

LEBANON THIS WEEK

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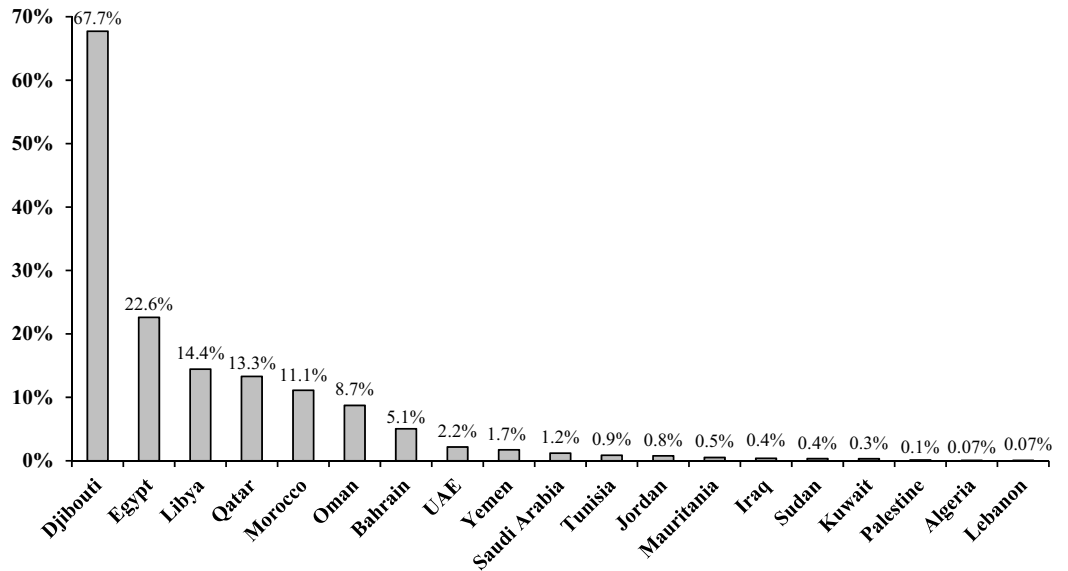
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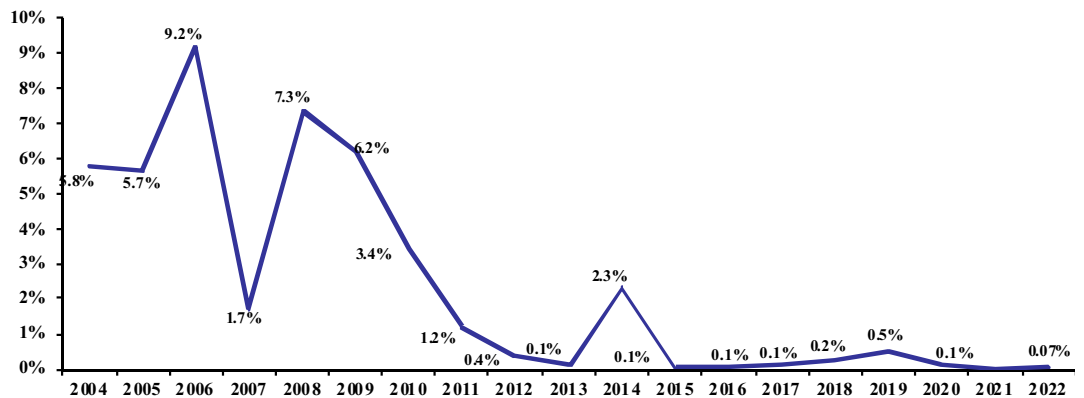
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Charts of the Week

Greenfield Foreign Direct Investment Inflows to Arab Countries in 2022 (% of GDP)



Greenfield Foreign Direct Investment Inflows to Lebanon (% of GDP)



Source: UNCTAD, Banque du Liban, Institute of International Finance, International Monetary Fund, Byblos Bank

Quote to Note

"It has proved difficult for the government and Parliament to form a consensus, let alone convince depositors and the general public, on an upfront banking strategy that writes down deposits on a large scale due to the implications for depositors."

The International Monetary Fund, on the lack of political appetite to transfer the losses on Banque du Liban balance sheet to depositors

Number of the Week

16: 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 %
Solidere "A"	77.40	(0.4)	288,575	41.7%	Apr 2024	6.65	7.88	1,399.92
Solidere "B"	77.60	4.0	111,815	27.2%	Jun 2025	6.25	7.88	213.42
Audi GDR	1.40	0.0	2,000	0.9%	Nov 2026	6.60	7.88	97.20
HOLCIM	69.00	0.1	204	7.3%	Mar 2027	6.85	7.88	86.64
Byblos Common	0.70	0.0	-	2.1%	Nov 2028	6.65	7.88	56.07
Audi Listed	2.35	0.0	-	7.4%	Feb 2030	6.65	7.88	43.51
BLOM GDR	2.14	0.0	-	0.9%	Apr 2031	7.00	7.88	36.34
BLOM Listed	3.00	0.0	-	3.5%	May 2033	8.20	7.88	28.05
Byblos Pref. 08	27.00	0.0	-	0.3%	Nov 2035	7.05	7.88	22.07
Byblos Pref. 09	29.99	0.0	-	0.3%	Mar 2037	7.25	7.88	19.69

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

Source: Refinitiv

	Sep 4-8	Aug 28 - Sep 1	% Change	August 2023	August 2022	% Change
Total shares traded	402,594	209,404	92.3	1,893,327	899,525	110.5
Total value traded	\$31,002,063	\$7,650,722	305.2	\$46,947,434	\$33,747,990	39.1
Market capitalization	\$18.57bn	\$18.41bn	0.9	\$18.72bn	\$13.36bn	40.1

Source: Beirut Stock Exchange (BSE)



Tourist arrivals up 26% in first seven months of 2023

Figures compiled by the Ministry of Tourism indicate that the number of incoming visitors to Lebanon totaled 1,018,892 tourists in the first seven months of 2023, constituting an increase of 26% from 809,244 tourists in the first seven months of 2022 and a surge of 116.5% from 470,666 visitors in the first seven months of 2021.

The number of incoming visitors reached 88,378 in January, 85,682 in February, 100,727 in March, 123,399 in April, 143,208 in May, 209,796 in June, and 267,702 in July 2023. In comparison, they totaled 62,340 visitors in January, 67,800 in February, 82,810 in March, 87,579 in April, 115,469 in May, 154,740 in June, and 238,506 in July 2022. This constituted increases of 41.8% in January, 26.4% in February, 21.6% in March, 41% in April, 24% in May, 35.6% in June, and 12.2% in July 2023 from the corresponding months of the previous year. The figures exclude Lebanese, Syrian and Palestinian arrivals.

Visitors from European countries totaled 423,989 tourists and accounted for 41.6% of incoming visitors the first seven months of 2023, followed by those from Arab countries with 253,107 visitors (24.8%), the Americas with 216,955 tourists (21.3%), Asia with 48,909 visitors (4.8%), Oceania with 41,712 visitors (4.1%), and Africa with 36,153 tourists (3.5%). Further, the number of visitors from Asia surged by 48.8% in the first seven months of 2023 from the same period last year, followed by those from Europe (+33%), Oceania (+31%), the Americas (+22%), the Arab countries (+16%), and Africa (+15.5%).

On a country basis, tourists from Iraq accounted for 12% of visitors in the first seven months of 2023, followed by visitors from the United States (10%), France (8.7%), Canada and Germany (8.5% each), Sweden (4.3%), Jordan (4.2%), Egypt (4%), England (3.5%), Türkiye (2.2%), Kuwait (1.7%), Italy (1.6%), Brazil (1.4%), Venezuela (0.4%), Saudi Arabia (0.3%), and the UAE (0.06%); while other countries accounted for the remaining 28.3%.

The increase in the number of visitor arrivals in the first seven months of 2023 is due to the resumption of normal activity following the lifting of lockdown and social distancing measures in the country that the authorities imposed to contain the spread of the coronavirus, to the relaxation of travel restrictions in the main country sources of visitors to Lebanon, as well as to promotion campaigns by the Ministry of Tourism and to the competitive advantages that Lebanon presents in terms of the combination of attractiveness and pricing.

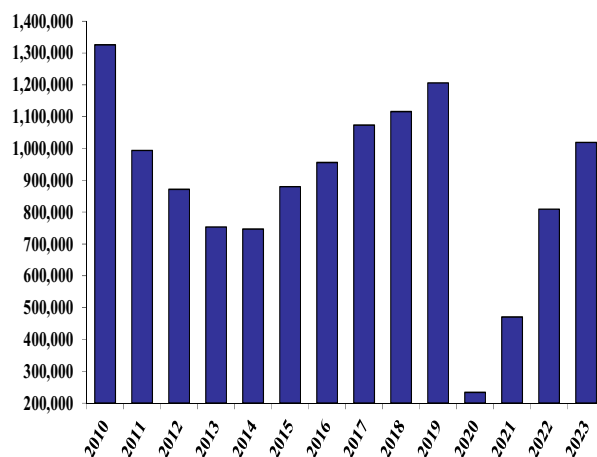
USAID launches \$97m project to improve learning outcomes for students in Lebanon

The United States Agency for International Development (USAID) announced a five-year \$96.9m project to support the education system in Lebanon. The Quality Instruction Towards Access and Basic Education Improvement program (QITABI) 3 aims to improve literacy, numeracy, social and emotional learning (SEL), and inclusive education outcomes for students across Lebanon. Also, it pointed out that the project will provide life skills and career guidance to students at the intermediate and secondary levels. It said that it will implement the project in collaboration with the Ministry of Education and Higher Education (MEHE) and the Center for Educational Research and Development (CRDP).

Further, it noted that QITABI 3 will provide technical support to the MEHE and CRDP on improving research and assessment capacities. It indicated that the project intends to improve the learning outcomes for approximately 350,000 learners; enhance instructional practices for 25,000 teachers; increase retention rates across 1,200 public and low-cost private schools; and strengthen the system to ensure access to more equitable learning opportunities for the most disadvantaged and for children with disabilities.

In addition, it said that the U.S. government, through USAID, has invested over \$500m to support the education sector in Lebanon since 2013. It added that it has awarded the contract to implement the QITABI 3 program to Research Triangle Institute International, a non-profit research and development organization.

Number of Tourist Arrivals to Lebanon*



*in first seven months of each year

Source: Ministry of Tourism, Byblos Research

Government approves currency electronic trading platform

The Council of Ministers approved the establishment of an electronic foreign-currency trading platform that will be under the authority of Banque du Liban (BdL). The platform, which will replace BdL's existing "Sayrafa" electronic trading platform, aims to reflect the real exchange rate of the US dollar in the Lebanese market in a transparent way and without any subjective intervention from BdL. The new platform will be open to authorized banks and financial institutions, including qualified money exchange firms, which will be able to quote "bid" and "ask" orders on behalf of their clients. The global financial information provider Bloomberg is expected to host the platform.

BdL launched on June 26, 2020 an electronic platform that allows money exchange firms to buy and sell foreign currency through the "Sayrafa" online application. Also, it issued Basic Circular 5/13236 on June 10, 2020 that regulates the access of money exchange firms to the electronic platform. The circular requested money exchange firms to register to the Sayrafa online application in order to conduct foreign currency transactions through the platform. Further, it asked money dealers to refrain from conducting any foreign currency transaction outside the Sayrafa application. Also, the circular required money exchange firms to abide by any exchange rate ceiling that BdL introduces, and to maintain a normal spread between the buying and selling rates. Moreover, it issued in March 2021 Directive 934 to commercial banks operating in Lebanon stating that BdL considers that commercial banks have a license to operate as money exchange dealers and have to take the necessary measures to conduct currency exchange operations according to Law 347 dated August 6, 2001. Further, BdL asked banks operating in Lebanon to join its Sayrafa electronic trading platform by April 16, 2021 at the latest, to register on the electronic application of the platform, and to abide by the related conditions that it will issue in this regard.

BdL attributed its decision at the time to the impact of the exceptional circumstances in Lebanon on the exchange rate of foreign currency in the local market, as well as to the need to organize foreign exchange operations in order to protect the stability of the Lebanese pound's exchange rate, and in preparation to conduct exchange operations of foreign currencies against Lebanese pound bank notes.

In addition, BdL issued on May 10, 2021 Basic Circular 157/13324 for banks operating in Lebanon about exceptional measures related to foreign exchange operations. The circular allows banks to conduct foreign exchange operations as per Law 347 dated August 8, 2001, including the buying and selling of foreign currencies in exchange for other foreign currencies or Lebanese pounds, through the Sayrafa electronic platform. BdL indicated that the Sayrafa platform is part of its initiative that aims to ease the pressure on citizens amid the prevailing crisis that has been exacerbated by the absence of a functioning government that would implement the necessary reforms, reestablish Lebanon's regional and international relations, and restore domestic confidence. It considered that the platform, which is open for banks and licensed money dealers, will provide a transparent setting for the exchange rate and for the participants in the platform. It added that market dynamics will help determine the exchange rate on the platform and that BdL will intervene when needed to control fluctuations in the exchange rate.

It noted that the banks' foreign exchange operations should cover the needs of their clients, whether they are individuals or companies, based on a market-determined exchange rate, and provided that the spread between the buying and selling exchange rates, and any additional fees, do not exceed 1% of the buying exchange rate. Specifically, it allows banks to purchase Lebanese pound banknotes from their clients and settle the counter value in foreign currency either in a "fresh account" in Lebanon or in a bank account abroad. It also allows banks to purchase foreign currencies from clients either in physical form or from their "fresh accounts", in exchange for Lebanese pounds that can be disbursed either in cash or in the clients' bank accounts in Lebanon.

According to BdL, aggregate trading on the Sayrafa platform stood at \$12bn in 2022 and at \$11.88bn in the first seven months of 2023.

In parallel, the International Fund indicated in its Article IV Country Report on Lebanon dated June 2023 that unifying the exchange rates for permitted transactions is a critical first step towards finding a credible nominal anchor for the exchange rate, in order to restore confidence, and to contain inflation and stop the depreciation of the currency.

It noted that BdL's circulars, which created a system of multiple exchange rates, need to be eliminated and the exchange rate unification should be centered on a proper trading platform, either by building on the existing Sayrafa platform or otherwise, where price discovery and large-sized trading for permitted transactions take place. It added that the approval and implementation of temporary restrictions on the withdrawal of foreign currency and Lebanese pounds deposits is necessary to limit pressures in the foreign currency market; and that BdL's foreign currency interventions should be limited to disorderly market conditions, without distorting or eliminating the underlying trend implied by fundamentals.

Banque du Liban's foreign assets at \$13.9bn, gold reserves at \$17.9bn at end-August 2023

Banque du Liban's (BdL) interim balance sheet shows that its total assets reached LBP1,561.4 trillion (tn), or the equivalent of \$104.1bn, on August 31, 2023, constituting increases of 0.5% from LBP1,553.6tn (\$103.6bn) at mid-August 2023 and of 1 % from LBP1,546tn (\$103.1bn) at end-July 2023. Assets in foreign currency stood at \$13.87bn at end-August 2023, representing a drop of \$1.3bn, or of 8.6% from end-2022 and a decline of \$866.9m (-8.6%) from \$14.74bn at end-August 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.

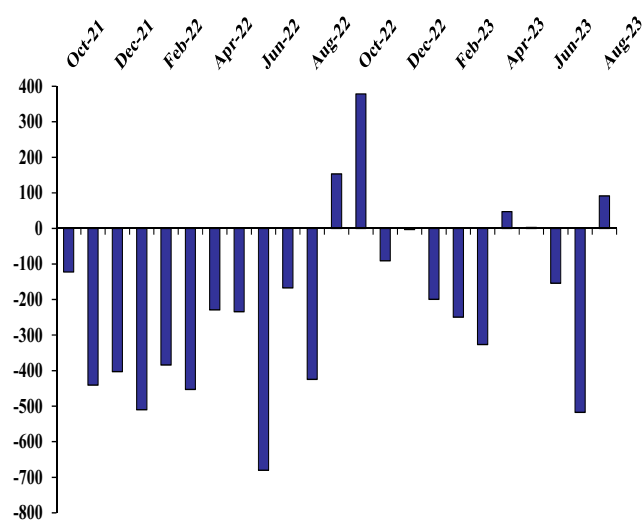
BdL's gross foreign currency reserves, which consist of its assets in foreign currency excluding Lebanese Eurobonds, stood at \$8.85bn at end-August, 2023, constituting increases of \$36.5m (+0.4%) from \$8.81bn at mid-August 2023 and of \$91.13m (+1%) from \$8.76bn at end-July 2023. They dropped by \$1.3bn (-13%) from the end of 2022 and by \$866.9m (-9%) from \$9.72bn at end-August 2022. Also, BdL's liquid foreign reserve assets stood at \$8.673bn as at end-August relative to \$8.57bn at end-July 2023. The cumulative decline of BdL's gross foreign-currency reserves in the past 12 months is largely due the government's borrowing from BdL, 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 LBP61,634.3bn at end-August 2023, representing a decrease of 23% from LBP80,171.3bn at the end of 2022 and a surge of 42% from LBP43,394.4bn at end-August 2022. Also, the item "Other Assets" on BdL's balance sheet reached LBP103,017.7bn, or \$6.8bn at end-August 2023, and increased by 2.8% from LBP100,194.3bn a month earlier.

In parallel, the value of BdL's gold reserves reached \$17.9bn at end-August 2023, constituting increase of \$1.27bn (+7.7%) from the end of 2022 and of \$1.9bn (+12.1%) from \$16bn at end-August 2022. The value of gold reserves reached a peak \$18.7bn at mid-April 2023. Also, the securities portfolio of BdL totaled LBP66,480bn, or \$4.43bn, at end-August 2023. In addition, loans to the local financial sector stood at LBP15,640.7bn, or \$1.04bn; while the deposits of the financial sector reached LBP1,335.4tn, or \$89bn, at end-August, 2023. In addition, public sector deposits at BdL stood at LBP134,656.6bn at end-August 2023 and surged by LBP116,289.3bn from a year earlier.

Moreover, the balance sheet shows that BdL's loans to the public sector totaled LBP249,255bn, equivalent to \$16.6bn, as at mid-August 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 the balance of overdraft of \$16.52bn in loans to the public sector on the "assets" side. BdL noted that it opened a special account called the "Exchange Rate Stabilization Fund", in which it recorded all the transactions related to foreign-exchange intervention to stabilize the exchange rate starting in 2020. It said that the balance of the fund was LBP101tn at end-August 2023.

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



*month-on-month change

Source: Banque du Liban, Byblos Research

Number of airport passengers up 19% in first eight months of 2023

Figures released by the Beirut-Rafic Hariri International Airport (HIA) show that 5 million passengers utilized the airport (arrivals, departures and transit) in the first eight months of 2023, constituting increases of 19.3% from 2.65 million passengers in the same period of 2022, and of 88.4% from 2.06 million passengers in the first eight months of 2021. Also, 914,262 passengers utilized the airport in August 2023, constituting an increase of 15.2% from 793,287 in August 2022 and a decrease of 1.1% from 924,223 in July 2023. The number of arriving passengers reached 2.5 million passengers in the first eight months of 2023, and grew by 20.7% from 2.08 million passengers in the same period of 2022 and by 94.2% from 1.3 million passengers in the first eight months of 2021. The number of arriving passengers stood at 379,114 in August, representing an increase of 19% from 318,605 in August 2022 and a decline of 24.8% from 503,887 passengers in July 2023. Also, the number of departing passengers totaled 2.48 million in the first eight months of 2023, constituting increases of 18.7% from 2.1 million passengers in the same period of last year and of 88.2% from 1.3 million passengers in the first eight months of 2021. The number of departing passengers reached 534,050 in August, representing increases of 13.3% from 471,185 in August 2022 and of 27.3% from 419,512 departing passengers in July 2023. The rise in the number of airport passengers in the covered period is due in part to the rolling back of most travel restrictions around the world in light of the receding threat of the coronavirus pandemic, and the subsequent increase in mobility amid the resumption of normal activity.

In parallel, the airport's aircraft activity totaled 39,887 take-offs and landings in the first eight months of 2023, representing an increase of 15.6% from 34,510 takeoffs and landings in the same period last year. In comparison, aircraft activity rose by 39.6% in the first eight months of 2022 and by 42.4% in the same period of 2021. In addition, the HIA processed 37,873 metric tons of freight in the first eight months of 2023 that consisted of 21,394 tons of import freight and 16,479 tons of export freight. Middle East Airlines had 16,939 flights in the covered period and accounted for 42.5% of HIA's total aircraft activity.

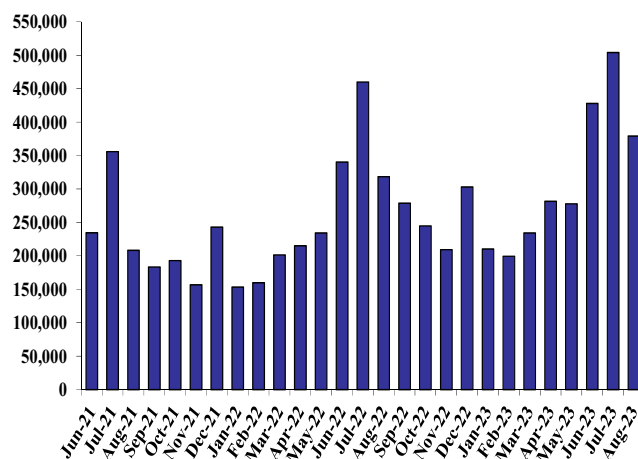
Number of new construction permits down 47% in first seven months of 2023

Figures issued by the Orders of Engineers & Architects of Beirut and of Tripoli show that the two orders issued 6,678 new construction permits in the first seven months of 2023, constituting a drop of 47.3% from 12,663 permits in the first seven months of 2022. Also, the orders of engineers issued 1,032 permits in July 2023, representing an increase of 14% from 905 permits in June 2023 and a contraction of 2.3% from 1,056 permits in July 2022. Mount Lebanon accounted for 34% of the number of newly-issued construction permits in the first seven months of 2023, followed by the South with 25%, the Nabatieh area with 17.6%, the North with 10.7%, the Bekaa region with 8%, and Beirut with 2.7%. The remaining 2% were permits issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon. The number of new construction permits issued for regions located in the North dropped by 69.3% in the first seven months of 2023 from the same period last year, followed by permits in regions outside northern Lebanon (-64.8%), in the Bekaa region (-46%), in Mount Lebanon (-45.2%), in the South (-40.5%), in the Nabatieh area (-35.4%), and in Beirut (-9.2%).

Further, the surface area of granted construction permits reached 2.7 million square meters (sqm) in the first seven months of 2023, constituting a decline of 62.3% from 7.15 sqm in the same period of 2022. Also, the surface area of granted construction permits reached 432,089 sqm in July 2023, increasing by 23.8% from 348,885 sqm in June 2023 and by 16.8% from 369,812 sqm in July 2022. Mount Lebanon accounted for 894,286 sqm, or for 33.2% of the total surface area of granted construction permits in the first seven months of 2023. The South followed with 689,139 sqm (25.6%), then the Nabatieh area with 399,533 sqm (14.8%), the North with 293,316 sqm (10.9%), the Bekaa region with 279,250 sqm (10.4%), and Beirut with 75,403 sqm (2.8%). The remaining 60,998 sqm, or 2.3% of the total, represent the surface area of permits that the Order of Engineers & Architects of Tripoli issued for regions located outside northern Lebanon.

Also, the surface area of new construction permits issued in the North dropped by 83.8% in the first seven months of 2023 from the same period last year, followed by surface areas in regions located outside northern Lebanon (-80.3%), then Beirut (-62.2%), Mount Lebanon (-60.3%), the Bekaa region (-60.1%), the South (-42.5%), and the Nabatieh area (-40.8%). In parallel, the latest available figures show that cement deliveries totaled 2.12 million tons in 2022, constituting an increase of 9% from 1.95 million tons in 2021.

Number of Arriving Passengers



Source: Beirut-Rafic Hariri International Airport

Occupancy rate at Beirut hotels at 42% in first half of 2023

EY's benchmark survey of the hotel sector in the Middle East indicates that the average occupancy rate at four- and five-star hotels in Beirut was 41.8% in the first half of 2023 relative to 45% in the same period of 2022, and compared to an average rate of 63.9% in 13 Arab markets included in the survey. The occupancy rate at Beirut hotels was the lowest in the region in the first half of the year, while it was the third lowest in the same period of 2022. The occupancy rate at Beirut hotels was 36.8% in January, 35.6% in February, 38.2% in March, 33.4% in April, 49.2% in May, and 57.4% in June 2023. In comparison, it was 34.7% in January, 43.8% in February, 52.7% in March, in 25.8% in April, 52.5% in May, and 60.4% in June 2022. The occupancy rate at hotels in Beirut decreased by 3.2 percentage points in the first half of 2023 from the same period of 2022. In comparison, the average occupancy rate in Arab markets improved by 6.2 percentage points in the covered period.

Also, the average rate per room at Beirut hotels was LBP9.86m (\$107) in the first half of 2023, relative to LBP1.8m (\$66) in the same period of 2022, and constituted the second lowest rate in the region. EY indicated that it based its average rate per room at Beirut hotels on the exchange rate of the Lebanese pound to the US dollar that the hotels used at the time of the client's booking. The average rate per room in Beirut was lower than the regional average of \$178.4 that increased by \$18.4, or by 11.5%, from an average of \$160 in the same period of 2022. The average rate per room at Beirut hotels was LBP2.9m (\$50) in January, LBP4.4m (\$51) in February, LBP6.3m (\$59) in March, LBP6.7m (\$69.2) in April, LBP15.26m (\$162) in May, and LBP17.1m (\$185) in June 2023. In comparison, it was LBP1.4m (\$69) in January, LBP1.4m (\$67) in February, LBP1.4m (\$61) in March, LBP1.9m (\$72.3) in April, LBP2.48m (\$79) in May, and LBP2.1m (\$75) in June 2022.

Further, revenues per available room (RevPAR) stood at LBP4.1m (\$45) at Beirut hotels in the covered period compared to LBP828,375 (\$29) in the first half of 2022, and were the lowest in the region. In comparison, the average RevPAR in Arab markets was \$117.9 in the covered period. EY indicated that it used the same methodology to calculate the RevPAR as it did for the average rate per room. The RevPAR at hotels in Beirut reached LBP1.06m (\$18) in January, LBP1.58m (\$18) in February, LBP2.4m (\$23) in March, LBP2.2m (\$23.1) in April, LBP7.5m (\$80) in May, and LBP9.78m (\$106) in June 2023. In comparison, it was LBP505,622 (\$24) in January, LBP602,568 (\$29) in February, LBP760,794 (\$32) in March, LBP501,535 (\$18.7) in April, LBP1.3m (\$42) in May, and LBP1.27m (\$45) in June 2022. Dubai had the highest hotel occupancy rate in the region at 81% in the first half of 2023, as well as the highest average rate per room at \$328 and the highest RevPAR at \$266 in the covered period.

Government approves renewal of agreement on oil supply from Iraq

The Council of Ministers approved on September 7, 2023, the request from the Ministry of Energy & Water to renew the agreement with the Iraqi government to supply 1.5 million tons of oil to the state-owned Electricité du Liban (EdL), as well as to swap the Iraqi heavy fuel oil with 'Grade A' fuel oil and/or 'Grade B' fuel oil and gas oil for the benefit of EdL.

The Ministry announced earlier this year that it has signed on July 21, 2023 a Memorandum of Understanding (MoU) with the Iraqi Ministry of Oil for the latter to supply Lebanon with oil derivatives. The ministry indicated that the MoU stipulates the completion of the implementation of the current agreement and the delivery of all the remaining quantities of fuel oil by the end of September 2023; the renewal of the fuel oil agreement for an additional year, with an increase in the annual quantities delivered to 1.5 million tons instead of the one million tons in the current agreement; as well as the conclusion of a new agreement to supply Lebanon with an annual quantity of two million tons of heavy fuel oil, which the ministry will exchange in accordance with the specifications of power production plants in Lebanon. In addition, the two ministries agreed to form a joint committee to discuss the details of these contracts in order to submit them to the relevant authorities in the two countries and approve them according to the prevailing laws.

In July 2021, the Lebanese authorities reached a deal for one year with their Iraqi counterparts that allows the Lebanese government to buy one million tons of heavy fuel oil from Iraq and to resell the oil through monthly spot tenders on behalf of EdL in order to meet power production needs in the country. The ministry said that the Iraqi heavy fuel oil is unsuitable for Lebanon's power plants, so the Lebanese government has been exchanging the imports with refined fuel oil through tenders to swap the Iraqi heavy fuel oil with 'Grade B' fuel oil.

On August 11, 2022, the Iraqi government agreed to extend the fuel oil agreement with Lebanese authorities for one year under the same conditions of the current arrangement. The volume is equivalent to one third of Lebanon's fuel oil needs for electricity production.

In addition, the ministry announced on May 16, 2023 that it has reached an agreement with the Iraqi Ministry of Oil to double the quantities of oil derivatives that Iraq has been supplying to Lebanon for the benefit of EdL. It indicated that the new quantity of fuel oil will increase the monthly supply of fuel to the country from 80,000 tons to 160,000 tons per month, or 1.92 million tons of fuel oil annually, which aims to increase the provision of eight to 10 hours of electricity per day, up from four to five hours per day at the time.

Hotel Sector Performance in First Half of 2023

	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Dubai	81	266	2.1
Madina	81	169	63.8
Abu Dhabi	78	79	29.2
Makkah	74	199	88.4
Cairo	70	98	108.5
Riyadh	63	121	13.7
Muscat	60	78	29.5
Jeddah	60	149	21.5
Doha	59	66	-1.7
Manama	57	90	22.5
Kuwait City	56	101	-4.5
Amman	50	72	16.1
Beirut	42	45	51.7

Source: EY, Byblos Research

Forensic audit considers quality of Banque du Liban's foreign assets deteriorated in the 2015-20 period

In its preliminary forensic audit report of Banque du Liban (BdL), management consulting firm Alvarez & Marsal (A&M) indicated that BdL's foreign assets position deteriorated significantly in the 2015-20 period. It said that BdL's net foreign assets shifted from a surplus of \$7.2bn at the end of 2015 to deficits of \$396m at end-2016, \$8.5bn at end-2017, \$15.4bn at end-2018, \$32.4bn at end-2019 and \$50.7bn at end-2020, due to an 18% decline in foreign currency assets and a 119% increase in foreign currency liabilities, as a result of BdL's financial engineering programs. It noted that BdL's foreign currency assets are split into foreign assets placed with overseas investment-grade banks, and assets held with local banks and the government of Lebanon; while liabilities include predominantly foreign currency-denominated placements of banks operating in Lebanon.

In parallel, it pointed out that the quality of BdL's assets deteriorated in the covered period, as the foreign currency assets that BdL held overseas rose from \$35.8bn at the end of 2015 to \$39.4bn at end-2016, and then declined to \$38.6bn at end-2017, to \$33.1bn at end-2018, to \$24.9bn at end-2019 and to \$18.4bn at end-2020. It added that BdL's foreign currency assets held at local banks increased from \$12.7bn in at the end of 2015 to \$21.2bn at end-2020 due to an overdraft extended to the Ministry of Finance that grew from \$10.5bn at end-2015 to \$15.5bn at the end of 2019, and to higher investments in Lebanese Eurobonds that rose from \$897m at end-2015 to \$5.8bn at the end of 2019.

Also, it said that BdL announced on July 7, 2023 that its foreign currency deposits dropped by about \$4.5bn during the last 10 months of 2020, as a result of the previous government's disorderly default on its external obligations, the Cabinet's subsidy policies, and the fallout of the explosion at the Port of Beirut.

Further, A&M considered that there are significant uncertainties about BdL's likelihood of recovering from the Lebanese State the amounts that the latter owes to the central bank, and that it would be more accurate to calculate the shortage in foreign currency reserves at BdL excluding the foreign currency assets held at local banks. It pointed out that a large and increasing share of BdL's foreign currency-denominated assets were domestic assets, or loans due from Lebanese residents, from a Lebanese-incorporated firm or bank, and/or from the Lebanese government. As such, it estimated that the shortage in foreign currency reserves increases from \$50.7bn to \$71.9bn at end-2020 when excluding foreign currency assets held at domestic banks, and that the latter would be equivalent to about 230% of Lebanon's 2020 GDP. It did not expect BdL to obtain the required amounts to cover the shortage in foreign currency, as Lebanon has operated a deficit in its net trade in goods and services for the past 20 years.

In addition, it indicated that, at the official exchange rate of LBP1,507.5 per US dollar, BdL's deficit in foreign currency would be equivalent to LBP108 trillion. It did not consider the quantification of the deficit in Lebanese pounds as meaningful, as that exchange rate on the parallel market is unstable, and anticipated it to further deteriorate if money supply expands in case BdL were to attempt to repay its foreign currency liabilities using Lebanese pounds at the prevailing exchange rate in the parallel market.

Total Assets in Foreign Currencies at Banque du Liban						
<i>(in LBP millions)</i>	2015	2016	2017	2018	2019	2020
Foreign Assets in Foreign Currencies						
Cash at Banks	8,612,323	9,380,900	5,992,954	8,713,438	17,389,272	13,336,279
Reverse Repurchase Agreements	992,387	3,211,427	3,806,287	958,469	-	-
Interest Bearing Time Deposits						
with Banks	36,573,375	38,686,509	43,245,547	36,195,588	18,151,962	12,571,460
Foreign Bonds	7,483,636	6,135,472	3,696,799	2,368,082	1,816,211	1,816,211
Certificates of Deposit	243,073	1,975,979	1,427,707	1,618,344	188,151	-
	53,904,794	59,390,287	58,169,294	49,853,921	37,545,596	27,723,950
Local Assets in Foreign Currencies						
Asset-Backed and Credit						
Linked Notes	659,390	613,508	1,213,929	1,037,475	863,778	859,124
Government Eurobonds	1,351,740	1,351,241	2,976,792	5,760,551	8,768,757	5,326,067
Loans to Banks and Fin. Institutions	1,350,913	2,630,105	1,790,287	2,254,436	8,238,653	2,167,463
Ministry of Finance Overdraft	15,850,137	16,894,416	19,281,094	20,435,117	23,284,544	23,535,789
	19,212,179	21,499,271	25,262,101	29,487,580	41,155,733	31,888,442
Total	73,116,973	80,889,558	83,431,395	79,341,501	78,701,328	59,612,392

Source: Alvarez & Marsal, August 2022

Balance sheet of financial institutions at LBP8.5 trillion at end-June 2023

Figures released by Banque du Liban show that the consolidated balance sheet of financial institutions in Lebanon totaled LBP8,5 trillion (tn) at the end of June 2023, or the equivalent of \$570m, constituting an increase of 7.4% from LBP8tn (\$530.8m) at the end of May 2023. The dollar figures are based on the 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 LBP4.3tn (\$288m) at the end of June 2023 and increased by 13.6% from the end of May 2023. Claims on resident customers in Lebanese pounds totaled LBP398.7bn at end-June 2023, constituting a decrease of 5.3% from end-2022 and an increase of 29.5% from end-June 2022; while claims on resident customers in foreign currency amounted to \$261.3m at end-June 2023 and grew by 2.3% in the first half of the year, while they regressed by 9% from end-June 2022. Also, claims on non-resident customers stood at \$8m at end-June 2023, representing declines of 34.5% from end-2022 and of 32.5% from a year earlier. In addition, claims on the resident financial sector reached LBP2.34tn (\$156.2m) at end-June 2023, up by 2.3% from LBP2.29tn at the end of May 2023. Also, claims on the resident financial sector in Lebanese pounds amounted to LBP261.1bn at end-June 2023, as they increased by 3% in the first half of the year and contracted by 6.7% from end-June 2022; while claims on the resident financial sector in foreign currency totaled \$138.8m at end-June 2023, up by 26.3% from end-2022 and by 45.2% from end-June 2022. Further, claims on the non-resident financial sector reached \$41.9m at the end of June 2023, as they regressed by 2.6% from end-2022 and increased by 27.5% from a year earlier. Also, claims on the public sector stood at LBP3.6bn at end June-2023, constituting an increase of 2% from end-May 2023 and declines of 73% in the first half of the year and of 71.2% from a year earlier; while the securities portfolio, which includes Lebanese Treasury bills and Eurobonds, amounted to LBP181.1bn at end-June 2023, representing a decrease of 0.3% from LBP181.7bn at end-May 2023. In parallel, currency and deposits with local and foreign central banks reached LBP366.7bn (\$24.4m) at the end of June 2023 and regressed by 7.3% from LBP395.7bn at end-May 2023.

On the liabilities side, deposits of resident customers stood at LBP2.3tn (\$156m) at the end of June 2023, constituting an increase of 7.8% from LBP2.17tn (\$144.7m) at end-May 2023. Deposits of resident customers in Lebanese pounds amounted to LBP129bn at end-June 2023 and expanded by 24.4% from end-2022 and by 140.6% from a year earlier; while deposits of resident customers in foreign currency totaled \$147.3m at end-June 2023, representing increases of 20.2% in the first half of the year and of 32% from end-June 2022. Also, deposits of non-resident customers reached \$5.8m at the end of June 2023, as they regressed by 3% from end-2022 and grew by 16.4% from end-June 2022.

Further, liabilities to the resident financial sector amounted to LBP812.6bn (\$54.2m) at end-June 2023 and increased by 3.4% from LBP786m (\$52.4m) at the end of May 2023. Liabilities to the resident financial sector in Lebanese pounds totaled LBP107.3bn at end-June 2023 and surged by 133.7% from end-2022 and by 530% from a year earlier; while liabilities to the resident financial sector in foreign currency reached \$47m at end-June 2023 and dropped by 37.2% in the first half of the year and by 51.4% from end-June 2022. In addition, liabilities to the non-resident financial sector amounted to \$57m at end-June 2023 and grew by 1.2% from end-2022 and regressed by 0.8% from end-June 2022. Also, public sector deposits totaled LBP75.6bn at end-June 2023 relative to LBP3.6bn at the end of 2022, while issued debt securities stood at LBP54bn at end June-2023 compared to LBP936.2m at end-2022. Further, the aggregate capital account of financial institutions was LBP2.2tn (\$147.2m) at the end of June 2023 relative to LBP757.6bn (\$502.5m) at end-2022 and LBP634.1bn (\$420.7m) a year earlier.

Bank Audi posts profits of LBP1,012.6bn in first half of 2023

Bank Audi sal, one of six listed banks on the Beirut Stock Exchange, declared unaudited consolidated net profits of LBP1,012.6bn in the first half of 2023 relative to profits of LBP727.8bn in the same period of 2022. The bank's net interest income reached LBP3,253bn in the first half of 2023, constituting an increase of 245.4% from LBP941.8bn in the same period of 2022; while its net earnings from fees & commission stood at LBP1,139.7bn compared to net losses from fees & commission at LBP68.5bn in the first half of 2022. Further, the bank's net operating income totaled LBP3,612.6bn in the first half of the year relative to LBP1,301.9bn in the same period of 2022. In addition, the bank's operating expenditures reached LBP2,337.2bn in the first half of 2023 and rose by 325.6% from LBP549.1bn in the same period last year, with personnel cost accounting for 51.8% of the total.

In parallel, the bank's aggregate assets stood at LBP269,563bn at the end of June 2023 compared to LBP40,591bn at end-2022. Further, customer deposits reached LBP228,325bn relative to LBP29,101bn at end-2022 and deposits from related parties stood at LBP1,041.2bn at end-June 2023, with resident deposits accounted for 72.5% of total deposits at end-June 2023 compared to 74.9% at end-2022, and non-resident deposits represented 27.5% of aggregate deposits at end-June 2023 relative to 25.1% at end-2022. Also, Net loans & advances to customers totaled LBP36,610.7bn at the end of June relative to LBP5,871bn at end-2022 and net loans & advances to related parties amounted to LBP594.1bn at end-June 2023. Loans extended to residents accounted for 12.6% of total loans at end-June 2023 compared to 37.9% at end-2022, while loans extended to non-residents represented 87.4% of total loans at end-June 2023 relative to 62.1% at end-2022. In parallel, the bank's shareholders' equity was LBP16,828.2bn at the end of June relative to LBP6,055.3bn at end-2022. The bank indicated that the uncertainties arising since 2019 makes it difficult to estimate the negative impact of the crisis on its financial statements.



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



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

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BYBLOS BANK GROUP

LEBANON

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

IRAQ

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

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

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

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

ARMENIA

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

NIGERIA

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

BELGIUM

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

UNITED KINGDOM

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

FRANCE

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

ADIR INSURANCE

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