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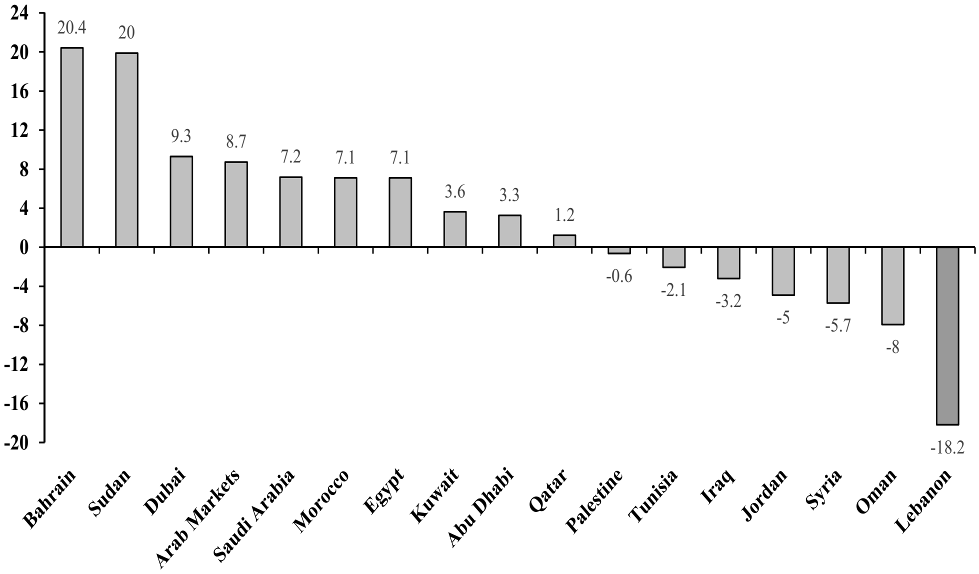
LEBANON THIS WEEK

In This Issue

Charts of the Week

Performance of Arab Stock Markets in 2019 (% change)*



Performance of the Beirut Stock Exchange*

**Capital Markets Authority Value Weighted Index*
Source: Local Stock Markets, Capital Markets Authority, S&P Dow Jones Indices, Byblos Bank

Quote to Note

"A key step for the return of confidence is to lower the fiscal deficit."

Global investment bank JPMorgan Chase, on the most relevant measure to improve depositor and investor sentiment

Number of the Week

46.3%: Treasury receipts from the tax on interest income as a percentage of total income tax revenues in the first 10 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	2,464	3,098	25.76	265	342	292
Imports	19,980	16,874	16,612	(1.55)	1,718	1,466	1,308
Trade Balance	(17,028)	(14,410)	(13,514)	(6.22)	(1,454)	(1,124)	(1,016)
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)	(4,734)	(4,024)	(14.99)	(226)	(640)	(432)
Primary Balance	(636)	(402)	217	-	189	(171)	21
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	23.68	17.54
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-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"	6.81	(4.76)	67,766	8.87%
Solidere "B"	6.75	(4.80)	47,373	5.72%
HOLCIM	9.75	0.00	-	2.48%
Byblos Common	1.00	0.00	-	7.37%
Audi GDR	3.53	0.00	-	5.50%
BLOM GDR	6.07	0.00	-	5.84%
Audi Listed	3.50	0.00	-	18.23%
BLOM Listed	7.07	0.00	-	19.80%
Byblos Pref. 08	60.00	0.00	-	1.56%
Byblos Pref. 09	63.00	0.00	-	1.64%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Mar 2020	6.38	85.00	107.33
Apr 2021	8.25	54.88	66.07
Oct 2022	6.10	47.50	38.86
Jun 2025	6.25	43.50	26.40
Nov 2026	6.60	43.13	23.76
Feb 2030	6.65	43.00	19.95
Apr 2031	7.00	43.25	19.69
May 2033	8.20	47.42	19.28
Nov 2035	7.05	43.75	17.76
Mar 2037	7.25	43.38	17.98

Source: Byblos Bank Capital Markets, Refinitiv

	Dec 30 - Jan 3	Dec 23-27	% Change	December 2019	December 2018	% Change
Total shares traded	167,139	333,997	(50.0)	1,527,358	5,407,192	(71.8)
Total value traded	$2,125,346	$2,294,116	(7.4)	$24,640,092	$27,863,342	(11.6)
Market capitalization	$7.68bn	$7.73bn	(0.72)	$7.76bn	$9.68bn	(19.8)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Dec 27, 2019	Jan 3, 2020	% Change**
CDS 1-year*	7,017	7,413	5.6
CDS 3-year*	4,458	4,756	6.7
CDS 5-year*	3,432	3,684	7.3

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

CDX EM 30*	Dec 27, 2019	Jan 3, 2020	% Change***
CDS 5-year**	173.3	172.5	(0.5)

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

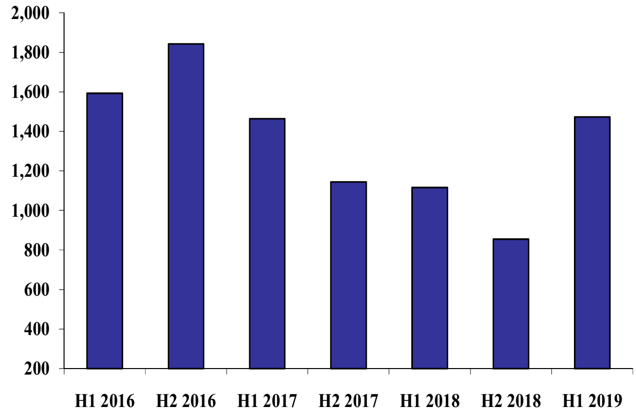
Lebanon in the News

Current account deficit narrows by 3% to $6.2bn in first half of 2019 on increase in remittance inflows and tourist revenues

Figures released by Banque du Liban show that the current account deficit reached $6.2bn in the first half of 2019, constituting a decline of 2.6% from a deficit of $6.4bn in the first half of 2018. The current account balance consists of the trade balance, which is the exports and imports of merchandise, as well as the services balance that covers the export and import of transportation services, tourism, insurance and other services. The current account balance also includes remittance inflows, investment income and general government transfers.

The trade deficit reached $7.3bn in the first half of 2019 and widened by 3.4% from the same period of 2018, with the amount of imported goods increasing by 6% annually to $9.6bn and the value of exports growing by 15% year-on-year to $2.3bn. Further, the inflows of expatriates' remittances to Lebanon stood at $3.82bn in the first half of 2019, constituting an increase of 7.2% from $3.56bn in the same period of 2018. In addition, remittance outflows from Lebanon amounted to $2.34bn in the covered period, down by 4% from $2.44bn in the first half of 2018. As such, net remittance inflows to Lebanon reached $1.47bn in the first half of the year, constituting an increase of 32% from $1.11bn in the same period of 2018.

Net Remittance Inflows to Lebanon (US$m)



Source: Banque du Liban, Byblos Research

Further, tourist receipts amounted to $4bn in the first half of 2019, constituting an increase of 11% from $3.6bn in the same period of 2018. Also, outbound tourist spending reached $3bn in the first six months of 2019, up by 4.4% from $2.85bn in the same period of 2018. As such, net tourist receipts totaled $1.05bn in the covered period, and increased by 35% from $775.4m in the first half of 2018. The rise in tourist receipts is due to an increase in the number of incoming visitors to Lebanon in the first half of the year, which reached their highest level for the first six months of each year since 2010.

The other components of the balance of payments show that Lebanon's capital account balance, which includes foreign grants, posted a surplus of $569.3m in the first half of 2019, down by 35% from a surplus of $875.4m in the same period of 2018. Still, the surplus in the first half of 2019 represented the lowest surplus for the first six months of the year since the $99.2m registered in the first half of 2012. Lebanon's capital account surplus averaged $783.2m during the first half of each year between 2013 and 2019, due to grants received to support Syrian refugees and host communities in the country, compared to an average of $66.4m during the first half of each year between 2009 and 2012. The decrease in Lebanon's capital account surplus in the first half of the year is due in part to a decline in cash grants received by the government.

In addition, Lebanon's financial account balance, which includes net foreign direct investments, net portfolio investments and other investments, posted a surplus of $5bn in the first half of 2019, constituting an increase of 19.8% from $4.1bn registered in the first half of 2018. The improvement in the financial account is due to a shift in net portfolio investments from outflows of $730m in the first half of 2018 to inflows of $646m in the first six months of 2019. In contrast, the inflows of other investments declined from $3.6bn in the first half of 2018 to $3.4bn in the covered period. Other investments include deposit flows to the banking sector. In addition, foreign direct investments (FDI) in Lebanon reached $1.1bn in the first half of 2019, down by 28.4% from $1.5bn in the same period of 2018. Also, FDI outflows from Lebanon amounted to $260.4m in the covered period, nearly unchanged year-on-year. As such, net FDI inflows to Lebanon reached $835.3m in the first half of 2019 and represented a decline of 34.2% from $1.3bn in the same period of 2018.

In parallel, unrecorded transactions, or errors and omissions, were at -$2.6bn in the first half of 2019 relative to +$3.5bn in the same period of 2018. According to BdL, unrecorded transactions are in part due to the inadequate sources of data on some economic sectors. They include time and other adjustments for external trade payments, insurance services, migrants' transfers, travel services, transportation services, private sector direct investment, and portfolio investment. Finally, BdL's net foreign assets regressed by $3.3bn in the first half of 2019 relative to an increase of $2.2bn in the same period of 2018.

Coincident Indicator down 3.4% in first 10 months of 2019

Banque du Liban's Coincident Indicator, an index of economic activity in Lebanon, reached 280.9 points in October 2019 compared to 284.5 in September 2019 and 309.2 in October 2018. The Coincident Indicator, an average of eight weighted economic indicators, decreased by 1.3% month-on-month and regressed by 9.1% year-on-year in October 2019. The indicator averaged 297.1 in the first 10 months of 2019, constituting a decline of 3.4% from an average of 307.5 in the same period of 2018. Also, the indicator averaged 299 in the 12 months ending October 2019, compared to an average of 301.4 in the 12-month period ending September 2019 and to an average of 309.8 in the 12 months ending October 2018. As a result, the 12-month average coincident indicator declined by 0.8% month-on-month, while it decreased by 3.5% year-on-year. In parallel, the indicator improved 23 times, regressed three times and was unchanged once on a monthly basis in the month of October since 1993. It averaged 256.6 points in 2012, 264.7 points in 2013, 273.2 points in 2014, 278.6 points in 2015, 289.5 points in 2016, 305.9 points in 2017, and 307.7 points in 2018.

Banque du Liban suggests to banks exchanging 2020 Eurobonds with longer maturities

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 most banks intend to abide by BdL's recent requirement to increase capital through cash contributions. He called on the remaining banks to comply with the new capital requirement.

In parallel, he noted that Lebanon is heading towards a "cash economy" as banks requested from BdL about LBP130bn in Lebanese pound banknotes per day during the holidays season, compared to a daily average of LBP50bn in the run-up to the holidays. He added that the banknotes are being kept at households instead of circulating in the economy and returning to BdL. Further, he pointed out that expatriates are remitting money to their families in Lebanon through direct channels rather than through the banking system. In this regard, he said that BdL issued a circular that asks non-banking financial institutions that conduct cross-border electronic transfers of funds to settle all incoming foreign transfers in the same currency of the transfer. Governor Salamé added that he contacted correspondent banks and some international financial institutions, such as the European Bank for Reconstruction and Development, the European Investment Bank and the Agence Française de Développement, in order to guarantee the import of basic products to Lebanon. But he said that he has not yet received a conclusive answer from these institutions.

In addition, the BCCL asked banks to offer their clients the option to purchase real estate collateral that the banks repossessed, which would reduce the banks' deposit stock. It added that it issued a memo that asks banks to implement a "netting" of their special financial operations with BdL, as the latter has inflated their balance sheet.

In parallel, Governor Salamé suggested that banks exchange their holdings of Lebanese Eurobonds that mature in 2020 with similar instruments that have longer maturities. He noted that the exchange would pave the way for similar swap operations with an external fund that has significant holdings of Lebanese Eurobonds and that is open to execute such transactions. He hoped that Lebanese banks would approve this transactions in early 2020. He considered that these operations would prevent the need for any potential debt rescheduling that could entail losses for banks. However, he added that, even in the event of any debt rescheduling, BdL could conduct a reverse swap with the involved parties.

Further, Governor Salamé informed ABL that BdL may suspend the implementation of international accounting standard IFRS 9 for banks, given the exceptional period that Lebanon is going through and that could have adverse repercussions on the computations of the banks' capital metrics. In this regard, he noted that the BCCL has prepared a memo that auditors can use and can include in the disclaimer of the banks' financials, given that such a document is issued by the regulator.

Moreover, Governor Salamé indicated that the Special Investigation Commission (SIC) against money laundering and terrorism financing did not receive any request from foreign banks for information about deposits transferred abroad from Lebanon. He noted that foreign banks that receive transfers usually ask details about the sender and the source of the transferred money. Also, he said that compliance officers at banks in Lebanon did not report any unusual movements of capital to the SIC. He added that BdL will publish the related information and details in order to reveal the veracity of such information. In addition, he pointed out that commercial banks have funds deposited at correspondent banks, but he noted that these funds are linked to obligations for the financing of foreign trade.

Separately, Governor Salamé reiterated BdL's commitment to the stability of the official exchange rate that commercial banks use in their operations. He considered that it is difficult to predict the fluctuations of the exchange rate at money exchange institutions, given that the rates at money dealers are determined by market considerations. In addition, Governor Salamé refuted rumors that banks could prohibit clients from withdrawing US dollar banknotes from their accounts in Lebanon, as well as restrict transactions in foreign currency to credit cards, checks and bank transfers. He added that BdL will continue to supply banks with US dollars in 2020. Further, Governor Salamé denied rumors that are circulating about a forced conversion of foreign currency deposits to Lebanese pounds.

Revenues through Port of Beirut at $175m in first 10 months of 2019

Figures released by the Port of Beirut show that the port's overall revenues reached $174.8m in the first 10 months of 2019, constituting a decline of 13.4% from $201.8m in the same period of 2018. The Port of Beirut handled 5.7 million tons of freight in the covered period, down by 13.4% from 6.6 million tons in the first 10 months of 2018. Imported freight amounted to 5.1 million tons in the covered period and accounted for 88.2% of the total, while the remaining 676,000 tons, or 11.8%, consisted of export cargo. A total of 1,502 vessels docked at the port in the first 10 months of 2019, down by 5% from 1,580 ships in the same period of 2018. On a monthly basis, the port's overall revenues declined by 19.6% from $17.3m in September to $14m in October 2019.

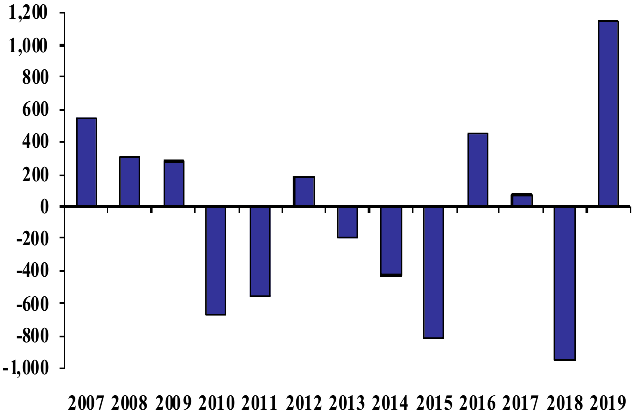
In parallel, revenues generated through the Port of Tripoli reached $12.6m in the first 10 months of 2019, down by 4% from $13.1m in the same period of 2018. The Port of Tripoli handled 1,789,222 tons of freight in the covered period, constituting an increase of 21% from 1,479,175 tons in the first 10 months of 2018. Imported freight amounted to 1,325,519 tons and accounted for 74% of the total, while the remaining 463,703 tons, or 26%, were export cargo. A total of 525 vessels docked at the port in the first 10 months of 2019, down by 4.7% from 551 ships in the first 10 months of 2018. Further, revenues generated through the Port of Tripoli reached $937,313 in October 2019, down by 10.5% from $1.05m in September 2019 and by 33% from $1.4m in October 2018.

Net foreign assets of financial sector up by $1.1bn in November 2019

Figures issued by Banque du Liban (BdL) show that the net foreign assets of the financial sector, which are a proxy for Lebanon's balance of payments, rose by $1.1bn in November 2019, compared to a decline of $198m in October 2019 and to a decrease of $954m in November 2018.

The month-on-month increase in November 2019 was caused by a surge of $975.8m in the net foreign assets of banks and financial institutions and by a growth of $167m in those of BdL. The increase in the banks' net foreign assets is due to the steeper decline of their foreign liabilities relative to the decrease of their foreign assets. The drop in foreign liabilities was mainly driven by a decrease in non-resident deposits, while the decline in the banks' foreign assets was mostly due to a contraction of their deposits with non-resident financial institutions and central banks as well as of their claims on non-resident customers. Further, the rise in BdL's net foreign assets is due to the private placement at BdL of $3bn worth of Eurobonds that the Ministry of Finance issued towards the end of the month, and which offset the external debt payments that BdL made on behalf of the government in 2019.

Change in Net Foreign Assets of Financial Sector in November of Each Year (US$m)



Source: Banque du Liban

In parallel, the net foreign assets of the financial sector declined by $3.51bn in the first 11 months of 2019 compared to a decrease of $4.08bn in the same period of 2018. The cumulative deficit in the first 11 months of 2019 was caused by a drop of $1.93bn in the net foreign assets of banks and financial institutions and by a decline of $1.58bn in those of BdL.

The net foreign assets of the financial sector grew by $1.2bn in 2016, while they decreased by $155.7m in 2017 and by $4.8bn in 2018. They declined by the equivalent of 8.6% of GDP in 2018 and 0.3% of GDP in 2017, relative to an increase equivalent to 2.4% of GDP in 2016.

Surveyed economists expect Lebanon's real GDP to stagnate in 2020

Bloomberg's quarterly survey of economists and analysts about the outlook on the Lebanese economy estimated that economic activity stagnated in 2019 compared to an earlier forecast of a real GDP growth of 1% in September 2019. Respondents also projected Lebanon's growth to remain subdued in 2020 compared to a forecast of 1.6% in the September survey. The individual estimates of growth rates for 2019 ranged from -1% to 1.3%, while the consensus among 55% of participants is that real GDP ranged between zero percent and 1.3% in the past year. In addition, the individual forecasts of growth rates for 2020 ranged from -2% to 2%, while the consensus forecast among 62.5% of participants is that real GDP growth rate would range between -2% and 0.3% this year. The results displayed a median real GDP growth figure of zero percent for 2019 and -0.1% for 2020. Bloomberg conducted the poll in December 2019, and the survey's results are based on the opinions of 10 economists and analysts based in Lebanon and abroad.

Further, participants estimated Lebanon's average inflation rate at 2.8% in 2019 and they forecast inflation to average 3.2% in 2020. The estimations of polled economists for consumer prices in 2019 ranged from 2% to 4%, while 80% of participants considered that the inflation rate stood at between 2% and 3% the past year. The opinions of surveyed analysts differed on the direction of consumer prices in 2020 with expectations ranging from 1.7% to 7%, while 66.7% of participants predicted that the inflation rate would be between 1.7% and 3% this year. The poll's results revealed a median inflation rate of 2.9% for 2019 and for 2020.

In parallel, surveyed analysts estimated Lebanon's fiscal deficit at 10% of GDP in 2019 and forecast the deficit to be nearly unchanged at 10.1% of GDP in 2020. The estimations of polled economists for the fiscal deficit ranged from 8.7% of GDP to 11.8% of GDP last year, with a median deficit of 9.8% of GDP. They also expected the fiscal deficit at between 7.7% of GDP and 12.2% of GDP in 2020, with a median deficit of 10.8% of GDP. Further, surveyed analysts estimated the current account deficit at 23% of GDP in 2019 and projected the deficit to widen to 23.6% of GDP in 2020. The survey's participants expected the current account deficit to range between 16% of GDP and 28.2% of GDP in 2019, with a median deficit of 22.5% of GDP for 2019. The analysts' forecasts for the current account deficit ranged from 19.4% of GDP to 28.4% of GDP, with a median deficit of 23% of GDP for 2020.

In parallel, respondents assigned a median probability of 65% for Lebanon to enter into a recession in the next 12 months. The opinions of surveyed economists about the probability of a recession ranged between 50% and 80%.

Fiscal deficit narrows by 15% to $4bn in first 10 months of 2019

Figures released by the Ministry of Finance show that the fiscal deficit reached $4bn in the first 10 months of 2019 and narrowed by 15% from a deficit of $4.7bn in the same period of 2018. The deficit was equivalent to 30% of total budget and Treasury expenditures relative to 32.3% of spending in the same period last year. Government expenditures reached $13.4bn in the first 10 months of 2019 and declined by 8.6% from the same period of 2018, while revenues regressed by 5.5% to $9.4bn. As such, the narrowing of the deficit reflects an annual drop of $1.25bn in overall expenditures, which was partly offset by a decrease of $545.2m in total revenues in the covered period. The decline in spending is mostly due to a drop of $930m in general expenditures.

On the revenues side, tax receipts decreased by 4% year-on-year to $7.2bn in the first 10 months of 2019, of which 25.7%, or $1.85bn, were in VAT receipts that dropped by 19.3% annually. Tax receipts accounted for 80.4% of budgetary revenues and for 76.7% of Treasury and budgetary income in the covered period. The distribution of other tax revenues shows that receipts from taxes on income, profits & capital gains rose by 16.7% to $3.2bn in the first 10 months of 2019; revenues from customs regressed by 9% to $1bn; receipts from property taxes dropped by 26.6% to $460.7m; while revenues from taxes on goods & services fell by 1.5% to $374.6m, and proceeds from stamp fees declined by 10.8% to $309.7m.

The distribution of income tax receipts shows that the tax on interest income accounted for 46.3% of income tax revenues in the first 10 months of 2019, followed by the tax on profits with 28.1%, the tax on wages & salaries with 17.7%, and the capital gains tax with 7.4%. Receipts from the tax on interest income surged by 50.7% and revenues from the tax on profits expanded by 1.1%; while revenues from the tax on capital gains dipped by 11.6% and proceeds from the tax on wages & salaries regressed by 1.1% year-on-year in the covered period. Also, the distribution of property taxes indicates that revenues from real estate registration fees fell by 32.5% year-on-year to $268.4m and receipts from the built property tax retreated by 19.2% to $135.4m in the first 10 months of 2019, while revenues from the inheritance tax fell by 9.6% to $57m.

Further, non-tax budgetary receipts grew by 0.6% year-on-year to $1.75bn in the covered period. They mainly included $1.14bn in revenues generated from government properties that rose by 7.8% year-on-year, as well as $458.2m in receipts from administrative fees and charges that declined by 12.7% annually. Receipts from telecommunication services were nearly unchanged at $797.5m, and accounted for 70.2% of income from government properties and for 45.6% of non-tax budgetary revenues.

On the expenditures side, total budgetary spending, which includes general expenditures and debt servicing, declined by 7.6% year-on-year to $12.35bn in the first 10 months of 2019. General spending decreased by 10.3% to $8.1bn in the covered period, and included $1.3bn in transfers to Electricité du Liban (EdL) that regressed by 5.2% year-on-year, and $1.46bn in outlays from previous years that grew by 43.6% annually, among other general spending items. Also, debt servicing totaled $4.2bn in the first 10 months of 2019 and declined by 2.1% from the same period of 2018. Interest payments on Lebanese pound-denominated debt dropped by 2.2% year-on-year to $2.6bn in the first 10 months of 2019, while debt servicing on foreign currency debt decreased by 1.9% to $1.5bn. In addition, Treasury expenditures, excluding transfers to EdL, declined by 18.2% year-on-year to $1.05bn in the covered period, as transfers to municipalities dropped by 13.2% to $474.3m in the first 10 months of 2019 and other transfers decreased by 35% to $346m. Further, the primary budget balance posted a surplus of $831.5m in the first 10 months of 2019, or 6.7% of budgetary expenditures, while the overall primary balance registered a surplus of $217.2m, or 1.6% of spending.

Fiscal Results in First 10 Months of Each Year

	2018 (US$m)	2019 (US$m)	Change (%)
Budget Revenues	9,231	8,939	-3.2%
Tax Revenues	7,492	7,189	-4.0%
Non-Tax Revenues	1,739	1,750	0.6%
of which Telecom revenues	*801*	*797*	*-0.4%*
Budget Expenditures	13,369	12,348	-7.6%
Budget Surplus/Deficit	**(4,138)**	**(3,410)**	**-17.6%**
In % of budget expenditures	*-31.0%*	*-27.6%*	
Budget Primary Surplus	**194**	**831**	**328.5%**
In % of budget expenditures	*1.5%*	*6.7%*	
Treasury Receipts	692	439	-36.5%
Treasury Expenditures	1,288	1,054	-18.2%
Total Revenues	9,923	9,378	-5.5%
Total Expenditures	14,657	13,402	-8.6%
Total Deficit	**(4,734)**	**(4,024)**	**-15.0%**
In % of total expenditures	*-32.3%*	*-30.0%*	
Total Primary Surplus/Deficit	**(401.6)**	**217.2**	**-**
In % of total expenditures	-2.7%	1.6%	

Source: Ministry of Finance, Byblos Research

Assistance from international institutions reduces risks of macroeconomic instability

Moody's Investors Service indicated that caretaker Prime Minister Saad Hariri has formally requested technical assistance for Lebanon from the International Monetary Fund and the World Bank, in order to develop a reform plan to address the country's economic, fiscal and financial crises once a new government is formed. It considered that Lebanon's request to international financial institutions is credit positive, given that, in the absence of such support, a scenario of severe macroeconomic instability is likely.

The agency noted that the recent measures by commercial banks to limit foreign currency transfers abroad and withdrawals from US dollar deposit accounts have prevented a significant drawdown of foreign currency reserves at Banque du Liban (BdL) and have supported the government's foreign-currency debt service payments. It added that the US dollar shortages have led the exchange rate to trade at around LBP2,000 against the US dollar at money dealers, compared to the official exchange rate of LBP1,507.5 per dollar.

Further, Moody's indicated that the disbursement of the $11bn pledged by the international community at the CEDRE conference is contingent on the formation of a new government that would immediately ratify the 2020 budget as a first step toward a multi-year fiscal framework. It considered that the formation of a government and the implementation of reforms are increasingly urgent, given the sharp deterioration in economic activity since national protests started in October 2019. It forecast Lebanon's real GDP to contract by 2.5% in 2019 and by 1.5% in 2020, when taking into account external financial support. In parallel, it anticipated the fiscal deficit to reach 11.5% of GDP in 2019 and to miss the government's deficit target of 7.6% of GDP. It expected the deficit to remain wide at 10% of GDP in 2020 in case of subdued economic growth, which underpins the international community's call on authorities to implement a debt management strategy.

The agency pointed out that BdL's large holdings of government securities imply that Lebanon has near-term debt management options that would limit the potential losses of private investors in case of a sovereign default event. It estimated that authorities could first resort to the extension of debt maturities or to the cancellation of BdL's local-currency debt holdings, which are equivalent to 50% of GDP, as long as the currency peg remains in place. But it considered that this option would be insufficient on its own for long-term debt sustainability.

Banque du Liban's foreign assets at $37bn, gold reserves at $14bn at end-2019

Banque du Liban's (BdL) interim balance sheet totaled $141.4bn at the end of 2019, constituting an increase of 0.5% from $140.6bn at the end of 2018 and a decrease of 0.3% from $141.7bn at mid-December 2019. BdL conducted a "netting" operation 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 $37.3bn at end-2019, down by 0.9% from $37.6bn at mid-December 2019 and by 6% from $39.7bn at end-2018. They included $5.7bn worth of Eurobonds. Excluding Lebanese Eurobonds, BdL's assets in foreign currency reached $31.6bn at the end of 2019, down by $336.7m from mid-December. BdL's assets in foreign currency, excluding Lebanese Eurobonds, decreased by $826.4m in December, by $2.1bn in November, by $683.1m in October and by $264.2m in September, resulting in a cumulative decline of $3.9bn between the end of August and the end of 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 $826.4m in December 2019. This resulted in an aggregate decline of $2.4bn in 2019, compared to a decrease of $2.3bn in 2018.

In parallel, the value of BdL's gold reserves rose by 18.4% from the end of 2018 to $13.9bn at end-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 23.2% from the end of 2018 to $38bn at end-December, due to BdL's increased holdings of Lebanese Treasury notes.

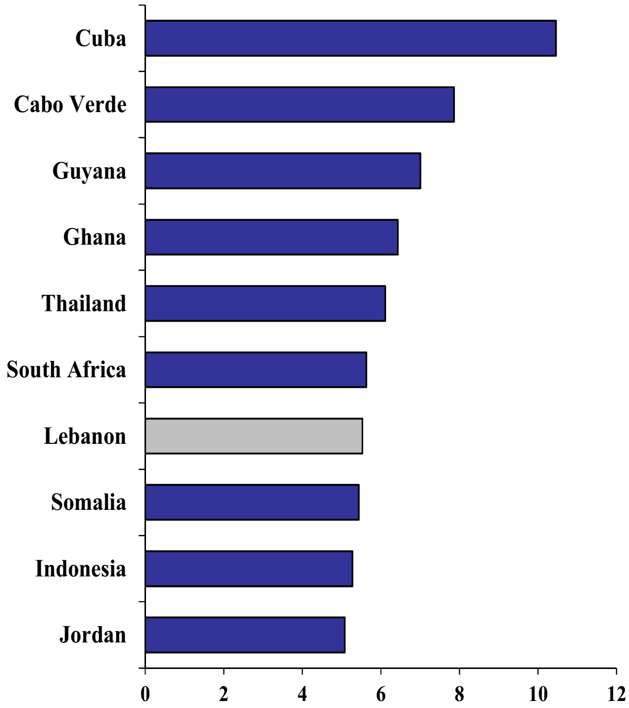
In addition, loans to the local financial sector decreased by $18.7bn, or by 55.5%, from end-2018 to $14.9bn at end-2019, due to the "netting" procedure on the assets side. Further, deposits of the financial sector reached $112bn at end-2019, down by $7.8bn, or by 6.5%, from end-2018, due to the "netting" on the liabilities side. Also, public sector deposits at BdL totaled $5.4bn at end-2019 and increased by $139.7m from mid-December 2019, and by $414.4m, or 8.2%, from end-2018.

Lebanon in the News

Cost of sending remittances from most sources increases in fourth quarter of 2019

Figures issued by the World Bank show that the cost of sending $500 in remittances from the United States to Lebanon reached 5.53% in the fourth quarter of 2019, constituting an increase from 5.47% in the third quarter of the year. It was nearly unchanged from 5.54% in the fourth quarter of 2018. The cost includes the transaction fee and exchange rate margin, and represents the average cost of transferring money through commercial banks and money transfer operators (MTOs). In nominal terms, the cost of sending $500 from the U.S. to Lebanon was $27.65 in the fourth quarter of 2019 compared to $27.33 in the preceding quarter and to $27.71 in the fourth quarter of 2018. Lebanon is the seventh most expensive destination for sending $500 from the U.S. among 42 countries with available data.

Costliest Destinations of Remittances from the United States* (%)



**cost of sending $500 from the U.S.*
Source: World Bank, Byblos Research

Further, the cost of sending remittances from Canada to Lebanon was 7.35% in the fourth quarter of 2019 for a transfer of CAD500, up from 6.98% in the third quarter of the year and compared to 7.73% in the fourth quarter of 2018. In nominal terms, the cost of sending CAD500 from Canada to Lebanon was CAD36.77 in the fourth quarter of 2019 relative to CAD34.9 in the previous quarter and to CAD38.64 in the fourth quarter of 2018. Lebanon is the third costliest destination for sending CAD500 from Canada among 15 countries with available data.

Also, the cost of sending remittances from Australia to Lebanon reached 7.23% in the fourth quarter of 2019 for a transfer of AUD500, up from 7.14% in the third quarter of the year and from 6.92% in the fourth quarter of 2018. The cost of sending AUD500 from Australia to Lebanon was AUD36.16 in the fourth quarter of 2019 compared to AUD35.71 in the preceding quarter and to AUD34.58 in the fourth quarter of 2018. Lebanon is the third most expensive destination for sending AUD500 from Australia among 16 countries with available data.

In addition, the cost of sending remittances from France to Lebanon was 6.75% in the fourth quarter of 2019 for a transfer of €345, constituting a decrease from 6.95% in the third quarter of the year and relative to 6.43% in the fourth quarter of 2018. In nominal terms, the cost of sending €345 from France to Lebanon was €23.3 in the fourth quarter of 2019 compared to €24 in the previous quarter and to €22.17 in the fourth quarter of 2018. Lebanon is the fifth most expensive destination for sending €345 from France among 16 countries with available data.

Further, the cost of sending remittances from the United Kingdom to Lebanon reached 7.91% in the fourth quarter of 2019 for a transfer of £300, up from 7.58% in the third quarter of the year and compared to 8.66% in the fourth quarter of 2018. In nominal terms, the cost of sending £300 from the UK to Lebanon was £23.73 in the fourth quarter of 2019 relative to £22.73 in the preceding quarter and to £26 in the fourth quarter of 2018. Lebanon is the fifth most expensive destination for sending £300 from the UK, along with Albania, among 33 countries with available data.

Also, the cost of sending remittances from Germany to Lebanon was 7.33% in the fourth quarter of 2019 for a transfer of €345, constituting an increase from 6.86% in the third quarter of the year and relative to 7.89% in the fourth quarter of 2018. In nominal terms, the cost of sending €345 from Germany to Lebanon was €25.28 in the fourth quarter of 2019 relative to €23.66 in the previous quarter and to €27.22 in the fourth quarter of 2018. Lebanon is the second most expensive destination for sending €345 from Germany among 24 countries with available data.

Finally, the cost of sending remittances from Saudi Arabia to Lebanon reached 2.96% in the fourth quarter of 2019 for a transfer of SAR1,870, equivalent to $500, down from 3.26% in the third quarter of the year and compared to 2.22% in the fourth quarter of 2018. In nominal terms, the cost of sending SAR1,870 from Saudi Arabia to Lebanon was SAR55.35 in the fourth quarter of 2019, relative to SAR61 in the preceding quarter and to SAR41.51 in the fourth quarter of 2018. Lebanon is the eighth most expensive destination for sending SAR1,870 from Saudi Arabia among 17 countries with available data.

Compensation of public-sector personnel absorbs 41% of fiscal spending in first nine months of 2019

Figures issued by the Ministry of Finance show that the compensation of public-sector personnel totaled $4.9bn in the first nine months of 2019, constituting an increase of 2% from $4.8bn in the same period of 2018. Salaries, wages and related benefits accounted for 60.5% of the total in the covered period, followed by retirement benefits (27%), end-of-service indemnities (8.3%), and transfers to public institutions to cover salaries (4.3%). The rise in the compensation of public-sector personnel is due to a 16.1% increase in retirement benefits, which was partly offset by a decline of 10% in end-of-service indemnities and to a decrease of 12.4% in transfers to public institutions to cover salaries, while salaries, wages & related benefits were nearly unchanged year-on-year. The Finance Ministry attributed the increase in retirement benefits partly to the implementation of the new salary scale, which encouraged public sector employees to retire before reaching the legal retirement age. The compensation of public-sector personnel represented the largest component of current primary spending and accounted for 72.2% of such expenditures in the first nine months of 2019 compared to 66% in the same period of 2018. It accounted for 40.6% of fiscal spending in the covered period relative to 36.5% in the first nine months of 2018; while it absorbed 57.8% of public revenues in the first nine months of 2019 relative to 55.5% of government receipts in the same period of 2018.

In parallel, salaries, wages and related benefits paid to public-sector employees amounted to $2.97bn in the first nine months of 2019, almost unchanged from $3bn in the same period of 2018. This category includes basic salaries, employment benefits, allowances, contributions to civil servants' cooperatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly civil and religious judges, and employees at the Parliament.

Salaries and benefits of military personnel reached $1.86bn and accounted for 62.7% of salaries, wages and related benefits paid to the public sector in the first nine months of 2019. The salaries and benefits of personnel in public education followed with $654.7m (22.1% of the total), then civil staff with $299.2m (10.1%), the government's contribution to the employees' cooperative with $125.4m (4.2%), and the salaries and benefits of customs employees with $27.2m (0.9%).

Also, the Lebanese Army's salaries totaled $1.2bn in the first nine months of 2019 and represented 65.5% of the salaries and benefits of military personnel. The salaries of the Internal Security Forces followed with $481.6m (26%), those of the General Security Forces with $118.7m (6.4%), and the salaries of State Security Forces with $41.8m (2.2%).

In addition, the breakdown of salaries, wages and related benefits paid to public-sector employees show that allowances decreased by $114.1m; and benefits and other payments, such as bonuses, given to non-military bodies declined by $27.2m; while basic salaries increased by $130.7m. Overall, basic salaries grew by 5.8% to $2.4bn in the first nine months of 2019, allowances fell by 26.6% year-on-year to $314.4m, and benefits and other payments declined by 9.5% to $258m in the first nine months of 2019.

Construction activity remains subdued in second quarter of 2019

Banque du Liban's quarterly business survey about the opinions of business managers shows that general construction activity was subdued in the second quarter of 2019, with the balance of opinions standing at -48, unchanged from the second quarter of 2018 and compared to -58 in the first quarter of 2019. The business survey reflects the opinions of enterprise managers about the evolution of their businesses, in order to depict the trend 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 increase in a particular indicator and the proportion of those who reported a decline in the same indicator.

The balance of opinions about construction activity was -50 in the second quarter of 2019 compared to -62 in the first quarter of 2019 and to -53 in the second quarter of 2018. The balance of opinions about construction activity was the lowest in the Bekaa at -93, followed by the South and Beirut & Mount Lebanon (-50 each), and the North (-6). Also, the balance of opinions about public works stood at -36 in the second quarter of 2019 compared to -45 in the preceding quarter and to -41 in the second quarter of 2018. Opinions about the level of public works were the lowest in the South at -80, followed by the Bekaa (-51), Beirut & Mount Lebanon (-33), and the North (-13).

In parallel, the balance of opinions about the portfolio of projects was -49 in the second quarter of 2019 relative to -63 in the first quarter of 2019 and to -55 in the second quarter of 2018. The balance of opinions about the portfolio of projects was the lowest in the Bekaa at -76, followed by the South (-56), Beirut & Mount Lebanon (-46), and the North (-22). Further, the balance of opinions about construction costs reached -5 in the second quarter of 2019, compared to +1 in the first quarter of 2019 and +16 in the second quarter of 2018.

Construction and Public Work Activity: Evolution of Opinions

Aggregate results	Q2-16	Q2-17	Q2-18	Q2-19
General activity	-42	-33	-48	-48
Construction	-40	-31	-53	-50
Public works	-37	-37	-41	-36
Portfolio of projects	-38	-36	-55	-49
Construction costs	-5	0	16	-5
Investments (% of yes)	33%	25%	25%	19%

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

Trade deficit narrows by 6.2% to $13.5bn in first 10 months of 2019

Total imports reached $16.6bn in the first 10 months of 2019, constituting a decrease of 1.6% from $16.9bn in the same period of 2018; while aggregate exports grew by 25.8% to $3.1bn in the covered period. As such, the trade deficit narrowed by 6.2% to $13.5bn in the first 10 months of 2019 due to a rise of $634.6m in exports and a decline of $261.7m in imports in the covered period.

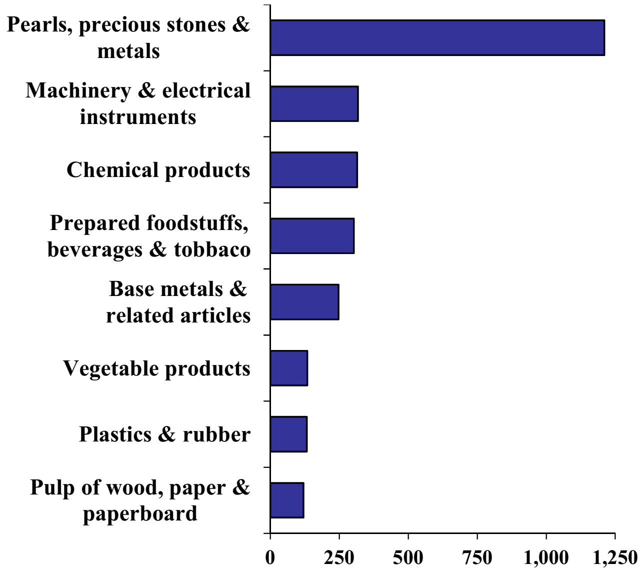
Non-hydrocarbon imports declined by $2.3bn year-on-year to $11.1bn in the first 10 months of 2019, while imports of oil & mineral fuels increased by $2bn to $5.6bn and accounted for 33.4% of total imports in the covered period. Lebanon imported 10.88 billion tons of oil & mineral fuels in the first 10 months of 2019, relative to 6.6 billion tons in the same period of 2018.

The increase in exports was mainly due to a rise of $658.6m, or 2.2 times, in the exports of jewelry; an expansion of $48.8m (+18.1%) in the exports of machinery & electrical instruments; a growth of $30.6m (+124.1%) in exported mineral products; and a rise of $13.2m (+4.4%) in the exports of chemical products. The increase in exports was partly offset by a drop of $80.3m, or 24.5%, in exported base metals; a decline of $20.3m (-6.3%) in the exports of prepared foodstuff; and a decrease of $15m (-10.2%) in exported plastics & rubber.

Exports to Switzerland jumped by 8.2 times year-on-year in the first 10 months of 2019, those to Egypt surged by 18.5%, exports to Saudi Arabia expanded by 18.2%, those to the U.S. rose by 6.4%, exports to Jordan grew by 4.8%, those to Syria increased by 2.5%, and exports to Iraq expanded by 0.8%. In contrast, exported goods to South Africa dropped by 58.4%, those to the UAE declined by 4.4% and exports to Qatar regressed by 3.4% year-on-year in the covered period. Re-exports totaled $450.1m in the first 10 months of 2019 compared to $275.3m in the same period of 2018. The Hariri International Airport was the exit point for 48.1% of Lebanon's exports in the first 10 months of 2019, followed by the Port of Beirut (36.8%), the Port of Tripoli (6.5%), and the Masnaa crossing point (6%).

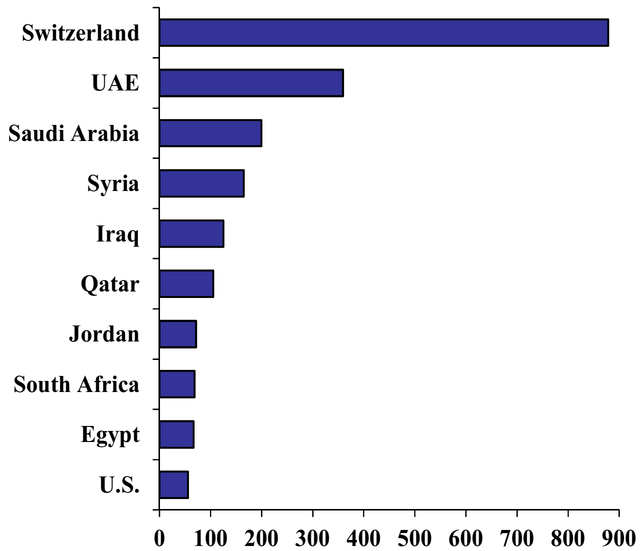
Lebanon's main non-hydrocarbon imports were chemical products that reached $1.7bn in the first 10 months of 2019 and declined by 7.1% from the same period of 2018. Imported machinery & electrical instruments followed at $1.5bn (-25.7%), then prepared foodstuff at $1.05bn (-6.5%), vehicles, aircraft & vessels at $1.05bn (-25.4%), jewelry, mostly gold bars, at $823.7m (-25.7%), vegetable products at $788.7m (+1.3%), base metals at $747.2m (-30%), animal products at $727.7m (-15%), plastics & rubber at $573m (-10.2%), and textiles at $552.5m (-15%). The Port of Beirut was the entry point for 74.4% of Lebanon's merchandise imports in the first 10 months of 2019, followed by the Hariri International Airport (18.2%), and the Port of Tripoli (5.2%).

Main Lebanese Exports in First 10 Months of 2019 (US$m)



Source: Lebanese Customs Administration, Byblos Research

Main Destinations of Lebanese Exports in First 10 Months of 2019 (US$m)



Source: Lebanese Customs Administration, Byblos Research

China was the main source of imports with $1.43bn, or 8.6% of the total, in the first 10 months of 2019, followed by the U.S. with $1.41bn (8.5%), Russia with $1.22bn (7.3%), Greece with $1.17bn (7%), Italy with $1.14bn (6.8%), Germany with $826.4m (5%), Turkey with $733m (4.4%), and France with $679.5m (4.1%). Imported goods from Russia surged by 125.2%, those from France expanded by 19.4%, and imports from the U.S. rose by 18.4% in the first 10 months of 2019. In contrast, imported goods from Greece dropped by 21%, those from China fell by 16.7%, imports from Germany decreased by 15.7%, those from Italy declined by 12.8%, and imported goods from Turkey contracted by 10.4% in the covered period.

Occupancy rate at Beirut hotels at 70%, room yields up 19% in first 10 months of 2019

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 69.8% in the first 10 months of 2019 relative to 64.2% in the same period of 2018, and compared to an average rate of 65.7% in 14 Arab markets included in the survey. The occupancy rate at Beirut hotels was the fifth highest in the region in the first 10 months of the year, while it was the sixth highest in the same period of 2018. The occupancy rate at hotels in Beirut rose by 5.6 percentage points in the first 10 months of 2019, constituting the third largest increase among the 14 Arab markets after Doha (+8.6 percentage points) and Riyadh (+7.2 percentage points). In comparison, the average occupancy rate in Arab markets grew by three percentage points in the covered period. Occupancy rates at Beirut hotels were 59.8% in January, 70.7% in February, 79% in March, 85.4% in April, 44.8% in May, 76.7% in June, 75.4% in July, 81% in August, 71.7% in September, and 54.7% in October 2019. In comparison, they were 49.1% in January, 61.3% in February, 63.5% in March, 68.5% in April, 50.9% in May, 60.9% in June, 73% in July, 73.3% in August, 72.3% in September, and 69.6% in October 2018. The occupancy rate at Beirut hotels declined by 15 percentage points year-on-year in October 2019 and by 17 percentage points from September 2019. It was the fifth lowest in the region in the covered month, while it was the fifth highest in October 2018.

Hotel Sector Performance in First 10 Months of 2019

	Occupancy Rate (%)	RevPAR (US$)	RevPAR % change
Jeddah	60.5	175	(4.2)
Dubai	73.5	160	(15.0)
Beirut	**69.8**	**143**	**19.2**
Makkah	66.4	119	1.6
Ras Al Khaimah	73.5	104	(8.4)
Madina	64.8	98	0.9
Riyadh	61.6	98	4.7
Kuwait City	55.7	90	(8.6)
Amman	61.5	90	1.7
Manama	52.3	86	5.8
Cairo	75.0	85	6.3
Doha	68.1	76	6.8
Abu Dhabi	77.4	76	6.9
Muscat	59.3	73	(5.0)

Source: EY, Byblos Research

The average rate per room at Beirut hotels was $204 in the first 10 months of 2019, increasing by 9.7% from $186 in the same period of 2018 and constituting the third highest rate in the region after Jeddah ($289) and Dubai ($217). The average rate per room in Beirut was higher than the regional average of $161.3 that regressed by 4.5% from the first 10 months of 2018.

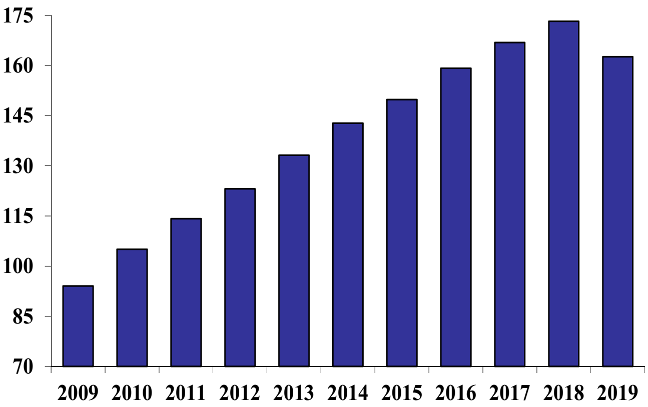
Further, revenues per available room (RevPAR) were $143 at Beirut hotels in the first 10 months of 2019 compared to $120 in the same period of 2018, ranking the capital in third place regionally behind Jeddah ($175) and Dubai ($160). Beirut's RevPAR grew by 19.2% year-on-year and posted the largest increase regionally. Beirut posted RevPARs of $118 in January, $132 in February, $146 in March, $174 in April, $83 in May, $183 in June, $163 in July, $189 in August, $141 September, and $99 in October 2019, compared to $87 in January, $105 in February, $110 in March, $120 in April, $89 in May, $134 in June, $144 in July, $152 in August, $133 in September, and $123 in October 2018. As such, Beirut's RevPAR in October 2019 regressed by 29.8% month-on-month and by 19.5% year-on-year. Abu Dhabi posted the highest occupancy rate in the region at 77.4% in the first 10 months of 2019, while Jeddah registered the highest average rate per room at $289, as well as the highest RevPAR at $175 in the covered period.

EY attributed the improved performance of Beirut's hospitality market in the first 10 months of 2019 largely to the increase in tourist arrivals, as well as to the Ministry of Tourism's initiatives to promote tourism. However, it indicated the ongoing socioeconomic instability in the country weighed on the demand for Beirut's hospitality sector, as several countries, including Saudi Arabia and the UAE, issued travel warnings to Lebanon in October due to security concerns. In parallel, EY pointed out that the expansion works at the Beirut-Rafic Hariri International Airport were completed in August 2019, which increased the airport's annual capacity to two million passengers. It noted that the airport's expansion aims to address congestion issues and benefit the Lebanese tourism industry in the long term.

Banking sector assets at $260bn at end-November 2019

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets stood at $259.7bn at the end of November 2019, constituting an increase of 4.1% from $249.5bn at the end of 2018 and an expansion of 5.3% from $246.5bn at end-November 2018. Loans extended to the private sector reached $52.5bn at the end of November 2019, regressing by 11.6% from end-2018 and by 11.4% from a year earlier. Loans to the resident private sector totaled $46.5bn, constituting a decrease of 11% from the end of 2018 and of 11.1% from end-November 2018. Also, credit to the non-resident private sector reached $5.9bn at end-November 2019, declining by 16.5% from end-2018 and by 13% from a year earlier. In nominal terms, credit to the private sector contracted by $6.9bn in the first 11 months of 2019 relative to a decrease of $477.2m in the same period of 2018, as lending to the resident private sector declined by $5.7bn and credit to the non-resident private sector regressed by $1.2bn in the covered period. The dollarization rate of private sector loans rose from 68.5% at end-November 2018 to 69.6% at end-November 2019.

Private Sector Deposits at Banks* (US$bn)



**at end-November of each year*
Source: Banque du Liban, Byblos Research

In addition, claims on non-resident financial institutions reached $7.5bn at the end of November 2019 and declined by $4.5bn, or 37.3%, from the end of 2018. Also, deposits at foreign central banks totaled $656.4m and dropped by 33.5% from end-2018 and by 30% from end-November 2018. In addition, claims on the public sector stood at $30.4bn at end-November 2019, down by $3.2bn, or 9.5% from end-2018. The average lending rate in Lebanese pounds was 9.69% in November 2019 compared to 10.15% a year earlier, while the same rate in US dollars was 10.64% relative to 8.57% in November 2018. Further, the deposits of commercial banks at Banque du Liban totaled $155.3bn at the end of November 2019, constituting an increase of 19.2% from $130.2bn at the end of 2018.

In parallel, private sector deposits totaled $162.6bn at the end of November 2019, and decreased by 6.7% from the end of 2018 and by 6.1% from end-November 2018. Deposits in Lebanese pounds reached the equivalent of $41.2bn at end-November 2019, down by 19.6% from the end of 2018 and by 21.1% from a year earlier; while deposits in foreign currency totaled $121.4bn, as they regressed by 1.3% from end-2018 and grew by a marginal 0.3% from end-November 2018. Resident deposits totaled $129.4bn at the end of November 2019 and decreased by $7.1bn, or 5.2% from the end of 2018 and by $6.4bn, or 4.7% from a year earlier. Also, non-resident deposits reached $33.2bn at end-November 2019, as they regressed by $4.6bn or 12.1% from end-2018. In nominal terms, private sector deposits declined by $2.18bn in January, by $133m in February, by $1.86bn in May, by $2.24bn in September, by $1.94bn in October and by $5.77bn in November, while they increased by $550.6m in March, by $186.4m in April, by $1.28bn in June, by $220.6m in July and by $190m in August 2019. As such, aggregate private sector deposits regressed by $11.7bn in the first 11 months of 2019 relative to an increase of $4.5bn in the same period of 2018, with deposits in Lebanese pounds dropping by $10.05bn and foreign-currency deposits growing by $1.64bn. The dollarization rate of private sector deposits was 74.7% at end-November 2019, up from 70.6% at the end of 2018, and compared to 69.9% a year earlier.

In parallel, deposits of non-resident financial institutions reached $9.4bn at the end of November 2019 and increased by 1% from end-2018. Further, the average deposit rate in Lebanese pounds was 9.4% in November 2019 compared to 7.97% a year earlier, while the same rate in US dollars was 6.31% relative to 4.9% in November 2018. The ratio of private sector loans to deposits in foreign currency stood at 30.1% at the end of November 2019 compared to 33.5% a year earlier, well below Banque du Liban's limit of 70%. The same ratio in Lebanese pounds reached 38.7% at end-November 2019 relative to 35.8% from a year earlier. As such, the total private sector loans-to-deposits ratio reached 32.3% compared to 34.2% at end-November 2018. The banks' aggregate capital base stood at $20.6bn at end-November 2019, up by 1.8% from $20.2bn a year earlier.

Money transfer operators to settle incoming transfers in foreign currency

Banque du Liban (BdL) issued Intermediate Circular 537 on December 30, 2019, which amended Basic Circular 69 issued on March 30, 2000, about electronic financial and banking operations. The circular cancelled the clause that BdL introduced in Intermediate Circular 514 issued on January 14, 2019, which asked non-banking financial institutions that conduct cross-border electronic transfers of funds, such as Western Union and MoneyGram, to settle incoming foreign transfers in Lebanese pounds. Consequently, the new circular indicated that such institutions have to settle incoming foreign transfers in the same currency of the transfer. It stipulated that this decision will come into effect on January 8, 2020.

In parallel, the inflows of expatriates' remittances to Lebanon stood at $7bn in 2018 and $3.82bn in the first half of 2019. Further, according to a survey conducted by Université Saint-Joseph, 35% of Lebanese who send money to their families in Lebanon use bank transfers, 25.7% give the money to their family when they visit the country and/or send it with someone visiting, and 25.6% use money transfer operators.

Stock market index down 18% in 2019

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 199,590,991 shares in 2019, constituting an increase of 121.7% from 90,014,202 shares traded in the same period of 2018; while aggregate turnover amounted to $901.6m, up by 42.3% from a turnover of $633.6m in 2018. The surge in the trading volume and turnover is mostly due to two block trades in the shares of two listed banks. The first trade consisted of 119,924,761 common shares of Bank Audi exchanged for a total of $557.7m last February, and the second trade was for 220,000 preferred shares of Bank of Beirut exchanged for a total of $5.5m in December 2019.

The market capitalization of the BSE regressed by 19.8% from $9.7bn at the end of 2018 to $7.8bn at end-2019, with banking stocks accounting for 81.3% of the total, followed by real estate equities (15.5%), industrial shares (2.8%), and equities of trading firms (0.5%). The market liquidity ratio was 11.6% in 2019 compared to 6.5% in 2018. The market capitalization of the BSE was equivalent to 13.4% of GDP at end-2019 relative to 17.3% of GDP at end-2018.

Banking stocks accounted for 96.7% of the aggregate trading volume in 2019, followed by real estate equities with 3.2% and industrial shares with 0.05%. Also, banking stocks accounted for 95.6% of the aggregate value of shares traded, followed by real estate equities with 4.3% and industrial stocks with 0.1%. The average daily traded volume for the period was 879,255 shares for an average daily value of $4m. The figures reflect a year-on-year increase of 2.3 times in average daily traded volume, and an annual rise of 50.4% in the average value in 2019. In parallel, the Capital Markets Authority's (CMA) Market Value-Weighted Index for stocks traded on the BSE declined by 18.2% in 2019, while the CMA's Banks Market Value-Weighted Index regressed by 36.8% last year.

Import activity of top five shippers and freight forwarders down 8.5% in first 10 months of 2019

Figures released by the Port of Beirut show that overall import shipping operations by the top five shipping companies and freight forwarders through the port reached 237,470 20-foot equivalent units (TEUs) in the first 10 months of 2019, constituting a decrease of 8.5% from 259,409 TEUs in the same period of 2018. The five shipping and freight-forwarding firms accounted for 77.7% of imports to the Lebanese market for local use and for 46.6% of the total import freight market, which includes transshipments to other ports, in the first 10 months of 2019. Mediterranean Shipping Company (MSC) handled 96,102 TEUs in imports in the covered period, equivalent to a 19% share of the total import freight market. Merit Shipping followed with 49,717 TEUs (9.8%), then MAERSK with 38,234 TEUs (7.5%), Metz Group with 28,180 TEUs (5.5%), and Tourism & Shipping Transport with 25,237 TEUs (5%). Further, MAERSK registered an annual increase of 27.8% in import shipping in the first 10 months of 2019, the only growth rate among the top five shipping and freight forwarding companies, while Metz Group posted a decrease of 25%, the steepest decline in the covered period.

In parallel, export shipping operations by the top five shipping and freight-forwarding firms through the Port of Beirut reached 53,828 TEUs in the first 10 months of 2019, constituting a decrease of 4% from 56,081 TEUs in the same period of 2018. The five shipping companies and freight forwarders accounted for 85.8% of exported Lebanese cargo and for 10.6% of the total export freight market that includes transshipments through Lebanese ports, in the first 10 months of 2019. Merit Shipping handled 26,910 TEUs of freight in the first 10 months of 2019, equivalent to 43% of the Lebanese cargo export market. MAERSK followed with 9,952 TEUs (16%), then Metz group with 6,443 TEUs (10.3%), and Tourism & Shipping with 5,277 TEUs and Sealine Group with 5,246 TEUs (8.4% each). Further, MAERSK registered an increase of 41% in export shipping in the first 10 months of 2019, the highest growth rate among the top five shipping and freight forwarding companies, while Sealine Group posted a decline of 34%, the steepest decrease in the covered period.

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	Dec 2017	Nov 2018	Dec 2018	Change**	Risk Level
Political Risk Rating	55.0	54.0	54.0	▲	High
Financial Risk Rating	33.0	33.0	31.5	▲	Moderate
Economic Risk Rating	28.5	28.5	24.0	▲	Very High
Composite Risk Rating	58.25	57.75	54.75	▲	High

MENA Average*	Dec 2017	Nov 2018	Dec 2018	Change**	Risk Level
Political Risk Rating	58.2	58.0	58.1	▲	High
Financial Risk Rating	38.5	38.9	38.9	▼	Low
Economic Risk Rating	30.9	33.2	33.7	▼	Moderate
Composite Risk Rating	63.9	65.0	65.3	▼	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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