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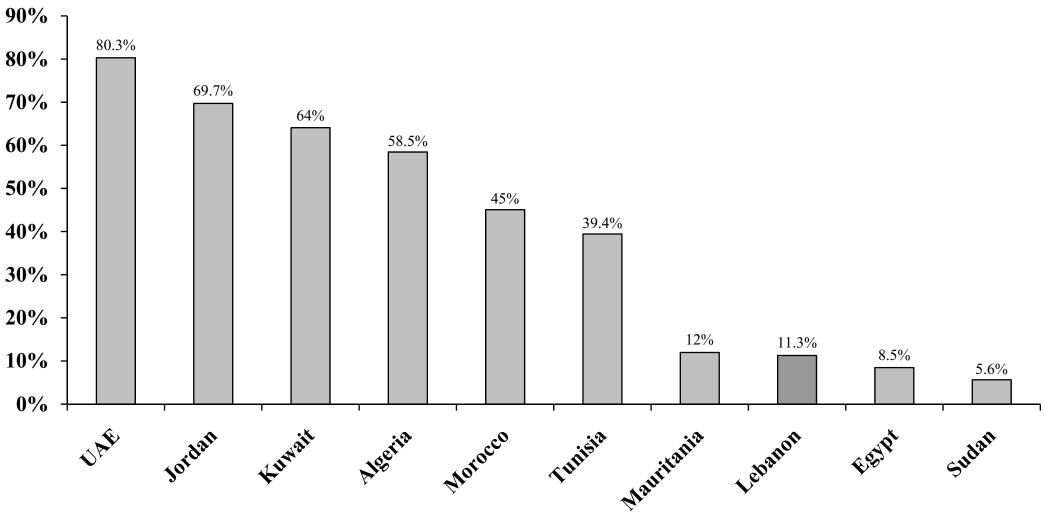
LEBANON THIS WEEK

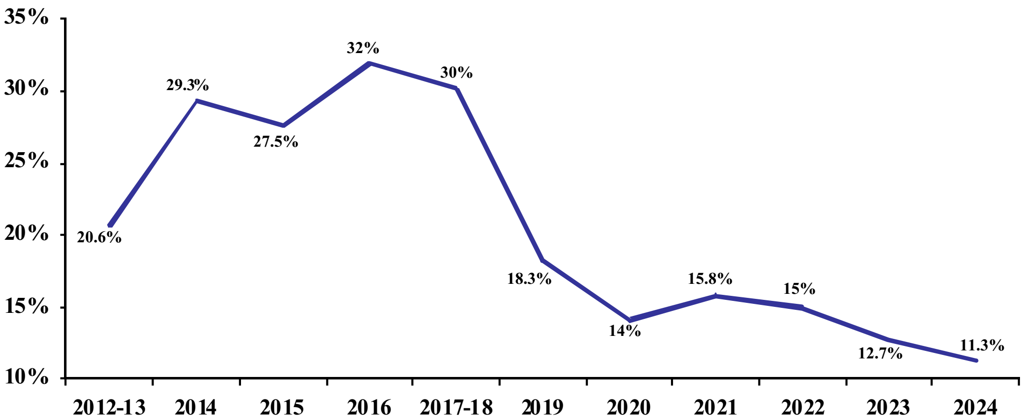
In This Issue

Charts of the Week

Percentile Rankings of Select Arab Countries on the effectiveness of Civil Justice for 2024*



Percentile Rankings of Lebanon on the effectiveness of Civil Justice*



**The World Justic Project defines Civil Justice as the extent to which judicial systems are accessible and affordable to citizens, as well as their distance from discrimination, corruption, and improper influence by public officials. It also measures the accessibility, impartiality, and effectiveness of alternative dispute resolution mechanisms.*

Source: World Justice Project's 2024 Rule of Law Index, Byblos Bank

Quote to Note

"Resolving the economic crisis requires a fundamental shift in policies within a home-grown comprehensive economic reforms program that has broad domestic support, receives the backing of the IMF, and generates external financial support."

The Institute of International Finance, on the pre-requisite for Lebanon's economic recovery

Number of the Week

75%: The value of Banque du Liban's gold reserves in percentage of the country's gross domestic product at the end of 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
Solidere "A"	110.00	(2.7)	84,410	43.1%
HOLCIM	72.50	(5.7)	51,500	5.5%
Audi GDR	2.45	(5.8)	50,000	1.1%
Audi Listed	3.24	8.0	46,390	7.5%
Byblos Common	1.15	5.5	35,000	2.5%
BLOM GDR	6.46	28.9	9,002	1.9%
Solidere "B"	105.30	(3.9)	2,994	26.8%
BLOM Listed	6.60	10.0	1,000	5.6%
Byblos Pref. 09	29.99	0.0	-	0.2%
Byblos Pref. 08	25.00	0.0	-	0.2%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Feb 2025	6.20	18.75	156,000.00
Jun 2025	6.25	18.75	1,457.94
Nov 2026	6.60	18.75	122.17
Mar 2027	6.85	18.75	99.21
Nov 2028	6.65	18.75	50.94
Feb 2030	6.65	18.75	36.42
Apr 2031	7.00	18.75	29.12
May 2033	8.20	18.75	21.42
Nov 2035	7.05	18.75	16.29
Mar 2037	7.25	18.75	14.35

Source: Refinitiv

	Feb 17-21	Feb 11-13	% Change	January 2025	January 2024	% Change
Total shares traded	280,646	91,712	206.0	1,033,733	2,004,203	(48.4)
Total value traded	$13,591,877	$2,574,485	427.9	$30,530,982	$101,988,193	(70.1)
Market capitalization	$25.52bn	$25.79bn	(1.1)	$25.60bn	$20.56bn	24.5

Source: Beirut Stock Exchange (BSE)

Expatriates' remittances down 13.4% to $5.8bn in 2024

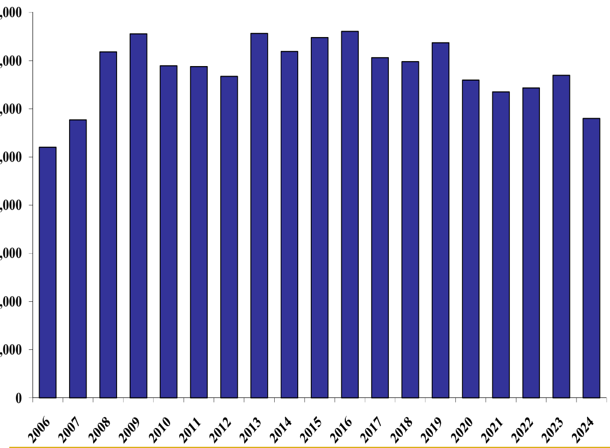
The World Bank estimated the inflows of expatriates' remittances to Lebanon at $5.8bn in 2024, constituting a decrease of 13.4% from $6.7bn in 2023, following an increase of 4.1% in 2023 from the preceding year. In comparison, it estimated that remittance inflows to developing economies grew by 5.8%, flows to Arab countries increased by 5.1% and inflows to lower middle-income countries (LMICs) rose by 9.7% in 2024. Remittance inflows to Lebanon averaged $6.38bn annually during the 2020-2024 period with a high of $7.6bn in 2016 and a low of $4.9bn in 2005. Further, remittance inflows to Lebanon reached their fifth lowest level last year during the covered period, after a totaling $5.77bn in 2007, $5.6bn in 2004, $5.2bn in 2006 and $4.9bn in 2005.

Lebanon was the 37th largest recipient of remittances in the world, the 25th largest among developing economies, and the 14th among LMICs in 2024. Lebanon received more remittances than Nicaragua ($5.1bn), Kenya ($4.8bn) and Jordan ($4.78bn), and less remittances than Ecuador ($5.9bn), Tajikistan ($5.88bn), and Serbia ($5.84bn) among developing economies in 2024. Also, Lebanon was the third largest recipient of remittances among 16 Arab countries behind Egypt ($22.7bn) and Morocco ($12bn) in 2024. Further, Lebanon received more remittances than Nicaragua ($5.1bn), Kenya ($4.8bn) and Jordan ($4.78bn), and less remittances than Honduras ($9.4bn), Sri Lanka ($6.62bn), and Tajikistan ($5.88bn) among LMICs in 2024.

Remittance inflows to Lebanon accounted for 0.64% of the global flow of remittances in 2024 compared to 0.77% in 2023. They also represented 0.85% of aggregate remittances to developing economies in 2024 relative to 1.03% in 2023, while they accounted for 9.4% of remittance inflows to Arab countries last year compared to 11.5% in 2023, and they represented 0.85% of remittance inflows to LMICs in 2024 compared to 1.03% in 2023.

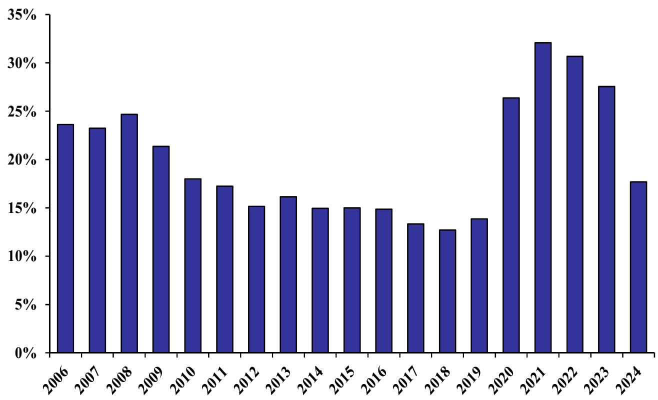
Further, expatriates' remittances to Lebanon were equivalent to 17.7% of GDP in 2024 when using a nominal GDP figures of $32.8bn for 2024 according to the International Institute of Finance, which constituted the 17th highest such ratio in the world. Expatriates' remittances to Lebanon were equivalent to 13.8% of GDP in 2019, 26.4% of GDP in 2020, 32.1% of GDP in 2021, 25.8% of GDP in 2022, and 27.6% of GDP in 2023.

Remittance Inflows to Lebanon (US$m)



Source: Banque du Liban, World Bank, Byblos Research

Remittance Inflows to Lebanon (% of GDP)



**GDP for the 2022-24 period is from the International Institute of Finance*
Source: National Accounts, IIF, Byblos Research

The World Bank estimated remittance inflows to Arab countries, excluding the West Bank & Gaza, at $57.7bn in 2024, up from $55.2bn in 2023, and equivalent to 1.65% of the region's GDP in 2024 relative to 1.63% of GDP in 2023. Also, it anticipated remittance inflows to developing economies, excluding Afghanistan, Cuba, Eritrea, Sri Lanka, Syria and the West Bank & Gaza, at $674.4bn in 2024, equivalent to 1.7% of the developing countries' GDP in 2024 relative to 1.6% of GDP in 2023. It estimated remittance inflows to LMICs, excluding Sri Lanka and the West Bank & Gaza, at $394.8bn in 2024, equivalent to 5.1% of the LMICs' GDP in 2024 compared to 4.8% of GDP in 2023.

Sovereign ratings upgrade contingent on structural reforms

In its semi-annual assessment of Lebanon's sovereign credit profile, S&P Global Ratings indicated that Lebanon's long- and short-term foreign currency sovereign credit ratings of 'Selective Default' (SD) continue to reflect the Lebanese government's decision to default on its foreign currency debt obligations in March 2020. It noted that it could raise its long-term foreign currency rating if the government completes the restructuring of its commercial debt, which would reflect Lebanon's post-restructuring creditworthiness, given the resulting debt burden and economic policy prospects.

Also, it pointed out that its 'negative' outlook on Lebanon's long-term local currency rating of 'CC' reflects the probability that the government could restructure its local currency debt as part of a broader debt restructuring program. It added that it could downgrade the local currency rating to 'SD' if a debt restructuring program includes haircuts or maturity extensions on local currency debt, and/or if the government misses payments on its local currency principal or interest obligations to a commercial creditor. It added that it could revise the outlook on the long-term local currency ratings from 'negative' to 'stable', or upgrade the local currency rating, if it perceives that the likelihood of a distressed exchange of Lebanon's local currency commercial debt has regressed and that domestic economic policy-making has improved.

Further, it did not expect significant progress on the restructuring of the government's debt in the near-term, given the uncertain policy environment and limited timeframe until parliamentary elections in May 2026. In addition, it said that the Council of Ministers approved in January 2025 the suspension of the Eurobond prescription period until March 9, 2028 and expressed its willingness to achieve "a consensual and equitable solution to its Eurobond debt". It pointed out that the disagreements between key political institutions about the causes and scope of the economic crisis, as well as the path to debt restructuring, such as the treatment of depositors, are impeding the negotiations with investors on a restructuring agreement. But it noted that credible policy reforms and political consensus should help revive the process.

Also, it pointed out that the government has resumed servicing its Lebanese pound-denominated coupon payments to Banque du Liban (BdL) following the suspension of interest payments in 2021, and expected it to repay its commercial debt arrears for the 2021-23 period starting in 2025. It added that the government remains current on its interest and principal payments on its local currency commercial debt obligations. It forecast the government's debt servicing to account for 10% of revenues in the 2025-28 period, and considered that the risk of default on commercial local currency-denominated debt is elevated due to the strained public finances, and to uncertainties about the scope and timing of the restructuring of the public debt and of the banking sector.

In addition, it estimated that the debt restructuring negotiations would likely be prolonged without a strong commitment to implement structural economic, fiscal, and monetary reforms, and without a policy anchor that a program with the International Monetary Fund (IMF) would provide.

In parallel, it expected weak governance, low institutional effectiveness, and the precarious security situation despite the ceasefire agreement between Israel and Lebanon, to weigh on economic activity and on the recovery. But it noted that the formation of a new government, after more than two years of a Cabinet in a caretaker capacity, should help revive reforms, as the the incoming government's agenda will focus on the improvement of security conditions, financial sector reforms, and on reconstruction in the southern part of the country. It indicated that financial support from multilateral organizations and bilateral partners are important to the success of any reform plan. However, it said that the fragmented political landscape will likely complicate policy-making and debt restructuring efforts. Further, it expected Lebanon's real GDP growth rate to average 1.8% in the 2025-26 period if the ceasefire agreement holds and in case the initial reconstruction efforts take place, which could ease economic pressure on the country. but it cautioned that significant security risks would impact Lebanon's economic growth. Also, it forecast the size of the Lebanese economy, or nominal GDP, at $30.2bn in 2025 and $33bn in 2026, and to reach $36.5bn by 2028.

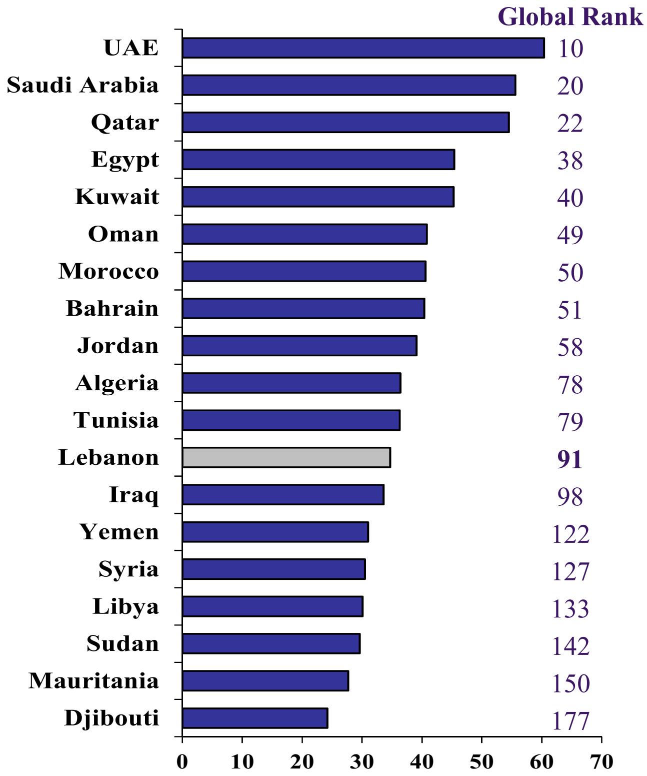
Further, it expected the mobilization of revenues and tax compliance efforts in the near- to medium term to strengthen public revenues if the new government implements fiscal reforms in a timely manner, and added that declining inflation rates could provide some space for fiscal adjustments. It forecast expenditure pressures to remain high due to urgent reconstruction needs and to high public sector wages. As a result, it forecast the fiscal deficit to average 3% of GDP in the 2026-28 period. It considered that the disbursement of concessional loans and donor funding could ease some of the current funding constraints. In addition, it projected the current account deficit to remain wide in the 2025-28 period, and expected the deficit to be financed by unrecorded remittance flows and accumulated resident foreign currency savings. It added that administrative constraints in the public sector and the multiple exchange rates have resulted in limited and infrequent data disclosure. As such, it said that its historical data and forecasts are subject to unusually high uncertainties and that this trend will persist in the near future. But it noted that the authorities are working with the IMF to improve the accuracy of fiscal data.

In parallel, it pointed out that BdL's gross foreign currency reserves, including gold and excluding Eurobond holdings, stood at about $35bn as at July 15, 2024, compared to $52bn at end-2017, and include an estimated $10bn in reserve requirements on the banks' foreign currency deposits, which translates into an estimated usable reserves of about $24bn at end-2024. It forecast BdL's usable reserves at $25.2bn at end-2025, $26.5bn at end-2026, $27.9bn at end-2027 and $29bn at end-2028.

Lebanon ranks 91st globally, 12th among Arab countries on Soft Power Index

Brand Finance, a brand evaluation and strategy consultancy firm, ranked Lebanon in 91st place among 193 countries and in 12th place among 19 Arab countries on its Global Soft Power Index for 2025. It also ranked Lebanon in 11th place among 50 lower middle-income countries (LMICs) included in the survey. In comparison, Lebanon ranked in 91st place among 193 countries globally, in 11th place among 50 LMICs and in 12th place among 19 Arab economies on the 2024 index. Based on the same set of countries in the 2024 and 2025 surveys, Lebanon's global, LMIC, and Arab ranks were unchanged year-on-year.

Global Soft Power Index for 2025
Scores & Rankings of Arab Countries



Source: Brand Finance, Byblos Research

The index assesses a country's influence across various factors such as economy, diplomacy, innovation, social stability, and cultural appeal. It provides an in-depth analysis of how nations are perceived globally and ranks them based on their ability to influence preferences and behaviors through attraction or persuasion rather than by coercion. The index score is based on three Key Performance Indicators (KPIs) and 35 Nation Brand Attributes across eight Soft Power Pillars. The three KPIs are Familiarity, Reputation, and Influence. The index rates the international influence level of each country on a scale from zero to 100 points, with higher scores representing a higher international impact and stronger perceptions, which can be leveraged by nations to strengthen security, and attract investments, trade, talent, and tourism, which would improve economic growth.

Globally, the level of Lebanon's soft power, or its influence and ability to shape global perceptions through attraction and persuasion, is higher than the soft power level of Kenya, Armenia, and Côte d'Ivoire, while it is lower than the level of soft power of Pakistan, Ecuador, and Ghana among economies with a GDP of $10bn or more. Also, Lebanon ranked ahead of Kenya, Côte d'Ivoire, and Tanzania, and trailed Tunisia, Pakistan, and Ghana among LMICs; while its soft power is higher than that of Iraq, Yemen, Syria, Libya, Sudan, Mauritania, and Djibouti among Arab countries. Lebanon received a score of 34.7 points on the 2025 index compared to 34.8 points in the 2024 survey. Lebanon's score was lower than the global average score of 36.8 points and the Arab average score of 38.7 points, while its score came higher than the LMICs' average score of 30.9 points. Also, Lebanon's score was lower than the Gulf Cooperation Council (GCC) countries' average score of 49.5 points but higher than the non-GCC Arab countries' average score of 33.8 points.

Further, Lebanon tied with Peru, ranked ahead of Czech Republic and Kuwait, and came behind Romania and Jamaica globally on the Familiarity KPI. This category measures how well a nation is known among the global public, and reflects the worldwide level of awareness about a nation and its key attributes. Lebanon preceded Kenya and Bangladesh, and trailed Morocco and Nigeria among LMICs; while it came ahead of Kuwait, Algeria, Libya, Jordan, Tunisia, Sudan, Yemen, Oman, Bahrain, Mauritania, and Djibouti in the Arab world on this category.

In addition, Lebanon tied with Bangladesh, Angola, Guinea, Rwanda, and Moldova, preceded Venezuela and the Democratic Republic of the Congo, and trailed Guatemala and Namibia on the Reputation KPI. This category evaluates the overall perception of a country, including its trustworthiness, reliability, and the general sentiment people have towards it. Also, Lebanon ranked ahead of Honduras and Pakistan, and trailed Cambodia and Zimbabwe among LMICs; while it preceded Yemen, Sudan, Mauritania, Libya, Iraq, Syria, and Djibouti among Arab economies on this category.

In parallel, Lebanon tied with Panama, Vietnam, Jordan, and Columbia, preceded Croatia and Slovakia, and trailed Bahrain and Nigeria on the Influence KPI. This category measures a country's ability to influence the preferences and behaviors of various actors on the international scene through attraction or persuasion rather than by coercion. It covers the country's impact on global affairs, culture, economy, and diplomacy. Also, Lebanon ranked ahead of the Philippines and Pakistan, and trailed Morocco and Nigeria among LMICs; while it preceded Iraq, Tunisia, Algeria, Syria, Libya, Yemen, Sudan, Mauritania, and Djibouti in the Arab world on this category.

Components of the 2025 Global Soft Power Index for Lebanon

	Global Rank	LMICs Rank	Arab Rank	Lebanon Score	Global Average	LMICs Average	Arab Average
Familiarity	61	8	8	5.2	4.4	3.7	5.0
Reputation	119	23	12	5.0	5.4	4.9	5.5
Influence	51	5	9	3.7	3.4	3.0	3.8

Source: Brand Finance, Byblos Research

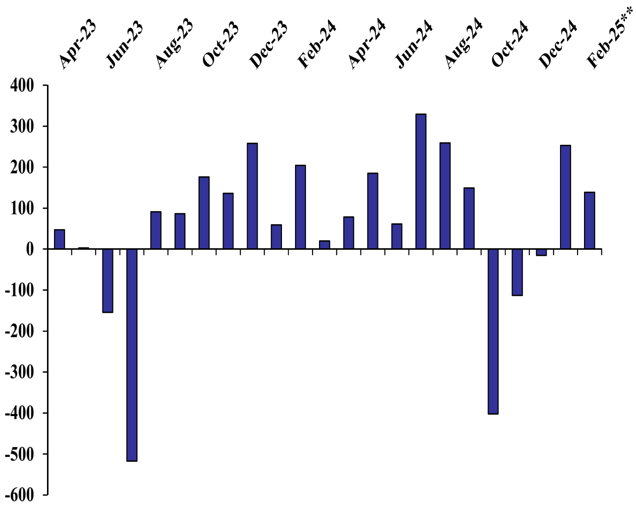
Banque du Liban's liquid foreign reserves at $10.5bn, gold reserves at $26.9bn at mid-February 2025

Banque du Liban's (BdL) interim balance sheet shows that its total assets reached LBP8,370.7 trillion (tn) on February 15, 2025, relative to LBP8,353tn at end-January 2025 and to LBP8,343tn at mid-January 2025. BdL indicated that it revised its balance sheet figures starting on October 15, 2024 in accordance with international standards. It said that it changed the classification of "Foreign Assets" to "Foreign Reserve Assets" in order to present non-resident and liquid foreign assets only, while it reclassified the "other resident and/or illiquid items" to its "Securities Portfolio" or to the "Loans to the Local Financial Sector" entries.

BdL noted that its decision is in accordance with the Central Council's Decision 13588 dated October 25, 2023, in order to ensure the alignment of the balance sheet entries with international standards and with the implementation of international best practices.

BdL's Foreign Reserve Assets stood at $10.53bn at mid-February 2025, compared to $10.39bn at end-January 2025 and to $10.35bn at mid-January 2025. Also, they increased by $138.6m in the first half of February 2025, while they contracted by $402.1m in October, by $113m in November, by $15.2m in December 2024, and increased by $252.8m in January 2025. As such, they increased by $391.4m in the first six weeks of 2025 and by $1.95bn between the end of July 2023 and mid-February 2025. The dollar figures are based on the exchange rate of the Lebanese pound of LBP89,500 per US dollar starting on February 15, 2024, according to the BdL Central Council's Decision No. 48/4/24 dated February 15, 2024.

Change in Foreign Reserve Assets* (US$m)



**month-on-month change*
***as at mid-February 2025, change from end-January 2025*
Source: Banque du Liban, Byblos Research

Further, the value of BdL's gold reserves reached a new peak of $26.9bn at mid-February 2025 compared to $25.8bn at end-January 2025. Also, BdL's securities portfolio totaled LBP555,071.8bn at mid-February 2025 relative to BP555,072.4bn at end-January 2025. BdL noted that the securities portfolio includes Lebanese Eurobonds that have a market value of $962.1m as at mid-February 2025 relative $841.7m as at end-January 2025 and to $893.6m at mid-January 2025. Prior to the modifications, BdL included the nominal value of its Lebanese Eurobonds portfolio in the foreign assets item. In addition, loans to the local financial sector stood at LBP42,378bn at mid-February 2025 compared to LBP42,503bn at end-January 2025.

Moreover, Deferred Open-Market Operations totaled LBP143,621bn at mid-February 2025 relative to LBP141,567bn at end-January 2025. BdL said that, based on the Central Council's decision 23/36/45 of December 20, 2023, it has started to present all deferred interest costs originating from open-market operations under this new line item. As a result, it transferred all deferred interest costs included in the "Other Assets" and "Assets from Exchange Operations" entries to the new item. Therefore, the item "Other Assets" stood at LBP21,633.9bn at mid-February 2025 relative to LBP18,695.2bn two weeks earlier.

Also, the Revaluation Adjustments item on the asset side reached LBP2,770,511bn at mid-February 2025 relative to BP2,871,269bn at end-January 2025. It consists of a special account called the "Exchange Rate Stabilization Fund", in which BdL recorded all the transactions related to foreign exchange interventions to stabilize the exchange rate starting in 2020 and that had a balance of LBP164tn at mid-February 2025 relative to LBP163.83tn at end-January 2025. It also consists of a special account in the name of the Treasury that stood at LBP2,606.6tn at mid-February 2025 compared to BP2,707.4tn at end-January 2025. The account includes the differences between the countervalue at the official exchange rate of BdL's gold and currency holdings and the value of these holdings at the market exchange rate, as well as the profits or losses on BdL's gold and currency holdings from the modification of the official exchange rate of the Lebanese pound or of a foreign currency exchange rate. Further, the balance sheet shows that BdL's loans to the public sector totaled LBP1,486,983bn at mid-February 2025 relative to LBP1,486,971bn two weeks earlier.

On the liabilities side, BdL's balance sheet shows that currency in circulation outside BdL stood at LBP85,120bn at mid-February 2025 compared to LBP84,936bn at end-January 2025, and represented an increase of 52.8% from LBP55,689bn at mid-February 2024. Further, the deposits of the financial sector reached LBP7,624.8tn, or the equivalent of $85.19bn, at mid-February 2025 relative to LBP7,626.5tn, or the equivalent of $85.21bn at end-January 2025; while public sector deposits at BdL totaled LBP572,601.4bn at mid-February 2025 compared to LBP554,551.5bn at end-January 2025.

Ministerial Statement of new government pledges political, economic and financial reforms

In its Ministerial Statement, the incoming Council of Ministers pledged to adopt a foreign policy based on neutrality that shields Lebanon from regional and international conflicts, mobilize Arab and international support, and prevent the use of Lebanon as a platform to attack Arab and other friendly countries, which will help Lebanon regain its international and Arab status. Also, it vowed to implement in full UN Security Council Resolution 1701, to conform with the cessation of hostilities agreement of November 27, 2024, and to control and demarcate the border with Syria, and stressed the exclusive right of the Lebanese Armed Forces to carry weapons and to defend the country. Further, it underscored the need to reinstate the rule of law in all its aspects and to reform public institutions, as well as to strengthen the independence of the judicial system and to reform it according to international standards and best practices. Also it committed to enhance international judicial cooperation to combat crime and corruption, as well as to accelerate the investigation into the explosion at the Port of Beirut, address financial graft, and complete the financial and forensic audit of public institutions.

In addition, it vowed to accelerate the reconstruction of the areas that the Israeli war destroyed, to attract Arab and international financial support, and to finance the reconstruction transparently through a special fund. It said that an efficient public administration and effective institutions require the restructuring of the public sector through an updated vision that aims to improve the quality of public services. It added that it will carry out the restructuring based on modern standards that keep pace with digital transformation and innovation, adopt a scientific approach in government work, and introduce essential functions such as sound strategic planning and performance appraisal indicators.

In parallel, it indicated that the government aims to enhance the capacity of the Treasury by adopting a policy to boost public revenues, preserve the solvency of the State, and ensure financial stability, which includes improving tax and customs collection, as well as combating wasteful spending, containing the informal economy, and fighting smuggling. It stated that the government will negotiate a new program with the International Monetary Fund, and address the default on Lebanon's Eurobonds obligations and the public debt. It added that it will step up efforts to revive the economy, which necessitates the restructuring of the banking sector to drive economic activity. Also, it pointed out that it will give priority to determine the fate of deposits through a comprehensive plan, in accordance with best international practices, in order to safeguard the rights of depositors.

Moreover, it pointed out that it seeks to boost economic growth and restore domestic and foreign investor confidence by encouraging public-private partnerships, providing opportunities for investment and production, supporting and stimulating productive sectors, and creating new job opportunities for the youth. It noted that it will seek to improve the quality of local manufacturing, increase exports, reduce administrative formalities, establish or develop industrial zones, and strengthen the role of the Economic, Social and Environmental Council in formulating the State's economic and social policies. It added that it will work to increase the surface area of arable lands, encourage sustainable agriculture that has comparative advantages, open new markets for Lebanese products, and capitalize on existing regional and international trade agreements.

Further, it said that it aims to reform and modernize the telecommunications sector and to fully implement the law regulating telecommunications services. It added that it will develop the transportation system and the roads network, modernize ports, especially the Beirut and Tripoli ports, activate the René Mouawad Airport in the North, and implement strictly the laws related to public seaside and riverside properties. It noted that it will aim to reform the water and electricity sectors in order to gradually increase electricity supply at reduced cost to consumers, and that it will resume oil and gas exploration.

In addition, it noted that it aims to restore Lebanon's leading role in school and university education by improving the quality of education, strengthening public education, particularly at the Lebanese University, supporting vocational and technical education, protecting private education, and supporting scientific research.

It added that the government intends to establish a Ministry of Technology and Artificial Intelligence, which will develop and implement an ambitious strategy to attract Lebanese talent, stimulate investments in advanced sectors, accelerate the adoption of modern technologies, encourage start-up companies, and develop innovation.

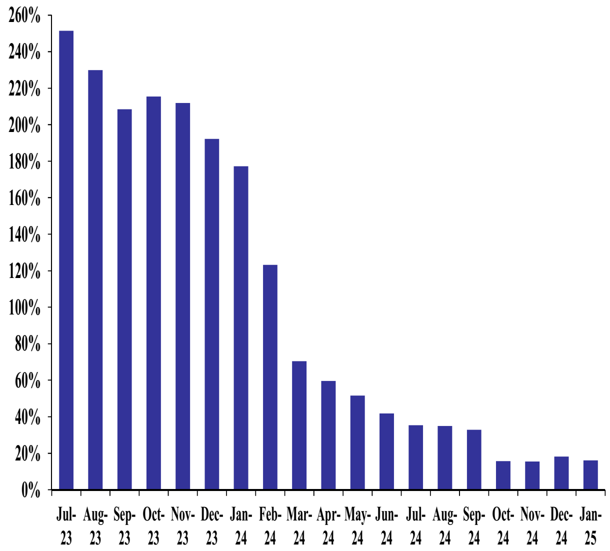
In parallel, it stated that it will develop a comprehensive social protection system that cares for the poorest and most vulnerable groups of society, and stressed the importance of strengthening the capabilities of the healthcare sector in Lebanon, including public hospitals and Primary Health Care Centers, as well as to step up efforts to provide healthcare coverage for all citizens and to reform the National Social Security Fund.

Consumer Price Index up 16% year-on-year in January 2025

The Central Administration of Statistics' Consumer Price Index (CPI) increased by 16.1% in the first month of 2025 from the same period of 2024, while it registered its 11th consecutive double-digit increase since July 2020. In comparison, it grew by 177.3% in January 2024 from the same month of the preceding year and by 123.5% in January 2023 from January 2022.

The slowdown of the inflation rate from triple-digit increases is due in part to the widespread dollarization of consumer goods and services in the economy, and to the stabilization of the exchange rate of the Lebanese pound against the US dollar since July 2023. However, the cumulative surge in the inflation rate is due in part to the repeated increase in customs tariffs, to the rise of the cost of education, to the surge of fees in the public administration, and to the inability of the authorities to monitor and contain retail prices. It is also due to the impact of rising transportation costs and insurance rates on imported goods in the wake of the war in the Gaza Strip and the escalation of the Israeli war in Lebanon up until the end of November 2024.

Annual Change in Consumer Price Index* (%)



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

The costs of education and of miscellaneous goods & services surged by 1.3 times each in January 2025 from the same month in 2024. Further, imputed rent rose by 23.7% year-on-year in January 2025, followed by healthcare costs (+23%), the cost food and non-alcoholic beverages (+21%), the prices of alcoholic beverages & tobacco (+19.2%), rates at restaurants & hotels (+17.7%), actual rent (+16%), and the prices of clothing & footwear (+14.5%). In addition, transportation costs increased by 10.3% in January 2025 from January 2024, followed by the prices of water, electricity, gas & other fuels (+10.1%) and the cost of recreation & entertainment (+7.2%). In contrast, the cost of communication regressed by 3% in January 2025 from the same month of the previous year, followed by the prices of furnishings & household equipment (-2.4%). Also, the distribution of actual rent shows that new rent surged by 24.5% and old rent increased by 4.7% in January 2025 from the same month of 2024.

In parallel, the CPI increased by 1.1% in January 2025 from the previous month, relative to a surge of 2.4% in December, an increase of 2.3% in November, a rise of 2% in October, a downturn of 0.2% in September, and to upticks of 0.64% in August, of 2% in July, of 0.3% in June, and of 0.02% in May 2024.

The cost of miscellaneous goods & services surged by 9.2% in January 2025 from December 2024, followed by imputed rent (+2.43%), transportation costs (+1.77%), actual rent (+1.5%), the prices of water, electricity, gas & other fuels (1.45%), the costs of alcoholic beverages and tobacco (+0.96%), and the rates at restaurants and hotels (+0.95%). Also, the prices of food & non-alcoholic beverages grew by 0.57% in January 2025 from the previous month, followed by the cost of furnishing & household equipment (+0.47%), the prices of communication services (+0.1%), the cost of recreation & entertainment (+0.09%) and healthcare costs (+0.03%). In contrast, the prices of clothing & footwear regressed by 2.1% month-on-month in January 2025, while the costs of education were unchanged from the previous month.

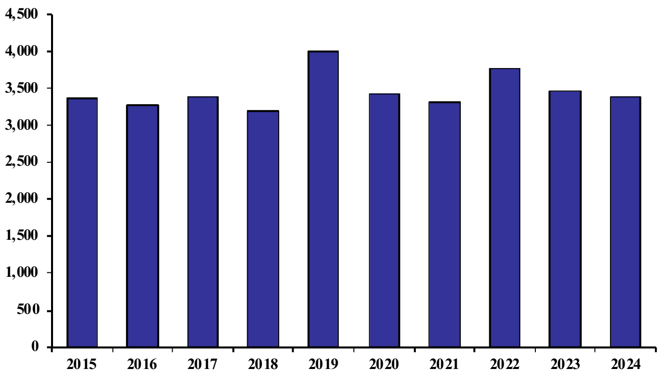
Also, the distribution of actual rent shows that new rent increased by 2.54%, while old rent was unchanged month-on-month in January 2025. Further, the CPI increased by 2.62% in the Nabatieh area, by 1.44% in Mount Lebanon, by 1.05% in the North, by 0.61% in Beirut, by 0.15% in the South, and by 0.07% in the Bekaa region. In parallel, the Fuel Price Index rose by 3.13% and the Education Price Index was unchanged in January 2025.

Trade deficit narrows by 36% to $7.75bn in first 10 months of 2024

Figures issued by the International Monetary Fund Direction of Trade Statistics show that total imports reached $11.12bn in the first 10 months of 2024, constituting a decline of 28.4% from $15.53bn in the same period of 2023; while aggregate exports stood at $3.38bn and decreased by 2.2% from $3.46bn in the first 10 months of 2023. As such, the trade deficit narrowed by 35.8% to $7.75bn in the covered period, due to declines of $4.41bn in imports and of $77.6m in exports. The coverage ratio, or the exports-to-imports ratio, was 30.4% in the first 10 months of 2024 relative to 22.3% in the same period of 2023.

Further, exports stood at $961.2m in the first quarter, at $999.2m in the second quarter and at $1.1bn in the third quarter of 2024, while imports reached $3.43bn in the first quarter, $3.37bn in the second quarter and at $3.35bn in the third quarter of the year. This constituted a decrease of 2.8% in the first quarter and increases of 8.2% in the second quarter and of 1.2% in the third quarter of 2024 from the corresponding quarters of 2023. Exports stood at $322.6m in October 2024 representing decreases of 19.6% from $401.2m in September 2024 and of 30% from $460.4m in October 2023, while imports totaled $968m in October 2024 representing declines of 9.6% from $1.07bn in the preceding month and of 46.6% from $1.8bn in the same month of 2023.

Lebanese Exports (US$m)*

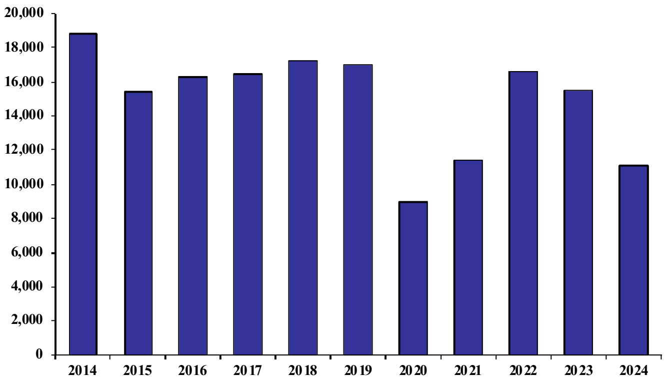


**in first 10 months of each year*
Source: IMF Direction of Trade Statistics, Byblos Research

Th distribution of Lebanese exports shows that exports to the Middle East and North Africa (MENA) region amounted to $1.15bn in the first 10 months of 2024 or 34% of the total, followed by exports to the Eurozone with $507m (15%), and to Sub-Saharan Africa with $376m (11%). Lebanese exports to the Eurozone increased by 17% from $433m in the first 10 months of 2023, followed by exports to Sub-Saharan Africa countries that grew by 8.7% from $346m, while exports to the MENA region dropped by 24.4% from $1.52bn in the same period of 2023.

On a country basis, Lebanese exports to the UAE reached $473m, or 14% of the total, in the first 10 months of 2024, followed by exports to Switzerland with $441m (13%), to the U.S with $155m (4.6%), to Kuwait with $59m (1.7%), and to Saudi Arabia with $2m (0.1%). Also, Lebanese exports to Switzerland surged by 356% in the first 10 months of 2023, exports to the U.S rose by 23% those to Saudi Arabia grew by 22.8%, exports to Kuwait increased by 7.5%, while those to the UAE decreased by 30.8% from the same period of 2023.

Lebanese Imports (US$m)*



**in first 10 months of each year*
Source: IMF Direction of Trade Statistics, Byblos Research

In parallel, Lebanese imports from the Eurozone stood at $3.9bn in the first 10 months of 2024 and accounted for 35% of total, followed by imports from the Emerging & Developing Europe region with $1.55bn (14%), and from the MENA region with $1.27bn (11.4%). Further, Lebanese imports from the MENA region dropped by 30.7% from $1.8bn in the first 10 months of 2023, followed by those from the Emerging & Developing Europe region that contracted by 30% from $2.2bn, and imports from the Eurozone that decreased by 14.3% from $4.53bn in the same period of 2023.

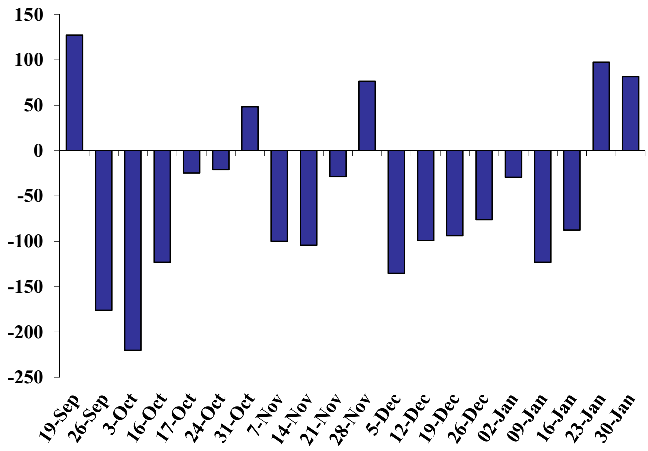
On a country basis, China was the main source of imports to Lebanon with $1.4bn in the first 10 months of 2024 and accounted for 12.7% of the total, followed by Egypt with $586m (5.3%), the UAE with $241m (2.2%), and Saudi Arabia with $157m (1.4%). Also, imports from Saudi Arabia dropped by 55% from $349m in the same period of 2023, followed by imports from the UAE that declined by 48.8% from $470m, from China that dropped by 19.6% from $1.76bn, and from Egypt that regressed by 0.7% from $591m.

Money supply up 46.2% in 12 months ending January 30, 2025

Figures released by Banque du Liban (BdL) show that money supply M1, which includes currency in circulation and demand deposits in Lebanese pounds, reached LBP125,344bn on January 30, 2025, constituting increases of 1.4% from LBP123,567bn on January 23, 2025 and of 46.2% from LBP85,736bn on January 30, 2024. M1 grew by LBP1,777.6bn during the week ending January 30, 2025 due to rise of LBP975.2bn in currency in circulation and of LBP802.4bn in demand deposits.

In addition, money supply M2, which includes M1 and term deposits in Lebanese pounds, totaled LBP157,571bn on January 30, 2025, representing increases of 1.8% from LBP154,836.1bn on January 23, 2025, and of 56.3% from LBP100,782bn a year earlier. Money supply M2 grew by LBP2,735.2bn in the week ending January 30, 2025, while it rose by LBP56,790bn year-on-year.

Weekly Change in Foreign Currency Deposits (USm)



Source: Banque du Liban, Byblos Research

Further, broad money supply M3, which includes M2, deposits in foreign currency and debt securities issued by the banking sector, reached LBP6,180.4 trillion (tn) on January 30, 2025, and increased by LBP10,025.5bn, or by 0.16%, during the week ending January 23, 2025, compared to LBP6,231.5tn on January 30 2024. Also, BdL indicated that deposits denominated in foreign currency declined by $81.46m in the week ending January 30, 2025. The surge in M3 is due to the impact of the new exchange rate of the Lebanese pound against the US dollar of LBP89,500 per dollar that BdL started to use on February 8, 2024 for money supply figures.

Also, money supply M4, which includes M3 and Treasury bills held by the non-banking system, including accrued interest, totaled LBP6,189.6tn on January 30, 2025, constituting an increase of LBP10,018.7bn (+0.16%) from LBP6,179.6tn a week earlier and relative to LBP6,255.8tn on January 30, 2024. BdL stated that the Treasury bills portfolio held by the non-banking sector is decreased by LBP6.81bn during the week ending January 30, 2025.

BdL issued Basic Circular 167/13612 dated February 2, 2024 that asked banks and financial institutions to convert their assets and liabilities in foreign currencies to Lebanese pounds at the exchange rate of LBP89,500 per US dollar when preparing their financial positions. BdL requested banks and financial institutions, in line with the provisions of International Accounting Standard 21, to convert their foreign currency monetary assets and liabilities and non-monetary assets classified by fair value or by equity method at the exchange rate published on BdL's electronic platform at the date of the preparation of the financial statements. It added that the decision is applicable as of January 31, 2024. BdL had modified on February 1, 2023 the official exchange rate of the Lebanese pound against the US dollar from LBP1,507.5 per dollar to LBP15,000 per dollar, as part of the measures to unify the multiple exchange rates of the dollar that prevail in the Lebanese economy.

Public revenues at 12.5% of GDP, fiscal surplus at 0.9% of GDP in 2024

Figures compiled by the Ministry of Finance show that public revenues on a cash basis totaled LBP366,150bn in 2024, constituting an increase of 54.8% from LBP236,537bn in 2023; while public expenditures on a cash basis reached LBP339,531bn in 2024 and represented a surge of 66.4% from LBP204,000bn in 2023. As such, the overall cash balance registered a surplus of LBP26,619bn in 2024 compared to a surplus of LBP32,537bn in the previous year. In comparison, the enacted 2024 budget projected public expenditures at LBP308,435bn and aggregate budget and Treasury receipts LBP312,996bn for the year.

In US dollar terms, public revenues totaled $4.1bn in 2024 relative to $2.77bn in 2023; while public expenditures reached $3.8bn in 2024 compared to $2.4bn in 2023. As such, the overall cash balance registered a surplus of $297.4m in 2024 compared to a surplus of $380.5m in the previous year. As such, public revenues were equivalent to 12.5% of GDP in 2024 relative 11.4% of GDP in 2023; while public expenditures were equivalent to 11.6% of GDP in 2024 compared to 9.9% of GDP in 2023. As such, the overall cash balance registered a surplus of 0.9% of GDP in 2024 compared to a surplus of 1.6% of GDP in the previous year. The ratios are based on nominal GDPs of $24.3bn in 2023 and of $32.8bn in 2024, according to the Institute of International Finance.

The ministry indicated that the figures for 2023 are approximate due to compilation issue and to the prevailing multiple exchange rates at the time. It added that revenues and expenditures reflect cash flows in Lebanese pounds, US dollars in cash, and US dollars in local dollars at the exchange rate of LBP15,000 per dollar. It said that it used an exchange rate of LBP85,500 for 2023 and of LBP89,500 for 2024.

Also, the figures show that customs revenues totaled LBP150,122bn in 2024, constituting an increase of 30% from LBP115,451bn in 2023. It added that customs receipts accounted for 41% of aggregate public revenues last year and for 48.8% of such receipts in 2023. Further, the wages and salaries of public sector workers and employees totaled LBP99,693bn in 2024 and rose by 40.4% from LBP71,000bn in the previous year; while debt servicing stood at LBP60,666bn last year, representing a surge of 374.6% from LBP12,783bn in 2023. As such, the wages and salaries of public sector workers and employees accounted for 29.4% of public spending in 2024 relative to 34.8% in 2023; while debt servicing represented 17.9% of aggregate expenditures last year relative to 6.3% in 2023.

Banque du Liban increases deposits withdrawal ceilings in foreign currency

Banque du Liban (BdL) announced on February 19, 2025 that the BdL Central Council decided to increase the monthly withdrawal ceiling for depositors who benefit from Basic Circular 158/13335 to $500, up from $300 or $400 per month, and to raise the withdrawal ceiling for beneficiaries of Basic Circular 166/13611 to $250 per month from $150 previously starting on March 1, 2025. BdL attributed the decision to its policy of increasing the withdrawal ceilings for the beneficiaries of the two circulars, in consultation with the President of the Republic, the Speaker of Parliament, the Prime Minister, and the Minister of Finance. Also, it reaffirmed the need to enact laws that address the recovery of deposits, and that it is working with the related stakeholders for this purpose.

BdL issued Intermediate Circular 720/13683 dated December 24, 2024 addressed to banks, which modified Basic Circular 158/13335 of June 8, 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 721/13684 dated December 24, 2024 addressed to banks that 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, beneficiaries can withdraw two additional monthly payments in October 2024, one extra monthly payment in November 2024, one additional monthly payment in December 2024, and one extra monthly payment in January 2025 according to the following mechanism. Also, it amended the ceiling for the beneficiaries of Basic Circular 158/1335 for the annual withdrawals from banks during the current cycle that ends on June 30, 2025 to $6,800 and $5,100, depending on the date they started to benefit from the circular, and to $2,550 for the beneficiaries of Basic Circular 166/13611. Further, it noted that an account owner who does not have enough funds in his/her "Special Sub-Account" to benefit from the additional withdrawals related to 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 extra payments when the funds become available in the "Special Sub-Account". Moreover, it said that it will source the liquidity for additional payments from the banks' reserve requirements in foreign currency at BdL, which it will free for this purpose.

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 158/13335. Further, Basic Circular 166/13611 stipulated that eligible depositors can withdraw from their "Special Sub-Account" $150 in banknotes per month 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. In parallel, BdL indicated that commercial banks disbursed a total of $3.24bn to 431,448 beneficiaries from the start of the implementation of the two circulars until November 30, 2024.

Recovery values on restructured Eurobonds depending on reforms momentum

Global investment bank Goldman Sachs indicated that Lebanon is experiencing an encouraging momentum towards reforms in the past two months with the election of President Joseph Aoun after a presidential vacuum of more than two years, the formation of new government following about 33 months of a Cabinet in a caretaker capacity, and after the newly-appointed Minister of Finance expressed his willingness to seek a new program with the International Monetary Fund (IMF) and move ahead with reforms. It pointed out that the prices of Lebanese Eurobonds, which have been in default since March 2020, have reflected these developments as well as the ceasefire in place since last November, as they are nearing 20 cents on the US dollar currently, which has tripled their value in the past five months.

As such, it pointed out that bond prices are quickly approaching its base-case estimate of the recovery value of Lebanon's bonds of about 25 cents on the dollar. It considered that this estimate is supported by the recent political and geopolitical positive news, but it noted that it is also based on demanding macroeconomic assumptions, which include a significant pickup in growth and fiscal consolidation, a well-managed devaluation of the currency, large external support to finance rebuilding costs, and a successful restructuring of the banking system and of the defaulted Eurobonds. It estimated that downside risks to these assumptions would reduce the recovery value estimates to between 12 cents on the dollar and 19 cents per dollar. It added that the recent constructive developments and the upside on the timing and implementation of further reforms could unlock the recovery value beyond 20 cents and towards 30 cents and higher. But it considered that bond pricing near 20 cents on the dollar and higher would require a continuation of the current geopolitical stability and, especially, the actual implementation of concrete reforms that would help the country recover from its financial crisis.

Last November, Goldman Sachs developed a "Base-Case Restructuring" scenario, which implies a required haircut of 75% on the outstanding debt stock or a write-off of $35bn on Lebanon's outstanding external debt and a coupon rate of 8%, and estimated that the recovery value on the restructured debt is likely to range between 15.6 cents on the dollar and 32.9 cents per dollar and to average 24.6 cents per dollar, assuming a coupon rate of 8% on the restructured debt and depending on the exit yield. It considered that a five-year bond discounted at an 8% exit yield will imply a recovery value of 31.9 cents per dollar, while it estimated that a 10-year bond discounted at a 12% exit yield will imply a recovery value of 24.6 cents per dollar. Also, it considered that a 20-year bond discounted at a 16% exit yield will imply a recovery value of 15.6 cents on the dollar.

Also, it estimated that a likely time for the Eurobond's restructuring under this scenario would be the second half of 2026 based on the following sequence of events: a permanent end to the conflict with Israel, the election of a new president and the formation of a new government, the completion of the IMF's prior actions as per the Staff Level Agreement of April 2022, along with parallel discussion with bondholders starting in the first quarter of 2025, and the final approval of an IMF program.

In addition, it expected the recovery value on the restructured debt at 36.4 cents per dollar in case of greater external support, at 32.4 cents a dollar if the exchange rate of the Lebanese pound appreciates, at 29.5 cents per dollar in case of fiscal consolidation, at 26.5 cents a dollar if the cost of the banking sector's restructuring is lower than the anticipated $2.9bn, at 24.6 cents per dollar in a base-case scenario, at 19.7 cents a dollar in case of a higher-than-anticipated cost of the banking system's restructuring, at 17.7 cents per dollar if the currency depreciates further, at 16.7 cents a dollar in case of weaker economic growth, and at 12.3 cents per dollar if the Eurobonds restructuring is delayed to 2030.

In parallel, it said that the restructuring of the Eurobonds is subject to a high degree of uncertainties in terms of the timing of the restructuring, the fiscal costs of the banking sector's restructuring, and the macroeconomic outlook after the Eurobonds' restructuring. It noted that downside risks to the recovery value on the restructured debt consist of delaying the debt's restructuring to 2030, weaker economic growth, a larger and persistent depreciation of the local currency, and a higher-than-anticipated cost of the banking system's restructuring. In contrast, it pointed out that upside risks consist of deeper fiscal consolidation that will bring the primary surplus up to 3% of GDP within four years of the restructuring, a stronger exchange rate of the local currency, a lower cost for the banking system's restructuring, and greater external support, as it assumed that 50% of the external funding of the reconstruction costs will be in the form of grants instead of loans.

Construction activity stagnates in second quarter of 2024

Banque du Liban's quarterly business survey about the opinions of business managers shows that the balance of opinions for general construction activity reached -31 in the second quarter of 2024, compared to -37 in the previous quarter and to -38 in second quarter of 2023. The balance of opinions for general construction activity in the second quarter of 2024 reached its second highest quarterly level since the beginning of the economic crisis in the fourth quarter of 2019 after posting -18 in the third quarter of 2022. The results reflect the impact of the war between Israel and Hezbollah that started in October 2023 and that continued throughout the first quarter of 2024. They also reflect the absence of major new projects, low investments in the sector, delays in the implementation of reforms to restore confidence, the lack of project financing, as well as the relative adjustment of the private sector to the ongoing crisis.

The business survey covers the opinions of managers of construction enterprises about their businesses, in order to depict the evolution of a number of key economic variables. The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in a particular indicator and the proportion of those who reported a decline in the same indicator. The balance of opinions for construction activity was -29 in the second quarter of 2024 compared to -33 in the preceding quarter and to -38 in the second quarter of 2023, and reached its second highest quarterly level since the start of the economic crisis. The balance of opinions about construction activity was -14 in the North, -26 in the Bekaa, -40 in the South, and -43 in Beirut & Mount Lebanon.

Also, the balance of opinions about public works stood at -46 in the second quarter of 2024 compared to -51 in the first quarter of 2024 and -48 in the second quarter of 2023. The opinions about the level of public works stood at -4 in the North, -60 in the Bekaa, -68 in Beirut & Mount Lebanon and -80 in the South.

In addition, the balance of opinions about the portfolio of projects was -60 in the second quarter of 2024 relative to -63 in the preceding quarter and to -74 in the second quarter of 2023, and reached its highest quarterly level since the fourth quarter of 2019. The balance of opinions about the portfolio of projects was -48 in the North, -53 in the South, -65 in Beirut & Mount Lebanon, and -68 in the Bekaa. Further, the balance of opinions about construction costs reached +46 in the second quarter of 2024, compared to +66 in the preceding quarter and +65 in the second quarter of 2023.

In parallel, the balance of opinions about investments in the sector was 27% in the second quarter of 2024, compared to 22% in the preceding quarter and to 24% in the second quarter of 2023. The balance of opinions about investments was 78% in the North, 33% in the Bekaa, 10% in the South, and 5% in Beirut & Mount Lebanon.

Also, the balance of opinions about the number of employees in the sector was -47 in the second quarter of 2024 compared to -34 in the preceding quarter and to -44 in the second quarter of 2023. It reached its third highest quarterly level since the fourth quarter of 2019. The balance of opinions about the number of employees was -30 in the Bekaa, -52 in Beirut & Mount Lebanon, -55 in the North, and -66 in the South.

Construction and Public Work Activity: Evolution of Opinions

Aggregate results	Q2-21	Q2-22	Q2-23	Q2-24
General activity	-67	-53	-38	-31
Construction	-65	-50	-38	-29
Public works	-68	-51	-48	-46
Portfolio of projects	-87	-79	-74	-60
Construction costs	57	62	65	46
Investments (% of yes)	17%	19%	24%	27%

Source: Banque du Liban Business Survey for Second Quarter of 2024

Arab Bank posts profits of LBP236.3bn in 2023

Arab Bank sal, the Lebanese affiliate of the Arab Bank Group, declared audited consolidated net profits of LBP236.3bn 2023 compared to losses of LBP15.7bn in 2022. The bank's net interest income reached LBP55.2bn in 2023 relative to LBP18bn in 2022; while its net earnings from fees & commissions stood at LBP206.3bn compared to LBP50.4bn in 2022. Further, the bank's net operating income totaled LBP738.2bn in 2023 relative to LBP74.8bn in the previous year. In addition, the bank's operating expenditures reached LBP352.6bn in 2023 compared to LBP90.6bn in 2022, with personnel cost accounting for 41.2% of the total. Also, administrative and other operating expenses totaled LBP204.8bn in 2023 relative to LBP28.3bn in 2022; while depreciation and provisions for tangible fixed assets amounted to LBP2.3bn in 2023 compared to LBP2.1bn in 2022.

In parallel, the bank's aggregate assets stood at LBP14,680.2bn at the end of 2023 relative to LBP1,810bn at end-2022, as net loans & advances to customers stood at LBP12.9bn at the end of 2023 compared to LBP29.5bn at end-2022. Further, customer deposits reached LBP11,666.1bn compared to LBP1,478.1bn at the end of 2022, while deposits from related parties totaled at LBP134.6bn at end-2023 relative to LBP22.1bn at end-2022. In addition, the bank's shareholders' equity was LBP368.5bn at the end of 2023 compared to LBP131.8bn at end-2022.

Energy transition to support MSMEs

The Lebanese Center for Policy Studies (LCPS), a Beirut-based non-profit independent think tank, considered that Lebanese micro-, small-, and medium-sized enterprises (MSMEs) need to transition to renewable energy sources, as it provides them access to an affordable and reliable source of electricity supply. It noted that the onset of the economic and financial crisis ushered significant new challenges for MSMEs in the energy sector, as it severely limited their ability to secure financing for investments in renewable energy or efficiency projects. It added that addressing these financial constraints is the highest priority of stakeholders involved in Lebanon's energy transition to fully harness the potential of MSMEs as key players in Lebanon's energy transition.

Also, it indicated that the renewable energy sector in Lebanon has witnessed remarkable growth since the onset of the economic crisis in 2019, as it provided MSMEs a mix of challenges and opportunities. It pointed out that challenges in adopting clean technologies and attracting investment persist for MSMEs, compounded by difficulties in securing loans and credit, which has driven companies to rely on unsustainable source of financing. It considered that the private sector, led by MSMEs, must recognize its role as a pioneer in climate-smart investments, and added that this would be essential not only for their own business success but also for developing the skills necessary to actively participate in implementing adaptation and mitigation policies to address the impact of climate change across the country. It noted that MSMEs installed solar energy systems to reduce their reliance on the state-owned Électricité du Liban and diesel generators, and to lower their expenditures on energy. It said that the installation of renewable energy systems between 2020 and 2023 helped ensure the continuity of the enterprises' daily activities.

Further, it pointed out that MSMEs play a pivotal role in shaping Lebanon's solar landscape, as they undertake tasks ranging from design and installation to commissioning and maintenance across the residential, industrial, commercial, and public sectors. It added that employment opportunities within these businesses have surged by 70% between 2020 and 2022. It indicated that MSMEs in the renewable energy sector contribute positively to Lebanon's energy transition by promoting solar solutions, reducing dependence on costly and unreliable fossil fuels, and support the economic recovery. It noted that it is imperative to fully capitalize on the renewable energy sector's ability to drive Lebanon's energy transition and economic recovery by addressing quality concerns and fostering growth through partnerships and support mechanisms, which will pave the way for a sustainable energy future.

However, it stated that MSMEs in the renewable energy sector face operational instability, electricity supply issues, security concerns, and administrative hurdles, which hinder their smooth functioning. It considered that financial constraints, including high startup costs, regulatory complexities, and infrastructure limitations, further impede their growth trajectory. As such, it noted that the urgent need for enhanced trainings and vocational programs for technicians in the solar and renewable energy sector is critical for their sustainable growth.

In parallel, the LCPS recommended, first, scaling-up support for distributed renewable energy systems by providing adequate funding, technical assistance, quality control, and monitoring, as well as developing partnerships between local businesses and residents to enhance the effectiveness of these systems. Second, it stressed the importance of empowering the agricultural, agro-food, tourism, digital transformation, and technology sectors by improving energy supply with cheaper and more reliable alternatives; optimizing energy consumption and operations using resource management software and systems; adopting enhanced agricultural and farming techniques; and foster cross-sectoral collaborations, particularly in digital transformation and technology adoption, among others. Third, it considered that the restructuring of the banking sector would allow banks to extend green financing and investment opportunities, and to start planning for a sustainable and resilient green transition.

The LCPS surveyed 24 industry experts, banking sector experts, public servants within different ministries and institutions, MSME owners/representatives, international organizations, as well as specialists in the field of energy transition.

Ratio Highlights

(in % unless specified)	2022e	2023e	2024e	Change*
Nominal GDP ($bn)	24.9	24.3	32.8	8.5
Public Debt in Foreign Currency / GDP	246.6	177.3	134.5	(42.8)
Public Debt in Local Currency / GDP	13.5	4.3	2.3	(2.0)
Gross Public Debt / GDP	260.1	181.6	136.8	(44.8)
Trade Balance / GDP	(13.6)	(12.7)	(9.5)	3.2
Exports / Imports	24.9	24.3	28	(3.7)
Fiscal Revenues / GDP	5.5	12.9	12.5	(0.4)
Fiscal Expenditures / GDP	11.9	13.3	13.1	(0.2)
Fiscal Balance / GDP	(6.4)	(0.4)	(0.6)	(0.2)
Primary Balance / GDP	(5.4)	0.7	0.4	(0.3)
Gross Foreign Currency Reserves / M2	13.4	138.7	692.5	553.8
M3 / GDP	34.0	56.0	210.6	154.6
Commercial Banks Assets / GDP	37.8	83.0	312.7	229.7
Private Sector Deposits / GDP	28.1	68.3	269.6	201.3
Private Sector Loans / GDP	4.5	6.0	17.2	11.2
Private Sector Deposits Dollarization Rate	76.1	96.3	99.1	2.8
Private Sector Lending Dollarization Rate	50.7	90.9	97.7	6.8

**change in percentage points 24/23;*
Source: Banque du Liban, Insitute of International Finance, Byblos Research Estimates & Calculations
Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

National Accounts, Prices and Exchange Rates

	2022e	2023e	2024e
Nominal GDP (LBP trillion)	675.0	2,082.0	2,943.0
Nominal GDP (US$ bn)	24.9	24.3	32.8
Real GDP growth, % change	1.3	-1.1	-7.0
Private consumption	2.5	-3.2	-14.9
Public consumption	2.5	2.0	14.6
Private fixed capital	-16.7	6.1	-30.6
Public fixed capital	93.0	27.7	105.1
Exports of goods and services	11.0	3.7	3.8
Imports of goods and services	22.3	20.8	22.0
Consumer prices, %, average	171.2	221.3	45.2
Official exchange rate, average, LBP/US$	1,507.5	15,000	89,500
Parallel exchange rate, average, LBP/US$	30,313	86,362	89,500
Weighted average exchange rate LBP/US$	27,087	85,805	89,700

Source: Insitute of International Finance

Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's Ratings	C	NP	Stable	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	Outlook
Moody's Ratings	Negative

Source: Moody's Ratings

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