

LEBANON THIS WEEK

In This Issue

Economic Indicators.....1
Capital Markets.....1
Lebanon in the News.....2

Shift in monetary policy stabilizes exchange rate, increases foreign reserves

EBRD forecast Lebanon's real GDP to contract by 1% in 2024 on rising geopolitical risks

Banque du Liban expands terms of deposit withdrawals in foreign currency

Amount of cleared checks in Lebanese pounds up 32.7% in first eight months of 2024

Surveyed economists project Lebanon's real GDP to contract by 0.3% in 2024

Lebanon ranks 94th globally, 11th among Arab countries in terms of innovation

Food Price Index up 20% year-on-year in July 2024

Government provides temporary compensation to public sector employees and retirees

Lebanon ranks 127th globally, ninth among Arab countries in terms of economic, political and legal freedoms

Corporate Highlights

Net income of Syrian affiliates of Lebanese banks at SYP53.2bn in first half of 2024

Banque du Liban amends requirements for banks' Common Tier One Capital

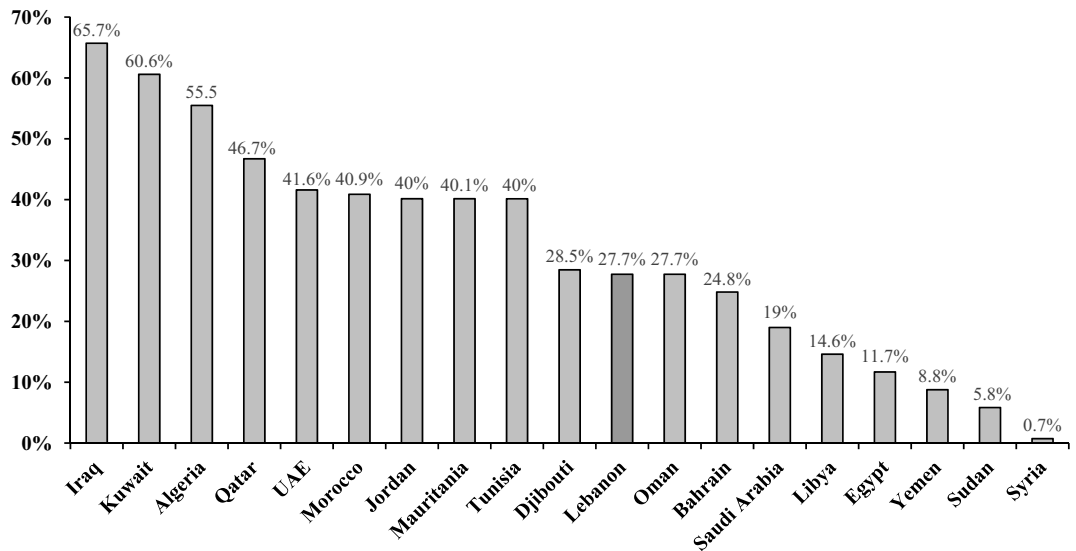
Banque du Liban amends liquidity-related requirements at banks

Ratio Highlights

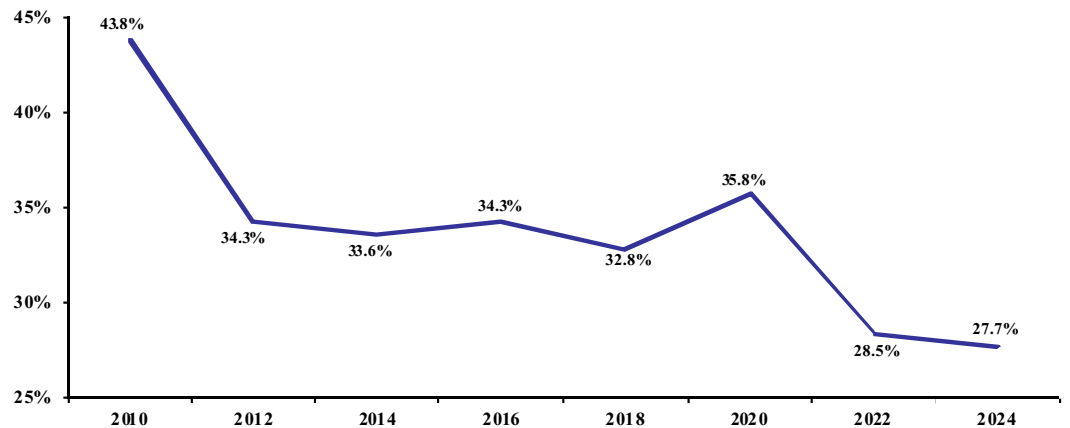
National Accounts, Prices and Exchange Rates10
Ratings & Outlook.....10

Charts of the Week

Percentile Rankings of Arab Countries on the Consensus-Building Indicator for 2024



Percentile Rankings of Lebanon on the Consensus-Building Indicator



**The consensus-building indicator measures the broadest possible consensus for the transformation goals of decision-makers, and evaluates anti-democratic actors, conflict management, civil society participation, and the reconciliation process in a country.*

Source: Bertelsmann Stiftung's Governance Index, Byblos Bank

Quote to Note

"The Lebanese political backdrop remains highly polarized amid a constitutional power vacuum."

Barclays Capital, on one of the main obstacles to addressing the economic crisis

Number of the Week

LBP517,100bn: The public sector's deposits at Banque du Liban at mid-September 2024

Lebanon in the News

\$m (unless otherwise mentioned)	2021	2022	2023	% Change*	Dec-22	Nov-23	Dec-23
Exports	3,887	3,492	2,995	-14.2%	272	290	240
Imports	13,641	19,053	17,524	-8.0%	1,251	1,253	1,303
Trade Balance	(9,754)	(15,562)	(14,529)	-6.6%	(979)	(963)	(1,063)
Balance of Payments	(1,960)	(3,197)	2,237	-170.0%	17	186	591
Checks Cleared in LBP**	18,639	27,146	4,396	-83.8%	3,686	359	404
Checks Cleared in FC**	17,779	10,288	3,109	-69.8%	577	106	183
Total Checks Cleared**	36,418	37,434	7,505	-80.0%	4,263	465	587
Fiscal Deficit/Surplus	2,197	-	-	-	-	-	-
Primary Balance	5,009	-	-	-	-	-	-
Airport Passengers	4,334,231	6,360,564	7,103,349	11.7%	551,632	323,523	481,470
Consumer Price Index	154.8	171.2	221.3	5,014bps	122.0	211.9	192.3

\$bn (unless otherwise mentioned)	Dec-22	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	% Change*
BdL FX Reserves	10.40	8.82	8.91	9.14	9.37	9.64	-7.3%
In months of Imports	-	-	-	-	-	-	-
Public Debt	101.81	-	-	-	-	-	-
Bank Assets	169.06	113.72	112.69	112.25	112.58	115.25	-31.8%
Bank Deposits (Private Sector)	125.72	95.59	95.17	94.64	94.97	94.75	-24.6%
Bank Loans to Private Sector	20.05	8.92	8.69	8.58	8.53	8.32	-58.5%
Money Supply M2	77.34	6.64	6.77	6.48	6.78	6.72	-91.3%
Money Supply M3	152.29	78.38	78.10	77.42	77.74	77.75	-48.9%
LBP Lending Rate (%)	4.56	3.77	4.36	3.34	3.29	3.97	20
LBP Deposit Rate (%)	0.60	0.41	0.49	1.02	1.41	0.55	14
USD Lending Rate (%)	4.16	2.40	3.15	3.70	3.08	1.95	(45)
USD Deposit Rate (%)	0.06	0.03	0.03	0.05	0.05	0.03	0

*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 %
BLOM GDR	3.01	(14.0)	67,170	1.1%	Nov 2024	6.25	6.25	16,363.64
Solidere "A"	90.25	2.6	48,081	42.9%	Jun 2025	6.25	6.25	1,260.64
Solidere "B"	89.50	4.1	21,969	27.6%	Nov 2026	6.60	6.25	180.48
HOLCIM	63.15	0.2	227	5.9%	Mar 2027	6.85	6.25	149.96
Audi Listed	1.80	0.0	-	5.0%	Nov 2028	6.65	6.25	80.72
Audi GDR	1.55	0.0	-	0.9%	Feb 2030	6.65	6.25	58.50
BLOM Listed	7.00	0.0	-	7.1%	Apr 2031	7.00	6.25	47.08
Byblos Common	0.65	0.0	-	1.7%	May 2033	8.20	6.25	34.86
Byblos Pref. 08	25.00	0.0	-	0.2%	Nov 2035	7.05	6.25	26.64
Byblos Pref. 09	29.99	0.0	-	0.3%	Mar 2037	7.25	6.25	23.50

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

Source: Refinitiv

	Sep 23-27	Sep 17-20	% Change	August 2024	August 2023	% Change
Total shares traded	137,447	117,830	16.6	960,183	1,893,327	(49.3)
Total value traded	\$6,484,055	\$7,633,909	(15.1)	\$60,610,835	\$46,947,434	70.6
Market capitalization	\$21.05bn	\$20.63bn	2.0	\$19.24bn	\$18.72bn	1.0

Source: Beirut Stock Exchange (BSE)



Shift in monetary policy stabilizes exchange rate, increases foreign reserves

In its annual review of monetary, banking, and financial developments in Lebanon in 2023, Banque du Liban (BdL) indicated that the Lebanese economy has faced significant challenges for the fourth consecutive year, while Lebanon has been without a president or an empowered government for over one year, severely impeding decision-making and reform efforts.

It added that, amid the crisis and political deadlock, it initiated a transition in its monetary policy following the appointment of the First Vice Governor as acting Governor in August 2023. It indicated that the new acting Governor, along with BdL's Central Council, has proposed a recovery plan to Parliament that is based on wide-scale policy shifts and reforms that political leaders have been avoiding for years. It said that BdL's comprehensive transitional roadmap consists of, first, committing to issue and enact feasible annual budgets within constitutional deadlines; second, implementing the Capital Control Law; third, restructuring the banking sector through the Lebanese Banks Restructuring Law; and fourth, enacting the Gap Resolution Law. It noted that these reforms aim to correct financial and fiscal imbalances, reduce the current account deficit, place the public debt on a firm downward path, restore the financial sector's stability, and rebuild confidence. It added that, as part of this plan, it has stopped in August 2023 all funding of the government, which has forced the executive branch to seek balanced budgets and limit its expenditures to its revenues.

Further, BdL said that it committed to setting rules and regulations to move the exchange rate to a floating system, with the ability to intervene when necessary. As such, it advised the government to build a floating rate-based budget to improve its revenues and achieve a balanced budget, in order to limit BdL's costly monetary policy actions and protect its foreign currency reserves, formed a task force with the caretaker government to coordinate the transition to a unified and floating exchange rate. As a result, BdL said it discontinued the Sayrafa electronic exchange platform and decided to use instead the auction mechanism on the International Provider Platform, in cooperation with the U.S. financial data provider Bloomberg, to respond to speculative attacks on the local currency. It added that this platform aims to inform about the real value of the exchange rate of the Lebanese pound against the US dollar, and will replace the parallel market that has caused erratic rate fluctuations since 2019. As such, it said that the exchange rate in the Lebanese economy will be determined by market forces of supply and demand. Also, BdL stated that it will set rules and requirements for banks and licensed money dealers to qualify for listing on the new platform, but that due to the unstable political and security conditions in the country, it did not finalize negotiations with the service providers.

In parallel, BdL indicated that, since August 2023, monetary policy has managed to stabilize the exchange rate of the Lebanese pound and to build up foreign currency reserves, and that coordination with fiscal authorities has facilitated this objective. It said that the exchange rate of the Lebanese pound lost over 98% of its value against the US dollar in the first quarter of 2023, but it recovered in the second quarter of the year and stabilized since July 2023 at a rate of about LBP89,500 per US dollar. Also, it pointed out that BdL's foreign currency reserves started to improve after experiencing a prolonged period of decline due to the crisis, particularly due to the subsidies policy that ended in January 2023. It added that reserves increased from a low of \$8.57bn at the end of July to \$9.33bn at the end 2023. Further, BdL indicated that, in order to stabilize the exchange rate, it controlled money supply in Lebanese pounds to ensure it aligns with demand, which led to the drop of currency in circulation in Lebanese pounds by 27% during 2023 relative to an increase of 75% in 2022, and reached about LBP58 trillion, or the equivalent of \$649m by the end of 2023.

In addition, it noted that the Lebanese economy has been increasingly dollarized, as the private sector conducted most of its transactions in US dollars, while the public sector continued to operate primarily in Lebanese pounds. It noted that this delicate equilibrium has succeeded in preserving baseline stability in prices and transactions.

In parallel, it said that activity in the banking sector continued to decline in 2023 amid persistent economic challenges. It added that the sector has been undergoing a significant contraction in both deposits and loans since the onset of the crisis in late 2019, reflecting its ongoing adjustment to the broader economic context. It noted that customer deposits have shrunk by around 45%, to \$94bn by the end of 2023, driven mainly by resident withdrawals of local currency deposits, partial disbursements of foreign currency deposits under BdL circulars, and loan redemptions through banks' checks, particularly during the initial phase of the crisis. It added that the contraction is linked to the payment of taxes, fees and various bills via banking channels. It stated that the adoption of the new official exchange rate of LBP15,000 per dollar starting in February 2023 further accelerated this trend, with the deposit dollarization ratio rising to 95.8% by December 2023. In addition, it said that the banks loan portfolios shrank by about 85% due to early repayments and loan redemptions to reach \$8.1bn at the end of 2023, as the dollarization ratio of loans surged to 90.88%. It stated that loan redemptions have been the largest contributor to deposit contractions in the past four years, while banks have stopped granting new loans to individuals and businesses. It declared that the enactment of laws that safeguard the rights of both lenders and borrowers is essential for the banking sector to resume lending.

In addition, BdL stated that it continued its efforts in 2023 to develop and modernize the domestic payment infrastructure, in order to reduce the risks that originate from an economy that is highly dependent on cash. It said that it stressed compliance with international norms and standards, and promoted safe and efficient payment systems as an alternative to cash payments, in order to reduce exposure to money laundering and terrorist financing risks.

Further, it indicated that, despite all the efforts of BdL to reestablish financial and monetary stability, the outlook remains highly uncertainty and is tied to other critical factors such as fiscal adjustment and structural reforms. It stressed that these measures are necessary to complement monetary policy, in order to maintain macroeconomic stability, set the sovereign debt on a sustainable path, and support the economic recovery.

EBRD forecast Lebanon's real GDP to contract by 1% in 2024 on rising geopolitical risks

The European Bank for Reconstruction and Development (EBRD) estimated that Lebanon's real GDP contracted by 0.2% in 2023 due to the escalating cross-border exchanges along Lebanon's border with Israel since the eruption of the war in the Gaza Strip that weighed down considerably on the economy, in addition to the prevailing political deadlock and little progress on critical reforms. Further, it estimated that economic activity in Lebanon shrank by 1% in the first half of this year and projected it to contract by 1% in 2024 amid geopolitical risks, political inaction and stalled reforms, while it expected real GDP growth to accelerate to 2% in 2025 in case regional tensions recede, if a program with the International Monetary Fund is implemented, and in case there is progress on reforms. In comparison, it forecast economic activity in the Southern and eastern Mediterranean countries at 2.1% this year and 2.5% next year, and in EBRD's member countries at 2.8% in 2024 and 3.5% in 2025. The EBRD prepared its forecasts prior to the recent military escalation in Lebanon.

But it pointed out that foreign currency reserves rose in 2023 on the back of increased remittance inflows and tourist arrivals. Also, it stated that the exchange rate of the US dollar on the parallel market has stabilized at around LBP89,700 per dollar since the end of July, and that the inflation rate dropped from a peak of 352% in March 2023 to 123% in February 2024, helped by easing energy and food prices.

Further, it pointed out that lower commodity prices and growing remittances and tourism flows in the first nine months of 2023 helped reduce pressure on the current account, but it noted that Banque du Liban's foreign assets regressed slightly from \$15.2bn at the end of 2022 to \$14.5bn at end-2023. It noted that the volatility of the exchange rate eased last year as BdL introduced several measures to unify the multiple exchange rates in the economy. It added that this was further helped by the enactment of the 2024 budget law that aligned the exchange rate closer to the prevailing market rate of about LBP89,700 pounds per US dollar since August 2023. As a result, the inflation rate dropped from a peak of 352% in March 2023 to 35.4% in July 2024 year-on-year, helped in part by the easing of energy and food prices.

Established in 1991, the EBRD aims to support economies and promote the private sector in 40 economies across three continents, from the Southern and Eastern Mediterranean (SEMED), to Central and Eastern Europe, and to Central Asia. The bank's countries in the SEMED region consist of Egypt, Jordan, Lebanon, Morocco, Tunisia, and the West Bank & Gaza. The bank has currently 75 shareholders that include 73 countries as well as the European Union and the European Investment Bank, and has invested in excess of €190bn in more than 6,800 projects. It said that it has invested more than €2bn in 42 projects in SEMED countries in 2023, with 93% of the funds targeting the private sector. The bank has €875m in cumulative pledges in Lebanon that include €248m in disbursements for 10 projects as at end-July 2024.

Banque du Liban expands terms of deposit withdrawals in foreign currency

Banque du Liban (BdL) issued Intermediate Circular 709/13668 dated September 25, 2024 addressed to banks, which modified Basic Circular 158/13335 of June 21, 2021 about exceptional measures related to the gradual disbursement of deposits in foreign currency from accounts that clients opened prior to October 31, 2019. It also issued Intermediate Circular 710/13669 dated September 25, 2024 addressed to banks, which modified Basic Circular 166/13611 of February 2, 2024 about exceptional measures related to the gradual disbursement of deposits in foreign currency from accounts that clients opened prior to June 30, 2023. It attributed the modifications of the two circulars to the special circumstances that the country is going through.

BdL stipulated that, exceptionally and for one time only, beneficiaries can withdraw two additional monthly payments according to the following mechanism. First, the circular applies to individuals who signed prior to September 25, 2024 the request to lift bank secrecy in order to benefit from Basic Circular 158/1335 or from Basic Circular 166/13611. Second, it amended the ceiling for the annual withdrawals from banks during the current cycle that ends on June 30, 2025 to \$5,600 and \$4,200, depending on the date they started to benefit from the circular, for the beneficiaries of Basic Circular 158/1335, and to \$2,100 for the beneficiaries of Basic Circular 166/13611. Third, it said the beneficiaries can withdraw the two additional payments in October 2024. It noted that an account owner who does not have enough funds in his/her "Special Sub-Account" to benefit from one of the two circulars can submit a request to increase the funds in the account up to the ceiling that allows his/her to benefit from this decision until it expires, whereby the beneficiary can withdraw the two extra payments when the funds become available in the "Special Sub-Account". Fourth, it asked banks to report the two extra withdrawals to BdL's "Central Unit for Special Sub-Accounts" in their statement for the month when the payments take place. Fifth, it said that it will source the liquidity for the two additional payments from the banks' reserve requirements in foreign currency at BdL, which it will free for this purpose. Sixth, it said that the circular goes into effect upon its publication.

Basic Circular 158/13335 indicated that eligible depositors can withdraw up to \$400 in foreign currency banknotes per month for a 12-month period, and up to the equivalent of \$400 converted to Lebanese pounds at the rate of LBP12,000 per US dollar, with half of the amount in Lebanese pounds disbursed in cash and the other half to be used through a payment card. BdL then issued Basic Circular 678/13580 dated September 15, 2023 that canceled the Lebanese-pound component of Basic Circular 158.

Further, Basic Circular 166/13611 stipulates that eligible depositors can withdraw from their "Special Sub-Account" \$150 in banknotes monthly and/or they can transfer the sum abroad or deposit it in a "fresh dollar" account, without incurring any commission or direct or indirect fees of any kind. It added that the account owner can benefit from the terms of this circular for an amount that does not exceed \$4,350 from all banks combined, and that he/she can withdraw a maximum of \$1,800 per year. BdL provided a list of conditions that determine the eligibility of depositors for the two circulars.

Amount of cleared checks in Lebanese pounds up 32.7% in first eight months of 2024

The amount of cleared checks in Lebanese pounds reached LBP54,708bn in the first eight months of 2024, constituting an increase of 32.7% from LBP41,237bn in the same period of 2023, while the amount of cleared checks in foreign currency was \$950m and dropped by 63.3% from \$2.6bn in the first eight months of 2023. Also, there were 138,241 cleared checks in the first eight months of 2024, down by 57.7% from 327,135 checks in the same period of 2023.

In addition, the amount of cleared checks in Lebanese pounds stood at LBP7,129 in August 2024, constituting increases of 19% from LBP8,799 in July 2024 and of 40.8% from LBP5,063bn in August 2023. Further, the amount of cleared checks in foreign currency was \$82m in August 2024 and regressed by 6.8% from \$88m in the previous month, while it declined by 56.4% from \$188m in August 2023. Also, there were 14,781 cleared checks in August 2024 relative to 16,607 checks in July 2024 and to 29,092 cleared checks in August 2023.

Further, the amount of cleared checks in "fresh" Lebanese pounds stood at LBP10,422bn, while the amount of cleared checks in "fresh" foreign currency was \$169.5m in the first eight months of 2024. Also, there were 5,720 cleared checks in "fresh" Lebanese pounds and 12,277 cleared checks in "fresh" foreign currency in the covered period.

In parallel, the amount of returned checks in Lebanese pounds totaled LBP409bn in the first eight months of 2024, down by 22% from LBP524bn in the same period last year, while the amount of returned checks in foreign currency was \$39m and dropped by 68.8% from \$163m in the first eight months of 2023.

Also, the amount of returned checks in Lebanese pounds stood at LBP199bn in August 2024, relative to LBP23bn in the previous month and to LBP18bn in August 2023. Moreover, the amount of returned checks in foreign currency was \$12m in August 2024 compared to \$4m in the preceding month and to \$15m in August 2023.

Further, there were 775 returned checks in the first eight months of 2024, representing a drop of 71.3% from 2,702 returned checks in the same period last year. Also, the number of returned checks in foreign currency reached 28 in the covered period and fell by 74.8% from 1,127 checks in the first eight months of 2023, while the number of returned checks in Lebanese pounds totaled 491 and contracted by 68.8% from 1,575 checks in the same period last year. In addition, there were 82 returned checks in August 2024, relative to 110 returned checks in the preceding month and to 170 checks in August 2023. Further, there were 54 returned checks in Lebanese pounds in August 2024 compared to 60 in the previous month and to 98 in August 2023, while there were 28 returned checks in foreign currency in August 2024 relative to 50 checks in the preceding month and 72 returned checks in August 2023.

In addition, the amount of returned checks in "fresh" foreign currency stood at \$1.04m, while the amount of returned checks in "fresh" Lebanese pounds was LBP19.3bn in the first eight months of the year. Also, there were 111 returned checks in "fresh" foreign currency and 28 returned checks in "fresh" Lebanese pounds in the first eight months of 2024.

Surveyed economists project Lebanon's real GDP to contract by 0.3% in 2024

Bloomberg's quarterly survey of economists and analysts about the outlook on the Lebanese economy projected economic activity to shrink by 0.3% in 2024 relative to an earlier forecast of a real GDP growth rate of 0.4% in the June 2024 survey. The individual forecasts for 2024 ranged from a contraction of 2.5% to a growth rate of 2% for the current year, with a median real GDP contraction rate of 0.3% for 2024. Also, the poll indicates that the consensus forecast among 37.5% of participants that the economy will post a positive growth rate this year. Bloomberg conducted the poll during the third week of September 2024 and the survey's results are based on the opinions of eight economists and analysts based in Lebanon and abroad.

Further, participants forecast the average inflation rate in Lebanon at 57.6% in 2024 compared to a projection of 81% in the June 2024 survey. The opinions of surveyed analysts differed on the magnitude of the increase in consumer prices in 2024, with expectations ranging from 25% to 150% and a median inflation rate of 46.6% for 2024. Also, 75% of participants predicted that the inflation rate would range between 25% and 50% this year.

In addition, surveyed analysts projected Lebanon's fiscal deficit at 2.3% of GDP in 2024 compared to a previous forecast of -2.1% of GDP in the June 2024 survey. The projections of polled economists for the fiscal balance ranged from a deficit of 5.6% of GDP to a fiscal balance in 2024, with a median deficit of 2% of GDP. Further, the survey's participants forecast the current account deficit at 13.3% of GDP in 2024 compared to a previous forecast of a deficit of 15.1% of GDP in the June 2024 survey. The polled analysts expected the current account deficit to range from 7% of GDP to 18.1% of GDP in 2024, with a median deficit of 14.7% of GDP for the year.



Lebanon ranks 94th globally, 11th among Arab countries in terms of innovation

The Global Innovation Index for 2024 ranked Lebanon in 94th place among 133 countries around the world, in 13th place among 34 lower middle-income countries (LMICs), and in 11th place among 13 Arab countries. In comparison, Lebanon ranked in 92nd place among 132 countries globally, in 15th place among 37 LMIC economies, and in 11th place among 13 Arab states in the 2023 survey. Based on the same set of countries in the 2023 and 2024 surveys, Lebanon's global and LMIC ranks deteriorated by one spot each, while its Arab rank was unchanged from the 2023 assessment. The index is co-published by the United Nations' World Intellectual Property Organization, the INSEAD Business School, and Cornell University. The survey said that the countries included in the index represent 92.8% of the world's population and 97.5% of global GDP.

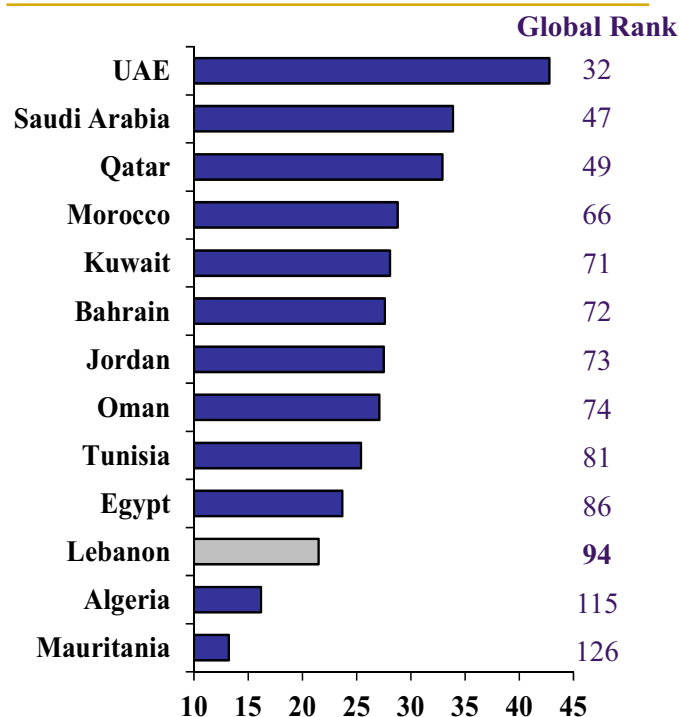
The index measures innovation in a broad sense and covers scientific, social and business development. It aims to provide the tools that can assist stakeholders in tailoring policies to promote long-term economic growth, improve innovation and support job creation. The index is a composite of 78 variables that are grouped in the Innovation Input Sub-Index and the Innovation Output Sub-Index. The survey rates the innovation level of each country on a scale from zero to 100 points, with a score of 100 points reflecting the most innovative economy.

Globally, Lebanon has a higher level of innovation than Azerbaijan, Kenya and the Dominican Republic, and is less innovative than Pakistan, Senegal and Paraguay among economies with a GDP of \$10 billion or more. Lebanon ranked ahead of Kyrgyzstan and Bolivia, while it came behind Pakistan and Senegal among LMICs. Also, Lebanon received a score of 21.5 points on the 2024 index compared to 23.2 points in the 2023 survey. Lebanon's score came lower than the global average score of 31.4 points and the Arab average score of 26.8 points, but higher than the LMIC average score of 20.6 points. Also, its score stood lower than the Gulf Cooperation Council (GCC) countries' average score of 32.1 points and the average score of non-GCC Arab countries of 22.3 points. Switzerland has the highest innovation level worldwide with a score of 67.5 points, while Angola is the least innovative country globally with a score of 10.2 points.

Lebanon preceded Belarus, Zambia and Ecuador, and trailed Paraguay, Laos and Sri Lanka worldwide on the Innovation Input Sub-Index. This category covers the elements of the national economy that enable innovative activities, such as institutions, human capital & research, infrastructure, market sophistication, and business sophistication. Also, Lebanon ranked ahead of Zambia and Kenya, and came behind Laos and Sri Lanka among LMICs; while it preceded Algeria and Mauritania among Arab countries.

Further, Lebanon came ahead of El Salvador, Paraguay and Uzbekistan, while it ranked behind Peru, Oman and Kenya globally on the Innovation Output Sub-Index. This category reflects the results of innovative activities within the economy such as technology, knowledge and creativity. Also, Lebanon ranked ahead of Uzbekistan and Bangladesh, and trailed Sri Lanka and Kenya among LMICs; while it preceded Bahrain, Algeria, and Mauritania in the Arab region.

**Global Innovation Index for 2024
Arab Countries Scores & Rankings**



Source: INSEAD, Cornell University, WIPO, Byblos Research

Components of the 2024 Global Innovation Index for Lebanon

	Global Rank	Arab Rank	LMIC Rank	Lebanon Score	Arab Avg Score	LMIC Avg Score
Innovation Input	101	11	16			
Institutions	128	13	31	14.7	49.1	34.7
Human Capital & Research	59	6	4	33.1	32.2	21.2
Infrastructure	116	12	26	24.1	37.7	29.5
Market Sophistication	45	3	5	38.5	30.3	25.9
Business Sophistication	80	5	9	23.6	22.8	20.5
Innovation Output	88	10	11			
Knowledge & Technology Outputs	80	7	12	17.7	17.7	15.1
Creative Outputs	93	10	14	20.7	20.7	14.6

Source: WIPO, INSEAD, Cornell University, Byblos Research

Food Price Index up 20% year-on-year in July 2024

The Ministry of Economy & trade and the World Food Program (WFP) launched the Market Food Price Index (MFPI) that aims to establish an information system for market prices in Lebanon. The MFPI is based on monitoring the prices of 73 food items from a sample of about 1,000 stores in Lebanon. The index is a measure of the average change in prices that consumers paid for 63 basic food items during the covered month. It is calculated as the weighted average of price changes for each item. The base month for the index is January 2023. The food basket consists of legumes including beans, chickpeas and lentil; spices & sauces; eggs; grains including bread, rice and pasta; dairy products; vegetables; fresh poultry; oils and fats; sugar; canned fish; fruits; and beverages.

The index reached 127.4 in July 2024, constituting increases of 0.2% from 127.15 in June 2024 and of 20% from 106.2 in July 2023. The prices of fresh poultry surged by 58.4% in July 2024 from the same month last year, followed by an increase in the prices of vegetables (+37.3%), fruits (+30.6%), legumes (+19.1%), spices & sauces (+16.4%), grains (+13.6%), dairy products (+12.2%), beverages (+9.3%), oils and fats (+9.1%), canned fish (+5.2%), and sugar (+0.6%). In contrast, the price of eggs decreased by 8.3% annually in July 2024. The ministry and the WFP attributed the year-on-year surge in the index to the conflict along the southern border, which has negatively affected local agriculture and poultry production, and has caused the prices of vegetables and poultry to rise more rapidly than the prices of other food products.

Also, the prices of fresh poultry increased by 5.4% in July 2024 from June 2024, followed by a rise in the prices of beverages (+1.6%), grains (+1.1%), legumes (+1%), and dairy products (+0.2%). In contrast, the prices of fruits declined by 4.4%, followed by a decrease in the prices of eggs (-2%), vegetables (-1.4%), oils and fats (-1%), sugar (-0.6%), canned fish (-0.4%), and spices & sauces (-0.3%) month-on-month. The ministry attributed the decline in the price of fruits to the surplus of fruits in the local market amid elevated obstacles to exports.

In addition, food prices in the North grew by 20.8% in July 2024 from July 2023, followed by Mount Lebanon (+18%), the Bekaa (+17.7%), Akkar (+17.5%), Beirut (+17.3%), the South (+17.1%), the Baalbeck-Hermel governorate (+15.3%), and the Nabatieh governorate (+13.4%). Also, food prices in the Nabatieh governorate rose by 5% in July 2024 from June 2024, followed by prices in Akkar (+2.8%), the Bekaa and the South (+2.3% each), Beirut (+2%), Mount Lebanon (+1%), the Baalbeck-Hermel governorate (+0.8%), and the North (+0.1%).

Government provides temporary compensation to public sector employees and retirees

The Council of Ministers issued Decree 14033 on September 23, 2024 about granting temporary remunerations and financial assistance to public sector personnel and to civilian and military retirees who receive monthly pension payments. First, the decree provides to public sector employees and retirees who receive a monthly pension payment a temporary monthly indemnity equivalent to two monthly basic wages or salaries, or pension payment for the month of October, without being incorporated in the minimum wage. Also, it added that it will double the hourly allowance or the lump-sum monthly allowance for technical service providers, as well as the hourly allowance for contractual teachers at the Lebanese University and for contractors at the Lebanese National Higher Conservatory of Music for the month of October. It noted that the temporary assistance should not exceed LBP30m per month.

Second, it provides a temporary compensation equivalent to one basic monthly wage or salary, or pension payment to public sector employees and retirees for each of November and December. Also, it added that it will provide one additional hourly allowance or the lump-sum monthly allowance for technical service providers, as well as the hourly allowance for contractual teachers at the Lebanese University and for contractors at the Lebanese National Higher Conservatory of Music for each of November and December. It noted that the temporary assistance will not be incorporated in the minimum wage, and that it should not exceed LBP40m in November and LBP50m in December.

Third, the decree will provide a lump sum assistance of LBP10m for the month of September and another one of LBP10m in December. Fourth, it allocated to workers at public institutions including public hospitals, the Civil Servants Cooperative, and others, as well as at municipalities and other public bodies, a temporary additional indemnity for October equivalent to two monthly basic wages or salaries, and it noted that these workers will benefit from a lump sum assistance of LBP10m for the month of September and another one of LBP10m in December.

The Ministry of Finance indicated that it will fund the temporary compensation from Treasury advances, in case public institutions, municipalities, and the federation of municipalities do not have enough funds to cover the outlays. Prior to these measures, the Ministry of Finance projected the government's spending on the wages, salaries, and compensation of public sector employees to account for more than 50% of public expenditures and to be equivalent to 7.6% of GDP in 2024.

In February 2023, the Council of Ministers issued Decree 13020 about granting temporary remunerations to public sector personnel and to retirees who receive monthly pension payments. The decree provided to public sector employees who have been in service for more than two years a temporary monthly indemnity equivalent to two basic monthly wages or salaries, with a cap of LBP30m per month. The compensation excluded wage-earners in the judicial and the public education sectors. It added that it allocated to military personnel a temporary monthly indemnity equivalent to three times the basic salary. Also, it provided retirees from the public sector, including the military, three monthly pension payments with a floor of LBP8m per month. The decree stipulated that public personnel must be present at work at least 14 days per month in order for them to receive the additional remunerations.

Lebanon ranks 127th globally, ninth among Arab countries in terms of economic, political and legal freedoms

The Atlantic Council, a research and advocacy organization, ranked Lebanon in 127th place among 89 countries globally, in 30th place among 44 lower middle-income countries (LMICs) and in ninth place among 19 Arab economies on its Freedom Index for 2024.

The index measures the evolution of economic, political and legal freedoms in a country. The organization compiles the index from 13 indicators that are grouped in three sub-indicators, which are the Economic, Political and Legal Sub-Indices. A country's score on the index is the simple average score of the three sub-indices and ranges from zero to 100 points, with a score of 100 points reflecting the highest level of economic, political and legal freedom. The survey then assigns countries to one of four freedom levels that are "Lowest Freedom", "Low Freedom", "Moderate Freedom", and "High Freedom".

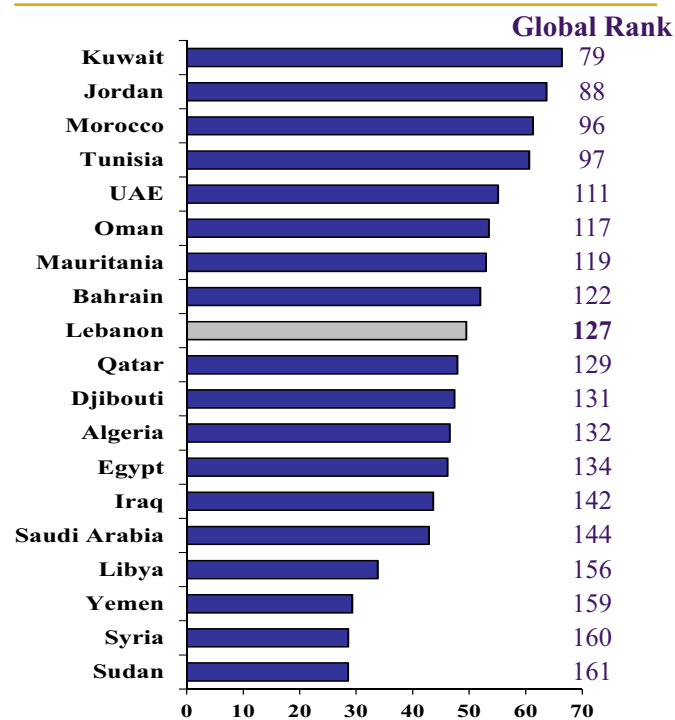
Globally, Lebanon has a better level of economic, political and legal freedom than Azerbaijan, Qatar and Cameroon, and a lesser level than Angola, Uzbekistan and Mali among economies with a GDP of \$10bn or more. Lebanon received a score of 49.5 points in the 2024 survey compared to the global average score of 63.8 points. Lebanon's score was higher than the Arab average score of 47.9 points but came lower than LMICs' average score of 56.1 points. Further, Lebanon's score was lower than the Gulf Cooperation Council (GCC) countries' average score of 53 points, but came higher than the average score of non-GCC Arab countries that stood at 45.6 points. Further, Lebanon's economic, political and legal freedom came in the "Lowest Freedom" category in the 2024 survey, along with 40 other countries in the world that include Angola, Azerbaijan, Belarus, Bangladesh, the Democratic Republic of the Congo, Ethiopia, Uzbekistan, and Zimbabwe. Other Arab countries in the "Lowest Freedom" category are Algeria, Djibouti, Egypt, Iraq, Libya, Qatar, Saudi Arabia, Sudan, Syria, and Yemen.

Further, Lebanon preceded Iraq, Venezuela and Yemen, and trailed Algeria, Equatorial Guinea and Myanmar globally on the Economic Sub-Index. This category measures whether the bulk of economic activity in a country is guided by the principles of free and competitive markets. Lebanon trailed all LMICs; while it came ahead of Iraq, Yemen, Libya, Sudan and Syria in the Arab world on this category.

Also, Lebanon ranked ahead of India, Jordan and Togo, and came behind Serbia, the Philippines and Thailand worldwide on the Political Sub-Index. This category assesses the institutional framework for selecting executive leaders and the imposed limits and controls on their power. Lebanon preceded India and Jordan, and trailed Benin and the Philippines among LMICs; while it preceded all Arab countries, except Tunisia and Kuwait, among Arab economies on this category.

In addition, Lebanon preceded Djibouti, Guinea and Mali, and trailed Guatemala, the Republic of Congo and Iran globally on the Legal Sub-Index. This category evaluates a country's adherence to the rule of law. Lebanon ranked ahead of Djibouti and Guinea and came behind Egypt and the Republic of Congo among LMICs; while it preceded Djibouti, Sudan, Syria, Iraq, Yemen and Libya in the Arab world on this category.

**Freedom Index for 2024
Arab Countries Scores & Rankings**



Source: Atlantic Council, Byblos Research

Components of the 2024 Freedom Index for Lebanon

	Global Rank	Arab Rank	LMIC Rank	Lebanon Score	Global Avg Score	Arab Avg Score	LMIC Avg Score
Economic Sub-Index	154	14	44	41.5	66.4	53.6	58.7
Political Sub-Index	104	3	20	64.0	67.4	42.0	59.9
Legal Sub-Index	129	13	31	43.1	57.7	48.1	49.7

Source: Atlantic Council, Byblos Research

Net income of Syrian affiliates of Lebanese banks at SYP53.2bn in first half of 2024

Financial results issued by the affiliates of five Lebanese banks in Syria show that their aggregate net profits reached SYP441.4bn in the first half of 2024 compared to net earnings of SYP1,119.6bn in the same period of 2023. The depreciation of the Syrian pound from SYP6,532 against the US dollar at the end of June 2023 to SYP13,668 per dollar at the end of June 2024 resulted in unrealized foreign exchange gains on the banks' structural positions of SYP388.2bn in the first half of 2024. As such, the net profits of the five banks in US dollar terms totaled \$33.7m in the first half of 2024 compared to net earnings of \$202.6m in the first half of 2023. As a result, the aggregate net income of the five banks becomes SYP53.2bn, or \$4.1m, in the first half of 2024 when excluding foreign exchange gains and losses on structural positions, relative to profit of SYP5.2bn or \$0.9m in the same half of the previous year.

The profits of Banque BEMO Saudi Fransi dropped by SYP232.1bn in the first half of 2024, followed by a decline of SYP155.5bn in the net income of Byblos Bank Syria, a decrease of SYP116.8bn in the profits of Fransabank Syria, a contraction of SYP102.8bn in the net income of Bank of Syria & Overseas, and a decline of SYP71bn in the net income of Bank Al-Sharq, the affiliate of Banque Libano-Française.

The net interest income of the five banks totaled SYP98.7bn in the first half of 2024, constituting an increase of 122.4% from SYP44.4bn in the same half of 2023; while their net fees & commission income reached SYP212.6bn, representing a rise of 122.3% from SYP95.7bn in the first half of the preceding year. Further, the aggregate operating income of the five banks stood at SYP721.7bn in the first half of 2024 and dropped by 43.7% from SYP1,281.2bn in the same period last year; while their aggregate operating expenses amounted to SYP323.3bn and rose by 99% from SYP162.4bn in the first half of 2023.

In parallel, the banks' aggregate assets reached SYP14,506.8bn at the end of June 2024 compared to SYP12,321bn at end-2023. The growth in assets was due to an increase of 26% in the assets of Banque Bemo Saudi Fransi (+SYP1,614.2bn), followed by a rise of 12.5% in those of Bank of Syria & Overseas (+SYP286.5bn), an increase of 10.4% in the assets of Bank Al-Sharq (+SYP95.7bn), an expansion of 8.6% in those of Byblos Bank Syria (+SYP109.7bn), and an uptick of 5% in the assets of Fransabank Syria (+SYP79.8bn). In US dollar terms, the assets of the five banks stood at \$1.1bn at end-June 2024, constituting a decrease of 43.7% from \$1.9bn at the end of 2023.

Also, the banks' total loans amounted to SYP1,326.6bn at end-June 2024 relative to SYP790.4bn at the end of 2023. Further, the banks' customer deposits totaled SYP7,872.4bn at the end of June 2024 compared to SYP6,901.6bn at end-2023. The ratio of the banks' loans-to-customers deposits stood at 16.9% at the end of June 2024 relative to 11.5% at end-2023. In parallel, the aggregate shareholders' equity of the five banks stood at SYP4,615.5bn at end-June 2024 and grew by 18.5% from SYP3,895bn at end-2023.

Results of Affiliates of Lebanese Banks in Syria in First Half of 2024 (SYPbn)					
	Banque BEMO Saudi Fransi	Bank of Syria & Overseas	Fransabank Syria	Byblos Bank Syria	Bank Al-Sharq
Net Profits	206.50	75.30	55.54	61.85	42.18
Total Assets	7,824.37	2,570.90	1,707.64	1,383.97	1,019.97
% Change*	26.0%	12.5%	4.9%	8.6%	10.4%
Loans	803.77	74.40	212.04	118.28	118.11
% Change*	103.3%	70.0%	39.0%	1.9%	43.1%
Customer Deposits	4,812.55	1,524.29	734.44	395.56	405.52
% Change*	19.8%	9.3%	-1.4%	1.2%	14.6%

*Change from end-2023

Source: Banks' financial statements

Banque du Liban amends requirements for banks' Common Tier One Capital

Banque du Liban (BdL) issued Intermediate Circular 708/13666 dated September 20, 2024 addressed to banks, which amends Basic Circular 44/6939 of March 25, 1998 about the the Capital Adequacy Regulatory Framework of Banks Operating in Lebanon, and Basic Circular 43/6938 of March 25, 1998 about the Regulatory Capital for Calculating the Prudential Limits for Banks Operating in Lebanon.

First, it said that banks can include in their Common Tier One capital 75% of the profits generated from the revaluation of fixed assets they own in settlement of debt in accordance with Article 154 of the Code of Money and Credit, on the conditions that BdL's Central Council verifies, at the bank's expense, the proper revaluation of the assets and approves it, and that the revaluation takes place by the end fo December 2025 at the latest. It added that the assets' revaluation should take place in "fresh" US dollars and should be recorded based on the exchange rate that BdL declares on its electronic platform as at the date of the payment of the tax due on the profits resulting from this operation.

Second, it noted that banks can include in the reserves related to the Accumulated Other Comprehensive Income the difference resulting from the revaluation of real estate or any other fixed assets accepted in their Common Tier One capital, including real estate possessed in settlement of debt in accordance with Article 154 of the Code of Money and Credit.

Third, it said that banks can include as part of the funds to calculate regulatory ratios the difference resulting from the revaluation of real estate or any other fixed assets accepted in their Common Tier One capital, including real estate possessed in settlement of debt in accordance with Article 154 of the Code of Money and Credit.

Banque du Liban amends liquidity-related requirements at banks

Banque du Liban (BdL) issued Intermediate Circular 707/13665 dated September 20, 2024 addressed to banks and to their auditors, which amends Basic Circular 154/13262 of August 27, 2020 about Exceptional Measures to Reactivate the Work of Banks Operating in Lebanon.

First, it asked banks to freeze for eight years instead of for five years the amount in the "special account" related to the repatriation of 15% of customers' transfers abroad. BdL had asked banks in the original circular to urge any customer who transferred abroad between July 1, 2017 and August 27, 2020 more than \$500,000, or their equivalent in other foreign currencies, to deposit the equivalent of 15% of the transferred amount in a "special account" for a five year-period in order to enhance the banks' liquidity, particularly at their correspondent banks abroad.

Second, the original circular mandated banks to place at an account at foreign correspondent banks the equivalent of 3% of the aggregate amount of the bank's deposits in foreign currency as at September 20, 2022, but the new circular modified the date to July 31, 2024. It added that in case the liquidity in this account falls short of the 3% floor, banks have until the end of 2025 to meet the threshold. It indicated that the 3% ratio can include the market value of the portfolio of Lebanese Eurobonds that banks have deposited at Midclear sal, or that they have placed at a foreign custodial and that are classified at fair value through profits and losses (FVPL) or at fair value through other comprehensive income (FVOCI). It noted banks can also include the value of U.S. Treasury bills and other foreign bonds with an investment grade and that are classified at fair value. It said that the circular goes into effect upon its publication.

Ratio Highlights

(in % unless specified)	2020	2021	2022	Change*
Nominal GDP (\$bn)	25.0	19.8	21.8	2.0
Public Debt in Foreign Currency / GDP	56.1	-	-	-
Public Debt in Local Currency / GDP	92.6	-	-	-
Gross Public Debt / GDP	148.7	349.9	283.2	(66.7)
Trade Balance / GDP	(12.1)	(6.3)	(4.3)	(2.0)
Exports / Imports	31.3	24.8	18.3	(6.5)
Fiscal Revenues / GDP	15.8	8.3	6.5	(1.7)
Fiscal Expenditures / GDP	20.0	7.4	12.7	5.3
Fiscal Balance / GDP	(4.2)	0.9	(6.1)	-
Primary Balance / GDP	(1.0)	2.0	(5.6)	-
Gross Foreign Currency Reserves / M2	41.5	26.0	13.4	(12.6)
M3 / GDP	206.4	81.9	41.8	(40.1)
Commercial Banks Assets / GDP	292.5	107.3	46.4	(60.9)
Private Sector Deposits / GDP	216.5	79.5	34.5	(45.0)
Private Sector Loans / GDP	56.3	17.0	5.5	(11.5)
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 Ratings	C	NP	-	C		Stable
Fitch Ratings*	RD	C	-	RD	RD	-
S&P Global Ratings	SD	SD	-	CC	C	Negative

*Fitch withdrew the ratings on July 23, 2024

Source: Rating agencies

Banking Sector Ratings

Banking Sector Ratings	Outlook
Moody's Ratings	Negative

Source: Moody's Ratings



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

Lebanon This Week is a research document that is owned and published by Byblos Bank sal. The contents of this publication, including all intellectual property, trademarks, logos, design and text, are the exclusive property of Byblos Bank sal, and are protected pursuant to copyright and trademark laws. No material from Lebanon This Week may be modified, copied, reproduced, repackaged, republished, circulated, transmitted, redistributed or resold directly or indirectly, in whole or in any part, without the prior written authorization of Byblos Bank sal.

The information and opinions contained in this document have been compiled from or arrived at in good faith from sources deemed reliable. Neither Byblos Bank sal, nor any of its subsidiaries or affiliates or parent company will make any representation or warranty to the accuracy or completeness of the information contained herein.

Neither the information nor any opinion expressed in this publication constitutes an offer or a recommendation to buy or sell any assets or securities, or to provide investment advice. This research report is prepared for general circulation and is circulated for general information only. Byblos Bank sal accepts no liability of any kind for any loss resulting from the use of this publication or any materials contained herein.

The consequences of any action taken on the basis of information contained herein are solely the responsibility of the person or organization that may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies that may be discussed in this report and should understand that statements regarding future prospects may not be realized.

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