, representing an increase of 25.2% from \$13.4bn a year earlier, and compared to \$16.3bn at the end of October and to \$18.3bn at end-September 2023. Real estate equities accounted for 66.4% of the market's capitalization at the end of November 2023, followed by banking stocks (25.3%), and industrial shares (8.4%). Also, the trading volume reached 466,274 shares in November 2023 and decreased by 68.8% from 1.5 million shares traded in October 2023, while aggregate turnover amounted to \$11.1m in November 2023 and dropped by 87.7% from a turnover of \$89.6m in October 2023. The market liquidity ratio was 2.9% at the end of November 2023 compared to 3.1% a year earlier.

Also, banking stocks accounted for 82.3% of the trading volume in the first 11 months of 2023, followed by real estate equities (17.5%) and industrial shares (0.14%). Further, real estate equities accounted for 93.6% of the aggregate value of shares traded, followed by banking stocks (6.1%), and industrial shares (0.3%). The average daily traded volume for the first 11 months of 2023 was 157,853 shares for an average daily amount of \$2.2m. The figures represent a surge of 64.3% of the average daily traded volume and an increase of 18.8% 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 22.8% in the first 11 months of 2023, while the CMA's Banks Market Value-Weighted Index grew by 2.2% 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 10.1% and 12%, respectively, in the first 11 months of 2023, given that the shares had market weights of 40.1% and 26.3%, respectively, on the last trading day of November 2023, the highest among listed companies on the BSE.

Further, the prices of Solidere 'A' and Solidere 'B' increased by 25% and 28.3%, respectively, in the first nine months of 2023, but they decreased by 12.4% and 14.3%, respectively, in October 2023; while the share price of Holcim increased by 109.7% in the first nine months of 2023, but contracted by 7.7% in October due to the eruption of war in the Gaza Strip and to the flare up of tensions along Lebanon's southern border with Israel that led to a decline in market sentiment. However, the prices of Solidere 'A' and Solidere 'B' shares grew by 0.6% and 1.8%, respectively, and the share price of Holcim increased by 7.1% in November 2023 from the preceding month.

The rise in the share prices of Solidere and Holcim 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.

Foreign investments of financial sector at \$1.3bn at end-2022

Figures issued by Banque du Liban (BdL) show that the net investment portfolio of Lebanese banks and financial institutions in foreign debt and equity securities totaled LBP1,992.5bn at end-2022, or the equivalent of \$1.32bn, constituting a decrease of 14.7% from LBP2,336.4bn (\$1.55bn) at end-2021. The dollar figures are converted at the official exchange rate of the Lebanese pound to the US dollar at the time. According to BdL, the figures cover the net assets of resident banks and financial institutions in foreign tradable debt and equity instruments, on behalf of their clients and on a custodial basis mostly.

Investments in long-term debt securities stood at \$716.4m, at end-2022 and accounted for 54.2% of the total, followed by placements in equities at \$596.4m (45.1%), and investments in short-term debt securities at \$9m (0.7%). Investments in short-term debt securities surged by 871.4% and investments in long-term debt securities increased by 5.1%, while placements in equities declined by 31.2% from end-2021.

The investments of commercial banks in long-term debt securities totaled \$294.1m, and accounted for 41.1% of the financial sector's aggregate investments in such securities at the end of 2022. The net investments of medium- and long-term banks followed with \$207.2m (29%), then insurance companies followed with \$188.3m (26.3%), and financial institutions with \$26.7m (3.7%).

Further, medium- and long-term banks' investments in equities reached \$200.1m and represented 33.5% of the financial sector's investments in such securities at the end of 2022. Commercial banks followed with \$155m (26%), then financial institutions with \$151.3m (25.4%), insurers with \$89.7m (15%), and financial intermediaries with \$0.3m (0.04%).

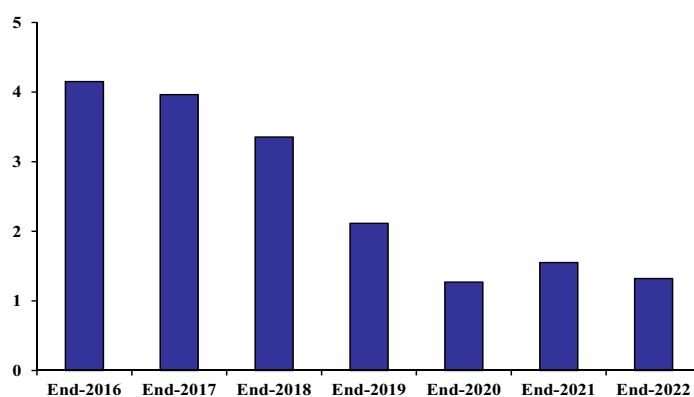
In parallel, insurance firms had \$5m, invested in short-term debt securities and accounted for 56% of the financial sector's total investments in such securities at the end of 2022, followed by financial institutions with \$3.8m (42%), and medium and long-term banks with \$0.2m (2.2%).

The distribution of investments by destination shows that the United States was the main recipient of equity investments of banks and financial institutions operating in Lebanon with \$136.8m, or 23% of the total as at the end of 2022. The United Kingdom followed with equity investments of \$83.6m (14%), then the Netherlands with \$58m (9.7%), Luxembourg with \$46.4m (7.8%), and Jordan with \$44.5m (7.5%), while other countries accounted for the remaining 38%.

In parallel, the United Kingdom was the recipient of \$186.7m or 26% of investments by Lebanese banks and financial institutions in long-term debt securities, followed by France with \$147.3m (20.6%), the United States with \$115.4m (16%), Switzerland with \$52.5m (7.3%), and Ireland with \$47.1m (6.6%), while other countries accounted for the balance of 23.4%.

Further, the United States was the recipient of 85.4% of investments by Lebanese banks and financial institutions in short-term debt securities, followed by the United Kingdom with 7.3%, the European Union with 5%, and Venezuela with 2.2%.

Foreign Investments of Financial Sector (US\$bn)



Source: Banque du Liban, Byblos Research

Net income of Syrian affiliates of Lebanese banks at SYP4.4bn in first nine months of 2023

Financial results issued by the affiliates of five Lebanese banks in Syria show that their aggregate net profits reached SYP1,754.6bn in the first nine months of 2023 compared to net earnings of SYP146.7bn in the same period of 2022. The depreciation of the Syrian pound from SYP3,105 against the US dollar at the end of September 2022 to SYP8,542 per dollar at the end of September 2023 resulted in unrealized foreign exchange gains on the banks' structural positions of SYP1,750.2bn in the covered period of 2023. As such, the net profits of the five banks in US dollar terms totaled \$268.6m in the covered period compared to net earnings of \$52.8m in the first nine months of 2022. When excluding foreign exchange gains on structural positions, the earnings of the five banks shift to net gains of SYP4.4bn, or \$0.7m, in the first nine months of 2023.

The profits of Banque BEMO Saudi Fransi surged by SYP623bn in covered period, followed by an increase of SYP316.3bn in the net income of Byblos Bank Syria, a growth of SYP261.1bn in the profits of Bank of Syria & Overseas, a rise of SYP241.5bn in the net income of Fransabank Syria, and an upturn of SYP166.1bn on the profits of Bank Al-Sharq, the affiliate of Banque Libano-Française.

The net interest income of the five banks totaled SYP76.1bn in the first nine months of 2023, constituting an increase of 100.3% from SYP38bn in the same period in 2022; while their net fees & commission income rose by 224.4% to SYP170.7bn. Further, the aggregate operating income of the five banks stood at SYP2,038.6bn in the covered period and surged by 678.5% from SYP261.9bn in the same period in 2022; while their aggregate operating expenses amounted to SYP286.5bn, up by 2.5 times from SYP116.6bn in the same period of the preceding year.

In parallel, the banks' aggregate assets reached SYP8,801bn at the end of September 2023 compared to SYP3,506.7bn in 2022. The growth in assets was due to a surge of 190.3% in the assets of Bank Al-Sharq (+SYP417bn), a rise of 165.3% in those of Bank of Syria and Overseas (+SYP930bn), a growth of 158% in the assets of Byblos Bank Syria (+SYP557.8bn), an increase of 143% in those of Banque Bemo Saudi Fransi (+SYP2,173.4bn), and an uptick of 142% in the assets of Fransabank Syria (+SYP676.4bn). In US dollar terms, the assets of the five banks stood at \$1.03bn at end-September 2023, constituting a decrease of 11.4% from \$1.16bn at the end of 2022.

Also, the banks' total loans amounted to SYP754.4bn at end-September 2022 relative to SYP506.3bn at the end of 2022. Further, the banks' customer deposits totaled SYP5,278.4bn at the end of September 2022 compared to SYP2,269.5bn at end-2022. The ratio of the banks' loans-to-customer deposits stood at 14.3% at the end of September 2022 relative to 22.3% at end-2022. In parallel, the aggregate shareholders' equity of the five banks stood at SYP2,607.5bn at end-September 2022 and rose by 208.7% from SYP844.8bn at end-2022.

Results of Affiliates of Lebanese Banks in Syria in First Nine Months of 2023 (SYPbn)					
	Banque BEMO Saudi Fransi	Bank of Syria & Overseas	Fransabank Syria	Byblos Bank Syria	Bank Al-Sharq
Net Profits	680.58	282.14	267.12	344.26	180.46
Total Assets	4,609.63	1491.77	1152.97	910.53	635.90
% Change*	143.1%	165.3%	141.9%	158.1%	190.3%
Loans	415.80	42.43	141.32	98.51	56.35
% Change*	36.2%	7.2%	74.4%	118.6%	59.5%
Customer Deposits	3,170.12	963.14	557.17	327.56	260.39
% Change*	131.3%	146.6%	127.7%	111.0%	140.3%

*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



Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut – Lebanon
Tel: (961) 1 338 100
Fax: (961) 1 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com

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BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605 Riad El Solh - Beirut 1107 2811- Lebanon
Phone: (+ 961) 1 335200
Fax: (+ 961) 1 339436

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60, Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457/8/9 - 2560017/9
E-mail: erbilbranch@byblosbank.com.lb

Sulaymaniyah Branch, Kurdistan, Iraq
Salem street, Kurdistan Mall - Sulaymaniyah
Phone: (+ 964) 773 042 1010 / (+ 964) 773 041 1010

Baghdad Branch, Iraq
Al Karrada - Salman Faeq Street
Al Wahda District, No. 904/14, Facing Al Shuruk Building
P.O.Box: 3085 Badalat Al Olwiya – Iraq
Phone: (+ 964) 770 6527807 / (+ 964) 780 9133031/2
E-mail: baghdadbranch@byblosbank.com.lb

Basra Branch, Iraq
Intersection of July 14th, Manawi Basha Street, Al Basra – Iraq
Phone: (+ 964) 770 4931900 / (+ 964) 770 4931919
E-mail: basrabranch@byblosbank.com.lb

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryan Street - Area 0002
Yerevan - Republic of Armenia
Phone: (+ 374) 10 530362 Fax: (+ 374) 10 535296
E-mail: infoarm@byblosbank.com

NIGERIA

Byblos Bank Nigeria Representative Office
161C Rafu Taylor Close - Off Idejo Street
Victoria Island, Lagos - Nigeria
Phone: (+ 234) 706 112 5800
(+ 234) 808 839 9122
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

BELGIUM

Byblos Bank Europe S.A.
Brussels Head Office
Boulevard Bischoffsheim 1-8
1000 Brussels
Phone: (+ 32) 2 551 00 20
Fax: (+ 32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

UNITED KINGDOM

Byblos Bank Europe S.A., London Branch
Berkeley Square House
Berkeley Square
GB - London W1J 6BS - United Kingdom
Phone: (+ 44) 20 7518 8100
Fax: (+ 44) 20 7518 8129
E-mail: byblos.london@byblosbankeur.com

FRANCE

Byblos Bank Europe S.A., Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+33) 1 45 63 10 01
Fax: (+33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

ADIR INSURANCE

Dora Highway - Aya Commercial Center
P.O.Box: 90-1446
Jdeidet El Metn - 1202 2119 Lebanon
Phone: (+ 961) 1 256290
Fax: (+ 961) 1 256293