BYBLOS BANK SAL

Economic Research & Analysis Department

LEBANON THIS WEEK

Charts of the Week

Projected Real GDP Growth Rates of Arab Countries in 2024 (%)

Real GDP Growth Rates of Lebanon (%)
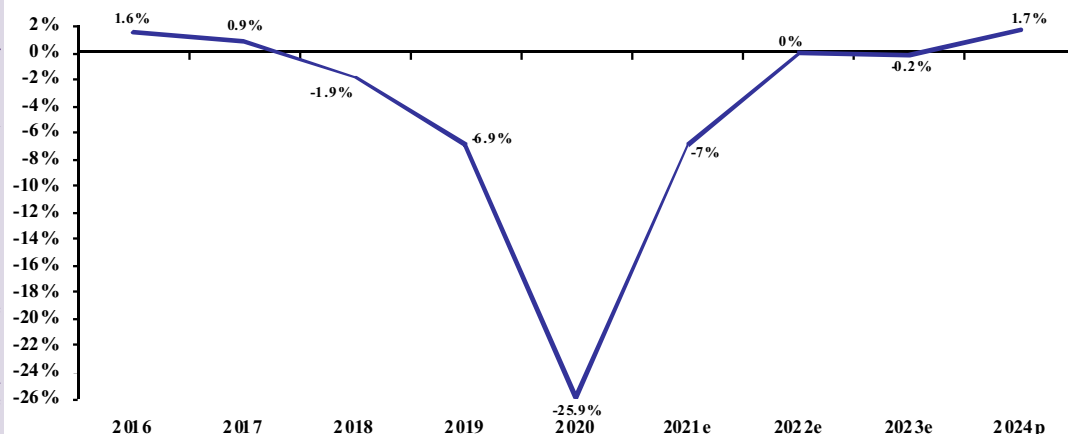
Source: United Nations Department of Economic and Social Affairs, Byblos Bank

Quote to Note

"Remittances have served as a de facto social safety net in the absence of adequate social spending and have permitted the Lebanese to achieve a higher standard of living."

The World Bank, on the contribution of expatriates' remittances to socio-economic stability

Number of the Week

62%: Share of Lebanese expatriates out of the aggregate number of incoming visitors to Lebanon in the first 11 months of 2023, according to the Ministry of Tourism

Lebanon in the News

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

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

*year-on-year
**checks figures do not include compensated checks in fresh currencies
Source: Association of Banks in Lebanon, Banque du Liban, Ministry of Finance, Central Administration of Statistics, Byblos Research

Capital Markets

Most Traded Stocks on BSE*	Last Price ($)	% Change*	Total Volume	Weight in Market Capitalization
BLOM Listed	3.00	(14.3)	250,000	3.6%
BLOM GDR	3.00	0.0	50,000	1.2%
Byblos Common	0.81	17.4	25,600	2.5%
Solidere "A"	75.65	(4.3)	24,069	41.8%
Solidere "B"	78.15	(2.3)	6,474	28.1%
Audi Listed	2.00	(14.9)	4,055	6.5%
HOLCIM	59.20	(0.5)	516	6.4%
Audi GDR	1.11	0.0	-	0.7%
Byblos Pref. 08	27.00	0.0	-	0.3%
Byblos Pref. 09	29.99	0.0	-	0.3%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Apr 2024	6.65	5.75	6,630.19
Jun 2025	6.25	5.75	360.33
Nov 2026	6.60	5.75	130.41
Mar 2027	6.85	5.75	113.96
Nov 2028	6.65	5.75	69.67
Feb 2030	6.65	5.75	52.83
Apr 2031	7.00	5.75	43.59
May 2033	8.20	5.75	33.13
Nov 2035	7.05	5.75	25.79
Mar 2037	7.25	5.75	22.91

Source: Refinitiv

	Jan 15-19	Jan 8-12	% Change	December 2023	December 2022	% Change
Total shares traded	361,014	968,316	(62.7)	1,944,115	9,581,716	(79.7)
Total value traded	$3,357,107	$77,880,854	(95.7)	$141,539,181	$89,017,136	59.0
Market capitalization	$18.09bn	$18.80bn	(3.8)	$20.48bn	$14.48bn	41.4

Source: Beirut Stock Exchange (BSE)

Modified draft budget forecasts balanced budget for 2024

The Parliament's Finance and Budget Committee's modified draft budget for 2024 shows budgetary expenditures and revenues at LBP295,113bn each, leading to a balanced budget compared to deficits of 13.9% of spending in the original draft budget of 2024 and 24% of expenditures in the 2023 draft budget. It also includes Treasury receipts of LBP4,561bn, resulting in aggregate public revenues of LBP299,674bn for the year.

On the expenditures side, the budget estimates current expenditures at LBP269,177bn and capital investments at LBP25,936bn, or 91.2% and 8.8%, respectively, of aggregate public spending. In comparison, the original draft budget estimated current expenditures at LBP284,993bn and capital expenditures at LBP15,526bn, or 94.8% and 5.2%, respectively, of aggregate public spending. The distribution of current expenditures in the modified budget shows that wages, salaries, social benefits and allocations total LBP138,119bn and account for 51.3% of current spending, followed by spending on goods & services at LBP54,449bn (20.2%), transfers at LBP30,000bn (11.1%), debt servicing at LBP14,698bn (5.5%), and emergency expenditures at LBP7,605bn (2.8%), while other spending stands at LBP24,207bn (9%). Also, the distribution of capital expenditures shows that maintenance totals LBP16,379bn and accounts for 63.2% of such spending, followed by projects under execution at LBP6,561bn (25.3%), and equipment at LBP2,794 (10.8%).

On the revenues side, the modified draft budget projects tax revenues at LBP229,767bn and non-tax receipts at LBP65,346bn, or 77.9% and 21.1%, respectively, of total public revenues. In comparison, the original 2024 draft budget forecast tax revenues at LBP208,065bn and non-tax receipts at LBP50,720bn. The modified draft estimates that revenues from the excise tax on goods & services would generate LBP131,096bn, or 57.1% of total tax receipts; followed by income from property taxes with LBP36,062bn (15.7%); the tax on income, profits & capital gains with LBP21,459bn (9.3%); receipts from custom duties with LBP29,896bn (13%); while other taxes would generate the remaining LBP11,253bn, or 5% of aggregate tax receipts. Further, the distribution of projected non-tax revenues shows receipts from government properties and public institutions at LBP49,792bn, or 76.2% of the total; followed by administrative fees with LBP12,506bn (19.1%); while penalties, expropriations and other non-tax receipts would generate the balance of LBP3,048bn, or 4.7% of total non-tax revenues.

The distribution of revenues from the excise tax on goods & services indicates that receipts from the value-added tax (VAT) would account for 72.5% of the total, followed by the excise tax on goods (12%), departure fees from the Lebanese territory (11%), and fees on cars (4.3%). Further, the distribution of revenues from the tax on income, profits & capital gains shows that receipts from the tax on profits would account for 78.3% of the total, followed by the tax on interest income (14%), the capital gains tax (5%), and the tax on wages & salaries (2%). In addition, the distribution of receipts from the property tax shows that revenues from property registration fees would account for 83.2% of the total, followed by the inheritance tax (13.7%) and the built property tax (3.1%).

Also, the distribution of non-tax revenues indicates that receipts from government properties and public institutions would account for 76.2% of the total, followed by administrative fees & revenues and sales (19%) and other non-tax receipts (4.6%). Further, the breakdown of revenues from government properties and public institutions shows that receipts from the telecommunications sector would account for 48.2% of the total, followed by the Port of Beirut (27.1%), the Beirut Rafic Hariri International Airport (14.3%), Casino du Liban (6.4%), receipts from the Directorate of Grains & Sugar Beet (2.2%), and the national lottery (1.7%). In addition, other non-tax receipts include exceptional revenues from the settlement of seaside properties violations and would account for 5% of non-tax receipts.

In parallel, the committee stated that it has amended 87 articles out of 133 ones included in the original budget draft. It said that it canceled 46 articles, modified 73 articles, approved 14 ones, and added eight new articles. As such, it said that the amended draft budget consists currently of 95 articles.

First, it canceled all the articles that impose new taxes, fees or penalties. Second, it prohibited the inclusion of Treasury advances in the budget, unless they conform to articles 203 to 212 of the Public Accounting Law. Third, it modified Article 5 that authorized the government to borrow to cover the budget deficit, by limiting the borrowing to the projected rather than the achieved deficit, given that the prevailing practice costs the Treasury at least LBP1,000bn in debt servicing on Treasury bills which are unnecessary to issue.

Fourth, it canceled Article 10 that authorized the payment of interest on loans for development projects, after it realized the level of clientelism in allocating these loans. Fifth, it unified the criteria to modify taxes, fees and penalties, given that the suggested changes in the original draft budget were arbitrary and did not take into consideration the prevailing economic conditions in the country, such as raising the cost of registering a company by 150,000 times and increasing road traffic penalties by 10 times. Sixth, it amended the income brackets of limited income workers and employees in the public and private sectors that are subject to the income tax, and changed family exemptions by 60 times instead of the 10 times included in the original draft budget. Seventh, it removed any text that regularizes the term "Sayrafa platform" and replaced any reference to it with the expression "the exchange rate that Banque du Liban sets, given that the latter has the legal authority in this regard". It noted that the original draft budget is not based on a unified exchange rate, as the wages, salaries and end-of-service indemnities were calculated at the exchange rate of LBP15,000 per US dollar, while most of the tax revenues have been estimated at a rate of LBP89,000 per dollar and some of the tax receipts at an exchange rate of LBP50,000 per dollar. Eighth, it amended Article 6 about the mechanism for the opening of special Treasury accounts for loans that the Lebanese State contracts.

Banque du Liban's foreign assets at $14.5bn, gold reserves at $18.9bn at mid-January 2024

Banque du Liban's (BdL) interim balance sheet shows that its total assets reached LBP1,615.3 trillion (tn), or the equivalent of $107.7bn, on January 15, 2024, constituting increases of 0.5% from LBP1,607.6tn ($107.2bn) at end-2023 and of 0.04% from LBP1,614.7tn ($107.6bn) at mid-December 2023. Assets in foreign currency stood at $14.53bn at mid-January 2024, representing a decline of $486m, or of 3.2% from mid-January 2023. Assets in foreign currency include $5.03bn in Lebanese Eurobonds, unchanged from a year earlier. The dollar figures up until the end of January 2023 are based on the official exchange rate of the Lebanese pound to the US dollar of LBP1,507.5 per dollar at the time, while the dollar figures starting in February 2023 are based on the new exchange rate of LBP15,000 per dollar.

BdL's gross foreign currency reserves, which consist of its assets in foreign currency excluding Lebanese Eurobonds, stood at $9.5bn at mid-January 2024, nearly unchanged from $9.498bn at end-2023, and constituting an increase of $52.5m (+0.6%) from $9.45bn at mid-December 2023. They decreased by $486m (-5%) from $10bn in mid-January 2023. Also, BdL's liquid foreign reserve assets stood at $9.33bn at mid-January 2024 relative to $9.32bn at the end of 2023, to $9.26bn at mid-December 2023, and to $8.57bn at end-July 2023.

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

*month-on-month change
**as at mid-January 2024, change from end-2024
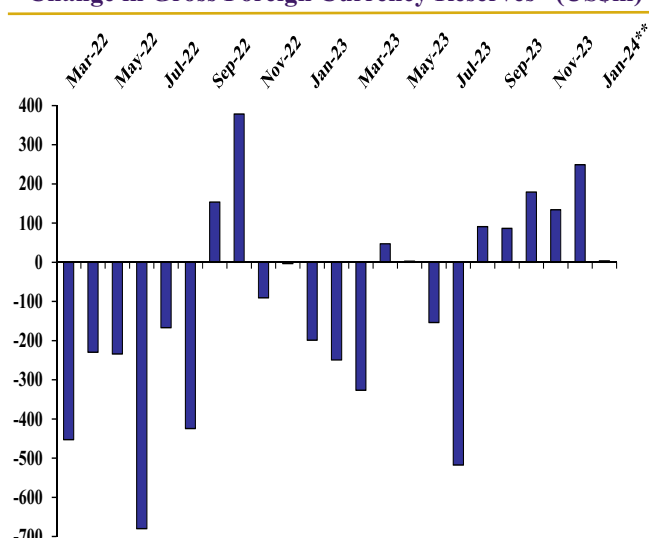Source: Banque du Liban, Byblos Research

Further, the value of BdL's gold reserves stood at $18.9bn at mid-January 2024, constituting a decrease of $226.7m (-1.2%) from a recent peak of $19.2bn at end-2023 and an increase of $1.4bn (+7.8%) from $17.6bn at mid-January 2023. Also, the securities portfolio of BdL totaled LBP65,990bn, or $4.4bn, at mid-January 2024. In addition, loans to the local financial sector stood at LBP15,895.3bn, or $1.1bn.

Moreover, BdL added a new item to its balance sheet called "Deferred Open-Market Operations" that stood at LBP120,137bn, or $8bn, at mid-January 2024, relative LBP118,971.3bn ($7.9bn) at end-2023. It said that, based on the Central Council's decision 23/36/45 of December 20, 2023, BdL has started to present all deferred interest costs originating from open-market operations under a new line item called "Deferred Open-Market Operations". 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 LBP4,758.2bn, or $317.2m, at mid-January 2024 relative to LBP4,256.3bn ($283.8m) at end-2023. Also, the Revaluation Adjustments item on the asset side reached LBP656,791.5bn at mid-January 2024. It consists of a special account called the "Exchange Rate Stabilization Fund", in which it recorded all the transactions related to foreign-exchange interventions to stabilize the exchange rate starting in 2020 and that had a balance of LBP140.87tn on January 15, 2024. It also consists of a special account in the name of the Treasury that stood at LBP516tn at mid-January 2024. 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 LBP249,205.7bn, equivalent to $16.61bn at mid-January 2024.

On the liabilities side, BdL's balance sheet shows that currency in circulation outside BdL stood at LBP57,201.8bn at mid-January 2024, representing a decrease of 14.8% from LBP67,160.1bn at mid-January 2023. Further, the deposits of the financial sector reached LBP1,334.7tn, or $88.98bn, at mid-January 2024, while public sector deposits at BdL stood at LBP198,261.8bn at mid-January 2024 and surged by LBP178,700.4bn from a year earlier. BdL noted that, starting on March 15, 2019, it has offset loans with their corresponding deposits in Lebanese pounds and that have the same maturities, according to the criteria in International Accounting Standard 32 and as per International Financial Reporting Standard 7 on offsetting financial assets and liabilities. As such, loans that were offset against financial sector deposits stood at LBP36.85tn as at mid-January 2024.

In parallel, BdL stated that it is currently working on changing its accounting policy in line with international practices. First, it said that, given that it intends to comply with international accounting standards, and best practices and norms, especially those issued by the Bank of International Settlements, the losses and negative equity of central banks can be recorded as realized and unrealized losses for the current and future years. Second, it said that Article 113 of the Code of Money and Credit states that, if BdL registers losses in a given year, the losses are covered by general reserves and, in case there is not enough reserves, the Treasury has to cover the losses. Third, it added that the prevailing conditions of public finances and of the Treasury do not allow the coverage of BdL's cumulative losses without a comprehensive reforms plan that covers bank deposits and the situation of the banks. Fourth, it noted that, in light of its commitment to publish transparent financial reports, BdL has stopped applying the Seignorage principle in order to classify deferred costs under a new item called "Deferred Open-Market Operations", which will help the compliance of the realized and deferred losses figures with international standards and norms. Fifth, BdL announced that it has started to work with the International Monetary Fund on a Safeguards Assessment project that includes reviewing its accounting policy, and financial reports and disclosures to ensure they abide by the best principles of governance and transparency.

MENAFATF issues recommendations to strengthen AML/CFT framework

In its Mutual Evaluation Report on Lebanon dated December 21, 2023, the Middle East and North Africa Financial Action Task Force (MENAFATF) for anti-money laundering and combating the financing of terrorism (AML/CFT) issued a set of recommendations to strengthen the AML/CFT framework in Lebanon.

First, it indicated that the Lebanese authorities should provide stakeholders in the public and private sectors detailed copies of the National Risk Assessment (NRA) results, in order to enhance their understanding of the risks and implementation of appropriate measures to mitigate these risks. It recommended that Lebanon should continue to adopt and enhance the national policies and the necessary measures to reduce the risks of the most serious crimes, such as corruption and illicit drug trafficking. Second, it noted that Lebanon's NRA process should include a more comprehensive and up-to-date assessment of money laundering (ML) and terrorism financing (TF) risks originating from the unregulated financial sector. It urged the authorities to prioritize the implementation of the relevant parts of the country's AML/CFT Action Plan in this area, which includes plans to eliminate the informal "hawala" system. Third, it recommended the development of clear national policies to enable relevant authorities, mainly the Custom Directorate and Revenue Directorate, to develop their skills and expertise that would allow them to use financial intelligence proactively, to continuously develop evidence in ML investigations, and to trace criminal proceeds, in order for the investigative authorities to prioritize and conduct investigations and prosecutions related to money laundering.

Fourth, it pointed out that the Cassation Public Prosecution and law enforcement entities should develop their ability to measure their performance in ML prosecutions and convictions by keeping reliable, consistent, and centralized data and statistics on ML prosecutions and convictions, as well as by reviewing this data periodically to identify the effects arising from the policy and to determine the need for any remedial actions. Fifth, it noted that the authorities should enforce and activate the law establishing the National Fund for the Management and Investment of the Recovered Assets and those Under Recovery related to crimes and proceeds. Sixth, it called for Lebanese authorities to make significant use of formal international cooperation in a timely manner, and for it to be commensurate with the size of predicate offenses and ML/TF crimes. Seventh, it suggested for the Cassation Public Prosecution to create a case management system that is specialized in international cooperation requests to help relevant authorities increase the number of requests issued in a timely manner, to raise the quality and speed of the information they provide, and to take measures to help implement requests for Mutual Legal Assistance with external counterparts. Eighth, it urged the authorities to review the mechanism that enables them to receive financial information in a timely manner and to issue guidelines to ensure the speed and quality of requesting and providing such assistance.

Ninth, it called on the authorities concerned with combating narcotic drugs and terrorist activities to establish a mechanism to make sure that international cooperation is used quickly and effectively to limit such cross-border activities. Tenth, it said that Lebanon should put in place an appropriate mechanism that enables the General Intelligence Directorate and the Information Division to have access to all financial intelligence in a timely manner, in order to expand financial investigations more effectively and thoroughly, and to identify and monitor all TF cases. Eleventh, it urged the supervisory authorities to remind financial institutions and Designated Non-Financial Business and Professions (DNFBPs) of the requirements of the national mechanism about reviewing updates of United Nations (UN) sanctions list directly through the UN website to impose immediate freezing measures. It added that the relevant authorities should carry out special and independent inspection missions to verify the extent to which all financial institutions and DNFBPs comply with the requirements of Targeted Financial Sanctions (TFS), as well as to impose proportionate and dissuasive sanctions against any violation of these requirements. Twelfth, it called on the Ministry of Justice and the Special Investigation Commission to take steps to enhance the understanding of ML/TF risks related to the activities of financial institutions and insurance firms, including raising awareness and outreach with these entities about the completion of the self-assessment of risks and the application of appropriate measures.

Thirteenth, it indicated that Lebanon should unify the concept of the beneficial owner and its identification procedures across various categories of reporting entities, and to issue specific guidance on this subject in order to explain how to deal with the bank accounts of public notaries. Fourteenth, it suggested that all licensing, regulation and registration authorities in the financial sector should strengthen eligibility and competence controls through the periodic application of these measures, in order to ensure the continued competence and eligibility of shareholders, beneficial owners, board members and those who hold key positions.

Fifteenth, it urged regulators of financial institutions in Lebanon to continue their efforts to strengthen the mechanisms in place to monitor unlicensed activity, in line with the NRA findings, and to take disciplinary and legal actions. Sixteenth, it indicated that the relevant authorities should apply a risk-based supervisory approach to lawyers and public notaries, and re-evaluate the activities of accountants and the latters' compliance with AML/CFT obligations in accordance with the articles of the law regulating the practice of the profession. Seventeenth, it recommended that relevant authorities should enhance the understanding of financial institutions and DNFBPs with the TFS requirements associated with the United Nations Security Council resolution on North Korea and Iran, and urged them to follow updates of these lists directly on the Security Council's website in order to take immediate freezing actions and adopt the risk-based approach in inspecting persons working on behalf of sanctioned persons and entities.

Eighteenth, it called on relevant authorities to closely monitor non-profit organizations (NPOs) that receive foreign support or solicit public charity donations, and to use a risk-based approach to NPOs. Nineteenth, it urged the General Directorate of Customs to continue its efforts to enhance its technical and technological abilities for identifying persons and entities involved in sanction evasion, as well as in detecting and seizing prohibited goods.

Lebanon ranks 76th globally, ninth among Arab countries in terms of readiness for Artificial Intelligence

Oxford Insights' Government AI Readiness Index for 2023 ranked Lebanon in 76th place among 193 countries globally and in ninth place among 20 Arab countries. Lebanon also came in seventh place among 53 lower middle-income countries (LMICs) included in the survey. In comparison, Lebanon came in 73rd place among 182 countries globally, in 10th place among 19 countries in the Arab region, and in eighth place among LMICs on the 2022 index. Based on the same set of countries in the 2022 and 2023 surveys, Lebanon's global rank was unchanged, while its regional and LMICs ranks increased by one spot year-on-year. Oxford Insights is a consulting firm that works on the integration of Artificial Intelligence in public services and in the exploration of new technologies to increase the impact and efficiency of public service delivery.

The index measures the readiness of governments to implement Artificial Intelligence in the delivery of public services to their citizens. The index consists of 39 indicators across 10 dimensions that are aggregated in three pillars that are the Government, Technology Sector, and Data & Infrastructure pillars. The rankings on the index are based on scores that range from zero to 100, with higher scores reflecting better readiness to implement Artificial Intelligence in the public sector. The overall score of a country is the equally-weighted average of the three scores on each pillar.

Globally, the survey shows that the Lebanese government is more ready to implement Artificial Intelligence than its counterparts in South Africa, Tunisia, and Bangladesh; while it is less ready than the governments of Costa Rica, Kazakhstan, and Azerbaijan among economies with a GDP of $10bn or more. It also preceded Tunisia, Morocco, and Algeria among Arab countries, and trailed Ukraine, Egypt, and the Philippines among LMICs. Lebanon received a score of 47.6 points on the index, higher than the global average scores of 44.9 points, the LMICs score of 36.4 points, and the Arab average of 43 points. Further, Lebanon's score came lower than the Gulf Cooperation Council (GCC) countries' average score of 61 points and higher than the average score of non-GCC Arab countries of 35.3 points.

**Government AI Readiness Index for 2023
Arab Countries' Scores & Rankings**

Source: Oxford Insights, Byblos Research

In parallel, Lebanon ranked ahead of Uzbekistan, Kazakhstan, and Tunisia, while it came behind Tajikistan, New Zealand, and Romania worldwide on the Government pillar. This category assesses the strategic vision of a government about how it develops and governs Artificial Intelligence, along with the appropriate regulations and attention to ethical risks. It also evaluates the government's strong internal digital capacity that support its adaptability in the face of new technologies. Lebanon came ahead of Uzbekistan and Tunisia, and trailed Bangladesh and Tajikistan among LMICs, while it preceded Tunisia and Kuwait, and came behind Jordan and Bahrain in the Arab region on this category.

Further, Lebanon came ahead of Ukraine, Morocco, and Montenegro, while it ranked behind Vietnam, Oman, and Serbia globally on the Technology Sector pillar. This component examines the supply level of Artificial Intelligence tools from a country's technology sector, and measures the sector's innovation capacity and level of human capital. Lebanon preceded Ukraine and Morocco, and trailed Tunisia and Vietnam among LMICs, while it ranked ahead of Morocco and Palestine, and came behind Tunisia and Oman regionally on this pillar.

Further, Lebanon preceded Serbia, Albania, and Ukraine, and trailed Vietnam, the Philippines, and Iran worldwide on the Data & Infrastructure pillar. This category measures the availability of the necessary infrastructure in a country to power Artificial Intelligence tools and to deliver them to its citizens. It also assesses the availability of data in a country. Lebanon ranked ahead of Ukraine and Bangladesh, and came behind the Philippines and Iran among LMICs, while it preceded Tunisia and Egypt, and trailed Jordan and Morocco among Arab economies on this category.
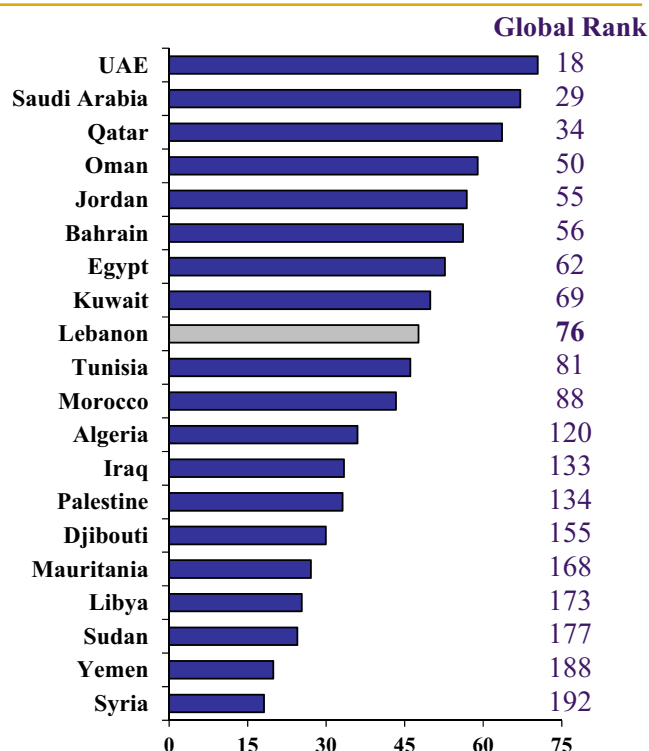
			Components of the Government AI Readiness Index for 2023			
Pillars	**Global Rank**	**Arab Rank**	**LMIC Rank**	**Lebanon Score**	**Global Avge Score**	**Arab Avge Score**	**LMIC Avge Score**
Government	73	8	11	50.6	45.6	42.2	36.8
Technology Sector	69	10	7	37.0	34.1	35.7	26.8
Data & Infrastructure	89	9	8	55.3	55.1	51.1	45.5

Source: Oxford Insights, Byblos Research

Currency in circulation down 35% in first 11 months of 2023

Figures released by Banque du Liban show that money supply M1, which includes currency in circulation and demand deposits in Lebanese pounds, reached LBP86,578.3bn at the end of November 2023, constituting decreases of 12.4% from LBP98,780.4bn at the end of 2022 and of 3.6% from LBP89,778.5bn at end-November 2022. Currency in circulation stood at LBP47,459.6bn at the end of November 2023, as it declined by 35.4% from LBP73,514bn at end-2022 and by 30% from LBP67,858.2bn at end-November 2022. Also, demand deposits in local currency stood at LBP39,118.6bn at the end of November 2023, and surged by 54.8% from the end of 2022 and by 78.5% from end-November 2022. Money supply M1 increased by 6% in November from LBP81,784.8bn at end-October 2023, with currency in circulation regressing by 1.4% and demand deposits in local currency increasing by 16.2% month-on-month.

In addition, money supply M2, which includes M1 and term deposits in Lebanese pounds, reached LBP101,757bn at the end of November 2023, constituting decreases of 12.7% from LBP116,582.5bn at end-2022 and of 5.5% from LBP107,631.1bn a year earlier. Term deposits in Lebanese pounds totaled LBP15,178.7bn at the end of November

Currency in Circulation (LBP millions)

Source: Banque du Liban, Byblos Research

2023, and declined by 14.7% from LBP17,802.2bn at end-2022 and by 15% from LBP17,852.6bn at end-November 2022. Money supply M2 increased by 4.7% in November from LBP97,164.6bn at end-October 2023, while term deposits in local currency regressed by 1.3% month-on-month.

Further, broad money supply M3, which includes M2, deposits in foreign currency and debt securities issued by the banking sector, reached LBP1,166.2 trillion (tn) at the end of November 2023, with deposits in foreign currency totaling LBP1,060.4tn and debt securities of the banking sector amounting to LBP3,946.1bn at end-November 2023. Also, money supply M3 grew by 0.4% from LBP1,161.3tn at end-October 2023, with deposits in foreign currency and debt securities issued by the banking sector remaining nearly unchanged at LBP1,060.4tn and LBP3,946.1bn, respectively, at end-November 2023. In parallel, M3 surged by LBP936,579.1bn in the first 11 months of 2023 due to a jump of LBP769,398.3bn in net claims on the public sector, a rise of LBP220,112bn in the net foreign assets, and an increase of LBP95,345.9bn in the claims on the private sector, which were offset in part by a decline of LBP148,227bn in other items.

Number of internally displaced persons from South Lebanon exceeds 82,000

Figures compiled by the United Nations' Office for the Coordination of Humanitarian Affairs (OCHA) show that 82,012 persons have been displaced from South Lebanon as at January 9, 2024, due to the ongoing hostilities that erupted along the Blue Line on October 8, 2023, constituting increases of 8% from 76,018 as at January 2, of 10% from 74,471 as at December 26, 2023, of 13.2% from 72,437 as at December 19, 2023, and of 77% from 46,325 displaced persons as at November 14, 2023. Also, according to the latest figures issued by the Ministry of Public Health, 147 persons have been killed and 650 were wounded, of whom 114 were hospitalized as at January 16, 2024.

The OCHA said that around 80% of the Internally Displaced Persons (IDPs) are currently living with host families, 17% are renting houses, 2% are housed in collective shelters, and 1% have relocated to secondary residences. It added that there are currently 14 collective shelters providing accommodation for 1,101 IDPs, with seven shelters located in Hasbaya, five in Tyre, one in Saida, and one in the Bekaa region. Further, it stated that 50 schools in South Lebanon are partially or fully closed, while seven Primary Health Care Centers (PHCCs) in the Bint Jbeil and Marjeyoun districts are currently closed. Further, it stated that an Israeli strike targeted on January 7 the company that is the maintenance service provider for the state-owned Electricité du Liban in South Lebanon, which destroyed the main network that supplies electricity to the villages of Blida, Hula, Mays al-Jabal, and Muhaibib, resulted in complete power outages in these villages, and affected water pumping in the area.

According to the OCHA, the food assistance distributed since the eruption of hostilities consisted of 241,789 meals and 8,300 food parcels, and micronutrition supplement to 1,820 children, while core relief included the distribution of 60,874 items and the disbursement of one-time partial cash assistance to 16,000 households. Further, hygiene support comprised 358,000 liters of trucked water and 219,738 liters of bottled water, as well as 19,278 water, sanitation, and hygiene (WaSH) kits that include 16,000 hygiene kits and 3,278 dignity/menstrual hygiene management kits. Also, it noted that IDPs obtained 14,233 medical services and 3,092 health workers received healthcare training, while shelter support consisted of the distribution of 150 plastic sheets. It added that 7,057 beneficiaries received awareness sessions on gender-based violence and on protection from sexual exploitation and abuse, as well as sessions on psychological support. Further, 4,500 displaced children received non-formal education and 10 emergency schools obtained support. Also, the Ministry of Public Health indicated that, since the start of the conflict, the network for primary healthcare covered 5,785 displaced beneficiaries, delivered 4,355 medical consultations in PHCCs and 2,094 medical consultations in mobile units, and provided 128,184 prescriptions for acute diseases and 216,909 prescriptions for chronic diseases.
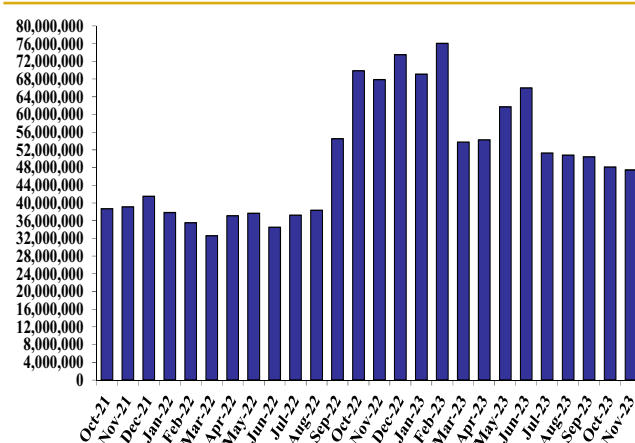
Port of Beirut processes 3.95 million tons of freight in first nine months of 2023

Figures released by the Port of Beirut show that the port processed 3.95 million tons of freight in the first nine months of 2023, constituting an increase of 0.8% from 3.92 million tons of freight in the same period of 2022. Imported freight totaled 3.29 million tons in the first nine months of 2023, up by 1.5% from 3.24 million tons in the same period of the previous year, and accounted for 83.3% of total processed freight. In addition, the volume of exported cargo reached 661,000 tons in the first nine months of 2023, representing a decrease of 2.8% from 680,000 tons in the same period of 2022, and accounted for 16.7% of aggregate freight in the covered period. A total of 1,016 vessels docked at the port in the first nine months of 2023, constituting a rise of 15.8% from 877 ships in the same period of the preceding year. The port handled 466,000 tons of freight in September 2023, down by 3% from 480,000 tons in August 2023. In addition, 122 vessels docked at the port in September 2023 compared to 134 ships in the preceding month.

In parallel, the Port of Tripoli processed 2.74 million tons of freight in the first nine months of 2023, representing a rise of 118,350 tons (+4.5%) from 2.62 million tons in the same period of 2022. Imported freight totaled 1.27 million tons in the first nine months of 2023, and dropped by 244,832 tons (-16.2%) from 1.52 million tons in the same period of the previous year. Imports accounted for 46.4% of freight activity in the covered period. In parallel, the volume of cargo that was exported through the port reached 1.47 million tons in the first nine months of 2023, constituting a surge of 363,182 tons (+33%) from 1,103,351 tons in the same period of 2022, and represented 53.6% of aggregate freight in the covered period. A total of 620 vessels docked at the port in the first nine months of 2023, constituting a decrease of 9.2% from 683 ships in the same period of 2022. Also, 73 vessels docked at the port in September 2023 compared to 72 ships in August 2023.

Construction activity improves in second quarter of 2023

Banque du Liban's quarterly business survey about the opinions of business managers shows that the balance of opinions for general construction activity reached -38 in the second quarter of 2023, compared to -54 in the previous quarter and to -53 in the second quarter of 2022. The balance of opinions for general construction activity in the second quarter of 2023 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, and the fourth highest level since the first quarter of 2017. Still, the results reflect the absence of major new projects, low investments in the sector, delays in the implementation of reforms to restore confidence, the fluctuations of the exchange rate of the U.S. dollar on the parallel market at the time, 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 -38 in the second quarter of 2023 compared to -51 in the preceding quarter and to -50 in the second quarter of 2022. It reached its second highest quarterly level since the start of the crisis and its fifth highest level since the first quarter of 2017.

The balance of opinions about construction activity was 13 in the North, -33 in the South, -47 in the Bekaa, and -82 in Beirut & Mount Lebanon. Also, the balance of opinions about public works stood at -48 in the second quarter of 2023 compared to -49 in the first quarter and -51 in the second quarter of 2022. The opinions about the level of public works reached zero in the North, -64 in the Bekaa, -80 in the South, and -81 in Beirut & Mount Lebanon.

In addition, the balance of opinions about the portfolio of projects was -74 in the second quarter of 2023 relative to -74 in the preceding quarter and to -79 in the second quarter of 2022. It reached its third highest quarterly level since the fourth quarter of 2019 and its 14th highest level since first quarter of 2017. The balance of opinions about the portfolio of projects was -41 in the North, -73 in the South, -85 in the Bekaa, and -93 in Beirut & Mount Lebanon. Further, the balance of opinions about construction costs reached +65 in the second quarter of 2023, compared to +70 in the preceding quarter and +62 in the second quarter of 2022.

In parallel, the balance of opinions about investments in the sector was 24% in the second quarter of 2023, compared to 19% in the preceding quarter and to 19% in the second quarter of 2022. The balance of opinions about investments was 83% in the North, 21% in the Bekaa, 10% the South, and 2% in Beirut & Mount Lebanon. Also, the balance of opinions about the number of employees in the sector was -44 in the second quarter of 2023 compared to -65 in the preceding quarter and to -71 in the second quarter of 2022. It reached its reached its highest quarterly level since the fourth quarter of 2019 and its eighth highest quarterly level since the first quarter of 2017. The balance of opinions about the number of employees was -30 in the Bekaa, -35 in the North, -57 in Beirut & Mount Lebanon, and -80 in the South.

Construction and Public Work Activity: Evolution of Opinions				
Aggregate results	Q2-20	Q2-21	Q2-22	Q2-23
General activity	-81	-67	-53	-38
Construction	-78	-65	-50	-38
Public works	-76	-68	-51	-48
Portfolio of projects	-96	-87	-79	-74
Construction costs	56	57	62	65
Investments (% of yes)	4%	17%	19%	24%

Source: Banque du Liban Business Survey for Second Quarter of 2023

Consumer Price Index up 192% year-on-year in December 2023

The Central Administration of Statistics' Consumer Price Index increased by 221.3% in 2023 from 2022. In comparison, it grew by 171.2% in 2022 and by 154.8% in 2021.

The CPI rose by 192.3% in December 2023 from the same month of 2022, and registered its 42nd consecutive triple-digit increase since July 2020. The cumulative surge in the inflation rate is due in part to the repeated increase in customs tariffs, to the rise of telecommunications rates and electricity tariffs, and to the inability of the authorities to monitor and contain retail prices. It is also due to the fluctuation of the Lebanese pound's exchange rate on the parallel market at the start of 2023 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.

The cost of education surged by seven times in December 2023 from the same month in 2022, followed by imputed rent (+4.3 times), the prices of water, electricity, gas & other fuels, as well as food and non-alcoholic beverages (+3.1 times each), rates at restaurants & hotels, actual rent, and the prices of alcoholic beverages & tobacco (+3 times each), and healthcare costs (+2.7 times). In addition, the prices of clothing & footwear rose by 160.8% year-on-year in December 2023, followed by the prices of furnishings & household equipment (+143%), miscellaneous goods & services (+140.1%), the cost of recreation & entertainment (+134%), the prices of communication services (+128.8%), and transportation costs (+124%). Also, the distribution of actual rent shows that new rent surged by 406.5% and old rent increased by 48.5% in December from the same month of 2022.

In parallel, the CPI was unchanged in December 2023 from the previous month, compared to a month-on-month rise of 2.6% in November 2023 and to a growth rate of 17.2% in October 2023. The cost of recreation & entertainment increased by 7.95% in December 2023 from November 2023, followed by miscellaneous goods & services (+5.1%), the prices of clothing & footwear (+4.8%), food & non-alcoholic beverages (+3.5%), rates of restaurants and hotels (+3%), communication costs (+2.8%), the prices of alcoholic beverages and tobacco (+1.6%), the cost of furnishing & household equipment (+1.6%), and imputed and actual rent (+0.3% each). In contrast, the prices of water, electricity, gas & other fuels regressed by 2.8% month-on-month in December 2023, followed by the cost of transportation (-1.9%), while the cost of education unchanged and healthcare costs were nearly unchanged from the previous month. Also, the distribution of actual rent shows that new rent increased by 0.5%, while old rent remained nearly unchanged in December 2023 from the preceding month.

Further, the CPI increased by 3.5% in the South, 2.4% in the Nabatieh area, 1.6 in Beirut, and 0.3% in the Bekaa region, while it remained unchanged in the North and decreased by 1.3% in Mount Lebanon. In parallel, the Fuel Price Index declined by 3.6% and the Education Price Index was unchanged in December 2023.

Annual Change in Consumer Price Index* (%)
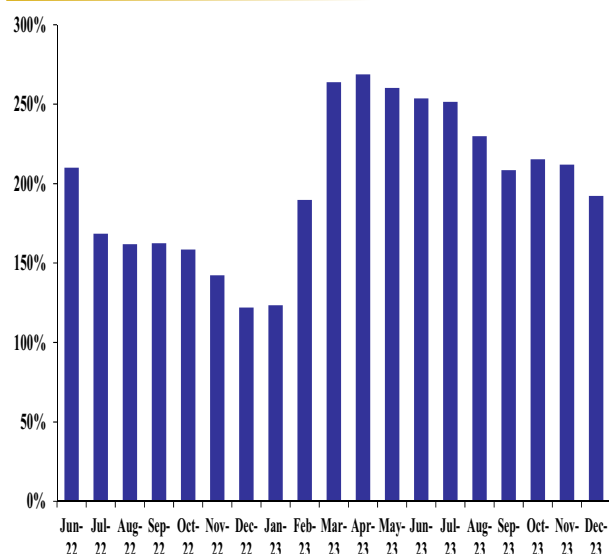
*from the same month of the previous year
Source: Central Administration of Statistics, Byblos Research

UN disburses $248m in food and agricultural assistance in first nine months of 2023

The United Nations (UN) indicated that international contributions to the food security and agriculture component of the Lebanon Crisis Response Plan (LCRP) reached $110.1m in the first nine months of 2023 compared to $9.5m in the same period of 2022. They represented 9% of the $1.2bn that the LCPR appealed for to assist affected Lebanese and non-Lebanese individuals in the country in 2023. It added that international contributions totaled $33m in the first quarter, $20.4m in the second quarter, and $56.7m in the third quarter of 2023. It also noted that $137.8m were carried over from funding received in 2022, which is equivalent to 11.4% of the total appealed funds, and resulted in total funding of $248m in the first nine months of 2023. As such, it said that international contributions covered 20.5% of the funds appealed in the first nine months of 2023, resulting in a funding gap of 79.5% in the covered period.

The LCRP 2022-2023 is a joint initiative between the Lebanese government and international and national partners that aims to address challenges posed by the large presence of Syrian refugees in the country. The LCRP for 2023 includes 118 partner organizations and aims to reach 3.2 million crisis-affected persons in Lebanon who consist of 1.5 million displaced Syrians, 1.5 million vulnerable Lebanese citizens, 180,000 Palestinian refugees in Lebanon, and 31,400 Palestinian refugees from Syria. The plan comes after the expiration of the LCRP for the 2015-2016 and the 2017-2021 periods.

Also, the UN indicated that it distributed food assistance to 2.1 million individuals across Lebanon in the first nine months of 2023 who consisted of 1,175,582 displaced Syrians, or 56% of the total, followed by 810,461 vulnerable Lebanese citizens (38.6%), 58,630 Palestinian refugees in Lebanon (2.8%) 39,440 Palestinian refugees from Syria (1.9%), and 8,519 individuals from other nationalities (0.4%).

It pointed that it distributed 77% of all food assistance through electronic cards, vouchers, automated teller machines, and financial services providers. Further, it said that the partners of the LCRP have supported 409,819 vulnerable Lebanese citizens in the first nine months of 2023 through the National Poverty Targeting Program (NPTP).

In parallel, the UN indicated that it assisted a total of 16,279 individuals in the agriculture sector, of which 39% were women. It said that it enhanced the technical and operational capacities of 12,374 small-scale farmers during the first nine months of 2023 through technical training and the distribution of agricultural inputs to improve crop and livestock farming practices, as well as by means of emergency short-term support through cash or vouchers modalities to purchase agricultural inputs and promote good and sustainable agricultural practices. Further, it said that the support that it provided to small-scale farmers led to new or rehabilitated infrastructure and assets, improved access to markets through trainings and technical support, and linkages to market actors.

Also, it pointed out that it invested about $2.05m in agriculture in the first nine months of 2023. It said that it provided in-kind, financial, or technical support to 417 agricultural cooperatives and/or agricultural associations. It added that it granted cash for training opportunities to 936 individuals in the agriculture sector, of which 77% were Lebanese. In addition, it noted that it provided training on skills and competencies in the agriculture sector to 3,905 individuals who are employed in temporary casual labor.

Corporate Highlights

Banking sector has 814 branches at end-June 2023

Figures issued by Banque du Liban (BdL) show that the Lebanese banking sector had 814 local and foreign branches at the end of June 2023, constituting declines of 39 branches, or of 4.6% from 853 branches at end-2022 and of 88 branches (-9.8%) from 902 branches at the end of June 2022, as well as decreases of 203 branches (-20%) from 1,017 branches at end-June 2021, of 327 branches (-28.7%) from 1,141 branches at end-June 2020, and of 363 branches (-30.8%) from 1,177 branches at end-June 2019.

Commercial banks had 793 local and foreign branches at the end of June 2023 compared to 832 branches at end-2022, to 881 branches at end-June 2022, to 996 branches at end-June 2021, to 1,120 branches at end-June 2020, and to 1,156 branches at end-June 2019. Further, medium- and long-term banks had 21 branches in Lebanon at the end of June 2023, unchanged from a year earlier. In parallel, commercial banks operating in Lebanon had 49 branches outside the country at the end of June 2023 relative to 51 branches at the end of June 2022, 53 branches at end-June 2021, 73 branches at end-June 2020, and 77 branches at end-June 2019.

Number of Branches of Commercial Banks in Lebanon

Source: Banque du Liban, Byblos Research

The breakdown of commercial banks' branches shows that banks had 744 local branches at the end of June 2023, down by 38 branches from 782 branches at the end of 2022 and by 86 branches from 830 branches at end-June 2022. There were 389 branches of commercial banks in Beirut & its suburbs that accounted for 52.3% of total branches in the country at the end of June 2023, followed by 148 branches in Mount Lebanon (20%), 79 branches in South Lebanon (10.6%), 77 branches in North Lebanon (10.3%), and 51 branches in the Bekaa region (7%). Also, nine foreign commercial banks operating in the country had 21 branches and four Islamic banks had 12 branches at end-June 2023. In addition, there were nine e-branches that offer banking services through interactive and automated machines at end-June 2023. There were 46 commercial banks and 15 medium- and long-term banks operating in Lebanon at the end of June 2023, unchanged from a year earlier. In parallel, 40 financial institutions had 69 branches in Lebanon at end-June 2023, unchanged from a year earlier.

Import activity of top five shipping firms and freight forwarders down 5.5% in first nine months of 2023
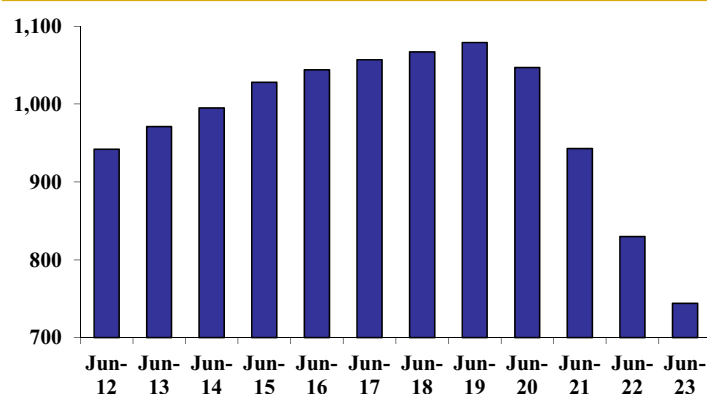
Figures released by the Port of Beirut show that the aggregate volume of imports by the top five shipping companies and freight forwarders through the port reached 156,280 20-foot equivalent units (TEUs) in the first nine months of 2023, constituting a decrease of 5.5% from 165,365 TEUs in the same period of 2022. The five shipping and freight forwarding firms accounted for 85% of imports to the Lebanese market in the covered period.

Merit Shipping handled 55,413 TEUs in the first nine months of 2023, equivalent to 18.7% of the total import freight market to Lebanon. Mediterranean Shipping Company (MSC) followed with 45,801 TEUs (15.5%), then MAERSK with 27,294 TEUs (9.4%), Sealine Group with 13,798 TEUs (4.7%), and Gezairi Transport with 13,344 TEUs (4.5%). Sealine Group posted a surge of 20.2% in imported goods in the first nine months of 2023, the highest growth rate among the covered companies, while MSC registered a decline of 10.2%, the steepest decrease among the five firms in the covered period. Also, the import shipping operations of the top five firms through the port dropped by 21.2% in September 2023 from the preceding month.

In parallel, the aggregate volume of exports by the top five shipping and freight forwarding firms through the Port of Beirut reached 59,390 TEUs in the first nine months of 2023, constituting an increase of 8.7% from 54,656 TEUs in the same period of 2022. The five shipping companies and freight forwarders accounted for 93.5% of exported Lebanese cargo in the covered period.

Merit Shipping handled 33,104 TEUs of freight in the first nine months of the year, equivalent to 52% of the Lebanese cargo export market. MAERSK followed with 14,432 TEUs (22.7%), then Sealine Group with 5,176 TEUs (8%), MSC with 3,515 TEUs (5.5%), and Gezairi Transport with 3,163 TEUs (5%). Sealine Group posted a rise of 67.6% in exported goods in the first nine months of 2023, the highest growth rate among the covered companies, while MSC registered a decrease of 17.5%, the steepest decline among the five firms in the covered period. The export-shipping operations of the top five companies decreased by 6.2% in September 2023 from the previous month.

Ratio Highlights

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

*change in percentage points 22/21;
Source: Banque du Liban, Ministry of Finance, Central Administration of Statistics, International Monetary Fund, Byblos Research Estimates & Calculations
Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

National Accounts, Prices and Exchange Rates

	2020	2021e	2022f
Nominal GDP (LBP trillion)	95.7	196	480
Nominal GDP (US$ bn)	24.7	18.0	18.3
Real GDP growth, % change	-25.9	-8.4	-2.5
Private consumption	-70	1.2	1.5
Public consumption	-4	-45.7	-9.8
Gross fixed capital	-63	-16.2	21.8
Exports of goods and services	-34.2	8.7	6.6
Imports of goods and services	-33.4	-1.1	10.6
Consumer prices, %, average	84.9	154.8	171.2
Official exchange rate, average, LBP/US$	1,507.5	1,507.5	1,507.5
Parallel exchange rate, average, LBP/US$	6,705	16,821	30,313
Weighted average exchange rate LBP/US$	3,878	10,876	26,222

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

Ratings & Outlook

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

Source: Rating agencies

Banking Sector Ratings	Outlook
Moody's Investors Service	Negative

Source: Moody's Investors Service

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