

LEBANON THIS WEEK

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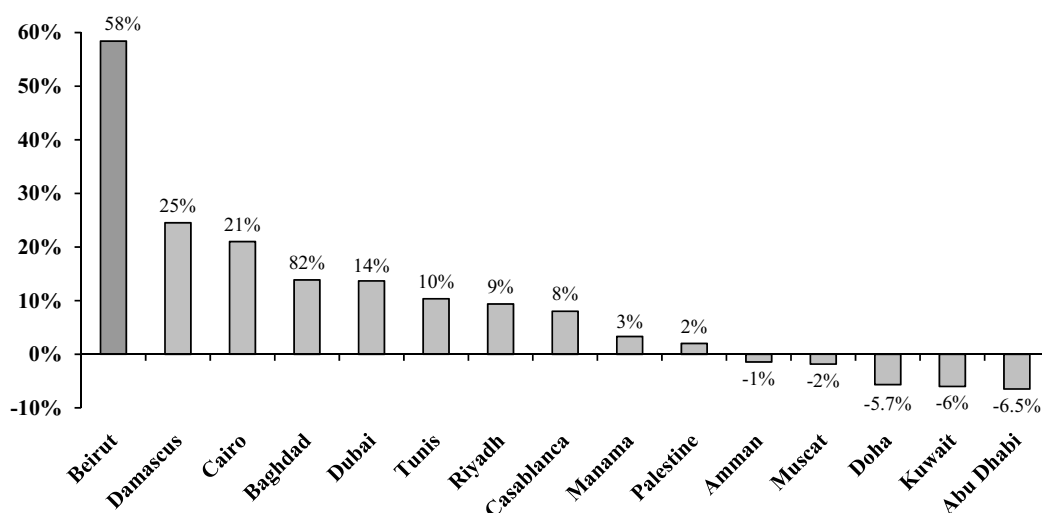
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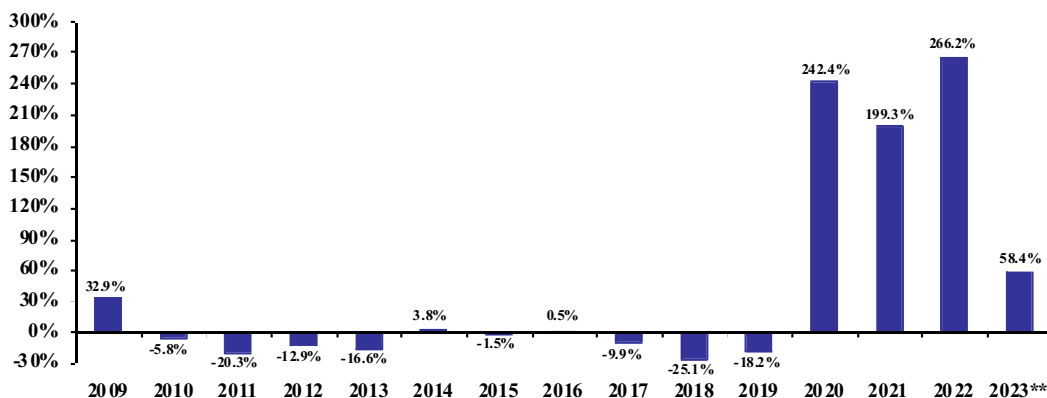
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Charts of the Week

Stock Market Performance in Select Arab Markets in First Half of 2023



Performance of the Beirut Stock Exchange*



*percentage change in each year

**change in first half of 2023

Source: Local stock markets, Dow Jones Indices, Refinitiv, Byblos Bank

Quote to Note

"The decline in the banks' foreign currency denominated loan book resulted in a loss to depositors and a transfer of wealth to borrowers."

The International Monetary Fund, on the repayment since March 2020 of bank loans in Lebanese pounds at the official exchange rate

Number of the Week

\$373: Insurance density, or premiums per capita, in Lebanon in 2022, according to global reinsurer Swiss Re

Lebanon in the News

| \$m (unless otherwise mentioned) | 2020 | 2021 | 2022 | % Change* | Dec-21 | Nov-22 | Dec-22 |
|-----------------------------------|-----------|-----------|-----------|-----------|---------|---------|-----------|
| Exports | 3,544 | 3,887 | 3,492 | -10.2% | 616 | 274 | 272 |
| Imports | 11,310 | 13,641 | 19,053 | 39.7% | 1,269 | 1,584 | 1,251 |
| Trade Balance | (7,765) | (9,754) | (15,562) | 59.5% | (653) | (1,310) | (979) |
| Balance of Payments | (10,551) | (1,960) | (3,197) | 63.1% | (384) | (354) | 17 |
| Checks Cleared in LBP | 19,937 | 18,639 | 27,14 | 45.6% | 1,738 | 3,003 | 3,686 |
| Checks Cleared in FC | 33,881 | 17,779 | 10,288 | -42.1% | 1,079 | 767 | 577 |
| Total Checks Cleared | 53,818 | 36,418 | 37,434 | 2.8% | 2,818 | 3,770 | 4,263 |
| Fiscal Deficit/Surplus** | (2,709) | 1,457 | - | - | - | - | - |
| Primary Balance** | (648) | 3,323 | - | - | - | - | - |
| Airport Passengers | 2,501,944 | 4,334,231 | 6,360,564 | 46.8% | 455,087 | 446,450 | 551,632 |
| Consumer Price Index | 84.9 | 154.8 | 171.2 | 1,645bps | 224.4 | 142.4 | 122.0 |
| \$bn (unless otherwise mentioned) | Dec-21 | Aug-22 | Sep-22 | Oct-22 | Nov-22 | Dec-22 | % Change* |
| BdL FX Reserves | 13.65 | 10.63 | 10.78 | 10.60 | 10.40 | 10.40 | (23.8) |
| In months of Imports | - | - | - | - | - | - | - |
| Public Debt | 100.37 | 103.65 | 102.71 | 101.94 | 101.94 | 101.81 | 1.4 |
| Bank Assets | 174.82 | 168.75 | 167.01 | 164.64 | 165.05 | 169.06 | (3.3) |
| Bank Deposits (Private Sector) | 129.47 | 125.02 | 124.96 | 124.37 | 124.57 | 125.72 | (2.9) |
| Bank Loans to Private Sector | 27.72 | 22.82 | 22.28 | 21.93 | 21.29 | 20.05 | (27.7) |
| Money Supply M2 | 52.41 | 50.87 | 62.15 | 72.31 | 71.40 | 77.34 | 47.6 |
| Money Supply M3 | 133.38 | 127.71 | 138.46 | 148.13 | 147.09 | 152.29 | 14.2 |
| LBP Lending Rate (%) | 7.14 | 4.85 | 5.09 | 5.00 | 5.30 | 4.56 | (258) |
| LBP Deposit Rate (%) | 1.09 | 0.60 | 0.66 | 0.70 | 0.65 | 0.60 | (49) |
| USD Lending Rate (%) | 6.01 | 5.51 | 4.61 | 5.11 | 4.35 | 4.16 | (185) |
| USD Deposit Rate (%) | 0.19 | 0.10 | 0.09 | 0.10 | 0.07 | 0.06 | (13) |

*year-on-year

Source: Association of Banks in Lebanon, Banque du Liban, Ministry of Finance, Central Administration of Statistics, Byblos Research

Capital Markets

| Most Traded Stocks on BSE* | Last Price (\$) | % Change* | Total Volume | Weight in Market Capitalization | Sovereign Eurobonds | Coupon % | Mid Price \$ | Mid Yield % |
|----------------------------|-----------------|-----------|--------------|---------------------------------|---------------------|----------|--------------|-------------|
| BLOM GDR | 2.22 | 11.0 | 60,734 | 0.9% | Apr 2024 | 6.65 | 6.63 | 1,046.63 |
| Solidere "A" | 74.70 | 2.3 | 23,174 | 43.0% | Jun 2025 | 6.25 | 6.63 | 211.58 |
| BLOM Listed | 2.50 | (2.3) | 12,000 | 3.1% | Nov 2026 | 6.60 | 6.63 | 100.3 |
| Solidere "B" | 74.20 | 2.9 | 9,253 | 27.8% | Mar 2027 | 6.85 | 6.63 | 89.75 |
| Audi Listed | 1.75 | 0.0 | 6,300 | 5.9% | Nov 2028 | 6.65 | 6.63 | 58.72 |
| Byblos Common | 0.75 | 7.1 | 5,000 | 2.4% | Feb 2030 | 6.65 | 6.63 | 45.77 |
| Audi GDR | 1.40 | 0.7 | 2,000 | 1.0% | Apr 2031 | 7.00 | 6.63 | 38.32 |
| HOLCIM | 55.05 | 0.0 | - | 6.2% | May 2033 | 8.20 | 6.63 | 29.67 |
| Byblos Pref. 09 | 29.99 | 0.0 | - | 0.3% | Nov 2035 | 7.05 | 6.63 | 23.39 |
| Byblos Pref. 08 | 27.00 | 0.0 | - | 0.3% | Mar 2037 | 7.25 | 6.63 | 20.89 |

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

Source: Refinitiv

| | Jul 17-21 | Jul 10-14 | % Change | June 2023 | June 2022 | % Change |
|-----------------------|-------------|--------------|----------|--------------|--------------|----------|
| Total shares traded | 118,461 | 269,719 | (56.1) | 1,157,356 | 1,556,020 | (25.6) |
| Total value traded | \$2,589,829 | \$12,489,218 | (79.3) | \$63,989,737 | \$57,103,187 | 12.1 |
| Market capitalization | \$17.36bn | \$17.02bn | 2.0 | \$17.68bn | \$14.35bn | 23.2 |

Source: Beirut Stock Exchange (BSE)



Draft budget forecasts deficit equivalent to 19% of expenditures for 2023

The draft budget for 2023 that the Ministry of Finance submitted to the Council of Ministers shows budget expenditures at LBP181,923bn and revenues at LBP147,740bn, leading to a budget deficit of LBP34,183bn, which would be equivalent to 18.8% of public expenditures. It also includes Treasury receipts of LBP4,400bn, resulting in aggregate public revenues of LBP152,139bn for the year. The ministry did not provide the macroeconomic indicators and assumptions that it used in the draft budget, such as real GDP growth, the inflation rate, and nominal GDP.

On the revenues side, the draft budget projects tax revenues at LBP112,768bn and non-tax receipts at LBP34,971bn, or 76.3% and 23.7%, respectively of total public revenues. The ministry estimates that revenues from the excise tax on goods & services would generate LBP58,134bn or 51.6% of total tax receipts based in part on inflationary effects; followed by the tax on income, profits & capital gains with LBP18,048bn (16%); income from property taxes with LBP14,705bn (12%); receipts from custom duties with LBP12,050bn (10.7%); while other taxes would generate the remaining LBP9,831bn (8.7%) of aggregate tax receipts. Further, the distribution of projected non-tax revenues shows receipts from government properties and public institutions at LBP28,544bn or 81.6% of the total; followed by administrative fees with LBP6,073bn (17.4%); while penalties, expropriations and other non-tax receipts would generate the balance of LBP354m (1%).

The distribution of revenues from the excise tax on goods & services indicates that receipts from the value-added tax (VAT) would account for 62.3% of the total, followed by departure fees from the Lebanese territory (22%), fees on cars (9.3%), and the excise tax on goods (6%). Further, the distribution of revenues from the tax on income, profits & capital gains shows that receipts from the tax on wages & salaries would account for 34.3% of the total, followed by the tax on profits (33%), the tax on interest income (27.5%), and the capital gains tax (4.8%). In addition, the distribution of receipts from the property tax shows that revenues from property registration fees would account for 60% of the total, followed by the inheritance tax (32.8%), and the built property tax (7%).

Also, the distribution of non-tax revenues from government properties and public institutions indicates that receipts from the Port of Beirut would represent 42% of the total, followed by the telecommunications sector (29%), the Beirut Rafic Hariri International Airport (24%), Casino du Liban (2.3%), and the national lottery (0.5%).

The 2023 draft budget modifies taxes and fees across the board. For instance, it adjusts the income tax on commerce, industry and non-commercial professions through a 4% tax rate on the taxable portion that does not exceed LBP100m, 7% on the LBP100m-LBP267m bracket, 12% on the LBP260m-LBP590m taxable bracket, 16% on the LBP590m-LBP1,130m bracket, 21% on the LBP1,130m-LBP2,440m taxable bracket, and 25% on the taxable income that exceeds LBP2,440m. It added that the income tax on financial firms is 17%. It also modified taxes on wages, salaries and pensions through a 2% rate on the net taxable salary that does not exceed LBP70m, 4% on the LBP70m-LBP170m bracket, 7% on the LBP170m-LBP330m taxable segment, 11% on the LBP330m-LBP650m taxable bracket, 15% on the LBP650m-LBP1,300m segment, 20% on the LBP1,300m-LBP2,440m taxable bracket, and 25% of the taxable salary that exceeds LBP2,440m.

Further, it said that the net annual revenues from built properties will be subject to a tax of 4% on the portion of revenues that do not exceed LBP440m annually, 6% on the income between LBP440m and LBP870m, 8% on the LBP870m-LBP1,300m bracket, 11% on the LBP1,300m-LBP2,170m revenues segment, and 14% on the amount that exceeds LBP2,170m. In addition, it provided a deduction of LBP100m for the net taxable revenues of each built property in case it is inhabited by its owner. Further, it reduced by 75% the income tax on the profits of public sector contractors on projects that they completed before the end of 2021, in case the amounts they received were not adjusted for the depreciation of the Lebanese pound's exchange rate. Also, it allowed eligible companies, on an exceptional basis, to revalue their fixed assets every year until the end of 2026.

In addition, it imposed a tax of 2% on the income generated by natural or moral persons, even if they are based outside Lebanon, who conduct work related to money or services for persons in Lebanon through the internet, electronic platforms, or any electronic means. Further, it increased by 30 times the fees that it did not modify relative to their value prior to August 1, 2019; imposed a number of fees on alcoholic beverages produced in Lebanon or that are consumed at restaurants and hotels; as well as an annual fee on each alcoholic brand that is imported or produced locally, as well as on the wholesalers and retailers of alcoholic beverages, among other tax measures.

Council of the State rules that Finance Ministry must disclose forensic audit results

The Council of the State issued on July 17, 2023 a ruling that requires the Lebanese State and the Ministry of Finance (MoF) to disclose the results of the forensic audit of Banque du Liban (BdL), in response to a challenge submitted on June 6, 2023 by non-governmental organization The Legal Agenda. The challenge requested the ministry to handover all information and documents in its possession, as well as all details that it may have, that clarify the current stage that auditing firm Alvarez & Marshal has reached in implementing its forensic audit contract. The ministry said that it has received the preliminary results of the audit, and had previously declined to release the information on the ground of national financial security as per Article 5 of the Access to Information Law.

The U.S.-based financial services firm Alvarez & Marsal Middle East Limited (A&M) signed an agreement with the Ministry of Finance on September 19, 2021 to conduct a forensic audit of BdL, and started its work on October 21 of the same year.

In July 2020, the Council of Ministers approved the proposal of the MoF to retain A&M, KPMG and Oliver Wyman, in order to audit BdL. At the time, it indicated that the three firms may take between three to six months to complete the audit. In August 2020, A&M signed a \$2.1m contract with the MoF and began its work, but it informed the ministry in November of the same year that it decided to terminate its contract. The firm attributed its decision at the time to the fact that it did not receive all the needed information and documents to carry out the forensic audit and that it does not expect to receive them within the additional three-month extension that the Finance Ministry gave to BdL to submit the documents. The forensic audit of BdL has been subject to a public debate between BdL, government officials, political parties and experts, mostly about BdL's ability to submit the requested documents to A&M without breaching laws, particularly the banking secrecy law.

As a result, the Lebanese Parliament passed on December 21, 2020 Law 200 that lifts banking secrecy on the accounts of all ministries, public institutions and administrations, as well as of public bodies, agencies, councils and funds, and of all accounts at BdL. The law lifted the banking secrecy on these accounts for one year starting from the effective date of the law. On February 12, 2021, BdL announced that, in accordance with legal principles, it sent a letter to the MoF confirming its compliance with the full provisions of Law 200 and affirmed its cooperation with A&M on the questions that the firm addressed to BdL. In addition, it stressed the need for A&M to comply with the laws about data protection and the privacy of information, as well as with the European Union's General Data Protection Regulation in order to avoid any leakage of data or information, similar to a previous leakage to an international newspaper.

Under its contract agreement with the Finance Ministry, A&M has to conduct a preliminary forensic audit of BdL's activities and accounts. It has to validate that the funds related to the financial transactions that occurred in or through BdL's accounts in the five years period preceding the contract have been used for their intended purposes. It has to also examine if there were any amounts in these transactions that were inflated or unsubstantiated, and if any payments were made to 'fictitious' companies. Further, it has to assess, review and analyze any potential "red flags that could indicate inappropriate financial reporting schemes, misappropriations, embezzlement, or the inappropriate use of funds". In addition, it has to examine how the assets and liabilities of BdL have accumulated over time, as well as the composition of BdL's foreign currency reserves. Further, it has to evaluate the conditions surrounding the issuance of government debt and BdL's subscription to debt instruments, and examine the financial engineering transactions that took place in the covered five years period, among other tasks.

Amount of cleared checks in Lebanese pounds up 78% in first half of 2023

The amount of cleared checks in Lebanese pounds reached LBP29,514bn in the first half of 2023, constituting a surge of 78% from LBP16,583bn in the same period last year, while the amount of cleared checks in foreign currency was \$2.17bn and dropped by 63% from \$5.87bn in the first half of 2022. Also, there were 264,443 cleared checks in the first half of 2023, down by 74% from 1.01 million checks in the same period of 2022. In addition, the amount of cleared checks in Lebanese pounds reached LBP6,847bn in June 2023, as it increased by 45.6% from LBP4,704bn in May 2023 and by 143% from LBP2,818bn in June 2022. Further, the amount of cleared checks in foreign currency was \$230m in May 2023, as it regressed by 9.8% from \$255m in the previous month and dropped by 75.4% from \$935m in June 2022. Also, there were 32,534 cleared checks in June 2023 relative to 41,491 checks in the preceding month and to 135,850 cleared checks in June 2022.

In parallel, the amount of returned checks in Lebanese pounds reached LBP484bn in the first half of 2023 compared to LBP111bn in the same period last year, while the amount of returned checks in foreign currency was \$142m and increased by 92% from \$74m in the first half of 2022. Also, the amount of returned checks in Lebanese pounds stood at LBP34bn in May 2023, as it posted a decrease of 61.8% from LBP89bn in May 2023 and an increase of 54.5% from LBP30bn in June 2022. Also, the amount of returned checks in foreign currency was \$30m in June 2023, as it contracted by 44.4% from \$54m in the previous month and surged by 328.6% from \$7m in June 2022. In addition, there were 2,319 returned checks in the first half of 2023, down by 67% from 6,997 returned checks in the same period last year.

The number of returned checks in foreign currency reached 977 in the covered period and dropped by 78% from 4,210 in the first half of 2022, while the number of returned checks in Lebanese pounds totaled 1,342 and retreated by 51.8% from 2,787 year-on-year. Also, there were 272 returned checks in June 2023, relative to 412 returned checks in the preceding month and to 818 checks in June 2022. Further, there were 118 returned checks in Lebanese pounds in June 2023 compared to 222 in the previous month and to 357 in June 2022, while there were 154 returned checks in foreign currency in June relative to 190 checks in the previous month and 461 returned checks in June 2022.



Outward greenfield foreign direct investments down 62% to \$207m in 2022

Figures released by the United Nations Conference on Trade and Development (UNCTAD) and compiled by fDi Markets show that outward greenfield foreign direct investments (FDI) from Lebanon totaled \$206.6m in 2022, constituting a decline of 61.8% from \$540.8m in 2021. Lebanon was the source of 38 greenfield FDI projects in 2022, representing a decrease of 24% from 50 projects in 2021.

In comparison, outward Lebanese greenfield FDI stood at \$96.2m in 2020 and covered 21 projects, while they totaled \$199.5m in 2019 (35 projects), \$84.6m in 2018 (18 projects), \$626.3m in 2017 (13 projects), \$374.3m in 2016 (10 projects), \$415.5m in 2015 (17 projects), \$94.9m in 2014 (17 projects), and \$164m in 2013 (seven projects).

The FDI figures cover cross-border greenfield projects that lead to the direct creation of jobs and capital investment. They include joint ventures when these transactions lead to a new physical greenfield operation. The figures exclude mergers and acquisitions and other equity investments. fDi Markets is a database that tracks cross-border greenfield investments across the world, and is owned by the Financial Times Group.

| Outward Greenfield FDI in Arab Countries (US\$m) | | | |
|--|------------------|-----------------|---------------|
| | 2022 | 2021 | Change (%) |
| UAE | 85,132.0 | 16,110.5 | 428.4% |
| Saudi Arabia | 21,894.4 | 2,325.4 | 841.5% |
| Qatar | 1,167.3 | 488.5 | 138.9% |
| Oman | 749.5 | 7.5 | 9960.4% |
| Kuwait | 483.7 | 2,112.1 | -77.1% |
| Egypt | 344.1 | 189.7 | 81.4% |
| Djibouti | 217.0 | - | - |
| Lebanon | 206.6 | 540.8 | -61.8% |
| Bahrain | 189.9 | 118.5 | 60.3% |
| Morocco | 147.4 | 1,460.8 | -89.9% |
| Tunisia | 108.9 | 250.9 | -56.6% |
| Jordan | 54.4 | 8.8 | 518.2% |
| Algeria | 28.5 | 9.2 | 209.8% |
| Libya | 5.2 | 3.2 | 62.5% |
| state of Palestine | 3.5 | - | - |
| Iraq | 1.5 | 1.3 | 15.4% |
| Sudan | - | 108.5 | -100.0% |
| Total | 110,733.8 | 23,735.7 | 366.5% |

Source: fDi Markets, UNCTAD, Byblos Research

Globally, the amount of greenfield FDI that originated from Lebanon was the 68th highest in nominal terms among 114 economies with a GDP of \$10bn or more, as well as the eighth largest among 16 Arab countries. Lebanon was among 37 countries that registered a decrease in the amount of outward greenfield FDI in 2022.

In parallel, the number of greenfield FDI projects from Lebanon was the 46th highest globally in 2022 and the third highest regionally behind the UAE (318 projects) and Saudi Arabia (77 projects). Also, Lebanon was among 27 countries worldwide that registered a decline in the number of outward greenfield FDI projects last year.

In addition, the amount of greenfield FDI that originated from Lebanon accounted for 0.2% of total greenfield FDI from Arab countries last year relative to 2.3% in 2021. It also represented 0.18% of total flows from West Asian countries in 2022 compared to 2.1% in 2021, as well as 0.1% of such flows from developing economies relative to 0.4% in 2021.

Further, Lebanon attracted \$0.1m and \$12.3m in greenfield FDI inflows in 2021 and 2022, respectively. As such, greenfield FDI flows registered net outflows of \$540.7m in 2021 and \$194.3m in 2022.

Port of Beirut processes 1.65 million tons of freight in first four months of 2023

Figures released by the Port of Beirut show that the port processed 1.65 million tons of freight in the first four months of 2023, constituting a decrease of 2.4% from 1.69 million tons of freight in the same period of 2022. Imported freight totaled 1.38 million tons in the first four months of 2023, down by 0.9% from 1.39 million tons in the same period of 2022, and accounted for 83.8% of total processed freight. In addition, the volume of exported cargo reached 268,000 tons in the first four months of this year, representing a decrease of 9.2% from 295,000 tons in the same period of 2022, and accounting for 16.2% of aggregate freight in the covered period. A total of 403 vessels docked at the port in the first four months of 2023, constituting a rise of 3.6% from 389 ships in the same period last year. The port handled 381,000 tons of freight in April 2023, down by 19.3% from 427,000 tons in March 2023. In addition, 97 vessels docked at the port in April 2023, down by 21.8% from 124 ships in the previous month.

In parallel, the Port of Tripoli processed 1.19 million tons of freight in the first four months of 2023, representing an increase of 150,635 tons (+15.5%) from 969,020 tons in the same period of 2022. Imported freight totaled 427,031 tons in the first four months of 2023 and declined by 261,313 tons (-38%) from 688,344 tons in the same period last year. Imports accounted for 38% of freight activity in the covered quarter. In parallel, the volume of cargo that was exported through the port reached 692,624 tons in the first four months of 2023, up by 411,948 tons (+146.8%) from 280,676 tons in the same quarter of the previous year, and represented 62% of total freight in the covered quarter. A total of 241 vessels docked at the port in the first four months of 2023, representing a decrease of 20.2% from 302 ships in the same period of 2022.

Banque du Liban vice governors submit plan addressing exchange rate regime

Banque du Liban's (BdL) four vice-governors submitted to the Parliament's Administration and Justice Committee a "high level" plan that aims to modify the country's monetary policy framework and kick-start the economic recovery, in light of the upcoming end of BdL Governor Riad Salamé's term at the end of July 2023. The plan's major objective is to shift the current exchange rate regime, within a period of six months, to a "managed float" regime on an internationally recognized exchange platform, in order to reflect the real exchange rate of the Lebanese pound.

Also, the plan calls for major fiscal reforms, the enactment of several draft laws, as well as the adoption of a set of measures that would support demand for Lebanese pounds and improve the volume of transactions on the proposed foreign exchange platform. As such, it noted that authorities should undertake a review of the 2023 budget; and for Parliament to enact the Capital Controls draft law, the Bank Restructuring and Resolution draft law, and the Gap Resolution draft law. It also called for coordination among BdL, Parliament, and the government in order to improve the depth of the foreign exchange market.

First, the plan considered that the government is currently collecting between LBP20 trillion and LBP24 trillion per month in revenues and that, starting in July 2023, the government should be able to collect between LBP240 trillion to LBP288 trillion in the local currency and \$240m in US dollars per month. It estimated that authorities should collect \$3bn in revenues this year in order for tax receipts to become a key component of economic growth. But it noted that tax receipts could exceed \$4.5bn in case the authorities step up efforts to reduce the size of the cash economy and implement the necessary reforms. As such, it stressed the need for the government to strengthen its budget revenue framework. In addition, it called on Parliament to approve the draft budget for 2023 before the end of August of this year. It also encouraged the government to prepare the 2024 budget and submit it to Parliament before end-October 2023, and for the latter to enact the budget prior to the end of November of this year.

Second, it stipulated that Parliament should approve the Capital Controls draft law by the end of August 2023, and noted that the government needs to review and approve the Gap Resolution and the Capital Restructuring draft laws by the end of September of this year. It added that BdL should commit to setting the rules and regulations in order to shift the exchange rate to a "managed float" regime by the end of September 2023. Further, it said that BdL will continue buying US dollars in the domestic market whenever possible, in accordance with Articles 75 and 83 of the Code of Money and Credit, in order to ease pressure on its foreign currency reserves.

Third, the plan expects BdL to coordinate with authorized banks and financial institutions (BFIs), within a period of one month, to adopt new rules related to securing demand and supply of foreign currency on the new electronic platform, while it noted the need for the Ministry of Economy & Trade to impose on retailers within one month the usage of the Lebanese pound for their sales. Further, it called on Parliament to enact a law, within one month, that amends Article 5 of the Law of Money and Credit, which would authorize BdL to issue banknotes with denominations that are larger than LBP100,000. It suggested that the Capital Controls draft law should include an article that imposes on all importers to buy US dollars to finance their imports from authorized BFIs, with the aim to increase the volume of transactions on the proposed exchange platform and result in a more accurate exchange rate.

In parallel, the vice-governors indicated that the foreign currency reserves at BdL consist of the mandatory placements of banks, and considered that the usage of any part of these reserves at this stage should be based on a consensus between Parliament, the government and BdL. As such, they encouraged Parliament to enact a law that would allow BdL to lend to the government, from the banks' mandatory placements, an average of up to \$200m per month over a six-month period with a ceiling of \$1.2bn over this period. Also, they did not expect the government to face any difficulties to repay its loan, in case the government and Parliament enact the necessary legislation to rebuild confidence and secure additional revenues.

They added that BdL must step up efforts to stabilize the exchange rate and to secure a smooth transition to a "managed float" exchange rate platform. They also anticipated that BdL will intervene in the market during the coming few months to ensure a "unified exchange rate" on the Sayrafa electronic platform, as well as to limit speculative attacks on the Lebanese pound.

Payment cards at 2.38 million at end-2022, ATMs total 1,515

Figures released by Banque du Liban show that the number of payment cards issued in Lebanon reached 2,379,207 cards at the end of 2022, constituting a decline of 229,805 cards (-8.8%) from 2,609,012 cards at the end of 2021, a decrease of 454,494 cards (-16%) from 2,833,701 at end-2020, and a drop of 657,549 cards from 3,036,756 cards at end-2019.

Payment cards held by residents accounted for 97.4% of total cards issued in Lebanon at the end of 2022. The distribution of payment cards by type shows that debit cards with residents reached 1,501,686 and accounted for 63% of the total, followed by prepaid cards with residents at 614,136 (25.8%), credit cards with residents at 135,773 (5.7%), charge cards with residents at 65,267 (2.7%), debit cards held by non-residents at 51,263 (2.2%), credit cards with non-residents at 5,416 (0.2%), charge cards held by non-residents at 3,630 (0.15%), and prepaid cards with non-residents at 2,036 (0.1%)

The number of prepaid cards with residents increased by 48,132 cards (+8.5%) in 2022 and prepaid cards with non-residents rose by 901 cards (+79.4%); while the number of debit cards with residents decreased by 187,528 cards (-11%), credit cards with residents declined by 72,042 cards (-34.7%), the number of debit cards held by non-residents regressed by 9,456 cards (-15.6%), charge cards with residents dipped by 6,729 cards (-9.3%), the number of credit cards held with non-residents contracted by 2,488 cards (-31.5%), and charge cards with non-residents retreated by 595 cards (-14%). The decline in debit and credit cards held by residents and non-residents since 2020 is due in part to the banks' tighter controls on credit card issuance and renewal.

Further, the aggregate number of points-of-sales (PoS) accepting payment cards reached 41,382 at the end of 2022, constituting a decrease of 2,548 (-5.8%) from 43,930 PoS at end-2021, a decline of 4,341 (-9.5%) from 45,723 PoS at end-2020, and a drop of 7,092 (-14.6%) from 48,474 PoS at end-2019. There were 3.96 PoS per square kilometer (km²) in Lebanon at the end of 2022 compared to 4.2 PoS per km² at the end of 2021, to 4.37 PoS per km² at end-2020, and to 4.64 PoS per km² at end-2019.

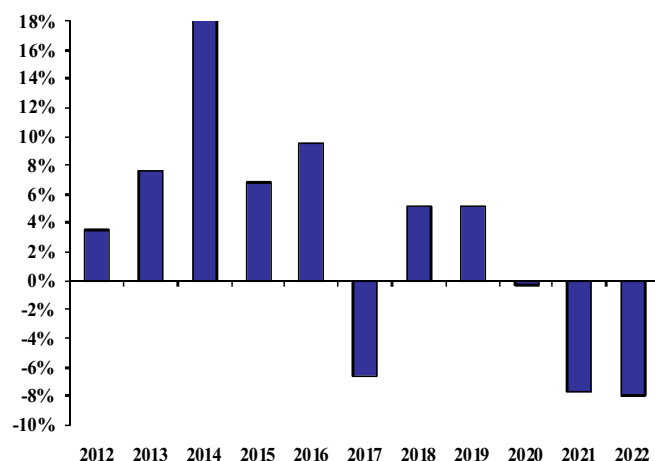
In parallel, there were 1,515 automated teller machines (ATMs) across Lebanon at the end of 2022, constituting a decline of 209 ATMs from end-2021, a decrease of 359 ATMs from end-2020, and a drop of 488 ATMs from end-2019. The Mount Lebanon area had 566 ATMs at the end of 2022, equivalent to 37.4% of the total, followed by the Greater Beirut area with 513 ATMs (34%), the North with 161 ATMs (10.6%), the Bekaa with 126 ATMs (8.3%), the South region with 118 ATMs (7.8%), and the Nabatieh area with 31 ATMs (2%). As such, there were 145 ATMs per 1,000 km² in Lebanon at the end of 2022 compared to 165 ATMs per 1000 km² at the end of 2021, to 179 ATMs per 1000 km² at the end of 2020, and to 192 ATMs per 1000 km² at end-2019.

Number of new construction permits down 53% in first five months of 2023

Figures issued by the Orders of Engineers & Architects of Beirut and of Tripoli show that the two orders issued 4,741 new construction permits in the first five months of 2023, constituting a decline of 52.7% from 10,032 permits in the first five months of 2022. Also, the orders of engineers issued 1,026 permits in May 2023, representing an increase of 71.3% from 599 permits in April 2023 and a decline of 60% from 2,566 permits in May 2022. Mount Lebanon accounted for 36% of the number of newly-issued construction permits in the first five months of 2023, followed by the South with 24.4%, the Nabatieh area with 16.3%, the North with 10.6%, the Bekaa region with 8%, and Beirut with 2.7%. The remaining 2% were permits issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon. The number of new construction permits issued for regions located in the North declined by 75.4% in the first five months of 2023 from the same period last year, followed by permits in regions outside northern Lebanon (-70.1%), in the Bekaa region (-49.2%), in Mount Lebanon and in the Nabatieh area (-46.6% each), in the South (-46.3%), and in Beirut (-3.8%).

Further, the surface area of granted construction permits reached 1.9 million square meters (sqm) in the first five months of 2023, constituting a decline of 69% from 6.16 sqm in the same period of 2022. Also, the surface area of granted construction permits reached 445,570 sqm in May 2023, increasing by 91% from 233,203 sqm in April 2023 and declining by 72.6% from 1.6 million sqm in May 2022. Mount Lebanon accounted for 685,303 sqm, or for 36% of the total surface area of granted construction permits in the first five months of 2023. The South followed with 481,709 sqm (25.2%), then the Nabatieh area with 255,305 sqm (13.4%), the Bekaa region with 209,524 sqm (11%), the North with 179,529 sqm (9.4%), and Beirut with 53,533 sqm (2.8%). The remaining 44,696 sqm, or 2.3% of the total, represent the surface area of permits that the Order of Engineers & Architects of Tripoli issued for regions located outside northern Lebanon. The surface area of new construction permits issued in the North dropped by 889% in the first five months of 2023 from the same period last year, followed by surface areas in regions located outside northern Lebanon (-84%), then Beirut (-68%), the Bekaa region (-65.4%), Mount Lebanon (-64.6%), the Nabatieh area (-55%), and the South (-50.3%). In parallel, the latest available figures show that cement deliveries totaled 2.12 million tons in 2022, constituting a rise of 9% from 1.95 million tons in 2021.

Change in Number of Payment Cards (%)



Source: Banque du Liban, Byblos Research

Consumer Price Index up 254% year-on-year in June 2023

The Central Administration of Statistics' Consumer Price Index increased by 229.7% in the first half of 2023 from the same period of 2022. In comparison, it grew by 214.2% and by 129.5% in the first half of 2022 and 2021, respectively.

The CPI rose by 253.6% in June 2023 from the same month of 2022, and registered its 36th consecutive triple-digit increase since July 2020. The cumulative surge in the inflation rate is due in part to the repeated increase in customs tariffs, to the rise of telecommunications rates and electricity tariffs, and to the inability of authorities to monitor and contain retail prices. It is also due to the fluctuation of the Lebanese pound's exchange rate on the parallel market and to the lifting of subsidies on hydrocarbons and on a range of basic products in 2021 and 2022, which have encouraged opportunistic wholesalers and retailers to raise the prices of consumer goods disproportionately. In addition, the smuggling of subsidized imported goods has resulted in shortages of these products locally, which contributed to the rise in prices.

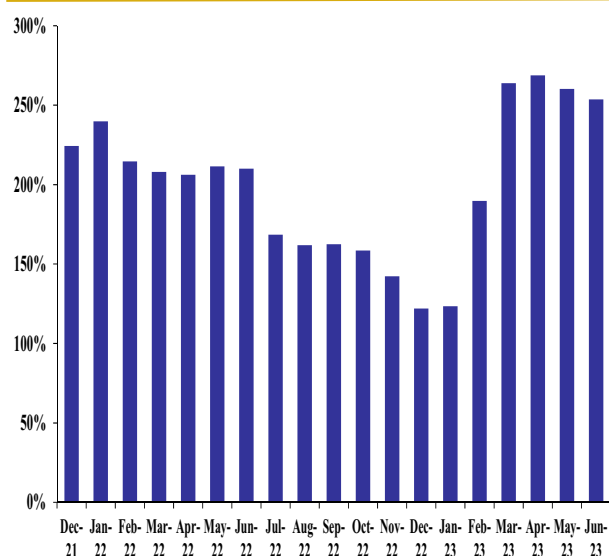
Communication costs surged by seven times in June 2023 from the same month of 2022, followed by the cost of alcoholic beverages & tobacco (+4.9 times), rates at restaurants & hotels (+4.4 times), the prices of food & non-alcoholic beverages, healthcare costs, clothing & footwear, and actual rent (+3.8 times each), the prices of furnishings & household equipment (+3.7 times), transportation costs, the prices of miscellaneous goods & services, and the cost of recreation & entertainment (+3.2 times each). In addition, the cost of education rose by 193% year-on-year in June 2023, followed by actual rent (+181.8%), and the prices of water, electricity, gas & other fuels (+149%). Also, the distribution of actual rent shows that new rent surged by 347.3% and old rent increased by 47% in June from the same month of 2022.

In parallel, the CPI increased by 7.2% in June 2023 from the previous month, compared to a month-on-month rise of 5.3% in May 2023 and to a surge of 8.6% in April 2023.

The prices of water, electricity, gas and other fuels increased by 38.6% in June 2023 from May 2023, followed by imputed rent (+23.1%), actual rent (+22.9%), the cost of recreation & entertainment (+7%), the prices of alcoholic beverages & tobacco (+1.9%), the prices of food & non-alcoholic beverages (+1.4%), rates at restaurants & hotels (+1.2%), the prices of furnishings & household equipment (+0.8%), the cost of education (+0.5%), and communications cost (+0.1%). In contrast, transportation costs decreased by 5.5% month-on-month in June 2023, followed by the prices of clothing & footwear (-1.5%), healthcare costs (-0.3%), and the prices of miscellaneous goods & services (-0.2%). Also, the distribution of actual rent shows that new rent grew by 30.6% and old rent expanded by 12.8% in June 2023 from the previous month.

Further, the CPI increased by 15.1% in Beirut, by 12.8% in the Bekaa, by 9.6% in the South, by 7.3% in the North, by 4.7% in the Nabatieh, and by 4.3% in Mount Lebanon during June 2023 from the previous month. In parallel, the Fuel Price Index regressed by 0.7% and the Education Price Index decreased by 0.5% in June 2023.

Annual Change in Consumer Price Index* (%)



*from the same month of the previous year

Source: Central Administration of Statistics, Byblos Research

Holcim posts net profits of LBP97bn in 2022

Cement producer Holcim (Liban) sal posted audited net profits of LBP97bn in 2022 compared to net income of LBP12.9bn in 2021. The firm's sales reached LBP1,714.7bn in 2022, constituting a surge of 294% from LBP435.3bn in 2021; while its cost of goods sold totaled LBP1,100bn last year and surged by 317% from LBP263.7bn in 2021. This resulted in gross profits of LBP614.8bn in 2022 relative to LBP171.6bn in 2021. As such, the firm's gross profits margin was 36% in 2022 relative to 39.4% in 2021. Further, the company's total assets reached LBP1,356.7bn at the end of 2022 compared to LBP601.8bn at the end of 2021. Also, the firm's current ratio, which is a measure of the company's ability to meet its short-term obligations, was 1.9x at the end of 2022 relative to 2.8x a year earlier. Moreover, Holcim's shareholders equity stood at LBP304.5bn at the end of 2022, up from LBP210.4bn a year earlier. As such, the company's debt-to-equity ratio was 345.6% at the end of 2022 compared to 186% at end-2021. The firm produces and sells cement and other related products. Holcim's share price closed at \$55.05 on July 21, 2023, up by 77.6% from \$31 at the end of 2022.

In parallel, the company's external auditors indicated that "the accompanying separate financial statements do not present fairly the financial position of the company as at December 31, 2022, and its financial performance and its cash flows for the year that ended in accordance with International Financial Reporting Standards", since the financial statements do not take into account the impact of hyperinflation on the revenues stream. It said that "the company did not use an appropriate exchange rate for the translation of foreign currency transactions and did not re-translate all monetary assets and liabilities stated in foreign currencies at the appropriate exchange rate at the reporting date."

Net losses of Syrian affiliates of Lebanese banks at SYP2.1bn in 2022

Financial results issued by the affiliates of six Lebanese banks in Syria show that their aggregate net profits reached SYP174.2bn in 2022 compared to net earnings of SYP430.3bn in 2021. In US dollar terms, the net profits of the six banks totaled \$61.4m last year compared to net earnings of \$246.5m in 2021. Also, the depreciation of the Syrian pound from SYP2,512 against the US dollar at the end of 2021 to SYP3,015 per dollar at the end of 2022 resulted in unrealized foreign exchange gains on the banks' structural positions of SYP176.3bn in 2022. When excluding foreign exchange gains on structural positions, the earnings of the six banks shift to net losses of SYP2.1bn, or \$0.7m, in 2022.

The profits of Banque BEMO Saudi Fransi dropped by SYP76.9bn in 2022, followed by a decline of SYP51.5bn in the net income of Byblos Bank Syria, a decrease of SYP43.7bn in the profits of Bank of Syria & Overseas, a contraction of SYP33.7bn in the net income of Syria Gulf Bank, the affiliate of First National Bank, a retreat of SYP27.2bn in the earnings of Fransabank Syria, and a downturn of SYP23.2bn on the profits of Bank Al-Sharq, the affiliate of Banque Libano-Française.

The net interest income of the six banks totaled SYP109bn in 2022, constituting an increase of 49% from SYP73.1bn in 2021; while their net fees & commission income rose by 1.4 times to SYP102.1bn. Further, the aggregate operating income of the six banks stood at SYP411bn in 2022 and dropped by 32.5% from SYP608.6bn in 2021; while their aggregate operating expenses amounted to SYP228bn in 2022, up by 1.3 times from SYP170.3bn in the preceding year.

In parallel, the banks' aggregate assets reached SYP4,519.6bn at the end of 2022 and increased by 22% from SYP3,706.7bn a year earlier. The growth in assets was due to a surge of 36.3% in the assets of Syria Gulf Bank (+SYP269.5bn), a rise of 26.3% in those of Banque BEMO Saudi Fransi (+SYP395bn), a growth of 17% in the assets of Bank of Syria & Overseas (+SYP82.3bn), an increase of 14.8% in those of Byblos Bank Syria (+SYP45.5bn), and an uptick of 5.2% in the assets of Fransabank Syria (+SYP23.7bn). In contrast, the assets of Bank Al Sharq stood at SYP219bn at the end of 2022 and regressed by 1.4% (-SYP3.1bn) from the end of 2021. In US dollar terms, the assets of the six banks stood at \$1.5bn at end-2022, constituting an increase of 1.6% from \$1.47bn at the end of 2021.

Also, the banks' total loans amounted to SYP981.8bn at end-2022, representing a rise of 35.3% from SYP725.4bn at the end of 2021. Further, the banks' customer deposits totaled SYP2,841.4bn at the end of 2022 and surged by 26.3% from SYP2,250.3bn at end-2021. The ratio of the banks' loans-to-customer deposits stood at 34.6% at the end of 2022 relative to 32.2% at end-2021. In parallel, the aggregate shareholders' equity of the six banks stood at SYP984.7bn at end-2022 and rose by 22% from SYP807bn at end-2021.

| Results of Affiliates of Lebanese Banks in Syria in 2022 (SYPbn) | | | | | | |
|--|--------------------------------|--------------------------------|---------------------|-----------------------|-------------------------|------------------|
| | Banque BEMO Saudi Fransi | Bank of Syria & Overseas | Fransabank Syria | Syria Gulf Bank | Byblos Bank Syria | Bank Al-Sharq |
| Net Profits | 62.8 | 34.2 | 12.2 | 25.3 | 25.2 | 14.5 |
| Total Assets | 1,896.2 | 1,012.9 | 562.24 | 476.5 | 352.8 | 219.0 |
| % Change* | 26.3% | 36.3% | 17.1% | 5.2% | 14.8% | -1.4% |
| Loans | 305.3 | 475.5 | 39.6 | 81.0 | 45.1 | 35.3 |
| % Change* | 54.8% | 21.9% | 49.7% | 45.1% | 24.3% | 80.1% |
| Customer Deposits | 1,370.5 | 571.9 | 390.6 | 244.7 | 155.2 | 108.4 |
| % Change* | 24.2% | 92.4% | 15.9% | 1.0% | 13.4% | -18.5% |

*Change from end-2021

Source: Banks' financial statements



Ratio Highlights

| (in % unless specified) | 2019 | 2020 | 2021 | Change* |
|--|--------|--------|-------|---------|
| Nominal GDP (\$bn) | 53.2 | 24.7 | 23.4 | (1.3) |
| Public Debt in Foreign Currency / GDP | 63.4 | 56.8 | 26.2 | (30.6) |
| Public Debt in Local Currency / GDP | 108.8 | 93.8 | 42.1 | (51.7) |
| Gross Public Debt / GDP | 172.3 | 150.6 | 68.3 | (82.2) |
| Trade Balance / GDP | (29.2) | (12.2) | (6.6) | 5.6 |
| Exports / Imports | 19.4 | 31.3 | 28.5 | (2.8) |
| Fiscal Revenues / GDP | 20.8 | 16.0 | 8.5 | (7.5) |
| Fiscal Expenditures / GDP | 31.8 | 20.3 | 9.8 | (10.5) |
| Fiscal Balance / GDP | (11.0) | (4.3) | (1.3) | 2.9 |
| Primary Balance / GDP | (0.5) | (1.0) | (0.1) | 1.0 |
| Gross Foreign Currency Reserves / M2 | 70.2 | 41.5 | 26.0 | (15.5) |
| M3 / GDP | 252.9 | 209.0 | 90.8 | (118.2) |
| Commercial Banks Assets / GDP | 407.5 | 296.2 | 119.1 | (177.1) |
| Private Sector Deposits / GDP | 298.6 | 219.2 | 88.2 | (131.0) |
| Private Sector Loans / GDP | 93.6 | 57.0 | 18.9 | (38.1) |
| Private Sector Deposits Dollarization Rate | 76.0 | 80.4 | 79.4 | (1.0) |
| Private Sector Lending Dollarization Rate | 68.7 | 59.6 | 56.3 | (3.3) |

*change in percentage points 21/20;

Source: Banque du Liban, Ministry of Finance, Central Administration of Statistics, Institute of International Finance, Byblos Research Estimates & Calculations

Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

National Accounts, Prices and Exchange Rates

| | 2020 | 2021e | 2022f |
|---|---------|---------|---------|
| Nominal GDP (LBP trillion) | 95.7 | 212.6 | 426.8 |
| Nominal GDP (US\$ bn) | 24.7 | 22.6 | 26.8 |
| Real GDP growth, % change | -25.9 | -9.9 | 2.5 |
| Private consumption | -70 | 1.2 | 1.5 |
| Public consumption | -4 | -45.7 | -9.8 |
| Gross fixed capital | -63 | -16.2 | 21.8 |
| Exports of goods and services | -34.2 | 9.6 | 8.9 |
| Imports of goods and services | -33.4 | 3.9 | 2.0 |
| Consumer prices, %, average | 84.9 | 154.8 | 97.7 |
| Official exchange rate, average, LBP/US\$ | 1,507.5 | 1,507.5 | 1,507.5 |
| Parallel exchange rate, average, LBP/US\$ | 6,705 | 16,821 | 26,070* |
| Weighted average exchange rate LBP/US\$ | 3,878 | 9,452 | 23,679 |

*Average year-to-July 22, 2022

Source: Central Administration of Statistics, Institute of International Finance- June 2022

Ratings & Outlook

| Sovereign Ratings | Foreign Currency | | | Local Currency | | |
|---------------------------|------------------|----|---------|----------------|----|----------|
| | LT | ST | Outlook | LT | ST | Outlook |
| Moody's Investors Service | C | NP | - | C | | - |
| Fitch Ratings | RD | C | - | CC | C | - |
| S&P Global Ratings | SD | SD | - | CC | C | Negative |

Source: Rating agencies

| Banking Sector Ratings | Outlook |
|---------------------------|----------|
| Moody's Investors Service | Negative |

Source: Moody's Investors Service



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