

LEBANON THIS WEEK

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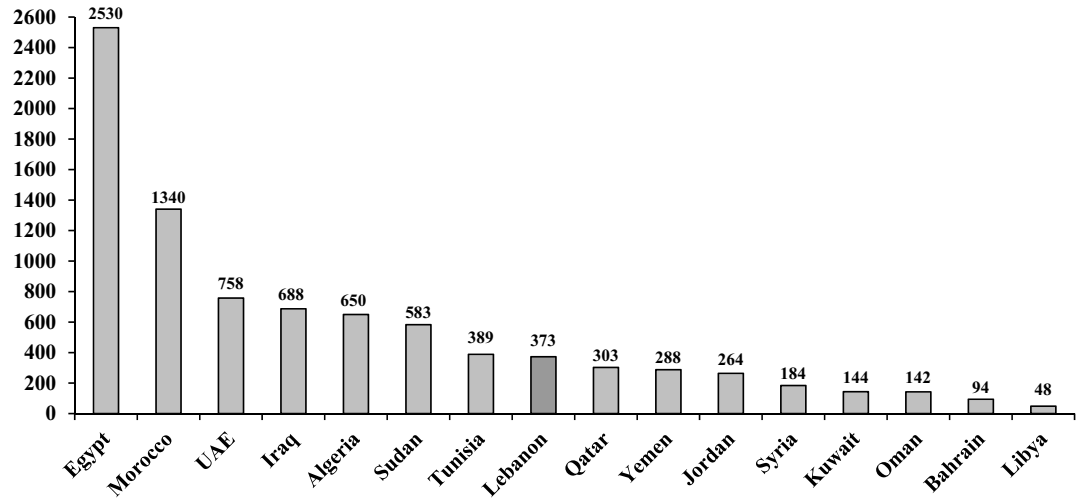
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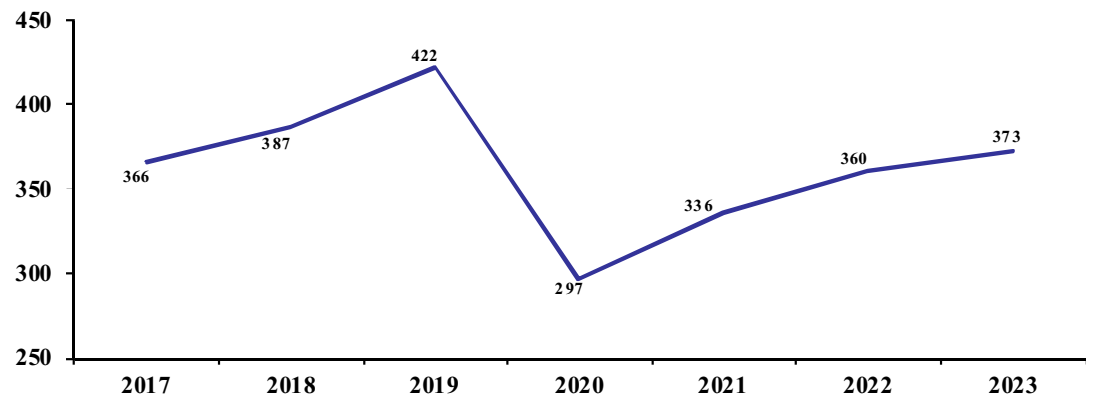
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Charts of the Week

Jobs in the Tourism and Travel Industry in Select Arab Countries in 2023
(in thousands)



Jobs in the Tourism and Travel Industry in Lebanon
(in thousands)



Source: World Travel & Tourism Council, Byblos Bank

Quote to Note

"Persisting political deadlock has resulted in limited progress on the most significant and contentious reforms."

S&P Global Ratings, on the cost of the enduring political paralysis on the Lebanese economy

Number of the Week

15.5: Number of months that the current Council of Ministers has been acting in a caretaker capacity

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 %
Byblos Common	0.84	12.0	484,203	2.5%	Apr 2024	6.65	8.13	1,190.68
Solidere "A"	79.80	0.5	175,271	42.3%	Jun 2025	6.25	8.13	203.84
Audi Listed	2.38	9.2	41,030	7.4%	Nov 2026	6.60	8.13	94.47
Audi GDR	1.40	0.0	33,000	0.9%	Mar 2027	6.85	8.13	84.35
Solidere "B"	79.95	1.1	17,896	27.5%	Nov 2028	6.65	8.13	54.86
BLOM GDR	2.14	(10.8)	9,100	0.8%	Feb 2030	6.65	8.13	42.66
BLOM Listed	3.00	0.0	5,000	3.4%	Apr 2031	7.00	8.13	35.67
HOLCIM	60.00	2.4	475	6.2%	May 2033	8.20	8.13	27.58
Byblos Pref. 08	27.00	0.0	-	0.3%	Nov 2035	7.05	8.13	21.72
Byblos Pref. 09	29.99	0.0	-	0.3%	Mar 2037	7.25	8.13	19.39

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

Source: Refinitiv

	Aug 21-25	Aug 14-18	% Change	July 2023	July 2022	% Change
Total shares traded	766,695	250,858	205.6	751,237	1,320,045	(43.1)
Total value traded	\$15,904,847	\$4,869,311	226.6	\$26,960,284	\$50,138,832	(46.2)
Market capitalization	\$18.88bn	\$18.61bn	1.5	\$18.40bn	\$14.21bn	29.5

Source: Beirut Stock Exchange (BSE)



Offshore drilling activity starts in Block 9

The Ministry of Energy & Water announced that TotalEnergies EP Block 9 (TotalEnergies), which is the operator of the consortium that won bids for the exploration of oil and gas in Block 9 of Lebanon's territorial waters, launched on August 24, 2023 exploratory offshore drillings for gas in Block 9 in Lebanon's Exclusive Economic Zone. The ministry expects TotalEnergies to reveal the results of the drilling by the end of the year.

TotalEnergies announced on August 16, 2023 the arrival of the drilling rig Transocean Barents to Block 9 at 120 kilometers off the coast of Beirut. The rig is a self-propelled platform that has been operating in the North Sea. The agreement with Transocean Ltd. includes 67 days of operations, the cost of sailing the rig to the drilling site in Block 9, as well as the cost of the rig's return to the North Sea.

In parallel, TotalEnergies EP Liban sal announced on January 29, 2023 that it will start offshore drilling in Block 9 of Lebanon's territorial waters in the third quarter of this year, following the U.S.-brokered maritime agreement to delineate the maritime border between Lebanon and Israel that was sealed last October. It said that it has placed pre-orders with suppliers for the equipment it needs to begin the exploration of oil and gas, and pointed out that it will finalize the environmental studies' phase of the project by the end of June 2023. Earlier this year, the specialized French company Créocéan conducted an Environmental Baseline Survey (EBS) in Block 9 as part of the Environmental Impact Assessment ahead of the planned offshore activities. The EBS aims to confirm the acceptability of the gas exploration project and will identify mitigation measures according to the sensitivity of the environment. Further, the company announced that it is seeking expressions of interest for potential participation in the upcoming calls for tender covering logistics services to conduct petroleum activities in Block 9, such as Logistics Base Services, Marine Gas Oil Supply, Vessel Support Services, and Helicopter Services.

The Right Holders in Block 9 are the operator TotalEnergies EP Block 9 that holds a 35% stake, as well as the non-operators Eni Lebanon BV that has a 35% interest and QatarEnergy International Investments (2) LLC that holds a share of 30%.

In parallel, TotalEnergies EP Liban, which holds the rights to explore for oil and gas in Block 4 of Lebanon's territorial waters, announced in April 2020 that the results of the drilling of Lebanon's first exploration well of oil and gas in Block 4 were "negative". It noted that it found evidence of traces of gas in the well, which confirms the presence of a hydrocarbon system in Lebanon's territorial waters. However, it said that it did not find reservoirs in the Tamar formation, which was the main target of the exploration well that is located 30 kilometers offshore of Beirut. It pointed out that despite the "negative" results, the exploration has provided valuable information that will be incorporated in future complementary studies about the exploration potential of Lebanon's offshore Exclusive Economic Zone.

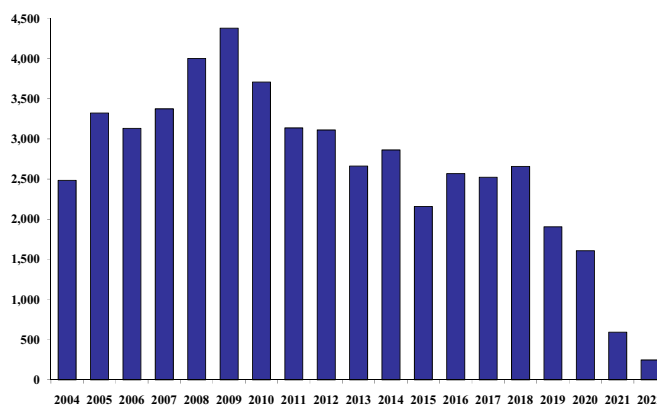
Foreign direct investments down 58% to \$246.5m in 2022

Figures released by Banque du Liban show that foreign direct investments (FDI) in Lebanon totaled \$246.5m in 2022, constituting a drop of 58.4% from \$593m in 2021. FDI in Lebanon reached \$81.6m in the first quarter of 2022, \$61.4m in the second quarter, \$56.5m in the third quarter, and \$46.9m in the fourth quarter of 2022. As such, they grew by 41.2% in the first three months of 2022 from the same quarter of 2021, while they decreased by 49.7% in the second quarter, by 33.3% in the third quarter, and by 85.7% in the fourth quarter of 2022 from the same period of the previous year. FDI inflows in 2022 reached their lowest annual level since BdL started publishing detailed figures about the balance of payments in 2002. FDI inflows to Lebanon averaged \$2.6bn annually between 2002 and 2022, and registered a high of \$4.4bn in 2009. Further, FDI inflows were equivalent to 1.1% of GDP in 2022 compared to 2.6% of GDP in 2021.

In parallel, FDI outflows from Lebanon reached \$78.7m in the 2022, relative to divestments of \$1.4bn in resident investments from non-resident markets in 2021. FDI outflows totaled \$37.1m in the first quarter of 2022, \$32.8m in the second quarter, \$4.5m in the third quarter, and \$4.4m in the fourth quarter of 2022. In addition, FDI outflows from Lebanon in 2022 reached their third lowest annual level between 2002 and 2022, relative to \$0.2m in 2002 and \$28.9m in 2020. In comparison, they averaged \$683.8m annually in the 2002-22 period. Also, FDI outflows were equivalent to 0.4% of GDP in 2022 compared to 5.9% of GDP in 2021.

As such, net FDI inflows to Lebanon stood at \$167.8m in 2022 and decreased by 91.4% from \$1.96bn in 2021. Net FDI inflows last year registered their lowest annual level between 2002 and 2021. They averaged \$2.4bn annually between 2002 and 2012, and \$1.4bn yearly during the 2013-2022 period. They peaked at \$3.25bn in 2009. They were equivalent to 0.8% of GDP in 2022 relative to 8.5% of GDP in 2021.

Foreign Direct Investment Inflows (US\$m)



Source: Banque du Liban, Byblos Research



Banque du Liban interim Governor calls for implementation of structural reforms

Banque du Liban's (BdL) interim Governor Mr. Wassim Mansouri declared that the prevailing stability of the exchange rate of the Lebanese pound is a result of the cooperation between BdL, the government and the Ministry of Finance, as well as the efforts of the judiciary and security authorities that are working continuously to prevent speculators from manipulating the exchange rate. He added that the size of currency in circulation in Lebanese pounds and the amount of US dollars in the domestic market are contributing to the stability of the currency. He noted that BdL is maintaining this stability through conventional monetary tools based on articles 75 and 83 of the Code of Money and Credit, through intervening in the market in coordination between BdL and the Ministry of Finance. He indicated that BdL's market intervention in the previous month did not require the utilization of any amount from its foreign currency reserves, but noted that despite the intervention, currency in circulation regressed by LBP2 trillion (tn) to LBP59.9tn.

He indicated that BdL, the Prime Minister and the Minister of Finance are in agreement that the stability of the exchange rate should be the priority during this critical phase, and that the next challenge in this regard is the payment of the salaries to public-sector employees. He noted that this requires about LBP7tn and that, if the amount is paid in the absence of reform measures, it will lead to renewed pressure on the exchange rate. As such, he announced that public-sector salaries will be disbursed in US dollars at the rate of LBP85,500 per dollar, which will inject dollars in the market and help preserve the stability of the exchange rate. He added that there is an agreement to provide for the needs of the Lebanese Armed Forces and security forces without using BdL's foreign currency reserves.

However, the interim Governor cautioned that Electricité du Liban, as well as the ministries of Telecommunications, Public Health, Public Works, Education, and Foreign Affairs need to convert their funds in Lebanese pounds to US dollars as well. He added that it is not possible to provide all of these funds at once, even though the ministries need them immediately, given that BdL's resources can only cover part of these needs, and that it may not be possible to meet these requirements in the coming months. As such, he cautioned that the current stability of the exchange rate has its limitations, given the political, economic and security context in the country; and that BdL cannot maintain this stability by itself without the full cooperation of the executive and legislative branches. He added that this is the reason that BdL's Central Council adopted a working plan that it submitted to the Parliament's Administration & Justice Committee and that aims to regularize the financial and monetary conditions in the country, and reiterated the need to implement the plan.

He noted that the government approved the draft budget for 2023 that includes a deficit of LBP46tn, or the equivalent of 24% of expenditures, even though BdL's plan stipulated the approval of a balanced budget. As such, he indicated that BdL will not finance the deficit by lending to the government either in Lebanese pounds or in foreign currency, and that this should be done through improving tax and fee collection, expanding the tax base, opening all public-sector agencies and departments, and controlling the legal and illegal border crossings. He warned that the regularization of public finances will not materialize without enacting the necessary laws, especially the Capital Controls Law, the Gap Resolution Law, and the Banking Sector Restructuring Law. He added that the continuous delays in enacting these laws will lead to additional losses, will reduce the possibility of a solution to the crisis, and will make it more difficult to return to a proper economic cycle and launch the economic recovery.

Amount of cleared checks in Lebanese pounds up 89% in first seven months of 2023

The amount of cleared checks in Lebanese pounds reached LBP36,174bn in the first seven months of 2023, constituting a surge of 89% from LBP19,142bn in the same period last year, while the amount of cleared checks in foreign currency was \$2.4bn and dropped by 64% from \$6.65bn in the first seven months of 2022. Also, there were 298,043 cleared checks in the first seven months of 2023, down by 73.5% from 1.12 million checks in the same period of 2022. In addition, the amount of cleared checks in Lebanese pounds reached LBP6,660bn in July 2023, as it decreased by 2.7% from LBP6,847bn in June 2023 and surged by 160.3% from LBP2,559bn in July 2022. Further, the amount of cleared checks in foreign currency was \$229m in June 2023, as it regressed by a marginal 0.4% from \$230m in the previous month and by 70.3% from \$771m in July 2022. Also, there were 33,600 cleared checks in July 2023 relative to 32,534 checks in June 2023 and to 109,394 cleared checks in July 2022. In addition, the amount of cleared checks in "fresh" Lebanese pounds stood at LBP7bn, while the amount of cleared checks in "fresh" foreign currency was \$25,506 in July 2023. Also, there were 28 cleared checks in "fresh" Lebanese pounds and five cleared checks in "fresh" foreign currency in the covered month.

In parallel, the amount of returned checks in Lebanese pounds reached LBP506bn in the first seven months of 2023 compared to LBP134bn in the same period last year, while the amount of returned checks in foreign currency was \$148m and increased by 61% from \$92m in the first seven months of 2022. Also, the amount of returned checks in Lebanese pounds stood at LBP22bn in July 2023, as it posted decreases of 35.3% from LBP34bn in June 2023 and of 4.3% from LBP23bn in July 2022. Also, the amount of returned checks in foreign currency was \$6m in July 2023, as it contracted by 80% from \$30m in the previous month and by 66.7% from \$18m in July 2022. In addition, the amount of returned checks in "fresh" foreign currency stood at \$3,760, while there were no returned checks in "fresh" Lebanese pounds in July 2023.

Further, there were 2,532 returned checks in the first seven months of 2023, down by 67.4% from 7,756 returned checks in the same period last year. Also, the number of returned checks in foreign currency reached 1,055 in the covered period and dropped by 77.5% from 4,690 in the first seven months of 2022, while the number of returned checks in Lebanese pounds totaled 1,477 and retreated by 51.8% from 3,066 checks from the same period last year. Also, there were 213 returned checks in July 2023, relative to 272 returned checks in the preceding month and to 759 checks in July 2022. Further, there were 135 returned checks in Lebanese pounds in July 2023 compared to 118 in the previous month and to 279 in July 2022, while there were 78 returned checks in foreign currency in July relative to 154 checks in the preceding month and 480 returned checks in July 2022. Also, there were three returned checks in "fresh" foreign currency in the covered month.

Currency in circulation down 10% in first half 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 LBP115,872.6bn at the end of June 2023, constituting increases of 17.3% from LBP98,780.4bn at the end of 2022 and of 106.1% from LBP56,215bn at end-June 2022. Currency in circulation stood at LBP65,989.7bn at the end of June 2023, as it decreased by 10.2% from LBP73,514bn at end-2022 and grew by 91% from LBP34,551bn at end-June 2022. Also, demand deposits in local currency stood at LBP49,882.8bn at the end of June 2023, as it surged by 97.4% from the end of 2022 and by 130.3% from end-June 2022. Money supply M1 expanded by 10.3% in June from LBP105,093.5bn at end-May 2023, with currency in circulation growing by 7% and demand deposits in local currency increasing by 15% month-on-month.

In addition, money supply M2, which includes M1 and term deposits in Lebanese pounds, reached LBP131,926.6bn at the end of June 2023, constituting increases of 13.2% from LBP116,582.5bn at the end of 2022 and of 76.3% from LBP74,834.6bn a year earlier. Term deposits in Lebanese pounds totaled LBP16,054bn at the end of June 2023, and decreased by 9.8% from LBP17,802.2bn at end-2022 and by 13.8% from LBP18,619.6bn at end-June 2022. Money supply M2 increased by 8.5% in June from LBP121,569.1bn at end-May 2023, while term deposits in local currency regressed by 2.6% month-on-month.

Further, broad money supply M3, which includes M2, deposits in foreign currency and debt securities issued by the banking sector, reached LBP1,216.5 trillion (tn) at the end of June 2023, with deposits in foreign currency totaling LBP1,080.5tn and debt securities of the banking sector amounting to LBP4,038bn at the end of the June 2023. Also, money supply M3 grew by a marginal 0.4% from LBP1,211.4tn at the end of May 2023, with deposits in foreign currency regressing by 0.5% and debt securities issued by the banking sector and were unchanged month-on-month. In parallel, M3 surged by LBP986,901bn in the first half of 2023 due to a jump of LBP839,624.1bn in net claims on the public sector, a rise of LBP196,520bn in the net foreign assets of deposit-taking institutions, and an increase of LBP103,554bn in the claims on the private sector, which were offset in part by a decline of LBP152,797.5bn in other items.

Energy Ministry grants license for seismic survey in Block 8

The Ministry of Energy & Water announced on August 24, 2023 that it granted a reconnaissance license to a consortium that consists of GeoEx MCG and Bright Skies Environmental, in order to conduct a three-dimensional seismic survey in Block 8 in Lebanon's Exclusive Economic Zone. It said that the study aims to assess the resource potential in Block 8 and that, given the geological similarities between Block 8 and Block 9, the successful discovery of oil or gas reserves in Block 9 could be indicative of potential similar discoveries in Block 8.

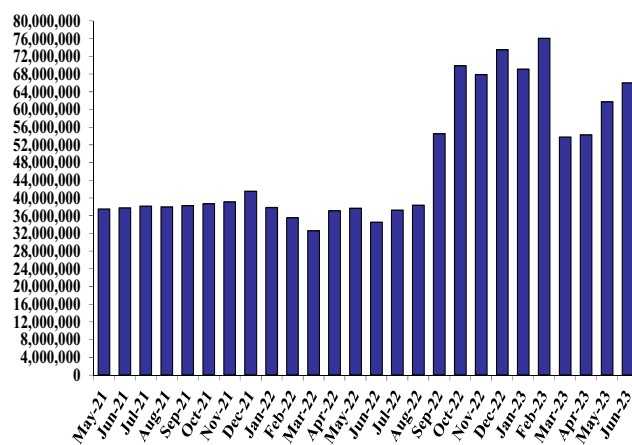
Also, it noted that the significance of Block 8 extends beyond its resource potential, as most of the acreage of Block 8 lies in waters that are disputed by Israel. As such, the ministry indicated that it had not been possible to launch the survey prior to the U.S.-brokered maritime agreement to delineate the maritime border between Lebanon and Israel that was sealed last October. The U.S.-mediated deal stipulated that the disputed waters would be divided along a line spanning the Qana natural gas field in the Mediterranean Sea, that gas production would be based in the Lebanese side, but that Israel would be compensated for gas extracted from its side of the line under a separately signed deal between TotalEnergies and Israel.

Further, the ministry said that the upcoming survey in Block 8 will provide Lebanon with critical data that may determine if oil or gas deposits extend into the maritime regions of Cyprus and Israel. It added that the results of the survey would improve Lebanon's negotiating power, and would allow it to require better terms when awarding future exploration contracts in the block.

GeoEx MCG is a global subsurface data provider that offers geophysical products and services to the energy industry, while Bright Skies Environmental is a consulting firm that provides environmental compliance and permitting services to the energy sector.

The Council of Ministers approved in April 2019 the launch of the second licensing round for offshore oil and gas exploration and production in Lebanon's territorial waters. Eight blocks are open for bidding for the second licensing round that consist of Block 1 and Block 2, which are located in the north of Lebanon's offshore Exclusive Economic Zone; Block 3, Block 5, Block 6 and Block 7 in the center of the zone; as well as Block 8 and Block 10 that are in the south of Lebanon's territorial waters.

Currency in Circulation (LBP millions)



Source: Banque du Liban, Byblos Research

Trade deficit narrows by 6% to \$8.2bn in first seven months of 2023

Figures issued by Lebanese Customs show that total imports reached \$9.8bn in the first seven months of 2023, constituting a decrease of 9.3% from \$10.8bn in the same period of 2022; while aggregate exports totaled \$1.6bn and declined by 24.2% from \$2.1bn in the first seven months of 2022. As such, the trade deficit narrowed by 5.7% to \$8.2bn in the first seven months of 2023 from the same period last year, due to a contraction of \$1bn in imports compared to a downturn of \$515.1m in exports. The coverage ratio, or the exports-to-imports ratio, was 16.5% in the first seven months of 2023 relative to 19.7% in the same period of 2022.

Non-hydrocarbon imports decreased by \$469.4m, or by 6%, to \$7.2bn in the first seven months of 2023; while the imports of oil & mineral fuels declined by \$541.05m, or by 17.3%, to \$2.6bn. Oil & mineral fuels accounted for 26.3% of the imports bill in the covered period compared to 29% in the first seven months of 2022. Lebanon imported 3.4 million tons of oil & mineral fuel in the first seven months of 2023 relative to 3.3 million tons in the same period last year.

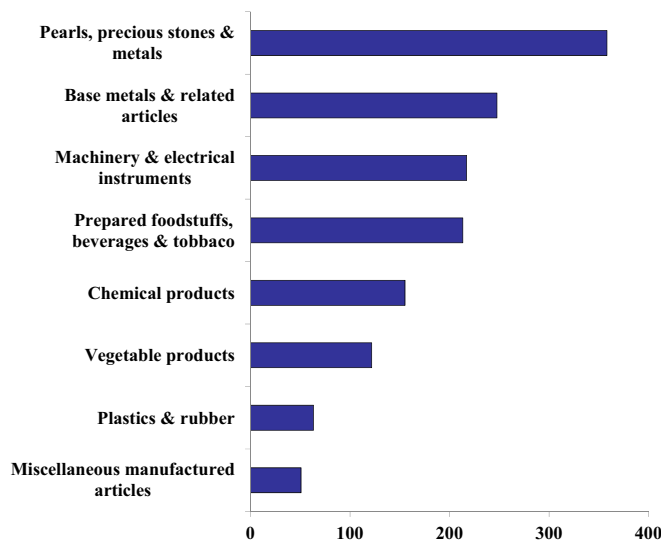
The decrease in exports was due to a drop of \$274.6m, or of 81.3%, in the exports of plastics & rubber in the first seven months of 2023; a decline of \$75.1m (-23.3%) in the exports of base metals; a decrease of \$71m (-31.4%) in the exports of chemical products; a contraction of \$62.8m (-15%) in exported pearls, precious stones & metals; and a downturn of \$26.8m (-18%) in the exports of vegetable products.

Exports to Iraq surged by 31% and exported goods to Türkiye increased by 25% in the first seven months of 2023. In contrast, exports to Syria dropped by 80.2% in the covered period, those to Switzerland declined by 23%, exported goods to Qatar decreased by 21.5%, those to Kuwait contracted by 16.4%, exports to Jordan dipped by 15.8%, those to the UAE retreated by 14.3%, exports to the U.S. shrank by 9%, and those to Egypt regressed by 8%. Also, re-exports totaled \$273.8m in the first seven months of 2023 compared to \$185.1m in the same period of 2022. The Port of Beirut was the exit point for 50.3% of Lebanon's exports in the first seven months of 2023, followed by the Hariri International Airport (31%), the Port of Tripoli (8%), the Masnaa crossing point (6%), the Port of Saida (3%), the Abboudieh crossing point (1.1%), and the Arida crossing point (0.5%).

In parallel, Lebanon's main non-hydrocarbon imports were pearls, precious stones & metals that reached \$1.4bn in the first seven months of 2023 and increased by 47.7% in the covered period. The import of machinery & electrical instruments followed with \$980.8m (-28.2%), then imported chemical products with \$713.3m (+10%); the import of prepared foodstuffs with \$590m (+4.6%); the import of vehicles, aircraft & vessels with \$581.6m (-50.2%); imported vegetable products with \$551.6m (-9.8%); base metals with \$469.1m (-4.5%); live animals and animal products with \$355.3m (+6.3%); and plastics & rubber with \$315.6m (-17.7%). The Port of Beirut was the entry point for 62% of Lebanon's merchandise imports the first seven months of 2023, followed by the Hariri International Airport (24.8%), the Port of Tripoli (8.8%), the Port of Saida (2.1%), the Masnaa crossing point (1.9%), the Abboudieh crossing point (0.22%), the Arida crossing point (0.18%), and the Port of Tyre (0.02%).

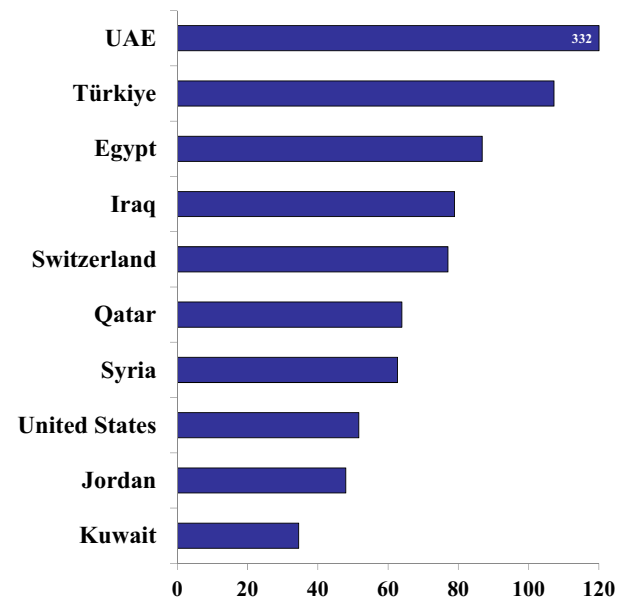
China was the main source of imports with \$1.2bn and accounted for 12.3% of the total in the first seven months of 2023, followed by Greece with \$1.04bn (10.7%), Switzerland with \$994.7m (10.2%), Türkiye with \$817m (8.3%), Italy with \$559.6m (5.7%), the U.S. with \$422.4m (4.3%), Germany with \$306.7m and the UAE with \$299.3m (3.1% each), Russia with \$297.3m (3%), and Egypt with \$283.7m (2.9%). Further, imported goods from Switzerland surged by 193.5% in the first seven months of 2023 from the same period last year, followed by imports from Russia (+45%), Italy (+6.5%), and Egypt (+0.2%). In contrast, imported goods from Türkiye declined by 39.3% in the covered period, followed by imports from the UAE (-27.6%), China (-20.7%), Germany (-18%), the U.S. (-15%), and Greece (-6.2%).

Main Lebanese Exports in First Seven Months of 2023 (US\$m)



Source: Lebanese Customs Administration, Byblos Research

Main Destinations of Lebanese Exports in First Seven Months of 2023 (US\$m)



Source: Lebanese Customs Administration, Byblos Research

Banque du Liban discloses results of gold holdings audit

Banque du Liban (BdL) announced on August 24, 2023 the results of the inspection of its inventory of gold holdings that ALS Inspection UK Ltd (ALS) carried out in 2022. It indicated that the international auditing firm KPMG, in association with the International Monetary Fund (IMF), contracted ALS to provide its expertise and assistance in order to independently inspect and verify the existence and quality of BdL's monetary gold holdings of bars and coins that are stored in BdL's vault.

It said that ALS weighed and tested, by using numerous pieces of non-destructive analysis equipment, each individual gold bar and coin. It added that ALS employees relocated the gold bars and coins to a newly-built dedicated location within BdL's vaulting facilities. It also noted that KPMG asked ALS to digitally record BdL's large inventory of gold holdings, which would provide the basis for future annual audits.

Further, BdL indicated that ALS confirmed that the central bank has over 13,000 bars and 600,000 coins, which is in line with the gold troy ounce amounts that BdL had documented as its official gold holdings.

ALS Inspection UK Ltd is a UK based subsidiary of the Australian publicly-listed ALS Limited, which provides independent global inspection and analysis services for metals, minerals, ores, precious metals, ferro alloys and solid fuels. The company is also an affiliate member of the London Bullion Market Association, which is the international trade association representing the global Over The Counter bullion market, and is widely recognized as the global authority on precious metals.

BdL had announced on November 24, 2022 the completion of the audit process of Lebanon's gold reserves that consist of bullions and coins. It said that BdL's external auditor selected and mandated a specialized international auditing firm, in coordination and agreement with the IMF, to conduct the audit. It noted that the completion of the special purpose audit of BdL's foreign asset position comes at the request of the IMF and aims to improve the transparency of BdL. Further, BdL declared that the firm concluded after it conducted its audit that BdL's gold assets, which consist of gold bullions and coins, correspond exactly to the journal entries in BdL's accounting books.

The latest available figures published by BdL show that the value of BdL's gold reserves reached \$18.04bn at the end of July 2023, constituting a rise of \$1.4bn (+8.3%) from the end of 2022 and an increase of \$1.77bn (+10.9%) from \$16.2bn at end-July 2022. The value of gold reserves reached a peak \$18.7bn at mid-April 2023.

The special audit of BdL's foreign assets is one of the prior actions that are part of the Staff-Level Agreement (SLA) on a \$3bn four-year Extended Fund Facility that the Lebanese authorities signed with the IMF on April 7, 2022 to support a comprehensive economic and financial reform program. The SLA includes nine prior actions that consist of auditing BdL's foreign assets, as well as the enactment of an emergency bank resolution legislation, the amendment of the banking secrecy law, the enactment of the 2022 budget, the approval of a medium-term fiscal and debt restructuring strategy, the unification of the exchange rates, the implementation of capital controls, and the initiation of an evaluation of each of the country's 14 largest banks.

Port of Beirut processes 2.1 million tons of freight in first five months of 2023

Figures released by the Port of Beirut show that the port processed 2.1 million tons of freight in the first five months of 2023, constituting an increase of 2% from 2.06 million tons of freight in the same period of 2022. Imported freight totaled 1.76 million tons in the first five months of 2023, down by 0.9% from 1.7 million tons in the same period of 2022, and accounted for 83.7% of total processed freight. In addition, the volume of exported cargo reached 343,000 tons in the first five months of this year, representing a decrease of 4.7% from 360,000 tons in the same period of 2022, and accounted for 16.3% of aggregate freight in the covered period. A total of 513 vessels docked at the port in the first five months of 2023, constituting a rise of 6.2% from 483 ships in the same period last year. The port handled 458,000 tons of freight in May 2023, up by 20.2% from 381,000 tons in April 2023. In addition, 110 vessels docked at the port in May 2023 compared to 97 ships in the previous month.

In parallel, the Port of Tripoli processed 1.58 million tons of freight in the first five months of 2023, representing a rise of 358,428 tons (+29.2%) from 1.22 million tons in the same period of 2022. Imported freight totaled 630,449 tons in the first five months of 2023 and dropped by 176,216 tons (-21.8%) from 806,665 tons in the same period last year. Imports accounted for 40% of freight activity in the covered period. In parallel, the volume of cargo that was exported through the port reached 953,533 tons in the first five months of 2023, constituting a surge of 534,644 tons (+127.6%) from 418,889 tons in the same period of the previous year, and represented 60% of total freight in the covered period. A total of 324 vessels docked at the port in the first five months of 2023, representing a decrease of 15% from 381 ships in the same period of 2022.

Banque du Liban estimates economic growth at 2% in 2022

Banque du Liban (BdL) indicated in its overview of monetary, banking, and financial developments in Lebanon in 2022 that, for the third year in a row, the Lebanese economy faced stressful conditions resulting from the prevailing multi-dimensional crisis that has been aggravated by global and regional economic turbulences. It said that the crisis emerged after a decade of regional turmoil, particularly the repercussions of and risks from the Syrian crisis, and the public finance imbalances in terms of wide fiscal deficits and the exacerbation of the public debt's dynamics.

It noted that the crisis has been aggravated due to inflationary pressures from the shortages in foreign-currency liquidity and the depreciation of the exchange rate, as well as by the government's decision to discontinue payments on all its outstanding U.S. dollar-denominated Eurobonds in March 2020; the impact of the COVID-19 pandemic and the explosion at the Port of Beirut; the shortages of gasoline and fuel oil; and the prolonged political paralysis that resulted in vacuums at the presidential and executive branch levels.

It added that the purchasing power in Lebanon declined, which has affected all sectors as reflected in the decrease in activity of foreign trade, tourism, investments, consumption and government spending since the end of 2019. It said that the economy contracted by 33% during the 2020-21 period, but it estimated that real GDP registered a growth rate of 2% in 2022, driven by a strong tourism season and large remittance inflows, which supported consumption. It indicated that the average inflation rate for the Consumer Price Index basket of goods and services denominated in Lebanese pounds was 171.2% in 2022 relative to an average rate of 154.8% in 2021, and estimated the inflation rate for the same basket of goods and services denominated in US dollar prices at 9% in 2022. It considered that the depreciation of the Lebanese pound against the US dollar on the parallel market constitutes the most prominent inflationary factor, as the Lebanese currency depreciated by around 34.7% between end-2021 and end-2022. It added that cash in circulation increased by 195% in 2020, by 48% in 2021, and by 75% in 2022, and that most commercial transactions are carried out in cash rather than by checks, bank transfers, or credit cards.

Moreover, BdL said that, at the beginning of the crisis in September 2019, the government asked the central bank to sell dollars at the official rate for critical imports. But it noted that, by January 2023, BdL has ended all remaining subsidies on wheat and some medicines and medical supplies, after it completely lifted subsidies on fuel in October 2022.

Further, it said that BdL's foreign assets, excluding gold, stood at \$15bn at the end of 2022 compared to \$38bn in 2019 and that BdL and the government announced in November 2022 that a new official exchange rate of LBP 15,000 per US dollar will go into effect on February 1, 2023 as part of the measures to unify the multiple exchange rates prevailing in the Lebanese market.

In addition, it indicated that the consolidated assets of the banking sector reached \$169bn at end-2022 and contracted by 3.3% from end-2021. It added that customer deposits regressed by 3% as compared to a decrease of 7% in 2021, and that the deposit dollarization rate regressed from 79.4% at end-2021 to 76% at end-2022. Also, bank loans to the private sector contracted by 26.6% to reach \$21.5bn at end-2022, down from \$52bn at end-2019, and that the loan dollarization rate dropped to 50.7% compared to 68.7% three years earlier. It added that the banks shareholders' equity grew from \$17.7bn at end-2021 to \$18.2bn at end-2022.

In parallel, BdL stated that the Lebanese authorities have recognized the urgent need to initiate a comprehensive and credible medium-term reform program, supported by the International Monetary Fund (IMF) and the international community, in order to restore confidence and put the economy on a recovery path. As such, Lebanon and the IMF reached a Staff-Level Agreement on a four-year Extended Fund Facility on comprehensive economic policies to rebuild the economy and regain investor confidence. It noted that the agreement would lay the foundation for a full set of reforms that are necessary to restore financial stability, including strengthening the governance, anti-corruption, and the anti-money laundering/countering the financing of terrorism frameworks, in order to enhance transparency and accountability.

However, it noted that, despite the severity of the situation, political divisions have deepened, which has hindered all progress in implementing the comprehensive package of reforms. It added that fiscal adjustment and structural reforms are necessary to pave the way for a strong and sustainable recovery, but said that this will not be achieved in the absence of political will to secure the election of a President and the formation of an acting government that can initiate any effective reforms.

Term deposits account for 54.8% of customer deposits at end-June 2023

Figures issued by Banque du Liban about the distribution of bank deposits at commercial banks in Lebanon show that aggregate deposits, which include demand deposits and term deposits, stood at LBP1,529.8 trillion (tn) at the end of June 2023, or the equivalent of \$102bn at end-June 2023 based on the exchange rate of LBP15,000 per US dollar that went into effect at the start of February. Total deposits include private sector deposits that reached LBP1,461tn, deposits of non-resident financial institutions that amounted to LBP49.3tn, and public sector deposits that stood at LBP19.5tn at the end of June 2023.

Term deposits in all currencies reached LBP838.5tn at the end of June 2023 and declined by LBP4.5tn, or by 0.5%, from LBP843tn at end-May 2023; while they accounted for 54.8% of total deposits in Lebanese pounds and in foreign currency as at end-June 2023, relative to a share of 54.7% at the end of 2022 and of 57.7% at end-June 2022. The slight increase in the share of term deposits from end-2022 is due to the effect of the new exchange rate. Further, the foreign currency-denominated term deposits of the public sector dropped by 48.2% in the first half of 2023, followed by a decrease of 27.4% in the term deposits of the non-resident financial sector, a contraction of 10.2% in the term deposits of non-residents, a downturn of 9.8% in the term deposits in Lebanese pounds of the resident private sector, and a retreat of 5.7% in foreign currency-denominated term deposits of the resident private sector from end-2022. This was partly offset by an increase of 44.7% in the term deposits in Lebanese pounds of the public sector. Aggregate term deposits declined by \$110.6bn since the end of September 2019, based on the new exchange rate, due to cash withdrawals and to the migration of funds from term to demand deposits, amid the confidence crisis that started in September 2019.

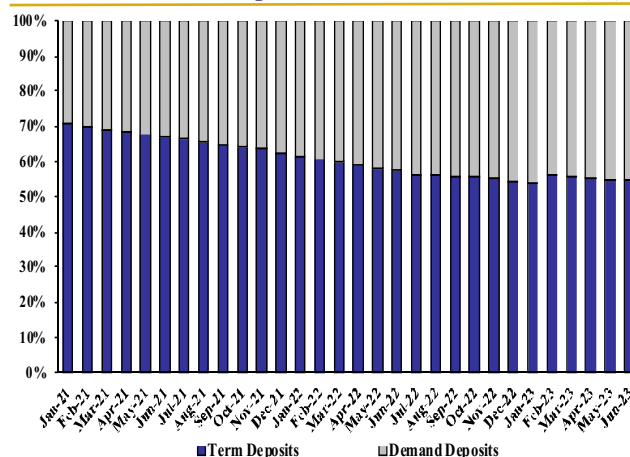
In addition, the foreign currency-denominated term deposits of the resident private sector reached \$38.8bn and accounted for 38% of aggregate deposits at the end of June 2023. Term deposits of non-residents followed with \$13.3bn or 13% of the total, then term deposits of the non-resident financial sector with \$2.1bn (2%), term deposits in Lebanese pounds of the resident private sector with LBP15.6tn (1%), term deposits of the public sector in Lebanese pounds with LBP6.3tn (0.4%), and term deposits of the public sector in foreign currency with \$297.6m (0.3%).

In parallel, demand deposits in all currencies at commercial banks stood at LBP691.3tn at the end of June 2023, constituting an increase of LBP7tn (+1%) from LBP684.3tn at the end of May 2023. They accounted for 45.2% of aggregate deposits at end-June 2023 relative to a share of 45.3% at end of 2022 and of 42.3% at end-June 2022. The slight decrease in the share of demand deposits from end-2022 was mainly due to a decline of \$402.6m in demand deposits of non-residents in the first half of 2023, a decrease of \$297.3m in foreign currency-denominated demand deposits of the resident private sector, and a contraction of \$252.8m in demand deposits of the non-resident financial sector. This was partly offset by an increase of LBP23.8tn in demand deposits in Lebanese pounds of the resident private sector, a growth of LBP1.5tn in demand deposits in Lebanese pounds of the public sector, and a rise of \$56.3m in demand deposits in foreign currency of the public sector.

Also, demand deposits in foreign currency of the resident private sector totaled \$32.8bn and represented 32.2% of deposits at end-June 2023. Demand deposits of non-residents followed with \$8.2bn (8%), then demand deposits in Lebanese pounds of the resident private sector with LBP48.8tn (3.2%), demand deposits of the non-resident financial sector with \$1.2bn (1.2%), demand deposits in foreign currency of the public sector with \$395.3m (0.4%), and demand deposits in Lebanese pounds of the public sector with LBP2.9tn (0.2%).

Based on the latest available figures, Beirut and its suburbs accounted for 66.8% of private-sector deposits and for 50.7% of the number of depositors at the end of 2022. Mount Lebanon followed with 14.5% of deposits and 18% of beneficiaries, then South Lebanon with 7.2% of deposits and 11% of depositors, North Lebanon with 6.6% of deposits and 12% of beneficiaries, and the Bekaa with 4.9% of deposits and 8% of depositors.

Breakdown of Deposits at Commercial Banks (%)



Source: Banque du Liban

Balance sheet of investment banks at LBP18.66 trillion at end-June 2023

Figures released by Banque du Liban (BdL) show that the consolidated balance sheet of investment banks in Lebanon reached LBP18.66 trillion (tn) at the end of June 2023, or the equivalent of \$1.24bn, constituting an increase of 0.5% from LBP18.58tn (\$1.23bn) at the end of May 2023. The dollar figures are based on the new exchange rate of LBP15,000 per US dollar that went into effect at the start of February 2023.

On the assets side, claims on resident customers amounted to LBP2.5tn (\$169.2m) at the end of June 2023 and regressed by 0.2% from the end of May 2023. Further, claims on resident customers in Lebanese pounds totaled LBP984.5bn at end-June 2023, constituting a decrease of 7.3% from end-2022 and of 20.4% from end-June 2022; while claims on resident customers in foreign currency amounted to \$103.6m at end-June 2023 and declined by 21.5% in the first half of the year and by 29% from end-June 2022. Also, claims on non-resident customers stood at \$44.5m at end-June 2023, representing increases of 11.3% from end-2022 and of 44.3% from a year earlier. In addition, claims on the resident financial sector reached LBP2.3tn (\$154.2m) at end-June 2023, down by 10.5% from LBP2.58tn at the end of May 2023. Claims on the resident financial sector in Lebanese pounds amounted to LBP1.1tn at end-June 2023 and surged by 41.3% in the first half of the year and by 133.6% from end-June 2022; while claims on the resident financial sector in foreign currency totaled \$80.7m at end-June 2023, down by 9.3% from end-2022 and by 42.8% from end-June 2022. Further, claims on the non-resident financial sector reached \$69.6m at the end of June 2023, as they jumped by 94.4% in the first half of the year and by 61% from a year earlier. Also, claims on the public sector stood at LBP45.6bn at end-June-2023, constituting an increase of 1.4% from end-May 2023; while the securities portfolio, which includes Lebanese Treasury bills and Eurobonds, amounted to LBP3.53tn at end-June 2023 and grew by 1.4% from LBP3.48tn at end-May 2023. In parallel, currency and deposits with local and foreign central banks reached LBP5.74tn (\$383m) at the end of June 2023 and increased by 3.9% from LBP5.5tn at end-May 2023.

On the liabilities side, deposits of resident customers stood at LBP6.1tn (\$411.6m) at the end of June 2023, constituting a decline of 0.6% from LBP6.2tn (\$413.9m) at end-May 2023. Deposits of resident customers in Lebanese pounds amounted to LBP695.1bn at end-June 2023 and grew by 4.9% in the first half of the year and by 4.4% from a year earlier; while deposits of resident customers in foreign currency totaled \$365.2m at end-June 2023, and regressed by 0.4% in the first half of the year and by 4.2% from end-June 2022. Also, deposits of non-resident customers reached \$74.1m at the end of June 2023, down by 25.4% from end-2022 and by 26.3% from end-June 2022.

Further, liabilities to the resident financial sector amounted to LBP583.8bn (\$38.9m) at end-June 2023 and declined by 5% from LBP613.6m at the end of May 2023. Liabilities to the resident financial sector in Lebanese pounds totaled LBP84.9bn at end-June 2023 and surged by 419.3% from end-2022 and by 208% from a year earlier; while liabilities to the resident financial sector in foreign currency reached \$33.3m at end-June 2023, constituting decreases of 24.6% in the first half of the year and of 71% from end-June 2022. In addition, liabilities to the non-resident financial sector amounted to \$73.9m at end-June 2023 and contracted by 57% from end-2022 and increased by 13.5% from end-June 2022. Also, public sector deposits totaled LBP103.6bn at end-June 2023 relative to LBP49.4bn at the end of 2022. Further, the aggregate capital account of financial institutions was LBP6.3tn (\$420.2m) at the end of June 2023 relative to LBP2.5tn (\$1.66bn) at end-2022 and LBP2.52tn (\$1.67bn) a year earlier.

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	-	RD	RD	-
S&P Global Ratings	SD	SD	-	CC	C	Negative

Source: Rating agencies

Banking Sector Ratings

	Outlook
Moody's Investors Service	Negative

Source: Moody's Investors Service



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