

LEBANON THIS WEEK

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Banking sector has 853 branches at end-2022

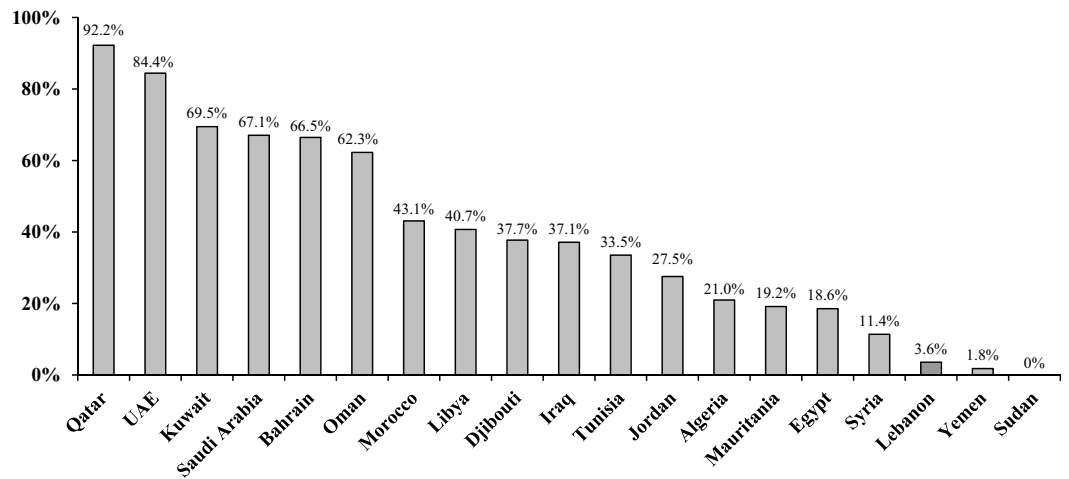
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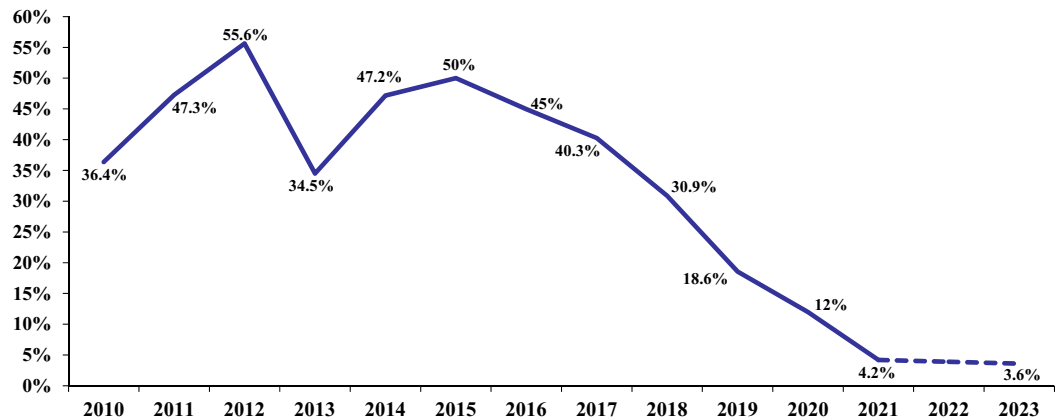
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Charts of the Week

Percentile Rankings of Arab Countries in terms of Economic Quality* for 2023



Percentile Rankings of Lebanon in terms of Economic Quality**



*The Legatum Institute defines economic quality as how well an economy is equipped to generate wealth in a sustainable manner and with the full engagement of its workforce

**figures for 2022 are not provided

Source: Legatum Institute Prosperity Index for 2023, Byblos Bank

Quote to Note

"The use of the revenue streams generated by reformed and revamped state-owned enterprises, possibly after entrusting their management to the private sector, could be appropriate to recapitalize Banque du Liban, thereby reducing the losses to commercial banks and depositors."

The International Monetary Fund, on the contribution of the Lebanese State to the recovery of deposits

Number of the Week

\$11.65bn: Aggregate amount of transactions on Banque du Liban's Sayrafa electronic exchange platform in the year-to-July 15, 2023 period

Lebanon in the News

\$m (unless otherwise mentioned)	2020	2021	2022	% Change*	Dec-21	Nov-22	Dec-22
Exports	3,544	3,887	3,492	-10.2%	616	274	272
Imports	11,310	13,641	19,053	39.7%	1,269	1,584	1,251
Trade Balance	(7,765)	(9,754)	(15,562)	59.5%	(653)	(1,310)	(979)
Balance of Payments	(10,551)	(1,960)	(3,197)	63.1%	(384)	(354)	17
Checks Cleared in LBP	19,937	18,639	27,14	45.6%	1,738	3,003	3,686
Checks Cleared in FC	33,881	17,779	10,288	-42.1%	1,079	767	577
Total Checks Cleared	53,818	36,418	37,434	2.8%	2,818	3,770	4,263
Fiscal Deficit/Surplus**	(2,709)	1,457	-	-	-	-	-
Primary Balance**	(648)	3,323	-	-	-	-	-
Airport Passengers	2,501,944	4,334,231	6,360,564	46.8%	455,087	446,450	551,632
Consumer Price Index	84.9	154.8	171.2	1,645bps	224.4	142.4	122.0

\$bn (unless otherwise mentioned)	Dec-21	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	% Change*
BdL FX Reserves	13.65	10.63	10.78	10.60	10.40	10.40	(23.8)
In months of Imports	-	-	-	-	-	-	-
Public Debt	100.37	103.65	102.71	101.94	101.94	101.81	1.4
Bank Assets	174.82	168.75	167.01	164.64	165.05	169.06	(3.3)
Bank Deposits (Private Sector)	129.47	125.02	124.96	124.37	124.57	125.72	(2.9)
Bank Loans to Private Sector	27.72	22.82	22.28	21.93	21.29	20.05	(27.7)
Money Supply M2	52.41	50.87	62.15	72.31	71.40	77.34	47.6
Money Supply M3	133.38	127.71	138.46	148.13	147.09	152.29	14.2
LBP Lending Rate (%)	7.14	4.85	5.09	5.00	5.30	4.56	(258)
LBP Deposit Rate (%)	1.09	0.60	0.66	0.70	0.65	0.60	(49)
USD Lending Rate (%)	6.01	5.51	4.61	5.11	4.35	4.16	(185)
USD Deposit Rate (%)	0.19	0.10	0.09	0.10	0.07	0.06	(13)

*year-on-year

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

Capital Markets

Most Traded Stocks on BSE*	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Solidere "A"	73.05	(4.9)	144,628	42.9%	Apr 2024	6.65	6.63	989.69
Audi GDR	1.39	(0.7)	60,453	1.0%	Jun 2025	6.25	6.63	208.55
BLOM GDR	2.00	(11.1)	26,000	0.9%	Nov 2026	6.60	6.63	99.60
Solidere "B"	72.10	(4.1)	20,118	27.5%	Mar 2027	6.85	6.63	89.18
Byblos Common	0.70	(10.3)	15,000	2.3%	Nov 2028	6.65	6.63	58.47
Audi Listed	1.75	1.2	2,520	6.0%	Feb 2030	6.65	6.63	45.62
HOLCIM	55.05	0.0	-	6.3%	Apr 2031	7.00	6.63	38.22
Byblos Pref. 09	29.99	0.0	-	0.4%	May 2033	8.20	6.63	29.61
BLOM Listed	2.56	0.0	-	3.2%	Nov 2035	7.05	6.63	23.35
Byblos Pref. 08	27.00	0.0	-	0.3%	Mar 2037	7.25	6.63	20.86

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

Source: Refinitiv

	Jul 10-14	Jul 3-7	% Change	June 2023	June 2022	% Change
Total shares traded	269,719	50,102	438.3	1,157,356	1,556,020	(25.6)
Total value traded	\$12,489,218	\$2,855,964	337.3	\$63,989,737	\$57,103,187	12.1
Market capitalization	\$17.02bn	\$17.64bn	(3.5)	\$17.68bn	\$14.35bn	23.2

Source: Beirut Stock Exchange (BSE)



Lebanon ranks 61st globally, fifth in Arab world in insurance premiums in 2022

Global reinsurer Swiss Re's annual survey of the global insurance market indicates that Lebanon ranked in 61st place among the largest 88 markets in terms of premiums generated in 2022, in 32nd place among 58 emerging markets (EMs), and in fifth place among 12 Arab markets included in the survey. In comparison, Lebanon ranked in 66th place globally, while it came in 36th place among 58 EMs and in fifth place among 12 Arab countries in the 2021 survey. Lebanon generated \$2.05bn in total premiums in 2022, constituting an increase of 20% in nominal terms and a drop of 55.8% in real terms from the preceding year, given that the average inflation rate was 171.2% in 2022. Total premiums generated in Lebanon in 2022 accounted for 0.03% of global premiums, for 0.3% of premiums generated in emerging markets excluding China, and for 1.8% of premiums generated in the Middle East & Africa region. Swiss Re provided the premium figures in US dollars after converting them from Lebanese pounds at the official exchange rate of LBP1,507.5 per dollar in 2021 and 2022.

Globally, insurance premiums generated in Lebanon were higher than premiums generated in Slovakia (\$1.97bn), Bulgaria (\$1.92bn) and the Dominican Republic (\$1.79bn); while they were lower than premiums generated in Kenya (\$2.6bn), Ecuador (\$2.47bn) and Bangladesh (\$2.06bn). Also, aggregate premiums in the Lebanese insurance market were higher than those generated in Qatar (\$1.76bn), Kuwait (\$1.7bn), Oman (\$1.34bn), Algeria (\$1.21bn), Tunisia (\$1bn), Jordan (\$994m) and Bahrain (\$799m) among Arab countries.

Lebanon generated \$1.63bn in non-life premiums last year, ranking it in 58th place among the 88 markets, in 29th place among EMs, and in fifth place among Arab countries. Non-life premiums produced in Lebanon grew by 20% in nominal terms, while they declined by 55.8% in real terms in 2022. Globally, non-life premiums generated in Lebanon were higher than non-life premiums produced in Kuwait (\$1.53bn), the Dominican Republic (\$1.52bn) and Egypt (\$1.51bn); and came lower than non-life premiums generated in Ecuador (\$1.79bn), Qatar (\$1.71bn) and Bulgaria (\$1.66bn). Non-life premiums produced in the Lebanese market accounted for 0.04% of global non-life premiums, for 0.6% of such premiums generated in emerging markets excluding China, and for 2.7% of non-life premiums generated in the Middle East & Africa region in 2022.

Further, Lebanon generated \$418m in life premiums in 2022, ranking it in 70th place globally, in 40th place among EMs, and in fifth place in the Arab world. Life premiums generated in the Lebanese market rose by 20% in nominal terms, while they dropped by 55.8% in real terms last year. Globally, life premiums generated in Lebanon were higher than those produced in Croatia (\$398m), Côte d'Ivoire (\$373m) and Guatemala (\$34.4m); and lower than life premiums generated in Saudi Arabia (\$500m), Jamaica (\$425m) and Panama (\$419m). Life premiums generated in Lebanon accounted for 0.01% of global life premiums, for 0.1% of such premiums in emerging markets excluding China, and for 0.8% of life premiums produced in the Middle East & Africa region in 2022.

In parallel, Swiss Re estimated Lebanon's insurance density, or premiums per capita, at \$373 in 2022, which ranks the local market in 51st place globally, in 22nd place among EMs, and in sixth place in the Arab world. Lebanon had a higher insurance density than Jamaica (\$371), Thailand (\$369) and Slovakia (\$359), and a lower density than Hungary (\$391), Panama (\$386) and Namibia (\$385) last year. The survey estimated Lebanon's non-life density at \$297 and life density at \$76 in 2022.

Also, the survey estimated the insurance penetration rate in Lebanon, or premiums relative to the size of the economy, at 0.4% of GDP in 2022, ranking it, along with Nigeria, in last place among the 87 covered markets and in 12th place in the Arab world. Lebanon posted penetration rates of 0.1% of GDP and 0.3% of GDP in the life and non-life categories, respectively, in 2022.

Insurance Density in Arab Countries in 2022 (Premiums per Capita in US\$)

	Life	Non-Life	Total	Rank
UAE	292	1,112	1,404	29
Oman	17	597	614	37
Bahrain	101	424	525	40
Saudi Arabia	14	393	407	46
Kuwait	39	359	398	47
Lebanon	76	297	373	51
Oman	33	240	272	59
Morocco	65	75	140	67
Jordan	14	72	87	74
Tunisia	21	60	81	76
Egypt	15	14	29	83
Algeria	3	24	27	84

Source: Swiss Re, Byblos Research

Travel and tourism industry to contribute 14% of GDP in 2023

The World Travel & Tourism Council (WTTC) estimated that the broad travel and tourism (T&T) industry in Lebanon contributed 4% of the country's GDP in 2022, compared to a contribution of 18.9% of GDP in 2019. It also estimated that the T&T industry generated LBP22,256bn in output in 2022, constituting a drop of 86% from LBP159,399.7bn in 2019. The estimates represent the direct, indirect and induced impacts of the industry on economic activity. The WTTC noted that all figures are in constant 2022 prices.

It pointed out that there were 360,200 jobs in the T&T industry in Lebanon in 2022, constituting a decrease of 55,200 jobs, or of 13.3%, from 415,400 jobs in 2019. As such, the industry accounted for 19.8% of total employment in Lebanon in 2022 compared to a share of 20.8% in 2019. Also, the WTTC estimated the aggregate spending by international visitors in Lebanon at LBP8,117.3bn in 2022 relative LBP137,142bn in 2019. It added that domestic spending on T&T reached LBP8,505.3bn in 2022, constituting a decrease of 34% from LBP12,884.5bn in domestic spending in 2019.

Further, it noted that leisure spending in Lebanon reached LBP15,708.4bn in 2022 compared to LBP141,775bn in 2019, while spending related to business activities declined from LBP8,251.5bn in 2019 to LBP914.2bn in 2022.

In parallel, it expected the T&T industry in Lebanon to contribute to 13.7% of GDP in 2023 and 14.5% of GDP in 2033. It forecast the T&T industry to generate LBP77,439bn in 2023 and LBP113,834.8bn in 2033, and to post a compound annual growth rate (CAGR) of 3.9% during the 2023-33 period. In addition, it anticipated the employment in the T&T industry at 372,700 jobs in 2023 and 406,800 jobs in 2033, which would account for 20.4% of aggregate jobs in Lebanon in 2023 and for 21.8% of employment in 2033. Also, it expected the aggregate spending by international visitors in Lebanon to stand at LBP57,787.1bn in 2023 and LBP77,613.8bn in 2033 and to post a CAGR of 3% in the 2023-33 period. It projected domestic spending on T&T at LBP9,390bn in 2023 and LBP16,897bn in 2033 for a CAGR of 6.1% in the 2023-2033 period.

Further, it indicated that Iraq accounted for 14% of incoming visitors to Lebanon in 2022, followed by visitors from France (9%), and from Egypt, Jordan, and the United States (7% each), while visitors from other countries represented the remaining 56%. Also, it said that Türkiye was the destination of 52% of outbound Lebanese tourists last year, followed by Syria (8%), Cyprus (6%), Saudi Arabia (5%), and the U.S. (4%), while other countries accounted for 25% of outbound tourists.

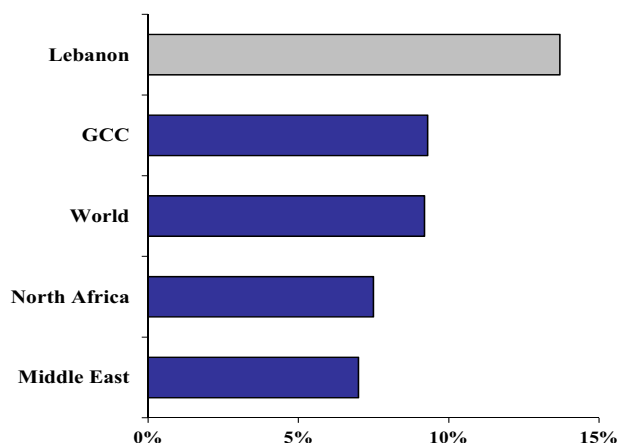
Nearly 65% of Treasury securities in Lebanese pounds have seven-year maturities or longer as at end-May 2023

Figures released by the Association of Banks in Lebanon show that the face value of outstanding Treasury securities denominated in Lebanese pounds reached LBP88,385bn at the end of May 2023 compared to LBP91,736bn at the end of May 2022. The outstanding Treasury securities denominated in Lebanese pounds were equivalent to \$5.89bn at the end of May 2023 based on the new official exchange rate of LBP15,000 per US dollar, but they become equivalent to \$1.03bn based on the Sayrafa exchange rate of LBP86,300 per dollar at the end of May. The weighted interest rate on Lebanese Treasury securities denominated in Lebanese pounds was 6.34% in May 2023 compared to 6.5% in May 2022.

The distribution of outstanding Treasury securities shows that 10-year Treasury bonds totaled LBP 34,186bn and accounted for 38.7% of aggregate securities denominated in Lebanese pounds at the end of April 2023, followed by seven-year Treasury bills with LBP18,304bn (20.7%), five-year Treasury securities with LBP15,353bn (17.4%), three-year Treasury bonds with LBP5,202bn (6%), two-year Treasury bonds with LBP4,936bn (5.6%), one-year Treasury securities with LBP4,482bn (4%), 12-year T-bills with LBP3,076bn (3.5%), 15-year Treasury securities with LBP1,417bn (1.6%), six-month T-bills with LBP1,094bn (1.2%), and three-month Treasury bonds with LBP335bn (0.4%). As such, 64.5% of outstanding Treasury securities have seven-year maturities or longer and 81.8% have five-year maturities or more.

In parallel, LBP1,796bn in outstanding Treasury securities denominated in Lebanese pounds matured in May 2023, of which 24.2% consisted of seven-year Treasury bills, 21% were 10-year Treasury bonds, 19% consisted of one-year T-bills, 14% were five-years Treasury securities, 13.2% consisted of three-months Treasury bills, 6.2% were two-year Treasury bonds, and 2.3% consisted of six-year Treasury bills. According to ABL, LBP13,623bn in outstanding Treasury bonds in Lebanese pounds will mature in 2023.

Travel & Tourism Industry Contribution to GDP in 2023



Source: World Travel & Tourism Council, Byblos Research

Banque du Liban's foreign assets at \$14.4bn, gold reserves at \$18bn at mid-July 2023

Banque du Liban's (BdL) interim balance sheet shows that its total assets reached LBP1,581.1 trillion (tn), or the equivalent of \$105.4bn, on July 15, 2023, constituting increases of 0.9% from LBP1,567.1tn (\$104.5bn) at end-June 2023 and of 0.6% from LBP1,571tn (\$104.7bn) at mid-June 2023. Assets in foreign currency reached \$14.4bn at mid-July 2023, representing a decline of \$787.6m, or of 5.2%, from the end of 2022 and a drop of \$717.05 (-4.7%) from \$15.1bn at mid-July 2022. 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.

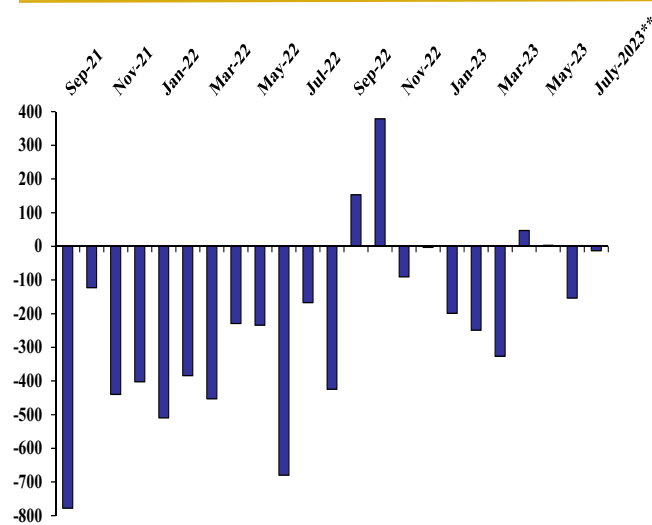
BdL's gross foreign currency reserves, which consist of its assets in foreign currency excluding Lebanese Eurobonds, stood at \$9.36bn on July 15, 2023, constituting an increase of \$91.1m (+1%) from \$9.27bn at end-June 2023 and a decrease of \$12.9m (-0.1%) from \$9.38bn mid-June 2023. They dropped by \$787.6m (-7.8%) from the end of 2022 and by \$717.05m (-7.1%) from \$10.08bn at mid-July 2022. The cumulative decline of BdL's gross foreign-currency reserves in the past 12 months is largely due to the financing of imports, such as wheat, medicine, medical equipment, and raw materials for agriculture and industry, as well as to the implementation of BdL circulars that allowed depositors to withdraw US dollar banknotes from their accounts or to buy dollar banknotes from BdL through commercial banks. It is also due to the steep drop in capital flows to Lebanon since September 2019, and to the near halt of inflows after the government decided to default on its Eurobonds obligations in March 2020. However, the decline in BdL's assets foreign currency was offset in part by the allocation of about \$1.13bn in Special Drawing Rights that the IMF transferred to BdL's account on September 16, 2021.

Further, BdL's balance sheet shows that currency in circulation outside BdL stood at LBP79,313bn at the mid of July 2023, representing a decrease of 1.1% from LBP80,171.3bn at the end of 2022 and a surge of 92.5% from LBP41,203.3bn at mid-July 2022. Also, the item "Other Assets" on BdL's balance sheet reached LBP100,421.5bn, or \$6.8bn at mid-July 2023, and decreased by 2.9% from LBP103,420bn a month earlier.

In parallel, the value of BdL's gold reserves reached \$18.04bn at mid-July 2023, constituting a rise of \$1.4bn (+8.3%) from the end of 2022 and an increase of \$2.3bn (+14.8%) from \$15.7bn at mid-July 2022. The value of gold reserves reached a peak \$18.7bn at mid-April 2023. Also, the securities portfolio of BdL totaled LBP65,863.2bn, or \$4.4bn, at mid-July 2023. In addition, loans to the local financial sector stood at LBP16,051.5bn, or \$1.07bn; while the deposits of the financial sector reached LBP1,343.6tn, or \$89.6bn, at mid-July, 2023. In addition, public sector deposits at BdL stood at LBP110,671bn at mid-July 2023 and surged by LBP93,993.5bn from a year earlier.

Moreover, the balance sheet shows that BdL's loans to the public sector totaled LBP249,474.5bn, equivalent to \$16.63bn, as at mid-July 2023. BdL indicated that it started in 2019 to make payments on behalf of the Lebanese government from its own foreign currency reserves, either against cash collateral in Lebanese pounds at the existing official exchange rate of LBP1,507.5 per dollar, which consists of public sector deposits, or in exchange for a pledge by the government to repay the amounts in the same foreign currency at a later stage. It said that the public sector's deposits valued in local currency exceeded the net cumulative balance for the payments it made on behalf of the government in foreign currency, which allowed BdL to maintain a net credit balance for public sector deposits. It noted that, after the modification of the exchange rate from LBP1,507.5 per dollar to LBP15,000 a dollar at the start of February 2023, the countervalue of the net cumulative balance of assets in foreign currencies exceeded the value of the cash collateral in Lebanese pounds, which resulted in a net debit balance in favor of BdL and required the presentation of \$16.63bn in loans to the public sector on the "assets" side.

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



*month-on-month change

**as at mid-July 2023, change from end-June 2023

Source: Banque du Liban, Byblos Research

Cost of sending remittances from several sources increases in first quarter of 2023

Figures issued by the World Bank show that the cost of sending \$500 in remittances from the United States to Lebanon was 5.38% in the first quarter of 2023, nearly unchanged from 5.39% in the fourth quarter of 2022 and constituting a decline from 5.81% in the first quarter of 2022. The cost includes the transaction fee and exchange rate margin, and represents the average cost of transferring money through commercial banks and money transfer operators. In nominal terms, the cost of sending \$500 from the U.S. to Lebanon was \$26.88 in the first quarter of 2023, relative to \$26.97 in the preceding quarter and compared to \$29.05 in the first quarter of 2022. Lebanon was the ninth most expensive destination for sending \$500 from the U.S. among 42 countries with available data.

Further, the cost of sending remittances from Canada to Lebanon stood at 5.4% in the first quarter of 2023 for a transfer of CAD500, representing an increase from 5.2% in the fourth quarter of 2022 and a decrease from 7.7% in the first quarter of 2022. In nominal terms, the cost of sending CAD500 from Canada to Lebanon was CAD27.02 in the first quarter of 2023 relative to CAD25.95 in the previous quarter and to CAD38.62 in the first quarter of 2022. Lebanon was the fifth most expensive destination for sending CAD500 from Canada among 15 countries with available data.

Also, the cost of sending remittances from Australia to Lebanon reached 6.77% in the first quarter of 2023 for a transfer of AUD500, constituting increases from 6.49% in the fourth quarter of 2022 and from 6.75% in the first quarter of 2022. The cost of sending AUD500 from Australia to Lebanon was AUD33.83 in the first quarter of 2023 relative to AUD32.45 in the preceding quarter and to AUD33.74 in the first quarter of 2022. Lebanon was the third costliest destination for sending AUD500 from Australia among 16 countries with available data.

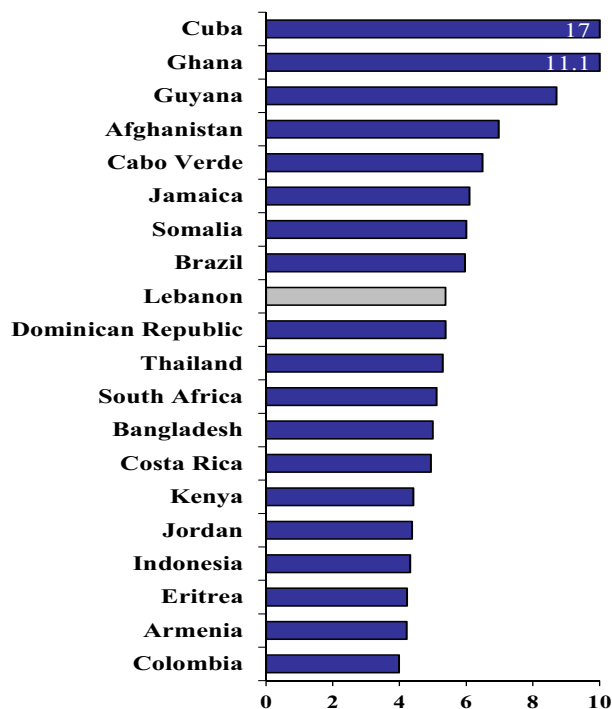
In addition, the cost of sending remittances from France to Lebanon was 5.96% in the first quarter of 2023 for a transfer of €345, representing increases from 5.7% in the fourth quarter of 2022 and from 5.8% in the first quarter of 2022. In nominal terms, the cost of sending €345 from France to Lebanon was €20.56 in the first quarter of 2023 relative to €19.65 in the previous quarter and to €20 in the first quarter of 2022. Lebanon was the third most expensive destination for sending €345 from France among 16 countries with available data.

Further, the cost of sending remittances from the United Kingdom to Lebanon stood at 6.52% in the first quarter of 2023 for a transfer of £300, constituting decreases from 7.3% in the fourth quarter of 2022 and from 7.12% in the first quarter of 2022. In nominal terms, the cost of sending £300 from the UK to Lebanon was £19.55 in the first quarter of 2023 relative to £21.9 in the preceding quarter and to £21.37 in the first quarter of 2022. Lebanon was the seventh most expensive destination for sending £300 from the UK, among 33 countries with available data.

Also, the cost of sending remittances from Germany to Lebanon was 5.89% in the first quarter of 2023 for a transfer of €345, representing a decrease from 6.37% in the fourth quarter of 2022 and in the first quarter of 2022. In nominal terms, the cost of sending €345 from Germany to Lebanon was €20.3 in the first quarter of 2023 relative to €21.98 in the previous quarter and to €21.97 in the first quarter of 2022. Lebanon was the third most expensive destination for sending €345 from Germany among 24 countries with available data.

Finally, the cost of sending remittances from Saudi Arabia to Lebanon reached 3.36% in the first quarter of 2023 for a transfer of SAR1,870, equivalent to \$500, increasing from 3.35% in the fourth quarter of 2022 and from 3.2% in the first quarter of 2022. In nominal terms, the cost of sending SAR1,870 from Saudi Arabia to Lebanon was SAR62.83 in the first quarter of 2023, relative to SAR62.56 in the preceding quarter and to SAR59.65 in the first quarter of 2022. Lebanon was the eighth most expensive destination for sending SAR1,870 from Saudi Arabia among 17 countries with available data.

Costliest Destinations for Sending Remittances from the United States* (%)



*cost of sending \$500 from the U.S.

Source: World Bank, Byblos Research

Currency in circulation down 16% in first five 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 LBP105,093.5bn at the end of May 2023, constituting increases of 6.4% from LBP98,780.4bn at the end of 2022 and a surge of 73% from LBP60,776.4bn at end-May 2022. Currency in circulation stood at LBP61,708.6bn at the end of May 2023, as it decreased by 16% from LBP73,514bn at end-2022 and grew by 63.6% from LBP37,710.4bn at end-May 2022. Also, demand deposits in local currency stood at LBP43,384.9bn at the end of May 2023, representing increases of 71.7% from the end of 2022 and of 88% from end-May 2022. Money supply M1 expanded by 5% in May from LBP90,916.2bn at end-April 2023, with currency in circulation growing by 13.7% and demand deposits in local currency increasing by 18.4% month-on-month.

In addition, money supply M2, which includes M1 and term deposits in Lebanese pounds, reached LBP121,569.1bn at the end of May 2023, constituting an increase of 4.3% from LBP116,582.5bn at the end of 2022 and a jump of 52.3% from LBP79,798bn a year earlier.

Term deposits in Lebanese pounds totaled LBP16,475.5bn at the end of May 2023, and regressed by 7.5% from LBP17,802.2bn at end-2022 and by 13.4% from LBP19,021.2bn at end-May 2022. Money supply M2 increased by 12.4% in May from LBP108,136.6bn at end-April 2023, while term deposits in local currency regressed by 4.3% month-on-month.

Further, broad money supply M3, which includes M2, deposits in foreign currency and debt securities issued by the banking sector, reached LBP1,211.4 trillion (tn) at the end of May 2023, with deposits in foreign currency totaling LBP1,085.8tn and debt securities of the banking sector amounting to LBP4,033.5bn at the end of the May 2023. Also, money supply M3 increased by a marginal 0.3% from LBP1,208.2tn at the end of April 2023, with deposits in foreign currency regressing by 0.9% and debt securities issued by the banking sector increasing by 1.6% month-on-month. In parallel, M3 surged by LBP981,847.07bn in the first five months of 2023 due to a jump of LBP825,341bn in net claims on the public sector, a rise of LBP202,641.3bn in the net foreign assets of deposit-taking institutions, and an increase of LBP107,017bn in the claims on the private sector, which were offset in part by a decline of LBP153,152.2bn in other items.

More than 93,600 families benefiting from Aman program

The Ministry of Social Affairs announced that 583,000 Lebanese households registered since September 2021 on the Emergency Social Safety Net Project (ESSN), known as "Aman", in order to receive a monthly financial assistance for a period of one year. It indicated that it conducted home visits to 190,000 Lebanese families that are eligible to benefit from the program. Further, it noted that it chose to assist vulnerable Lebanese households based on several criteria, such as families without income or low income, the presence of at least one member of the family who requires special needs, the presence of an elderly over 64 years old, minor members, or a family headed by a female with no or limited income. It said that it signed a contract with an independent company to review the implementation of the program, including the registration, eligibility, cash transfers, and the auditing of the disbursed amounts. Also, it pointed out that 93,676 vulnerable Lebanese families have benefited from the "Aman" program since the ministry started conducting household visits in March 2022. It said that a total of \$158.9m were transferred to the eligible households as at the end of June 2023.

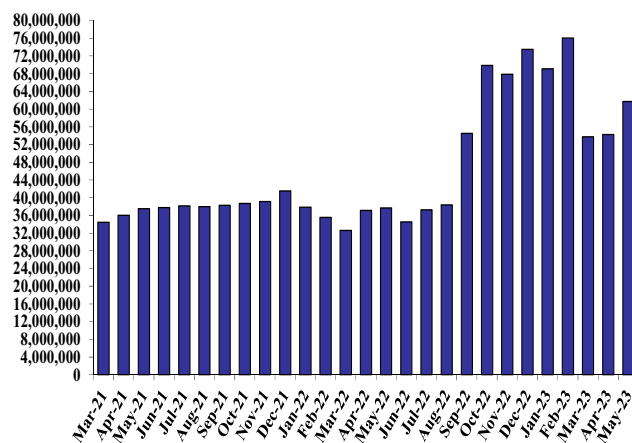
Further, it noted that the ministry will conduct visits to about 61,000 Lebanese households in 2023 in order to determine their eligibility for the "Aman" program. In addition, it indicated that, as a result of household visits, it identified 75,505 households that were ineligible for the program and an additional 189,724 households that registered on the platform but were ineligible, given that they can afford to live based on the parameters and criteria that the ministry set to determine eligibility.

Also, it indicated that the ministry managed to obtain a \$300m loan from the World Bank to finance the "Aman" program, but noted that the loan still needs the approval of the Lebanese government. It said that the loan would help make additional payments for six months for all families who received financial assistance in the past 18 months.

In parallel, the ministry launched in June 2023 the payment process for beneficiary families who have children enrolled in formal schools, institutes or vocational schools and who are between 13 to 18 years old. It said that it will cover the students' transportation fees during the academic year 2023-24. It added that it will provide assistance to the children of new beneficiaries and support them paying their school fees, stationery and transportation costs.

Established in January 2021, the ESSN project aims to provide cash transfers and access to social services to extremely poor and vulnerable Lebanese individuals and households who have been affected by the economic crisis and the COVID-19 shock in the country. Also, the Lebanese authorities have secured a \$246m loan in March 2021 from the World Bank to fund the ESSN for three years.

Currency in Circulation (LBP millions)



Source: Banque du Liban, Byblos Research

Industrial activity deteriorates in relative terms in fourth quarter of 2022

Banque du Liban's quarterly survey about the opinions of business managers shows that the balance of opinions about industrial production was -25 in the fourth quarter of 2022, compared to -1 in the previous quarter and to -42 in the fourth quarter of 2021. The balance of opinions for the level of industrial production in the fourth quarter of 2022 reached its 10th lowest quarterly level between the first quarter of 2004 and the fourth quarter of 2022, after posting -66 in the second quarter of 2020, -64 in the third quarter of 2006 due to the Israeli war on Lebanon, -57 in the first quarter of 2021, -55 in the first quarter of 2020, -50 in the fourth quarter of 2019, -48 in the third quarter of 2020, -45 in the fourth quarter of 2020, -44 in the first quarter of 2022, and -36 in the third quarter of 2022. The balance of opinions for the fourth quarter of 2022 reflects the disruptions to economic activity in the country, the increase in energy prices, the ongoing ban of Lebanese exports to some Arab countries, the fluctuation of the exchange rate of the Lebanese pound on the parallel market, as well as the relative adjustment of the private sector to the ongoing crisis.

The business survey covers the opinions of managers of industrial 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 about industrial production was -4 in the North, -22 in Beirut & Mount Lebanon, -25 in the Bekaa, and -76 in the South.

The balance of opinions about demand for industrial goods stood at -23 in the fourth quarter of 2022 compared to -1 in the preceding quarter and to -48 in the fourth quarter of 2021. It stood at -4 in the North, -18 in the Bekaa, -21 in Beirut & Mount Lebanon, and -76 in the South. In parallel, the balance of opinions about the volume of investments in the industrial sector stood at -20 in the fourth of 2022, unchanged from the preceding quarter and compared to -32 in the fourth quarter of 2021. It was +8 the Bekaa, zero in the North, -32 in Beirut & Mount Lebanon, and -77 in the South. In addition, the balance of opinions about the level of registered orders was -44 in the fourth quarter of 2022 relative to -47 in the previous quarter and to -62 in the fourth quarter of 2021. It was -35 in the North and the Bekaa, -45 in Beirut and Mount Lebanon, and -80 in the South.

Further, the balance of opinions about foreign demand for industrial goods was -13 during the fourth quarter of 2022 compared to zero in the preceding quarter and to -24 in the fourth quarter of 2021. It stood at +2 in Beirut & Mount Lebanon, zero in the North, -23 in the South, and -67 in the Bekaa. Also, the balance of opinions about the number of employees in the sector was -24 in the fourth quarter of 2022 relative to -16 in the preceding quarter and to -34 in the fourth quarter of 2021. It was -11 in Beirut & Mount Lebanon, -19 in the Bekaa, -26 in the North, and -69 in the South.

In parallel, the balance of opinions for the level of inventory of finished goods was -30 in the fourth quarter of 2022 compared to -24 in the previous quarter and to -40 in the fourth quarter of 2021. It stood at -12 in the North, -22 in the Bekaa, -34 in Beirut and Mount Lebanon, and -75 in the South. Also, the balance of opinions for the level of inventories of raw materials was -35 in the fourth quarter of 2022 relative to -33 in the preceding quarter and to -47 in the fourth quarter of 2021. It was -19 in the Bekaa, -34 in the North, -35 Beirut and Mount Lebanon, and -75 in the South.

Industrial Activity: Evolution of Opinions				
Aggregate results	Q4-19	Q4-20	Q4-21	Q4-22
Production	-50	-45	-42	-25
Total demand	-53	-50	-48	-23
Foreign demand	-27	-28	-24	-13
Volume of investments	-31	-35	-32	-20
Inventories of finished goods	-23	-43	-40	-30
Inventories of raw material	-34	-50	-47	-35
Registered orders	-54	-62	-62	-44

Source: Banque du Liban Business Survey for Fourth Quarter of 2022

Council of the State suspends government's request to Banque du Liban to enforce limits on deposit withdrawals

The Council of the State issued on July 11, 2023 a unanimous ruling to suspend the implementation of the Council of Minister's Decision No.22 dated April 18, 2023, in response to a challenge submitted by two lawyers on May 2, 2023.

The Council of Ministers issued last April Decision No. 22, based on articles 70, 71 and 174 of the Code of Money and Credit, that asked Banque du Liban (BdL) to take all the necessary and appropriate measures for commercial banks in Lebanon to abide by the ceilings on deposit withdrawals and transfers, according to BdL's related circulars. It also called on BdL to make sure banks treat customers equally and avoid any preferential treatment for deposit accounts or for any other obligation in foreign currency irrespective of its type or origin, as well as to continue to allow customers to freely use the funds in their "fresh money accounts".

The Minister of Finance indicated at the time that the government has submitted to Parliament a draft law to implement capital controls that aims to regulate foreign transfers, the conversions of funds in Lebanese pounds to foreign currencies, and cash withdrawals, in order to restore liquidity to the banking sector and to protect depositors. But it noted that the Parliament's delays in enacting the draft law is leading to the depletion of the banks' foreign currency reserves, which would impact the rights of depositors. It added that the prevailing situation mandates the Council of Ministers to take exceptional measures, until Parliament enacts the capital controls draft law.

BdL issued since 2020 a series of circulars addressed to banks about exceptional measures related to cash withdrawals from foreign accounts at banks operating in Lebanon. Basic Circular 151/13221 dated April 21, 2020 allowed clients who have accounts in US dollars or in any other foreign currency at banks to withdraw banknotes in Lebanese pounds from these accounts at a fixed exchange rate of LBP3,900 per US dollar, then at LBP8,000, and currently at LBP15,000 per dollar. BdL set the maximum amount that a client can withdraw in Lebanese pounds under Basic Circular 151 at \$5,000 per month, then at \$3,000, and at \$1,600 currently. The circular covers clients who are not eligible to benefit from Basic Circular 148. The latter allows clients to withdraw, through a specific mechanism, the total amount they have in Lebanese pounds in all their accounts at a bank, provided that the net aggregate amount they have does not exceed LBP5,000,000, or the equivalent of \$3,000 in any foreign currency as at March 3, 2020.

In addition, BdL issued Basic Circular 158/13335 dated June 8, 2021 that indicated that eligible depositors can withdraw up to \$400 in foreign currency banknotes per month for a 12-month period, and up to the equivalent of \$400 converted to Lebanese pounds at the rate of LBP12,000 per US dollar, with half of the amount in Lebanese pounds disbursed in cash and the other half to be used through a payment card.

Further, Basic Circular 161/13384 dated December 16, 2021 stipulates that BdL will provide commercial banks cash US dollar banknotes instead of the supply of Lebanese pound banknotes, at the daily exchange rate of the Lebanese pound to the US dollar, based on the operations conducted on BdL's Sayrafa electronic exchange platform on the previous day. Second, BdL asked all banks to disburse the dollar banknotes in full to their clients at the Sayrafa exchange rate as specified, instead of settling the depositors' withdrawal amounts or cash operations at counters in Lebanese pounds, based on the authorized ceiling of each client. BdL has extended repeatedly the implementation of the above circulars.

Sovereign rating upgrade contingent on debt restructuring and reforms

In its regular update on Lebanon's credit profile, Moody's Investors Service indicated that the strength of Lebanon's credit rating of 'C' is the fact that the commitment for international donor support to Lebanon is conditional on the implementation of a reform program with the International Monetary Fund (IMF). It added that the rating is constrained by the severe economic, financial and social crisis that the country is facing, very weak institutions and governance strength, as well as the significant depreciation of the Lebanese pound against the US dollar on the parallel market and the associated surge in inflation rates.

It considered that Lebanon's credit profile is determined by four factors. First, it said the country's Economic Strength level of 'caa2' reflects the country's deep economic contraction and challenging economic prospects, as well as very low income levels. It added that the country is facing a significant economic adjustment in order to transition towards a more sustainable growth model.

Second, it noted that Lebanon's score of 'caa3' on the Strength of Institutions and Governance reflects the country's weak governance framework, with very weak fiscal policy effectiveness. It said that the slow economic activity and weak public revenue generation are weighing on the effectiveness of fiscal policy, while large annual transfers to the state-owned and money losing Électricité du Liban constitute a drain on the country's public finances. In addition, it pointed out that the monetization of the fiscal deficits and debt servicing, as well as the drawdown of foreign currency reserves, are undermining the stability of the exchange rate of the Lebanese pound, which has fueled triple digit inflation rates and the depreciation of the exchange rate on the parallel market. It expected the exchange rate to stabilize once authorities restructure the public debt stock, as well as implement the restructuring of BdL and of commercial banks.

Third, it indicated that Lebanon's Fiscal Strength level of 'ca' points to the government's highly leveraged balance sheet that underpins expectations that creditors will incur large losses, once the public debt is restructured. Fourth, it noted that Lebanon's score of 'ca' on the Susceptibility to Event Risk category, which assesses a country's vulnerability to sudden events that would materially impact the government's creditworthiness, is driven by the government's liquidity risk, banking sector risk, external vulnerability risk and political risk.

In addition, the agency said that the country's Government Liquidity Risk score of 'ca' reflects the drying up of the government's traditional funding sources and its closed access to international capital markets due to the previous government's decision to default on its Eurobonds obligations, in addition to the drawdown of BdL's usable foreign currency reserves. Also, it noted that Lebanon's External Vulnerability Risk score of 'ca' points to the depreciation of the pound on the parallel market, due to the insufficient foreign currency buffers to support the official peg of the exchange rate, while authorities are trying simultaneously to provide the necessary funding of key imports at subsidized exchange rates. It considered that the main source of foreign currency in the domestic market is remittance inflows from Lebanese expatriates.

In parallel, the agency pointed out that Lebanon's 'C' issuer rating, which is the lowest on its rating scale and is 11 notches below investment grade, reflects its assessment that bondholders are likely to incur losses in excess of 65% as a result of the previous government's decision to default on its Eurobond obligations. Also, it said that it is unlikely to upgrade the rating before the restructuring of the public debt, given the extent of the macroeconomic, financial and social challenges.

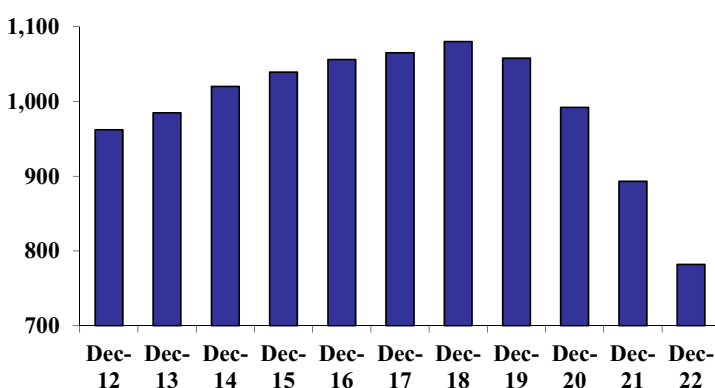
Moody's indicated that an upgrade of the sovereign rating is conditional on the authorities' implementation of fiscal consolidation and structural reforms at a faster-than-expected pace over a number of years. It added that a substantial upgrade of the rating would also be conditional on the key drivers of the country's debt dynamics, such as economic growth, interest rates, privatization revenues, and the ability to generate and sustain large primary surpluses that would ensure the sustainability of the public debt in the future.

Banking sector has 853 branches at end-2022

Figures issued by Banque du Liban (BdL) show that the Lebanese banking sector had 853 local and foreign branches at the end of 2022, constituting a decline of 114 branches, or of 11.8% from 967 branches at end-2021, a decrease of 234 branches (-21.5%) from 1,087 branches at the end of 2020, and a drop of 299 branches (-26%) from 1,152 branches at end-2019.

Commercial banks had 832 local and foreign branches in total at the end of 2022 compared to 946 branches at end-2021, to 1,065 branches at the end of 2020, and to 1,131 at end-2019. Further, medium- and long-term banks had 21 branches in Lebanon at the end of 2022, unchanged from a year earlier, and compared to 22 branches at end-2020. In parallel, commercial banks operating in Lebanon had 50 branches outside the country at the end of 2022 relative to 53 branches at the end of 2021, and to 73 branches at the end of 2020 and at end-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 782 local branches at the end of 2022, down by 111 branches from 893 branches at the end of 2021, by 210 branches from 992 branches at end-2020, and by 276 branches from 1,058 at the end of 2019. There were 406 branches of commercial banks in Beirut & its suburbs that accounted for 52% of total branches in the country at the end of 2022, followed by 162 branches in Mount Lebanon (20.7%), 82 branches in North Lebanon (10.5%), 81 branches in South Lebanon (10.4%), and 51 branches in the Bekaa region (6.5%). Also, nine foreign commercial banks operating in the country had 21 branches and four Islamic banks had 12 branches at end-2022. In addition, there were 11 e-branches that offer banking services through interactive and automated machines at end-2022. Further, there were 46 commercial banks and 15 medium- and long-term banks operating in Lebanon at the end of 2022, unchanged from a year earlier, and relative to 47 commercial banks and 16 medium- and long-term banks at the end of 2020.

In parallel, 40 financial institutions had 69 branches in Lebanon at end-2022, unchanged from a year earlier and compared to 41 financial institutions with 70 branches at end-2020 and 44 financial institutions with 73 branches at end-2019.

Byblos Bank registers losses of LBP1,541.5bn in 2022

Byblos Bank sal declared audited net losses of LBP1,541.5bn in 2022 relative to net losses of LBP26.8bn in 2021. The Bank's net interest income reached LBP937.1bn in 2022 compared to LBP1,047.1bn in 2021, while its net income from fees & commissions posted losses of LBP517bn compared to revenues of LBP73.8bn in 2021, mainly due to fees and commission expenses of LBP673.1bn that outweighed receipts of LBP156.1bn from fees and commissions. Also, the Bank's net operating income posted losses of LBP885.2bn in 2022 compared to revenues of LBP404.1bn in 2021. Further, the Bank's operating expenditures reached LBP650.8bn in 2022 relative to LBP372.1bn in 2021, with personnel cost accounting for 32.5% of the total.

Also, Byblos Bank's aggregate assets reached LBP26,844.3bn at the end of 2022 and increased by 3.5% from LBP25,942.8bn at end-2021. Net loans & advances to customers totaled LBP2,073.6bn at the end of 2022 compared to LBP2,816.6bn at end-2021, while net loans & advances to related parties stood at LBP5.5bn relative to LBP10.8bn at end-2021. Further, customer deposits reached LBP18,607.1bn at end-2022, down by LBP1,163bn, or by 6%, from LBP19,770bn at end-2021; while deposits from related parties amounted to LBP111.8bn at the end of 2022 compared to LBP121.2bn at end-2021. As a result, aggregate deposits totaled LBP18,719bn at end-2022, down by 6% from LBP19,891.2bn at end-2021. In parallel, the Bank's equity was LBP4,659.8bn at the end of 2022, and increased by 74.8% from LBP2,666.1bn at the end of 2021.

In parallel, the firm's external auditors indicated in their audit report that "the accompanying consolidated financial statements do not present fairly the consolidated financial position of the group as at December 31, 2022, and its financial performance and its cash flows for the year that ended in accordance with International Financial Reporting Standards", since the financial statements do not take into account the impact of hyperinflation on the revenues stream. It said that "the group translated its assets and liabilities denominated in foreign currencies and the assets and liabilities of its foreign operations as at December 31, and all transactions in foreign currencies that occurred during the year that ended, using the official published exchange rates to the consolidated financial statements."

French group wins tender to manage postal service in Lebanon

The Ministry of Telecommunications announced that the consortium Colis Privé France and Merit Invest sal won the bid to manage the postal service in Lebanon and will replace LibanPost, which has been managing the country's postal services since 1998. It added that four companies that consist of Trust, C Holding, Ghana Post, and Colis Privé France-Merit Invest, retrieved the tender documents, but that the latter was the only party to submit a bid within the preset deadline. The France-based container-shipping firm CMA CGM owns Colis Privé France and Merit Invest sal, with the latter constituting the Lebanese holding firm of the Saadé family who owns CMA CGM. The ministry indicated that it will post for 10 days the winning bid of the French group on the website of the Public Procurement Authority, in case any party wants to examine them or challenge their content. It added that, in case there is no challenge, it will sign the contract immediately afterwards, and noted that the terms of the contract stipulate that the new managers of the postal service are bound to retain at least 70% of the existing workforce. It said that Colis Privé France and Merit Invest have signed a memorandum of understanding with the French company La Poste to provide technical assistance, in case they win the tender.

The ministry launched on June 1, 2023 a new tender to manage the postal service in Lebanon to replace the postal service organization LibanPost. The ministry indicated that the Build, Operate and Transfer (BOT) contract of LibanPost expired at the end of 2019, but that it has asked the firm to continue managing the postal service since then. It said that the government approved the launch of a tender for the public contract for postal services in May 2022 and that it initiated the first bidding process on October 18, 2022 with a submission deadline of January 24, 2023, and then extended the deadline to February 16, 2023 due to the lack of bidders. It noted that the government launched a second call for tender under the same conditions and set the deadline for March 29, 2023 for submitting the bids. The ministry declared on March 31, 2023 that Colis Privé France and Merit Invest sal won the bid to manage the postal service in Lebanon starting in June of this year, but it rescinded its results due to inconsistencies in the terms of reference. It also posted the new tender documents on the website of the Public Procurement Authority from June 7 until July 12, 2023. The French group was the only party to submit a bid for the postal services contract in March, as the current main shareholders in LibanPost reportedly decided at the last minute to refrain from bidding for the contract.

LibanPost was formed in 1998 when CanadaPost Systems Management Ltd. and ProFac Management Group signed a 12-year BOT contract with the Lebanese government to overhaul Lebanon's mail system. The Montreal-based SNC-Lavalin Group Inc. was the main investor in a consortium that included Toronto-based Bracknell Corp. and Lebanese investors. The BOT contract mandated the consortium to initially invest \$20m in developing a universal postal service and an additional \$50m at later stages. In return, the Lebanese government promised to give LibanPost a monopoly over mail delivery. But SNC-Lavalin decided in April 2001 to pull out of its investment in LibanPost, citing lower than expected revenues at the venture and blamed the Lebanese government for allowing private courier companies to compete with its services. But the government maintained that LibanPost did not reach its revenue targets due to the company's overspending in the initial phase. In August 2001, Mousahamat Holdings sal and Facteur Invest Holding SA, a French-incorporated firm, reached an agreement with the government to replace SNC-Lavalin Group as strategic investors in LibanPost for about \$12m, with Mousahamat providing about \$4m while Facteur Invest injected the rest. Further, the government approved at the time an amended agreement that reinstated its right to terminate the new contract, extended the BOT contract to 15 years, committed the operator to stay for at least five years of the 15-year period, and limited non-mail services to 35% of LibanPost's operations. The new contract also amended the revenue-sharing structure to give the government an increasing share of receipts based on LibanPost's returns.

Ratio Highlights

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

*change in percentage points 21/20;

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

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

National Accounts, Prices and Exchange Rates

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

*Average year-to-July 22, 2022

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

Ratings & Outlook

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

Source: Rating agencies

Banking Sector Ratings

	Outlook
Moody's Investors Service	Negative

Source: Moody's Investors Service



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