In memory of the victims of the Beirut Port explosion

BYBLOS BANK SAL
Economic Research & Analysis Department

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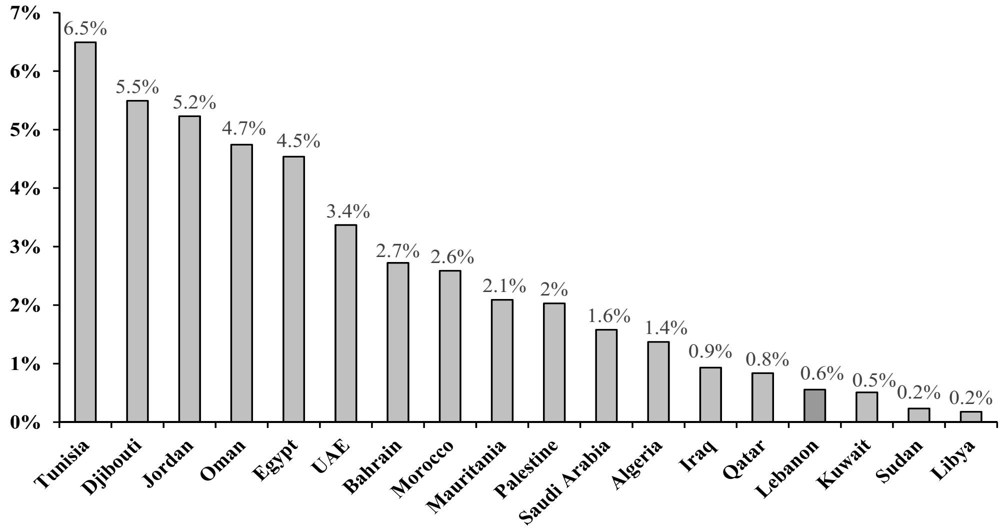
LEBANON THIS WEEK

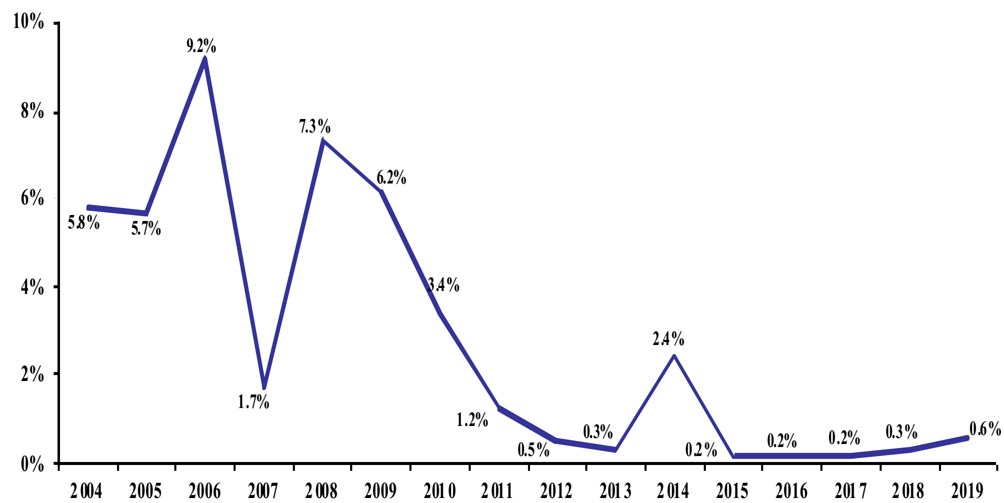
In This Issue

Charts of the Week

Greenfield Foreign Direct Investments in Arab Countries in 2019 (% of GDP)



Greenfield Foreign Direct Investments in Lebanon (% of GDP)



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

Quote to Note

"Many in Europe have a lot of interest for this country, but they want to know that there are economic reforms and good governance."

German Minister of Foreign Affairs Heiko Maas, on what European countries expect from Lebanese authorities

Number of the Week

52%: Percentage of Lebanese who want the upcoming government to consist of independents, compared to 29% who expect a government of national unity or one composed of politicians, according to an opinion poll conducted through the online application "mysay"

Lebanon in the News

$m *(unless otherwise mentioned)*	2019	Jan-May 2019	Jan-May 2020	% Change*	May-19	Apr-20	May-20
Exports	3,731	1,440	1,335	(7.3)	319	171	251
Imports	19,239	8,762	4,349	(50.4)	2,456	745	674
Trade Balance	(15,508)	(7,322)	(3,014)	(58.8)	(2,137)	(574)	(423)
Balance of Payments	(5,851)	(5,187)	(2,191)	(57.8)	(1,882)	(241)	(888)
Checks Cleared in LBP	22,146	8,732	7,748	(11.3)	1,623	998	1,105
Checks Cleared in FC	34,827	14,677	13,847	(5.7)	2,529	1,948	1,467
Total Checks Cleared	56,973	23,409	21,595	(7.7)	4,152	2,946	2,572
Fiscal Deficit/Surplus**	(5,837)	(1,380)	(1,751)	26.9	(1,006)	(96)	(247)
Primary Balance**	(287)	23	(596)	-	(60)	79	(120)
Airport Passengers	8,684,937	3,139,690	1,191,376	(62.1)	572,876	6,029	20,253
Consumer Price Index	2.9	3.6	28.6	2500bps	3.5	46.6	56.5

$bn *(unless otherwise mentioned)*	Dec-19	May-19	Feb-20	Mar-20	Apr-20	May-20	% Change*
BdL FX Reserves	29.55	29.72	28.34	28.23	27.37	26.44	(11.0)
In months of Imports	21.95	12.10	29.80	34.18	36.76	39.24	224.3
Public Debt	91.64	85.35	92.24	92.60	92.87	93.14	9.1
Bank Assets	216.78***	253.63	210.34	208.55	205.75	203.84	(19.6)
Bank Deposits (Private Sector)	158.86	170.85	151.71	149.59	147.52	146.30	(14.4)
Bank Loans to Private Sector	49.77	56.32	46.08	45.02	43.90	42.91	(23.8)
Money Supply M2	42.11	49.23	39.59	39.60	38.64	38.78	(21.2)
Money Supply M3	134.55	139.33	130.95	130.34	129.52	129.67	(6.9)
LBP Lending Rate (%)	9.09	10.75	9.33	9.41	9.29	8.45	(230bps)
LBP Deposit Rate (%)	7.36	8.72	5.81	5.13	5.06	4.63	(409bps)
USD Lending Rate (%)	10.84	9.54	9.11	8.55	7.79	7.90	(164bps)
USD Deposit Rate (%)	4.62	5.79	3.22	2.53	2.32	1.99	(380bps)

**year-on-year **year-to-date figures reflect results for first four months of each year ***The decline in assets in December 2019 is mainly due to the "netting" on the assets and liabilities' sides of the consolidated balance sheet of commercial banks as part of the implementation of international accounting standard IFRS 7*
Source: Association of Banks in Lebanon, Banque du Liban, Ministry of Finance, Central Administration of Statistics, Byblos Research

Capital Markets

Most Traded Stocks on BSE	Last Price ($)	% Change*	Total Volume	Weight in Market Capitalization
Audi Listed	1.00	4.17	110,397	9.48%
Solidere "A"	14.18	(0.35)	101,371	22.85%
Solidere "B"	14.03	(1.54)	17,742	14.70%
Byblos Common	0.39	5.41	5,567	3.55%
BLOM Listed	2.81	0.00	500	9.74%
Byblos Pref. 08	49.89	0.00	-	1.61%
BLOM GDR	2.25	0.00	-	2.68%
HOLCIM	12.10	0.00	-	3.81%
Audi GDR	1.39	0.00	-	2.68%
Byblos Pref. 09	52.75	0.00	-	1.70%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Apr 2021	8.25	17.88	583.36
Oct 2022	6.10	16.75	105.53
Jan 2023	6.00	15.75	92.91
Jun 2025	6.25	15.88	42.29
Nov 2026	6.60	15.75	31.84
Feb 2030	6.65	15.50	20.61
Apr 2031	7.00	16.13	17.88
May 2033	8.20	15.25	15.34
Nov 2035	7.05	15.75	12.55
Mar 2037	7.25	17.13	10.93

Source: Byblos Bank Capital Markets, Refinitiv

	Aug 17-21	Aug 10-14	% Change	Jul 2020	Jul 2019	% Change
Total shares traded	235,577	300,505	(21.6)	2,315,343	1,969,484	17.6
Total value traded	$1,802,468	$4,170,371	(56.8)	$29,362,947	$9,821,149	199.0
Market capitalization	$6.21bn	$6.19bn	0.3	$6.20bn	$8.21bn	(24.5)

Source: Beirut Stock Exchange (BSE)

Lebanon in the News

Political stalemate to further delay reforms and deepen socioeconomic crisis

Moody's Investors Service indicated that delays in the formation of a new government, following the resignation of the Lebanese Cabinet in the aftermath of the explosion at the Port of Beirut on August 4, could further delay the implementation of reforms and exacerbate the ongoing socioeconomic crisis. It considered that the process of forming a new government is likely to take time, given Lebanon's sectarian-based political system. As such, it said that a prolonged vacuum at the executive branch might raise the risks of further social unrest in light of the protestors' demands for government accountability, and could delay the implementation of reforms that are needed to secure external financing and support the economic recovery in Lebanon.

Further, it pointed out that the international community and the International Monetary Fund (IMF) have reiterated their commitment to provide Lebanon with the needed financial support to help mitigate the damages that resulted from the explosion. It added that the "International Conference on Support to Beirut and the Lebanese People", which was organized by the President of the French Republic and the United Nations on August 9, yielded about $300m in pledges from the international community to Lebanon for immediate humanitarian relief. However, it said that the IMF has linked its willingness to provide long-term financial support for Lebanon to the implementation of reforms, including restoring the solvency of public finances and of the banking sector, passing legislations to formalize capital controls and to eliminate the multiple exchange rates in the market, as well as conducting comprehensive audits of Banque du Liban (BdL) and of state-owned enterprises.

In parallel, Moody's indicated that it took political parties eight months to form a new government following the parliamentary elections that were held in May 2018. It that said, during this time, the government did not implement the necessary reforms that were required to unlock the $11bn funding package that the international community pledged at the CEDRE Conference in April 2018. It noted that this delay contributed to a rapid loss of confidence in Lebanon's economic crisis management capacity over the past two years.

In addition, the agency pointed out that the current caretaker government pledged upon its formation to advance economic reforms and to negotiate a financial support package with the IMF to accompany the government's debt restructuring process. But it said that the negotiations with the IMF stalled amid broad disagreements on the restructuring measures among domestic stakeholders in the three months prior to the Beirut Port explosion. It added that progress has been limited on key prerequisites that the IMF outlined, including a forensic audit of BdL, the adoption of a capital control law, and a general consensus among domestic stakeholders in favor of the government's debt restructuring and reform plan. As such, it considered that, in the absence of a political consensus on a comprehensive reform plan under the umbrella of an IMF program, the implementation of reforms and any prospects of external financial support beyond the immediate emergency needs are likely to be delayed.

S&P affirms sovereign ratings at Selective Default, warns of forming weak government

S&P Global Ratings affirmed at 'SD/SD' (Selective Default) Lebanon's long- and short-term foreign currency sovereign credit ratings, and kept at 'CC/C' the country's long- and short-term local currency ratings, with a 'negative' outlook on the long-term ratings. The foreign-currency sovereign credit ratings of 'SD' are 12 notches below investment grade. In addition, the agency revised from 'CC' to 'D' (Default) the issue ratings on the January 2023 notes, the February 2025 bonds and the February 2030 bonds, due to the government missing coupons payments that were due in July and August. It indicated that the 'negative' outlook on the local currency ratings reflects the increasing likelihood that the government will decide to restructure its Lebanese-pound denominated debt, as part of a broader restructuring program to place the public debt on a sustainable footing.

S&P indicated that the explosion at the Port of Beirut has deepened the country's economic crisis, and that a protracted political vacuum or a weak new government could further delay policy reforms, the disbursement of external aid, and the negotiations to restructure the public debt. It said that international donors committed about $300m in immediate humanitarian support to Lebanon, but stressed that additional support, including the $11bn pledged at the CEDRE conference, is contingent on the authorities' implementation of policy reforms. It considered that the resignation of the current government could diffuse some social tensions and allow a new government to fast-track reform efforts. It expected the implementation of fiscal reforms and the reduction of losses at state-owned enterprises to shape Lebanon's future recovery plan. It also anticipated the plan to include banking sector reforms, structural reforms to encourage private sector investment and productivity, the devaluation of the official exchange rate, as well as the formalization of capital controls.

In addition, the agency pointed out that, since the Lebanese government announced the suspension of payments on its external debt in March 2020, it has made limited progress in engaging with creditors on debt-restructuring negotiations. It added that key political players have yet to agree on the causes and scope of the country's crisis, which has made it difficult to reach a deal with the International Monetary Fund on a funded program. As such, it expected the debt restructuring negotiations to extend beyond 2020, without a strong commitment by Lebanese authorities to implement economic, fiscal and monetary reforms, and in the absence of a policy anchor provided by an IMF program. It considered that the authorities' challenges are exacerbated by the COVID-19 outbreak that has further weighed on the country's already weak economic activity and severe fiscal pressures. It added that progress on reviving the economy and financial system will depend on the time that political parties will take to form a new government, as well as on the Cabinet's composition.

Further, S&P indicated that it could upgrade Lebanon's local currency ratings in case significant donor funding materializes, which would allow the government to implement immediate structural reforms; or if meaningful reforms led to sustained and strong economic growth. In such a scenario, the agency expected that the restructuring of the Lebanese pound-denominated commercial debt would become less likely. Also, it said that it would raise Lebanon's long-term foreign currency sovereign issuer credit rating from 'SD' and the country's issue ratings from 'D' in case the government completes the restructuring of its foreign debt.

Banque du Liban to issue circular about commercial banks' liquidity at foreign banks

In the monthly meeting between Banque du Liban (BdL), the Banking Control Commission of Lebanon (BCCL) and the Association of Banks in Lebanon (ABL), Governor Riad Salamé indicated that the International Monetary Fund declined BdL's request to extend $800m to Lebanon for immediate use, which is equivalent to Lebanon's quota at the Fund. The IMF reportedly attributed its decision to the fact that Lebanese authorities have yet to put the public debt on a sustainable path, which is a precondition to release the funds; as well as to delays in implementing structural reforms, which should take place as part of a comprehensive program with the Fund.

Further, Governor Salamé confirmed that BdL, in consultation with the BCCL, will issue two circulars about the bank's Regulatory Expected Credit Losses (RECL) and their liquidity at foreign banks. First, he noted that BdL will set the RECL at 45% on the banks' holdings of Lebanese sovereign Eurobonds and at zero percent on their portfolio of Lebanese pound-denominated Treasury bills. Also, he pointed out that BdL will set at 1.89% the RECL on the banks' deposits in foreign currency at BdL, in case the government establishes a sovereign wealth fund and uses the returns on investments to pay back the State's debt to BdL. In contrast, he said that the RECL will increase to 9.45% in the absence of such returns. He added that BdL will take into account the maturity of the banks' deposits at BdL and will differentiate between deposits that mature in less than one year and those that have a maturity of more than one year. In addition, the BCCL considered that banks should start assessing the impact of the explosion at the Port of Beirut on their loan portfolio, without waiting for the BdL and the BCCL to issue related circulars and implementation mechanisms.

Second, Governor Salamé indicated that BdL will soon issue a circular that asks banks to increase their balances at banks abroad, which comes on top of the 20% increase in the banks' capital pursuant to Intermediate Circular 532. He noted that the ability of banks to implement these two measures will show if a bank has staying power or will have to exit the market.

In parallel, Governor Salamé discussed Basic Circular 153 that BdL recently issued about cross-border bank transfers to cover the expenses of Lebanese students abroad. He pointed out that the transfers cover students who have been enrolled at foreign universities and have been living abroad before the end of 2019. He added that clients who transferred their deposits abroad or who generate income from foreign sources can use these funds as well to cover the related tuitions.

In addition, Governor Salamé stressed on the banks to comply with Basic Circular 152 that BdL issued following the Port of Beirut explosion on August 4. The circular allows businesses and households that were affected by the explosion to benefit from a five-year credit facility in US dollars at zero percent interest rate in order to restore their homes and businesses. The Governor noted that beneficiaries can settle their loan payments in Lebanese pounds based on the official exchange rate used in transactions between banks and BdL. He added that clients who wish to settle the loan before the five-year maturity have to settle it in US dollars. In parallel, he said that banks must make sure that clients who receive insurance compensation or any other form of financial aid settle their loans. He added that the banks will determine the loan amounts they will extend based on the verified documents submitted by each beneficiary.

In parallel, Governor Salamé indicated that the BdL will consider ABL's request to use the exchange rate of LBP3,900 per US dollar for the repayment of loans in US dollars that banks will extend under Basic Circular 152. He also stated that BdL will soon issue a circular about the US dollar loans that beneficiaries are settling in Lebanese pounds. He noted that the circular will differentiate between individual and retail loans, which can be settled in local currency at an exchange rate of LBP1,500 per dollar, and commercial loans, which must be settled in the original currency of the loan based on the contract between the bank and the client.

Ministry of Industry launches incentive package of LBP470bn for industrialists

The Ministry of Industry launched a set of incentives worth LBP470bn for manufacturers and artisans in Lebanon. The funding is part of the LBP1,200bn package that the Lebanese Parliament enacted under Law 179 on May 28, 2020, and that aims to support economic activity given the adverse impact of the coronavirus pandemic on the Lebanese economy. The ministry stressed that the incentive package will prioritize companies and individuals that were affected directly by the explosion at the Port of Beirut.

The ministry indicated that the LBP470bn package will be divided into three parts. First, it said that commercial banks will extend LBP300bn in subsidized loans in US dollars to industrial firms that export products and that have more than 20 employees. It noted that these loans should be used to import raw materials, and that companies should repay them in four months. The ministry and Banque du Liban will assess the loan applications.

Second, the ministry will allocate LBP80bn to small- and medium-sized enterprises (SMEs) with less than 20 employees. Each SME will receive LBP3m for each employee, provided that it guarantees the employment of the worker for one year. The ministry also noted that it will grant LBP60bn for new investment projects, and will prioritize projects that are implemented in cooperation with municipalities, in order to encourage the latter to participate in investment projects and create job opportunities in rural areas. It expected more than 40 new projects to benefit from this initiative. It said that the grant can reach up to LBP1.5bn, or 33% of the value of the project, of which LBP1.3bn will be used for purchasing equipment and the remainder for installing renewable energy. It added that the funding will be considered as a loan, but that it will become a grant once the project is completed and becomes operational.

Third, the ministry will earmark LBP30bn to support craftsmen and artisans. It said that LBP20bn will be allocated to producers of rubber and dairy products, metals, musical instruments, blacksmiths, and wood factories, among others. The remaining LBP10bn will be distributed to craftsmen, such as potters and calligraphers, and to professions related to the production of glass and leather, among others.

Occupancy rate at Beirut hotels at 13%, room yields down 88% in first half of 2020

EY's benchmark survey of the hotel sector in the Middle East indicates that the average occupancy rate at four- and five-star hotels in Beirut was 13% in the first half of 2020 relative to 70% in the same period of 2019, and compared to an average rate of 40.5% in 14 Arab markets included in the survey. The occupancy rate at Beirut hotels was the lowest in the region in the covered period, while it was the sixth highest in the first half of 2019. The occupancy rate at hotels in Beirut regressed by 57 percentage points in the first half of 2020, constituting the steepest decline in the region. In comparison, the average occupancy rate in Arab markets declined by 25.6 percentage points in the covered period.

The occupancy rate at Beirut hotels stood at 3% in June 2020, constituting a decrease of 74.2 percentage points from 77% in June 2019. It was the lowest rate in the region in the covered month. The occupancy rate at Beirut hotels reached 25% in January, 30% in February, 10% in March, 2% in April and 3% in May 2020. In comparison, it stood at 60% in January, at 71% in February, at 79% in March, at 85% in April and at 45% in May 2019.

Hotel Sector Performance in First Half of 2020

	Occupancy Rate (%)	RevPAR (US$)	RevPAR % change
Dubai	44	95	(48.8)
Riyadh	55	82	(16.8)
Ras Al Khaimah	49	77	(33.3)
Kuwait City	38	71	(52.0)
Jeddah	37	60	(57.8)
Doha	56	60	(20.4)
Abu Dhabi	68	56	(31.5)
Makkah	43	45	(62.6)
Muscat	35	44	(53.0)
Amman	34	39	(54.1)
Manama	29	38	(55.6)
Cairo	37	36	(57.0)
Madina	29	34	(60.8)
Beirut	**13**	**16**	**(88.2)**

Source: EY, Byblos Research

The average rate per room at Beirut hotels was $130 in the first half of 2020, decreasing by 34.5% from $199 in the same period of 2019 and constituting the seventh highest rate in the region. The average rate per room in Beirut was lower than the regional average of $134.1 that regressed by 20.1% from the first six months of 2019. The average rate per room at Beirut hotels was $170 in June 2020, relative to $138 in January, $123 in February, $122 in March, $124 in April and $108 in May 2020, and down by 27.4% from $235 in June 2019.

Further, revenues per available room (RevPAR) were $16 at Beirut hotels in the first half of 2020, the lowest rate in the region, compared to $138 in the same period of 2019. Beirut's RevPAR regressed by 88.2% year-on-year and posted the steepest decrease regionally in the covered period. Beirut posted RevPAR of $5 in June 2020, down by 97.2% from $181 in June 2019. The RevPAR in Beirut, along with Makkah, were the lowest in the region in the covered month. In comparison, Beirut posted RevPARs of $35 in January, of $37 in February, of $12 in March, of $2 in April and of $3 in May 2020; while it registered RevPARs of $118 in January, of $132 in February, of $146 in March, of $174 in April and of $83 in May 2019. Abu Dhabi posted the highest occupancy rate in the region at 68% in the first six months of 2020, while Dubai registered the highest average rate per room at $216 and the highest RevPAR at $95 in the covered period.

Fitch affirms Lebanon's foreign currency rating at Restricted Default

Fitch Ratings affirmed Lebanon's long-term foreign currency Issuer Default Rating (IDR) at 'RD' (Restricted Default) and its long-term local currency IDR at 'CC'. It indicated that Lebanon's sovereign rating on its foreign currency-denominated public debt has been at 'Restricted Default' since March 18, 2020, after the government decided to suspend payments of the principal on the Eurobond that matured on March 9, and stopped the payments on all its outstanding stock of Eurobonds pending a debt restructuring plan. It pointed out that it would consider raising the country's foreign currency rating once Lebanon reaches an agreement with bondholders on restructuring its foreign currency debt and once it completes the restructuring process. It said that it will also take into consideration a forward-looking analysis of the government's willingness and capacity to meet its new foreign currency debt obligations.

In parallel, it noted that it would downgrade the sovereign's long-term local currency IDR to 'C' if the government officially announces plans to restructure its debt denominated in Lebanese pounds, or that it would lower the rating directly to 'RD' if the government defaults on its local-currency debt before any announcement about the restructuring of such instruments.

The agency indicated that the government's financial recovery plan includes a debt restructuring plan, but authorities have not yet reached an agreement with external or domestic bondholders. It pointed out that several interconnected factors have been weighing on the debt restructuring process, including the need to form a new government after the resignation of the Cabinet on August 10 and to have a consensus among domestic stakeholders about the restructuring process.

Further, Fitch noted that the international community reaffirmed that external financing is conditional on the commitment of Lebanese politicians to reforms. It added that the International Monetary Fund will most probably require prior actions before agreeing on a funding program with Lebanese authorities. Consequently, it anticipated that these conditions could push the next government to act quickly, given the prevailing economic conditions in the country. However, it cautioned that ongoing "domestic political divisions, challenged vested interests and geopolitical dynamics" could equally hinder any progress.

Trade deficit narrows by 57% annually to $3.6bn in first half of 2020

Total imports reached $5.2bn in the first half of 2020, constituting a decrease of 48.7% from $10.1bn in the same period of 2019; while aggregate exports declined by 6.5% annually to $1.6bn in the first half of 2020. As such, the trade deficit narrowed by 57.3% year-on-year to $3.6bn in the first half of 2020 due to a decline of $4.9bn in imports, which was marginally offset by a decrease of $112.2m in exports.

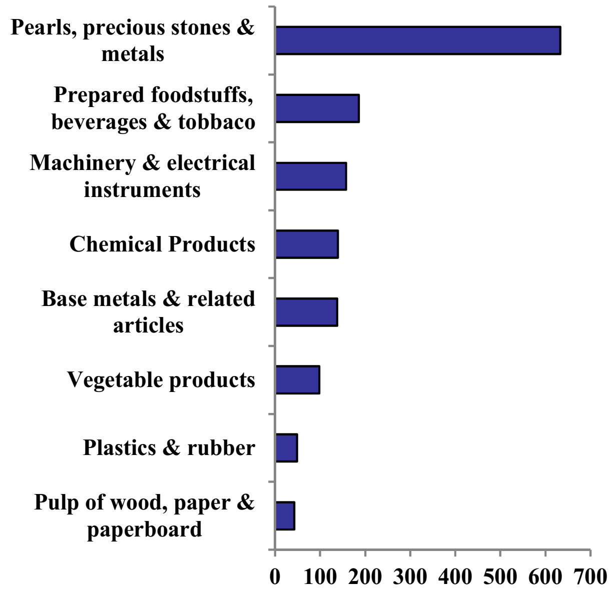
Non-hydrocarbon imports decreased by $3.1bn annually to $3.7bn in the first half of 2020, while imports of oil & mineral fuels declined by $1.9bn to $1.5bn and accounted for 28.5% of total imports in the covered period. Lebanon imported 3.7 million tons of mineral fuel & oil in the first half of 2020 relative to 6.5 million tons in the same period of 2019.

The decline in exports was mainly due to a decrease of $39.5m, or of 22%, in exported chemical products; a drop of $35.7m (-42.4%) in the exports of plastics & rubber; a contraction of $33.8m (74.5%) in exported mineral products; a retreat of $28.3m (-15.2%) in the exports of machinery & electrical instruments; a decrease of $27m (-16.3%) in exported base metal; a decline of $22.3m (-34.5%) in the exports of pulp of wood, and a contraction of $14m (-7%) in the exports of prepared foodstuff. The decrease in exports was partly offset by a rise of $64.2m (+11.3%) in the exports of jewelry, mostly unwrought gold, as well as by an increase of $25.5m (+35%) in the exports of vegetable products.

Exports to Switzerland jumped by 56.7% in the first half of 2020, and those to Egypt grew by 9.4%. The surge in exports to Switzerland is due to higher gold exports, mostly unwrought gold. In contrast, exported goods to Syria dropped by 49% in the covered period, those to the UAE fell by 23.5%, exports to Jordan declined by 16%, those to Saudi Arabia decreased by 12.2%, exports to Iraq dropped by 10.5%, those to Greece regressed by 6.3%, exports to Qatar declined by 3.8% and those to the U.S. dropped by 1.5%. Re-exports totaled $128.6m in the first half of 2020 compared to $267.3m in the same period of 2019. The Hariri International Airport was the exit point for 47.1% of Lebanon's exports in the first half of 2020, followed by the Port of Beirut (40.5%), the Masnaa crossing point (5%), the Port of Tripoli (4.4%), the Port of Saida (1.6%), and the Arida crossing point (1.1%).

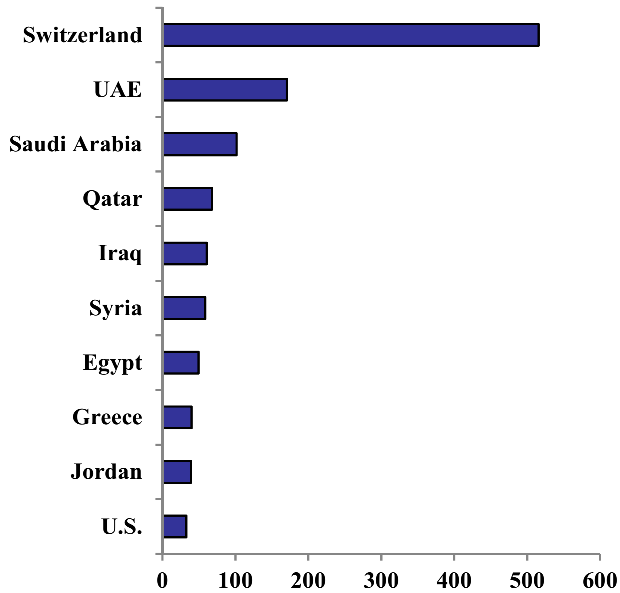
Lebanon's main non-hydrocarbon imports were chemical products that reached $803m in the first half of 2020 and that declined by 22% from the same period of 2019. Imports of vegetable products followed with $427.4m (-23.4%), then imports of prepared foodstuff with $405m (-36.8%), imported jewelry with $369m (-16.2%), machinery & electrical instruments with $335.5m (-63.2%), animal products with $305.4m (-30%), vehicles, aircraft & vessels with $200m (-69.6%), and base metals with $151.8m (-67.5%). The Port of Beirut was the entry point for 65.6% of Lebanon's merchandise imports in the first half of 2020, followed by the Hariri International Airport (23.1%), the Port of Tripoli (6.8%), the Port of Saida (3.1%), the Masnaa crossing point (1%), the Abboudieh crossing point (0.3%), and the Arida crossing point (0.2%).

Main Lebanese Exports in First Half of 2020 (US$m)



Source: Lebanese Customs Administration, Byblos Research

Main Destinations of Lebanese Exports in First Half of 2020 (US$m)



Source: Lebanese Customs Administration, Byblos Research

Greece was the main source of imports with $409.6m, or 8% of the total, in the first half of 2020, followed by Italy with $363.6m and the U.S. with $361.8m (7% each), China with $332.7m (6.4%), Turkey with $330m (6.3%), the UAE with $265.5m (5.1%), Germany with $258.2m (5%), Russia with $255.4m (4.9%), and France with $175m (3.4%). Imported goods from Russia dropped by 63.6%, those from China fell by 61.8%, imports from France declined by 61.3%, those from the U.S. decreased by 60.7%, imported goods from Germany contracted by 49%, those from Italy dropped by 42.5%, imports from Greece regressed by 39%, those from Turkey declined by 20.3% and imported goods from the UAE decreased by 9.4% year-on-year in the first half of 2020.

Lebanon in the News

Banque du Liban authorizes transfer of funds to cover expenses of Lebanese students

Banque du Liban (BdL) issued on August 19, 2020 Basic Circular 153, which regularizes bank transfers to cover the expenses of Lebanese students abroad. The circular allowed banks operating in Lebanon to conduct cross-border transfers from their clients' current accounts in foreign currency in order to cover the tuition fees, rent, and the cost of living of Lebanese students at foreign universities, starting from the circular's date. It noted that the transfers are subject to several conditions. First, the circular stipulates that only students who have been enrolled at an educational institution and living abroad before the end of 2019 will benefit from the transfer. Second, it said that clients must provide the bank with valid documentation about the amount of the tuition and the rental fees. Third, it indicated that the tuition fees must be transferred directly to the university when they become due. Fourth, the circular set the ceiling for the transfers at $10,000 per year or its equivalent in other foreign currencies.

The ongoing economic and financial crisis in Lebanon, along with the rapid weakening of the Lebanese pound exchange rate in the parallel market and the subsequent bank restrictions on cash withdrawals and foreign transfers, have limited foreign transfers to Lebanese students abroad. The current caretaker government has been debating since its formation a draft text to formalize capital controls in Lebanon. It pledged in its Ministerial Statement to coordinate with BdL and Parliament to draft the required laws that would safeguard bank deposits and standardize the banks' relations with their clients, including bank withdrawals and foreign transfers. However, authorities have since made limited progress on that front, amid political opposition to the draft law.

The Syndicate of Money Exchange Dealers issued Circular 4 on June 22, 2020 that details the sale of US dollars by money dealers to Lebanese nationals for specific purposes, and standardizes the procedures of such operations. The circular stipulated that money dealers can sell up to $1,000 for clients to buy an airline ticket or for a family provider to send money abroad to cover a student's rent, and up to $2,500 to settle a tuition payment at foreign universities. These transactions are conducted based on the exchange rate at licensed dealers and financed with US dollars from BdL. However, many money dealers have recently complained that BdL is not supplying them with enough dollars to conduct these transactions.

Subscriptions in domestic investment funds at $270m at end-2019

The Capital Markets Authority (CMA) indicated that there were 15 local collective investment schemes (CIS) licensed to operate in Lebanon in 2019, constituting a decrease of 25% from 20 CIS in 2018. According to the CMA, a CIS is "an arrangement including a mutual fund or investment company that enables a number of investors to pool their assets for professional management and diversification of risk."

The breakdown of CIS by type of investments indicates that five funds invested in fixed income securities, another five funds invested in alternative investment vehicles, three funds invested in money markets, while one fund invested in stocks and another one in mixed allocation funds. There were 2,868 subscribers in CIS funds last year, down by 37% from 4,551 in 2018.

Further, the aggregate amount of subscriptions in domestic CIS totaled $269.6m at the end of 2019, down by 49.3% from $531.7m at end-2018. The breakdown of subscriptions shows that 97% of investments were in fixed income securities, 1.9% were in stocks, 1.8% were in mixed allocation funds, 1.7% were in alternative investment funds, and 0.9% were in money markets. The geographical distribution of investments by domestic CIS shows that 94.8% of the funds were invested in Lebanon last year, 4.4% were in global investments, 2% were invested in the United States, and 1.1% were investments in the rest of the Middle East region.

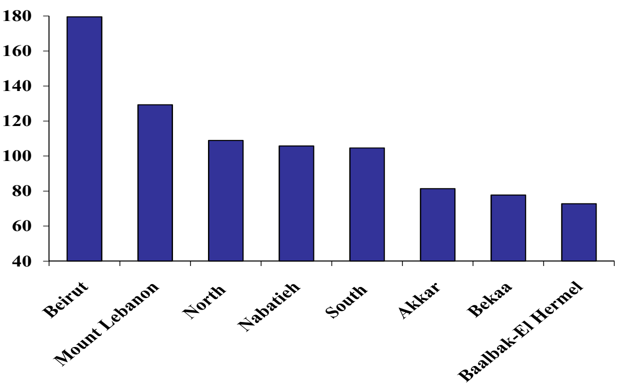
In parallel, the CMA indicated that the number of foreign CIS, which are marketed in Lebanon by financial institutions and financial intermediation firms, totaled 407 funds in 2019, down by 35.5% from 631 funds in 2018. Also, the distribution of foreign CIS by type of investments shows that 210 funds invested in stocks, followed by 82 funds in fixed income securities, 38 funds in mutual funds, 27 funds in mixed allocations, 18 funds in private equity, eight funds in hedge funds, seven funds in bonds, and six funds in each of alternative investments and money markets; while the remaining funds invested in specialty investments, commodities, and diversified investments, among others. There were 2,383 subscribers in CIS foreign funds last year, down by 32.5% from 3,531 in 2018.

In addition, the aggregate amount of subscriptions in foreign funds amounted to $610.8m at the end of 2019, down by 22.5% from $788.4m at end-2018. The distribution of the amount of subscriptions indicates that 78.6% were in fixed income securities, 7.7% were in private equity funds, 3.6% were in mixed allocation funds, 3.5% were in mutual funds, 3.1% were in stocks, 2.9% were in hedge funds, and 0.3% were in alternative investment funds.

Spending per Syrian refugee down 6% to $105 per month in 2019

A survey commissioned by the United Nations High Commissioner for Refugees (UNHCR), the World Food Program (WFP) and the United Nations Children's Fund (UNICEF) indicated that a Syrian refugee in Lebanon spent an average of $104.6 per month in 2019, constituting a decline of 5.8% from $111 in 2018. It attributed the decline to a decrease in the refugees' access to financial resources in 2019. The survey showed that household spending on food accounted for 44% of total monthly expenditures in 2019, followed by rent (15%) and healthcare (12%), while other categories, such as hygiene, telecommunications, water, transport and electricity, represented the remaining 29%. It noted that the average monthly rent among surveyed refugees across Lebanon declined from $182 in 2018 to $178 in 2019, and that over 50% of Syrian refugee households were living in challenging shelter conditions. It said that rent ranged from $61 per month for non-permanent structures, such as tents at informal settlements, to an average of $149 and $213 per month for non-residential and residential accommodations, respectively.

Spending per Syrian Refugee by Governorate (US$m)



Source: UNHCR, WFP, UNICEF, Byblos Research

Also, the survey revealed that 55% of Syrian refugees spent less than $87 per person per month in 2019, which is below the Survival Minimum Expenditure Basket that consists of basic items needed for the physical survival of a household per month. It estimated that 73.5% of Syrian refugee households lived below the poverty line of $3.84 per person per day in 2019, up from 68.5% in 2018.

In parallel, the survey indicated that 24% of Syrian refugee households cited assistance from the WFP in the form of e-cards as their primary source of income, while 22% of households revealed that informal credit from shops, friends and family are their main source of income. Also, 13% of households said that construction work was their primary source of revenues, while 9% noted that the services sector was their main source of remuneration in 2019. Further, the survey indicated that work in the agricultural sector as well as at humanitarian organizations were each the main source of income for 7% of Syrian households in 2019. As a result, the survey pointed out that 93% of households noted that they were in debt, while 76% said that they bought food on credit and 34% of households noted that they spent their savings in times of stress.

Further, the survey showed that 84% of households reported debt in excess of $200 each and 55% of them have debt in excess of $600 each. It noted that indebted refugees have accumulated an average of $1,115 in debt per household in 2019, up from $1,015 in 2018. Also, it said that the average amount of debt per capita increased by 10% to $275 in 2019. It added that the highest average amount of debt per capita was in Beirut and Mount Lebanon at $375 and $326, respectively, while the highest average debt per household was in the Nabatieh governorate ($1,336) and in the Bekaa region ($1,263). It said that 75% of households reported that they borrowed money to buy food, 51% revealed that they borrowed funds to pay rent and 34% noted that they resorted to debt to cover healthcare expenses. Also, it noted that 33% of households borrowed money to buy medicine in 2019, up by 10 percentage points from the previous year, while the share of households that borrowed for debt repayment doubled to 6% last year. It added that 73% of households cited friends and relatives in Lebanon as their main sources for borrowed money, followed by supermarkets and shops (48%), and landlords (20%). Further, households noted that alternative sources for borrowing money included friends or relatives outside Lebanon.

The survey results are part of the 2019 Vulnerability Assessment for Syrian Refugees in Lebanon. The data was collected from 4,727 Syrian refugee households in 26 districts across Lebanon. The survey was conducted between April 8 and May 3, 2019 for quantitative analysis, and discussion groups were held to gather qualitative information.

Balance sheet of investment banks down 3% in first half of 2020

Figures released by Banque du Liban (BdL) show that the consolidated balance sheet of investment banks in Lebanon reached LBP7,524bn, or $5bn based on the official exchange rate at the end of June 2020, constituting a decrease of 3% from LBP7,745bn, or $5.14bn, at end-2019, and a decline of 8.6% from LBP8,230bn or $5.46bn at the end of June 2019.

On the assets side, claims on resident customers reached $1.51bn at end-June 2020, expanding by a marginal 0.6% from the end of 2019 and regressing by 2.3% from end-June 2019, while claims on non-resident customers totaled $33.1m at the end of June 2020 and grew by 3.1% from end-2019 but declined by 4% from a year earlier. In addition, claims on the resident financial sector reached $648m at end-June 2020, increasing by 3.3% from the end of 2019 and by a marginal 0.6% from the end of June 2019; while claims on the non-resident financial sector totaled $75.3m at the end of June 2020, and improved by 20.8% from end-2019 and by 19.7% from a year earlier. Also, claims on the public sector totaled $2.4m at end-June 2020, constituting an increase of 92.7% from end-2019; while the securities portfolio, which includes Lebanese Treasury bills and Eurobonds, reached $882.6m at end-June 2020, and declined by 9.6% from end-2019 and by 11.7% from end-June 2019. In parallel, currency and deposits at BdL and foreign central banks totaled $1.48bn at the end of June 2020, down by 7% in the first half of 2020 and by 19% from end-June 2019.

On the liabilities side, deposits of resident customers totaled $1.34bn at the end of June 2020, constituting a decline of 9.7% in the first half of 2020 and a drop of 15% from a year earlier; while deposits of non-resident customers reached $244m at the end of June 2020, representing a decrease of 4.4% from end-2019 and a decline of 14.2% from the end of June 2019. Liabilities to the resident financial sector amounted to $122m at end-June 2020, down by 20.3% from end-2019; while those to the non-resident financial sector rose by 5.2% from end-2019 to $224.4m. Also, public sector deposits regressed by 33.3% in the first half of 2020 to $42m, while debt securities issued totaled $18m at end-June 2020 and were nearly unchanged from end-2019. Further, the aggregate capital account of investment banks amounted to $1.76bn at the end of June 2020, constituting a rise of 1.6% from end-2019 and of 1.1% from end-June 2019.

Claims from explosion at Port of Beirut to have limited impact on capital of European reinsurers

Fitch Ratings anticipated that the explosion at the Port of Beirut on August 4, 2020 will exacerbate the pressure on the earnings of European reinsurers from the COVID-19 pandemic. However, it did not expect the blast to significantly affect the credit profiles of European reinsurers. It said that initial estimates from the local insurance industry suggest that insured losses in Lebanon could reach about $3bn, which are comparable to the losses from the explosion at the Chinese Port of Tianjin in 2015. It expected Lebanese insurers to undertake most of the primary insurance coverage, and for European reinsurers to share a large part of the losses. But it noted that claims from the Beirut Port explosion would have a limited impact on the reinsurers' capital positions, given that such claims are much smaller than the pandemic-related insurance claims.

The agency did not expect the insured losses from the Port of Beirut explosion to exceed the losses from the Tianjin incident, given the low insurance coverage in Beirut and the type of property and goods that were damaged. It said that the insurance industry estimated that only about 30% of the economic losses from the explosion at the Port of Beirut were likely insured, and that the mix of the damaged property and goods has lower value than the destroyed property in Tianjin. It pointed out that Hannover Re reported net claims of €111m, while Munich Re and Swiss Re reported claims of €175m and of $250m, respectively, following the explosion at the Port of Tianjin. It anticipated that claims of this magnitude from the blast at the Port of Beirut would moderately exacerbate pressure on the 2020 earnings of the reinsurers. It noted that European reinsurers have yet to disclose their estimated losses from the explosion at the Port of Beirut.

In parallel, Fitch considered that it is uncertain to what extent the European reinsurers will be liable for the losses. It said that, if the investigation of the Lebanese authorities concludes that the explosion was accidental, most insurance contracts will likely be honored, but it noted that there would be limits to the payouts. It also expected claimants without insurance policies to seek compensation from the parties they deem responsible for the explosion, and that the latter may then seek compensation from their own insurers. It noted that it is unclear whether the Lebanese government will bear some of the responsibility and costs.

Bank Audi posts net losses of $602m in 2019 on provisions

Bank Audi sal declared audited net losses of $602.1m in 2019, compared to net profits of $500.6m in 2018. It noted that impairments for credit losses amounted to $1.2bn in 2019, and included $702m to cover the losses on the bank's holdings of Lebanese sovereign Eurobonds. The bank's net interest income reached $1.13bn in 2019, down by 2.5% from $1.16bn in 2018; while its net fees & commissions income stood at $187.3m last year, and dropped by 15.1% from $220.5m in 2018. Further, the bank's net operating income totaled $92.7m in 2019 and declined by 93% from $1.3bn in 2018. In parallel, the bank's operating expenditures reached $630.8m in 2019 relative to $691.4m in 2018, with personnel cost accounting for 52.2% of the total last year.

Also, the bank's aggregate assets amounted to $39.5bn at the end of 2019, and declined by 16.2% from $47.2bn at end-2018. Net loans & advances to customers totaled $10.3bn at the end of 2019, and dropped by 22.1% from $13.2bn at end-2018. Further, customer deposits reached $29.4bn, and decreased by 7.2% from $31.7bn at end-2018. Net loans & advances to related parties reached $93.2m, while deposits from related parties stood at $183.3m at the end of 2019. In parallel, the bank's shareholders' equity was $3bn at the end of 2019 and fell by 23.6% from a year earlier.

Syrian affiliates of Lebanese banks post profits of $1.2m in first quarter of 2020 when excluding foreign exchange gains on structural positions

Financial results issued by the affiliates of six Lebanese banks operating in Syria show that their aggregate net profits reached SYP73.7bn in the first quarter of 2020 relative to net earnings of SYP3.45bn in the same quarter of 2019. The improvement in the banks' net earnings is mainly due to the depreciation of the Syrian pound from SYP436 against the US dollar to SYP704 per US dollar during the covered period, which resulted in unrealized foreign exchange gains on the banks' structural positions of SYP72.86m in the first quarter of 2020. The banks did not incur unrealized foreign exchange gains in the first quarter of 2019 due to the stability of the official exchange rate at the time. In US dollar terms, the net profits of the six banks reached $104.7m relative to net earnings of $7.9m in the same quarter of 2019. The aggregate net income of the six banks becomes SYP838.3m, or $1.2m, in the covered quarter when excluding foreign exchange gains on structural positions, relative to earnings of SYP3.45bn, or $7.9m in the same quarter of 2019.

The profits of Byblos Bank Syria rose by SYP15.4bn, followed by an expansion of SYP13.8bn in the net income of Banque BEMO Saudi Fransi, an improvement of SYP13.1bn in the earnings of Bank Audi Syria, a growth of SYP10.7bn in the profits of Bank of Syria & Overseas, an increase of SYP10.2bn in the earnings of Syria Gulf Bank, the affiliate of First National Bank, and a rise of by SYP7.08bn in the net income of Bank Al-Sharq, the affiliate of Banque Libano-Française in the first quarter of 2020. Fransabank Syria did not disclose its detailed financials for the covered quarter.

The net interest income of the six banks totaled SYP7.5bn in the first quarter of 2020, up by 51.2% from SYP5bn in the same quarter of 2019; while their net fees & commission receipts surged by 85% year-on-year to SYP2.4bn. In US dollar terms, the banks' net interest income reached $10.7m in the first quarter of 2020, down by 6.3% year-on-year; while their net fees & commission income stood at $3.4m, up by 14.6% from $3m in the same quarter of 2019 amid the depreciation of the pound. The six banks' total operating income totaled SYP85bn in the first quarter of 2020, constituting an increase of 11.7 times from the first quarter last year, while their operating expenses reached SYP11bn in the covered quarter, up by 77% from the first quarter of 2019. In US dollar terms, the six banks' operating income totaled $120.7m in the first quarter of 2020, and grew by 7.2 times from operating profits of $16.7m in the same quarter of 2019; while their operating expenses stood at $15.6m, up by 9.6% from $14.2m in the first quarter of 2019. The banks' operating income becomes SYP12.1bn in the first quarter of 2020 when excluding foreign exchange gains on structural positions, relative to SYP7.3bn in the same quarter of 2019.

In parallel, the banks' aggregate assets reached SYP1.07 trillion at the end of March 2020 and increased by 32% from SYP807.6bn at end-2019. In US dollar terms, the assets of the six banks stood at $1.51bn at the end of March 2020 relative to $1.85bn at the end of 2019 due to the depreciation of the pound. Also, the banks' total loans reached SYP234.4bn at end-March 2020, constituting an increase of 9.2% from SYP214.65bn at the end of 2019. In US dollar terms, the aggregate loans of the six banks stood at $333m at the end of March 2020 compared to $492.3m at end-2019. Further, the banks' customer deposits were SYP712.4bn at the end of March 2020, increasing by 25.7% from SYP566.6bn at end-2019. In US dollar terms, customer deposits at the six banks amounted to $1bn at the end of March 2020 relative to $1.3bn at the end of 2019. The ratio of the banks' loans-to-customer deposits stood at 33% at the end of March 2020 relative to 38% at end-2019. Also, the aggregate shareholders' equity of the banks reached SYP205bn, or $291.2m, at the end of March 2020, relative to SYP131.2bn, or $301m, at end-2019.

Results of Affiliates of Lebanese Banks in Syria in First Quarter of 2020 (US$m)

	Banque BEMO Saudi Fransi	Bank of Syria & Overseas	Fransabank Syria*	Bank Audi Syria	Byblos Bank Syria	Bank Al-Sharq	Syria Gulf Bank
Net Profits	20.8	15.2	22.9	20.8	22.5	11.3	14.2
Total Assets	595.3	275.8	254.9	221.5	174.3	149.9	97.9
% Change**	30.3%	40.4%	35.1%	28.0%	34.6%	28.8%	30.5%
Loans	151.3	23.9	-	48.9	46.7	43.3	18.8
% Change**	8.0%	12.6%	-	14.0%	0.9%	4.9%	43.9%
Customer Deposits	473.2	175.0	-	105.3	89.4	108.7	60.2
% Change**	28.3%	35.1%	-	13.9%	13.7%	27.6%	19.9%

**Fransabank Syria did not disclose detailed financial statements for the covered quarter and was not included in the aggregate figures*
***Change from end-2019*

Source: Banks financial statements

Ratio Highlights

(in % unless specified)	2017	2018	2019	Change*
Nominal GDP ($bn)	53.1	55.0	51.7	(3.3)
Public Debt in Foreign Currency / GDP	57.2	60.9	64.6	3.71
Public Debt in Local Currency / GDP	92.5	94.0	110.9	16.95
Gross Public Debt / GDP	149.7	154.9	175.6	20.66
Total Gross External Debt / GDP**	190.3	192.8	196.3	3.50
Trade Balance / GDP	(31.5)	(31.0)	(29.7)	1.27
Exports / Imports	14.5	14.8	19.4	4.62
Fiscal Revenues / GDP	21.9	21.0	19.5	(1.53)
Fiscal Expenditures / GDP	28.9	32.4	29.7	(2.62)
Fiscal Balance / GDP	(7.1)	(11.4)	(10.3)	1.09
Primary Balance / GDP	2.7	(1.2)	(0.5)	0.65
Gross Foreign Currency Reserves / M2	68.2	63.8	70.2	6.38
M3 / GDP	260.8	257.1	257.7	0.59
Commercial Banks Assets / GDP	413.7	453.9	415.3	(38.64)***
Private Sector Deposits / GDP	317.4	317.1	304.3	(12.76)
Private Sector Loans / GDP****	112.3	108.1	95.3	(12.71)
Private Sector Deposits Dollarization Rate	68.7	70.6	76.0	5.41
Private Sector Lending Dollarization Rate	68.6	69.2	68.7	(0.50)

change in percentage points 19/18; **includes portion of public debt owed to non-residents, liabilities to non-resident banks, non-resident deposits (estimated by the IMF), Bank for International Settlements' claims on Lebanese non-banks; ***The decline in assets in 2019 is mainly due to the "netting" on the assets and liabilities' sides of the consolidated balance sheet of commercial banks as part of the implementation of international accounting standard IFRS 7; ** in January 2018, Lebanese banks started reporting their financials based on international accounting standard IFRS 9, and revised the 2017 figures accordingly*

Source: Association of Banks in Lebanon, Institute of International Finance, Central Administration of Statistics, Byblos Research Estimates & Calculations

Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

National Accounts, Prices and Exchange Rates

	2018	2019e	2020f
Nominal GDP (LBP trillion)	82.8	81.4	142.0
Nominal GDP (US$ bn)	55.0	51.7	32.7
Real GDP growth, % change	-1.9	-7.3	-23.5
Private consumption	-1.3	-7.1	-17.1
Public consumption	6.7	1.5	-47.7
Gross fixed capital	-1.8	-10.7	-33.3
Exports of goods and services	0.5	-5.0	-35.1
Imports of goods and services	1.1	-4.5	-36.3
Consumer prices, %, average	6.1	2.9	95.4
Official exchange rate, average, LBP/US$	1,507.5	1,507.5	1,507.5
Parallel exchange rate, average, LBP/US$	n/a	1,620	5,587
Weighted average exchange rate LBP/US$	1,507.5	1,575	4,283

Source: Institute of International Finance- August 9, 2020

Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's Investors Service	C	NP	-	C		-
Fitch Ratings	RD	C	-	CC	C	-
S&P Global Ratings	SD	SD	-	CC	C	Negative
Capital Intelligence Ratings	SD	SD	-	C-	C	Negative

**for downgrade*
***CreditWatch negative*
Source: Rating agencies

Banking Sector Ratings	Outlook
Moody's Investors Service	Negative

Source: Moody's Investors Service

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