



July 28, 2023

Contact Information

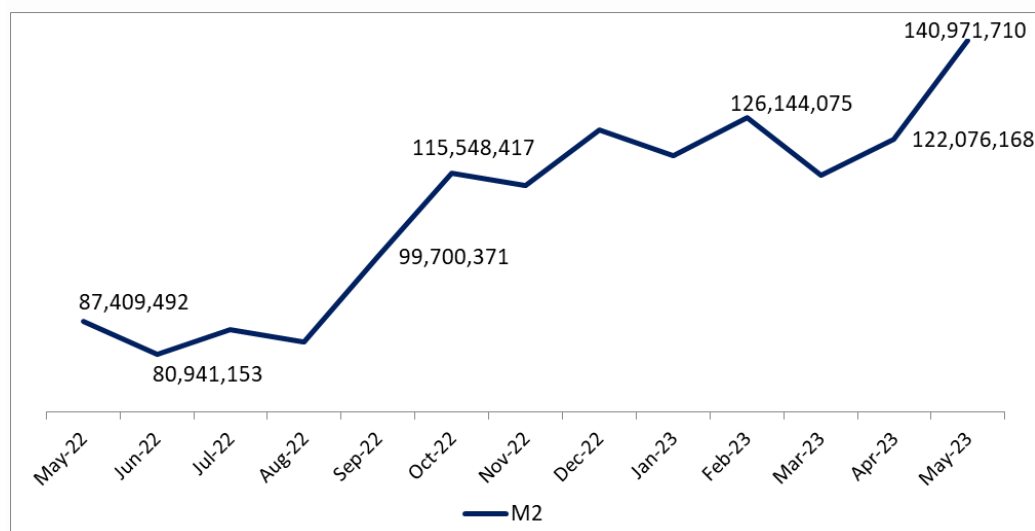
Stephanie Aoun

[stephanie.aoun@blominvestbank.com](mailto:stephanie.aoun@blominvestbank.com)

The economic landscape of Lebanon from May 2022 to May 2023 witnessed significant developments in the money supply aggregate, M2, and its components, customers’ deposits and currency in LBP. The period was characterized by a remarkable rise in M2 amidst an enduring financial crisis and a challenging economic environment.

In light of these developments, this economic spotlight delves into the factors that underpinned the growth of M2 in Lebanon from May 2022 to May 2023, exploring the implications of a rising money supply and the drivers behind the surge in currency and resident customers' LBP deposits. By examining these key elements, we aim to gain a better understanding of the macroeconomic conditions in Lebanon during this critical period.

Table 1: M2 trend from May 2022 to May 2023 (in LBP Millions):

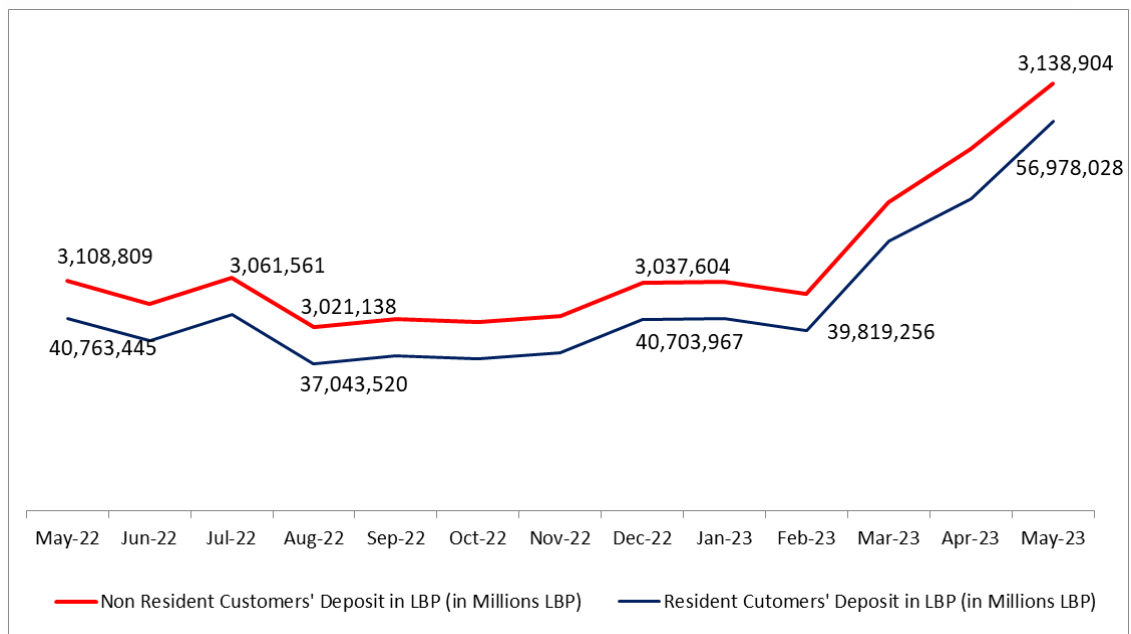


Source: BDL, BlomInvest

We will start with the main trends. By May 2023, M2 had experienced an overall increase, reaching LBP 140,971,710 M, compared to LBP 87,409,492 M in May 2022, with a notable increase starting in August 2022. The components of M2 as of May 2023 were as follows:

- Currency in circulation: LBP 80,854,778 M in May 2023 compared to LBP 43,537,238 M in May 2022
- Resident customers' deposits: LBP 56,978,028 M in May 2023 compared to LBP 40,763,445 M in May 2022
- Non-resident customers' deposits: LBP 3,138,904 M in May 2023 compared to LBP 3,108,809 M in May 2022

Table 2: Resident and Non Resident Customers' Deposit from May 2022 to May 2023 (in LBP Millions):



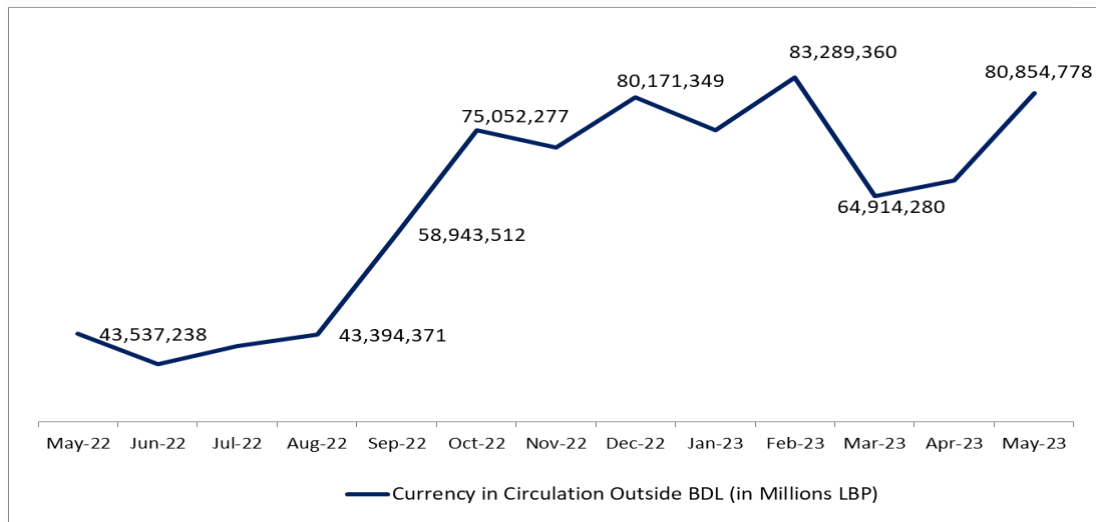
Source: BDL, BlomInvest

The growth of M2 can be attributed to a rise in deposits made by resident customers in Lebanese pounds. Over the review period, these deposits surged from LBP 40,763,445M to LBP 56,978,028M, indicating shifts in deposit preferences. However, and more important, after being mostly

stable because of limitations on withdrawals from existing accounts, the surge in LBP deposits took place in February 2023, up from 39,819,256M. This happened when the exchange rate was stabilized and the economy started to witness macroeconomic improvements. The resulting increase in economic activity generated a corresponding rise in the demand for deposits that of course were in the *nature of new fresh LBP accounts. As important, this seems to indicate that perhaps a partial confidence in the banking sector is restored, primarily because of banks' indispensable role in the running business and personal accounts in LBP.*

Non-Resident Customers' Deposits constituted a relatively smaller portion, accounting for just 5.22% of the total Resident Customers' deposits in LBP as of May 2023. Not surprisingly, these deposits experienced only a slight increase from LBP 3,109,809 M to LBP 3,138,904 M during the same period

Table 3: Currency in Circulation from May 2022 to May 2023 (in LBP Millions):



Source: BDL, BlomInvest

M2 has also increased because of the rise in currency in circulation. The latter rose from LBP 43,537,238 M in May 2022 to LBP 80,854,778 M in May 2023 with a notable rise in August 2022, and that can be attributed to a combination of factors. One driver behind this increase was the loss of confidence in the Lebanese banking system. As the financial crisis unfolded, depositors faced uncertainty regarding the stability of commercial banks, which prompted a notable surge in demand for

currency. Another driver was the fact that the rise in currency was accommodated by BDL because it had to issue more currency to fund state expenditures and the fiscal needs of the government; and because of its intervention in the FX market as a buyer of foreign exchange to shore up its reserves. Of course, and as expected, the surge in currency fed the depreciations in the exchange rate and helped it to soar from about LBP 31,000 per USD recorded in May 2022 to more than LBP 140,000 per USD by February 2023., not to mention the impact of the latter on inflation that soared above 200%.

But, of course, something rather interesting happened in February 2023 onwards: BDL was able to stabilize the exchange rate at about LBP 94,000, and as a consequence the currency in circulation fell from LBP 83,289,360 M to LBP 64,914,280 M in March (especially as the government was able to finance most of its expenditures from exchange rate revaluations). We could also argue *that the increase in confidence that this stability induced has prompted people to substitute fresh LBP deposits for their currency holdings, which explains the increase in LBP customers' deposits discussed above. Though currency has increased afterwards to LBP 80,854,778 M in May 2023, the increase was driven by the needs of more economic activity, which necessitated that people hold more currency for transaction and business purposes – as opposed to the previous speculative/or precautionary purposes – and made it in turn a complement for fresh LBP deposits. But in neither case currency was used to deal in the FX market, given the established stability of the exchange rate.*

We can summarize the main arguments as follows:

- During the studied period, February 2023 seems to have been a turning point for Lebanese monetary conditions as far as monetary aggregates in LBP and the exchange rate are concerned.
- Between May 2022 and February 2023, the increase in M2 was driven by increases in currency; while between February 2023 and May 2023, it was driven by increases in fresh customers' deposits.

- The increase in LBP deposits was a sign of customers' hesitant confidence in the banking sector, made possible by higher economic activity and positive economic growth.
- Exchange rate stability restored some confidence in the Lebanese currency, and people as a result substituted fresh LBP deposits for currency holdings; whereas economic growth – however timid – made both complements. As such, currency wasn't thus employed to speculate in the FX market.
- The period under review – though short – has shown that exchange rate stability is the gateway to enhanced confidence and growth, and should be the first order of priority of any future reform program.

**For your Queries:**

**BLOMINVEST BANK s.a.l.**

Research Department

Zeituna Bey

POBOX 11-1540 Riad El Soloh

Beirut 1107 2080 Lebanon

Stephanie Aoun

[stephanie.aoun@blominvestbank.com](mailto:stephanie.aoun@blominvestbank.com)

Research Department

Tel: +961 1 991 784

[research@blominvestbank.com](mailto:research@blominvestbank.com)

***Disclaimer***

*This report is published for information purposes only. The information herein has been compiled from, or based upon sources we believe to be reliable, but we do not guarantee or accept responsibility for its completeness or accuracy. This document should not be construed as a solicitation to take part in any investment, or as constituting any representation or warranty on our part. The consequences of any action taken on the basis of information contained herein are solely the responsibility of the recipient.*