

LEBANON THIS WEEK

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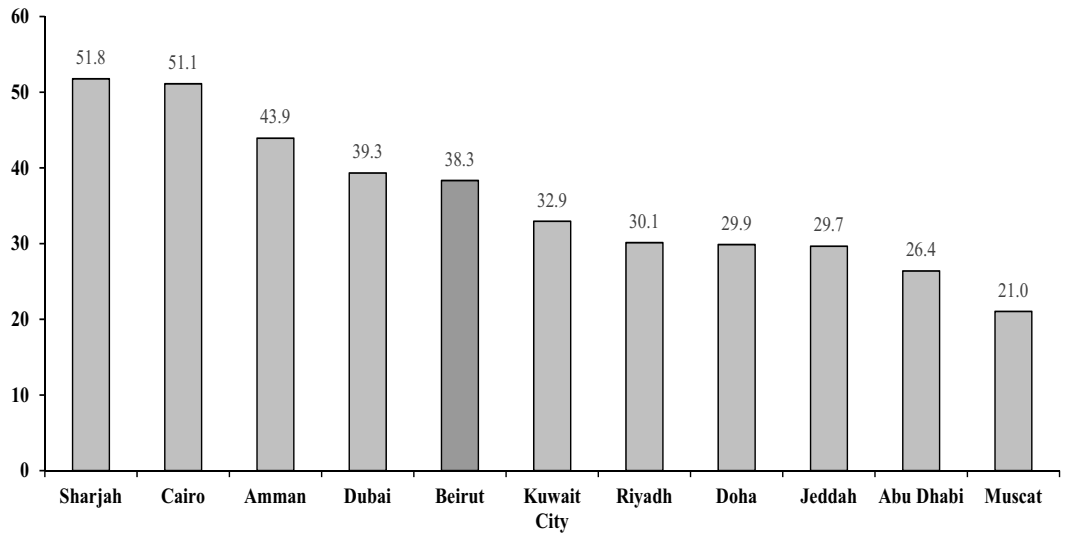
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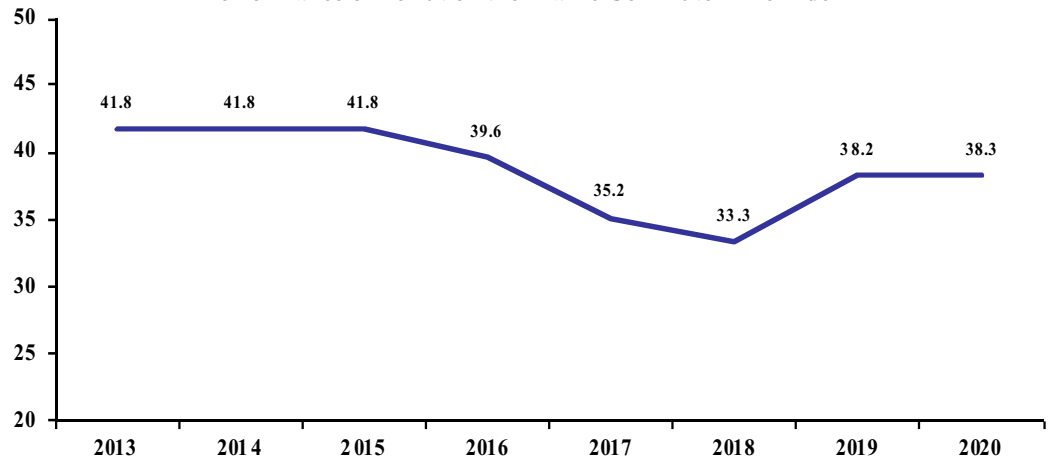
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Charts of the Week

Performance of Select Arab Cities on the Traffic Commute Time Index in 2020*



Performance of Beirut on the Traffic Commute Time Index*



*higher score reflects more time spent in traffic

Source: Numbeo's 2020 Quality of Life Index, Byblos Bank

Quote to Note

"In recent months, there was an organized media campaign against the banking system that tried to shift the blame of the crisis from the wasteful spending and corruption of the political elites, to the banking sector."

The Institute of International Finance, on the reason for the increase in retail cash withdrawals from commercial banks since October 2019

Number of the Week

0.34%: The spread between the weighted average interest rate for the last three months on new deposits and the weighted return on the uses of funds in US dollars at commercial banks in Lebanon as at November 2019, according to the Association of Banks in Lebanon

Lebanon in the News

\$m (unless otherwise mentioned)	2018	Jan-Nov 2018	Jan-Nov 2019	% Change*	Nov-18	Oct-19	Nov-19
Exports	2,952	2,706	3,407	25.91	242	292	309
Imports	19,980	18,411	17,894	(2.81)	1,536	1,308	1,281
Trade Balance	(17,028)	(15,705)	(14,487)	(7.76)	(1,294)	(1,016)	(972)
Balance of Payments	(4,823)	(4,076)	(3,510)	(13.87)	(954)	(198)	1,143
Checks Cleared in LBP	22,133	20,110	19,743	(1.82)	1,875	1,378	2,232
Checks Cleared in FC	44,436	40,981	30,928	(24.53)	3,481	1,717	2,946
Total Checks Cleared	66,569	61,091	50,671	(17.06)	5,356	3,095	5,178
Fiscal Deficit/Surplus**	(6,246)	(4,734)	(4,024)	(14.99)	(1,075)	(432)	-
Primary Balance**	(636)	(402)	217	-	(89)	21	-
Airport Passengers	8,842,442	8,164,597	8,139,970	(0.30)	628,205	659,737	438,674
Consumer Price Index***	6.1	6.3	2.5	(380bps)	5.8	1.3	3.2

\$bn (unless otherwise mentioned)	Dec-17	Nov-18	Dec-18	Sep-19	Oct-19	Nov-19	% Change*
BdL FX Reserves	35.81	33.56	32.51	29.30	30.98	30.15	(10.2)
In months of Imports	18.57	21.84	20.72	19.99	23.68	23.54	7.7
Public Debt	79.53	83.66	85.14	86.78	87.08	89.48	7.0
Bank Assets	219.86	246.51	249.48	262.20	262.80	259.69	5.3
Bank Deposits (Private Sector)	168.66	173.19	174.28	170.30	168.36	162.60	(6.1)
Bank Loans to Private Sector	59.69	59.21	59.39	54.50	54.17	52.48	(11.4)
Money Supply M2	52.51	51.55	50.96	46.73	45.77	43.82	(15.0)
Money Supply M3	138.62	140.32	141.29	138.83	138.37	136.44	(2.8)
LBP Lending Rate (%)	8.09	10.15	9.97	10.92	11.19	9.69	(46bps)
LBP Deposit Rate (%)	6.41	7.97	8.30	9.13	9.03	9.40	143bps
USD Lending Rate (%)	7.67	8.57	8.57	10.26	10.05	10.64	207bps
USD Deposit Rate (%)	3.89	4.90	5.15	6.57	6.61	6.31	141bps

*year-on-year **year-to-date figures reflect results for first 10 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"	8.51	2.41	115,274	12.22%
Solidere "B"	8.50	(2.52)	33,533	7.93%
Audi Listed	2.05	8.47	32,653	11.77%
BLOM GDR	3.00	(7.12)	6,000	3.18%
Byblos Pref. 09	59.90	(4.92)	5,497	1.72%
Audi GDR	2.06	(2.83)	550	3.54%
Byblos Common	1.00	0.00	-	8.12%
Byblos Pref. 08	60.80	0.00	-	1.75%
HOLCIM	10.00	0.00	-	2.80%
BLOM Listed	7.00	0.00	-	21.61%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Mar 2020	6.38	82.25	222.77
Apr 2021	8.25	47.38	87.74
Oct 2022	6.10	40.00	48.47
Jun 2025	6.25	37.38	30.85
Nov 2026	6.60	37.00	27.56
Feb 2030	6.65	35.50	23.76
Apr 2031	7.00	36.00	23.24
May 2033	8.20	37.11	24.14
Nov 2035	7.05	36.00	21.20
Mar 2037	7.25	36.13	21.26

Source: Byblos Bank Capital Markets, Refinitiv

	Jan 27-31	Jan 20-24	% Change	January 2020	January 2019	% Change
Total shares traded	193,507	675,696	(71.4)	2,048,141	50,963,287	(96.0)
Total value traded	\$1,647,294	\$4,886,646	(66.3)	\$16,307,970	\$152,075,281	(89.3)
Market capitalization	\$6.96bn	\$6.93bn	0.57	\$6.96bn	\$9.38bn	(25.8)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Jan 24, 2020	Jan 31, 2020	% Change**
CDS 1-year*	8,646	10,539	21.9
CDS 3-year*	5,915	7,378	24.7
CDS 5-year*	4,777	6,029	26.2

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

CDX EM 30*	Jan 24, 2020	Jan 31, 2020	% Change***
CDS 5-year**	182.8	187.8	2.7

Source: ICE CMA; * CDX Emerging Market CDS Index-Series 30

mid-spread in bps *week-on-week

Consumer confidence retreats in fourth quarter of 2019

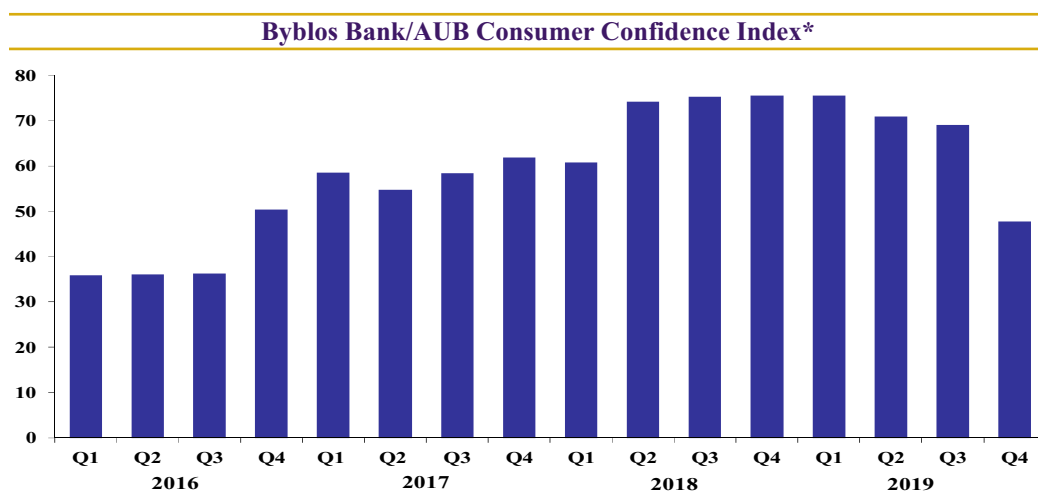
The results of the Byblos Bank/AUB Consumer Confidence Index for the fourth quarter of 2019 show that the Index averaged 47.8 points in the fourth quarter of 2019, constituting a decline of 30.7% from 69 points in the third quarter of 2019 and a decrease of 36.7% from 75.5 points in the fourth quarter of 2018. Further, the Byblos Bank/AUB Present Situation Index averaged 40.3 in the fourth quarter of 2019 and retreated by 35.4% from the preceding quarter, while the Byblos Bank/AUB Expectations Index averaged 52.8 and regressed by 28.1% from the third quarter of 2019. In addition, the average monthly score of the Index in the fourth quarter of 2019 was 54.8% lower than the quarterly peak score of 105.8 registered in the fourth quarter of 2008, and was 50.5% below the annual peak of 96.7 reached in full year 2009. The fourth-quarter results constitute the 21st lowest level in 50 quarters.

Household sentiment plunged to its lowest level since the fourth quarter of 2016, as the mounting frustrations of Lebanese citizens at the deteriorating socioeconomic conditions led to the eruption of nationwide protests on October 17. In fact, the accumulation of grievances over worsening economic conditions, and the increased dissatisfaction of citizens at the failure of the political class to address the long-standing socioeconomic challenges in the country, as well as to fight corruption and nepotism, triggered the protests. But the perceived indifference and lack of urgency by the political class to address these concerns worsened the skepticism of households.

The detailed results of the Index's monthly survey show that 2.9% of Lebanese polled in December 2019 considered that their personal financial conditions improved from six months earlier, while 78.3% of respondents said that their financial situation deteriorated from June 2019. Further, 2.6% of the Lebanese polled in December believed that their personal financial conditions would improve in the coming six months, while 79.6% of households considered that their financial conditions will deteriorate by June 2020. In parallel, 3.7% of the Lebanese surveyed in December 2019 considered that economic conditions in Lebanon improved from six months earlier, while 91.3% indicated that economic conditions deteriorated from June 2019. In addition, 3.3% anticipated economic conditions to improve in the coming six months, while 86.2% of respondents expected business conditions to deteriorate by June 2020.

The results of the Byblos Bank/AUB Consumer Confidence Index for the fourth quarter of 2019 show that the confidence level of residents in the North regressed by 39.4% in the fourth quarter of 2019 from the preceding quarter, followed by households in the Bekaa region (-38.1%), the South (-32.8%), Mount Lebanon (-23.5%) and Beirut (-18.7%). The sentiment of residents in the Bekaa was the highest among all geographic regions during the fourth quarter of 2019, followed by households in Mount Lebanon, the North, Beirut and the South. Also, the confidence level of Shiite households dropped by 21.6% quarter-on-quarter in the fourth quarter of 2019, followed by the sentiment of Sunni households (-21%), Christian households (-19.1%) and Druze households (-10.6%). Druze households registered the highest level of confidence in the fourth quarter of 2019, followed by Shiite, Christian and Sunni households.

The Byblos Bank/AUB Consumer Confidence Index is a measure of the sentiment and expectations of Lebanese consumers toward the economy and their own financial situation. The Index is compiled, implemented and analyzed in line with international best practices and according to criteria from leading consumer confidence indices worldwide. It is composed of two sub-indices, the Byblos Bank/AUB Present Situation Index and the Byblos Bank/AUB Expectations Index. The first sub-index covers the current economic and financial conditions of Lebanese consumers, and the second one addresses their outlook over the coming six months. In addition, the data segregates the Index based on age, gender, income, profession, geographical region, and religious affiliation. The Byblos Bank Economic Research and Analysis Department has been calculating the Index on a monthly basis since July 2007, with January 2009 as its base month. The Index is based on a face-to-face monthly survey of a nationally representative sample of 1,200 males and females living throughout Lebanon. The monthly field survey is conducted by Statistics Lebanon Ltd, a market research and opinion-polling firm.



* Quarterly Average Score

Source: Byblos Bank Economic Research & Analysis Department, based on surveys conducted by Statistics Lebanon



Banque du Liban to regularize temporary measures by commercial banks

In the monthly meeting between Banque du Liban (BdL), the Banking Control Commission of Lebanon (BCCL) and the Association of Banks in Lebanon (ABL), Governor Riad Salamé indicated that BdL, in coordination with relevant authorities, will issue a circular that regularizes the temporary measures that banks introduced to help with liquidity management in the banking sector and to support the exchange rate. The ABL has been seeking BdL to issue a circular, or the government to issue a decree or Parliament to enact a law to regularize these measures.

Governor Salamé said that the circular will ensure that fresh funds that were transferred to Lebanon after November 17, 2019 will not be subject to any restriction. He noted that, excluding fresh funds, the circular will allow the transfer of funds abroad for urgent personal expenses and will cap these transfers at \$50,000 per year. He added that the circular will regularize the financing of imported raw materials for the agricultural and industrial sectors. In addition, he pointed out that the circular will not impose any restrictions on foreign currency transactions inside the country, including on checks and bank transfers. He added that the usage of payment cards abroad will be subject to limits, while the payments of checks in local and foreign currencies in Lebanon will be settled in the client's bank account. Further, he said that the circular will cap the withdrawal in Lebanese pounds at LBP25m per month per depositor. BdL and the ABL agreed on the importance of allowing the free movement of fresh funds to help restore confidence in the banking sector and to avoid channeling foreign inflows through money dealers, given that expatriate remittances are still significant and exceed \$4bn. In addition, the governor noted that international financial institutions stand prepared to cooperate with Lebanese banks that are willing to provide loans to the private sector.

In parallel, BdL indicated that it will issue, based on the BCCL's recommendations, two regulatory circulars about the implementation of international accounting standard IFRS 9 and about the capital adequacy regulatory framework. The ABL had received a copy of the two draft circulars and provided its feedback on them. First, the ABL suggested that BdL increases the risk weight on the banks' exposure to BdL in foreign currency from 50% to 100%, rather than to 150% as stipulated in the draft regulations. But Governor Salamé said that BdL could look into reducing the risk weights on the banks' deposits at BdL that have a maturity of less than one year. Second, the ABL indicated that the new minimum regulatory capital ratios that BdL intends to adopt are justified and acceptable. It noted that the minimum Common Equity Tier One Capital (CET1) ratio will become 7%, the Tier One Capital ratio will be at 8.5%, and the capital adequacy ratio (CAR) will be at 10.5%, which are all aligned with Basel III standards. However, the ABL objected to the imposition of other minimum capital ratios that would restrict the banks' dividend distribution. In fact, the draft circular allows banks to distribute dividends in case their CET1 ratio is at least 7%, their Tier One Capital ratio is at least 10% and their CAR is at least 12%. The ABL added that it will be very difficult for banks to post net profits in the coming three years.

Third, the ABL pointed out that the draft text circular suggests to increase the Regulatory Expected Credit Losses (RECL) by fivefold on the loans portfolio, which means that the banks' loans portfolio would be implicitly categorized under Stage 2. It considered that the increase in the RECL is unjustified given the different classifications that banks apply on their loan portfolios under the IFRS 9 standard. In addition, the ABL asked BdL to include the provisions that banks need to take on their exposure to BdL and the government as part of their Tier Two capital and to be reported in the currency of the exposure. Governor Salamé indicated that BdL will review the ABL's comments before issuing the regulations.

In parallel, the governor indicated that BdL will review the procedure through which it provides foreign currency to banks to finance fuel imports, as banks complained about delays from BdL's side. Further, Governor Salamé discussed with the ABL the possibility that banks, through affiliated specialized companies, cooperate with money dealers, and that Société Financière du Liban coordinates the setting of the daily exchange rate in the parallel market. He noted that this mechanism would help regulate the exchange rate at money dealers, given the high number of money dealers that are operating without a proper license.

More than 84% of Treasury securities in Lebanese pounds have five-year maturities or longer

Figures released by the Association of Banks in Lebanon (ABL) show that the face value of outstanding Treasury securities denominated in Lebanese pounds reached LBP85,700bn, or the equivalent of \$56.8bn, at the end of 2019, compared to LBP76,575bn, or \$50.8bn, at the end of 2018. The weighted interest rate on Lebanese Treasury securities denominated in Lebanese pounds was 6.44% in December 2019 compared to 6.11% in December 2018.

The distribution of outstanding Treasury securities denominated in Lebanese pounds at end-2019 shows that 15-year Treasury bonds accounted for 1.7%, or LBP1,417bn, of total securities in Lebanese pounds; 12-year Treasury securities represented 3.6% of the total (LBP3,076bn), and 10-year Treasury bonds had a share of 35.4% (LBP30,312bn). Also, the share of eight-year Treasury securities was 2.1% (LBP1,832bn), seven-year Treasury bonds represented 18.2% (LBP15,555bn), five-year Treasury securities accounted for 23.4% (LBP20,086bn), the share of three-year Treasury bonds was 10.6% (LBP9,086bn), two-year Treasury bills represented 3.8% (LBP3,299bn), one-year T-bills accounted for 1.1% (LBP939bn), the share of six-month T-bills was 0.1% (LBP72bn), and three-month T-bills represented 0.03% (LBP26bn). As such, 61% of outstanding Treasury securities have seven-year maturities or longer and 84.3% have five-year maturities or more.

According to the ABL, LBP11,245bn or the equivalent of \$7.5bn in outstanding Treasury bonds in Lebanese pounds will mature in 2020, while LBP8,832bn (\$5.9bn) will come due in 2021.



Number of new construction permits down 20% in 2019

The Orders of Engineers & Architects of Beirut and of Tripoli issued 10,991 new construction permits in 2019, constituting a decline of 19.8% from 13,712 permits issued in 2018. In comparison, new construction permits decreased by 13% in 2018. Mount Lebanon accounted for 34.2% of newly-issued construction permits last year, followed by the South with 22.3%, the Nabatieh area with 13.5%, the North with 13.3%, the Bekaa region with 9.6%, and Beirut with 5.5%. The remaining 1.5% were permits issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon.

In parallel, the number of new construction permits reached its highest level of 1,161 in July 2019, while it posted its lowest level of 647 in November 2019. Also, the number of new construction permits issued totaled 2,823 in the first quarter of the year, 2,928 in the second quarter, 3,174 in the third quarter and 2,066 in the fourth quarter of 2019. As such, it declined by 23% annually in the first quarter, regressed by 16.1% in the second quarter, decreased by 0.9% in the third quarter and retreated by 38.5% in the fourth quarter of 2019.

Further, the surface area of granted construction permits reached 6,081,333 square meters (sqm) in 2019, constituting a decrease of 32.6% from 9,019,565 sqm in 2018. In comparison, the surface area of granted construction permits regressed by 23.1% in 2018. Mount Lebanon accounted for 2,128,613 sqm, or 35% of the total last year. The South followed with 1,204,514 sqm (19.8%), then the North with 1,052,679 sqm (17.3%), the Bekaa region with 600,049 sqm (9.9%), the Nabatieh area with 544,303 sqm (9%), and Beirut with 366,572 sqm (6%). The remaining 184,603 sqm, or 3% 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 39.1% in 2019, followed by surface areas in the Nabatieh area (-35%), the North (-33.1%), the Bekaa (-30.5%), and the South (-20.2%); while surface areas in regions located outside northern Lebanon decreased by 51%. In contrast, the surface area of granted construction permits in Beirut increased by a marginal 0.7% last year. Further, the surface area of granted construction permits reached a high of 849,889 sqm in February 2019 and a low of 326,595 sqm in October 2019. Also, the surface area of granted construction permits reached 1,953,866 sqm in the first quarter of the year, 1,530,959 sqm in the second quarter, 1,594,348 sqm in the third quarter and 1,002,160 sqm in the fourth quarter of 2019. As such, it regressed by 27.3% year-on-year in the first quarter, declined by 34.4% in the second quarter, decreased by 18.8% in the third quarter and retreated by 50.7% in the fourth quarter of the year.

In parallel, cement deliveries totaled 3.09 million tons in the first 11 months of 2019, constituting a decline of 31% from 4.47 million tons in the same period of 2018, and relative to a decrease of 5.3% in the first 11 months of 2018.

Banque du Liban's foreign assets at \$36.7bn, gold reserves at \$14.6bn at end-January 2020

Banque du Liban's (BdL) interim balance sheet totaled \$142.6bn at the end of January 2020, constituting a growth of 0.9% from \$141.4bn at the end of 2019, and a decrease of 0.5% from \$143.4bn at end-January 2019.

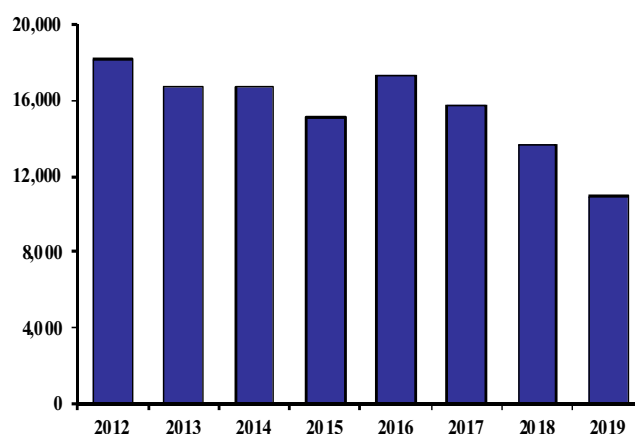
Assets in foreign currency reached \$36.7bn at end-January 2020, down by 1.6% from \$37.3bn at the end of 2019, and by 6.7% from \$39.3bn at end-January 2019. They included \$5.7bn worth of Eurobonds. Excluding Lebanese Eurobonds, BdL's assets in foreign currency reached \$31bn at end-January 2020, constituting a decline of \$613.3m from the end of 2019.

BdL's assets in foreign currency, excluding Lebanese Eurobonds, decreased by \$264.2m in September 2019, by \$683.1m in October, by \$2.1bn in November and by \$826.4m in December, resulting in a cumulative decline of \$4.5bn between the end of August 2019 and end-January 2020. 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 \$166.5m in November, while they declined by \$164.2m in September, by \$583.1m in October, by \$826.4m in December and by \$613.3m in January 2020. This resulted in an aggregate decline of \$2bn in BdL's total assets in foreign currency between the end of August 2019 and the end of January 2020.

In parallel, the value of BdL's gold reserves rose by 4.5% from the end of 2019 and by 19.4% from end-January 2019 to reach \$14.6bn at the end of January 2020. The value of gold reserves reached a peak of \$16.7bn at the end of August 2011. Also, the securities portfolio of BdL totaled \$38.1bn at end-January 2020, nearly unchanged from end-2019, but increased by 23.1% from a year earlier. In addition, loans to the local financial sector regressed by 0.5% from end-2019 to \$14.9bn at end-January 2020. Further, deposits of the financial sector reached \$112.4bn at end-January 2020, up by \$369.6m from end-2019. Also, public sector deposits at BdL totaled \$5.3bn at end-January 2020 and decreased by \$151.4m from end-2019.

Number of Construction Permits issued in Lebanon



Source: Orders of Engineers & Architects of Beirut and Tripoli

Economic contraction estimated at 3.8% in 2019

The Institute of International Finance estimated Lebanon's real GDP to have contracted by 3.8% in 2019, following a contraction of 1.9% in 2018, largely due to a 10% decline in economic activity in the fourth quarter of the year. It indicated that political gridlock, the lack of political will to implement reforms, corruption, and the Syrian conflict have weakened the Lebanese economy, leading to the current crisis. It said that the prevailing challenges have reduced the imports of non-hydrocarbon products, constrained consumer demand, increased domestic prices, and weighed on business activity. It added that construction and services were the most affected sectors by the challenging conditions, and that the disruption to financial intermediation also weighed on the services sector.

Further, it indicated that rising corruption in the public sector has hindered economic activity and contributed to wide fiscal deficits and increasing public debt levels, and added that tackling corruption has been one of the protestors' main demands. As such, it considered that addressing corruption and improving governance should be important components of fiscal and structural reforms. It noted that the 12-month inflation rate increased from 1.2% in October 2019 to 7% in December 2019, reflecting the pass-through effects of the depreciation of the parallel exchange rate, especially towards the end of last year.

Also, the IIF estimated the fiscal deficit at 11.9% of GDP in 2019 compared to 11.5% of GDP in 2018, mainly due to delays in fiscal reforms and to the decline of tax revenues in the fourth quarter of the year. As such, it noted that the public debt level rose from 155% of GDP at the end of 2018 to 162.7% of GDP at end-2019. It considered that the Lebanese electricity sector remains a heavy burden on the country's budget, with Treasury transfers to Electricité du Liban (EdL) at \$1.7bn, or 3% of GDP, in 2019. It added that authorities have long known how to reform the electricity sector and have recognized its importance, but they have made little progress in reforming the sector.

In addition, it estimated the current account deficit to have narrowed from \$12.4bn, or 22.6% of GDP in 2018 to \$10.8bn, or 20.2% of GDP in 2019. It indicated that the narrowing of the deficit in 2019 would have been more significant without the discrepancies related to the registration of fuel imports on behalf of EdL during the year.

In parallel, the IIF indicated that the banks' temporary measures on deposit withdrawals and transfers abroad have been crucial to help address the liquidity problem in the financial sector. But it said that such measures could hinder economic activity if they are maintained for a prolonged period of time. It also noted that the abrupt lifting of these restrictions could lead to capital outflows that triggered the temporary measures in the first place. As such, it considered that banks could gradually remove capital control measures once confidence is restored.

Components of Gross Domestic Product (% change)						
	2014	2015	2016	2017	2018	2019e
Real GDP Growth, % change	2.5	0.2	1.5	0.9	-1.9	-3.8
Private Consumption	4.4	2.2	0.6	0.1	-1.3	-3.3
Public Consumption	13.8	10.9	14.2	9.9	6.7	-1.1
Gross Fixed Capital	-5.2	-3.5	10.7	-1.3	-1.8	-8.4
Private Fixed Capital	-3.3	-5.0	6.4	1.1	-3.9	-6.0
Public Fixed Capital	-36.2	35.1	83.8	-25.2	25.7	-33.1
Exports of Goods & Services	-7.0	10.2	-1.5	3.9	0.5	-2.3
Imports of Goods & Services	0.2	8.5	5.9	2.1	1.1	-3.2
Nominal GDP (\$bn)	48.1	49.9	51.2	53.1	55.0	53.4

Source: Institute of International Finance, January 2020

Banks and financial institutions to pay dues on their bonds at local banks

Banque du Liban (BdL) issued Intermediate Circular 541 on January 30, 2020 that amends Basic Circular 36 about the issuance of bonds by banks and financial institutions operating in Lebanon and Basic Circular 61 about the issuance of Certificates of Deposits and interbank certificates. The circular stipulates that banks and financial institutions operating in Lebanon have to pay the principal and coupons of the bonds that they issued in accounts at banks operating in the country. It said that the same rules will apply to the payments of the principal and interest on Certificates of Deposits and interbank certificates issued by banks and financial institutions. It added that the measures that the clearing house MidClear recently introduced on foreign transfers will apply to the payments of principal and coupons of the aforementioned bonds and certificates. The decisions under Circular 541 will apply for a period of six months starting on January 30, 2020.

Trade deficit narrows by 9% to \$15.5bn in 2019

Total imports reached \$19.2bn in 2019, constituting a decrease of 3.7% from \$20bn in 2018; while aggregate exports grew by 26.4% to \$3.7bn last year. As such, the trade deficit narrowed by 8.9% to \$15.5bn in 2019 due to a rise of \$779.5m in exports and a decline of \$740.1m in imports. The trade deficit was equivalent to 29.2% of GDP in 2019 relative to 31% of GDP in 2018 and 31.5% of GDP in 2017.

Non-hydrocarbon imports declined by \$3.2bn to \$12.6bn in 2019, while imports of oil & mineral fuels increased by \$2.4bn to \$6.6bn and accounted for 34.4% of total imports last year. Lebanon imported 11.8 million tons of mineral fuel & oil in 2019, relative to 6.6 million tons in 2018. The Ministry of Energy & Water claimed that the increase in the imports of mineral fuel & oil is due to a surge in fuel imported on behalf of Electricité du Liban (EdL), which reflected quantities that were imported in the past few years but that were officially registered as imports in 2019. According to the latest available figures, the ministry claimed that actual fuel imports in the first 10 months of 2019 totaled 2.25 million tons, while 3.63 million tons that were additionally registered to EdL during the same period constitute fuel imports from previous years.

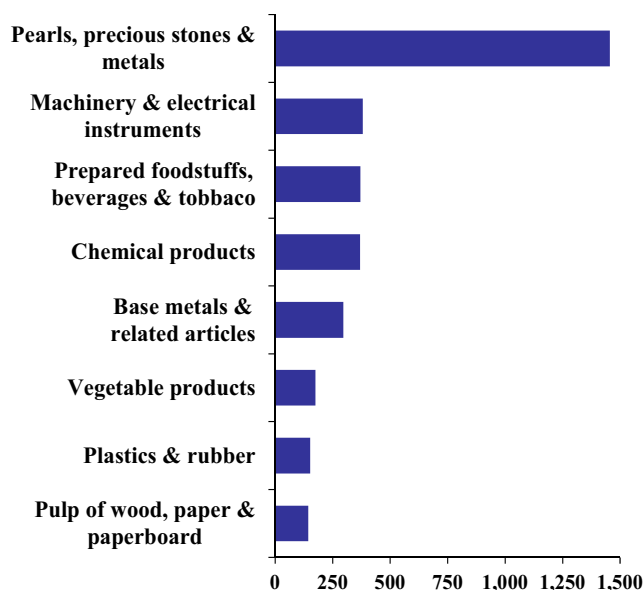
The increase in exports was mainly due to a rise of \$807m, or 2.2 times, in the exports of jewelry; an expansion of \$60m (+18.6%) in the exports of machinery & electrical instruments; a growth of \$27.1m (+87.8%) in exported mineral products; and a rise of \$7m (+2%) in the exports of chemical products. The increase in exports was partly offset by a drop of \$83m, or 21.8%, in exported base metals; a decline of \$27.4m (-15.2%) in the exports of plastics & rubber; and a decrease of \$11.5m (-3%) in the exports of prepared foodstuff.

Exports to Switzerland jumped by 8.1 times in 2019, those to Saudi Arabia surged by 15.8%, exports to Egypt expanded by 10.1%, those to the U.S. rose by 9.2%, and exports to Jordan grew by 4.1%. In contrast, exported goods to South Africa dropped by 60.5%, those to Syria decreased by 7.5%, exports to the UAE declined by 4.1%, those to Qatar regressed by 4%, and exports to Iraq declined by 0.7% in 2019. Re-exports totaled \$527.8m in 2019 compared to \$323.2m in 2018. The Hariri International Airport was the exit point for 48.2% of Lebanon's exports in 2019, followed by the Port of Beirut (37.4%), and the Port of Tripoli and the Masnaa crossing point (6% each).

Lebanon's main non-hydrocarbon imports were chemical products that reached \$2bn in 2019 and declined by 10% from 2018. Imported machinery & electrical instruments followed at \$1.7bn (-28.3%), then prepared foodstuff at \$1.2bn (-9.1%), vehicles, aircraft & vessels at \$1.17bn (-29.2%), vegetable products at \$932.2m (-3.4%), jewelry, mostly gold bars, at \$931.4m (-25.6%), base metals at \$850.3m (-33%), animal products at \$841m (-19.1%), plastics & rubber at \$643.2m (-16.8%), and textiles at \$607.2m (-19.8%). The Port of Beirut was the entry point for 72.8% of Lebanon's merchandise imports in 2019, followed by the Hariri International Airport (17.9%), and the Port of Tripoli (5%).

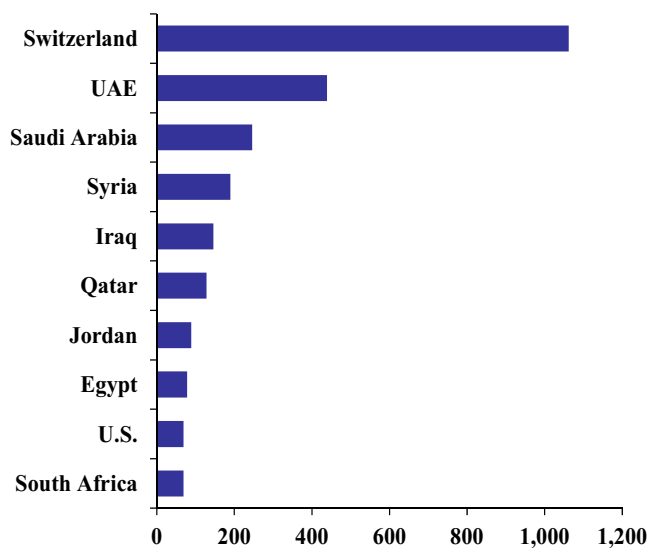
The United States was the main source of imports with \$1.7bn, or 8.9% of the total, in 2019, followed by China with \$1.6bn (8.5%), Greece with \$1.4bn (7.3%), Russia \$1.34bn (7%), Italy with \$1.33bn (7%), Germany with \$953.8m (5%), Turkey with \$939.6m (5%), and France with \$769.3m (4%). Imported goods from Russia surged by 137%, those from the U.S. grew by 18.5%, and imports from France rose by 8.5% in 2019. In contrast, imported goods from China dropped by 20.6%, those from Germany fell by 18.4%, imports from Greece decreased by 18%, those from Italy declined by 16.6%, and imported goods from Turkey contracted by 0.9% last year.

Main Lebanese Exports in 2019 (US\$m)



Source: Lebanese Customs Administration, Byblos Research

Main Destinations of Lebanese Exports in 2019 (US\$m)



Source: Lebanese Customs Administration, Byblos Research

Lebanon ranks 106th globally, third among Arab countries on democracy index

The Economist Intelligence Unit's 2019 Democracy Index ranked Lebanon in 106th place among 167 countries worldwide and in third place among 20 Arab countries. Also, Lebanon came in 31st place among 47 upper middle-income countries (UMICs) included in the survey. Lebanon's global and regional ranks were unchanged from the 2018 survey.

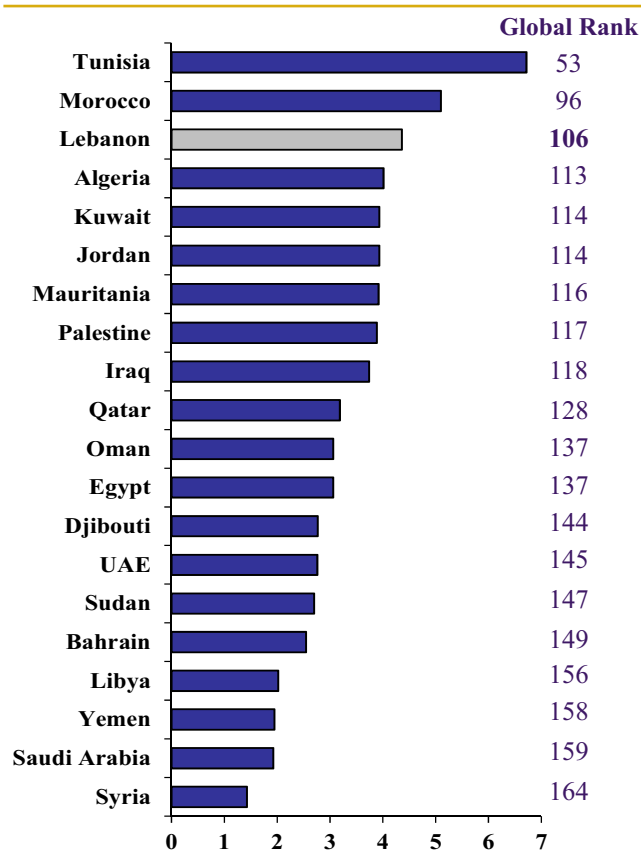
The index measures 60 indicators that are grouped in five categories that are the Electoral Process & Pluralism, Civil Liberties, the Functioning of Government, Political Participation, and Political Culture. Each category is rated on a scale from zero to 10, with the overall index calculated as a simple average of the five sub-indices. The survey also placed countries in four categories of political freedoms that are full democracies, flawed democracies, hybrid regimes and authoritarian regimes.

Globally, Lebanon has a more democratic system than Gambia, Pakistan and Nigeria, but is considered to be less democratic than Sierra Leone, Bolivia and Haiti. Lebanon received a score of 4.36 points in the 2019 survey and declined by 5.8% from 4.63 points on the 2018 index. Lebanon's score in the 2019 survey was lower than the global average score of 5.44 points and the UMICs' average score of 5.2 points, but it was higher than the Arab region's score of 3.4 points.

Further, Lebanon's score decreased by 32.1% on the Functioning of Government category and by 11.2% on the Political Culture category, while it was unchanged on the remaining three indicators. Lebanon, along with Algeria and Morocco, came in the "Hybrid Regimes" category, and Tunisia was the only Arab country to qualify as a "Flawed Democracy", while the rest of the Arab countries were classified as having "Authoritarian" regimes.

The EIU indicated that Lebanese citizens have become increasingly frustrated by a succession of governments that ruled over a system where confessional and powerful interests determine the allocation of resources, long-term policy planning and financial management, which has adversely affected the economy. It considered that the peaceful and non-sectarian nature of the protests provides hope that the country could be able to move beyond the highly flawed political system in the long term.

**EIU Democracy Index for 2019
Arab Countries' Scores & Rankings**



Source: Economist Intelligence Unit, Byblos Research

Components of the 2019 Democracy Index for Lebanon

	Global Rank	UMICs' Rank	Arab Rank	Lebanon Score	Global Avg Score	UMICs' Avg Score	Arab Avg Score
Political Participation	27	4	3	6.67	5.28	5.35	4.31
Civil Liberties	102	31	2	4.71	5.74	5.68	3.01
Electoral Process & Pluralism	109	32	4	3.92	5.80	5.72	2.23
Political Culture	88	13	5	5.00	5.57	4.88	4.66
Functioning of Government	150	43	14	1.50	4.82	4.53	2.55

Source: Economist Intelligence Unit, Byblos Research

Stock market activity retreats in January 2020

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 2,048,141 shares in January 2020, constituting a decline of 96% from 50,963,287 shares traded in January 2019; while aggregate turnover amounted to \$16.3m, down by 89.3% from a turnover of \$152.1m in January 2019. The sharp decline in trading volume and turnover in January 2020 was from a high base in January 2019, which saw three block trades in the shares of two listed companies.

The market capitalization of the BSE regressed by 25.8% from \$9.4bn at the end of January 2019 to \$7bn at end-January 2020, with banking stocks accounting for 76.2% of the total, followed by real estate equities (20.2%), industrial shares (3.2%) and trading firms' equities (0.5%). The market liquidity ratio was 0.2% in January 2020 compared to 1.6% in January 2019.

Real estate equities accounted for 81.5% of the aggregate trading volume in January 2020, followed by banking stocks with 17.4% and industrial shares with 1.2%. Also, real estate equities accounted for 83.8% of the aggregate value of shares traded, followed by banking stocks with 15.6% and industrial stocks with 0.6%. The average daily traded volume for the period was 97,531 shares for an average daily value of \$776,570. The figures reflect a year-on-year decrease of 96.2% in average daily traded volume, and an annual drop of 89.8% in the average value in January 2020.

IBL Bank invites shareholders for Extraordinary General Assembly

The Board of Directors of IBL Bank sal invited the shareholders to attend an Extraordinary General Assembly that will be held on February 18, 2020. The agenda of the meeting includes approving the terms, conditions and mechanism of the capital increase as per Banque du Liban's (BdL) Intermediate Circular 532, and ratifying the cash contributions to capital agreements. It also entails authorizing one or several individuals to sign the cash contribution agreements with the shareholders, and setting a time limit for signing the contracts, among other items on the agenda. Intermediate Circular 532 dated November 4, 2019 requested banks to increase their capital base by the equivalent of 20% of their CET1 at the end of 2018.

IBL Bank, one of Lebanon's top 16 banks in terms of deposits, announced unaudited consolidated net profits of \$61.6m in the first half of 2019, down by 8.6% from net earnings of \$67.4m in the first half of 2018. The bank's total assets reached \$8.6bn at end-June 2019 and grew by 6.6% from end-2018, while loans & advances to customers, excluding those to related parties, declined by 9.4% from end-2018 to \$805m. Also, customer deposits, excluding those from related parties, totaled \$5.8bn at end-June 2019 and dropped by 1.2% from end-2018. Further, the bank's shareholders' equity reached \$682.6m at end-June 2019, up by 8.9% from end-2018.

First National Bank increases capital

The Extraordinary General Assembly of First National Bank sal approved on December 17, 2019 the increase in the bank's capital by LBP2.5bn (\$1.7m) to LBP175bn (\$116.1m), by transferring the funds from the retained earnings to the capital account. In turn, the bank issued 250,000 new common shares at a par value of LBP10,000 (\$6.6) per share, and distributed them gratis to existing shareholders in a proportion equivalent to the percentage of common shares they own. Banque du Liban approved the capital increase on November 6, 2019. Following the issuance, the bank's share capital consists of 17,500,000 common shares and 525,000 preferred shares.

First National Bank sal, one of Lebanon's top 16 banks in terms of deposits, announced unaudited consolidated net profits of \$10.1m in the first half of 2019, compared to net earnings of \$14.1m in the same period of 2018. The bank's total assets reached \$5.3bn at the end of June 2019, up by 1.2% from end-2018, while loans & advances to customers, excluding those to related parties, decreased by 6.4% from end-2018 to \$833m. Also, customer deposits, excluding those from related parties, totaled \$3.7bn at end-June 2019 and regressed by 1.5% from the end of 2018.

Sale of Egyptian subsidiary would be credit positive for Bank Audi

Moody's Investors Service indicated that the sale of Bank Audi's Egyptian subsidiary would be credit positive for the bank, even though the bank is selling a prized asset and sacrificing diversification, future growth and earnings. It considered that the bank could sell its Egyptian unit at a lucrative price, given the current positive macroeconomic environment in Egypt and the subsidiary's performance. It noted that the assets of the Egyptian subsidiary totaled \$4.4bn, while its equity stood at \$427m at the end of September 2019. In this context, it said that the sale of the Egyptian unit would increase the Lebanese bank's foreign liquidity and improve its Common Equity Tier One (CET1) capital ratio, in case the valuation of the subsidiary exceeds the book value of its equity, and through the decrease in its risk-weighted assets related to Egypt.

Bank Audi sal declared that it is currently in exclusive negotiations with First Abu Dhabi Bank to sell its subsidiary in Egypt. It said that any final agreement would be subject to regulatory approvals, including the approval of the Central Bank of Egypt, and would be in compliance with the directives and instructions of the Central Bank of Egypt and Banque du Liban (BdL), and in accordance with law and regulations that are applicable to Bank Audi in Egypt and in Lebanon.



Ratio Highlights

(in % unless specified)	2016	2017	2018	Change*
Nominal GDP (\$bn)	51.2	53.1	55.0	
Public Debt in Foreign Currency / GDP	54.9	57.2	60.9	3.72
Public Debt in Local Currency / GDP	91.4	92.5	94.0	1.49
Gross Public Debt / GDP	146.3	149.7	154.9	5.32
Total Gross External Debt / GDP**	182.0	189.4	191.1	1.70
Trade Balance / GDP	(31.5)	(31.5)	(31.0)	0.52
Exports / Imports	15.6	14.5	14.8	0.25
Fiscal Revenues / GDP	19.4	21.9	21.0	(0.87)
Fiscal Expenditures / GDP	29.0	28.9	32.4	3.43
Fiscal Balance / GDP	(9.7)	(7.1)	(11.4)	(4.30)
Primary Balance / GDP	0.04	2.7	(1.2)	-
Gross Foreign Currency Reserves / M2	62.2	68.2	63.8	(4.39)
M3 / GDP	259.3	260.8	257.1	(3.78)
Commercial Banks Assets / GDP	399.0	413.7	453.9	40.21
Private Sector Deposits / GDP	317.3	317.4	317.1	(0.29)
Private Sector Loans / GDP***	111.6	112.3	108.1	(4.27)
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	Feb 2018	Jan 2019	Feb 2019	Change**	Risk Level
Political Risk Rating	55.0	54.0	54.0	▲	High
Financial Risk Rating	33.0	31.5	31.5	▲	Moderate
Economic Risk Rating	28.5	24.0	24.0	▲	Very High
Composite Risk Rating	58.25	54.75	54.75	▲	High

MENA Average*	Feb 2018	Jan 2019	Feb 2019	Change**	Risk Level
Political Risk Rating	58.2	58.1	58.2	↔	High
Financial Risk Rating	37.9	39.1	39.2	▼	Low
Economic Risk Rating	31.4	33.8	33.8	▼	Moderate
Composite Risk Rating	63.8	65.5	65.6	▼	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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