

Economy

CONTACTS

Treasury & Capital Markets

Bechara Serhal
(961-1) 977421
bechara.serhal@bankaudi.com.lb

Corporate Banking

Carol Ayat
(961-1) 959675
carol.ayat@bankaudi.com.lb

Mohamad Baydoun
(961-1) 959703
mohamad.baydoun@bankaudi.com.lb

Marketing and Communications

Marion Abou Jaoudé
(961-1) 977356
marion.abou-jaoude@bankaudi.com.lb

p.2 US\$ 6.4 BILLION OF REVISED REMITTANCE INFLOWS IN 2022, AS PER THE WORLD BANK

The New Migration and Development Brief was issued by the World Bank. Lebanon has recorded US\$ 6.4 billion of revised remittance inflows for 2022 (against a previous estimate of US\$ 6.8 billion). It actually compares to remittance inflows of US\$ 6.4 billion in 2021, US\$ 6.6 billion in 2020, US\$ 7.4 billion in 2019 and US\$ 7.0 billion in 2018.

Also in this issue

p.3 Gross public debt at US\$ 103 billion at end-January 2023

p.4 Communication channels to be opened between Lebanese and Saudi ministries amid thawing relations

p.4 Lebanon's government attempting to take steps to reduce financial burden from the refugee crisis

Surveys

p.5 LEBANON RECEIVES A MODERATE SCORE OF 51 OUT OF 100 ON FITCH SOLUTIONS' TRADE AND INVESTMENT RISK INDEX

A new report by Fitch Solutions has been released on Lebanon's trade and investment sector.

Also in this issue

p.5 UNDP report for an appropriate governing framework that optimizes the value of remittance inflows

Corporate News

p.7 LEBANON'S ROOFTOP PV MARKET BOOMING AMID A MYRIAD OF CRISES

According to the Lebanese Center for Energy Conservation (LCEC), by the end of 2022 cumulative solar installations reached 870 Megawatts (MW) with 663 MW added during 2022 alone. This shows a massive increase from levels seen at the end of 2020 of 89.8 MW and almost nine times above the 100 MW national target for solar capacity.

Also in this issue

p.7 Three economic clusters launched by USAID

p.8 Two Lebanese startups among six shortlisted in PepsiCo Greenhouse Accelerator Program

Markets In Brief

p.9 MARKETS IN BRIEF: LP/US\$ RATE PIERCING 92,000 LEVEL DOWNWARD, WITH INFLOW OF HARD CURRENCY AND ON BDL CIRCULAR AMENDMENT

While all eyes remained focused on the transition in Central Bank leadership when the current governor's term ends this month, and given the inflow of hard currency at the start of the summer tourist season, and following the amendment on circular 158 which is set to result into reduced LP money creation, Lebanon's capital markets saw for the first time in two months an improvement in LP against the US dollar on the black FX market, while equities saw extended price rises and bond prices remained at their lows. In details, the LP/US\$ black market rate pierced the LP/US\$ 92,000 level downward for the first time since early-May 2023, reaching LP/US\$ 91,000-LP/US\$ 91,300 on Friday. This is mainly explained by the inflow of hard currency at the start of the summer season, and the amendment of BDL circular No. 158, which eliminated the withdrawal of US\$ 400 in LP at a rate of LP/US\$ 15,000, a move that would help alleviating demand pressures on the parallel FX market. On the equity market, the BSE registered shy price gains of 0.2% this week, while the total turnover was limited to US\$ 2.9 million compared to a weekly average of US\$ 7.8 million since the beginning of 2023. Finally, bond prices remained at historical lows of 6.50 cents per US dollar, amid lingering political and reform uncertainties.

LEBANON MARKETS: JULY 3 - JULY 9, 2023

| | | | |
|--------------------|---|-------------------|---|
| Money Market | ↑ | BSE Equity Market | ↑ |
| LP Tbs Market | ↑ | Eurobond Market | ↔ |
| LP Exchange Market | ↑ | CDS Market | ↔ |

RESEARCH

Dr. Marwan Barakat
(961-1) 977409
marwan.barakat@bankaudi.com.lb

Salma Saad Baba
(961-1) 977346
salma.baba@bankaudi.com.lb

Michèle Khoury Sakha
(961-1) 977102
michele.sakha@bankaudi.com.lb

Stephanie Bou Sleiman
(961-1) 952397
stephanie.bousleiman@bankaudi.com.lb

Elias Missi
(961-1) 959747
elias.missi@bankaudi.com.lb

Bank Audi

ECONOMY

US\$ 6.4 BILLION OF REVISED REMITTANCE INFLOWS IN 2022, AS PER THE WORLD BANK

The New Migration and Development Brief was issued by the World Bank. Lebanon has recorded US\$ 6.4 billion of revised remittance inflows for 2022 (against a previous estimate of US\$ 6.8 billion). It actually compares to remittance inflows of US\$ 6.4 billion in 2021, US\$ 6.6 billion in 2020, US\$ 7.4 billion in 2019 and US\$ 7.0 billion in 2018.

Lebanon ranks third in the MENA region in terms of size of remittances in 2022, after Egypt and Morocco (with US\$ 28.3 billion and US\$ 11.2 billion respectively) and before Jordan and West Bank and Gaza (with US\$ 5.0 billion and US\$ 4.1 billion respectively).

Growth in remittances to the Middle East and North Africa deteriorated in 2022 after posting strong 12.2% growth in 2021. Flows to the region fell by about 4% to US\$ 64 billion in 2022, driven mainly by a drop in flows to Egypt and downturns in flows to Algeria and Jordan. Meanwhile, remittance flows to the Maghreb countries experienced a slight gain (with an exception of Algeria), offsetting some of the decline.

Remittance flows to the Middle East and North Africa region are expected to recover from a 3.8% decline in 2022 to a 1.7% increase in 2023 and 1.8% gain in 2024, respectively. The rebounding view is based on an expected turnaround in flows to Egypt, which experienced a sharp decline last year due to concerns about the country's foreign exchange markets. However, the outlook is differentiated across regional subgroups, depending on dominant host countries, the degree of exposure to higher inflation, and financial volatility.

At the global level, remittance flows to low-and middle-income countries (LMICs) are estimated to have increased by 8% in 2022, reaching US\$ 647 billion (according to revised official data). The remittance growth rate is expected to moderate to 1.4% in 2023, resulting in total inflows of US\$ 656 billion (table 1.1). For the world, remittance flows are expected to reach US\$ 840 billion in 2023. On a global scale, the remittances growth rate is projected to increase to 2.0% in 2024, increasing inflows by US\$ 18 billion. Over the past year, remittances have continued to represent an even larger source of external finance for LMICs, relative to foreign direct investment (FDI), official development assistance (ODA), and portfolio investment flows.

The top five recipient countries for remittances in 2022 were India, which received a total of US\$ 111 billion in the year, followed by Mexico with inflows of US\$ 61 billion, then China (US\$ 51 billion), the Philippines (US\$ 38 billion), and Pakistan (US\$ 30 billion). Among economies where remittance inflows represent very large shares of gross domestic product (GDP) – highlighting the importance of remittances for funding current account and fiscal shortfalls – Tajikistan (51% of GDP), Tonga (44%), Lebanon (35%), Samoa (34%), and the Kyrgyz Republic (31%) stand in the top ten.

Bank Audi

GROSS PUBLIC DEBT AT US\$ 103 BILLION AT END-JANUARY 2023

The data published by the Ministry of Finance in Lebanon suggested that the country's gross debt reached US\$ 102.5 billion at end-January 2023 showing an increase of 3.2% up from US\$ 99.3 billion at end-January 2022.

Domestic debt increased negligibly by 0.6% year-on-year from end-January 2022 to reach a total of LP 91.8 billion at end-January 2023.

Lebanon's external debt was registered at US\$ 41.6 billion at end-January 2023, up by 7.3% from US\$ 38.8 billion at end-January 2022.

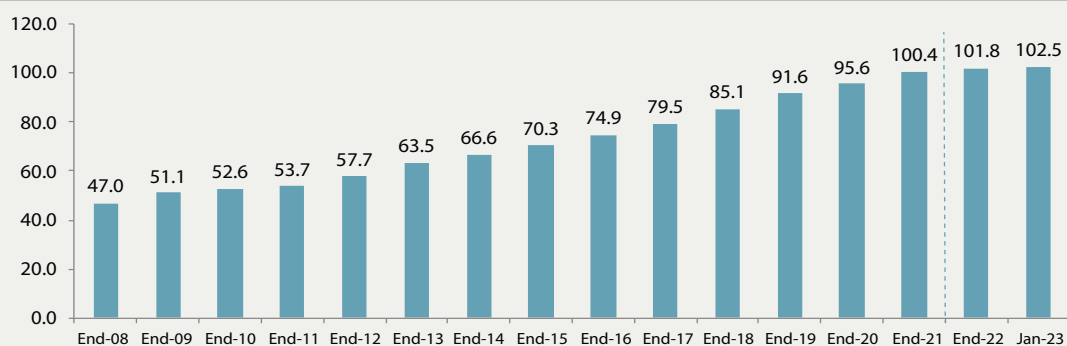
In this context, the public sector deposits at the Central Bank jumped by 102.9% year-on-year from end-January 2022 to register US\$ 14.1 billion at end-January 2023.

The public sector deposits at commercial banks expanded negligibly by 0.3% from end-January 2022 to end-January 2023, registering US\$ 5.0 billion.

As such, net public debt, which excludes the public sector deposits at the Central Bank and commercial banks from overall debt figures, contracted by 4.6% from end-January 2022 to reach a total of US\$ 83.4 billion at end-January 2023.

Net domestic debt amounted to US\$ 41.9 billion at end-January 2023, down by 14.0% from US\$ 48.7 billion at end-January 2022.

GROSS PUBLIC DEBT (US\$ BILLION)



Sources: Association of Banks in Lebanon, Bank Audi's Group Research Department

Bank Audi

COMMUNICATION CHANNELS TO BE OPENED BETWEEN LEBANESE AND SAUDI MINISTRIES AMID THAWING RELATIONS

Communication channels between Lebanon and various Saudi ministries will be opened with the aim of facilitating joint projects in different sectors, as per the Lebanese Caretaker Minister of Economy.

This statement came amid a meeting between the Lebanese Caretaker Minister of Economy and the Saudi Minister of Investment surrounding ways to increase economic cooperation between the two countries.

In details, the Saudi Ministry of Investment is conducting studies regarding investment opportunities in the Lebanese market with a special focus on the industries of infrastructure, oil and gas. This comes following a bilateral agreement on joint preliminary programs between the two countries.

Additionally, efforts are underway for Lebanon to expand into new sectors such as maritime facilities, airports, railways and renewable energy among others. These efforts are made in cooperation with Saudi Arabia.

According to the Saudi Minister of Investment, Saudi Arabia is confident in Lebanon's potential for a speedy recovery and prosperity. In turn, the country is committed to support Lebanon's economic development efforts.

It is worth noting that this step, paired with a prior agreement to reinstate trade ties, comes amid the thawing of relations between Saudi Arabia and Lebanon. This improvement was made possible following the Saudi-Iranian agreement that has affected the region and its relations positively.

LEBANON'S GOVERNMENT ATTEMPTING TO TAKE STEPS TO REDUCE FINANCIAL BURDEN FROM THE REFUGEE CRISIS

Amid Lebanon's myriad of crises, the government has recently taken steps in order to reduce the financial burden brought on by Lebanon's large refugee base. Additionally, 2023 saw the beginning of a crackdown by the state on illegal immigration amid bids to lower Lebanon's current refugee per capita ratio.

It is worth noting that according to the Lebanese government, the country houses circa 2.0 million Syrian refugees and has a total population of circa 5.5 million people making Lebanon the country with the largest number of refugees per capita and per km² in the world. Additionally, according to the Lebanese Caretaker Minister of Foreign Affairs, the cost of hosting such an amount of refugees is estimated at US\$ 6.0 billion per annum currently. In turn, Lebanon's caretaker government has been increasing efforts to reduce the aforementioned financial burden on the country's treasury.

In details, the Lebanese Caretaker Minister of Health has called on the international community to assume its role in providing health care through the support of Lebanon's national health system. This comes as the country's healthcare system faces numerous challenges amid the crisis and needs of the Lebanese population as well as the country's refugee base are increasing. This has in turn increased the pressure exerted on the sector.

Concurrently, the Lebanese Caretaker Minister of Energy and Water has met with a number of United Nations (UN) agencies to appeal for help in covering the energy bill for refugee camps. This has led to an agreement for the establishment of two technical committees to deal with the electricity consumption in Syrian and Palestinian refugee camps as the consumption must now be paid through electricity tariffs. This decision came amid efforts to tackle the crisis in Lebanon's electricity sector which has long been a burden on the country's treasury.

Bank Audi

SURVEYS

LEBANON RECEIVES A MODERATE SCORE OF 51 OUT OF 100 ON FITCH SOLUTIONS' TRADE AND INVESTMENT RISK INDEX

A new report by Fitch Solutions has been released on Lebanon's trade and Investment sector.

In spite of Lebanon's its openness to foreign investment and international trade, the market has become an increasingly risky destination for FDI according to the report. A significantly weakened economy has resulted in the market having a higher level of political polarisation, a slow momentum for reforms and exchange rate volatility. This is further compounded by the market's high reliance on imports. Domestic supply chains have been significantly impacted by the fuel crisis as well as high inflation. High levels of perceived corruption throughout the public sector further harm investor confidence, which is further hampered by a cumbersome bureaucracy. Consequently, Lebanon receives a moderate score of 51.0 out of 100 on Fitch Solutions' Trade and Investment Risk Index, which ranks it in 10th place out of 18 MENA markets and 86th out of 202 markets globally.

The report undertakes a SWOT analysis for Trade & Investment Risk. With respect to Strengths, the report mentions:

- Lebanon offers a free market economy and an open policy towards foreign investment.
- Free trade agreements with most of Lebanon's major trading partners are in place, increasing the ease of trade.
- The corporate tax rate is low on a global comparison, reducing overall operational costs.

With respect to Weaknesses, the report mentions:

- The fuel crisis has created electricity shortages and difficulties for transporting goods, weakening the Lebanese business environment.
- Corruption is endemic in the public sector, complicating business dealings.
- The collapse of the Lebanese currency has led to an inability to afford basic goods, meaning international trade has seen a significant decline.

With respect to Opportunities, the report mentions:

- Lebanon is one of the more open economies in the MENA region and the government offers a number of incentives in priority development sectors.
- The previous government promised to progress towards improving e-services, which will boost bureaucratic efficiency.
- A finalisation of a deal with the IMF worth USD3bn will assist Lebanon in stabilising its marcoeconomic climate.

With respect to Threats, the report mentions:

- The Lebanese population is reliant on remittances from the diaspora due to the economic situation, diverting funds away from potential FDI projects.
- Trade volumes will be restricted due to the lack of demand in major export markets, namely war-torn Syria and Iraq, and limited alternative trade routes.
- The weak enforcement of IP rights will deter investors in key sectors identified for foreign investment, including IT and healthcare.

UNDP REPORT FOR AN APPROPRIATE GOVERNING FRAMEWORK THAT OPTIMIZES THE VALUE OF REMITTANCE INFLOWS

A new report on the increasing role of remittances in Lebanon has been unveiled by UNDP.

Financial flows, including remittances, can be transformed into an opportunity for Lebanon, particularly to sustain the repercussions of the ongoing financial and economic crisis, and given the limited financial domestic and foreign resources that the country can tap into to address its emerging needs as per the report. The consistency in the flow of remittances demonstrates a strong connection between the diaspora and their home country. Their contribution, however, could be further leveraged beyond the direct support they channel as remittances to their families. Lessons from the globe indicate that there is a nexus between emigration and local development. Diaspora's funds can be harnessed to play an integral role in boosting local economies and foster the integration of local communities into the broader national economy. In the case of Lebanon, diaspora's engagement may be one of the possible ways to break the ongoing development deadlock, created by the multi-faceted crisis, and deepened by the ongoing political turmoil.

Bank Audi

Given the scarcity of resources available to the country, the Lebanese diaspora could present an opportunity to support Lebanon's quick recovery, minimize development losses, and put Lebanon back on a healthy, sustainable and inclusive development path. Diaspora's engagement in local development is already taking place across Lebanon and under different forms. Still, the way diaspora's funds are channeled and invested could be rendered more effective and responsive to community needs, should there be an appropriate governing framework that optimizes the value of these inflows, while aligning with a broader developmental agenda. Such a framework should be joint responsibility among different actors, including the central government, local governments and actors, the diaspora community, international organizations, and local communities at large.

This framework should focus on different pillars including monetary, business environment, fiscal and financial. First, monetary and government authorities should develop a clear presentation of the magnitude, sources (countries of origin), and regional distribution (destination within Lebanon) of remittances and other financial flows. There is some ambiguity as to what strictly and officially counts as 'remittances'. Understanding the clear difference between remittances flowing as strict familial aid on the one hand and other financial flows on the other would help in designing proper policies for engaging diasporas in local development.

Second, Lebanese authorities should work towards restoring the confidence of expatriates in the Lebanese economy. A particular focus should be placed on improving the business environment to promote a shift in the use of financial flows from rent-seeking practices, such as real estate and financial investments, to investing in real economy. To this end, the government should work on improving basic infrastructure, such as electricity, telecommunication, and transportation, to provide an enabling business environment for both resident and non-resident investors. More so, the government should prioritize productive economic sectors, and encourage entrepreneurship, so that there is a greater incentive for remitters to invest in Lebanon.

Third, policymakers and financial institutions may consider investing in diaspora bonds.⁴⁹ These bonds are usually promoted as "an alternative to borrowing from the international capital market, multilateral financial institutions or bilateral loans from Government".

Fourth, the challenges facing the financial sector is pushing thousands of people and businesses outside the banking system, causing loss of access to basic financial services. Particularly, the rising number of financially excluded drastically affects the ability of households and businesses to receive financial flows from abroad. The note illustrated that informality is dominating the transfer of remittances, and the use of the banking system for this purpose is almost non-existing, notably after the escalation of the crisis. Most of the funds are reportedly transferred by individuals visiting the country, and to a much lesser extent through money transfer companies, which are becoming very costly. The delays in implementing economic and financial reform in Lebanon will certainly translate into a delay in reforming the banking system. Consequently, alternative ways should be put in place to facilitate transfer of remittances and other financial flows.

Finally, the note revealed that there is a high cost associated with transferring diaspora's fund to Lebanon. This could be considered as a barrier that may limit the consistent flow of remittances and other flows. Banks and other financial institutions should consider reducing international money transfer fees to encourage transfers through official channels. The cost reduction on remittances is one of the targets set as part of the 2030 agenda aiming to reduce the cost of sending remittances to less than 3 percent and to eliminate remittance corridors with costs greater than 5 percent. This would ensure that remittances are flowing through official channels (Commercial banks and financial Institutions), and thus enable policymakers of better track these flows and design the appropriate policies to ensure an uninterrupted flow and to effectively integrate them into the national economy.

Bank Audi

CORPORATE NEWS

LEBANON'S ROOFTOP PV MARKET BOOMING AMID A MYRIAD OF CRISES

According to the Lebanese Center for Energy Conservation (LCEC), by the end of 2023 cumulative solar installations reached 870 Megawatts (MW) with 663 MW added during 2022 alone. This shows a massive increase from levels seen at the end of 2020 of 89.8 MW and almost nine times above the 100 MW national target for solar capacity. This trend is projected to continue with LCEC forecasting rooftop Photovoltaic (PV) energy generation to reach 1 Gigawatt (GW) by mid-June 2023. This growth indicates a booming in the Lebanese rooftop PV market as citizens seek to maintain their basic living standards and keep their households or businesses running amid frequent power outages.

Amid ongoing political and economic deadlock, the collapse of the currency and marked inflation rates, multiple sectors of the country have been heavily affected, among them the electricity sector. Prior to 2019, 24 hour electricity coverage was provided by a power supply mix from Électricité du Liban and private-owned generators, however since the onset of the crisis, this mix only supplies circa 12-14 hours of electricity daily. This reality has led the Lebanese people to look for solutions which was found in the relatively cheaper and more reliable PV energy production.

This growth in the market cannot be attributed to a remuneration scheme as various technical and administrative barriers stand in the way of growth in the net metering market within Lebanon. According to an Energy Researched at the American University of Beirut (AUB), the main challenge to the market is the insufficient electricity supply and frequent outages even before 2019 which prevented net metering users from exporting excess power produce to the national grid. In parallel, bureaucratic processes tied to installation of metering stunted the implementation of the scheme. This has led the growth of the rooftop PV energy generation market to rely primarily on solar-plus-battery systems that are off the grid. In turn, the energy generated that is not consumed when the battery is fully charged is wasted.

It is worth noting that according to the Solar Energy Industries Association, net metering is a billing mechanism that credits solar energy system owners for the electricity they add to the grid.

As options for institutional financing are non-existent in Lebanon, individuals are relying on saving, remittances or the sale of personal goods to pay for the minimum cost of solar systems (between US\$ 4,000 and US\$ 7,000) in cash US\$. However, loaning schemes by different organizations have come to light to satisfy this need in the market.

It is worth mentioning that in 2021, Lebanon's Industrial Research Institute (IRI) designated all used PV panels imported since October 2021 as not meeting national standards. In turn, the import of second-hand solar panels was virtually blocked in Lebanon. However, unregulated providers continued to provide various equipment that are not in line with IRI standards, such as panels, inverters and batteries.

THREE ECONOMIC CLUSTERS LAUNCHED BY USAID

Three economic clusters were launched by the Trade and Investment Facilitation (TIF) projects, funded by the United States Agency for International Development (USAID), in order to support the growth and development of three of Lebanon's leading industries: Cosmetics, engineering and digital marketing. The three clusters, called Beauty Hobb (for the cosmetics industry), From I to I (for the digital marketing industry) and Mecaphore (for the engineering industry) will focus on exporting the clusters' services to international markets with the help of USAID's TIF.

In turn, through this step, these clusters will have a positive impact on Lebanon's economic growth as well as on the rank of Lebanon's industries on the global stage.

In details, the Beauty Hobb is a cluster of 28 companies that caters to the cosmetics industry. From I to I is a cluster comprised of 21 members which works to reshape Lebanon's digital marketing industry through innovative strategies and creative concepts. In parallel, Mecaphore is a cluster of 35 companies which aims to bring a new perspective to Lebanon's Engineering and Architecture industries.

Bank Audi

The launch of the clusters came amid an event organized by PFC International at the Université du Saint Esprit de Kaslik (USEK). The event saw a turnout of circa 200 industry stakeholders where participants discussed matters of business growth (including expanding into foreign markets).

Concurrently, during the event international business owners shared market insights and highlighted the potential for collaboration with Lebanese companies in the targeted industries and markets.

TWO LEBANESE STARTUPS AMONG SIX SHORTLISTED IN PEPSICO GREENHOUSE ACCELERATOR PROGRAM

Two Lebanese startups working in sustainable farming are between the six shortlisted companies in the PepsiCo Greenhouse Accelerator Program: MENA Sustainability Edition. The shortlisting comes following a multi-stage selection process where participants from 180 startups submit innovative ideas across five key criteria and relating to sustainable agriculture.

The five criteria set in the program were the alignment with PepsiCo's sustainability strategy, synergy on the strategic level with the company, scalable, relevant to the region, breakthrough potential and PepsiCo Positive (pep+).

The company's Greenhouse Accelerator Program aims to unlock innovative agricultural solutions in cooperation with sector startups from the MENA region which share PepsiCo's vision for a more sustainable food system.

The two Lebanese startups were "Dooda Solutions" and "YY ReGen" and they were chosen along with two Jordanian startups, an Algerian one and an Egyptian one. All shortlisted startups have a unique level of expertise and bring an innovative solution from all aspects of the sector's value chain. The solutions brought by the startups have the potential to positively impact the industry and make a lasting effect on society.

In details, regarding the Lebanese startups, Dooda Solutions is a woman-led earthworm farm in Lebanon. The farm raises earthworms which in turn produce premium grade organic fertilizers at a commercial scale. In parallel, YY ReGen is a startup that promotes regenerative farming, renewable energy use and sustainable water management.

After being shortlisted, each of the six startups will receive an initial grant of US\$ 20,000. This grant aims to help scale their project and support their business. Additionally, the startups will receive mentorship from regional professionals in the subject matter, Food Tech Valley & PepsiCo experts.

This program will last for six months at the end of which one company will win the competition. This company will then receive an additional funding of US\$ 100,000 to continue expanding as well as will be granted an opportunity to further lengthen its cooperation with the company in order to further expedite its growth.

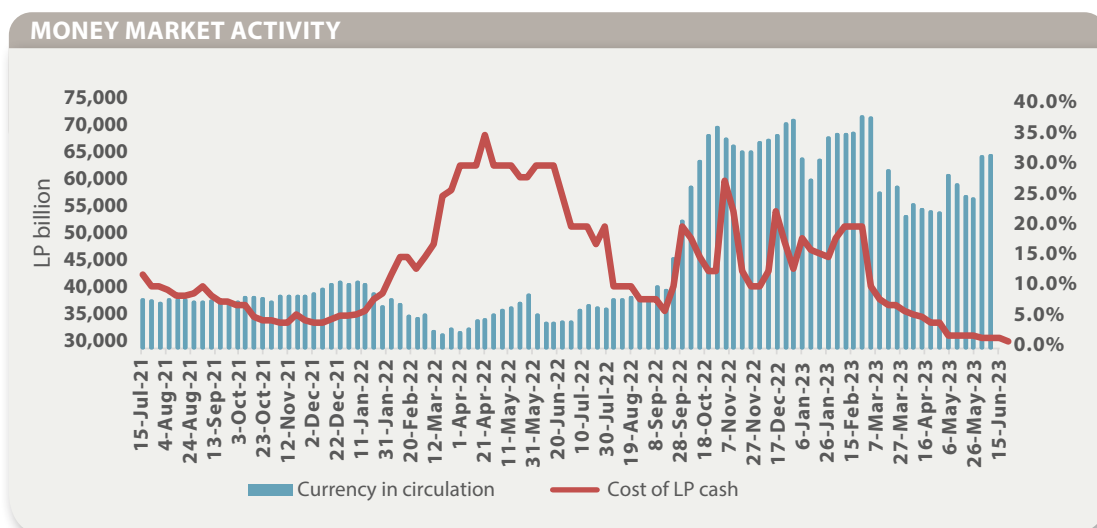
Bank Audi

CAPITAL MARKETS

MONEY MARKET: WEEKLY EXPANSION IN TOTAL RESIDENT DEPOSITS, MAINLY ON LP DEPOSIT GROWTH

The overnight rate, which is a non-cash rate on the money market, was quoted at 90% this week, up from 20%-70% last week. Concurrently, the cost of LP cash continued to hover between 1% and 2%.

In parallel, the latest monetary aggregates released by the Central Bank of Lebanon for the week ending 22nd of June 2023 showed that total resident banking deposits expanded by LP 3,332 billion week-on-week. This is mainly attributed to a LP 3,262 billion expansion in total LP resident deposits amid a rise in LP demand deposits of LP 2,917 billion and an increase in LP saving deposits of LP 345 billion, while foreign currency resident deposits expanded slightly by LP 71 billion (the equivalent of US\$ 5 million as per the official rate of LP 15,000). However, the money supply in its broadest sense (M4) contracted by LP 509 billion over the covered week amid a LP 4,028 billion fall in currency in circulation and a LP 186 billion rise in the non-banking sector Treasury bills portfolio.



TREASURY BILLS MARKET: NOMINAL DEFICIT OF LP 1,835 BILLION IN FIRST HALF OF 2023

The latest Treasury bills auction results for value date 6th of July 2023 showed that the Central Bank of Lebanon allowed banks to subscribe in full to the three-month category (offering a yield of 3.50%), the one-year category (offering a yield of 4.50%) and the five-year category (offering a coupon of 6.00%).

The Treasury bills auction results for value date 29th of June 2023 showed subscriptions of LP 485 billion, fully allocated to the Central Bank of Lebanon and distributed as follows: LP 85 billion in the six-month category (offering a yield of 4.00%) and LP 400 billion in the two-year category (offering a coupon of 5.00%). These compare to maturities of LP 182 billion, which resulted into a nominal weekly surplus of LP 303 billion.

On a cumulative basis, total subscriptions amounted to LP 6,051 billion over the first half of 2023, fully allocated to the Central Bank of Lebanon. The two-year category captured 31.3% of the total, followed by the one-year category with 30.1%, the six-month category with 20.8%, the three-month category with 12.5%, the three-year category with 3.3% and the seven-year category with 1.9%, while the five-year category accounted for the remaining 0.02%. These compare to maturities of LP 7,886 billion, resulting into a nominal deficit of LP 1,835 billion over the first half of 2023.

Bank Audi

TREASURY BILLS

| | 07/07/2023 | 27/06/2023 | 30/12/2022 | |
|--------------------------------|------------|------------|-------------|---|
| 3-month | 3.50% | 3.50% | 3.50% | ↔ |
| 6-month | 4.00% | 4.00% | 4.00% | ↔ |
| 1-year | 4.50% | 4.50% | 4.50% | ↔ |
| 2-year | 5.00% | 5.00% | 5.00% | ↔ |
| 3-year | 5.50% | 5.50% | 5.50% | ↔ |
| 5-year | 6.00% | 6.00% | 6.00% | ↔ |
| 10-year | - | 7.00% | 7.00% | |
| Nom. Subs. (LP billion) | | 485 | 1 | |
| Short-term (3&6 mths) | | 85 | - | |
| Medium-term (1&2 yrs) | | 400 | - | |
| Long-term (3 yrs) | | - | 1 | |
| Long-term (5 yrs) | | - | - | |
| Long-term (7 yrs) | | - | - | |
| Long-term (10 yrs) | | 0 | | |
| Maturities | | 182 | 193 | |
| Nom. Surplus/Deficit | | 303 | -192 | |

Sources: Central Bank of Lebanon, Ministry of Finance

FOREIGN EXCHANGE MARKET: CONTRACTING SPREAD BETWEEN BLACK MARKET RATE AND SAYRAFA RATE

After remaining stable around LP/US\$ 93,000-LP/US\$ 94,000 over the past couple of months, the LP/US\$ black market rate declined to LP/US\$ 91,000-LP/US\$ 91,300 this week. This is mainly explained by the inflow of hard currency at the start of the summer tourist season, and followed the amendment of BDL circular No.158, which eliminated the withdrawal of US\$ 400 million in Lebanese pound at a rate of LP 15,000 per US dollar, a move that is expected to reduce LP money creation and help alleviate pressure on the parallel market. This took place while all eyes remained focused on the transition in Central Bank leadership when the current governor's term ends this month.

Concomitantly, the Central Bank of Lebanon reduced the LP/US\$ Sayrafa rate from LP/US\$ 86,200 last week to LP/US\$ 85,500 this week. Accordingly, the spread between the LP/US\$ Sayrafa rate and the black FX market rate was reduced from LP 6,800 last week to LP 5,500.

On another note, the Central Bank of Lebanon released its latest bi-monthly balance sheet ending 30th of June 2023, which showed that BDL's liquid FX reserves contracted by US\$ 104 million over the second half of the month to reach circa US\$ 9.3 billion at end-June, after excluding BDL's Eurobond holdings.

EXCHANGE RATES

| | 07/07/2023 | 27/06/2023 | 30/12/2022 | |
|----------|------------|------------|------------|---|
| LP/US\$ | 15,000.00 | 15,000.00 | 1,507.50 | ↔ |
| LP/£ | 19,102.50 | 19,080.00 | 1,813.97 | ↓ |
| LP/¥ | 104.90 | 104.29 | 11.27 | ↓ |
| LP/SF | 16,744.81 | 16,752.29 | 1,628.67 | ↑ |
| LP/Can\$ | 11,214.95 | 11,406.84 | 1,108.21 | ↑ |
| LP/Euro | 16,315.50 | 16,395.00 | 1,603.83 | ↑ |

Source: Bank Audi's Group Research Department

Bank Audi

STOCK MARKET: EXTENDED SHY EQUITY PRICE GAINS THIS WEEK

The Beirut Stock Exchange continued to register shy price gains this week, as reflected by a 0.2% rise in the price index. Three out of five traded stocks posted price increases, while two stocks saw price falls.

A closer look at individual stocks shows that Bank Audi's GDR price went up by 1.4% to US\$ 1.40, followed by Bank Audi's "listed" shares with +1.2% to US\$ 1.73 and Solidere "B" shares with +0.2% to US\$ 75.15. In contrast, Solidere "A" share price retreated by 0.8% to US\$ 76.80, followed by Holcim Liban's shares with -0.6% to US\$ 55.05.

As to trading volumes, the BSE total turnover amounted to US\$ 2.9 million during this five-day week as compared to US\$ 374 thousand in the previous two-day week, noting that Solidere shares continued to capture the lion's share of activity. On a cumulative basis, the BSE total trading value grew by 4.9% year-on-year during the first half of 2023 to reach US\$ 204 million. In parallel, the BSE market capitalization grew by 22.6% between end-June 2022 and end-June 2023. Accordingly, the total turnover ratio, measured by the annualized trading value to market capitalization, reached 2.3% during the first half of 2023 and compared to 2.7% a year earlier.

AUDI INDICES FOR BSE

| | 07/07/2023 | 27/06/2023 | 30/12/2022 | |
|--------------------------------|------------|------------|------------|---|
| Market Cap. Index | 756.94 | 755.69 | 614.50 | ↑ |
| Trading Vol. Index | 25.97 | 8.51 | 96.84 | ↑ |
| Price Index | 158.91 | 158.65 | 129.00 | ↑ |
| Change % | 0.17% | 0.90% | 1.30% | ↑ |
| | | | | |
| | 07/07/2023 | 27/06/2023 | 30/12/2022 | |
| Market Cap. \$m | 17,958 | 17,928 | 14,578 | ↑ |
| No. of shares traded (Exc. BT) | 50,102 | 33,540 | 187,711 | ↑ |
| Value Traded \$000 (Exc. BT) | 2,856 | 374 | 6,415 | ↑ |
| o.w. : Solidere | 2,822 | 346 | 6,349 | ↑ |
| Banks | 20 | 28 | 66 | ↓ |
| Others | 14 | 0 | 0 | ↑ |

Sources: Beirut Stock Exchange, Bank Audi's Group Research Department

BOND MARKET: LEBANESE EUROBOND PRICES AT HISTORICAL LOWS

Prices of Lebanese Eurobonds remained at record lows of 6.50 cents per US dollar this week amid a protracted Presidential vacuum and suspended legislative activity, while the government continues to act on a caretaker mode, in addition to concerns about the slow progress in implementing long-overdue reforms. This casted doubt on Lebanon's ability to secure much-needed international financial support and kept bets about recovery rates very low. On a cumulative basis, the bond market registered price gains of up to 0.75 pt. year-to-date.

EUROBONDS INDICATORS

| | 07/07/2023 | 27/06/2023 | 30/12/2022 | |
|---------------------------------|------------|------------|------------|---|
| Total tradable size \$m | 31,793 | 31,793 | 31,793 | ↔ |
| o.w.: Sovereign bonds | 31,314 | 31,314 | 31,314 | ↔ |
| Bid price (cents per US dollar) | 6.50 | 6.50 | 5.50-5.88 | ↔ |
| Average Life | 4.96 | 4.97 | 5.34 | ↓ |
| Yield on US 5-year note | 4.38% | 3.97% | 3.94% | ↑ |

Source: Bank Audi's Group Research Department

Bank Audi

INTERNATIONAL MARKET INDICATORS

| | 07-Jul-23 | 30-Jun-23 | 31-Dec-22 | Weekly change | Year-to-date change |
|-----------------------------------|-----------|-----------|-----------|---------------|---------------------|
| EXCHANGE RATES | | | | | |
| YEN/\$ | 143.23 | 144.30 | 131.11 | -0.7% | 9.2% |
| \$/£ | 1.273 | 1.270 | 1.208 | 0.2% | 5.4% |
| \$/Euro | 1.087 | 1.091 | 1.071 | -0.3% | 1.5% |
| STOCK INDICES | | | | | |
| DOW JONES INDUSTRIAL AVERAGE | 33,734.88 | 34,407.60 | 33,147.25 | -2.0% | 1.8% |
| S&P 500 | 4,398.95 | 4,450.38 | 3,839.50 | -1.2% | 14.6% |
| NASDAQ | 13,660.72 | 13,787.92 | 10,466.48 | -0.9% | 30.5% |
| CAC 40 | 7,111.88 | 7,400.06 | 6,473.76 | -3.9% | 9.9% |
| Xetra Dax | 15,603.40 | 16,147.90 | 13,923.59 | -3.4% | 12.1% |
| FT-SE 100 | 7,256.94 | 7,531.53 | 7,451.74 | -3.6% | -2.6% |
| NIKKEI 225 | 32,388.42 | 33,189.04 | 26,094.50 | -2.4% | 24.1% |
| COMMODITIES (in US\$) | | | | | |
| GOLD OUNCE | 1,925.05 | 1,919.35 | 1,824.02 | 0.3% | 5.5% |
| SILVER OUNCE | 22.70 | 22.77 | 23.95 | -0.3% | -5.2% |
| BRENT CRUDE (per barrel) | 78.47 | 75.41 | 85.91 | 4.1% | -8.7% |
| LEADING INTEREST RATES (%) | | | | | |
| 1-month Libor | 5.26 | 5.22 | 4.39 | 0.04 | 0.87 |
| US Prime Rate | 8.25 | 8.25 | 7.50 | 0.00 | 0.75 |
| US Discount Rate | 5.25 | 5.25 | 4.50 | 0.00 | 0.75 |
| US 10-year Bond | 4.06 | 3.84 | 3.87 | 0.22 | 0.19 |

Sources: Bloomberg, Bank Audi's Group Research Department

DISCLAIMER

The content of this publication is provided as general information only and should not be taken as an advice to invest or engage in any form of financial or commercial activity. Any action that you may take as a result of information in this publication remains your sole responsibility. None of the materials herein constitute offers or solicitations to purchase or sell securities, your investment decisions should not be made based upon the information herein.

Although Bank Audi sal considers the content of this publication reliable, it shall have no liability for its content and makes no warranty, representation or guarantee as to its accuracy or completeness.