Association of Banks in Lebanon

ANNUAL REPORT

2023

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PRELIMINARY INFORMATION

BOARD OF DIRECTORS
OF THE ASSOCIATION OF BANKS IN LEBANON ELECTED ON JUNE 29th, 2021

Chairman	
Dr. Salim Sfeir	Chairman & General Manager BANK OF BEIRUT S.A.L. (75)
Vice Chairman	
Mr. Nadim Kassar	Chairman & General Manager FRANSABANK S.A.L. (1)
Secretary	
Mr. Walid Raphael	Chairman & General Manager BANQUE LIBANO-FRANÇAISE S.A.L. (10)
Treasurer	
Mr. Abdel Razzak Achour	Chairman & General Manager FENICIA BANK S.A.L. (58)
Members	
Mr. Saad Azhari	Chairman & General Manager BLOM BANK S.A.L. (14)
Mr. Antoun Sehnaoui	Chairman & General Manager SOCIETE GENERALE DE BANQUE AU LIBAN S.A.L. (SGBL) (19)
H.E. Mrs. Rayya El Haffar Hasan	Chairman & General Manager BANKMED S.A.L. (22)
Sheikh Ghassan Assaf	Chairman & General Manager BBAC S.A.L. (28)
Mr. Semaan Bassil	Chairman & General Manager BYBLOS BANK S.A.L. (39)
Dr. Joseph Torbey	Chairman & General Manager CREDIT LIBANAIS S.A.L. (53)
Mr. Samir Hanna	Chairman & General Manager BANK AUDI S.A.L. (56)
Dr. Tanal Sabbah	Chairman & General Manager LEBANESE SWISS BANK S.A.L. (63)

( ) bank's official number issued by BDL

ASSOCIATION OF BANKS IN LEBANON
Established in 1959
Secretariat General

The Secretary General	Dr. Fadi Khalaf
Director of Financial & Administrative Department	Mr. Karam Yared
Director of Research & Statistics Department	Dr. Elias El-Achkar

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MEMBERS OF THE ASSOCIATION OF BANKS IN LEBANON IN 2023

A - ACTIVE MEMBERS:

1- (1) FRANSABANK S.A.L.
2- (3) BANQUE MISR LIBAN S.A.L. (BML SAL)
3- (5) ARAB BANK P.L.C.
4- (10) BANQUE LIBANO-FRANÇAISE S.A.L.
5- (11) B.L.C. BANK S.A.L.
6- (14) BLOM BANK S.A.L.
7- (16) FEDERAL BANK OF LEBANON S.A.L.
8- (19) SOCIETE GENERALE DE BANQUE AU LIBAN S.A.L. (SGBL)
9- (22) BANKMED S.A.L.
10- (28) BBAC S.A.L.
11- (36) BANQUE DE CREDIT NATIONAL S.A.L.
12- (39) BYBLOS BANK S.A.L.
13- (41) BANQUE DE L'HABITAT S.A.L.
14- (48) SARADAR BANK S.A.L.
15- (52) IBL BANK S.A.L.
16- (53) CREDIT LIBANAIS S.A.L.
17- (56) BANK AUDI S.A.L.
18- (58) FENICIA BANK S.A.L
19- (62) NORTH AFRICA COMMERCIAL BANK S.A.L.
20- (63) LEBANESE SWISS BANK S.A.L.
21- (68) BSL BANK S.A.L.
22- (73) NATIONAL BANK OF KUWAIT (LEBANON) S.A.L.
23- (75) BANK OF BEIRUT S.A.L.
24- (90) ARAB AFRICAN INTERNATIONAL BANK
25- (92) EMIRATES LEBANON BANK S.A.L.
26- (93) BANQUE BEMO S.A.L.
27- (94) LGB BANK S.A.L.
28- (95) SAUDI LEBANESE BANK S.A.L.
29- (101) AM BANK S.A.L.
30- (103) CREDITBANK S.A.L.
31- (108) FIRST NATIONAL BANK S.A.L.
32- (109) AL BARAKA BANK S.A.L.
33- (110) MEAB S.A.L
34- (111) BLOMINVEST BANK S.A.L
35- (113) MEDINVESTMENT BANK S.A.L.
36- (115) CITIBANK N.A.
37- (118) ARAB BANK (SWITZERLAND) LEBANON S.A.L
38- (121) FRANSA INVEST BANK S.A.L.
39- (123) BYBLOS INVEST BANK S.A.L.
40- (125) ARAB FINANCE HOUSE S.A.L. (ISLAMIC BANK)
41- (127) BLOM DEVELOPMENT BANK S.A.L.
42- (130) BANK OF BEIRUT INVEST S.A.L.
43- (135) IBL INVESTMENT BANK S.A.L.
44- (139) LIBANK S.A.L. (Levant Investment Bank)
45- (141) INVEST BANK P.S.C.
46- (142) LUCID INVESTMENT BANK S.A.L.

Remarks:

1- Number between brackets preceding bank designation is the official registration number issued by the Banque du Liban.

2- The name of “Credit Linanais Investment Bank s.a.l.” registered under № 114 was removed – BDL decision № 13550 dated 2/5/2023 (O.G. 20/2023).

B - ASSOCIATE MEMBERS

(Representative Offices of Foreign Banks)

1- ACCESS BANK P.L.C.
2- INTESA SANPAOLO S.P.A.
3- JPMORGAN CHASE BANK N.A.

CATEGORIES OF OPERATING BANKS IN LEBANON
(End of 2023)

1 - Commercial Banks

A - Lebanese banks S.A.L.

1- (1) FRANSABANK S.A.L.
2- (10) BANQUE LIBANO-FRANÇAISE S.A.L.
3- (11) B.L.C. BANK S.A.L.
4- (14) BLOM BANK S.A.L.
5- (16) FEDERAL BANK OF LEBANON S.A.L.
6- (19) SOCIETE GENERALE DE BANQUE AU LIBAN S.A.L. (SGBL)
7- (22) BANKMED S.A.L.
8- (28) BBAC S.A.L.
9- (36) BANQUE DE CREDIT NATIONAL S.A.L.
10- (39) BYBLOS BANK S.A.L.
11- (48) SARADAR BANK S.A.L.
12- (52) IBL BANK S.A.L.
13- (53) CREDIT LIBANAIS S.A.L.
14- (56) BANK AUDI S.A.L.
15- (58) FENICIA BANK S.A.L.
16- (63) LEBANESE SWISS BANK S.A.L.
17- (68) BSL BANK S.A.L.
18- (75) BANK OF BEIRUT S.A.L.
19- (93) BANQUE BEMO S.A.L.
20- (94) LGB BANK S.A.L.
21- (95) SAUDI LEBANESE BANK S.A.L.
22- (101) AM BANK S.A.L.
23- (103) CREDITBANK S.A.L
24- (108) FIRST NATIONAL BANK S.A.L.
25- (110) MEAB S.A.L.
26- (127) BLOM DEVELOPMENT BANK S.A.L. (1)

B - Lebanese banks (S.A.L.) with Arab control

1- (3) BANQUE MISR LIBAN S.A.L.
2- (62) NORTH AFRICA COMMERCIAL BANK S.A.L.
3- (73) NATIONAL BANK OF KUWAIT (LEBANON) S.A.L.
4- (92) EMIRATES LEBANON BANK S.A.L.
5- (109) AL-BARAKA BANK S.A.L. (1)
6- (125) ARAB FINANCE HOUSE S.A.L. (ISLAMIC BANK) (1)

C - Arab Banks

1- (5) ARAB BANK P.L.C.
2- (90) ARAB AFRICAN INTERNATIONAL BANK
3- (141) INVEST BANK P.S.C.

D - Foreign Banks

1- (115) CITIBANK N.A.

Remark: Number between brackets preceding bank designation is the official registration number issued by the Banque du Liban.

(1) Islamic Banks

2- Investment Banks (S.A.L)

1- (41) BANQUE DE L'HABITAT S.A.L.
2- (111) BLOMINVEST S.A.L.
3- (113) MEDINVESTMENT BANK S.A.L.
4- (118) ARAB BANK (SWITZERLAND) LEBANON S.A.L. (2)
5- (121) FRANSA INVEST BANK S.A.L.
6- (123) BYBLOS INVEST BANK S.A.L.
7- (130) BANK OF BEIRUT INVEST S.A.L.
8- (135) IBL INVESTMENT BANK S.A.L.
9- (139) LIBANK S.A.L. (Levant Investment Bank)
10- (142) LUCID INVESTMENT BANK S.A.L.

Remark: Number between brackets preceding bank designation is the official registration number issued by the Banque du Liban.
(2) Banks with major Arab control

PART I

GENERAL ECONOMIC DEVELOPMENTS

I - The Lebanese Economy

1-1 The Lebanese economy experienced improvement at the beginning of 2023, driven by a strong tourism activity, robust performance in the agricultural and industrial sectors, and certain service sectors. This improvement is also due to the enhanced purchasing power for a significant portion of Lebanese citizens, despite the ongoing presidential vacancy for the second consecutive year and the state's administration through a caretaker government. However, the increased burden of Syrian displacement and the impact of the Gaza conflict, which began in early October, presented negative shocks to economic growth. The absence of a comprehensive crisis-resolution plan, the lack of an effective strategy to reform the banking system, the failure to reach a final agreement with the International Monetary Fund, as well as ongoing delays in oil and gas exploration and extraction, have all contributed to the adverse economic situation. Data indicate that the effects of the economic crisis continued in 2024, especially amid pressures on investment, the tourism sector and other sectors due to the war against Lebanon. It is likely that the economy will witness negative growth as a result of the huge damages and losses, which may not be less than 40% of the gross domestic product.

1-2 According to the World Bank report, the Lebanese economy was expected to achieve growth of 0.2% in 2023, before the outbreak of the Gaza conflict, driven by a strong tourism season, a noticeable inflow of financial remittances, increased dollarization of salaries, and signs of stability in private sector activity. However, with the onset of the conflict, projections turned negative, with real GDP shrinking by 0.2%, compared to a contraction of 0.6% in 2022. It is worth noting that the Central Administration of Statistics recently released the GDP figures for 2021, which amounted to LBP 245,572 billion, approximately USD 19.8 billion, based on an exchange rate of 12,413.7 Lebanese pounds per dollar. That year recorded a real growth rate of 2%.

1-3 The tourism sector, which relies heavily on spending and remittances from expatriates and on domestic tourism by Lebanese residents, remains a key driver of current economic activity and stands out generally from other sectors. In this context, the World Travel and Tourism Council (WTTC) estimates that the tourism sector's share of Lebanon's GDP will decrease to 5.5% in 2024, impacted by the Gaza war, compared to 6.6% in 2023. The same source indicates that the tourism sector provided 22.7% of total employment in Lebanon in 2023. In contrast, other economic sectors did not perform as well in 2023, as shown by economic indicators presented in the table at the end of this section, with some sectors impacted by prolonged public sector shutdowns.

1-4 In terms of public finance, measures taken by the Ministry of Finance to mobilize revenues resulted in a near-zero fiscal deficit in 2023, according to preliminary data. Additionally, the 2024 budget law was passed within the legal timeframe, also with a zero deficit. However, further measures are needed to improve tax collection, stop evasion and waste, and strengthen public finances to enable increased operational spending, particularly on investment expenditures.

1-5 Due to the failure to address the economic crisis and its complexities with the required seriousness and speed, and to restore confidence in the economy and the banking and financial systems, the cash economy has expanded significantly, reaching exceptionally high levels by global standards. According to the World Bank, the cash economy grew from USD 4.5 billion, or 14.2% of GDP in 2020, to USD 6 billion, or 26.2% of GDP in 2021, and further to USD 9.86 billion, or 45.7% of GDP in 2022. This environment fosters illegal and criminal activities, which contributed, among several other reasons, in placing Lebanon on the FATF's grey list in October 2024. Therefore, it is essential to expand the legitimate economy by restoring confidence in the legal banking and financial systems.

Indicators of Real Economy

	2020	2021	2022	2023
Real Growth Rate (%)	-24.6	2.0	-0.6	-0.2
Average Consumer Price Index Change %	84.9	154.8	171.2	221.3
GDP (USD billion)	25.0	19.8	-	-
Current Account Balance (USD billion)	-2.8	-4.6	-7.3	-5.6

Sources**:**
- Real growth rate and GDP: Central Administration of Statistics for the years 2020 and 2021 and the World Bank estimates for the years 2022 and 2023.
- Change in consumer prices: Central Administration of Statistics.
- Current account balance: Banque du Liban.

1-6 The inflation rate accelerated sharply, reaching an average of 221.3% in 2023, up from 171.2% in the previous year. This increase was mainly due to the significant decline in the average exchange rate of the Lebanese pound against the U.S. dollar in the parallel market in 2023 compared to 2022. This devaluation directly impacted the prices of imported goods and the costs of local goods and services. Additionally, inflation rose due to the adoption of the Sayrafa platform rate for customs dollar calculations starting mid-May 2023, along with a substantial increase in shipping costs for goods since October 2023, driven by the ongoing conflict in Gaza.

1-7 In early August 2023, the First Vice Governor of the Central Bank of Lebanon assumed the role of Acting Governor and initiated limited but encouraging reforms. These included discontinuing the Sayrafa platform and announcing the establishment of a Bloomberg platform, which has not yet begun operating, in addition to stopping lending to the government outside legal frameworks and taking steps toward unifying exchange rates and expanding the scope of benefit from Circulars 158 and 166 recently. Under the new monetary policy, the decline in the Lebanese pound's exchange rate was contained, stabilizing at 89,500 pounds per dollar from July 2023 through the date of this report, thus reducing inflationary pressures. The volume of cash in circulation outside the Central Bank dropped from LBP 80,171 billion at the end of 2022 to LBP 58,096 billion at the end of 2023, due to a decrease in cash handling costs in Lebanese pounds from 20% to 1% and a return to the use of payment cards. Conversely, the interbank interest rate in Lebanese pounds rose from 15% at the end of 2022 to 60% at the end of 2023, according to the Central Bank. It is noted that the cash in circulation reached LBP 49,935 billion in mid-November 2024. The decline in the Central Bank's foreign currency reserves also slowed down, reaching USD 9,642 million at the end of 2023, compared to USD 10,398 million at the end of 2022. It is worth mentioning that these reserves increased from USD 8,673 million at the end of August 2023 to USD 10,665 million at the end of September 2024, before decreasing to USD 10,197 million in mid-November 2024. This decline was linked to the exceptional measures taken by the Central Bank regarding Circulars 158 and 166, as well as securing the salaries of public sector employees in dollars.

1-8 In 2023, the trade deficit decreased by approximately one billion dollars, while the current account deficit fell by about 1.7 billion dollars. The current account deficit as a percentage of GDP declined from 35% in 2022 to 30% in 2023.

Main Economic Indicators in 2022 and 2023

	2022	2023
Real estate sales operations (Number)	79,990	23,679
Real estate transactions (number)	147,038	53,901
Value of real estate sales (LBP billion)	21,649	107,392
Collected real estate fees (LBP billion)	1,788	4,534
Construction permits area (000 s.m)	9,575	5,338
Cement deliveries (000 tons)	2,124	2,363
Value of Checks cleared in LBP (LBP billion)	40,923	65,938
Value of Checks cleared FC (USD million)	10,288	3,292
Number of ships	1,193	1,371
Weight of unloaded merchandises (tons)	4,479,704	4,415,069
Weight of shipped merchandises (tons)	960,492	982,178
Number of unloaded containers	165,148	163,747
Port of Beirut revenues (000 USD)	113,070	n.a
Agricultural imports (USD million)	1,540	1,732
Agricultural exports (USD million)	327	227
Weight of agricultural imports (000 tons)	1,734	1,895
Weight of agricultural exports (000 tons)	425	401
Weight of unloaded merchandises (000 tons)	11,542	11,771
Number of arrivals	3,119,404	3,477,466
Number of departures	3,199,748	3,616,608

Sources: BDL, Directorate of Real Estate, Orders of Engineers in Beirut and Tripoli, Rafic Hariri International Airport, Port of Beirut, Customs higher council.

II - Public Finance and Public Debt

2-1 In the absence of official figures, which have been suspended since the end of 2021, and based on preliminary figures that have been made available and published in the media, the following was revealed regarding public finances for the year 2023:

- Revenues amounted to LBP 242 trillion, or USD 2.7 billion, based on an exchange rate of 89,500 LBP per USD. The significant increase is due to the start of calculating the customs dollar at the Sayrafa platform rate starting mid-May 2023. Half of the treasury's revenues were collected in Lebanese pounds in cash, as per an agreement between the Central Bank and the Ministry of Finance, to regulate liquidity, ensure effective financial management, and achieve monetary stability. More than USD 300 million in fresh funds were collected, primarily from the port and airport.
- Expenditures amounted to LBP 203 trillion, or USD 2.3 billion, based on an exchange rate of 89,500 LBP per USD. Spending was conducted according to the one-twelfth rule for the 2022 budget, since the 2023 budget law was not approved, forcing the government to issue treasury advances.
- Consequently, the budget surplus for 2023 reached LBP 39,000 trillion, or approximately USD 0.4 billion, which represents about 2% of the estimated GDP.

2-2 The World Bank report projected an increase in government revenues to 15.3% of GDP in 2023, up from 6.1% in 2022, after the measures adopted in the 2022 budget became effective in 2023, with the collection of port and airport fees in U.S. dollars starting that year. The Central Bank's new administration's decision to refrain from financing the budget deficit during the second half of 2023 supported the possibility of achieving a budget surplus during the aforementioned year by prompting the government to control expenditures on one hand and search for opportunities to increase collections and revenues on the other.

2-3 On another note, the Lebanese Parliament approved the 2024 budget with a balance between expenditures and revenues, without including treasury receipts in revenues, nor the government's debt denominated in U.S. dollars in expenditures, as well as the costs resulting from both the Syrian displacement (estimated at approximately USD 4.5 billion annually) and the large-scale Israeli aggression on Lebanon. This increases pressure on the state, which is already struggling to generate revenue due to the prolonged shutdown of income-generating institutions, weak economic activity, and the dominance of a cash-based economy in Lebanon.
The cash economy has grown significantly, reaching USD 9.86 billion or 45.7% of GDP in 2022, according to the World Bank. In the 2024 budget, the state significantly increased taxes and fees, and revenues were expected to account for 17.3% of GDP that year before the expansion of war and aggression against Lebanon.

2-4 In detailing the figures of the 2024 budget law, as approved, it indicates total public expenditures of LBP 308 trillion (USD 3.4 billion), compared to revenues of an equivalent LBP 308 trillion. This means that the expected deficit is effectively zero, with hopes that the estimates and projections align with actual developments on the ground and that the projected figures match the realized revenues and expenditures.

Detailed Table on Public Finances
(LBP Billion)

	Realized in 2021	2022 Budget Law	2024 Budget Law
Total Revenue	**20,263**	**31,487**	**312,996**
Budget Receipts	**18,802**	**29,985**	**308,435**
Tax Revenue	**15,237**	**19,544**	**243,089**
o/w			
Taxes on income, profits and Capital gains	5,744	7,488	21,460
Income Tax	*2,084*	*4,265*	*16,811*
Tax on wages & salaries	*924*	*1,128*	*431*
tax on interest income	*2,322*	*1,644*	*2,993*
Domestic Taxes on Goods and Services	6,476	*8,199*	*141,418*
VAT	*4,809*	*5,577*	*101,000*
Taxes on Property	2,002	1,474	36,062
Taxes on International Trade	484	1,594	32,896
Other Tax Revenues	532	789	11,253
Non-tax revenues	**3,565**	**10,441**	**65,346**
Income from public institutions and Government properties	2,359	7,734	49,792
Administrative fees and Charges administrative fees	779	2,349	12,506
Penalties and Confiscations	39	17	18
Other non-tax revenues	388	341	3030
Treasury receipts	**1,461**	**1,502**	**4,561**
Budget expenses o/w	**18,066**	**40,874**	**308,435**
Salaries & indemnities	*9,893*	*26,181*	*168,751*
Debt Service	*2,813*	*3,820*	*14,698*
Capital Expenditures	**246**	**3,166**	**31,936**

Source: Ministry of Finance

It is worth noting that the Lebanese Parliament introduced two exceptional taxes in the law, as stipulated in Articles 93 and 94. Article 93 imposes an additional exceptional tax of 17% on profits generated from Sayrafa exchange operations exceeding USD 15,000. And article 94 stipulates that amounts resulting from the subsidy policy adopted by the Central Bank should be subject to an exceptional 10% tax on those who benefited from subsidies exceeding USD 10,000.

However, several deputies filed appeals against number of articles of the law before the Constitutional Council (including Articles 93 and 94). The reasons for filing the appeals varied, some articles being considered budget riders unrelated to the budget law, the failure to submit the settlement of accounts for the preceding year as required by Article 87 of the Lebanese Constitution, and other reasons. The Constitutional Council accepted the full appeal against a number of articles and the partial appeal against others, while rejecting the appeals against some other articles.

The approval of the 2024 budget law within the constitutional deadline was an important first step, but stronger efforts are still needed to improve public finances. The tax administration continues to suffer from underfunding, hampering collection. Additionally, the lack of resources prevents the state from providing essential public services, social programs, and capital expenditures, exacerbating inequality and negatively affecting tax fairness.

Public Debt

2-5 The public debt-to-GDP ratio rose to 201% at the end of 2023, up from 179% at the end of 2020, according to World Bank estimates. As for the International Monetary Fund (IMF), it estimates that the total state debt, which includes Eurobond obligations with accrued interest as well as the Central Bank of Lebanon's dollar-denominated losses (estimated at approximately USD 73 billion), has reached 500% of GDP. The IMF insists on the urgent need to reduce this ratio to a range of 100-120%.

2-6 Since the end of January 2023, the relevant official entities have stopped publishing public debt figures, instead limiting their releases to data on the treasury bill portfolio in Lebanese pounds. As of the end of January 2023, **the value of the public debt denominated in Lebanese pounds** stood at 91,795 billion LBP, with the majority consisting of LBP-denominated treasury bills (99.7% of total public debt in LBP). Foreign currency-denominated public debt reached USD 41.57 billion, with arrears on Eurobond principal and interest payments accumulating to USD 14.43 billion, pending negotiations with creditors for debt restructuring and cost reduction.
According to available data from the Central Bank on LBP-denominated treasury bills, public debt in LBP was expected to decline in 2023, as banks refrained from subscribing and the Central Bank ceased purchasing these bonds. Additionally, the Ministry of Finance announced a halt in issuing bonds of all categories during the first quarter of 2024, until further notice. It is worth noting that, when valued in USD, LBP-denominated public debt has become insignificant, standing at approximately USD 1 billion, based on an exchange rate of 89,500 LBP/USD.

2-7 At the end of December 2023, the nominal value of the total treasury bill portfolio in LBP stood at 89,789 billion LBP, compared to 89,724 billion LBP at the end of December 2022. Thus, the portfolio saw a slight increase of 65 billion LBP in 2023, following a decline of 1,892 billion LBP in 2022.

2-8 In terms of interest rates on LBP treasury bills, they remained stable across all issued categories in 2023, maintaining the same levels as in 2022. However, the weighted average interest rate on the total portfolio declined to 6.30% at the end of 2023, compared to 6.42% at the end of 2022. Additionally, the weighted average maturity of this portfolio shortened to 2.8 years, down from 3.5 years at the end of both years, respectively.

Distribution of LBP Treasury Bills by category
(end of period – in %)

	3 M	6 M	12 M	24 M	36 M	60 M	84 M	120 M	144 M	180 M	Total
Dec 22	0.23	0.46	4.41	4.65	6.21	19.29	21.23	38.52	3.43	1.58	100.00
Dec 23	0.26	1.27	9.45	6.38	8.38	13.92	18.64	36.70	3.43	1.58	100.00

Source: BDL

2-9 At the end of January 2023, the portfolio of Lebanese treasury bills denominated in foreign currencies (Eurobonds) – including the nominal subscription value, accrued interest, and arrears – stood at USD 39.49 billion, compared to USD 39.25 billion at the end of December 2022. The weighted average interest rate on the total portfolio was 7.38%, and the average portfolio maturity was 7.84 years at the end of February 2020, which represents the last available data before the government announced its default on all Eurobond payments.

III- Monetary developments

General Overview

3-1 The monetary situation in Lebanon deteriorated a bit further in 2023, particularly during the first quarter, despite a relative balance due to the stabilization of the exchange rate since summer 2023. The exchange rate of the Lebanese pound against the dollar declined in the parallel market to stabilize at around 89,500 LBP/USD since July 2023. However, this remains a high level compared to the previous year. The inflation rate exceeded 220% in 2023, compared to 170% in 2022, and the Central Bank's foreign currency assets declined to USD 9.6 billion at the end of the aforementioned year, compared to USD 10.4 billion at the end of 2022. It is worth noting that the Central Bank's foreign currency assets reached USD 10.2 billion on November 15, 2024.

3-2 A new official exchange rate for the Lebanese pound against the US dollar was adopted starting February 1, 2023, at a rate of 15,000 Lebanese pounds per US dollar (applied to the balance sheets of the Central Bank of Lebanon and commercial banks). This followed a long-standing peg of 1,507.5 Lebanese pounds per US dollar that had been in place for over 25 years. However, this rate was not officially revised or generalized in 2024, despite no longer being practically used except for setting the exchange rate for bank deposit withdrawals. Meanwhile, goods, services, taxes, and most fees have been priced at an exchange rate of 89,500 LBP/USD. It is notable that the official exchange rate in the financial statements of banks and the Central Bank was adjusted from 15,000 LBP/USD to 89,500 LBP/USD, effective January 31, 2024, in accordance with BDL's Basic Circular No. 167/2024 dated February 2, 2024 and BDL's Central Council Decision No. 48/4/24 dated February 15, 2024.

3-3 Statistical Data

3-3-1 At the beginning of 2023, the exchange rate of the Lebanese pound against the US dollar in the parallel market – initially around 42,500 LBP/USD – continued to increase at a very rapid pace, reaching a record level of 141,000 LBP per US dollar on March 21. This was mainly driven by speculative trading, which pushed the Central Bank to issue a statement on that same day announcing continuous and open operations on the Sayrafa platform to buy LBP and sell USD in cash at an exchange rate of 90,000 LBP/USD. This intervention immediately and significantly lowered the exchange rate in the parallel market. The decline continued in the following months, bringing the exchange rate to approximately 89,500 LBP/USD by the end of July 2023, where it has remained stable till the preparation of this report[1], with no significant fluctuations.

The stability of the exchange rate in 2023 was primarily due to a strict monetary policy, focusing on ceasing the financing of the government in both LBP and foreign currencies, leading the state to reduce expenditures and increase revenues, particularly those related to fees and taxes on imported goods through the gradual increase of the customs exchange rate[2], the pricing of essential state services[3] based on their actual costs such as electricity and telecommunications, and reducing the excess of LBP liquidity in the market. Consequently, the Central Bank refrained from intervening in the currency exchange market, which helped preserve its foreign currency reserves. Also, what contributed in stabilizing the exchange rate were the ministerial decisions allowing pricing and payments in USD in restaurants, retail stores, and supermarkets; a steady inflow of foreign currency in Lebanon due to the strong tourism activity throughout most of the year as well as the remittances from Lebanese expatriates.

Despite the positive stability of the LBP exchange rate, the national currency has almost completely lost its traditional functions following the 2019 financial crisis, namely as a unit of measurement, a medium of exchange, a store of value and a viable tool for lending.

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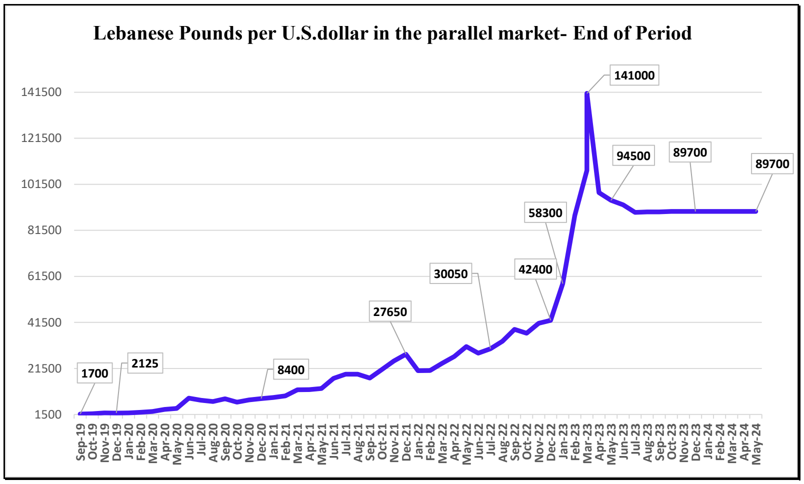
[1] On May 22nd, 2024.

[2] Leading to the calculation of the customs dollar at the Sayrafa rate since mid-May 2023, which currently stands at 89,500 LBP/USD.

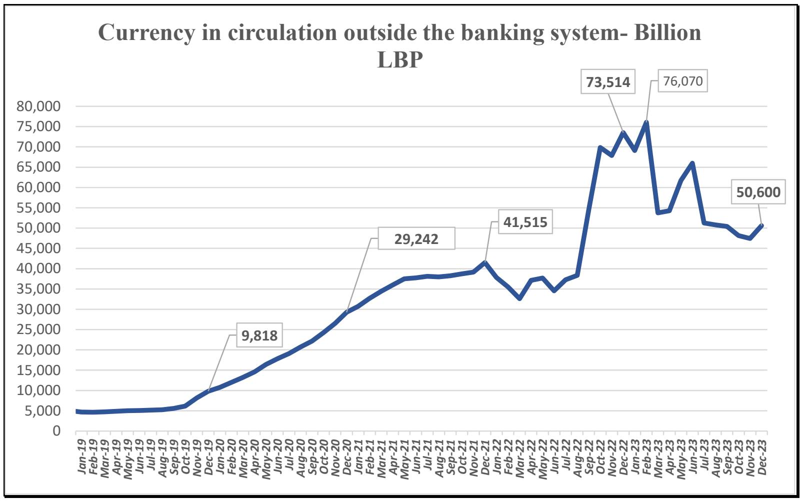
[3] Meanwhile, all taxes and fees were adjusted in the 2024 budget, which was issued in February of the same year.



Source: Average LBP/USD rates on the most popular platforms.

3-3-2 Amid the ongoing economic, financial, and banking crisis, which has persisted for over four years without a comprehensive solution, **the Lebanese economy has become largely dependent on a cash-based system**, using both the Lebanese pound (LBP) and the U.S. dollar (USD). The banking crisis, especially in its early stages, led to restrictions on the use of bank cards and checks in both LBP and USD. This, in turn, fueled the growth of electronic money transfer companies, which have expanded their operations and increasingly compete with banks in offering certain financial services, particularly in handling remittances from abroad. The lack of a resolution for the banking sector crisis has inevitably led to the expansion of the informal economy and the growing reliance on a cash-based system. This has, in turn, increased the risks associated with illegal activities, which was one of the reasons that Lebanon was placed on the FATF gray list in October 2024.

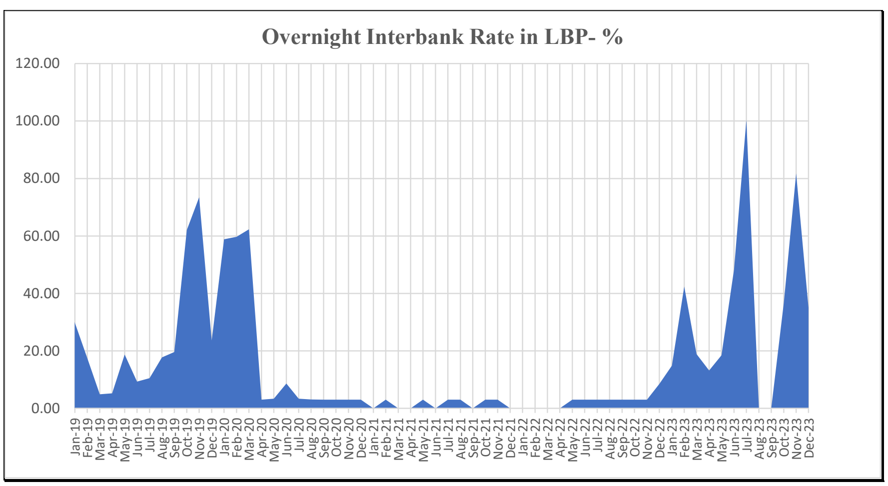
Regarding the **cash in circulation in Lebanese pounds** outside the banking system (i.e., outside commercial banks and the Central Bank of Lebanon), after reaching unprecedented levels in 2022, attaining 76,070 billion LBP at the end of February 2023, it later declined to around 50,600 billion LBP by the end of 2023, a significant drop of approximately 23,000 billion LBP or 31.2% compared to the end of 2022. This decline coincided with the monetary policy adopted by the Central Bank, whether through its intervention on the Sayrafa platform (until July 2023) or by tightening liquidity creation after that period, particularly with the cessation of public sector financing outside legal frameworks.



Source: BDL.

On the other hand, World Bank estimates[4] indicate that the amount of U.S. dollars in circulation in the market reached approximately USD 900 million in 2021 and 2022. The cash-based economy in USD grew to around USD 9.9 billion in 2022, accounting for 45.7% of the GDP.

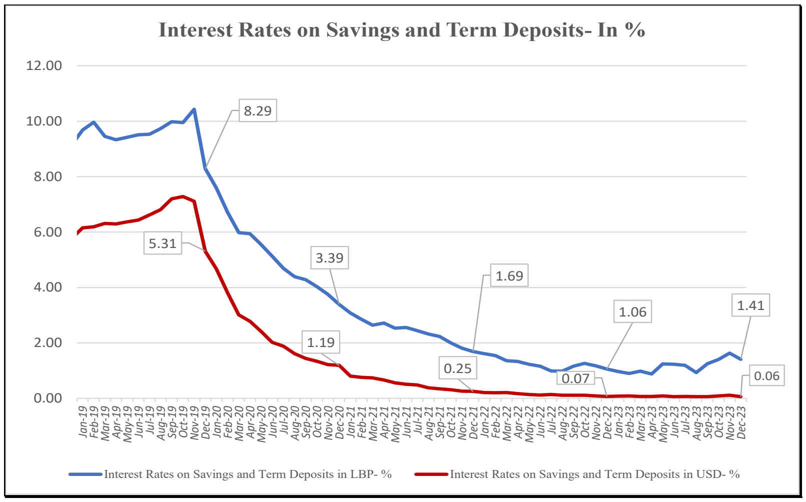
3-3-3 On the other hand, the **Interbank Rate in LBP** recorded high levels throughout 2023 – reaching 160% in some transactions – and transaction volumes were also significantly higher compared to 2022, when the interbank rate remained low at around 3% most of the time, with relatively modest transaction volumes. This reflects the monetary policy adopted, which aimed to drain liquidity in LBP from the market.



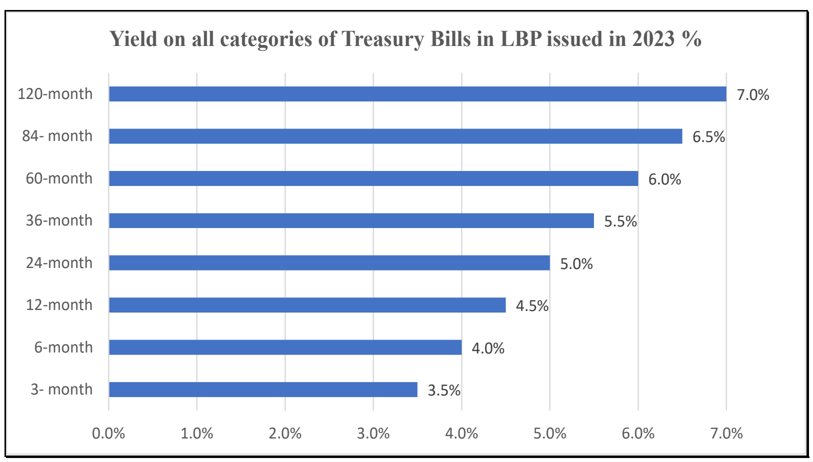
Source : Société Financière du Liban till July 2023, BDL since October 2023.
N.B. - The average adopted in the chart is the monthly average weighted by transaction volume.
- Figures for August and September 2023 are not available.

[4] By analyzing six sources of cash U.S. dollars.

The **interest rates on deposits** remained at low levels in 2023, although there was a 35 basis point increase in the interest rate on term deposits in LBP, as shown in the chart below. Meanwhile, interest rates on all categories of treasury bills in LBP remained stable in 2023, as in the previous two years. It is worth noting that these rates had been reduced by 180 to 300 basis points in March and April 2020.



Source: BDL

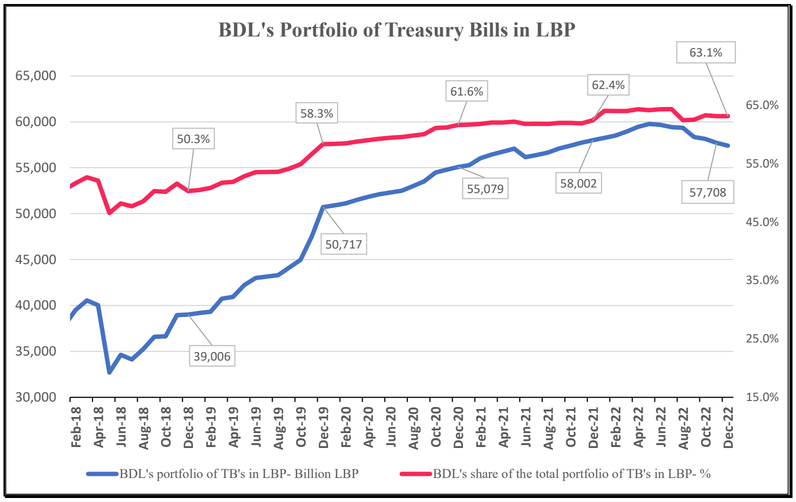


Source: BDL

3-3-4 The Central Bank that previously served as the primary financier to the public sector in LBP[5], as indicated by the development of its portfolio of Lebanese pound-denominated treasury bills (which reached high record levels during 2022 attaining LBP 57,403 billion and its share increased to 63.1% of the total treasury bill portfolio at the end of that year), the situation shifted in 2023, particularly in the second half of the year, after the Central Bank completely halted its financing of the state outside the limits allowed by existing laws. Due to the lack of official statistics for 2023,

[5] And in foreign currencies as well.

available data[6] indicates that BDL's treasury bill holdings declined by approximately 6,000 billion LBP during 2023, reducing its share to around 57% of the total portfolio by the end of that year.



Source: BDL

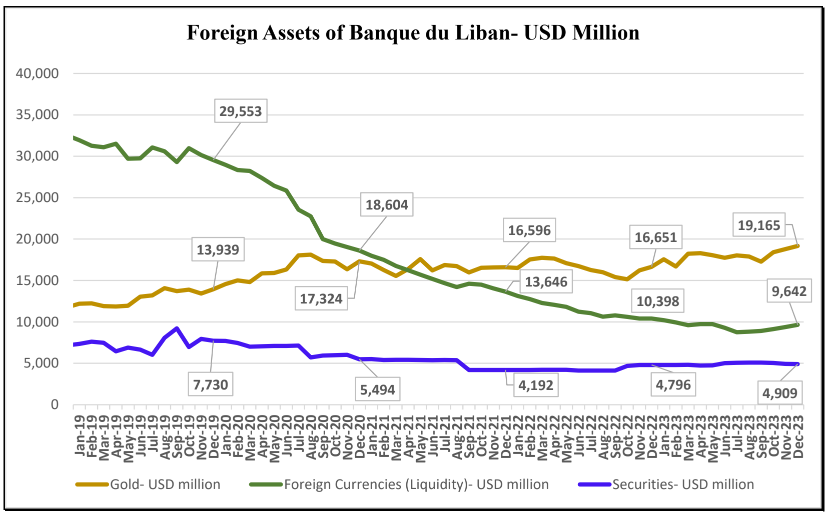
3-3-5 The Central Bank's total liquid reserves or assets in foreign currencies continued to decline, although at a slower pace than before, reaching USD 9.6 billion at the end of 2023, down from USD 10.4 billion at the end of 2022. This decline was influenced by the continued implementation of the Central Bank's Circular 158[7], interventions in the foreign exchange market through the Sayrafa platform until the end of July 2023, the government's utilization of the remaining portion of Special Drawing Rights (SDRs) received from the IMF and previously deposited at the Central Bank, along with other contributing factors.

It is worth noting that foreign currency reserves have been recording a continuous monthly increase since the end of July 2023, though at relatively modest volumes, totaling approximately USD 900 million by the end of 2023 and around USD 2 billion by the end of September 2024. However, the Central Bank's foreign currency reserves declined by more than USD 450 million from the end of September 2024 to November 15, 2024, mainly due to the Central Bank's exceptional measures amid the ongoing war. These measures allowed depositors benefiting from Circulars 158 and 166 to triple their withdrawals in October 2024 and double them in November 2024. Despite this positive development, the most crucial aspect remains the evolution of net foreign assets, given that the Central Bank has Fresh dollar liabilities towards banks holding Fresh dollar accounts at the Central Bank under Circular 165, as well as towards the Lebanese state, which has been generating increasing cash dollar revenues deposited with the Central Bank.

[6] From Banks' balance sheets and the distribution of the Treasury Bill Portfolio in LBP by holders.
[7] That allows the beneficiary to receive 300 or 400 U.S. dollars monthly in cash and which is partially funded by the Central Bank.

The Central Bank's placements in local and global securities slightly increased to approximately USD 4.9 billion by the end of 2023[8], likely benefiting from the rise in global interest rates on the dollar. However, its total foreign assets (external assets and foreign currency notes), excluding gold, declined to USD 14.6 billion at the end of December 2023[9], down from USD 15.2 billion at the end of 2022.

In this context, it should be mentioned that the value of the gold reserve owned by the Central Bank increased significantly to approximately USD 19.2 billion at the end of 2023, up from around USD 16.7 billion at the end of 2022, due to the sharp rise in the global price of the gold ounce. Lebanon ranked 21st worldwide and 2nd in the Middle East and North Africa, after Saudi Arabia, in terms of countries' gold reserves, according to the list released by the "World Gold Council" in May 2024.



Source: BDL

3-4 Monetary Aggregates

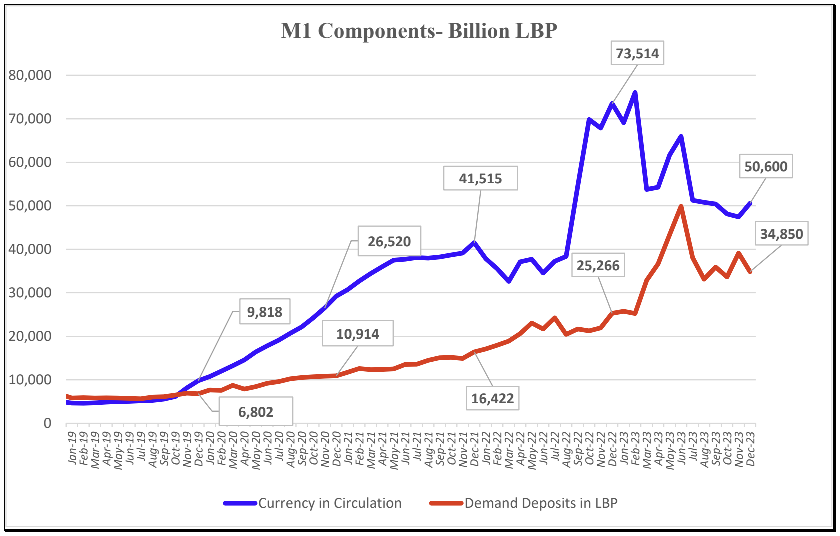
The monetary aggregate in the broad sense, known as M3, increased to LBP 1,166,205 billion at the end of 2023, compared to LBP 229,572 billion at the end of 2022. This significant increase is primarily due to the adjustment of the official exchange rate of the Lebanese pound[10] from 1,507.5 LBP per USD to 15,000 LBP per USD, effective February 1, 2023. If we consider that this exchange rate remained unchanged, M3 would have actually declined by 9.5% in 2023 instead of showing an apparent increase. Thus, M3 has resumed its decline, particularly due to the Central Bank's policy aimed at controlling the money supply. In contrast, M3 increased by 14.2% in 2022,

[8] It remained at this level at the end of March 2024 and includes the Eurobonds issued by the Lebanese state that are held by the Central Bank.

[9] Increased slightly to USD 14.8 billion at the end of March 2024.

[10] This change occurred because the balance sheet of the banking sector, including both commercial banks and the Central Bank, was calculated at an exchange rate of 15,000 LBP/USD at the end of 2023, whereas it had been calculated at 1,507.5 LBP/USD at the end of 2022.

driven by a rise in the money supply component in Lebanese pounds M1 (+ 70.5%), following a slight increase in 2021 and its first recorded declines in 2019 and 2020.



Source: BDL

The contraction of the money supply in 2023 occurred amid the continued decline in lending to the private sector, as individuals and businesses repaid their debts in cash or through bank deposits, with new loans remaining scarce. Additionally, net lending to the public sector continued to decline.

Evolution of money supply and its counterparts
(End of period – LBP billion)

	2021	2022	Change 2022/2021	2023
Currency in circulation	41515	73514	+31999	50600
Demand deposits in LBP	16422	25266	+8844	34850
Money in LBP (M1)	57937	98780	+31842	85450
Money and quasi-money in LBP (M2)	79007	116583	+37576	100787
Money and quasi-money in LBP and FC (M3)	201070	229572	+28502	1166205
Currency in circulation/M3	20.65%	32.02%		4.34%
<u>Counterparts</u>				
Net Foreign Assets	22950	18197	-4753	252311
o/w: Gold	25019	25102	+83	287481
Foreign Currencies	-2069	-6905	-4836	-35170
Net claims on public sector	67506	50842	-16664	143251
Valuation adjustment	-17872	-19131	-1259	647302
Claims on private sector	40669	30038	-10631	123712
Other items (net)	87817	149625	+61808	-370

Source: BDL

3-5 Inflation

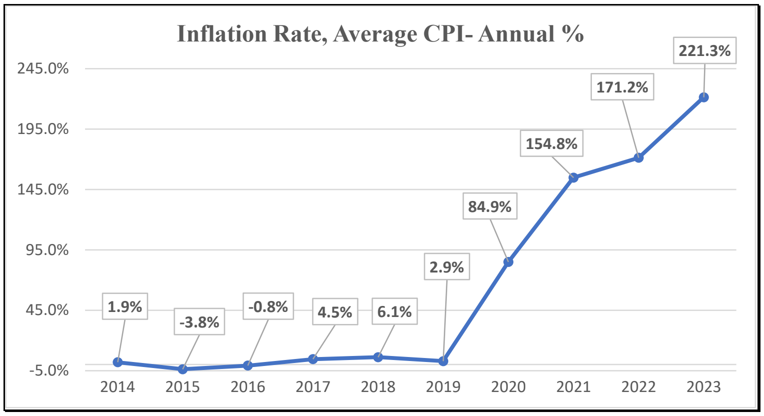
The period average inflation rate rose to a new record level[11] of 221.3% in 2023, compared to 171.2% in 2022 and 154.8% in 2021, according to the Consumer Price Index released by the Central Administration of Statistics.
In reality, the actual inflation rate may be even higher than the published figure for several reasons, including the fact that the weights assigned to goods and services within the "consumption basket" no longer accurately reflect the country's shifting consumption patterns, as priorities have changed significantly.

The sharp rise in inflation in 2023 was primarily driven by the significant depreciation of the average exchange rate of the Lebanese pound against the US dollar in the parallel market compared to 2022. This directly and fully impacted the prices of imported goods, while also affecting the prices of local goods and services, many of which returned to pre-crisis levels, such as school and university tuition fees. Additionally, inflation was fueled by the adoption of the Sayrafa exchange rate for calculating the customs dollar[12] since mid-May 2023, as well as by the notable increase in maritime shipping costs for goods since October 2023 due to the ongoing war in Gaza. However, 2023 also saw a decline in global commodity prices, including food items (by approximately 14%), oil (by about 17%), and a large number of essential metals, following their increase in the previous year, which had been largely influenced by the war in Ukraine.

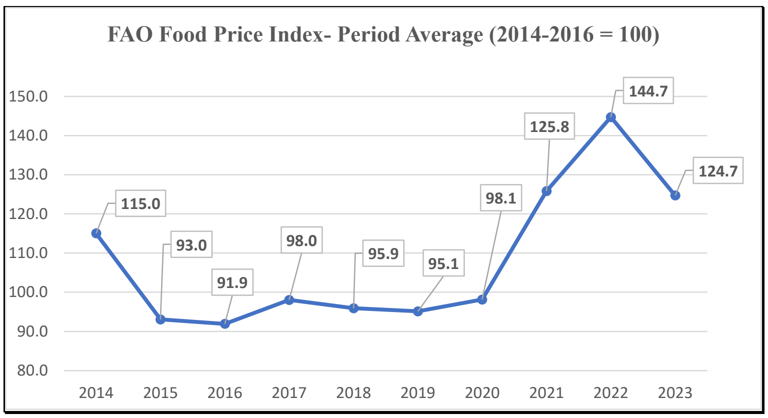
Regarding 2024, the stability of the exchange rate has significantly reduced inflationary pressures. If this trend continues throughout the year, inflation is expected to decrease notably. In fact, the inflation rate increased by 15.7% between October 2023 and October 2024, compared to a sharp rise of 215.4% between October 2022 and October 2023.

The graph below illustrates the evolution of the inflation rate over the past ten years, which rarely exceeded 5% during the period before the crisis.

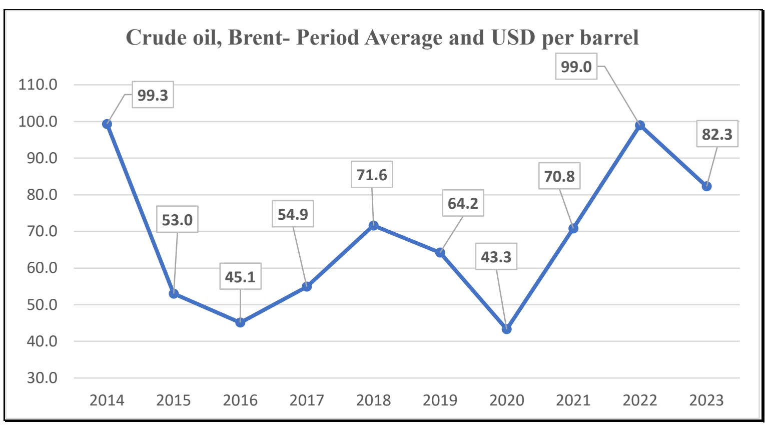
[11] Since 1992, that is, for about 30 years.
[12] Currently at 89,500 LBP per dollar.



Source: Customs Higher Council.



Source : FAO



Source : markets. businessinsider.com

IV- External Payments

4-1 According to data from the Central Bank, the estimated current account deficit in Lebanon decreased to around USD 5.6 billion in 2023, compared to a deficit of USD 7.3 billion in 2022.

This improvement is due to a decrease in the trade balance deficit (FOB)[13] to about USD 12.7 billion from around USD 13.6 billion in the respective years, and an improvement in the surplus in the services, current transfers, and income balances combined, which reached approximately USD 7.1 billion, up from around USD 6.4 billion. Based on these figures and the GDP estimates for 2023 from various international sources valued in US dollars, it is estimated that the current account deficit to GDP ratio will be about 30% in 2023, compared to around 35% in 2022. This ratio remains very high and is one of the most significant macroeconomic imbalances.

4-2 Regarding the net current transfers within the current account, it is noted that remittances from workers abroad to Lebanon reached approximately USD 6.7 billion in 2023, according to the latest estimates from the World Bank, compared to USD 6.4 billion in 2022, marking a 4% increase. Lebanon once again ranked third regionally, after Egypt (USD 24.2 billion) and Morocco (USD 12.1 billion). These estimates may sometimes differ from those of the IMF and the Central Bank of Lebanon.

The regularity and level of these transfers reflect the widespread Lebanese diaspora worldwide, their high proficiency in various fields, and their ongoing social and economic ties to their families and home country. These remittances have played a crucial role in supporting Lebanese citizens in facing the successive crises the country has been experiencing since 2019.

Meanwhile, figures published by the Central Bank of Lebanon show that net remittances increased to about USD 6.0 billion in 2023, compared to approximately USD 5.7 billion in 2022 (+5.6%). This is due to the increase of remittances to Lebanon by 4.0% in 2023, while remittances from Lebanon decreased, though slightly, by 0.9%.

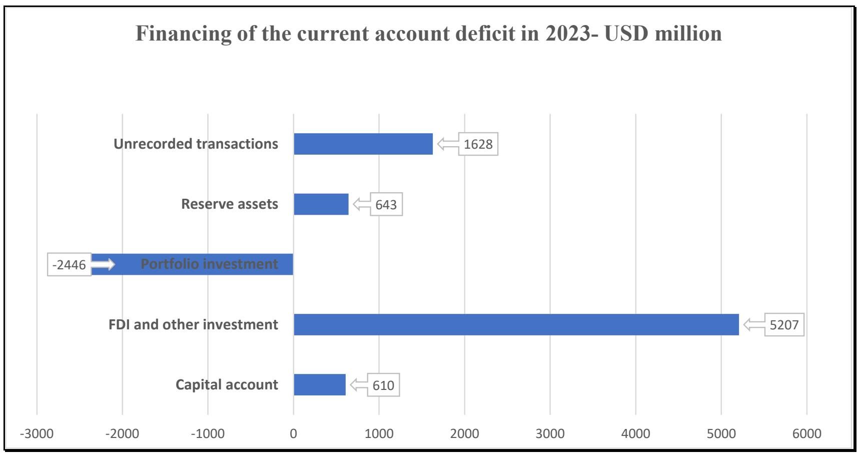
Main items of the balance of payments (USD million)

	2020	2021	2022	2023
Current Account	**-2,779**	**-4,557**	**-7,265**	**-5,643**
Trade balance	-6,499	-8,770	-13,621	-12,716
Services (net)	67	787	1,530	1,174
Income (net)	-1,015	-1,893	-834	-79
Current transfers (net)	4,669	5,320	5,661	5,979
Capital and Financial account	**11,430**	**7,450**	**7,189**	**4,015**
Capital account	**1,666**	**998**	**1,544**	**610**
Financial account	**9,764**	**6,452**	**5,645**	**3,405**
Direct investment	1,578	1,939	461	583
Portfolio investment	2,205	883	-3,915	-2,446
Other investment	-7,203	-2,897	6,453	4,624
Reserve assets	13,183	6,527	2,647	643
Unrecorded transactions	**-8,652**	**-2,893**	**76**	**1,628**

Source: BDL

[13] The trade balance deficit recorded in the balance of payments differs from the deficit published by the Lebanese customs, as it includes the following on the exports side: re-exported goods, goods exported temporarily for transformation (recycled), or re-exported after local processing, and repair on goods.

4-3 Usually, **the deficit in Lebanon's current account** is financed through the **capital and financial account**, which involves net inflows in various forms, such as foreign direct investments, investments in financial portfolios, deposits in banks, net loans from abroad to both the public and private sectors, and the use of foreign currency reserves by the Central Bank of Lebanon when necessary, as has been the case from 2018 to 2023, although the pace of reserve depletion has been declining year by year.
Figures from the Central Bank of Lebanon for 2023 show that the capital and financial account, excluding reserve assets, was not sufficient to cover the current account deficit, which required the use of the reserves held by the Central Bank. According to Lebanon's balance of payments data, approximately USD 643 million of foreign currency reserves were used, with an estimated positive balance of around USD 1.6 billion under the "Unrecorded Transactions" category.



Source: BDL

4-4 According to data from the Central Bank of Lebanon used in the UNCTAD (United Nations Conference on Trade and Development) report on global investments, **net foreign direct investment** inflows to Lebanon significantly declined to around USD 583 million in 2023 and USD 461 million in 2022, compared to approximately USD 1,939 million in 2021 and USD 1,578 million in 2020. This decline is largely due to the lack of confidence among foreign investors given the continued uncertainty surrounding Lebanon's political and economic future. It is important to remind that foreign direct investments in Lebanon previously funded a significant portion of the current account deficit, with a significant concentration in the real estate sector, which distinguishes them from the nature of such investments in many emerging economies, where they are more diversified and spread across various economic sectors.

International Trade

Imports of goods

4-5 According to the Customs Higher Council, the **value of imported goods** decreased to USD 17,524 million in 2023, compared to USD 19,053 million in 2022, a decline of USD 1,529 million or 8.0%, following a significant increase in 2022. This decrease occurred despite a notable rise in the value of imports of precious metals[14] in 2023, which amounted to USD 844 million, an increase of 50.2%, due to the rise of gold prices and the increased demand from Lebanese consumers for gold and jewelry for various reasons.

Despite this decline, merchandise imports accounted for approximately 87% of GDP in 2023, one of the highest ratios globally, which calls for the development of local alternatives to imports, strengthening production capacities, and reducing excessive dependence on foreign goods.

The decline in merchandise imports in 2023 can be attributed to two main factors. The **first** is the price factor, where global prices for imported goods, such as oil and food, declined, positively impacting the import bill. For example, the value of imports of mineral products, particularly petroleum derivatives, which top the list of Lebanon's imports, declined by USD 936 million, while the quantities imported increased by 1.2%. The **second** factor is the decrease in quantities imported in 2023 of two main categories (not total imports), namely transportation equipment and electrical machinery and equipment, which decreased by 42.1% and 41.3%, respectively. It is worth noting that a significant quantity of these items had been imported by traders in the previous year in anticipation of the increase in the customs dollar exchange rate.

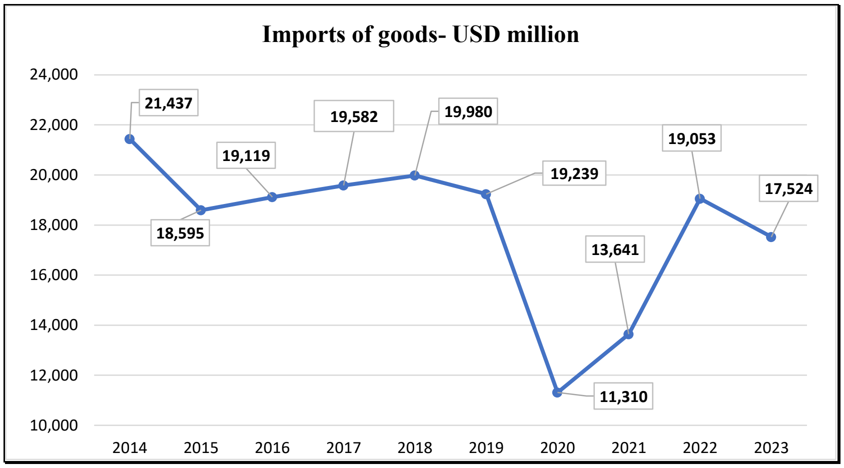
Imports of goods

	Value – USD million	**Change - %**	**Quantities – Thousand tons**	**Change - %**
2019	19239	-3.7	19351	+22.0
2020	11310	-41.2	13475	-30.4
2021	13641	+20.6	12124	-10.0
2022	19053	+39.7	11540	-4.8
2023	17524	-8.0	11770	+2.0

Source: Customs Higher Council.

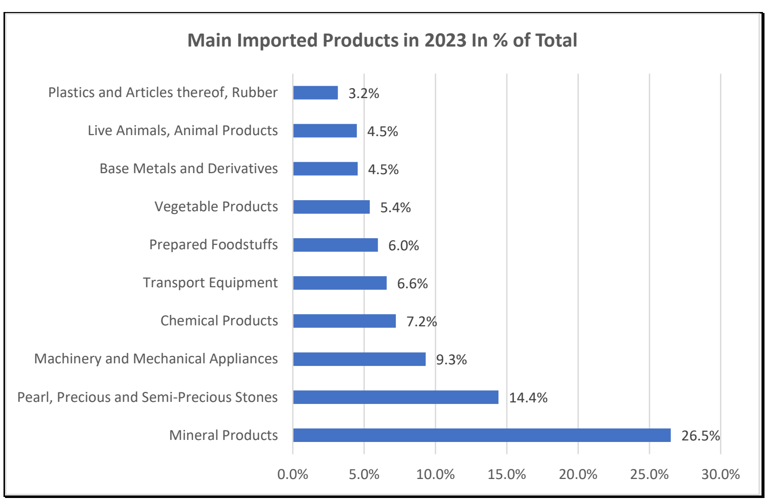
On the other hand, the total **imported quantities** increased by 2.0% in 2023, reaching a volume of 11,770 tons, as shown in the table above. Statistical data indicate that most customs items recorded either an increase in the quantities imported or maintained the same import levels, while the decline in imported quantities was concentrated in transport equipment, machinery, and electrical devices and equipment, as previously mentioned, which are “heavy” goods.

[14] And precious and semi-precious stones.

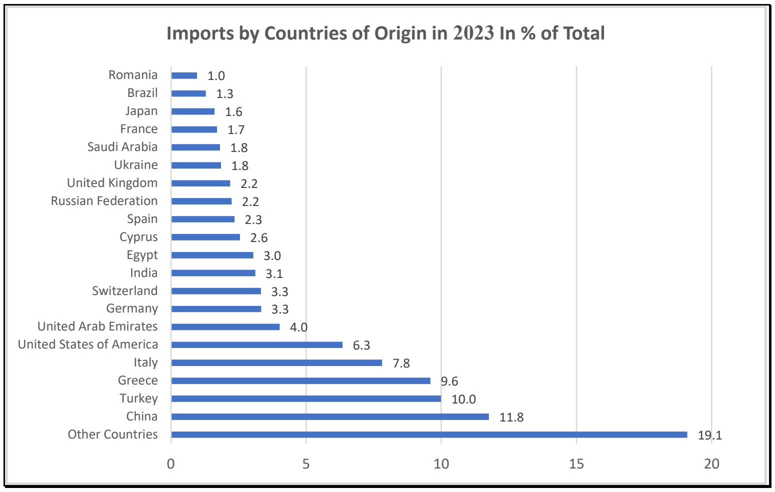


Source**:** Customs Higher Council.

Thus, the value of imported goods in 2023 decreased by about USD 1.5 billion compared to the previous year, which seemingly indicates a decline in demand and consumption. However, this conclusion falls apart when we consider that the decrease in the import bill was influenced by the decline in global prices of imported goods and the reduction in imports from two major categories that are heavy and of which big quantities were imported in the previous year. When we look into the details of the numbers, we see that the import activity generally maintained the same level as in 2022, or even improved moderately. Although it seems that the import bill in 2022 and 2023 has almost returned to the levels recorded before the crisis, the import movement, more accurately reflected by the quantities imported, did not return to its previous levels. In fact, in the two mentioned years, the quantities did not exceed 65% of their average during the period of 2015-2019, for example. This suggests that some imported goods were consumed less than before the crisis, and some were replaced by locally produced goods.
The following two graphs summarize the distribution of imported goods by types and countries of origin in 2023.



Source: Customs Higher Council.



Source: Customs Higher Council

Exports of goods

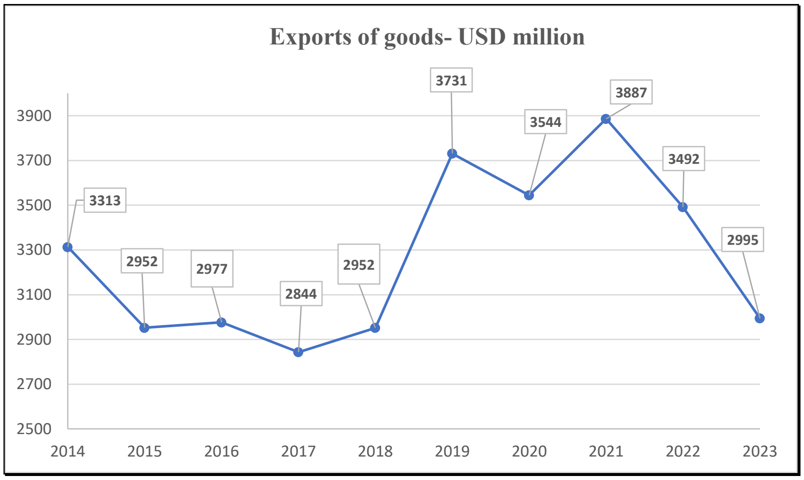
4-6 In general, exported goods in 2023, like in the previous year, showed below-average performance and did not achieve the remarkable development some had expected after the crisis, especially given the low labor costs in Lebanon. The value of exported goods reached USD 2,995 million in 2023, a decrease of 14.2% compared to the previous year, while the quantities exported declined by a smaller percentage of 6.8%.

The decline in the value of exported goods in 2023 was influenced by the price factor, with a general decrease in the prices of exported goods, as well as the quantity factor, which reflects the external demand for Lebanese goods, which also saw a decline. Upon further examination, some types of goods saw an increase in export value, while others saw a decline. In other words, the export trends by type of goods in 2023 did not follow a consistent trend or a uniform rate of change. It is also important to mention that exports were affected by the weak demand from Saudi Arabia for Lebanese goods, especially with the ban on Lebanese agricultural products entering the Kingdom since early 2022. Saudi Arabia used to import at least USD 200 million worth of goods annually from Lebanon, sometimes reaching as much as USD 400 million, but exports to Saudi Arabia fell to under a million dollars in both 2022 and 2023.

Exports of goods

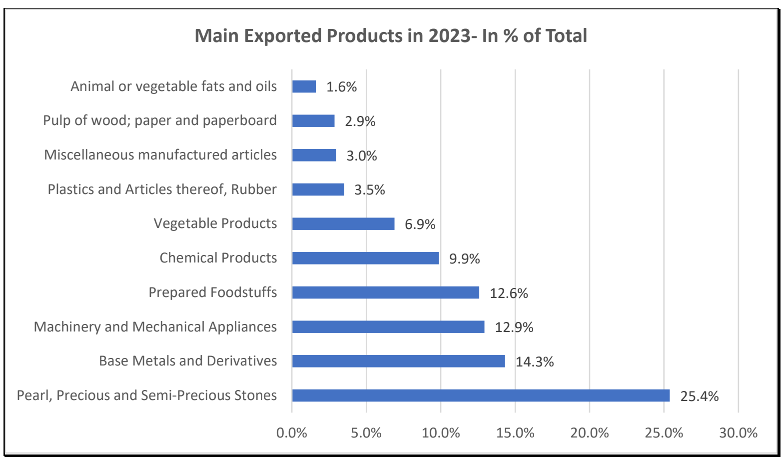
	Value – USD million	Change - %	Quantities – Thousand tons	Change - %
2019	3731	+26.4	1677	-8.9
2020	3544	-5.0	1889	+12.6
2021	3887	+9.7	1768	-6.4
2022	3492	-10.2	1780	+0.7
2023	2995	-14.2	1658	-6.8

Source: Customs Higher Council.

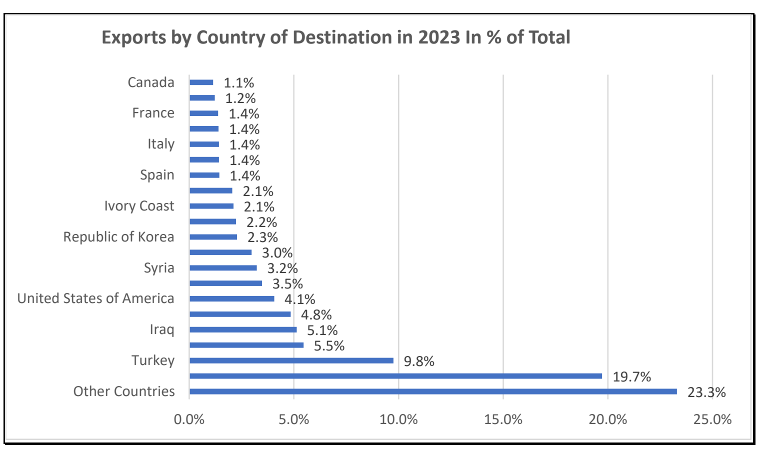


Source: Customs Higher Council.

The following two charts highlight the distribution of **exported goods value** according to the main types of goods and the main countries of destination in 2023.



Source: Customs Higher Council.



Source: Customs Higher Council.

V- Banking activity in 2023

5-1 In 2023, the contraction of the banking activity persisted amid the political, economic, and financial crisis the country is experiencing, along with the absence of the serious measures needed for a gradual recovery. By the end of December 2023, the total assets of commercial banks operating in Lebanon reached LBP 1,728,740 billion, equivalent to USD 115.2 billion based on the exchange rate of 15,000 LBP per US dollar adopted during that period.
The table below presents the evolution of the components of commercial banks' liabilities, in terms of value and percentage, between the end of the years 2021, 2022, and 2023.

Commercial Banks' Liabilities at the end of the period *
(billion LBP and %)

	2021		2022		2023	
	Value	%	Value	%	Value	%
Resident private sector deposits	158,178	60.0	154,248	60.5	1,104,207	63.9
Public sector deposits	7,538	2.9	7,055	2.8	18,272	1.1
Non-resident private sector deposits	36,996	14.0	35,270	13.8	317,048	18.3
Non-resident financial sector liabilities	7,343	2.8	6,501	2.6	43,270	2.5
Capital accounts	26,810	10.1	27,569	10.8	76,374	4.4
Other liabilities	26,922	10.2	24,210	9.5	169,569	9.8
Total	**263,717**	**100.0**	**254,853**	**100.0**	**1,728,740**	**100.0**

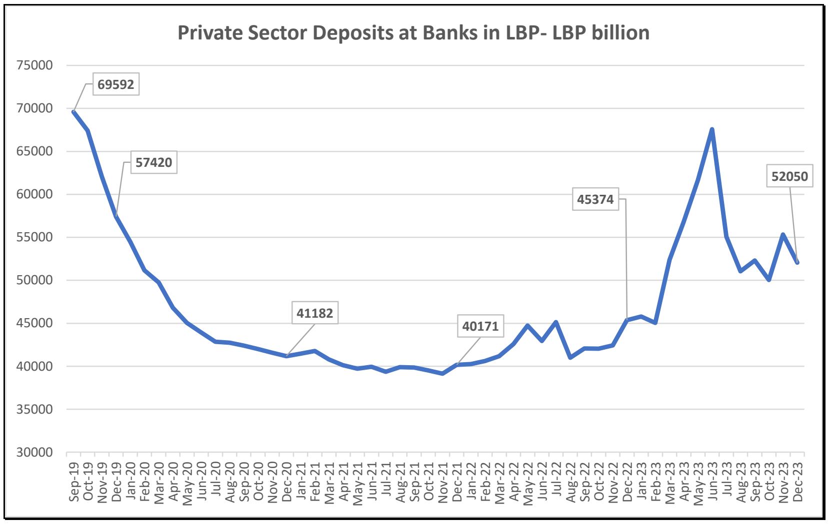
Source: BDL.

- The FC Liabilities items are calculated @ 1,507.5 LBP/$ in 2021 & 2022 and @ 15,000 LBP/$ in 2023.

Deposits

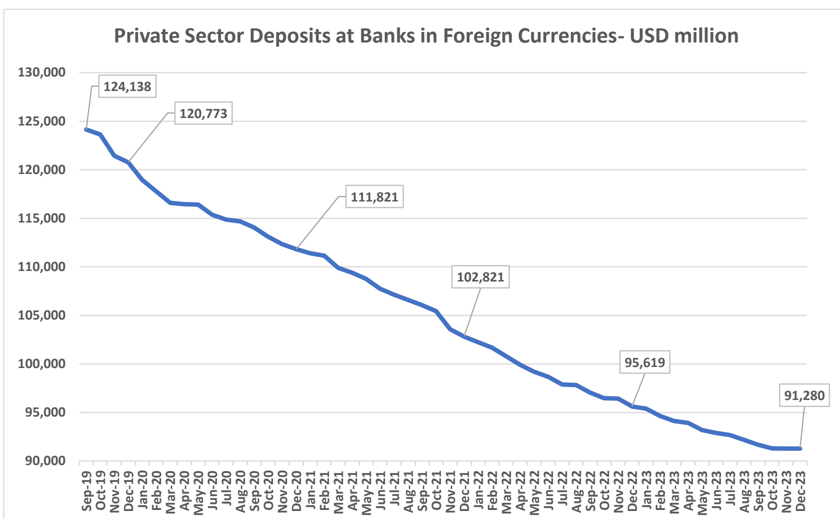
5-2 At the end of 2023, the total deposits' base, which includes deposits from resident private sector (including financial sector), non-resident private sector, and deposits of some public institutions reached LBP 1,439,527 billion (the equivalent of USD 96.0 billion at an exchange rate of 15,000 LBP per USD). Deposits from resident private sector accounted for 76.7% of total deposits, non-resident private sector deposits accounted for 22.0%, and deposits belonging to the public sector accounted for 1.3%.

5-3 In detailing the evolution of the private sector's deposits by currency type, it is evident that deposits denominated in LBP increased by LBP 6,676 billion, or 14.7%, in 2023, compared to an increase of LBP 5,203 billion, or 13%, in 2022. The increase in 2023 is generally attributed to money creation and, more specifically, to the conversion of certain depositors' funds from their dollar accounts to LBP within the limit set by Circular 151. Additionally, the increase was influenced by the authorization to pay taxes, fees, and various collections in LBP to the state through banks.



Source: BDL

5-4 On the other hand, deposits denominated in foreign currencies decreased by USD 4.3 billion, or 4.5%, in 2023, bringing their total value to USD 91.3 billion by the end of the year, following a decline of USD 7.2 billion, or 7%, in the previous year. This decline falls within the context of withdrawals made under the limits and conditions set by the Central Bank's circulars 151 and 158, as well as check discounting and loan repayments. It is worth noting that customers' FRESH dollar deposits were estimated at approximately USD 2.7 billion at the end of 2023, included within the total foreign currency deposits.



Source: BDL

5-5 Regarding the **concentration of bank deposits**, as of the end of 2023, deposits of up to USD 100,000 accounted for 17.8% of total deposits (in terms of the number of depositors), including deposits opened after October 2019. This percentage stood at 16.8% for deposits that existed before October 2019. In terms of the number of accounts, these percentages were 20.7% and 19.4%, respectively, by the end of 2023.

5-6 In terms of **geographical distribution**, bank deposits are concentrated in Beirut and its suburbs, as this area attracted approximately 66.6% of total deposits by the end of December 2023, distributed among 54.3% of the total number of depositors. Meanwhile, 33.4% of deposits were held in other regions, distributed among 45.7% of total depositors. This indicates a difference in the average deposit between Beirut, its suburbs and other regions.

5-7 In terms of **interest rates**, they remained at low levels throughout 2023. The average interest rate on deposits in LBP declined to 0.55% in December 2023, compared to 0.60% in December 2022. Similarly, the average interest rate on new or renewed deposits in USD dropped to 0.03% from 0.06% in the two mentioned dates respectively.

Capital Account

5-8 At the end of 2023, the capital account of commercial banks operating in Lebanon amounted to LBP 76,374 billion, equivalent to USD 5.1 billion (based on an exchange rate of 15,000 LBP per dollar), compared to LBP 27,569 billion, or USD 18.3 billion (based on an exchange rate of 1,507.5 LBP per dollar), at the end of the previous year. At the end of December 2023, equity capital accounted for 4.4% of the total consolidated balance sheet of commercial banks. Additionally, supporting equity capital, which includes subordinated bonds, subordinated loans, and certain types of preferred shares, made up 30% of total equity capital at the end of 2023, while core equity capital constituted the remaining 70%.

5-9 It is worth noting that in January 2023, the Central Bank issued **Intermediate Circular 659**, allowing banks to revalue their tangible and financial fixed assets and record part of them in their capital accounts. In this context, in December 2023, the Central Bank issued **Intermediate Circular 685**, which permits including in core equity capital 75% of the revaluation gains from the reassessment of real estate assets fully owned by the bank, real estate assets fully owned by real estate companies in which the bank holds shares, as well as long-term participations and loans related to investments in banks and financial institutions abroad. This revaluation process is to be carried out annually for five years, subject to approval and verification by the Central Council, and must be completed by December 31, 2024 at the latest.

On the other hand, banks continue to incur losses due to their high exposure to sovereign debt in foreign currencies (including Eurobonds, certificates of deposit, and deposits with the Central Bank), in addition to losses resulting from exchange rate fluctuations and non-performing loans, which negatively impact banks' equity capital.

Placements of the Banking Sector

5-10 The table below shows the development of items in the commercial banks' assets, in value and percentage, between the end of 2021, 2022 and 2023:

Commercial Banks' Assets at the end of the period *
(Billion LBP and %)

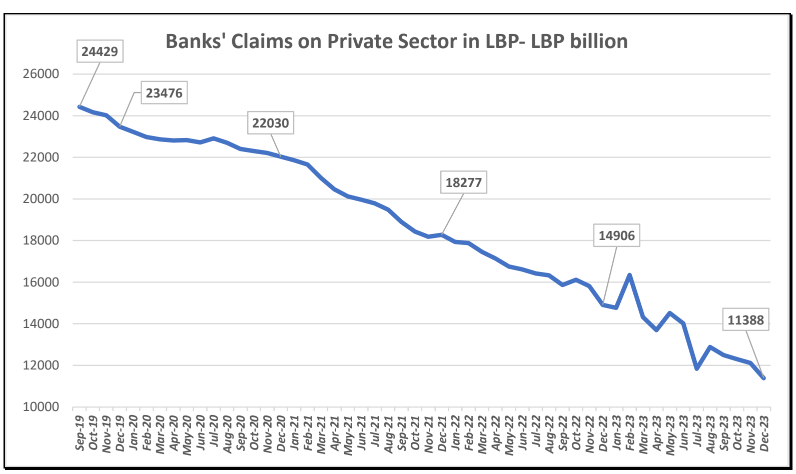
	2021		2022		2023	
	Value	%	**Value**	%	**Value**	%
Reserves	168,501	63.9	165,536	65.0	1,261,744	73.0
o/w: deposits with BDL	*164,277*	*62.3*	*158,984*	*62.4*	*1,254,356*	*72.6*
Claims on customers and financial sector (resident)	37,501	14.2	27,150	10.7	110,106	6.4
Claims on the public sector	25,713	9.8	17,383	6.8	44,887	2.6
Foreign assets	18,253	6.9	15,185	6.0	139,286	8.1
o/w: claims on NR financial sector	*6,919*	*2.6*	*6,333*	*2.5*	*66,906*	*3.9*
claims on NR customers	*4,275*	*1.6*	*3,078*	*1.2*	*14,714*	*0.9*
Resident private sector securities portfolio	2,954	1.1	4,210	1.6	44,324	2.6
Fixed assets (tangible & intangible)	7,356	2.8	20,690	8.1	116,872	6.8
Non-classified assets	3,763	1.3	4,699	1.8	11,522	0.7
Total	**263,717**	**100.0**	**254,853**	**100.0**	**1,728,740**	**100.0**

Source: BDL.

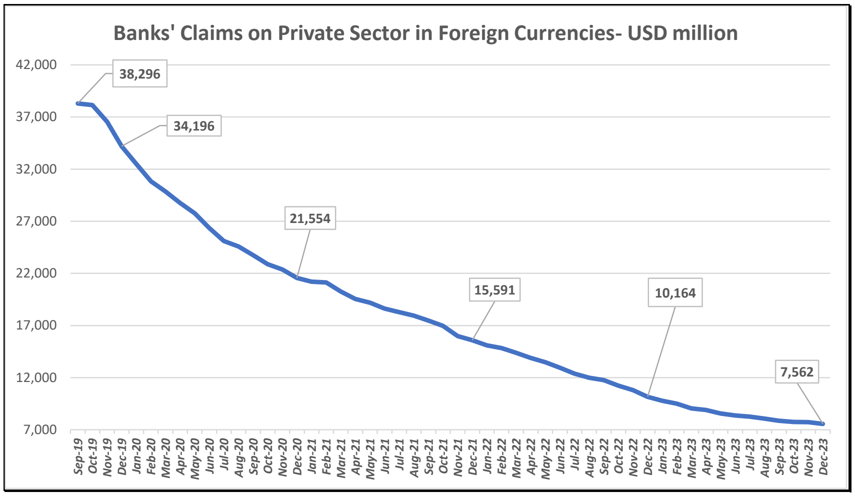
- The FC assets items are calculated @ 1,507.5 LBP/$ in 2021 & 2022 and @ 15,000 LBP/$ in 2023.

Claims on Private Sector

5-11 In detailing loans to the resident and non-resident private sector by currency, it is evident that loans denominated in LBP declined by 23.6%, reaching LBP 11,389 billion at the end of 2023, compared to a 18.4% decline in 2022, when they reached LBP 14,906 billion by the end of the year. It is worth noting that these loans experienced temporary increases during certain periods in 2023, driven by rising demand for operational expense financing or to settle outstanding obligations in LBP.

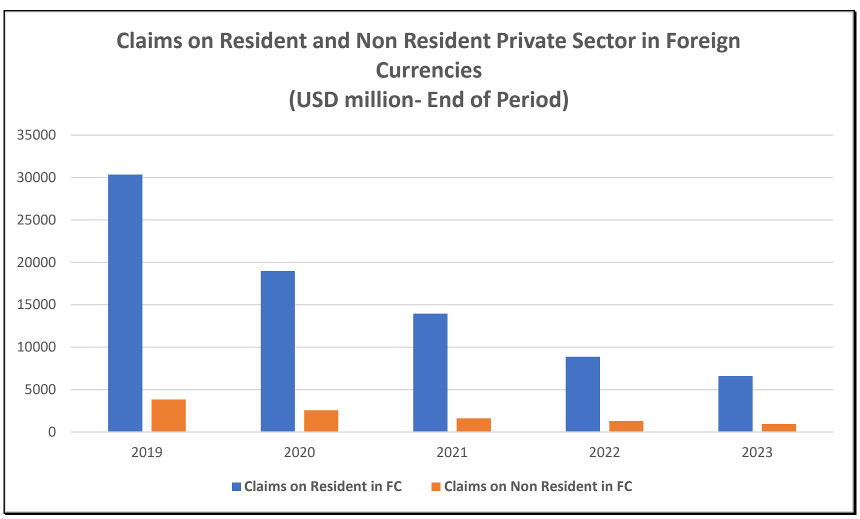


5-12 As for loans denominated in foreign currencies, their decline slowed to 25.6%, amounting to USD 2,602 million in 2023, bringing their total value to USD 7,562 million by the end of the year. This compares to a 34.8% decline in 2022, when they decreased by USD 5,427 million, reaching USD 10,164 million at the end of that year. The decline in foreign currency loans over previous years can primarily be attributed to the repayment of loans estimated at around USD 30 billion, either in LBP at exchange rates of 1,507.5 LBP or 15,000 LBP per dollar, or in local dollars, amid the lack of necessary legislative and regulatory measures to protect depositors' funds.



Source: BDL

5-13 Loans to the non-resident private sector, which are largely related to financing projects for Lebanese entrepreneurs abroad, particularly in Arab and African countries, as well as for housing loans, accounted for 11.8% of total loans to the private sector by the end of December 2023, amounting to approximately USD 981 million. It is worth noting that the Central Bank mandated, under Intermediate Circular 656 dated January 20, 2023, that non-resident borrowers must repay their debts in cash USD starting from February 1, 2023.



Source: BDL

5-14 On the other hand, the ratio of loans in foreign currencies to deposits in foreign currencies decreased to 8.3% at the end of 2023, compared to 10.6% at the end of 2022. Similarly, the ratio of loans in LBP to deposits in LBP decreased to 21.9% compared to 32.9% at the end of both years mentioned.

5-15 The ratio of non-performing loans (net of provisions) increased from 17.8% of total loans to the private sector at the end of 2022 to 24.5% by the end of 2023, due to the decline in the loan portfolio. Additionally, the ratio of provisions to non-performing loans increased from 67.9% at the end of 2021 to over 76% by the end of 2023.

5-16 Statistics on the nature of loans granted by the financial sector, as at the end of December 2023, indicate that a significant portion of these loans - 59.6% - are term loans, while 40.4% of total loans consist of overdrafts that are not secured by collateral. By the end of December 2023, 35.0% of loans were secured by real estate, 14.8% by personal guarantees, 5.2% by financial assets, 3.2% by cash collateral or bank guarantees, and 1.4% by other types of physical collateral.

5-17 In terms of loan distribution across economic sectors, there was a significant decline in the share of personal loans (including housing loans) when measured in USD by the end of December 2023. Meanwhile, the share of other sectors increased, though at varying rates, knowing that the trade and services sector continues to hold the largest share of loans.

Sectorial Distribution of Utilized Credits in the Financial Sector
(End of period)

	Dec 2018		**Dec 2019**		**Dec 2022**		**Dec 2023**	
	Value (Billion LBP)	**%**	**Value (Billion LBP)**	**%**	**Value (Billion LBP)**	**%**	**Value (Billion LBP)**	**%**
Trade & Services	35,704	34.1	26,622	33.0	13,180	33.4	63,486	36.0
Construction	16,813	16.0	14,898	16.6	7,312	18.5	43,134	24.4
Industry	11,498	11.0	9,672	10.8	4,577	11.6	20,697	11.7
Personal loans	31,876	30.4	28,142	31.3	10,555	26.8	28,164	16.0
o/w Housing loans	*19,427*	*18.5*	*18,345*	*20.4*	*7,028*	*17.8*	*8,695*	*4.9*
Financial Intermediation	4,681	4.5	3,725	4.1	1,982	5.0	12,042	6.8
Agriculture	1,190	1.1	1,136	1.3	541	1.4	2,605	1.5
Others	3,054	2.9	2,584	2.9	1,299	3.3	6,281	3.6
Total	**104,816**	**100.0**	**89,779**	**100.0**	**39,446**	**100.0**	**176,409**	**100.0**

Source: BDL

5-18 Regarding the distribution of loans by size, statistics indicate that loans exceeding LBP 1 billion were granted to only 4% of beneficiaries (6,861 individuals and institutions) out of a total of 163,717 beneficiaries by the end of December 2023. It is important to note that a single individual (or institution) may have benefited from multiple loans. These loans accounted for approximately 94% of total lending (amounting to LBP 166,312 billion) at the end of December 2023.

Distribution of loans according to the value and the beneficiaries
(End of December 2023)

	by value (%)	by beneficiaries (%)
Below 5 million LBP	0.37	55.01
5 – 25 million LBP	0.32	9.59
25 – 100 million LBP	0.83	12.39
100 – 500 million LBP	3.04	17.04
500 – 1,000 million LBP	1.17	1.78
1,000 – 5,000 million LBP	5.42	2.63
5,000 – 10,000 million LBP	3.61	0.56
10,000 million LBP and above	85.25	1.00
Total (Billion LBP and Number)	**176,409**	**163,717**

Source: BDL

5-19 On another note, **interest rates on new or renewed loans** generally maintained a downward trend in 2023. The average lending rate on U.S. dollar loans declined to 1.95% in December 2023, compared to 4.16% in December 2022. Similarly, the average lending rate on LBP loans dropped to 3.97%, down from 4.56% in the same respective periods.

Claims on Public Sector

5-20 In 2023, the commercial banks' portfolio of treasury bills in LBP continued to decline, reaching LBP 11,436 billion by the end of the year, compared to LBP 12,707 billion at the end of 2022. It is worth noting that the Ministry of Finance announced in December 2023 its decision to halt the issuance of treasury bills in LBP starting January 2024.

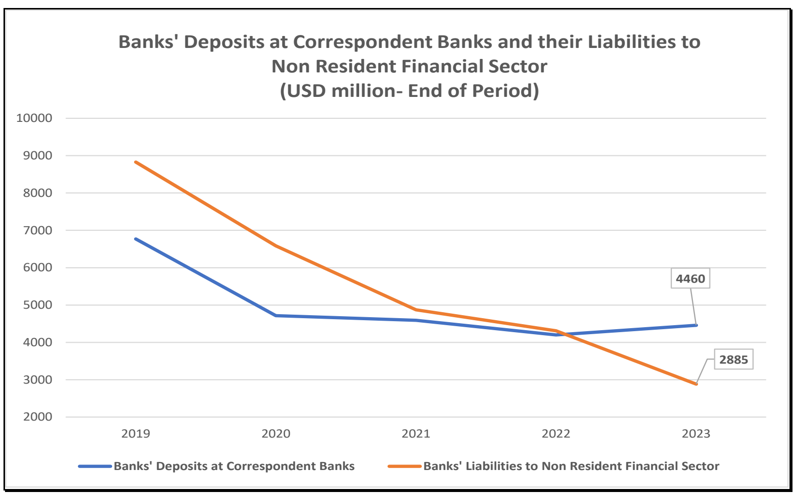
5-21 The commercial banks' Eurobond portfolio, net of provisions, declined to approximately USD 2,191 million by the end of 2023, down from USD 2,934 million at the end of 2022. This portfolio accounted for 2.4% of total foreign currency deposits at the end of 2023, compared to 3.1% at the end of 2022. It is worth noting that, according to Intermediate Circular 649, issued in November 2022, the applied percentage for calculating expected losses from placements in foreign currency treasury bills was set at 75%.

Foreign Assets

5-22 Commercial banks' deposits with correspondent banks reached USD 4.5 billion by the end of 2023, up from USD 4.2 billion at the end of 2022. These deposits accounted for 4.9% of private sector deposits in foreign currency, compared to 4.4% at the end of the previous year. It is worth noting that banks primarily use this foreign currency liquidity to cover FRESH dollar deposits in Lebanese banks, facilitate international banking transactions, and meet domestic liquidity needs, including customer withdrawals under Circulars 158 and 166. Commercial banks' deposits with correspondent banks, net of liabilities to the non-resident financial sector, amounted to USD 1.6 billion by the end of 2023.

5-23 It is worth recalling that, based on Basic Circular 154, issued in August 2020, each bank is required to maintain a free external account with its correspondent banks abroad, free of any liabilities, at a minimum level of 3% of total foreign currency deposits as of July 31, 2024 adjusted through Intermediate Circular 707, issued in September 2024.
Additionally, recent circulars have introduced further requirements: Intermediate Circular 715, issued in November 2024, mandates that each bank must deposit in cash either in the bank, or with its correspondents abroad, in a free account with no liabilities, or with the Central Bank in a "cash funds" account in accordance with Basic Circular 165, what is equivalent to 100% of the "cash funds" in foreign currencies, and this ratio must be met before fulfilling the external liquidity requirement. Lebanese treasury bills in foreign currencies (Eurobonds) are not counted in this ratio.

Intermediate Circulars 674 issued in July 2023 and 697 issued in June 2024 modified Basic Circular 158, allowing banks to use available external liquidity within the 3% liquidity requirement set by Circular 154, provided that they restore this liquidity by December 31, 2025 at the latest.



Source: BDL

Deposits with BDL

5-24 At the end of 2023, commercial banks' deposits with Central Bank in LBP and foreign currencies amounted to LBP 1,254,356 billion, equivalent to USD 83.6 billion at an exchange rate of 15,000 LBP per USD, representing 72.6% of total assets.
These deposits include the mandatory reserves imposed on banks (reduced from 15% to 14% by BDL through Intermediate Circular 586 dated June 8, 2021) and free deposits in both LBP and USD, in addition to certificates of deposit issued by BDL in favor of banks. Due to maturities, certificates of deposit in LBP decreased to LBP 34,986 billion at the end of 2023, down from LBP 43,147 billion at the end of 2022. Similarly, certificates in USD declined to USD 14.1 billion, down from USD 18.7 billion in the two mentioned years. It's worth noting that foreign currency deposits

with BDL accounted for approximately 82% of total customer deposits in foreign currencies in commercial banks by the end of 2023.

As of the publication date of this report, the current government still considers these deposits as losses, instead of recognizing them as liabilities owed to BDL, which were spent by successive governments through borrowing from the Central Bank, as stated in the forensic audit report by Alvarez & Marsal and the financial situation report by Oliver Wyman. Recognizing government obligations toward BDL would facilitate a fair and swift solution to the deposits' issue and lay the groundwork for exiting the ongoing financial crisis.

PART II

Circulars of Banque du Liban

THE CONTENT OF THE MOST IMPORTANT CIRCULARS ISSUED IN 2023 AND THE FIRST MONTHS OF 2024

1- Exceptional measures regarding foreign currency operations and cash withdrawals

Regarding **Basic Circular 151**, which allows clients to make cash withdrawals or transactions from their foreign currency accounts in LBP, the Central Bank issued **Intermediate Circular 657** in January 2023, modifying the withdrawal exchange rate from 8,000 LBP per USD to 15,000 LBP per USD. Additionally, the monthly withdrawal limit per account was reduced from USD 3,000 to USD 1,600, effective February 1, 2023.

In this context, **Intermediate Circular 673**, issued in July 2023, allowed banks operating in Lebanon to sell to the Central Bank the foreign currencies resulting from cash withdrawals or transactions requested by clients from their accounts or due amounts in U.S. dollars or other foreign currencies, which are settled in LBP with the client's consent. The Central Bank would purchase these foreign currencies within a maximum limit of USD 1,600 per account per month, at an exchange rate of 15,000 LBP per USD, without affecting the concept of "cash funds" as defined in Circular 165. Additionally, Circular 673 extended the validity of Basic Circular 151 until December 31, 2023.

Regarding **Basic Circular 161**, which relates to the operations of the Sayrafa platform, the Central Bank repeatedly extended its validity, with the latest extension set until April 30, 2023, subject to renewal. This was done through a series of intermediate circulars, the latest being **Intermediate Circulars 660, 663, and 666, issued successively in the first quarter of 2023**. However, it is important to note that the provisions of Basic Circular 161 were terminated in April 2024.

2- Exceptional measures for the gradual settlement of foreign currency deposits

In July 2023, the Central Bank amended Basic Circular 158 through **Intermediate Circular 674**, allowing account holders to withdraw USD 400 per month from amounts transferred to special sub-accounts before July 1, 2023. These withdrawals could be made in cash, via international transfers, through bank cards usable in Lebanon and abroad, or by depositing them into a Fresh Account, all without fees or direct/indirect charges. The annual withdrawal limit from all banks combined was set at USD 4,800. Additionally, the circular allowed for a USD 300 monthly withdrawal from amounts transferred to these accounts after June 30, 2023 (this was later amended in September 2023 by **Intermediate Circular 678** for individuals who had not benefited from this regulation before July 1, 2023). These withdrawals followed the same modalities – cash payments, international transfers, bank cards, or Fresh Account deposits – with an annual withdrawal limit of USD 3,600.

Circular 674 also stated that, in order to secure the necessary liquidity, banks were allowed to use their available external liquidity within the 3% ratio specified in Basic Circular 154. However, they were required to reconstitute this liquidity by December 31, 2024, at the latest.

Intermediate Circular 682, issued in November 2023, allowed the account holder to benefit from their accounts that were originally held in foreign currencies at any bank (the transferring bank) before October 31, 2019, and were later transferred to another bank (the receiving bank), provided that the amounts eligible for withdrawal were returned to the transferring bank. This applied to accounts that were joint accounts at the transferring bank but became individual accounts at the receiving bank, or individual accounts that later became joint accounts. The circular also specified that the total amount an account holder could benefit from under this regulation could not exceed USD 50,000.

In February 2024, the Central Bank issued **Basic Circular 166**, introducing exceptional measures for the repayment of foreign currency deposits created after October 31, 2019. The circular allows account holders to withdraw up to USD 4,350, depending on the available balance in their accounts at the concerned bank, whether in U.S. dollars or any other foreign currency. However, if an individual has multiple accounts at the same bank, including joint or unified accounts, the maximum annual withdrawal limit is capped at USD 1,800. A fixed amount of USD 150 per month can be withdrawn from sub-accounts, either in cash, via international transfer, or deposited into a Fresh Account, with a total annual withdrawal limit of USD 1,800 across all banks.

For any individual account holder, whether resident or non-resident, to benefit from this decision, the total balances of all their credit accounts in foreign currencies, excluding "cash funds" as defined in Basic Circular 165, are considered, accounts in which the individual is a participant, party, or beneficiary, provided that these balances were established after October 31, 2019 at any given bank. These balances are calculated based on their status as of June 30, 2023. The account holder can benefit from this decision in relation to their term deposit accounts opened after October 31, 2019, upon their maturity, and for cash collateral provided after this date, upon their release.

However, individuals are not eligible for this decision if they fall under Article 2 of Basic Circular 154 and who did not restore the required percentage; those whose accounts show transactions involving bank checks that indicate check trading activity after October 31, 2019; those who, after this date, converted deposits from LBP to foreign currencies in an amount equal to or exceeding USD 300,000, except for end-of-service indemnities; those who, after this date, settled loan balances denominated in foreign currencies using LBP for an amount equal to or exceeding USD 300,000; those who, after October 30, 2019, converted their loan balances from foreign currencies to LBP in an amount equal to or exceeding USD 300,000; and those who benefited from "Sayrafa" platform transactions and purchased an amount equal to or exceeding USD 75,000.

In February 2024, the Central Bank issued **Intermediate Circular 687**, clarifying that an "account holder" is not eligible to benefit from the provisions of Basic Circular 166 for any of their accounts, whether individual, joint, or unified at any bank, if they have already benefited from the provisions of Basic Circular 158.

3- Exceptional restrictions on some banking operations

Intermediate Circular 661 was issued in January 2023, related to the **Basic Circular 159**, to amend the article that prohibits banks from trading in foreign currencies other than "fresh money" with their customers only at the exchange rate set by **Basic Circular 151**. This article was amended again in June 2023 through **Intermediate Circular 671**, which adjusted the rate to align with the exchange rate used by **the Central bank** in its transactions with banks.

Additionally, the Central Bank issued **Intermediate Circular 662** in February 2023, prohibiting banks from buying and selling checks and bank accounts in foreign currencies or Lebanese pounds for their own account, directly or indirectly. The circular also prohibited the issuance of bank checks in foreign currencies or Lebanese pounds in the name of another bank unless the check included the beneficiary's name and required that the check's value be deposited into their account. The same circular emphasized that banks must ensure, under their responsibility, that the purpose of issuing bank checks and certified checks in Lebanese pounds is legitimate (e.g., paying taxes, fees, and judicial guarantees) and does not lead to speculation on the national currency.

4- Opening of bank accounts and credit interest rate

During the third quarter of 2019, the Central Bank issued **Basic Circular 147** related to the opening of bank accounts. According to this circular, banks were required, when opening an account for any natural or legal person residing in Lebanon for the purpose of conducting business, commercial or professional activities, to obtain a copy of the registration certificate from the Ministry of Finance. Additionally, all deposits received by banks operating in Lebanon before December 5, 2019, will remain subject to the agreements made between the bank and its clients until maturity. Interest payments on foreign currency deposits shall be paid as follows: 50% in the account's currency and 50% in Lebanese pounds. The validity of this decision was extended until December 31, 2023, through **Intermediate Circular 672**, issued in June 2023, and was later extended again until the publication of the 2024 state budget law in the official gazette, through **Intermediate Circular 684**, issued in December 2023. Later on, this decision was canceled in February 2024 by **Intermediate Circular 691**.

Furthermore, through **Intermediate Circular 679**, issued in October 2023, the Central Bank requested from banks not to impose any new fees on deposit accounts that were not in place before October 31, 2019. Banks were also required to prepare a detailed and documented list of the actual costs associated with accounts, including the calculation method and collection mechanism, ensuring that no undisclosed fees were charged. This list had to be published clearly at the bank's headquarters, all branches, and on the bank's website, no later than October 16, 2023.

Regulatory Framework for the Capital Adequacy of Banks Operating in Lebanon

Intermediate Circulars 659 and 676, issued in January and July 2023, respectively, and related to Basic Circular 44, stipulated that banks shall not distribute dividends to common shareholders for the fiscal years 2022 and 2023.

The Central bank also issued **Intermediate Circular 659** in January 2023, which included within the common equity, category for holders of common shares, 50% of the gains (later increased to

75% as per **Intermediate Circular 685** in December 2023) resulting from the reevaluation of the real estate assets owned by the bank in full, real estate assets owned in full by real estate companies in which the bank participates, as well as long-term loans & participations in banks and financial institutions outside Lebanon (yearly over a period of five years as per Circular 685). The Central Council of the Central Bank should verify the accuracy of the reevaluation process and approve it and the reevaluation process should be completed by December 31, 2023 at the latest, later extended to December 31, 2024 as per **Intermediate Circular 685**. Furthermore, the circular specified that the assets in question must be valued in fresh U.S. dollars, with the exchange rate for the LBP against USD determined based on the rate announced on the electronic platform adopted by the Central Bank as of June 30, 2023, and subsequently as of December 31 of each year.

In February 2024, the Central Bank issued **Intermediate Circular 689**, which, exceptionally and temporarily, allowed for a reduction in the "Capital Conservation Buffer" below the required 2.5% threshold for the years 2023 and 2024, provided that the shortfall is gradually restored according to further instructions from the Central Bank.

5- Regulatory Capital for Calculating the Prudential Limits on Banks Operating in Lebanon

In February 2024, the Central Bank issued **Intermediate Circular 690**, amending Article 3 of Basic Circular 43 to include the following deductions in the regulatory adjustments: 25% of the net changes in fair value of the financial instruments classified as fair value through OCI – if positive, negative or positive reserves resulting from the revaluation of hedging instruments, negative or positive reserves resulting from changes in own credit risks, other positive reserves linked to other comprehensive income elements, common shares and bonds related to own funds repurchased directly or indirectly, goodwill and other net intangible assets and shortfall in required provisions.

Additionally, deductions apply to positive net income from the financial cycle and positive balances in the expense and revenue accounts, shortfall in the real estate reserves and liquidation contributions required to be formed, shortfall in the special reserve required for doubtful and bad debts, which have not been settled according to Basic Circular 73, and violations of Articles 152 or 153 of the Code of Money and Credit (whichever is greater). The implementation of these provisions is temporarily suspended until further notice. This decision is effective from the financial position as of December 31, 2023.

6- The Required Reserve

In June 2023, the Central Bank issued **Intermediate Circular 670**, amending **Basic Circular 84**, to define the LBP liabilities subject to required reserves, based on items in the monthly statement divided between demand liabilities and term liabilities, including funds deposited or to be deposited as banknotes in new LBP accounts as per Article 1 of Basic Circular 165.

The circular also stated that, for the purpose of calculating the required reserve ratio, the banks' daily cash balances at the Central Bank shall include the balances of current accounts in LBP opened before April 19, 2023, as well as the balances of new LBP accounts covered under Basic Circular 165, dated April 19, 2023. However, balances of accounts designated for U.S. dollar-purchasing operations from the Foreign Exchange Unit on behalf of clients, as well as term and frozen accounts aimed at capital increases, shall not be included in these balances. This decision is effective starting from the statement period extending from Thursday, June 15, 2023, to Wednesday, June 21, 2023.

7- Exceptional Loans, Retail Loans, and Prepayment under current circumstances

Intermediate Circular 661 issued in January 2023 mentioned the possibility to repay the exceptional loan granted under Basic Circular 152 to clients affected by the Beirut port explosion in LBP, based on the exchange rate used in the Central Bank's transactions with banks (currently at an average of 15,000 LBP per US dollar), effective as of February 1, 2023. In February 2024, Intermediate Circular 688 canceled the previous decision, allowing the client and the bank or financial institution to agree on repaying the exceptional loan over a period shorter than five years, or to proceed with an early repayment in U.S. dollars without incurring any fees or commissions.

As for loans granted in foreign currencies to non-residents, including offshore companies, the Central Bank requested through Intermediate Circular 656 issued in January 2023 (amending Basic Circular 81) that banks and financial institutions operating in Lebanon only accept repayment of such loans from fresh dollars transferred from abroad.

8- Liquidation of Short FX Position

Through **Intermediate Circular 659** issued in January 2023, the Central Bank requested banks to gradually liquidate their short FX position that were open as of December 31, 2022. The liquidation is planned over a five-year period so it does not exceed a maximum of 80% in 2023, 60% in 2024, 40% in 2025, 20% in 2026, and 0% in 2027.

Intermediate Circular 675, issued in July 2023, temporarily suspended the ability to request new fixed or structural FX positions, or to increase or modify the currencies composing such positions. It also required banks exceeding the limit for the net operational FX position (1%) to deposit a special reserve in LBP with the Central Bank equivalent to ten times the excess, calculated based on the Sayrafa platform exchange rate, for each day of excess for a period of one month. Additionally, banks exceeding the limit of total FX position (40%) must deposit a special reserve in USD at the Central Bank equivalent to ten times the excess, after deducting any excess under the net operational FX position, for each day of excess for a period of one month. Financial institutions exceeding the allowed thresholds for net operational FX positions (100%) for long positions and 5% for short positions must similarly deposit a special reserve in LBP equal to ten times the excess, based on the Sayrafa rate, for each day of excess for a period of one month. However, **Intermediate Circular 677** issued in September 2023 suspended the above measures, after banks' feedback showed they could cause undue harm to the sector.

In November 2023, the Central Bank issued **Intermediate Circular 683**, amending the special reserve that banks should deposit with the Central Bank when exceeding the specified limit to become three times the excess, calculated based on the Central Bank's official exchange rate for transactions with banks. This circular also canceled all regular and exceptional approvals previously granted to banks for fixed FX positions, structural FX positions, and any other exceptions related to FX positions.

In cases of long FX open positions, a bank is considered in violation if its net operational FX position exceeds 1% of its total net Tier 1 capital. Banks are given a deadline until 31/12/2024 to eliminate any such excess calculated as of 31/12/2023, or else they must place the specified special reserve with the Central Bank.

For short FX open positions, banks are automatically considered in violation and must gradually reduce the excess to a maximum of 50% of the excess value calculated as of 31/12/2023 by the end of 2024. The excess should fully be liquidated by the end of 2025. Banks in violation will be required to place the aforementioned special reserve at the Central Bank in LBP.

In this context, and in application of Basic Circular 32 and its amendments, the Banking Control Commission of Lebanon issued Circular 300 in November 2023, requesting banks to comply with proper methods for calculating FX positions, accounting for exchange rate changes, and respecting the maximum allowed limits for FX positions.

9- Rules for Converting Assets and Liabilities Denominated in Foreign Currencies into Lebanese Pounds

According to **Basic Circular 167** issued in February 2024, all banks and financial institutions, when preparing their financial statements, must adhere to the principles of the International Accounting Standard (IAS 21) and convert monetary assets and liabilities denominated in foreign currencies, as well as non-monetary assets classified at fair value or evaluated using the equity method, into their equivalent value in Lebanese pounds based on the exchange rate published on the electronic platform adopted by the Central Bank on the date the financial statements are prepared.

10- Fighting Money Laundering and Terrorism Financing

Regarding said subject, the Central Bank issued **Intermediate Circular 692** in February 2024, amending the regulations on the control of financial and banking operations for fighting money laundering and terrorism financing annexed to Basic Circular 83. Through this circular, the Central Bank required the establishment of at least two departments within the "Compliance Unit." The first department is to oversee the bank’s headquarters and branches, with duties that include ensuring compliance with procedures for fighting money laundering and terrorism financing. The second department is dedicated to "Anti-Bribery & Corruption". Its responsibilities include developing the bank’s policy for anti-bribery and corruption aligned with the obligations and recommendations issued by local regulatory authorities and international organizations, conducting periodic reviews of the effectiveness of these procedures and working to enhance them to mitigate risks, and updating the Code of Ethics & Conduct. Additionally, this department is responsible for assessing bribery and corruption risks arising from the services and products offered by the bank to its clients, identifying high-risk customer segments, organizing employee training sessions on the topic, and promoting a culture of integrity within the bank.

11- Information on Residents’ Investments in Securities Issued by Non-Residents

Intermediate circular 665, issued in March 2023, amended the assessment basis in the interpretative guide attached to Basic Circular 91. It now requires that when declaring ownership of any asset, the market value, rather than the nominal value, should be used at the close of operations on the last day of each quarter. It's worth noting that the market value will also be used to reconcile with items in the balance sheet on the same date. Regarding bonds linked to debts such as bonds secured by real estate loans, the market value prevailing on that date must be declared.

All amounts must be expressed in the corresponding value in US dollars (in units), based on the prevailing exchange rates on the last day of each quarter. This circular is effective from the first quarter of 2023.

12- Interest on US Dollars Term Deposits with the Central Bank and Interest on US Dollar Certificates of Deposit Issued by BDL

As an amendment to Basic Circulars 14 and 67, the Central Bank issued **Intermediate Circular 668** in April 2023 to extend, until December 31, 2023, the articles related to reducing interest on term deposits in US dollars with the Central Bank from banks operating in Lebanon by 50% and the Central Bank will continue, exceptionally, to pay half of it in US dollars and the remaining half in Lebanese pounds. This circular also includes a reduction of the interest rates on US Dollar Certificates of Deposit issued by the Central Bank and held by banks operating in Lebanon by 50%. Similarly, the Central Bank will continue, exceptionally, to pay half of it in US dollars and the remaining half in Lebanese pounds. Provisions of this decision were extended until the issuance and official publication of the 2024 state budget law via **Intermediate Circular 684** issued in December 2023.

Intermediate Circular 686, issued in February 2024, amended this percentage to 75%, which is to be paid entirely in US dollars. This decision is effective from February 3 until June 30, 2024.

13- Electronic Settlement Operations for "Cash Money"

Following the development of payment systems at the Central Bank (BDL-NPS) to include electronic transfer, clearing, and settlement services for "cash money," the Central Bank issued **Basic Circular 165** in April 2023 to implement the same procedures used for settlement and clearing operations related to banking transfers and electronic clearing on settlement operations for cash money in accordance with the instructions outlined in Basic Circulars 127 and 130.

"Cash money" refers to funds that were transferred from abroad and/or received as banknotes in foreign currencies after November 17, 2019. Also, funds that were deposited or will be deposited as banknotes in new accounts in Lebanese pounds, provided that the specified conditions in Basic Circular 150 are met.

The circular requested from all participants in the (BDL-NPS) system to open new accounts with the Central Bank in Lebanese pounds and US dollars exclusively for conducting all operations related to check clearing and electronic transfers for "cash money" by May 10, 2023, at the latest. It also required the exclusive use of these new accounts for settling electronic banking transfers related to cash money and clearing checks. The necessary cash funds should be deposited into the mentioned new accounts to ensure sufficient liquidity for the success of settlement operations in the (BDL-NPS) system. Each bank is responsible for determining the value of its deposits in these accounts, subject to the availability of the required balance at all times.

Regarding checkbooks, the circular requested banks to apply to the Cash Operations department to obtain checkbooks and to use them exclusively for cash withdrawals from the new accounts. Banks are prohibited from issuing bank checks for "cash money" drawn on their accounts with the Central Bank except by order of the relevant bank account holder. However, as an exception, **Intermediate Circular 669**, issued in June 2023, allowed banks to issue checks in Lebanese pounds drawn on their new accounts at the Central Bank, exclusively for the payment of taxes (including VAT), fees (including customs duties), and dues to public sector entities (ministries, municipalities, etc.), provided that the value of each check does not exceed LBP 99 billion. The circular also amended the start date for the clearing and transfer processes related to “cash money” to June 12, 2023.

It's worth reminding that the Central Bank issued **Intermediate Circular 667 in April 2023**, amending Basic Circular 69 and related to financial and banking operations via electronic means. It prohibited banking or financial transactions via mobile or fixed electronic devices between clients of different banks if the transaction exceeds USD 10,000 except for receiving wire transfer requests from the client.

Banking or financial operations using mobiles and fixed electronic devices are allowed when using applications or electronic programs, through cards and/or bank accounts belonging to clients of different banks, provided that prior approval is obtained from the Central Bank. The non-banking institution must maintain a capital of no less than LBP 50 billion continuously and is given a maximum deadline of September 30, 2023, to submit requests for capital increase, with the completion of procedures to make it effective no later than December 31, 2023. The total of funds sent and received from each client through a single application should not exceed LBP 15,000,000 daily and LBP 150,000,000 monthly for operations in Lebanese pounds, and USD 300 daily and USD 3,000 monthly, or the equivalent in foreign currencies, for operations in USD or other foreign currencies for sent funds. The received funds should not exceed USD 600 daily and USD 6,000 monthly.

PART III

HUMAN RESOURCES IN LEBANESE BANKS

I - Banking Population in 2023

In 2023, the number of employees working in banks continued to decline, following the trend observed in the years after the financial and economic crisis, although at a slower pace compared to previous years. This decrease was driven by several factors, including the need for banks to lay off staff in certain departments due to the ongoing economic difficulties, employees reaching the legal retirement age, or a number of staff opting to leave their jobs early in exchange for compensation or in search of new employment opportunities either domestically or abroad, due to the declining purchasing power of their salaries or in pursuit of better financial conditions.

1- Number of Banks and Branches

The statistical data concerning the total number of employees in the banking sector at the end of 2023 is based on 54 active banks (although the official list includes 60 banks), distributed among 43 commercial banks and 11 investment banks. The commercial banks include 30 Lebanese joint stock companies, 7 Lebanese banks of major Arab shareholders, 4 Arab banks, and 2 non-Arab banks. As part of efforts by banking groups in Lebanon to reduce their operational costs, some opted to merge their investment banking units within the group and convert them into departments within the main bank.

In 2023, additional bank branches within the country were closed, reducing the number to 730 branches by the end of September 2023. Additionally, the number of ATMs declined to 1,264 machines by the end of the third quarter of 2023, as shown in the table below.

	2018	2019	2020	2021	2022	Sep 2023
Number of banks	**65**	**63**	**63**	**61**	**61**	**60**
Commercial	49	47	47	46	46	46
Investment	16	16	16	15	15	14
Number of branches in Lebanon	**1,101**	**1,071**	**1,014**	**914**	**803**	**730**
Number of ATMs	**1,998**	**2,003**	**1,874**	**1,724**	**1,515**	**1,264**

2- Number of Employees

The table below shows the evolution of the number of bank employees and their distribution by category. It reveals that the total number of employees declined to 14,860 by the end of 2023, representing a decrease of approximately 10% compared to the end of 2022.

Distribution of banking population

	2018	2019	2020	2021	2022	2023
Total number of employees	25,908	24,886	22,325	18,815	16,520	14,860
Change (Number)	*-97*	*-1,022*	*-2,561*	*-3,510*	*-2,295*	*-1,660*
Change (%)	*-0.37*	*-3.94*	*-10.29*	*-15.72*	*-12.2*	*-10,0*

Distribution as per banks' categories						
Lebanese Commercial Banks s.a.l	24,557	23,554	21,091	17,651	15,488	13,894
Foreign/Arab Commercial Banks	513	490	484	440	382	351
Investment & M&LT Credit Banks	838	842	750	724	650	615

3- The Banking Population Characteristics

In this section, we rely on data collected from 46 banks that fully completed the questionnaire, with a total number of employees of 14,325 at the end of 2023. The remaining banks only provided the total number of their employees for that year.

Regarding gender distribution as at the end of 2023, the banking workforce in Lebanon was divided between 48% females and approximately 52% for males.

Regarding marital status, the percentage of single employees continued to decline, reaching about 24% of the total workforce at the end of 2023, compared to 26% at the end of the previous year. This may reflect a larger number of single individuals leaving the sector in search for better opportunities domestically or abroad. The share of single employees was nearly equal among women and men, while the number of married male employees exceeded that of married females.

In terms of age distribution, the share of employees under the age of 40 dropped to around 44% of the banking workforce by the end of 2023, down from approximately 48% at the end of 2022. This decline is due to aging within the workforce or younger employees exiting the sector, with no new entrants. Those aged between 40 and 60 years accounted for 49% (up from 45% in 2022), and the share of employees over 60 years old increased slightly to around 7% (compared to 6.4% at the end of 2022).

Distribution of bank employees by gender and age – End of 2023 (%)

	Below 25 years	25-40 years	40-50 years	50-60 years	Above 60 years	Total
Male (%)	58.9	45.8	53.8	57.0	64.9	51.9
Female (%)	41.1	54.2	46.2	43.0	35.1	48.1
Total Number	**253**	**6,110**	**3,960**	**3,013**	**989**	**14,325**

The distribution of bank employees by gender and age groups shows that the share of males exceeds that of females across all age groups, except for the 25–40 age group, where the proportion of female employees is higher.

Distribution of male and female employees by age category – End of 2023 (%)

	Below 25 years	25 – 40 years	40 – 50 years	50 – 60 years	Above 60 years	Total number
Male (%)	2.0	37.7	28.7	23.1	8.6	**7,431**
Female (%)	1.5	48.0	26.5	18.8	5.0	**6,894**

In terms of job grades, technicians constituted 74% of the declared workforce in 2023, compared to 26% for cadres. It's worth noting that technicians are those who occupy positions requiring skills acquired through learning, experience, and training. They are capable of problem-solving, supervising teams, and maintaining flexible relationships with clients. The cadres, on the other hand, hold positions that require significant responsibilities, extensive knowledge, leadership skills, and decision-making abilities.

Regarding the educational level, the Lebanese banking sector has always been distinguished by attracting employees with a high level of education. University graduates made up over 80% of the banking workforce by the end of 2023.

Distribution of bank employees by gender and level of education – End of 2023 (%)

	Below the baccalaureate level	Baccalaureate or its equivalent	University graduate	Total
Male (%)	83.7	60.0	47.5	7,431
Female (%)	16.3	40.0	52.5	6,894
Total Number	**1,163**	**1,655**	**11,507**	**14,325**

The distribution of employees by gender and level of education shows that around 88% of female employees in the banking sector hold a university degree, compared to approximately 74% of males at the end of 2023.

Distribution of male and female bank employees by educational level – End of 2023 (%)

	Below the baccalaureate level	Baccalaureate or its equivalent	University graduate	Total number
Male (%)	13.1	13.4	73.6	**7,431**
Female (%)	2.8	9.6	87.6	**6,894**

4- Salaries, Wages and Benefits

It is important to note at the beginning of this paragraph that the banks which completed this part of the questionnaire provided the statistical data in Lebanese pounds, noting that the methods of paying and calculating salaries, benefits, and allowances varied from one bank to another. We will only present the average cost and its components as reported to the General Secretariat for the year 2023.

The **average annual cost** per employee (including salary, additions, and compensations) amounted to LBP 945 million in 2023 (approximately LBP 79 million per month, based on 12 months). However, this average does not reflect the actual earnings of employees across different categories, as there is considerable variation in costs depending on various factors, notably the salary and benefits policy adopted by each bank.

Evolution of an employee's average salary in banks
(Thousands of Lebanese Pounds)

Year	Average monthly salary	Average monthly salary including family, health and other allowances	Average monthly salary including all allowances	Minimum salary wage in Lebanon	Average exchange rate LBP/USD
2017	4,049	5,658	6,399	675	1,507.5
2018	4,224	5,916	6,788	675	1,507.5
2019	4,517	6,087	6,832	675	1,634.0

2020*	4,504	6,211	6,861	675	6,705.0
2021**	4,824	7,265	8,134	675	16,821.0
2022**	7,047	12,860	17,385	2,600	30,313.0
2023**	23,590	51,871	78,963	9,000	87,254.8

* Salaries and allowances were calculated for one bank as per the statistics collected in 2019.
** Average numbers collected from banks who fully completed the questionnaires in 2021, 2022 and 2023 were adopted.

In 2023, based on the available data, **the average monthly salary** for an employee in the Lebanese banking sector amounted to approximately 23.5 million Lebanese pounds.

Family allowances represented 0.4% of the total cost of salaries, wages, and benefits in 2023. These allowances include, on one hand, the banks' contributions to the National Social Security Fund (NSSF), which are linked to employees' wages (with a wage ceiling of 12 million Lebanese pounds), and on the other hand, the surplus amounts paid by banks to employees above the social security contribution rate.

Health and maternity allowances, commonly known as health insurance accounted for approximately 5.9% of the total cost in 2023. These allowances include the banks' contributions to the NSSF, current set at 8% of employees' salaries, while an employee contributes 3% (noting that the wage ceiling for this branch was 18 million Lebanese pounds in 2023). They also include the additional amounts paid by banks to employees beyond what they receive from the NSSF. These supplementary payments increased in 2023 in parallel with rising medical and laboratory fees and the limited coverage provided by the NSSF, although the extent of these payments varied significantly from one bank to another.

The **end-of-service indemnities** represented approximately 34.3% of the total cost in 2023. They include contributions paid to the NSSF and the related provisions, noting that banks' contribution to NSSF for end-of-service indemnities is 8.5% of the aggregate salaries subject to tax.

Other benefits accounted for 29.5% of the total cost in 2023. These benefits include educational and transportation allowances, in addition to cashier, marriage and maternity allowances, among others, and representation and clothing allowances. Additionally, some banks granted additional cash payments to their employees to offset the decline in the purchasing power of their salaries.

Regarding **educational allowances**, the average amount for education allowances granted to dependent children registered in private schools and schools for students with special needs was approximately LBP 33 million, compared to LBP 22 million for students in tuition-free schools, LBP 19 million for students in the Lebanese University, and LBP 55 million for students in private universities. It's worth mentioning that, due to the prevailing circumstances and after consulting and discussing with the Federation of Syndicates of Banks Employees, with the aim of solidarity between banks to assist employees in difficult social circumstances, the Board of Directors at the Association of Banks issued a recommendation (circular 119/2023 issued on August 17, 2023) to increase educational allowances for employees' children for the academic year 2023-2024 as follows: USD 600 in Fresh dollars for students in public or tuition-free schools, USD 1,250 in cash for students enrolled at the Lebanese University, USD 1,500 in cash annually for students in private/special needs schools, and USD 2,500 in Fresh dollars for students enrolled in private universities. However, not all banks adhered to this recommendation, some granted their employees lower amounts, while others offered higher payments.

On another note, there is no doubt that the cost of **transportation allowances** increased significantly in 2023 despite the decrease in the number of employees. This rise was driven by the sharp increase in the average price of a gasoline tank, which the Association of Banks circulates to its members, from LBP 572,000 in 2022 to LBP 1,590,000 in 2023.

Finally, it is important to emphasize the need to restore confidence in the Lebanese economy and the banking sector, as this would contribute to ensuring job stability and social security for thousands of Lebanese employees remaining in the sector.

II - Activities of the Human Resources Development Department in 2023

1- General Overview

With the ongoing financial and economic crisis that began in 2019, the Human Resources Development department (HRD) at the Association of Banks in Lebanon has worked to meet the needs of banks in the following three areas: **organizational development, corporate social responsibility, and training**.

As part of **organizational development**, the HRD department collected statistics on salaries, school allowances and medical care, and held meetings with the Human Resources and Social Affairs Committee at ABL to discuss these matters in light of the depreciation of the exchange rate and the loss of employees' purchasing power. The Committee also held a series of meetings with the Federation of Bank Employees Syndicates to negotiate the renewal of the Collective Labor Agreement, with discussions set to continue in 2024.

As part of **e-learning**, the HRD department awarded 138 certificates to employees who successfully completed the "Fighting Money Laundering" program on ABL's electronic platform "ABL-eT". Additionally, 20 certificates were distributed to those who completed the "GDPR" program.

As for **corporate social responsibility**, ABL's staff took individual initiatives that included collecting money and donating it to charitable organizations that support the poor and the elderly. Additionally, ABL gathers recyclable materials and sends them to a center that, in turn, delivers them to a processing plant in exchange for funds that enable it to organize activities for children. These initiatives fall within the scope of actions that support the goals of the UN Global Compact, which the Association of Banks joined in 2017.

Concerning **training**, the HRD Department at ABL collaborated with the HR departments in banks to identify their priorities and meet their needs in the difficult circumstances they are facing. Their main focus was on compliance, along with several other topics that are detailed in this report.

2- Training

The HRD Department at the ABL collaborated with Dr. Jocelyne Eid, Chief Compliance Officer at Lebanon & Gulf Bank s.a.l. and a member of the Compliance and Fighting Money Laundering Committee at the ABL, to organize a conference on "Anti-Bribery and Corruption Compliance". The trainer provided an overview of key issues related to bribery and corruption risks and offered insight into global standards, major regional agreements, and selected national laws. The training also addressed the primary drivers of bribery and corruption risks and how to establish an effective compliance program, based on international guidelines and standards.
Due to the importance of this conference, it was repeated for six different groups during October and November 2023 and was attended by 130 participants from 26 banks.

At the request of the ABL's Compliance and Fighting Laundering Committee, two meetings were held in 2023 to discuss developments in local and global compliance rules relevant to the Lebanese banking sector. The first meeting, in May, brought together around 50 participants from 37 banks, while the second, in September, was attended by 38 participants from 29 banks.

3- Other activities

3.1- Participation in meetings organized by the Global Compact Network Lebanon, notably the virtual training session held on October 17, 2023, entitled "Unlocking Employee Engagement and Upskilling for Sustainability". The session focused on the critical role employees play in driving sustainability within companies and how to motivate them to support change and development by adopting new behaviors and acquiring relevant skills that align with sustainable practices.

3.2- As part of the ongoing collaboration with the House of Training – ATTF Luxembourg, Lebanese bankers took part in three activities during 2023, as follows:

3.2.1- A participant from BLOM Bank s.a.l. attended the "Preparation Course to CISM® Certification" held virtually from June 5 to 16, 2023. The program focused on the core domains covered in the Certified Information Security Manager (CISM) exam and included a set of sample questions designed to train participants on the types of questions they could encounter during the certification test.

3.2.2- Two Lebanese participants, one from Bank Audi s.a.l. and another from Credit Libanais s.a.l., were selected to attend the "Ethics in Finance" program, held virtually on May 15 and 16, 2023. The program attracted significant global interest due to the increasing importance of ethics and sound behavior in the banking and financial sectors. A total of 77 applicants from around the world applied, and only 18 were selected, including the two Lebanese representatives.

3.2.3- A participant from Lebanon & Gulf Bank s.a.l. attended the virtual training program "GDPR – Data Protection Officer", held from May 30 to June 8, 2023. The program received 136 applications from various countries, with only 18 participants selected to take part in the course.

3.3- Follow-up on activities of the European Banking & Financial Services Training Association (EBTN):
The HRD Department participated virtually in several activities organized by EBTN throughout 2023, as follows:

- A conference on “Future Competences of the Financial Market” held on March 3, 2023.
- The Annual General Assembly on June 16, 2023, followed by a conference entitled “Cybersecurity, Innovation & Education in the 21st Century”.
- A virtual training session on “Current Trends in Sustainable Finance” held on October 9, 2023.
- A virtual training session on “Financial Literacy” held on November 2, 2023.