

LEBANON THIS WEEK

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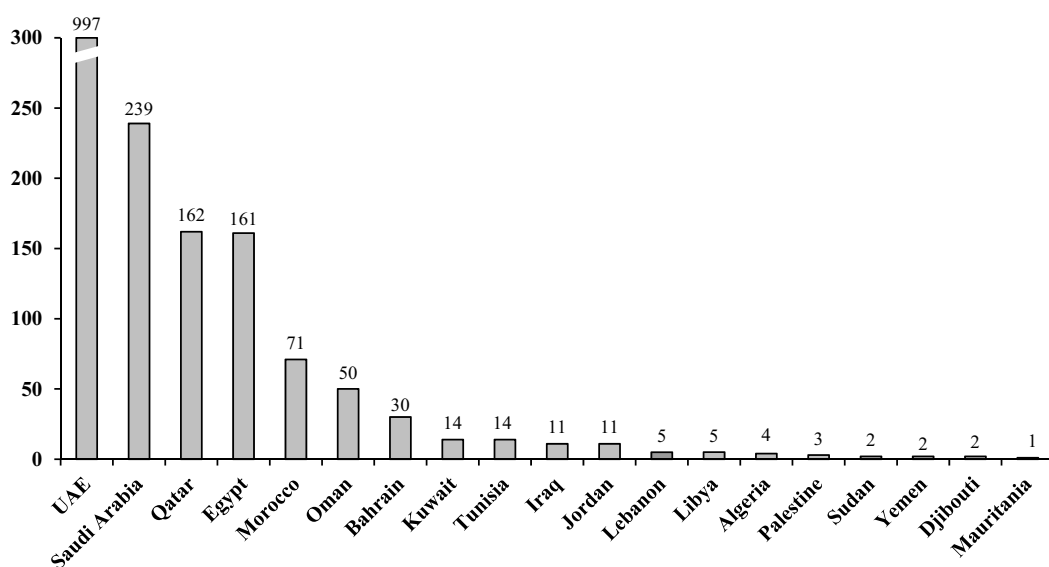
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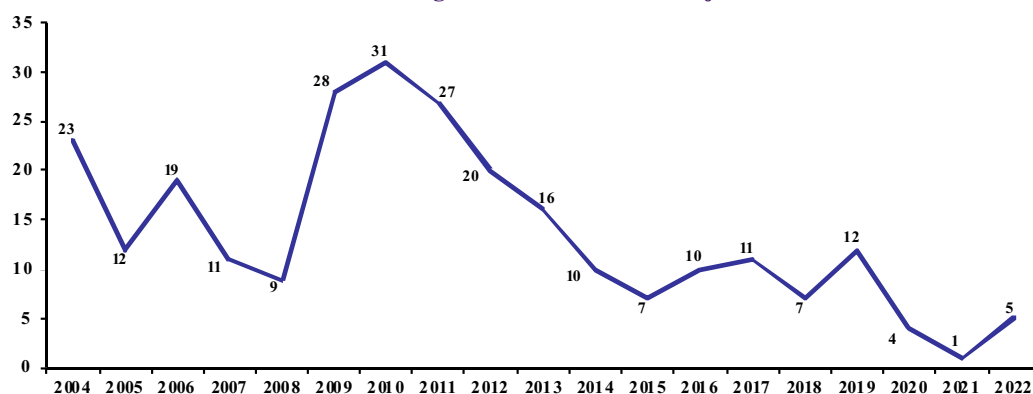
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Charts of the Week

Number of Greenfield Foreign Direct Investment Projects in Arab Countries in 2022



Number of Greenfield Foreign Direct Investment Projects in Lebanon



Source: UNCTAD, Byblos Bank

Quote to Note

"Fiscal accounts have been drained by large annual transfers to the state-owned power utility Electricité du Liban."

Moody's Investors Service, on the burden of the mismanagement of the power sector on Lebanon's public finances

Number of the Week

15,537: Number of employees at commercial banks operating in Lebanon at the end of 2022, according to Banque du Liban

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 "B"	77.40	(0.3)	356,623	27.4%	Apr 2024	6.65	8.00	1,490.43
Solidere "A"	76.95	(0.6)	105,573	41.9%	Jun 2025	6.25	8.00	214.91
Audi GDR	1.35	(3.6)	3,818	0.9%	Nov 2026	6.60	8.00	97.18
Byblos Common	0.70	0.0	3,230	2.2%	Mar 2027	6.85	8.00	86.57
HOLCIM	62.00	(10.1)	2,233	6.6%	Nov 2028	6.65	8.00	55.92
Audi Listed	2.35	0.0	-	7.5%	Feb 2030	6.65	8.00	43.36
BLOM GDR	2.14	0.0	-	0.9%	Apr 2031	7.00	8.00	36.20
BLOM Listed	3.00	0.0%	-	3.5%	May 2033	8.20	8.00	27.93
Byblos Pref. 08	27.00	0.0	-	0.3%	Nov 2035	7.05	8.00	21.96
Byblos Pref. 09	29.99	0.0	-	0.3%	Mar 2037	7.25	8.00	19.60

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

Source: Refinitiv

	Sep 11-15	Sep 4-8	% Change	August 2023	August 2022	% Change
Total shares traded	473,477	402,594	17.6	1,893,327	899,525	110.5
Total value traded	\$34,842,402	\$31,002,063	12.4	\$46,947,434	\$33,747,990	39.1
Market capitalization	\$18.37bn	\$18.57bn	(1.1)	\$18.72bn	\$13.36bn	40.1

Source: Beirut Stock Exchange (BSE)



Political complacency delaying critical reforms

In its statement at the conclusion of a staff visit to Lebanon, the International Monetary Fund (IMF) considered that the Lebanese economy continues to face significant challenges four years after the start of the crisis. It said that the lack of political will to implement difficult but critical reforms has left the country with inadequate public services, a deteriorating infrastructure, worsening poverty and unemployment conditions, as well as a widening income gap, which it anticipated will weigh on the economy in the near to medium terms. It added that the inflation rate is in triple digits, which is further affecting the purchasing power of individuals, while foreign currency reserves at Banque du Liban (BdL) declined in the first half of 2023 due to BdL's financing of quasi-fiscal operations and to the wide current account deficit.

It pointed out that the seasonal pick up in tourism activity has increased foreign currency inflows to the country during the summer months. But it noted that this is fueling the perception that the economy has bottomed out of the crisis, which has resulted in the complacency of the authorities. It also noted that tourism receipts and remittance inflows fall far short of what the government needs to offset a wide trade deficit and the lack of external financing.

In parallel, the IMF considered that the recent decisions of BdL's new leadership to phase out the Sayrafa electronic exchange platform, to establish a reputable and transparent foreign exchange trading platform, to end the drawdown of foreign currency reserves and to curb the monetization of the fiscal deficit, as well as to enhance financial transparency, are steps in the right direction. But it noted that these measures should be supported temporarily by the enactment of the Capital Controls Law, and that the Cabinet and Parliament need to take comprehensive policy decisions to contain the widening of the external and fiscal deficits, and to start the restructuring of major state-owned enterprises (SOEs) and of the banking system. It also encouraged the authorities to strengthen BdL's governance, accounting and foreign exchange operations, in line with international best practices. Moreover, it called on the authorities to unify the prevailing multiple official exchange rates at the market rate.

Further, it encouraged the government to implement a coherent fiscal strategy to restore the sustainability of the public debt and to create space for social and infrastructure spending, including by improving the mobilization of public revenues. It pointed out that the authorities have adjusted public revenue collection by modifying the tax rate, and by readjusting tax schedules and fees to plausible values in order to reflect the depreciation of the exchange rate, which has resulted in significantly higher tax receipts. Still, it considered that the authorities need to step up reform efforts, as it noted that the 2023 budget is lacking in terms of timeliness and coverage, and does not accurately reflect the true extent of the fiscal deficit and the associated monetary financing. Also, it said that, even though the government approved the 2024 budget within the constitutional deadline, the proposed budget for the coming year should be consistent with the exchange rate unification process, and that it should refrain from the preferential treatment of certain taxpayers relative to others. It also urged the authorities to mobilize sufficient resources to rebuild the tax administration in order to strengthen compliance and improve tax fairness, including by implementing the key elements of the IMF's tax policy reform recommendations that it published in the 2023 Technical Assistance Report on Putting Tax Policy Back on Track.

In addition, the IMF indicated that the government has yet to put in place a plan to restructure the banking sector, which has led to a significant decline in recoverable deposits at commercial banks operating in the country and is impeding the provision of credit to the economy. It noted that the relevant stakeholders are stepping up efforts to revise the Bank Restructuring and Resolution Law, while the amendments to the Banking Secrecy Law and the draft Capital Controls Law are contingent on their enactment by Parliament.

Banque du Liban's foreign currency liquidity at \$8.5bn at end-August 2023

Banque du Liban (BdL) indicated that its foreign currency liquidity stood at \$8.489bn at the end of August 2023, constituting a decline of \$53m from \$ 8.542bn at mid-August of this year; in addition to \$413m that consisted of the market value of its portfolio of Lebanese Eurobonds relative to \$421.8m at mid-August 2023. It noted that the figures exclude BdL's holdings of gold. It added that its obligations in foreign currency totaled \$1.28bn at end-August of this year, which consist of payments that it has to disburse from its foreign currency liquidity when they are due.

The distribution of BdL's foreign currency liquidity shows that term deposits stood at \$3.49bn and accounted for 41% of the total, followed by current accounts at \$3.24bn (38%), cash in vault at \$1.53bn (18%), and international securities at \$240m (2.8%). It noted that the accounts consist of foreign currencies, mostly in US dollars and in Euros, at the exchange rates that prevailed as at August 31, 2023.

In parallel, the distribution of BdL's foreign currency obligations shows that loans to Arab parties stood at \$660m and accounted for 51.6% of the total, followed by public sector deposits in "fresh dollars" at \$328m (25.6%), deposits of Arab parties at \$106m (8.3%), letters of credits opened by BdL at \$95m (7.4%), Special Drawing Rights available for use at \$76m (5.9%), and commercial banks' accounts in "fresh dollars" at \$14m (1.1%). It noted that loans to and deposits of Arab parties consist of long-term obligations that carry interest payments.

In addition, BdL indicated that it is continuing with its declared policy of preserving its liquid foreign assets and of not using them except to disburse BdL's part of the requirements of Basic Circular 158/13335 dated June 8, 2021 about exceptional measures related to the gradual disbursement of deposits in foreign currency from accounts that clients opened prior to October 31, 2019.

Lebanese expatriates account for 62% of visitor arrivals in first seven months of 2023

Figures compiled by the Ministry of Tourism and the Lebanese General Security indicate that the number of incoming visitors to Lebanon totaled 2,683,184 in the first seven months of 2023, and consisted of 1,664,292 Lebanese expatriates and 1,018,892 Arab and foreign visitors. In comparison, the number of incoming visitors to Lebanon totaled 2,077,663 in the first seven months of 2022, who consisted of 1,268,419 Lebanese expatriates and 809,244 Arab and foreign visitors. As such, the number of incoming Lebanese expatriates increased by 31.2% and the number of Arab and foreign visitors grew by 26% in the first seven months of 2023 from the same period of 2022. Lebanese expatriates accounted for 62% of the total number of incoming visitors in the first seven months of 2023, while Arab and foreign visitors represented the balance of 38%. In comparison, Lebanese expatriates accounted for 61% of visitors to the country and Arab and foreign tourists represented 39% of the total in the first seven months of 2022.

In addition, the number of incoming Lebanese expatriates stood at 213,056 in January, 163,169 in February, 201,992 in March, 234,908 in April, 230,294 in May, 295,380 in June, and 325,493 in July 2023. In comparison, the number of incoming Lebanese expatriates was 126,381 in January, 126,777 in February, 163,629 in March, 170,437 in April, 185,398 in May, 206,635 in June, and 289,163 in July 2022. This constituted increases of 68.6% in January, 28.7% in February, 23.4% in March, 37.8% in April, 24.2% in May, 42.9% in June, and 12.6% in July 2023 from the corresponding months of 2022.

In parallel, the number of foreigners that include Arab visitors totaled 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, the number of foreigners that include Arab visitors was 62,340 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 represented rises of 41.8% in January, 26.4% in February, 21.6% in March, 40.9% in April, 24% in May, 35.6% in June, and 12.2% in July 2023 from the corresponding months of 2022.

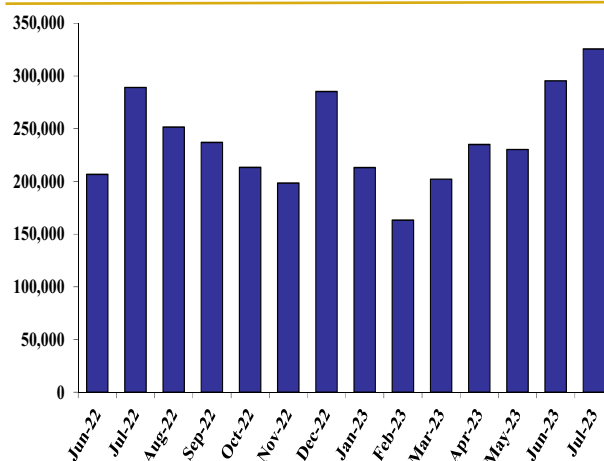
Transport Ministry announces tender to sell metal scrap at Beirut Port

The Ministry of Public Works and Transport launched a public tender to sell the metal scrap that resulted from the explosion at the Port of Beirut on August 4, 2020. It said that large quantities of metal scrap have remained within the confines of the Beirut Port since the blast three years ago. It noted that the tender aims to sell 9,500 tons of metal scrap at a starting price of \$175 per ton, and is an integral component of the port's reconstruction plan. It indicated that the transaction will free up tens of thousands of square meters on the port's ground to prepare them for future investments by the private sector, which will lead to an increase in the revenues of the Treasury. The ministry set October 3, 2023, as the deadline to submit the bids.

Figures released by the Port of Beirut show that the port processed 5.14 million tons of freight in 2022, constituting an increase of 10.6% from 4.65 million tons of freight in 2021. Imported freight amounted to 4.18 million tons in 2022, up by 10.5% from 3.78 million tons in 2021, and accounted for 81.4% of total processed freight. In addition, the volume of exported cargo reached 959,000 tons in 2022, representing a rise of 11% from 864,000 tons in 2021 and accounting for 18.6% of aggregate freight in 2022. A total of 1,193 vessels docked at the port in 2022, nearly unchanged from 1,168 ships in 2021. Further, 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.

In parallel, the World Bank's Rapid Damage and Needs Assessment, which it conducted in cooperation with the United Nations and the European Union, estimated at between \$3.8bn and \$4.6bn the physical damage from the explosion at the Port of Beirut on August 4. In addition, it estimated losses in economic flows due to damaged assets and the subsequent decline in output at between \$2.9bn and \$3.5bn. More specifically, it estimated the damages in the transportation sector and port at between \$280m and \$345m and the economic losses in the transportation sector and at the port at between \$580m and \$710m.

Number of Lebanese Expatriates Arrivals to Lebanon



Source: Ministry of Tourism, Lebanese General Security, Byblos Research

Surveyed economists project Lebanon's real GDP growth rate at 0.3% in 2023

Bloomberg's quarterly survey of economists and analysts about the outlook on the Lebanese economy projected economic activity to grow by 0.3% in 2023 relative to an earlier forecast of a real GDP growth rate of 0.6% in the June 2023 survey. The individual forecasts for 2023 ranged from a contraction of 2% to a growth rate of 2% for the current year, with a median real GDP growth rate of 0.5% for 2023. Also, the poll indicates that the consensus forecast among 54.5% of participants is that real GDP will improve by more than 0.5% this year. Bloomberg conducted the poll in September 2023, and the survey's results are based on the opinions of 11 economists and analysts based in Lebanon and abroad.

Further, participants forecast the average inflation rate in Lebanon at 199.3% in 2023 compared to a projection of 157.8% in the June 2023 survey. The opinions of surveyed analysts differed on the magnitude of the increase in consumer prices in 2023, with expectations ranging from 88% to 280% and a median inflation rate of 200% for 2023. Also, 36.4% of participants predicted that the inflation rate would range between 204% and 280% this year.

In addition, surveyed analysts projected Lebanon's fiscal deficit at 2.6% of GDP in 2023 compared to a previous forecast of 1.2% of GDP in the June 2023 survey. The projections of polled economists for the fiscal balance ranged from a deficit of 6.5% of GDP to a surplus of 0.6% of GDP in 2023, with a median deficit of 3% of GDP. Further, the survey's participants forecast the current account deficit at 16.6% of GDP in 2023 compared to a previous forecast of a deficit of 22.5% of GDP in June 2023 survey. The polled analysts expected the current account deficit to range from 25% of GDP to 11.4% of GDP in 2023, with a median deficit of 13.5% of GDP for the year.

Banque du Liban suspends implementation of certain clauses of two recent circulars

Banque du Liban (BdL) issued Intermediate Circular 677/13578 dated September 11, 2023 addressed to banks, financial institutions and auditors, which suspended the implementation of certain clauses in Intermediate Circular 675/13566 and of Intermediate Circular 676/13567 dated July 24, 2023. The latter modified Basic Circular 32/6568 of April 24, 1997 about foreign exchange operations at banks and financial institutions, and the former modified Basic Circular 34/6576 of April 24, 1997 about consolidated financial statements and Basic Circular 44/6939 dated March 25, 1998 about the regulatory framework of the capital adequacy of banks operating in Lebanon.

First, the new circular suspended the clause in Intermediate Circular 675/13566 that mandated banks that exceed the ceiling of 1% on their net positions to place at BdL reserves in Lebanese pounds equivalent to 10 times the amount that exceeds the limit, based on the exchange rate of the Lebanese pound to the US dollar on the Sayrafa electronic exchange platform, for a one-month period for each day that the bank exceeds the set ceiling. The clause added that banks that exceed the ceiling of 40% for their general foreign currency position to place on the same day at BdL reserves in US dollars equivalent to 10 times the amount that exceeds the limit, after deducting the latter on the net open foreign currency position, for a one-month period for each day that the bank exceeds the set ceiling.

Second, it suspended the clause that mandated financial institutions that exceed the ceiling of 100% on their net long positions, or the ceiling of 5% on their net short positions, to place at BdL reserves in Lebanese pounds equivalent to 10 times the amount that exceeds the limit, based on the exchange rate of the Lebanese pound to the US dollar on the Sayrafa electronic exchange platform, for a one-month period for each day that the financial institution exceeds the set ceiling.

Third, it suspended the clause that stipulated that banks have until the end of August 2023 to liquidate the excess in their open foreign currency positions based on the exchange rate of transactions between BdL and commercial banks as at the date of the circular. The clause added that banks that cannot meet the deadline have to revert to BdL's Central Council prior to the end of August. It noted that it exempted from this decision the foreign currency position from the revaluation of real estate assets based on articles 153 and 154 of the Code of Money and Credit, and the foreign currency-denominated participations and loans in related entities based on the equity method. It indicated that banks that do not abide by the terms of this decision will be referred to the Higher Banking Authority. It said that the circular goes into effect upon its publication and has to be implemented on the banks' foreign currency positions as at June 30, 2023.

In parallel, the new circular suspended the clause in Intermediate Circular 676/13567 that said that, on an exceptional basis, and contrary to the terms of Basic Circular 140/12659 dated September 6, 2017 about implementing international financial reporting standards (IFRS), banks and financial institutions can classify the differences resulting from the periodic valuation of their foreign currency position under the "regularization and settlement" item on the assets side in case it is negative, or on the liabilities side in case it is positive, in both the financial position of the bank or financial institution or in the consolidated position. It added that, in case the difference from the revaluation is negative at the end of the year, the bank or financial institution has to take provisions equivalent to these differences and to classify them in the dedicated item on the annual balance sheet.



Currency in circulation down 30% in first seven months of 2023

Figures released by Banque du Liban show that money supply M1, which includes currency in circulation and demand deposits in Lebanese pounds, reached LBP89,337.8bn at the end of July 2023, constituting increases of 9.6% from LBP98,780.4bn at the end of 2022 and of 45.2% from LBP61,513.7bn at end-July 2022. Currency in circulation stood at LBP51,273bn at the end of July 2023, as it decreased by 30.3% from LBP73,514bn at end-2022 and grew by 37.7% from LBP37,246.7bn at end-July 2022. Also, demand deposits in local currency stood at LBP38,064.8bn at the end of July 2023, as it surged by 50.7% from the end of 2022 and by 57% from end-July 2022. Money supply M1 declined by 23% in July from LBP115,872.6bn at end-June 2023, with currency in circulation decreasing by 22.3% and demand deposits in local currency declining by 23.7% month-on-month.

In addition, money supply M2, which includes M1 and term deposits in Lebanese pounds, reached LBP105,203.3bn at the end of July 2023, constituting a decrease of 9.8% from LBP116,582.5bn at the end of 2022 and a rise of 32% from LBP79,686.6bn a year earlier. Term deposits in Lebanese pounds totaled LBP15,865.5bn at the end of July 2023, and declined by 11% from LBP17,802.2bn at end-2022 and by 12.7% from LBP18,172.9bn at end-July 2022. Money supply M2 declined by 20.3% in July from LBP131,926.6bn at end-June 2023, while term deposits in local currency regressed by 1.2% month-on-month.

Further, broad money supply M3, which includes M2, deposits in foreign currency and debt securities issued by the banking sector, reached LBP1,186.4 trillion (tn) at the end of July 2023, with deposits in foreign currency totaling LBP1,077.3tn and debt securities of the banking sector amounting to LBP3,906.8bn at end-July 2023. Also, money supply M3 regressed by 2.5% from LBP1,216.5tn at the end of June 2023, with deposits in foreign currency regressing by 0.3% and debt securities issued by the banking sector declining by 3.2% month-on-month. In parallel, M3 surged by LBP956,840bn in the first seven months of 2023 due to a jump of LBP809,936.1bn in net claims on the public sector, a rise of LBP197,637bn in the net foreign assets of deposit-taking institutions, and an increase of LBP102,616bn in the claims on the private sector, which were offset in part by a decline of LBP153,348.4bn in other items.

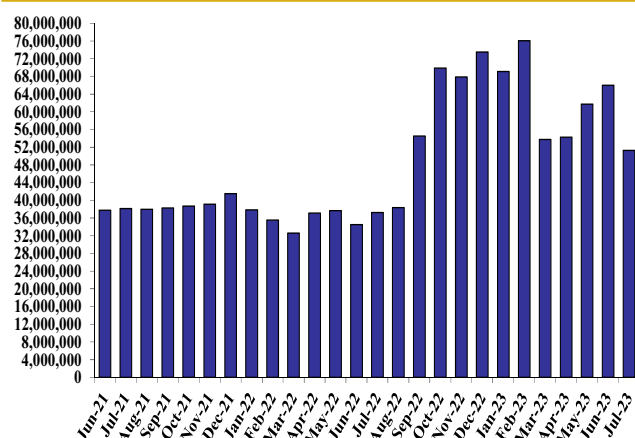
Net foreign assets of financial sector up \$926m in first seven months of 2023

Figures issued by Banque du Liban (BdL) show that the net foreign assets of the financial sector, which are a proxy for Lebanon's balance of payments, increased by \$925.9m in the first seven months of 2023, compared to decreases of \$2.8bn in the same period of 2022 and of \$1.77bn in the first seven months of 2021.

The cumulative surplus in the first seven months of 2023 was caused by an increase of \$2.4bn in the net foreign assets of banks and financial institutions, which was partly offset by a drop of \$1.46bn in those of BdL. Further, the net foreign assets of the financial sector declined by \$217.2m in July 2023 compared to decreases of \$88.2m in June 2023 and of \$207.7m in July 2022. The July decrease was caused by a decline of \$524.8m in the net foreign assets of BdL, which was partly offset by an increase of \$307.6m in those of banks and financial institutions.

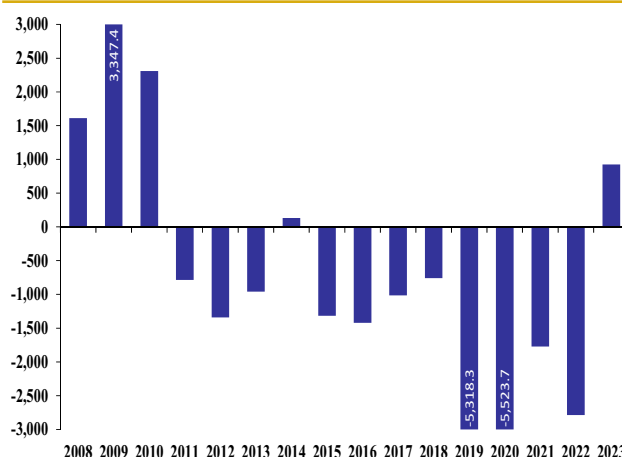
The cumulative increase in the banks' net foreign assets is mostly due to a decline in their foreign liabilities. The decrease in foreign liabilities was driven mainly by the contraction in liabilities to the non-resident financial sector and in non-resident customer deposits. In parallel, the decline in BdL's net foreign assets was due in part to the financing of the imports of 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.

Currency in Circulation (LBP millions)



Source: Banque du Liban, Byblos Research

Change in Net Foreign Assets of Financial Sector* (US\$m)



*in first seven months of each year

Source: Banque du Liban, Byblos Research

Private sector deposits at \$96.4bn at end-July 2023 based on new exchange rate

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets stood at LBP1,757.8 trillion (tn), or the equivalent of \$117.2bn at the end of July 2023, constituting an increase of 0.7% from LBP1,746.5tn (\$116.4bn) at end-June 2023. The dollar figures are based on the official exchange rate of the Lebanese pound to the US dollar of LBP1,507.5 per dollar until the end of January 2023 and of LBP15,000 per dollar starting in February 2023.

Loans extended to the private sector totaled LBP135.6tn at the end of July 2023, constituting a decrease of 2.8% from LBP139.6tn at end-June 2023. Loans to the resident private sector reached LBP119.4tn at end-July 2023 and contracted by 2.8% from LBP122.9bn a month earlier, while credit to the non-resident private sector amounted to LBP16.15tn at the end of July 2023 and regressed by 3% from LBP16.6tn at end-June 2023. Loans extended to the private sector in Lebanese pounds reached LBP11.6tn at the end of July 2023, constituting decreases of 15.7% from LBP13.8tn at end-June 2023, of 15.7% from end-2022, and of 22% from end-July 2022; while loans in foreign currency totaled \$7.2bn at the end of July 2023 and contracted by 1.2% from the previous month, by 19% in the first seven months of the year, and by 34.6% from end-July 2022.

In nominal terms, credit to the private sector in Lebanese pounds decreased by LBP3.1tn in the first seven months of 2023 compared to a decline of LBP1.9tn in the same period of 2022, while lending to the private sector in foreign currency dropped by \$1.9bn in the first seven months of 2023 relative to a contraction of \$3.2bn in the same period of 2022. Further, loans extended to the private sector in Lebanese pounds shrank by LBP15.7tn (-57%) and loans denominated in foreign currency decreased by \$32.9bn (-80%) since the start of 2019. The dollarization rate of private sector loans changed from 53.2% at end-July 2022 to 91.3% at the end of July 2023 due to the new exchange rate of LBP15,000 per dollar that went into effect on February 1, 2023. The average lending rate in Lebanese pounds was 3.6% in July 2023 compared to 5.09% a year earlier, while the same rate in US dollars was 2.61% relative to 4.74% in July 2022.

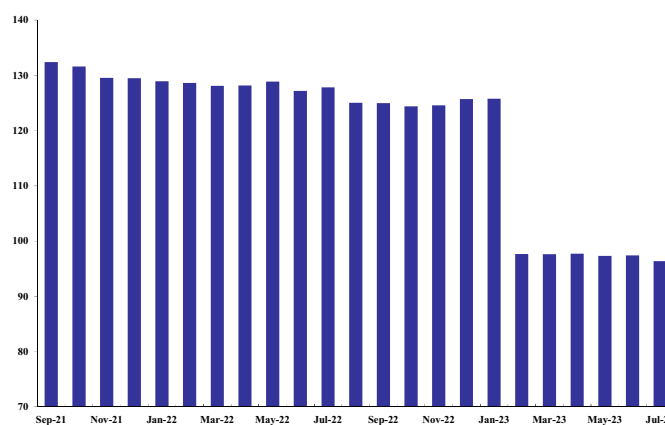
In addition, claims on non-resident financial institutions reached \$4.5bn at the end of July 2023, constituting increases of \$84.1m (+1.9%) from end-June 2022, of \$255.5m (+6%) from end-2022, and of \$631.2m (+16.5%) from a year earlier. Also, claims on non-resident financial institutions dropped by \$4.7bn (-51.2%) from the end of August 2019 and by \$7.5bn (-62.8%) since the start of 2019. Further, deposits at foreign central banks totaled \$862.7m at the end of July, constituting a decrease of \$9.4m (-1.1%) from end-June 2023, an increase of \$58.3m (+7.2%) in the first seven months of 2023, and a decline of \$309.7m (-26.4%) from end-July 2022. In addition, the banks' claims on the public sector reached LBP52tn at end-July 2023 based on the new exchange rate, down from LBP54tn at end-June 2023. The banks' holdings of Lebanese Treasury bills stood at LBP11.66tn, while their holdings of Lebanese Eurobonds reached \$2.65bn at end-July 2023 relative to \$3.94bn a year earlier. Further, the deposits of commercial banks at Banque du Liban amounted to LBP1,263.1tn (\$84.2bn) at the end of July 2023, representing a decrease of 1.2% from LBP1,278.6tn (\$85.2bn) at end-June 2023.

In parallel, private sector deposits totaled LBP1,445.3tn at the end of July 2023, or \$96.4bn based on the new exchange rate, constituting a decrease of 1.1% from LBP1,461tn at the end of June 2023. Deposits in Lebanese pounds reached LBP55.1tn at end-July 2023, as they declined by 18.5% from the previous month, and increased by 21.4% from the end of 2022 and by 22% from a year earlier; while deposits in foreign currency stood at \$92.7bn and regressed by 0.2% from end-June 2023, by 3.1% in the first seven months of the year, and by 5.3% from end-July 2022. Resident deposits accounted for 77.7% and non-resident deposits represented 22.3% of total deposits at end-July 2023.

In nominal terms, private sector deposits in Lebanese pounds decreased by LBP12.5tn from end-June 2023 and increased by LBP9.7tn in the first seven months of the year, while foreign currency deposits regressed by \$212.6m from end-June 2023 and by \$2.9bn from end-2022. In addition, private sector deposits dropped by \$15.4bn in 2019, by \$19.7bn in 2020, by \$9.7bn in 2021, and by \$3.75bn in 2022, including a decrease of \$13.7bn between September and December 2019. Further, aggregate private sector deposits in Lebanese pounds shrank by LBP22.1tn (-28.7%) and foreign currency deposits declined by \$30.4bn (-24.7%) since the start of 2019. The dollarization rate of private sector deposits changed from 76.6% at end-July 2022 and 76.1% at the end of 2022 to 96.2% at end-July 2023 due to the effects of the new exchange rate on the Lebanese pound component of the balance sheet.

In addition, the liabilities of non-resident financial institutions reached \$3.25bn at the end of July 2023 and regressed by 1% from \$3.3bn at end-June 2023, by 24.6% from \$4.3bn at end 2022, and by 25.4% from \$4.36bn at the end of July 2022. Also, the average deposit rate in Lebanese pounds was 0.81% in July 2023 compared to 0.54% a year earlier, while the same rate in US dollars was 0.08% relative to 0.12% in July 2022. Further, the banks' aggregate capital base stood at LBP127.6tn (\$8.5bn) at the end of July 2023, up by LBP25.2tn from LBP102.3tn at end-June 2023.

Private Sector Deposits (US\$bn)



Source: Banque du Liban, Byblos Research

Non-life premiums at LBP2,053bn in 2022

Figures released by the Insurance Control Commission show that total non-life premiums generated by 46 insurance companies operating in Lebanon reached LBP2,053bn, nearly unchanged from LBP2,048.4bn in 2021. Non-life premiums consist of healthcare, motor, and property & casualty premiums.

Bankers Assurance ranked in first place with LBP229bn in non-life premiums in 2022, followed by Fidelity Assurance & Reinsurance with LBP197.8bn, Mediterranean and Gulf Insurance and Reinsurance (MEDGULF) with LBP197bn, LIA Assurex with LBP149.5bn, and Securité Assurance with LBP114.1bn. Byblos Bank's insurance affiliate, Adonis Insurance and Reinsurance Co. (ADIR), ranked in 20th place with non-life premiums of LBP32.7bn in 2022.

The composition of the top 10 insurers changed from 2021, as the ranking of Securité Assurance improved by six spots from 11th place in 2021 to fifth place in 2022 and Al Mashrek Insurance advanced by three notches from 12th place to ninth place. Also, the rankings of Fidelity Assurance & Reinsurance, LIA Assurex, and AXA Middle East improved by one spot each to the second, fourth, and sixth place, respectively. In contrast, the rankings of MEDGULF and Allianz SNA regressed by one notch each to the third and seventh place, respectively, in 2022. Also, the rankings of Bankers Assurance, Arope Insurance, and Libano-Suisse were unchanged last year.

In addition, four out of the top 10 insurers posted a decline in their non-life premiums last year, while the premiums of the remaining six insurers increased in 2022. The top 10 insurers accounted for 64.4% of the non-life insurance market in 2022 relative to 57.6% in 2021, while the top 20 firms generated 86.2% of non-life premiums in 2022 compared to 87.6% in 2021.

In parallel, MEDGULF ranked first in health insurance with premiums of LBP150.8bn, while Fidelity Assurance & Reinsurance came first in motor insurance with premiums of LBP123.6bn in 2022, and LIA Assurex ranked first in property & casualty insurance with premiums of LBP44.1bn last year.

Moreover, the acquisition expenses of the non-life insurance category totaled LBP435bn in 2022 relative to LBP386.3bn in 2021, while administrative costs amounted to LBP396.1bn last year compared to LBP300.3bn in 2021. Also, the non-life insurance category generated net investment income of LBP198.6bn in 2022 relative to LBP72.1bn in 2021. In addition, the ratio of gross claims settled to gross written premiums of the non-life category stood at 85.6% last year compared to 62.2% in 2021. Further, the ratio of expenditures for acquisition and administration to gross written premiums of the non-life category reached 40.5% in 2022 relative to 33.5% in the previous year, and the ratio of net investment income to gross written premiums stood at 9.7% last year compared to 3.5% in 2021.

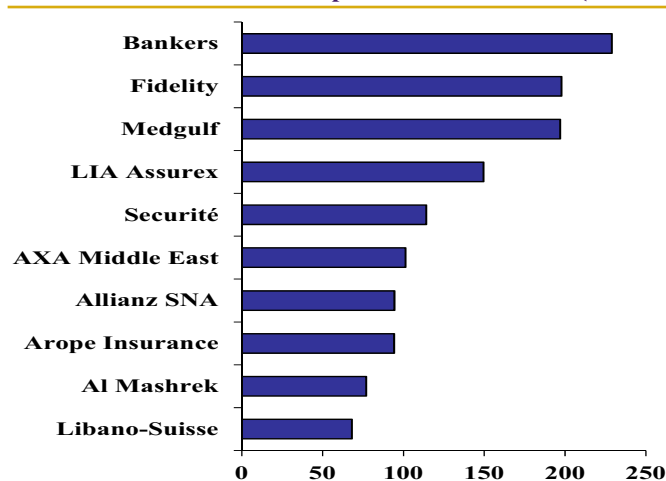
Allianz exits Lebanese insurance market

The Germany-based Allianz Group announced that it had completed the sale and transfer of Allianz SNA to the assets management firm Global Gate Capital. The Allianz Group, one of the largest insurance and asset management groups in the world and Europe's largest insurer, indicated that the transaction falls within its strategy to streamline its operations in several markets.

Established in 1963, Société Nationale d'Assurances (SNA) generates the majority of its premiums in Lebanon. The group also owns a Cyprus-based company and has interests in insurance companies in Jordan, Tunisia and Morocco. It is also active in Saudi Arabia and Egypt through advisory services. In 1998, French Insurance company Assurance Générale de France (AGF) acquired a 30% stake in SNA Holding (Bermuda) Ltd., the holding entity of Société Nationale d'Assurances. In 1999, AGF raised its stake in its SNA Holding from 30% to 51%. When the Allianz Group acquired AGF, it increased its share in SNA to 70% in 2006 and then acquired 100% of the local insurer's shares. Established in 2013, Global Gate Capital invests in multiple asset classes, such as real estate, private equity, credit, and listed securities.

Figures released by the Insurance Control Commission (ICC) show that Allianz SNA ranked in third and seventh places in 2022 in terms of life and non-life premiums, respectively. The firm's life premiums amounted to LBP44.3bn at the end of 2022, constituting a decline of 42.7% from a year earlier; while its non-life premiums decreased by 21% year-on-year to LBP94.4bn. It had an 11% share of the local life market and a 4.6% share of the non-life market in 2022. Also, the insurer ranked in sixth place in terms of life and non-life premiums and had a 5.6% market share in 2022. According to the ICC, Allianz SNA settled claims of LBP235.7bn in 2022, down by 9.2% from LBP259.5bn in 2021. In addition, the insurer's acquisition expenses reached LBP24bn in 2022 relative to LBP30.5bn in 2021, while its administrative costs amounted to LBP23.1bn last year compared to LBP20.4bn in 2021. Also, the insurance company generated net investment income of LBP10.5bn in 2022 relative to LBP20.9bn in 2021. Further, the ratio of gross claims settled to gross written premiums stood at 170% last year compared to 132% in 2021. Also, the ratio of expenditures for acquisition and administration to gross written premiums reached 34% in 2022 relative to 26% in the previous year, and the ratio of net investment income to gross written premiums stood at 8% last year compared to 11% in 2021.

Non-Life Premiums of the Top 10 Insurers in 2022 (LBPbn)



Source: Insurance Control Commission, Byblos Research

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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