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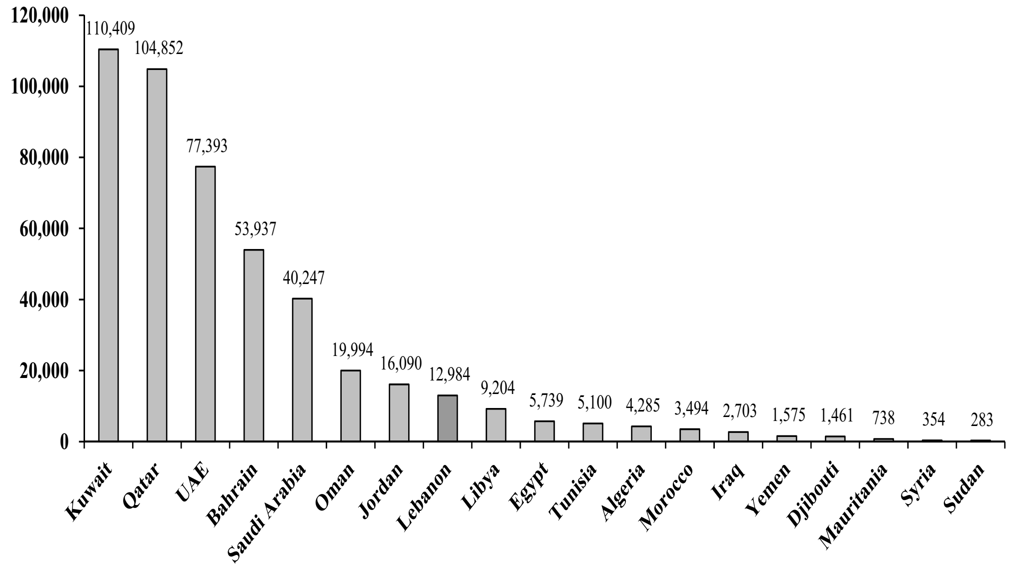
LEBANON THIS WEEK

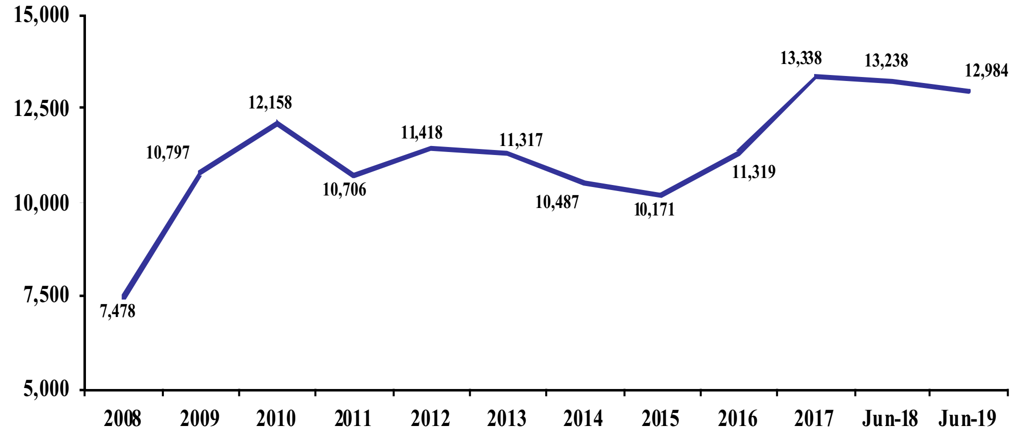
In This Issue

Charts of the Week

Financial Wealth per Adult in Arab Countries at end-June 2019 (US$)



Financial Wealth per Adult in Lebanon (US$)



Source: Credit Suisse, Byblos Bank

Quote to Note

"Within the first six months after the formation of the government, ambitious structural measures to ensure a sustainable economic model should be put in place."

The International Support Group for Lebanon, on the need for the new government to prioritize structural reforms

Number of the Week

57.6%: Percentage of government revenues that were needed to cover the public sector's wages, salaries, end-of-service indemnities and pension payments in the first eight months of 2019, according to the Ministry of Finance

Lebanon in the News

$m (unless otherwise mentioned)	2018	Jan-Oct 2018	Jan-Oct 2019	% Change*	Oct-18	Sep-19	Oct-19
Exports**	2,952	2,199	2,806	27.61	264	342	-
Imports**	19,980	15,156	15,304	0.98	1,718	1,466	-
Trade Balance**	(17,028)	(12,957)	(12,498)	(3.54)	(1,454)	(1,124)	-
Balance of Payments	(4,823)	(3,122)	(4,653)	49.06	(1,810)	(59)	(198)
Checks Cleared in LBP	22,133	18,235	17,511	(3.97)	2,064	2,060	1,378
Checks Cleared in FC	44,436	37,500	27,982	(25.38)	4,017	2,940	1,717
Total Checks Cleared	66,569	55,735	45,493	(18.38)	6,081	5,000	3,095
Fiscal Deficit/Surplus**	(6,246)	(4,508)	(3,592)	(20.32)	(226)	(640)	-
Primary Balance**	(636)	(591)	197	-	189	(171)	-
Airport Passengers	8,842,442	7,536,392	7,701,296	2.19	684,617	818,339	659,737
Consumer Price Index***	6.1	6.3	2.5	(380bps)	6.3	1.1	1.3

$bn (unless otherwise mentioned)	Dec-17	Oct-18	Dec-18	Aug-19	Sep-19	Oct-19	% Change*
BdL FX Reserves	35.81	34.62	32.51	30.60	29.30	30.98	(10.51)
In months of Imports	18.57	20.15	20.72	20.35	19.99	-	-
Public Debt	79.53	84.04	85.14	86.29	86.78	87.08	3.62
Bank Assets	219.86	242.61	249.48	261.90	262.20	262.80	8.32
Bank Deposits (Private Sector)	168.66	173.25	174.28	172.54	170.30	168.36	(2.82)
Bank Loans to Private Sector	59.69	59.15	59.39	55.16	54.50	54.17	(8.43)
Money Supply M2	52.51	52.06	50.96	48.52	46.73	45.77	(12.07)
Money Supply M3	138.62	140.24	141.29	140.40	138.83	138.37	(1.33)
LBP Lending Rate (%)	8.09	9.60	9.97	11.24	10.92	11.19	159bps
LBP Deposit Rate (%)	6.41	7.74	8.30	8.95	9.13	9.03	129bps
USD Lending Rate (%)	7.67	8.30	8.57	10.03	10.26	10.05	175bps
USD Deposit Rate (%)	3.89	4.63	5.15	6.20	6.57	6.61	198bps

**year-on-year **year-to-date figures reflect results for first nine months of each year ***year-on-year percentage change; bps i.e. basis points*
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
Solidere "A"	6.04	7.09	98,282	8.00%
Solidere "B"	5.99	10.93	15,237	5.16%
HOLCIM	9.75	2.63	500	2.52%
Byblos Common	1.00	0.00	-	7.49%
Audi GDR	3.53	0.00	-	5.59%
BLOM GDR	6.07	0.00	-	5.94%
Audi Listed	3.50	0.00	-	18.54%
BLOM Listed	7.07	0.00	-	20.14%
Byblos Pref. 08	60.00	0.00	-	1.59%
Byblos Pref. 09	63.00	0.00	-	1.67%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Mar 2020	6.38	85.75	85.35
Apr 2021	8.25	56.13	62.02
Oct 2022	6.10	47.25	38.71
Jun 2025	6.25	44.63	25.62
Nov 2026	6.60	44.50	22.98
Feb 2030	6.65	44.00	19.50
Apr 2031	7.00	44.00	19.36
May 2033	8.20	47.71	19.16
Nov 2035	7.05	46.38	16.82
Mar 2037	7.25	44.50	17.55

Source: Byblos Bank Capital Markets, Refinitiv

	Dec 16-20	Dec 9-13	% Change	November 2019	November 2018	% Change
Total shares traded	121,003	103,140	17.3	321,620	14,323,108	(97.8)
Total value traded	$994,987	$556,633	78.8	$3,555,692	$85,065,154	(95.8)
Market capitalization	$7.55bn	$7.49bn	0.72	$7.54bn	$9.72bn	(22.4)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Dec 13, 2019	Dec 20, 2019	% Change**
CDS 1-year*	6,738	7,017	4.1
CDS 3-year*	4,265	4,458	4.5
CDS 5-year*	3,255	3,432	5.4

*Source: ICE CMA; *mid-spread in bps **week-on-week*

CDX EM 30*	Dec 13, 2019	Dec 20, 2019	% Change***
CDS 5-year**	178.4	177.2	(0.6)

*Source: ICE CMA; * CDX Emerging Market CDS Index-Series 30*
***mid-spread in bps ***week-on-week*

Lebanon has resources to service sovereign Eurobonds

Global investment bank Goldman Sachs indicated that Lebanon's ability to service its sovereign Eurobonds is higher than perceived by the markets. It considered that the implementation of fiscal reforms and the restructuring of the public debt denominated in Lebanese pounds could put public finances on a sustainable path without the need for the government to default on its Eurobonds. However, it said that the government's ability to avoid a default on its external debt is contingent on the political will to implement and sustain the needed economic reforms, even though some reforms could trigger social discontent.

First, it said that a restructuring of local currency debt is preferable to a default on foreign currency debt due, in part, to the fact that almost two-thirds of the debt stock is denominated in Lebanese pounds, with residents holding the entire stock of local currency debt. Under a scenario whereby the government exchanges all outstanding local currency debt with long-term domestic debt at a coupon rate of 1%, it estimated that the debt servicing cost on domestic debt would decrease by five percentage points of GDP to 0.5% of GDP. Also, it said that the debt exchange would lower the required primary balance to put the debt on a sustainable path by as much as five percentage points of GDP for any given level of economic growth. As such, it noted that, under this scenario, a modest long-term GDP growth rate, along with moderate fiscal consolidation, would contribute to a substantial reduction in the debt burden over the long term.

Second, it considered that the external debt is sustainable from a balance of payments perspective. It said that the burden of external debt on the balance of payments is relatively minor due to limited holdings by non residents of the foreign-currency denominated debt. It estimated that only $1.5bn out of the $6.5bn of principal repayments that mature in the next three years will result in capital outflows. Also, it noted that the total cost of debt servicing over the next three years is unlikely to exceed $4.6bn in net present value. In addition, it anticipated the current account balance to sharply adjust in the near term due to the significant contraction in domestic demand and limited access to foreign currency to finance imports. It forecast the current account deficit to narrow from $12.5bn in 2018 to about $8bn in 2020, and expected it to stabilize around this level over the medium term. As such, it projected Lebanon's external financing needs at about $8.5bn per year in the next three years. It considered that Banque du Liban's (BdL) foreign currency reserves of about $28bn could be sufficient to weather the pressure on the balance of payments for some time. Further, it did not expect capital inflows to Lebanon to decline substantially in the medium term, as inflows had already fallen to historically low levels prior to the current liquidity crisis. It added that remittance inflows to Lebanon are sticky and expected them to continue, while the current capital control measures would limit the risk of capital flight. Overall, it forecast BdL's foreign currency reserves to gradually decline, but to remain above $10bn by the end of 2023.

Banque du Liban's foreign assets at $38bn, gold reserves at $13.6bn at mid-December 2019

Banque du Liban's (BdL) interim balance sheet totaled $141.7bn on December 15, 2019, constituting a growth of 0.8% from $140.6bn at the end of 2018 and an increase of 1.4% from $139.8bn at the end of November 2019. BdL implemented a "netting" on the assets and liabilities' sides of its balance sheet in March 2019, as part of the implementation of the new international accounting standard IFRS 9. The "netting" affected loans to the financial sector on the assets side and financial sector deposits on the liabilities side, which contained the increase in BdL's balance sheet.

Assets in foreign currency reached $37.6bn at mid-December 2019, down by 1.3% from $38.1bn at the end of November 2019, and by 5.2% from $39.7bn at end-2018. They included $5.7bn worth of Eurobonds. Excluding Lebanese Eurobonds, BdL's assets in foreign currency reached $31.9bn on December 15, 2019, down by $489.7m from the end of November. BdL's assets in foreign currency, excluding Lebanese Eurobonds, decreased by $2.1bn in November, by $683.1m in October and by $264.2m in September, resulting in a cumulative decline of $3.6bn between the end of August and December 15, 2019. The decrease in BdL's assets in foreign currency, excluding Lebanese Eurobonds, is due to deposit outflows and to the fact that BdL has been paying on behalf of the government maturing Eurobonds and external debt servicing, including $2.1bn in such payments in the second half of November 2019.

In comparison, assets in foreign currency, including Lebanese Eurobonds, increased by $690.5m in July, by $1.6bn in August and by $166.5m in November, while they declined by $394.7m in January, by $391.3m in February, by $320.1m in March, by $589.3m in April, by $1.4bn in May, by $203m in June, by $164.2m in September, by $583.1m in October and by $489.7m in the first two weeks of December 2019. This resulted in an aggregate decline of $2.1bn in the year-to-December 15 period, compared to a decrease of $2bn in the same period of 2018.

In parallel, the value of BdL's gold reserves rose by 15.3% from the end of 2018 to reach $13.6bn at mid-December 2019. The value of gold reserves reached a peak of $16.7bn at the end of August 2011. Also, the securities portfolio of BdL grew by 19.7% from the end of 2018 and by 2.9% from $35.9bn at end-November 2019 to $36.9bn at mid-December.

In addition, loans to the local financial sector decreased by $18.7bn, or by 55.6%, from end-2018 to $14.9bn at mid-December 2019, due to the "netting" procedure on the assets side. Further, deposits of the financial sector reached $111.2bn at mid-December 2019, down by $8.6bn, or by 7.2%, from end-2018, due to the "netting" on the liabilities side. Also, public sector deposits at BdL totaled $5.3bn at mid-December 2019 and increased by $1.2bn from end-November 2019, and by $274.6m, or 5.5%, from end-2018.

Lebanon in the News

Switzerland approves automatic exchange of financial information for tax purposes with Lebanon

The Swiss Parliament approved on December 10, 2019 the automatic exchange of financial information (AEOI) for tax purposes with Lebanon. Under the AEOI, Switzerland provides details of bank accounts held by the citizens of the partner country at Swiss banks and, in return, Switzerland receives bank information related to accounts held by Swiss citizens or residents in the partner country. However, Switzerland noted that, according to the Global Forum on Transparency and Exchange of Information for Tax Purposes, Lebanon does not meet all the conditions for a reciprocal exchange of information, notably in terms of confidentiality and data security. As such, Switzerland will not reciprocate the exchange of data with Lebanon until the latter successfully implements the action plan to address the deficiencies identified by the Global Forum on Transparency and Exchange of Information for Tax Purposes. Still, the reporting Swiss financial institutions must collect the relevant data from the time of activation of the AEOI, on January 1, 2020 and forward it to the Federal Tax Administration by the specified deadline. But the administration will not share this data with Lebanon until the latter completes the action plan, which should be confirmed by the Global Forum. Currently, Switzerland receives financial data from 75 countries, while it shares data with 63 jurisdictions only.

The Swiss Parliament also approved the AEOI with 17 other countries that include Ghana, Nigeria, Oman, and Pakistan. The AEOI will enter into force on January 1, 2020 and the 17 countries, along with Lebanon, will be considered as participating jurisdictions. The collected information will then be exchanged between the competent authorities as of 2021.

Consumer Price Index up 2% month-on-month in November 2019

The Central Administration of Statistics' Consumer Price Index increased by 2.5% in the first 11 months of 2019 from the same period of 2018, compared to a growth of 6.3% in the first 11 months of 2018. Also, the CPI expanded by 3.2% in November 2019 from the same month of 2018. The prices of alcoholic beverages & tobacco grew by 15.5% in November 2019 from the same month of 2018, followed by the prices of furnishings & household equipment (+14.9%), the prices of clothing & footwear (+14.4%), recreation & entertainment costs (+9.4%), the cost of miscellaneous goods & services (+5.5%), the cost of education (+4%), the prices of food & non-alcoholic beverages (+3.7%), actual rents (+2.3%), imputed rents (+2%), prices at restaurants & hotels (+1.6%), communication costs (+1.5%) and transportation costs (+1.4%). In contrast, the prices of water, electricity, gas & other fuels declined by 3.2% annually in November 2019, while healthcare costs were nearly unchanged from the same month of 2018. Also, the distribution of actual rents shows that old rents grew by 2.5% and new rents increased by 2.2% annually in November 2019.

Further, the CPI increased by 2% in November 2019 from the previous month, compared to a month-on-month growth of 1.4% in October 2019. The prices of alcoholic beverages & tobacco grew by 12.4% month-on-month in November 2019, followed by furnishings & household equipment (+9.6%), food & non-alcoholic beverages (+4%), clothing & footwear (+3.2%), the price of miscellaneous goods & services (+2%), recreation & entertainment costs (+1.4%), transportation costs (+1%), the cost of water, electricity, gas & other fuels and prices at restaurants & hotels (+0.6% each), imputed rents (+0.5%), and actual rents (+0.3%). In parallel, the costs of education and of healthcare were nearly unchanged in November 2019. Further, the CPI increased by 3% in November in the North, by 2.1% in Mount Lebanon, by 1.8% in the Nabatieh region, by 1.7% in the Bekaa, by 1% in the South and by 0.9% in Beirut. In parallel, the Fuel Price Index and the Education Price Index were nearly unchanged in the covered month.

Number of new construction permits down 19% in first 11 months of 2019

The Orders of Engineers & Architects of Beirut and of Tripoli issued 10,281 new construction permits in the first 11 months of 2019, constituting a decline of 19.4% from 12,753 permits issued in the same period of 2018. In comparison, new construction permits decreased by 12.1% year-on-year in the first 11 months of 2018. Mount Lebanon accounted for 34.1% of newly-issued construction permits in the covered period, followed by the South with 22%, the North and the Nabatieh area with 13.6% each, the Bekaa region with 9.5%, and Beirut with 5.7%. The remaining 1.6% were permits issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon.

Further, the surface area of granted construction permits reached 5,734,966 square meters (sqm) in the first 11 months of 2019, constituting a decrease of 32% from 8,423,883 sqm in the same period of 2018. In comparison, the surface area of granted construction permits regressed by 22.2% annually in the first 11 months of 2018. Mount Lebanon accounted for 2,002,167 sqm, or 35% of the total, in the covered period. The South followed with 1,105,561 sqm (19.3%), then the North with 1,016,273 sqm (17.7%), the Bekaa region with 561,529 sqm (9.8%), the Nabatieh area with 513,620 sqm (9%), and Beirut with 360,722 sqm (6.3%). The remaining 175,094 sqm, or 3.1% of the total, represent the surface area of permits that were issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon.

The surface area of new construction permits issued for the Mount Lebanon region dropped by 38.5% year-on-year in the first 11 months of 2019, followed by surface areas in the Nabatieh area (-33.3%), the Bekaa (-32.2%), the North (-32%), and the South (-20.1%); while surface areas in regions located outside northern Lebanon decreased by 51.5%. In contrast, the surface area of granted construction permits in Beirut increased by 8.3% year-on-year in the first 11 months of the year. In parallel, cement deliveries totaled 2.87 million tons in the first 10 months of 2019, constituting a decline of 29.7% from 4.1 million tons in the same period of 2018, and relative to a decrease of 4.4% in the first 10 months of 2018.

S&P affirms Lebanon's sovereign ratings

S&P Global Ratings affirmed Lebanon's long- and short-term foreign and local currency sovereign credit ratings at 'CCC/C', with a 'negative' outlook. It indicated that the Lebanese government remains current on its commercial debt obligations, despite significant funding pressures and the imposition of foreign currency restrictions. It noted that Lebanon settled a maturing Eurobond and external interest payments on time during the month of November. It pointed out that the government has $2.5bn in Eurobonds that will come due in 2020, $2.2bn in coupon payments on external debt, as well as the equivalent of $10bn of repayments of Lebanese pound-denominated debt next year. It expected the government to continue to rely on Banque du Liban's (BdL) gross foreign currency reserves, which are estimated at $32bn at end-December 2019, to pay near-term obligations. It considered that the extraordinary measures that BdL recently introduced aim to reduce BdL's foreign currency liabilities, which reflects the authorities' attempt to prioritize external debt repayment. It indicated that these measures could mitigate near-term payment risks for the sovereign.

S&P pointed out that the risk of a protracted political vacuum exacerbates policy uncertainty. It said that the quick formation of a new government and the introduction of immediate policy reforms that address the wide fiscal deficit, electricity shortages and corruption, may help diffuse social tensions and support depositor confidence. It considered that potential reforms may be insufficient to fundamentally address Lebanon's large financial and economic stresses. Further, it indicated that rising funding pressures increase the likelihood that a new government may seek to restructure its debt, despite BdL's measures that prioritize public debt repayments.

Further, S&P considered that BdL has only limited buffers to counter a deterioration in the balance of payments, with BdL's usable reserves standing at $23bn at end-2019. It said that Lebanon's economic and financial conditions could stabilize if external donors offer immediate funding to contain the decline in BdL's foreign currency reserves and to restore depositor confidence, or if a new government restores political stability and introduces a credible package of reforms. It noted that such positive developments would lead to a positive rating action.

Value of cleared checks down 17%, returned checks down 1% in first 11 months of 2019

The value of cleared checks reached $50.7bn in the first 11 months of 2019, constituting a decline of 17.1% from $61.1bn in the same period of 2018. In comparison, the value of cleared checks decreased by 1.4% in the first 11 months of 2018 from the same period of 2017. The value of cleared checks in Lebanese pounds declined from the equivalent of $20.1bn in the first 11 months of 2018 to $19.7bn in the same period of 2019, and the value of cleared checks in foreign currencies dropped by 24.5% to $30.9bn in the covered period. The dollarization rate of cleared checks regressed from 67.1% in the first 11 months of 2018 to 61% in the same period of 2019. There were 9.13 million cleared checks in the first 11 months of 2019, down by 16.2% from 10.9 million in the first 11 months of 2018.

In addition, the value of cleared checks reached $5.2bn in November 2019, constituting a rise of 67.3% from $3.1bn in the previous month. The value of cleared checks in Lebanese pounds grew by 62% from the equivalent of $1.38bn in October 2019 to $2.23bn in the covered month, and the value of cleared checks in foreign currencies surged by 71.6% month-on-month to $1.95bn in November 2019. There were 804,938 cleared checks in November 2019 relative to 533,662 cleared checks in the preceding month.

In parallel, the amount of returned checks in domestic and foreign currencies was $1.46bn in the first 11 months of 2019 compared to $1.47bn in the same period of 2018, and to $1.29bn in the first 11 months of 2017. This constituted a decrease of 0.8% in the first 11 months of 2019 relative to a rise of 14.4% in the first 11 months of 2018 from the same period of 2017. Also, there were 294,362 returned checks in the first 11 months of 2019, up by 15.8% from 254,257 returned checks in the same period of 2018.

Further, the amount of returned checks in domestic and foreign currencies was $319.7m in November 2019, constituting a rise of 260% from $88.9m in returned checks in the previous month. The value of returned checks in Lebanese pounds surged by 270% from the equivalent of $30.5m in October 2019 to $112.8m in the covered month, and the value of cleared checks in foreign currencies grew by 257% month-on-month to $137.3m in November 2019. Also, there were 81,782 returned checks in November 2019, up by 398% from 16,427 returned checks in October 2019.

The disruption of economic activity in the second half of October affected both the value and volume of cleared and returned checks. The level of cleared checks recovered in November, following the significant decline in October, to the average monthly level reached in the first nine months of the year. In contrast, the value and volume of returned checks more than doubled in November, reflecting the substantial challenges that the private sector is currently facing.

Lebanon ranks fourth in Arab world in economic freedom

The Fraser Institute's 2019 Index of Economic Freedom in the Arab World ranked Lebanon in fourth place among 22 countries included in the survey. Lebanon's rank improved by one spot from fifth place in each of the 2017 and 2018 surveys. Also, Lebanon came in sixth place in each of the 2007 and 2012 surveys, while it came in fifth place on the 2004 index.

The index measures the degree of economic freedom in each country based on 52 variables that are distributed into five broad factors of economic freedom. These factors measure the Size of Government, the Legal System & Property Rights, Access to Sound Money, Freedom to Trade Internationally, and the Regulation of Credit, Labor & Business. A country's overall score ranges between zero to 10, with a higher score reflecting a higher level of economic freedom.

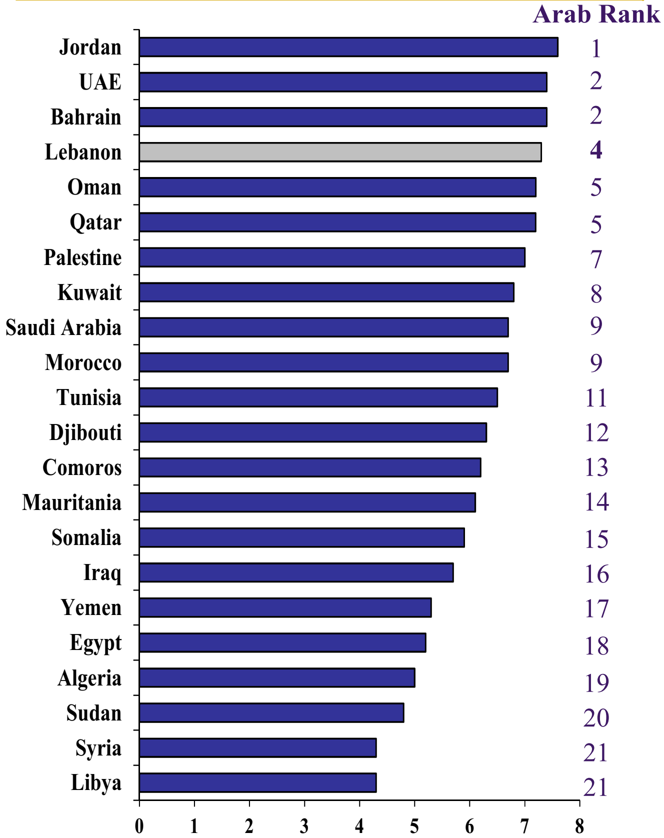
Lebanon received a score of 7.3 points, up from 7.2 points in the 2018 survey, and relative to 7.1 points in each of the 2007, 2012 and 2017 surveys, and 7.4 points on the 2004 index. Lebanon's score was higher than the Arab average score of 6.2 points, the Gulf Cooperation Council (GCC) countries' average score of 7.1 points, and the average score of non-GCC Arab countries of 5.9 points.

Lebanon ranked second, behind only Sudan, on the Size of Government category, which measures the extent that a country relies on individual choice and markets, rather than on the political process, to allocate resources and goods & services. In parallel, Lebanon came, along with Jordan, in fourth place in terms of the Regulation of Credit, Labor & Business, behind only Bahrain, Oman and Saudi Arabia. This category measures the restrictions that the regulatory burden imposes on the credit, labor and product markets.

Further, Lebanon ranked in 13th place on the Legal System & Property Rights category, ahead of Djibouti, Egypt, Libya, Mauritania, Syria, Yemen, Iraq, Somalia and Sudan. This category measures the government's effectiveness in protecting property rights.

The Fraser Institute is a Canada-based independent research organization whose mission is to study and measure the impact of competitive markets and government intervention on the welfare of individuals.

Index of Economic Freedom for 2019
Arab Countries Scores & Rankings



Source: Fraser Institute, Byblos Research

Lebanon's Rankings & Scores by Category

Category	Rank	Score
Size of Government	2	8.6
Access to Sound Money	11	9.3
Regulation of Credit, Labor & Business	4	7.6
Freedom to Trade Internationally	9	6.7
Legal System & Property Rights	13	4.1

Source: Fraser Institute, Byblos Research

Treasury transfers to Electricité du Liban down 8% to $1.1bn in first nine months of 2019

Figures released by the Ministry of Finance show that Treasury transfers to Electricité du Liban (EdL) totaled $1.1bn in the first nine months of 2019, constituting a decline of 8.1% from $1.2bn in the same period of 2018.

Reimbursements for the purchase of natural gas, fuel and gas oil totaled $1.1bn, or 99.8% of transfers, in the covered period, while EdL's debt servicing represented the balance of $2.7m, or 0.2% of the transfers. The ministry attributed the decline in transfers mainly to a decrease of $84.2m in reimbursements for the purchase of natural gas, fuel and gas oil, which mostly consist of payments to the Kuwait Petroleum Corporation and to the Algerian energy conglomerate Sonatrach, as well as to a drop of $3.3m in debt servicing. Reimbursements fell by about 7% year-on-year from $1.22bn in the first nine months of 2018, while debt servicing declined by 57.9% from $6m. In addition, there were no transfers to Electricity Syria in the first nine months of 2019, compared to transfers of $12.6m in the same period of 2018.

Treasury transfers to EdL accounted for 13.7% of budgetary primary expenditures in the covered period, relative to 13.3% in the first nine months of 2018. They constituted the third largest expenditures item, or 9.4%, of overall fiscal spending after public sector personnel costs and debt servicing. EdL transfers were equivalent to 5.1% of GDP in 2012, 4.3% of GDP in each of 2013 and 2014, 2.3% of GDP in 2015, 1.8% of GDP in 2016, 2.5% of GDP in 2017, and 3.1% of GDP in 2018.

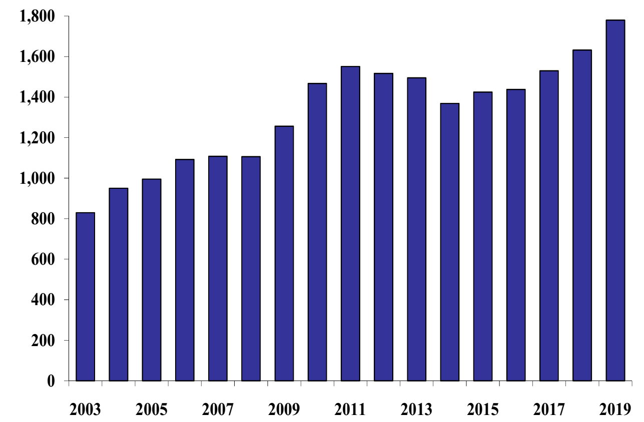
Tourism revenues in Lebanon up 9% to $1.8bn in first quarter of 2019

Figures released by Banque du Liban (BdL) show that revenues generated by tourism activity in Lebanon, defined by BdL as "Travel Services", totaled $1.78bn in the first quarter of 2019, constituting an increase of 9% from $1.63bn in the same quarter of 2018. Banque du Liban's figures are the only official data on receipts from tourism activity in Lebanon and on tourism spending abroad by Lebanese citizens.

Also, tourism receipts in Lebanon in the first three months of 2019 reached their highest level in the first quarter of a year between 2002 and 2019. Tourism receipts in Lebanon averaged $1.29bn during the first quarter of each year between 2002 and 2019.

In parallel, tourism spending abroad by Lebanese citizens amounted to $1.35bn in the first quarter of 2019, down by 0.5% from $1.36bn in the first quarter of 2018.

Tourism Receipts in Lebanon* (US$m)



**in the first quarter of each year*
Source: Banque du Liban, Byblos Research

As such, net revenues generated by tourism activity in Lebanon totaled $430.1m in the first quarter of 2019, constituting a rise of 55.8% from $276.1m in the first quarter of 2018. Net revenues generated by tourism activity in Lebanon in the first three months of 2019 reached their eighth highest level for the first quarter of a year between 2002 and 2019.

Utilized credits by private sector at $66bn at end-June 2019, advances against real estate account for 40% of total

Figures issued by Banque du Liban show that utilized credits by the private sector totaled $66.1bn at the end of June 2019, constituting a decline of 5% from $69.5bn at end-2018 and a decrease of 5.2% from $69.7bn at end-June 2018. The figures cover loans extended by commercial banks and financial institutions.

Utilized credits for trade & services totaled $22.6bn and accounted for 34.1% of the total at the end of June 2019, followed by personal credit with $20.3bn (30.7%), construction with $10.6bn (16.1%), industry with $7.1bn (10.7%), financial intermediaries with $2.8bn (4.2%), and agriculture with $823.5m (1.2%), while other sectors represented the remaining $2bn (3%). The distribution of utilized credits by type of collateral shows that advances against real estate totaled $26.2bn and accounted for 39.7% of private sector utilized credits at the end of June 2019. Advances against personal guarantees followed with $11.5bn (17.3%), then advances against cash collateral or bank guarantees with $7.7bn (11.7%), advances against other real guarantees with $1.7bn (2.6%), and advances against financial values with $1.2bn (1.8%), while overdrafts totaled $17.8bn or 27% of the total.

Also, the distribution of utilized credits in trade & services shows that wholesale trade accounted for 50.6% of overall trade & services credits, followed by retail with 17%; real estate, rent & employment services with 14%; transport & storage with 7.1%; hotels & restaurants with 7%; and educational services with 4.3%. Personal loans beneficiaries accounted for 84.7% of total loan beneficiaries, followed by trade & services with 10.2% of beneficiaries, industry with 2.5%, construction with 1.5%, agriculture with 1.3% and financial intermediaries with 0.5%, while other sectors attracted the remaining 3.6% of loan beneficiaries.

The aggregate number of loan beneficiaries declined by 1.5% from the end of June 2018 to 617,652 at the end of June 2019; while 66.6% of beneficiaries had loans ranging from LBP5m to LBP100m at the end of June 2019. Beirut and its suburbs accounted for 74.4% of bank credits and for 53% of beneficiaries. Mount Lebanon followed with 13.3% of credits and 18.3% of beneficiaries, then South Lebanon with 4.6% of credits and 10.3% of beneficiaries, North Lebanon with 4.5% of credits and 10.9% of beneficiaries, and the Bekaa region with 3.4% of credits and 7.5% of beneficiaries.

In parallel, the off-balance sheet liabilities of banks and financial institutions totaled $110.4bn at the end of June 2019, declining by 2.2% from end-2018 and by 2% from the end of June 2018. They include endorsement & guarantees of $102.3bn, or 92.7% of the total, followed by letters of undertaking with $2.9bn (2.6%), and commitments on notes with $2.3bn (2.1%).

Industrial activity deteriorates in second quarter of 2019

Banque du Liban's quarterly survey of the opinions of business managers shows that the balance of opinions about industrial production was -27 in the second quarter of 2019 compared to -19 in the second quarter of 2018. In comparison, the balance of opinions about industrial production stood at -25 in the first quarter of 2019. The balance of opinions was the lowest in the Bekaa at -56, followed by the South (-38), Beirut & Mount Lebanon (-22), and the North (+2). The business survey reflects the opinions of managers of industrial enterprises about their businesses, in order to depict the evolution of a number of key economic variables. The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in a particular indicator and the proportion of those who reported a decline in the same indicator.

The balance of opinions about overall demand for industrial goods stood at -30 in the second quarter of 2019 compared to -28 in the preceding quarter and to -22 in the second quarter of 2018. The balance of opinions about demand for industrial goods was the lowest in the Bekaa at -63, followed by the South (-38), Beirut & Mount Lebanon (-26), and the North (+4).

In parallel, the balance of opinions for the volume of investments in the industrial sector stood at -11 in the second quarter of 2019 compared to -12 in the first quarter of 2019 and unchanged from the second quarter of 2018. The balance of opinions about the volume of investments was the lowest in the South at -59, followed by Beirut & Mount Lebanon (-10), and the Bekaa and the North (zero). Also, the balance of opinions for foreign demand of industrial goods stood at -19 during the second quarter of 2019 compared to -15 in the previous quarter and to -13 in the second quarter of 2018. The balance of opinions for foreign demand of industrial goods was the lowest in the South at -52, followed by the Bekaa (-25), the Beirut & Mount Lebanon (-16) and the North (zero).

Industrial Activity: Evolution of Opinions

Aggregate results	Q2-16	Q2-17	Q2-18	Q2-19
Production	-9	-9	-19	-27
Total demand	-12	-15	-22	-30
Foreign demand	-19	-20	-13	-19
Volume of investments	-7	-5	-11	-11
Inventories of finished goods	-9	-10	-5	-9
Inventories of raw material	-11	-9	-7	-12
Registered orders	-8	-13	-23	-30

Source: Banque du Liban Business Survey for Second Quarter of 2019

ABL renews collective labor agreement of bank employees

The Association of Banks in Lebanon and the Federation of Syndicates of Bank Employees in Lebanon signed the renewal of the collective labor agreement of bank employees for the 2019-20 period. The agreement incorporates some amendments to the articles of the 2016-17 agreement.

First, the agreement raised the minimum wage for employees in Grade A and Grade B categories. It increased from LBP725,000 to LBP800,000 the minimum wage of employees in Grade A, and from LBP965,000 to LBP1,040,000 the minimum wage of Grade B employees. It also set at LBP1,040,000 the minimum wage of Grade A employees who hold a university degree, up from LBP925,000 previously. It did not amend the minimum salary for Grade C employees, as well as for more senior employees.

Second, the agreement amended the annual education allowances granted to the children of bank employees. It raised from LBP1,500,000 to LBP1,850,000 the yearly allowance for students attending public or tuition-free schools; from LBP3,000,000 to LBP3,500,000 the annual allowance for students attending the Lebanese University; from LBP3,500,000 to LBP4,500,000 the yearly allowance for students attending private schools or schools for students with special needs; and from LBP5,500,000 to LBP7,000,000 the annual allowance for students attending private universities.

Third, the agreement maintained at 3% the total annual increments granted to all bank employees, and introduced a new mechanism for distributing these increments in a fair and equitable manner to ensure that all employees receive a raise. Finally, the agreement amended the benefits related to the annual administrative and death leaves of bank employees. Originally, the agreement stipulates that every employee is entitled to an annual paid leave that falls due each year and that can be accumulated for up to two consecutive years upon the management's approval. The agreement added a condition that allows the employee to benefit from his annual leave that has accumulated for more than two years, in case the management does not approve the leave. Further, bank employees will be entitled to a one-day leave in the event of the death of the grandfather or grandmother of the employee's spouse.

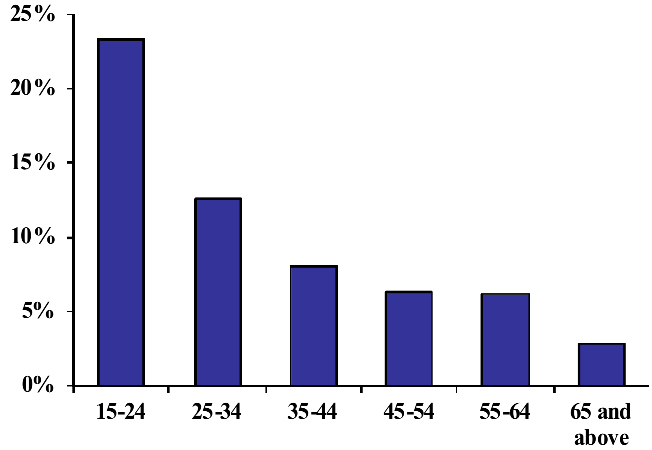
According to the Association of Banks in Lebanon (ABL) there were 25,908 individuals employed at banks operating in Lebanon at the end of 2018, constituting a decrease of 97 individuals, or 0.4% from 26,005 persons at end-2017 and a rise of 21.4% from 21,337 employees at the end of 2010. The ABL noted that the number of bank employees decreased for the first since 2004. It attributed the decline in employment to the banks' efforts to decrease operating costs, as well as to technological advances in the banking sector.

Lebanon's unemployment rate at 11.4%

The Central Administration of Statistics (CAS) released its Labor Force and Households' Living Survey (LFHLCS) that was conducted between April 2018 and March 2019. The survey estimated the population of Lebanon at around 4.842 million people at the end of June 2018, excluding people living in non-residential units, such as army barracks, refugee camps and their adjacent neighborhoods, as well as informal settlements. It also said that 80% of residents are Lebanese while 20% are citizens with other nationalities.

The LFHLCS indicated that the working age population in Lebanon, which consists of individuals who are 15 years or older, totaled 3,677,100 people, of which 52.6% were females and 47.4% were males. It said that the total labor force participation rate was 48.8%, or 1,794,000 persons, while 51.2%, or 1,883,100 individuals were outside the labor force. It added that the labor participation rate varied according to age and that there was a large difference between men (70.4%) and women (29.3%).

Unemployment Rate by Age Bracket (%)



Source: Central Administration of Statistics

It pointed out that 88.6% of the labor force is employed while the remaining 11.4% consists of unemployed individuals. It noted that the unemployment rate stood at 10% and 14.4% among males and females, respectively; while the highest unemployment rate was in the Minieh-Danniyeh caza at 17.8% and the lowest rate was in the Metn caza at 7.1%.

Further, the survey indicated that the unemployment rate among individuals between the ages of 15 and 24 was 23.3%. It noted that the youth unemployment rate varied between 18% for persons with elementary education and 35.7% for university graduates, as young people with university degrees are relatively less in demand by employers. The survey stipulated that potential reasons for youth unemployment could be that youngsters prefer to wait for a suitable employment rather than accept a job that they consider inadequate or low paying, or the existing mismatches between the skill requirements of jobs in the market and the qualifications of the young jobseekers. Also, it pointed out that youth unemployment in 2018 was the highest since 2004 when the rate was 19.9% , relative to 22.1% in 2007 and 18% in 2012.

In parallel, the LFHLCS said that 3.6% of individuals who are outside the labor force, or 66,900 persons, are part of the potential labor force. The survey considered that the potential labor force includes all individuals of 15 years old and above who were neither in employment nor in unemployment, but were seeking employment for a week despite not being able to currently work; or who want employment and readily available to work but did not carry out activities to seek employment during the past four weeks.

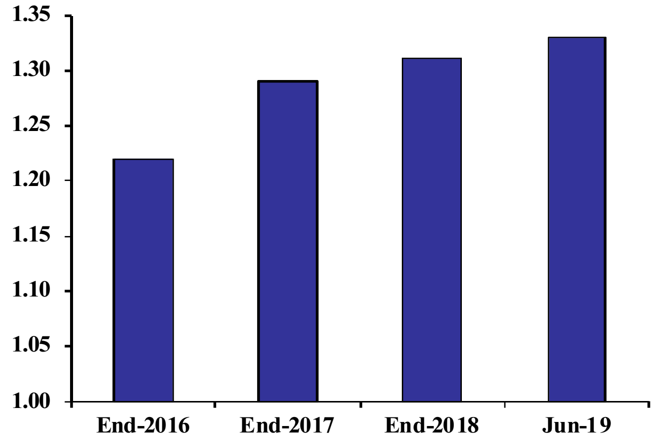
Further, the survey noted that the agriculture and industrial sectors account for 4% and 20%, respectively of total employment, while the services sector represented 76% of jobs in Lebanon. It indicated that 873,800 persons were informally employed, or 55% of total employment, with 559,400 persons in the informal sector and 314,800 individuals informally employed in the formal sector. The survey defined informal employment as all employees who do not benefit from social security coverage, or who do not have a paid annual leave or paid sick leave.

In parallel, the LFHLCS indicated that non-Lebanese workers represented 21.3% of the total labor force that was living in residential dwellings at the time of the survey. Also, it pointed out that the labor force participation rate of non-Lebanese residents was 60.8% compared to the labor force participation rate of 46.3% among Lebanese residents. The unemployment rate of non-Lebanese residents stood at 8.7% relative to the unemployment rate of 12.1% among Lebanese residents. The survey noted that non-Lebanese residents worked longer hours at all jobs, with a higher concentration in household activities and the industrial sector, particularly construction. It added that 91.1% of non-Lebanese residents had informal jobs relative to 27.8% of Lebanese resident employees.

Byblos Bank announces increase in capital

The Board of Directors of Byblos Bank sal agreed on December 13, 2019 to increase the bank's capital base by $135m, which is equivalent to 10% of its Common Equity Tier One (CET1) at the end of 2018. It indicated that the capital increase will take place through the issuance of cash contribution interests. It added that the cash contribution interests can be converted into common equity each year during the next five years at a conversion rate of LBP1,515 per US dollar. Further, the core shareholders of Byblos Bank, including Byblos Invest Holding, which collectively hold around 50% of the share capital, have indicated their approval, in principle, to take part in the capital increase, as part of their commitment to the Bank and to Lebanon.

Byblos Bank CET1 (US$bn)



Source: Byblos Bank

Byblos Bank's capital increase is in line with Banque du Liban's Intermediate Circular 532 dated November 4, 2019 that requested banks to increase by 20% their CET1 based on their capital level at the end of 2018. It specified that banks should raise their CET1 by 10% by the end of 2019 and by another 10% by the end of June 2020 through cash contributions in US dollars. The circular's two clauses aim to strengthen the banks' capital amid the challenging conditions in Lebanon. Byblos Bank's CET1 stood at $1.3bn at the end of 2018.

The aggregate CET1 of banks operating in Lebanon stood at $18.7bn at the end of 2018, which means that banks should increase their capital by an aggregate of $3.7bn by the end of June 2020. Specifically, banks need to raise their CET1 by $1.9bn by the end of 2019 and by another $1.9bn by end-June 2020.

S&P takes ratings action on three banks

S&P Global Ratings downgraded the 'CCC' long-term issuer credit ratings of Bank Audi, Blom Bank and Bankmed and the 'C' short-term ratings of Bank Audi and Bankmed to 'SD' (Selective Default). It removed all the banks' ratings from CreditWatch with negative implications. It attributed the downgrade to Banque du Liban's (BdL) Intermediate Circular 536 issued on December 4, 2019, which asked banks, exceptionally and for a period of six months, to pay customers 50% of the interest income on their foreign-currency term deposits that were blocked prior to December 5, 2019 in Lebanese pounds. The agency considered that these measures change the terms of the original contractual agreements, which along with other previously introduced restrictions that limit depositors' access to their funds, constitute a selective default according to its own methodology.

In parallel, S&P Global Ratings maintained Lebanon's Banking Industry Country Risk Assessment (BICRA) in 'Group 10', as it kept the economic score at '10' and downgraded the industry risk score from '8' to '10'. The BICRA framework evaluates banking systems based on economic and industry risks facing the banking sector, with 'Group 10' including the riskiest sectors. The agency attributed the downgrade in part to increased pressure on the banking sector's funding structure. It pointed out that the trend for economic and industry risks in Lebanon is "stable".

Ratio Highlights

(in % unless specified)	2016	2017	2018	Change*
Nominal GDP ($bn)	51.2	53.4	56.1	
Public Debt in Foreign Currency / GDP	54.9	56.9	59.7	2.82
Public Debt in Local Currency / GDP	91.3	92.0	92.1	0.10
Gross Public Debt / GDP	146.2	149.0	151.9	2.92
Total Gross External Debt / GDP**	182.0	183.1	184.7	0.88
Trade Balance / GDP	(31.5)	(31.3)	(30.4)	1.11
Exports / Imports	15.6	14.5	14.8	0.25
Fiscal Revenues / GDP	19.4	21.8	20.6	(1.2)
Fiscal Expenditures / GDP	29.0	28.8	31.7	2.9
Fiscal Balance / GDP	(9.6)	(7.0)	(11.1)	(4.1)
Primary Balance / GDP	0.04	2.7	(1.1)	-
Gross Foreign Currency Reserves / M2	62.2	68.2	63.8	(4.39)
M3 / GDP	259.2	259.6	252.1	(7.55)
Commercial Banks Assets / GDP	398.7	411.8	445.1	33.32
Private Sector Deposits / GDP	317.1	315.9	310.9	(4.97)
Private Sector Loans / GDP***	111.6	111.8	105.9	(5.84)
Private Sector Deposits Dollarization Rate	65.8	68.7	70.6	1.90
Private Sector Lending Dollarization Rate	72.6	68.6	69.2	0.57

*change in percentage points 18/17

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 * 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, International Monetary Fund, World Bank, Byblos Research Estimates & Calculations

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

Risk Metrics

Lebanon	Nov 2017	Oct 2018	Nov 2018	Change**	Risk Level
Political Risk Rating	55.5	54.0	54.0	↑	High
Financial Risk Rating	33.0	33.0	33.0	↔	Moderate
Economic Risk Rating	27.5	28.5	28.5	↓	High
Composite Risk Rating	57.5	57.75	57.75	↓	High

MENA Average*	Nov 2017	Oct 2018	Nov 2018	Change**	Risk Level
Political Risk Rating	58.0	57.9	58.0	↔	High
Financial Risk Rating	38.5	38.9	38.9	↓	Low
Economic Risk Rating	31.0	33.5	33.2	↓	Moderate
Composite Risk Rating	63.8	65.2	65.0	↓	Moderate

*excluding Lebanon

**year-on-year change in risk

Source: The PRS Group, Byblos Research

Note: Political & Composite Risk Ratings range from 0 to 100 (where 100 indicates the lowest risk)
Financial & Economic Risk ratings range from 0 to 50 (where 50 indicates the lowest risk)

Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's Investors Service	Caa2	NP	Under Review*	Caa2		Under Review*
Fitch Ratings	CC	C	-	CC	C	-
S&P Global Ratings	CCC	C	Negative	CCC	C	Negative
Capital Intelligence Ratings	C+	C	Negative	C+	C	Negative

*for downgrade

**CreditWatch negative

Source: Rating agencies

Banking Sector Ratings	Outlook
Moody's Investors Service	Stable

Source: Moody's Investors Service

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