750 ISSUES+

Issue 809 | February 26 - March 2, 2024

BYBLOS BANK SAL

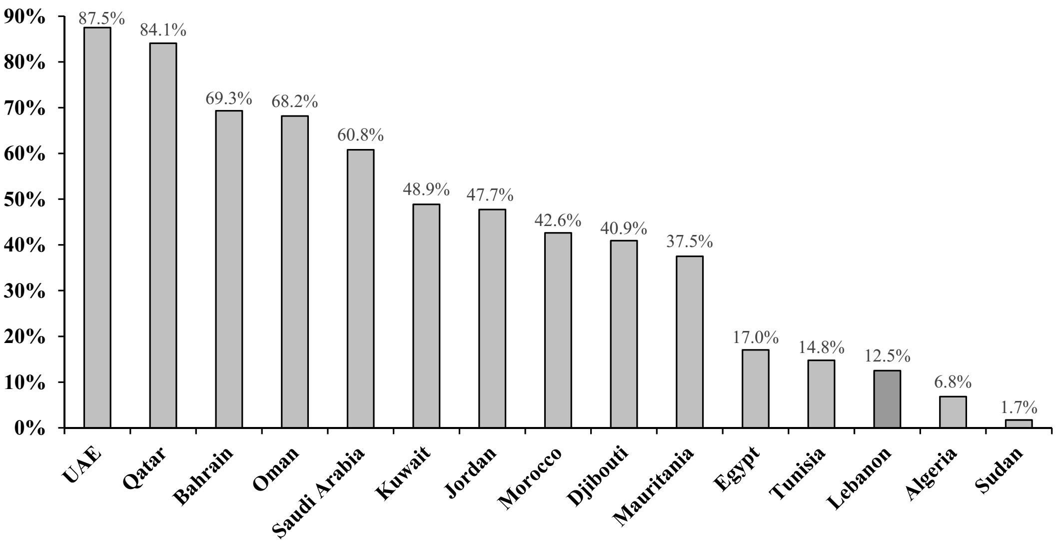
Economic Research & Analysis Department

LEBANON THIS WEEK

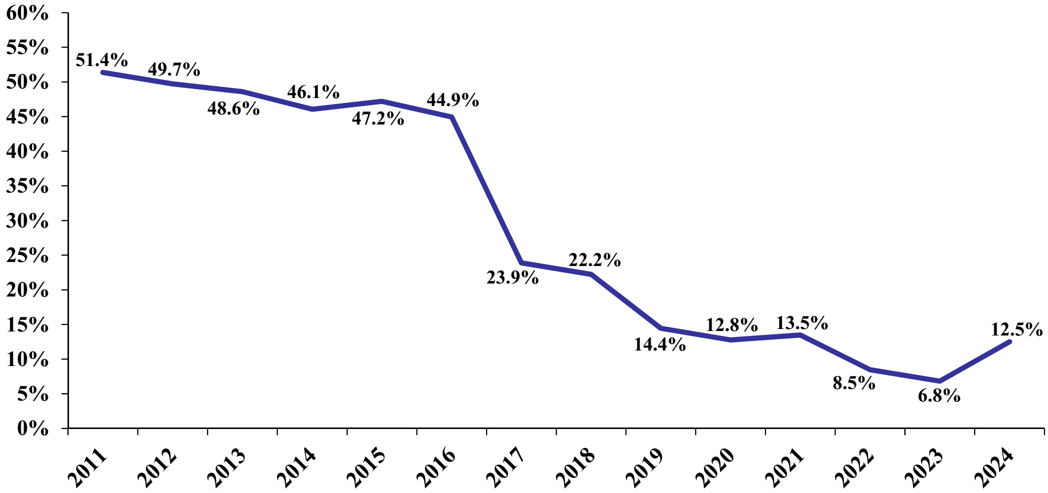
In This Issue

Charts of the Week

Percentile Rank of Arab Countries on the Index of Economic Freedom for 2024



Percentile Rank of Lebanon on the Index of Economic Freedom



Source: Heritage Foundation, Index of Economic Freedom for 2024, Byblos Bank

Quote to Note

"Lebanon's political stalemate, which will likely remain unresolved in the near term due to prolonged regional instability, suggests that implementation of reforms and re-engagement with the International Monetary Fund are highly unlikely in the foreseeable future."

Standard Chartered Bank, on the prospects for structural reforms

Number of the Week

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

Lebanon in the News

$m *(unless otherwise mentioned)*	2021	2022	2023	% Change*	Dec-22	Nov-23	Dec-23
Exports**	3,887	3,492	1,704	-	272	-	-
Imports**	13,641	19,053	10,285	-	1,251	-	-
Trade Balance**	(9,754)	(15,562)	(8,582)	-	(979)	-	-
Balance of Payments	(1,960)	(3,197)	2,237	-170.0%	17	186	591
Checks Cleared in LBP***	18,639	27,146	4,396	-83.8%	3,686	359	404
Checks Cleared in FC***	17,779	10,288	3,109	-69.8%	577	106	183
Total Checks Cleared***	36,418	37,434	7,505	-80.0%	4,263	465	587
Fiscal Deficit/Surplus	2,197	-	-	-	-	-	-
Primary Balance	5,009	-	-	-	-	-	-
Airport Passengers	4,334,231	6,360,564	7,103,349	11.7%	551,632	323,523	481,470
Consumer Price Index	154.8	171.2	221.3	5,014bps	122.0	211.9	192.3

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

**year-on-year*
***trade figures for 2023 are for the first eight months of 2023*
****checks figures do not include compensated checks in fresh currencies*
Source: Association of Banks in Lebanon, Banque du Liban, Ministry of Finance, Central Administration of Statistics, Byblos Research

Capital Markets

Most Traded Stocks on BSE*	Last Price ($)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "B"	74.00	(2.9)	277,008	27.2%
Solidere "A"	74.90	(0.6)	263,025	42.4%
BLOM GDR	3.00	0.0	103,832	1.3%
Byblos Common	0.70	(4.1)	100,000	2.2%
HOLCIM	59.60	0.1	46,244	6.6%
Audi Listed	2.00	(14.9)	1	6.7%
BLOM Listed	2.80	0.0	-	3.4%
Audi GDR	1.16	0.0	-	0.8%
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	6.25	11,489.36
Jun 2025	6.25	6.25	396.07
Nov 2026	6.60	6.25	132.46
Mar 2027	6.85	6.25	115.08
Nov 2028	6.65	6.25	69.28
Feb 2030	6.65	6.25	52.23
Apr 2031	7.00	6.25	42.92
May 2033	8.20	6.25	32.53
Nov 2035	7.05	6.25	25.25
Mar 2037	7.25	6.25	22.42

Source: Refinitiv

	Feb 26-Mar 1	Feb 19-23	% Change	February 2024	February 2023	% Change
Total shares traded	790,110	138,004	472.5	1,129,048	397,775	183.8
Total value traded	$44,419,638	$8,200,169	441.7	$65,758,842	$16,431,863	300.2
Market capitalization	$17.67bn	$18.08bn	(2.3)	$17.99bn	$16.32bn	10.2

Source: Beirut Stock Exchange (BSE)

Budget law for 2024 includes major tax amendments

The Lebanese Parliament enacted on January 26, 2024 Budget Law 324 that includes significant tax amendments and measures. The law went into effect upon its publication in the Official gazette on February 15, 2024. Article 14 of the budget raised the compulsory threshold for Value-Added Tax (VAT) registration to LBP5 billion, up from LBP100m, within four consecutive quarters; and the optional VAT registration threshold to LBP1bn from LBP50m, with the ability to deregister if the turnover does not exceed the new minimum of LBP5bn during any period from 2020 until 2023. It noted that firms that did not reach the optional VAT registration base can register if they have a contract with the government or any public institution that exceeds LBP5bn, including their turnover; and that importers and exporters of goods and services are subject to the VAT irrespective of their turnover.

Regarding modifications to the income tax, Article 46 amended the progressive tax brackets and kept the tax rates unchanged for the taxable income generated by industrial, commercial and non-commercial entities and individuals. It raised the ceiling of the lowest bracket from LBP27m to LBP540m, the ceiling of the second segment from LBP72m to LBP1.44bn, the ceiling of the third bracket from LBP162m to LBP3.24bn, the ceiling of the fourth segment from LBP312m to LBP6.24bn, the ceiling of the fifth segment from LBP675m to LBP13.5bn, and the upper bracket from amounts exceeding LBP675m to sums exceeding LBP13.5bn. The tax rates start at 4% for the lowest bracket and reach 25% for the upper bracket.

Also, Article 47 amended the progressive tax brackets for the taxable salaries, wages, and pension and kept the tax rates unchanged. It raised the ceiling of the lowest bracket from LBP18m to LBP360m, the ceiling of the second segment from LBP45m to LBP900m, the ceiling of the third bracket from LBP90m to LBP1.8bn, the ceiling of the fourth segment from LBP180m to LBP3.6bn, the ceiling of the fifth segment from LBP360m to LBP7.2bn, and the upper bracket from amounts exceeding LBP675m to sums exceeding LBP13.5bn. The tax rates start at 2% for the lowest bracket and reach 25% for the upper bracket. Further, Article 18 stipulated that the tax on salaries that the employers withhold should be computed on the basis of the same currency in which the salaries are paid, and that the conversion of the tax on foreign currency denominated salaries should be based on the exchange rate that Banque du Liban (BdL) determines. Further, it set the family deduction for daily workers at LBP1.5m per day, irrespective of their family status. Article 48 set the family deductions for tax purposes at LBP450m for an individual taxpayer, at LBP225m for a non-working spouse, and at LBP45m for each legitimate dependent child up to a maximum of five children. It noted that these amendments are applicable retroactively starting on January 1, 2024.

In parallel, Article 90 extended the deadline in Article 36 of the 2022 Budget Law that stipulates that the compensation that employers pay to employees who resign or who are dismissed between July 1, 2019 and December 31, 2025 is exempt from the tax on salaries and is a tax deductible expense to the employer subject to the income tax. Article 54 amended the non-resident tax on goods to 3.4% from 2.25%, and on services to 8.5% from 7.5% previously. The non-resident tax on goods and services is calculated as 20% and 50%, respectively, of the income tax rate of 17%. Article 86 reduced exceptionally the capital gain tax on the disposal of real estate properties by individuals from 15% to 1% until the end of December 2026.

Regarding the changes to the inheritance tax, Article 50 increased the tax brackets, and kept the tax rates unchanged. It raised the ceiling of the lowest bracket to LBP1.8bn, the ceiling of the second segment to LBP3.6bn, the ceiling of the third bracket to LBP6bn, the ceiling of the fourth segment to LBP12bn, the ceiling of the fifth segment to LBP21bn, and the upper bracket to amounts exceeding LBP21bn. The tax rates start at 4% for the lowest bracket and reach 45% for the upper bracket.

Article 51 amended the brackets of the built property tax and kept the tax rates unchanged. It raised the ceiling of the lowest bracket from LBP120m to LBP1.2bn the ceiling of the second segment from LBP240m to LBP2.4bn, the ceiling of the third bracket from LBP36m to LBP3.6bn, the ceiling of the fourth segment from LBP600m to LBP6bn, and the ceiling of the upper bracket from amounts exceeding LBP600m to sums exceeding LBP6bn. The tax rates start at 4% for the lowest bracket and reach 14% for the upper bracket. Article 52 stipulates that taxpayers who generate a rental income of more than LBP1.2bn per year from a built property, starting from January 1, 2024, have to submit a related tax declaration before April 1 of the following year; while Article 53 raises the deduction on residential property from LBP40m to LBP360m starting from the beginning of 2024 and for up to two residences only. Article 86 reduced exceptionally the capital gain tax on the disposal of real estate properties by individuals from 15% to 1% until the end of December 2026.

Article 87 about the amnesty on tax adjustments indicates that taxpayers can benefit from an amnesty equal to 50% of the amounts of the objected tax adjustments related to the income tax and the VAT for the years up to the publication of Law 324 and that are still pending at the Objections Committee, if they submit a written request to the tax authorities and pay the discounted amount due within three months of the publication date of Law 324. It added that taxpayers cannot benefit partially from this amnesty, that the objection committee will stop deliberating on any tax objection covered by this exoneration, and that taxpayers settling their taxes in installments based on previous budget laws can benefit from the 50% amnesty after deducting the settled amounts.

Article 88 indicated that taxpayers can receive, exceptionally and for the last time, an 85% discount on penalties resulting from a tax adjustment or an infringement that took place prior to November 15, 2022, a 90% discount on penalties from a tax adjustment or a violation that took place after November 15, 2022, and an 85% discount on penalties due to public institutions, if they settle the penalties within six months of the publication date of Law 324. It added that the settlement should be done within three months for the breaches after November 15, 2022 that are not subject to the tax modification. It indicated that discounted penalties should be at least LBP200,000, or at least $5 for taxes paid in US dollars.

Lebanon in the News

Lebanon made progress on seven of the United Nations' Sustainable Development Goals in 2023

The United Nations Economic and Social Commission for Western Asia's (ESCWA) progress report about achieving the Sustainable Development Goals (SDGs) in the Arab region in 2023 indicated that Lebanon was "in progress" on seven SDGs, was "on track" on one SDG, and was "off track" on two SDGs. It added that Lebanon does not have sufficient data that could provide information on the country's progress on the remaining seven SDGs. It said the report measures the Arab countries' progress in implementing the 17 goals that are part of the UN 2030 Agenda for Sustainable Development. The 17 SDGs are universal goals that the United Nations set in September 2015. The UN rates the progress of each country on a scale of four categories that are "on track", "in progress", "off track", and "insufficient data".

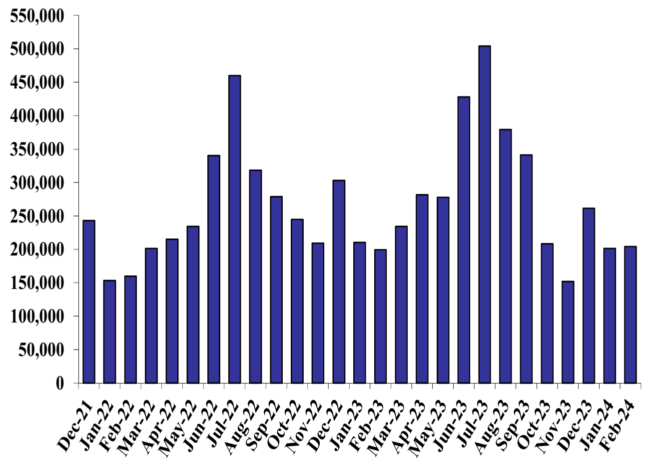
It stated that Lebanon was "in progress" on the "No Poverty" goal, along with Algeria, Egypt, Iraq, Jordan, Palestine, Somalia, and Sudan among Arab economies. It pointed out that Lebanon was "in progress" on the "Clean Water and Sanitation" target, similar to Algeria, Djibouti, Iraq, Libya, Palestine, Saudi Arabia, Somalia, and Sudan. It added that Lebanon was "in progress" on the "Affordable and Clean Energy" goal like all other Arab countries. Also, it noted that Lebanon was "in progress" on the "Industry, Innovation, and Infrastructure" target, along with Algeria, Bahrain, Comoros, Egypt, Iraq, Jordan, Kuwait, Libya, Morocco, Oman, Palestine, Qatar, Saudi Arabia, and Sudan. Further, it indicated that Lebanon was "in progress" on the "Sustainable Cities and Communities" goal, along with Egypt, Jordan, and Sudan. In addition, it noted that Lebanon was "in progress" on the "Life on Land" target, similar to Bahrain, the Comoros, Djibouti, Egypt, Kuwait, Libya, Mauritania, Morocco, Oman, Palestine, and Saudi Arabia. Finally, it pointed out that Lebanon was "in progress" on the "Partnerships for the Goals", similar to 17 Arab economies. It said this goal aims to strengthen the means of implementing and revitalizing the global partnership for sustainable development.

In addition, it stated that Lebanon was "on track" in reaching the "Good Health and Wellbeing" goal, similar to all the Gulf Cooperation Council countries, Egypt, Jordan, Morocco, Palestine, and Tunisia. However, it noted that Lebanon, along with Libya, were the only Arab economies that have been "off track" on the "Zero Hunger" goal, which aims to end hunger, achieve food security, improve nutrition, and promote sustainable agriculture. It added that Lebanon, along with Iraq, Mauritania, Palestine, and Sudan, have been "off track" on the "Decent Work and Economic Growth" goal, which aims to promote inclusive and sustainable economic growth, as well as full and productive employment and decent work for all. In parallel, it said that Lebanon does not have sufficient data or indicators that could provide enough information on the country's progress on the "Life Below Water", "Climate Action", "Gender Equality", "Quality Education", "Peace, Justice and Strong Institutions", "Reduced Inequalities", and "Responsible Consumption and Production" goals.

Number of airport passengers down 4% in first two months of 2024

Figures released by the Beirut-Rafic Hariri International Airport (HIA) show that 864,001 passengers utilized the airport (arrivals, departures and transit) in the first two months of 2024, constituting a decrease of 4% from 898,643 passengers in the same period of 2023 and an increase of 25% from 691,279 passengers in the first two months of 2022. Also, 413,351 passengers utilized the airport in February 2024, representing a decrease of 8.3% from 450,650 in January 2024 and an increase of 1.2% from 408,347 passengers in February 2023. The number of arriving passengers reached 405,830 passengers in the first two months of 2024, as they contracted by 1% from 409,845 passengers in the same period of 2023 and grew by 29.6% from 313,200 passengers in the first two months of 2022. The number of arriving passengers stood at 204,329 in February, representing increases of 1.4% from 201,501 passengers in January 2024 and of 2.4% from 199,527 in February 2023.

Number of Arriving Passengers



Source: Beirut-Rafic Hariri International Airport

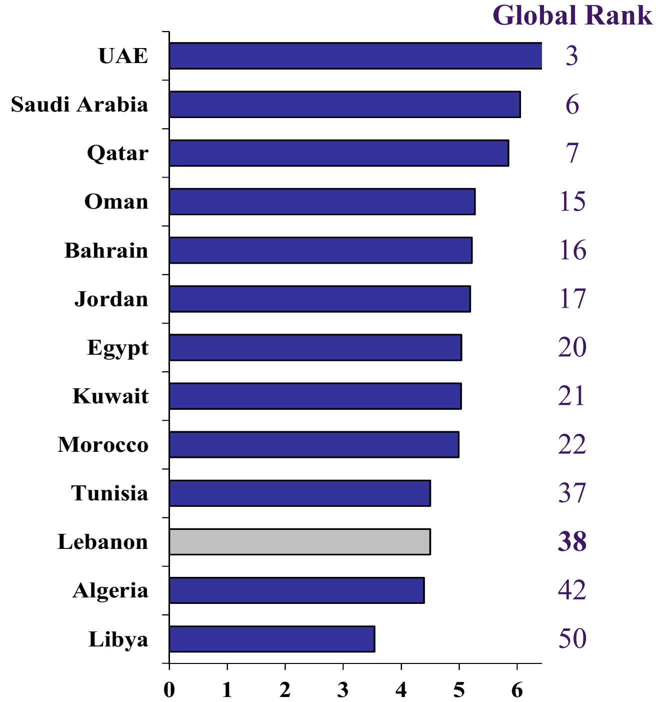
Also, the number of departing passengers totaled 457,739 in the first two months of 2024, constituting a decrease of 6% from 487,010 passengers in the same period of last year and an increase of 22.3% from 374,258 passengers in the first two months of 2022. Further, the number of departing passengers reached 208,803 in February, representing a decrease of 16% from 248,936 in January 2024 and an increase of 0.4% from 207,888 departing passengers in February 2023. The decline in the number of airport passengers in the covered period is due to the war in the Gaza Strip and to the related Israeli attacks along Lebanon's southern border, as well as to the decline in the number flights to and from Lebanon and to the suspension of some airlines of their flights to Lebanon.

In parallel, the airport's aircraft activity totaled 7,227 take-offs and landings in the first two months of 2024, representing an decrease of 12% from 8,209 takeoffs and landings in the same period last year. In comparison, aircraft activity rose by 21.7% in the first two months of 2023 and by 57.8% in the same period of 2022. Also, the airport's aircraft activity stood at 3,378 take-offs and landings in February 2024, constituting drops of 12.2% from 3,849 take-offs and landings in January 2024 and of 9.2% from 3,719 takeoffs and landings in February 2023. In addition, the HIA processed 9,181 metric tons of freight in the first two months of 2024 that consisted of 6,016 tons of import freight and 3,166 tons of export freight. Middle East Airlines had 2,700 flights in the covered period and accounted for 37.4% of the HIA's total aircraft activity.

Lebanon ranks 38th in emerging markets, 11th in Arab world in terms of logistics infrastructure

Transport Intelligence, a research firm for the logistics industry, ranked Lebanon in 38th place among 50 emerging markets (EMs) and in 11th place among 13 Arab countries on its Agility Emerging Markets Logistics Index for 2024. In comparison, Lebanon came in 33rd place globally and in 11th place in the Arab world on the 2023 index. Based on the same set of countries in the 2023 and 2024 surveys, Lebanon's global rank deteriorated by five notches, while its Arab rank was unchanged from the 2023 survey.

Agility Emerging Markets Logistics Index for 2024 Scores & Rankings of Arab Countries



Source: Transport Intelligence, Byblos Research

The index compares a country's prevailing operational environment to its current logistics opportunities and potential. The index is an average of four equally weighted sub-indices that are Domestic Logistics Opportunities, International Logistics Opportunities, Business Fundamentals, and Digital Readiness. A country's score ranges between zero and 10, with a higher score reflecting a better performance on the index.

Lebanon has a more developed logistics infrastructure than Paraguay, Iran, and Tanzania, and a less developed logistics environment than Ecuador, Nigeria, and Tunisia among EM economies. Lebanon received a score of 4.5 points on the 2024 index, lower than the EM average score of 5.01 points and the Arab average score of 5.08 points. It came also lower than the Gulf Cooperation Council (GCC) countries' average score of 5.65 points and the non-GCC Arab countries' average score of 4.59 points.

Lebanon preceded Ghana, Ethiopia and Venezuela, and trailed Kazakhstan, South Africa and Kenya among EMs on the Domestic Logistics Opportunities Sub-Index. This category measures the size and growth of a country's economy, population and logistics markets, as well as income equality, urbanization levels, and the development of business clusters in the country. Lebanon came ahead of only Libya, Morocco and Tunisia among Arab countries.

In addition, Lebanon ranked ahead of Uruguay, Ghana and Bangladesh, and came behind Cambodia, Kenya and Ukraine among EMs on the International Logistics Opportunities Sub-Index. This category assesses the internal and external demand for a country's trade-related logistics services and the capacity of individual markets to facilitate cross-border logistics operations. It also measures the connectedness of a country's infrastructure, as well as the time needed and the cost for border procedures. Lebanon came ahead of Tunisia, Algeria, and Libya in the Arab world.

Further, Lebanon preceded Uganda, Nigeria and Bangladesh, and lagged behind the Philippines, Brazil and Argentina among EMs on the Business Fundamentals Sub-Index. This category assesses a country's credit and debt dynamics, contract enforcement and anti-corruption frameworks, inflation and price stability, the cost of crime and violence, as well as a country's market accessibility and domestic stability. Lebanon came ahead of only Libya among Arab economies.

Also, Lebanon ranked ahead Columbia, Peru and Ghana, and trailed Bangladesh, Argentina and Morocco among EMs on the Digital Readiness Sub-Index. This category measures the potential and progress of a country to become a digitally-led, skills rich, innovation-oriented and sustainable economy for the future. It assesses the availability of enterprise financing as well as the willingness and ability of entrepreneurs to take risks. Lebanon came ahead of only Egypt, Tunisia, Algeria, and Libya regionally. Transport Intelligence conducted the survey between October and December 2023 based on the response of 830 professionals in the logistics industry.

Components of the 2024 Agility Emerging Markets Logistics Index

	EM Rank	Arab Rank	Lebanon Score	EM Average Score	Arab Average Score
Domestic Logistics Opportunities	35	10	4.66	5.02	4.97
International Logistics Opportunities	33	10	4.44	4.98	4.84
Business Fundamentals	39	12	4.01	5.02	5.83
Digital Readiness	33	8	4.72	4.99	5.02

Source: Transport Intelligence, Byblos Research

Government provides temporary compensation to public sector personnel

The Council of Ministers issued Decree 13020 on February 28, 2023 about granting temporary remunerations to public sector personnel and to retirees who receive monthly pension payments. Decree 13020 provides to public sector employees who have been in service for more than two years a temporary monthly indemnity equivalent to two basic monthly wages or salaries, with a cap of LBP30 million per month. The compensation excludes wage-earners in the judicial and the public education sectors.

In addition to the temporary compensation, it provides the cash equivalent of 16 fuel tanks to Category 1 employees, 14 fuel tanks to Category 2 workers, 12 fuel tanks to Category 3 personnel, 10 fuel tanks to the Category 4 wage-earners, and 8 fuel tanks to Category 5 employees, with a fixed rate of LBP1.5m per fuel tank. It added that it allocated to military personnel a temporary monthly indemnity equivalent to three times the basic salary. Also, it provided retirees from the public sector, including the military, the equivalent of three monthly pensions with a floor of LBP8m per month. Further, it provided military officers LBP5m per month in allowance for drivers' expenses. The decree stipulates that public personnel must be present at work at least 14 days per month in order for them to receive the additional remunerations.

Moreover, it pointed out that it will give, for one time only, to public sector workers who have been in service for more than two years, a remuneration equivalent to two basic monthly wages or salaries for a three-month period, as well as an indemnity equivalent to 48 fuel tanks to Category 1 employees, 42 fuel tanks to Category 2 workers, 36 fuel tanks to Category 3 personnel, 30 fuel tanks to Category 4 wage-earners, and 24 fuel tanks to Category 5 workers. It noted that this compensation excludes wage-earners in the judicial, military and public education sectors. It added that military personnel will receive a remuneration equivalent to three times their basic salary and its supplements for a three-month period, as per the Ministry of Finance's Decision 4/1 dated January 10, 2023. It also gives public-sector retirees, excluding the military sector, a remuneration equivalent to three monthly pension payments for a three-month period. Further, it provides military sector pensioners a remuneration equivalent to three times their basic salary and its supplements as per the Finance Ministry's Decision 4/1 dated January 10, 2023 for a three-month period.

In parallel, it allocated to workers at public institutions including public hospitals, the Civil Servants Cooperative, and others, as well as at municipalities and other public bodies, a temporary additional monthly indemnity equivalent to two monthly basic wages or salaries, and it noted that these workers will benefit for one time from an additional compensation equivalent to a double monthly salary or wage. It added that, in case public institutions or other bodies have sufficient funds in their budget, they can pay the additional equivalent of fuel tanks as per the conditions stipulated in this decree.

In parallel, Decree 13020 stipulates that the temporary allocations given to public sector personnel and to retirees benefiting from pension payments will be paid from relevant allocations in the Budget Law 324, while the one-time remuneration will be paid from a Treasury advance that the government approved by Decree 11301 dated April 18, 2023. The Ministry of Finance estimated the aggregate cost of the adjustment at LBP2,900bn per month.

Customs receipts at LBP9,416bn in first five months of 2023

Figures released by Banque du Liban indicate that customs revenues totaled LBP9,416bn in the first five months of 2023, compared to LBP853.4bn in the same period of 2022, to LBP632bn in the first five months of 2021, and to LBP511.1bn in the same period of 2020. Customs receipts in the first five months of 2023 represent a jump of 1003.4% from the first five months of 2022, relative to an increase of 35% in the first five months of 2022 from the same period in 2021, and to a growth of 23.7% in the first five months in 2021 from the same period in 2020. Further, customs revenues reached LBP766.4bn in January, LBP1,069bn in February, LBP1,970.6bn in March, LBP2,019.2bn in April, and LBP3,590.8bn in May 2023. In comparison, they stood at LBP148bn in January, at LBP162bn in February, at LBP190bn in March, at LBP155.2bn in April, and LBP198.3bn in May 2022. The sharp increase in customs receipts is due to the rise of the exchange rate of the Lebanese pound to the US dollar for customs purposes in the fourth quarter of 2022 from LBP1,507.5 to LBP15,000 per dollar, as well as to LBP45,000 per dollar in the first quarter of 2023.

Further, the Ministry of Finance announced in April 2023 the increase of the monthly average exchange rate of the Lebanese pound for calculating the taxes and fees at customs on imported goods and products to LBP60,000 per dollar from May 2 until May 12, 2023, and then increased it again from LBP60,000 per US dollar to LBP86,000 per dollar starting on May 13, 2023. As such, the ministry said that the exchange rate for the currencies of Lebanon's main import sources became LBP86,000 for the US dollar, LBP93,832 for the euro, LBP106,697 for the British pound, LBP94,910 for the Swiss franc, LBP23,415 for the UAE dirham, LBP12,493 the Chinese yuan, LBP4,466 for the Turkish lira, LBP2,781 for the Egyptian pound, LBP1,049 for the Indian rupee, and LBP646.8 for the Japanese yen, among others. Further, Banque du Liban announced on December 19, 2023 that it has modified the exchange rate of the US dollar on the Sayrafa platform from LBP85,500 per dollar to LBP89,500 per dollar, but it is unclear if this will trigger a change in the monthly average of the exchange rate of the Lebanese pound for calculating the taxes and fees at customs.

Figures issued by Lebanese Customs show that total imports reached $7bn in the first five months of 2023 and regressed by 3.43% from $7.2bn in the same period of 2022. Non-hydrocarbon imports increased by $102.2m, or by 2%, to $5.2bn in the first five months of 2023; while the imports of oil & mineral fuels contracted by $338.2m, or by 15.8%, to $1.8bn.

Council of the State annuls government's decision to write off Banque du Liban's obligations to banks

The Council of the State issued on February 2, 2024 Decision no. 209/2023-2024 that repealed a part of the Council of Minister's Decision no. 3 dated May 20, 2022 that approved the financial sector's recovery strategy. The Council's decision annulled the section about "writing off a large part of Banque du Liban's (BdL) obligations in foreign currency towards commercial banks, in order to reduce the deficit in BdL's capital and close the latter's net open foreign currency position". The Association of Banks in Lebanon (ABL) submitted to the Council of the State on June 28, 2022 a request for review of the designated section of the government's strategy for the recovery of the financial sector, as the ABL deemed this part to be unconstitutional.

The Council of the State attributed its decision to several factors. First, it said that it is well known that the Lebanese government pursued a policy of borrowing from BdL to finance its operations and the salaries of the public sector, as it borrowed $62bn between 2010 and 2021 without reimbursing them, which resulted in large losses on BdL's balance sheet. It added that, in order to recapitalize BdL, the government decided to write off a large part BdL's obligations in foreign currency to commercial banks. Second, it stipulated that BdL is the bank of the public sector and that the legislative branch has prohibited the government, as a principle, to borrow from BdL except within the conditions that Article 91 of the Code of Money and Credit allow; while it required the government to cover the losses of BdL in case the latter incurs losses and cannot cover them from its own general reserves.

Third, it noted that the government's policy to finance its fiscal deficits during the 2010-21 period, as well as the way it has addressed the results of this policy and the large negative equity at BdL, clearly contradict the prevailing laws and regulations, especially Articles 90 and 113 of the Code of Money and Credit, and the rules that the legislative branch has included in these two articles in order to safeguard the banking and financial sector in Lebanon and maintain its stability and prosperity.

Fourth, it indicated that the Council of Minister's decision that ABL is contesting, as well as the requirements to resolve the banking crisis, do not justify to the executive, regulatory or legislative bodies to take such measures, especially that canceling the government's debt or writing off the deposits, which is considered an act of expropriation, has not been offset by any decision or a plan to compensate the lenders or the depositors for the funds that the government expropriated. It added that this act constitutes a clear violation of the property rights that are enshrined in the Lebanese Constitution and in the Universal Declaration of Human Rights, as well as a breach to the prevailing laws and regulations. Fifth, it stated that the executive branch has to take its decisions and conduct its tasks within the framework and limitations of existing laws. It added that, otherwise, these decisions are considered to be illegal and that it becomes incumbent upon the Council of the State to annul them.

Sixth, it considered that the government's decision to write off a large part of BdL's foreign currency obligations to commercial banks, and the fact that these obligations represent depositors' placements at private banks, preclude the banks from fulfilling their obligations of returning without delays the deposits when asked to, according to Article 690 of the Code of Obligations and Contracts and, therefore, result in the breach of the banks' professional obligation to preserve the rights of depositors and their funds.

Seventh, it considered that the government cannot justify its decision to write off the funds that it borrowed from BdL and from commercial banks, which are the depositors' placements at banks, by stating that it has spent them on stabilizing the exchange rate of the Lebanese pound against the US dollar and to subsidize consumer goods, as this breaches the principle of equality and imposes this burden on a specific segment of the population, namely the depositors, as all citizens benefited from the subsidies and from the stabilization of the exchange rate.

Eighth, it indicated that there is irrefutable proof that the decision of the Council of Ministers to write off BdL's obligations to commercial banks breaches constitutional provisions and principles, the principles derived from international agreements, as well as national laws such as the Code of Money and Credit and the Code of Obligations and Contracts. As such, it declared that it is necessary to annul the decision in question and to consider that any measure taken based on this decision is clearly unconstitutional and breaches the prevailing laws and regulations.

Sovereign ratings upgrade contingent on reforms and debt restructuring

S&P Global Ratings affirmed Lebanon's long- and short-term foreign currency sovereign credit ratings at 'Selective Default' (SD), which is 12 notches below investment grade. It also affirmed the country's long- and short-term local currency ratings at 'CC' and 'C', respectively, and maintained its 'negative' outlook on the local currency's long-term ratings. It added that it maintained its Transfer and Convertibility assessment on Lebanon at 'CC'.

It indicated that the foreign currency credit ratings reflect the previous government's decision to default on Lebanon's foreign currency debt obligations, as the government announced in March 2020 that Lebanon would stop paying its obligations on its sovereign Eurobonds. It added that the local currency debt ratings reflect the agency's view that the government could restructure its Lebanese pound-denominated debt as part of a broader restructuring program, in order to place the public debt on a sustainable path. It noted that the 'negative' outlook reflects that further weakening of the public sector's administrative capacity, which could pose risks to the timely debt servicing of the public debt in Lebanese pounds.

The agency considered that persistent political deadlocks continue to undermine the progress on Lebanon's reforms and on the restructuring of the government's debt, following its default on commercial debt four years ago. It said that the caretaker government has limited capacity to implement the reforms necessary for a funded program with the International Monetary Fund (IMF). Also, it noted that the spillover effects from the war in the Gaza Strip, which have raised regional political tensions, will keep domestic security risks heightened and weigh on economic activity in Lebanon. In addition, it indicated that the acting governor of Banque du Liban (BdL) has called for reforms that are in line with the prior actions that the IMF has set and that include enacting a temporary capital control law, the liberalization and unification of the multiple exchange rates, and a legal framework that will prohibit BdL's financing of the government. It noted that the authorities made progress on some of the prior actions by conducting the special audit of BdL's foreign assets and by enacting the 2022 and 2024 budgets.

Further, it pointed out that the risk of default on Lebanon's commercial local currency-denominated debt remains elevated, due to the government's weak administrative capacity, its limited ability to raise revenues, and uncertainties about the scope of an ultimate government debt and banking sector restructuring. But it said that the amount of local currency-denominated debt has dropped as a share of Lebanon's total government debt, driven by the continued depreciation of the local currency and elevated inflation rates. Also, it said that the government does not plan to issue Treasury bills or bonds in the first quarter of 2024 and did not expect BdL or public pension funds to contribute materially to the government's debt auctions, in case they take place, given that BdL has not participated in those auctions since the second half of 2022.

In parallel, the agency indicated that it could downgrade the local currency debt ratings if a broader debt restructuring program includes haircuts or maturity extensions on the Lebanese pound-denominated debt, and/or if the government misses local currency principal or interest payments to a commercial creditor. But it noted that it could revise the outlook on the local currency ratings to 'stable' or upgrade the ratings on the local currency debt in case the likelihood of a restructuring of the Lebanese pound-denominated commercial debt decline and if domestic economic policy-making improves. Further, it said that it would upgrade Lebanon's long-term foreign currency sovereign issuer credit rating from 'SD' in case the government completes the restructuring of its foreign currency debt. It noted that the upgrade would reflect Lebanon's post-restructuring creditworthiness, and would take into consideration the resulting debt burden and the country's macroeconomic policy prospects.

Monoprix to reenter Lebanese market in 2024

The Gray Mackenzie Retail Group (GMRL), an operator of supermarkets and convenience stores in Lebanon, announced that it has signed a franchise agreement with the French supermarket chain Monoprix that will lead to the opening of Monoprix outlets in Lebanon. It said that the agreement will result in the opening of six to seven new Monoprix stores in the country, with the first outlet scheduled to open this September in the Hamra area of Beirut. It added that it aims to open one outlet per year in Lebanon in the coming six years.

The French supermarket chain Monoprix was present in Lebanon until 2008. It opened its first outlet in the country in the Jnah area of Beirut in June 1999 and inaugurated its second store in Achrafieh in December of the same year, followed by new outlets in Verdun and the Baabda area. The Lebanese company ADMIC sal held at the time the master franchise rights to develop the Monoprix supermarket chain in Lebanon, as well as the franchise rights to develop the French BHV department store and the Géant chain in Lebanon. In April 2008, TSC, a Kuwaiti retailer that is part of the Sultan Center Group, signed an Asset Purchase Agreement with ADMIC to acquire its Monoprix and Géant operations in Lebanon. But TSC exited the local supermarket sector in 2017. The Monoprix chain is currently part of the French retail giant Groupe Casino.

Established in 1996, the GMRL operates the Spinneys supermarkets, the Happy discount outlets, and the Grab'n Go convenience stores in Lebanon.

Net profits of Syrian affiliates of Lebanese banks at SYP3,028bn in 2023

Preliminary financial results issued by the affiliates of five Lebanese banks operating in Syria show that their aggregate net profits reached SYP3,028.3bn in 2023 relative to net earnings of SYP140bn in 2022.

The profits of Banque BEMO Saudi Fransi increased by SYP1,124.1bn in 2023, followed by a rise of SYP573bn in the net income of Byblos Bank Syria, a growth of in the earnings of Bank of Syria & Overseas, an uptick of SYP412.5bn in the profits of Fransabank Syria, and an improvement of SYP297.8bn in the net income of Bank Al-Sharq, the affiliate of Banque Libano-Française.

In parallel, the banks' aggregate assets reached SYP12,310bn at the end of 2023 and increased by 251% from SYP3,506.7bn at end-2022. The rise in assets was due to a jump of SYP4,313.9bn (227.5%) in the assets of Banque BEMO Saudi Fransi, a surge of SYP1,722.1bn (306.3%) in those of Bank of Syria & Overseas, a growth SYP1,141bn (239.4%) in those of Fransabank Syria, an increase of SYP920.8bn (261%) in the assets of Byblos Bank Syria, and a rise of SYP705.2bn (322%) in those of Bank Al Sharq. In US dollar terms, the assets of the five banks decreased from $1.16bn at the end of 2022 to $980m at end-2023. The Syrian pound depreciated from SYP3,015 against the US dollar at the end of 2022 to SYP12,562 per dollar at the end of 2023.

In addition, the aggregate shareholders' equity of the five banks stood at SYP3,507.2bn at end-2023 compared to SYP763.1bn at end-2022; In US dollar terms, the banks' shareholders' equity was $279.2m at end-2023 and increased by 10% from $253.1m at end-2022. The five banks have yet to publish their detailed financial results for 2023.

Results of Affiliates of Lebanese Banks in Syria for 2023 (SYPbn)

	Net Earnings 2022	Net Earnings 2023	Total Assets	Shareholder's Equity
Banque BEMO Saudi Fransi	62.8	1,186.9	6,210.1	1,123.5
Bank of Syria & Overseas	12.2	493.2	2,284.4	623.0
Fransabank Syria	25.3	437.7	1,617.5	584.9
Byblos Bank Syria	25.2	598.1	1,273.6	772.6
Al Sharq	14.5	312.3	924.3	403.3

Source: Banks' financial statements

Corporate Highlights

Stock market capitalization up 10% to $18bn at end-February 2024

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 3.13 million shares in the first two months of 2024, constituting a drop of 87.7% from 25.5 million shares traded in the same period of 2023; while aggregate turnover amounted to $167.7m and rose by 142.7% from a turnover of $69.1m in the first two months of 2023.

Further, the market capitalization of the BSE stood at $18bn at the end of February 2024, representing an increase of 10.2% from $16.3bn a year earlier, and compared to $20.6bn at the end of January and to $20.5bn at end-December 2023. Real estate equities accounted for 70.2% of the market's capitalization at the end of February 2024, followed by banking stocks (22.3%), and industrial shares (7.5%). Also, the trading volume reached 1,129,048 shares in February 2024, as it decreased by 43.7% from 2 million shares traded in January 2024 and increased by 183.8% from 397,775 shares in February 2023. Also, the aggregate turnover stood at $65.8m in February 2024, constituting a drop of 35.5% from a turnover of $102m in the preceding month and a surge of 300.2% from $16.4m in February 2023. The market liquidity ratio was 0.9% at the end of February 2024 compared to 0.4% a year earlier.

In addition, real estate equities accounted for 64.7% of the trading volume in the first two months of 2024, followed by banking stocks (33.7%) and industrial shares (1.6%). Further, real estate equities accounted for 97% of the aggregate value of shares traded, followed by industrial shares (1.8%), and banking stocks (1.3%). The average daily traded volume for the first two months of 2024 was 76,421 shares for an average daily amount of $4.1m. The figures represent a drop of 88.6% of the average daily traded volume and a jump of 125% of the average daily value in the covered period.

In parallel, the price of Solidere 'A' shares decreased by 12.8% and the price of Solidere 'B' shares regressed by 17% in the first two months of 2024, while the price of Holcim shares improved by 0.2% in the covered period. Further, the price of Solidere 'A' shares increased by 1.7% in January and decreased by 14.2% in February, while the price of Solidere 'B' shares improved by 1.3% in January and contracted by 18% in February 2024. Further, the share price of Holcim regressed by 0.5% January and grew by 0.7% in February 2024.

The year-on-year increase in the stock market's capitalization has been mainly driven by rise in the prices of Solidere and Holcim shares, due mainly by the increase in demand for the shares from several bank depositors, given that they consider it a way to channel their deposits out of the banking sector in light of the government's economic rescue plan that stipulates the conversion of deposits into bank shares as part of the restructuring of the banking sector. The decline in the bourse's capitalization in the first two months of 2024 was triggered by the contraction in the share prices of Solidere in the covered period is due to negative market sentiment since the eruption of the war in the Gaza Strip and the start of Israeli attacks along the Blue Line of Lebanon's Southern border.

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

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

BYBLOS BANK GROUP

LEBANON

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

IRAQ

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

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

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

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

ARMENIA

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

NIGERIA

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

BELGIUM

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

UNITED KINGDOM

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

FRANCE

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

ADIR INSURANCE

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