

LEBANON THIS WEEK

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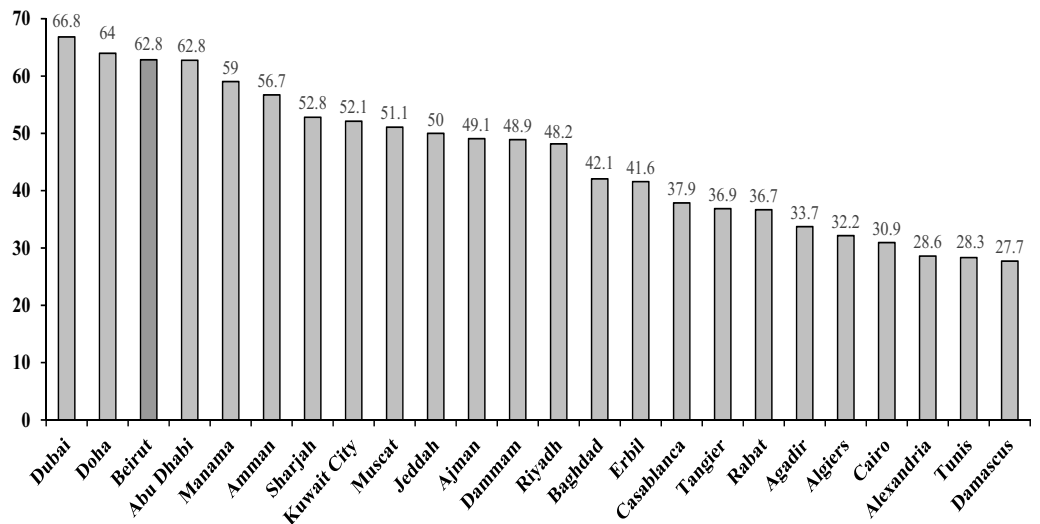
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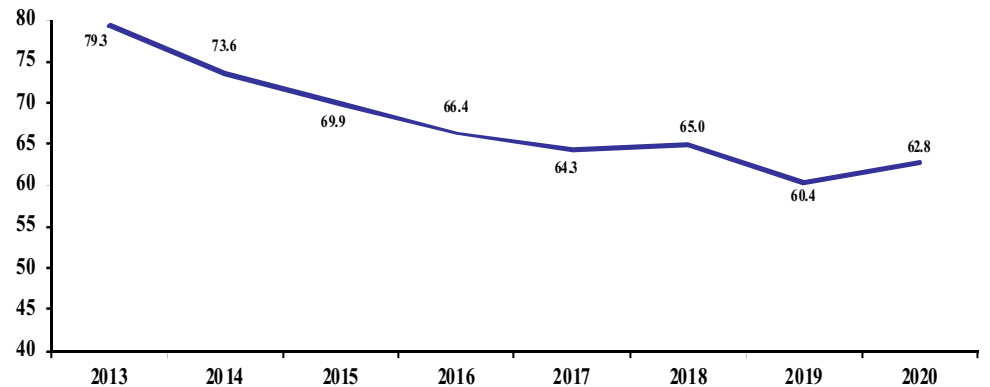
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Charts of the Week

Cost of Living Index in Select Arab Cities in 2020*



Cost of Living Index for Beirut*



*higher score reflects higher cost of living

Source: Numbeo's 2020 Cost of Living Index, Byblos Bank

Quote to Note

"Privatization should be part of the economic plan of the new government with a view to increasing investments, reducing the stock of government debt, and improving efficiency."

The Institute of International Finance, on a key component of any reform package that the new Lebanese government intends to develop

Number of the Week

0.53%: 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 Lebanese pounds 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"	8.49	(0.24)	263,922	13.84%
Solidere "B"	8.60	1.18	86,211	9.11%
Audi Listed	1.99	(2.93)	72,928	12.97%
BLOM Listed	3.10	(55.71)	12,785	10.87%
BLOM GDR	2.80	(6.67)	12,285	3.37%
Byblos Common	1.00	0.00	3,331	9.22%
Audi GDR	2.39	16.02	100	4.66%
Byblos Pref. 09	59.90	0.00	-	1.95%
Byblos Pref. 08	60.80	0.00	-	1.98%
HOLCIM	10.00	0.00	-	3.18%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Mar 2020	6.38	84.00	244.65
Apr 2021	8.25	49.25	84.30
Oct 2022	6.10	39.25	49.76
Jun 2025	6.25	36.38	31.69
Nov 2026	6.60	36.25	28.10
Feb 2030	6.65	36.13	23.42
Apr 2031	7.00	35.88	23.33
May 2033	8.20	34.00	26.10
Nov 2035	7.05	36.00	21.21
Mar 2037	7.25	36.00	21.34

Source: Byblos Bank Capital Markets, Refinitiv

	Feb 3-7	Jan 27-31	% Change	January 2020	January 2019	% Change
Total shares traded	473,562	193,507	144.7	2,048,141	50,963,287	(96.0)
Total value traded	\$3,362,164	\$1,647,294	104.1	\$16,307,970	\$152,075,281	(89.3)
Market capitalization	\$6.13bn	\$6.96bn	(11.9)	\$6.96bn	\$9.38bn	(25.8)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Jan 31, 2020	Feb 7, 2020	% Change**
CDS 1-year*	10,539	7,881	(25.2)
CDS 3-year*	7,378	6,542	(11.3)
CDS 5-year*	6,029	5,691	(5.6)

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

CDX EM 30*	Jan 31, 2020	Feb 7, 2020	% Change***
CDS 5-year**	187.8	184.9	(1.5)

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

mid-spread in bps *week-on-week

New government pledges fiscal, economic and structural reforms

The new Council of Ministers approved on February 6, 2020 the Ministerial Statement that outlines its political and economic policies during its mandate. The government stressed the need to carry out fast and effective reforms in order to address the financial, socio-economic and monetary crises in the country.

The policy statement outlined the government's financial rescue plan and reform measures that it intends to implement in three phases. The government will implement the first phase during the 100 days following Parliament's vote of confidence. It plans to enforce the second one within one year, and will take up to three years to put in place the third phase. Some of the government's reform measures include reducing the interest rates on loans and deposits, fighting corruption, recapitalizing banks, restructuring the public sector, and seeking support from foreign donors, among other measures.

In its statement, the government pledged to fight corruption and tax evasion, including through the adoption and implementation of the Anti-Corruption National Strategy, the establishment of a National Anti-Corruption Commission, and the decrees related to the implementation of the Access to Information law. It added that it aims to amend or enact, in cooperation with Parliament, legislation that addresses corruption in the public and private sectors, specifically draft laws related to illegal enrichment, the lifting of bank secrecy and the recovery of stolen public funds. Also, the statement indicated that authorities will step up efforts to pursue the investigation of funds transferred abroad since October 17, 2019. In parallel, the government intends to implement reforms that promote judicial independence, as well as enhance transparency, improve accountability and strengthen governance in the public sector.

Further, the statement revealed the government's commitment to the implementation of an economic, structural, investment and social program that is based on the pillars outlined in the government's Vision for Stabilization and Development presented at the CEDRE conference in April 2018. It highlighted the need to accelerate the implementation of projects under Lebanon's Capital Investment Program (CIP), as well as to form an inter-ministerial committee to follow up on the effective and transparent implementation of CEDRE-related reforms and projects.

In parallel, the government stressed that reducing public finance imbalances constitutes one of the top priorities of its financial rescue plan. As such, it pledged to introduce a medium-term fiscal framework that will narrow the fiscal deficit and put the public debt level on a downward trajectory. It noted that it will close all illegal border crossing points, fight tax and customs evasion, modernize tax administration laws, combat smuggling, reform the electricity sector, reduce wasteful spending, and restructure the public sector. In addition, the statement highlighted the need to put a debt reduction strategy through coordinated efforts between the Ministry of Finance, Banque du Liban (BdL) and the banking sector, in order to reduce interest rates on the banks' holdings of government securities and placements at BdL. It considered that this would support the economy, improve liquidity in the market, and reduce the burden on public finances. In addition, the government seeks to establish and promote public-private partnerships.

In terms of addressing the prevailing banking and monetary crisis, the statement pledged to coordinate with BdL and Parliament to draft the required laws that would safeguard depositors' funds and standardize the banks' relations with their clients, among others. It also plans to restore stability in the banking sector through the recapitalization of banks, addressing the issue of non-performing loans, as well as reducing interest rates on loans and deposits, among other measures.

In parallel, the statement outlined several structural reforms that the government intends to launch within the first year of its mandate. These reforms include updating the general accounting law and the current customs law, as well as upgrading the services of the National Social Security Fund, among others. In addition, the government revealed its commitment to reform the oil & gas, telecommunications and transportation sectors, as well as to implement measures to upgrade the environmental and educational sectors, among others. The government also intends to improve the efficiency of the public administration, enact draft laws about the protection of intellectual property, remove taxes and fees on industrial exports, as well as promote the agricultural and tourism sectors.

Coincident Indicator down 5% in 2019

Banque du Liban's Coincident Indicator, an index of economic activity in Lebanon, reached 266 points in December 2019 compared to 274 in November 2019 and 300.7 in December 2018. The Coincident Indicator, an average of eight weighted economic indicators, decreased by 3% month-on-month and regressed by 11.6% year-on-year in December 2019. The annual decline in the indicator in December 2019 is the fourth steepest on record and is similar to the decrease in September 2006. In comparison, the indicator contracted by 33% annually in August 2006, by 18.7% in July 2006 during the Israeli war on Lebanon, as well as by 13.4% in November 2019.

The indicator averaged 292.6 in 2019, constituting a decrease of 4.9% from an average of 307.7 in 2018. The annual drop in the indicator is the steepest on record since BdL introduced the indicator in 1993. In parallel, the indicator regressed 13 times, improved 12 times and was nearly unchanged two times on a monthly basis in the month of December 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, and 305.9 points in 2017.



Net foreign assets of financial sector down by \$4.4bn in 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, declined by \$840.8m in December 2019, compared to an increase of \$1.1bn in November 2019 and to a decrease of \$747.5m in December 2018. The month-on-month decline in December 2019 was caused by a drop of \$826.8m in the net foreign assets of BdL and by a decrease of \$14m in those of banks and financial institutions.

In parallel, the net foreign assets of the financial sector regressed by \$4.35bn in 2019 compared to a decline of \$4.82bn in 2018. The cumulative decrease in 2019 was caused by a drop of \$2.4bn in the net foreign assets of BdL and by a reduction of \$1.95bn in those of banks and financial institutions. The decline in the foreign assets of the financial sector is due in large part to the fact that BdL paid on behalf of the government maturing external debt payments, as well as to the transfer of funds abroad and, more recently, to hoarding of banknotes at households following a series of domestic and external events that negatively affected confidence in Lebanon.

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 7.8% of GDP in 2019, 8.8% of GDP in 2018 and 0.3% of GDP in 2017, relative to an increase equivalent to 2.4% of GDP in 2016.

Banque du Liban updates capital adequacy framework for banks

Banque du Liban (BdL) issued Circular 543 on February 3, 2020 that amends Basic Circular 44 about the capital adequacy regulatory framework for banks operating in Lebanon. The circular sets new minimum capital requirement ratios and capital conservation buffers for banks to comply with. It mandated that a bank's Common Equity Tier One (CET1) ratio must reach a minimum of 7%, its Tier One ratio has to be at least 8.5%, and its Total Capital ratio must reach a minimum of 10.5%. It noted that the minimum ratios include a capital conservation buffer of 2.5%. The new minimum requirements are all aligned with Basel III standards. Prior to the amendments, a bank had to comply with a minimum CET1 ratio of 10%, a minimum Tier One ratio of 13%, and a minimum Total Capital ratio of 15%, while the conservation buffer was at 4.5%.

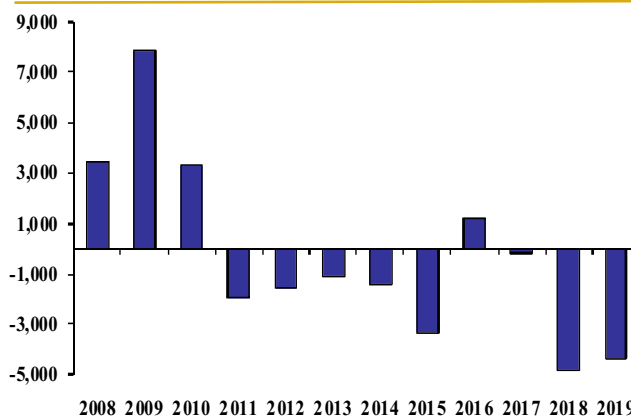
The circular indicated that banks that do not comply with the aforementioned limits have to rebuild their capital within three years, based on a plan that each non-compliant bank has to submit to the Banking Control Commission of Lebanon. In addition, the circular allows banks to distribute dividends only if their CET1 ratio is at least 7%, their Tier One Capital ratio is at least 10%, and their Total Capital ratio is at least 12%.

Further, the circular increased from 50% to 150% the risk weight on the banks' deposits at BdL in foreign currency and on their holdings of Certificates of Deposits that BdL issues in foreign currency, with the exception of deposits that have a maturity of less than one year. The increase in the risk weight is in line with the recommendations of the International Monetary Fund that had repeatedly called on the regulator to adjust the risk weight on the banks' exposure to BdL in foreign currency and to align it with Basel requirements.

Moreover, the circular increased the Regulatory Expected Credit Losses (RECL) requirements that banks must apply to book provisions and, in turn, to compute the capital ratios. Banks will need to cover the computed RECL requirements from previously-booked provisions, from their annual profits, and from equity if needed. In fact, the circular raised the RECL from 0.1% to 1.89% on the banks' exposure to BdL in foreign currency, while it increased the RECL from 1.89% to 9.45% on the banks' holdings of Lebanese Eurobonds. It also provided several RECLs for the banks' loan portfolios, depending on the borrowers' type and residence, among other criteria. For instance, it increased the RECL on local corporates from 1.89% to 9.45%.

In parallel, BdL issued Circular 542 that amends Basic Circular 143 about the implementation of International Financial Reporting Standard IFRS 9. The circular indicated that the Expected Credit Losses on the banks' exposure to BdL in all currencies and on the banks' holdings of Treasury bills, bonds and Eurobonds issued by the Lebanese government must not exceed the newly set RECL.

Change in Net Foreign Assets of Financial Sector (US\$m)



Source: Banque du Liban

Utilized credits by private sector at \$65bn at end-September 2019, advances against real estate at 39% of total

Figures issued by Banque du Liban show that utilized credits by the private sector totaled \$65.4bn at the end of September 2019, constituting a decline of 5.9% from \$69.5bn at end-2018 and a decrease of 6.4% from \$69.9bn at end-September 2018. The figures cover loans extended by commercial banks and financial institutions.

Utilized credits for trade & services reached \$22.5bn and accounted for 34.4% of the total at the end of September 2019, followed by personal credit with \$19.9bn (30.4%), construction with \$10.6bn (16.1%), industry with \$7bn (10.7%), financial intermediaries with \$2.7bn (4.1%), and agriculture with \$823.8m (1.3%), while other sectors represented the remaining \$2bn (3%). The distribution of utilized credits by type of collateral shows that advances against real estate totaled \$25.6bn and accounted for 39.1% of private sector utilized credits at the end of September 2019. Advances against personal guarantees followed with \$11.2bn (17.1%), then advances against cash collateral or bank guarantees with \$8.1bn (12.3%), advances against other real guarantees with \$1.7bn (2.5%), and advances against financial values with \$1.2bn (1.8%), while overdrafts totaled \$17.8bn or 27.2% of the total.

Also, the distribution of utilized credits in trade & services shows that wholesale trade accounted for 52% of overall trade & services credits, followed by retail with 16.1%; real estate, rent & employment services with 14%; transport & storage and hotels & restaurants with 7% each; and educational services with 4.3%. Personal loans beneficiaries accounted for 84.4% of total loan beneficiaries, followed by trade & services with 10.5% of beneficiaries, industry with 2.6%, construction with 1.5%, agriculture with 1.3% and financial intermediaries with 0.5%, while other sectors attracted the remaining 3.7% of loan beneficiaries.

The aggregate number of loan beneficiaries declined by 3.7% from the end of September 2018 to 609,869 at the end of September 2019; while 66.2% of beneficiaries had loans ranging from LBP5m to LBP100m at the end of September 2019. Beirut and its suburbs accounted for 74.6% of bank credits and for 53.3% of beneficiaries. Mount Lebanon followed with 13.2% of credits and 18.4% of beneficiaries, then South Lebanon with 4.4% of credits and 10.1% of beneficiaries, North Lebanon with 4.5% of credits and 10.9% of beneficiaries, and the Bekaa region with 3.3% of credits and 7.2% of beneficiaries.

In parallel, the off-balance sheet liabilities of banks and financial institutions totaled \$108.9bn at the end of September 2019, declining by 3.6% from end-2018 and by 3.8% from the end of September 2018. They include endorsement & guarantees of \$101.3bn, or 93% of the total, followed by letters of undertaking with \$2.8bn (2.6%), and commitments on notes with \$2.2bn (2%).

Opened letters of credit at \$5.7bn for imports and \$2.9bn for exports in 2019

Figures released by Banque du Liban show that the amount of letters of credit (LCs) opened to finance imports to Lebanon totaled \$5.7bn in 2019, constituting a decline of 14.3% from \$6.6bn in 2018. The amount of letters of credit opened to finance imports to Lebanon reached \$735.6m in the fourth quarter of 2019, and decreased by 57.2% from \$1.7bn in the third quarter of last year, and by 56.1% from \$1.67bn in the fourth quarter of 2018. Further, utilized credits for imports reached \$5.6bn in 2019, constituting a decline of 7.5% from \$6bn in 2018, and accounted for 98.1% of opened LCs for imports last year. Also, outstanding import credits stood at \$413.2m at the end of 2019 compared to \$1bn a year earlier. In addition, the aggregate amount of inward bills for collection reached \$814.1m in 2019, down by 22% from \$1bn in 2018. The outstanding amount of inward bills for collection was \$43.3m at the end of 2019 relative to \$64m at end-2018.

In parallel, the amount of documentary letters of credit opened to finance exports from Lebanon totaled \$2.85bn in 2019, constituting a decrease of 17.1% from \$3.4bn in 2018. The amount of documentary letters of credit opened to finance exports from Lebanon stood at \$358.8m in the fourth quarter of 2019, down by 58.4% from \$863.5m in the previous quarter, and by 57.7% from \$848.8m in the fourth quarter of 2018. Further, utilized credits for exports reached \$2.9bn last year, up by 4% from \$2.8bn in used credits in 2018, and accounted for 100.3% of opened LCs for exports in 2019. Also, outstanding export credits stood at \$549m at the end of 2019 compared to \$865.3m a year earlier. In addition, the aggregate amount of outward bills for collection amounted to \$905.8m in 2019, constituting a decline of 33.1% from \$1.4bn in 2018. The outstanding amount of outward bills for collection reached \$292.5m at the end of 2019 relative to \$371m at end-2018.

Revenues through Port of Beirut down 13% to \$193m in first 11 months of 2019

Figures released by the Port of Beirut show that the port's overall revenues reached \$193.3m in the first 11 months of 2019, constituting a decline of 12.7% from \$221.4m in the same period of 2018. The Port of Beirut handled 6.2 million tons of freight in the covered period, down by 15.3% from 7.3 million tons in the first 11 months of 2018. Imported freight amounted to 5.4 million tons in the covered period and accounted for 87.8% of the total, while the remaining 754,000 tons, or 12.2%, consisted of export cargo. A total of 1,625 vessels docked at the port in the first 11 months of 2019, down by 6% from 1,728 ships in the same period of 2018.

In parallel, revenues generated through the Port of Tripoli reached \$13.8m in the first 11 months of 2019, down by 6% from \$14.7m in the same period of 2018. The Port of Tripoli handled 1,946,657 tons of freight in the covered period, constituting an increase of 18.1% from 1,648,642 tons in the first 11 months of 2018. Imported freight amounted to 1,457,509 tons and accounted for 75% of the total, while the remaining 489,148 tons, or 25%, were export cargo. A total of 576 vessels docked at the port in the first 11 months of 2019, down by 4.8% from 605 ships in the first 11 months of 2018.



Commercial activity deteriorates in third quarter of 2019

Banque du Liban's quarterly business survey about the opinions of business managers shows that the balance of opinions for the volume of commercial sales reached -34 in the third quarter of 2019, relative to -30 in the second quarter of 2019 and to -31 in the third quarter of 2018. The survey reflects the opinions of enterprise managers about their business activity in order to depict the evolution of a number of key economic variables. The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in an indicator and the proportion of those who reported a decline in the same indicator. The balance of opinions was the lowest in the Bekaa region at -77, followed by the South (-43), the North (-30), and Beirut & Mount Lebanon (-22).

The survey shows that the balance of opinions about the sales of food items was -16 in the third quarter of 2019 relative to -3 in the preceding quarter and to -15 in the third quarter of 2018. Also, the balance of opinions about the sales of non-food products was -41 in the covered quarter, compared to -44 in the previous quarter and to -37 in the third quarter of 2018; while it was -43 for inter-industrial goods relative to -32 in the second quarter of the year and to -40 in the third quarter of 2018. Further, the balance of opinions for inventory levels in all commercial sub-sectors was -12 in the third quarter of 2019, compared to -7 in the previous quarter and to zero in the third quarter of 2018. Opinions about the level of inventories were the lowest in the Bekaa region as they reached -31, followed by the North (-30), the South (-9), and Beirut & Mount Lebanon (-2).

Commercial Activity: Year-on-Year Evolution of Opinions				
Aggregate results	Q3-16	Q3-17	Q3-18	Q3-19
Sales volume	-5	-1	-31	-34
Number of employees	-2	-3	-7	-16
Inventories of finished goods	+2	+1	0	-12
Q3-19 Regional results	Beirut / Mount Lebanon	North	South	Bekaa
Sales volume	-22	-30	-43	-77
Inventories of finished goods	-2	-30	-9	-31

Source: Banque du Liban business survey for third quarter of 2019

Banking sector assets at \$217bn at end-2019, equivalent to 386% of GDP

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets stood at \$216.8bn, equivalent to 386.2% of GDP, at the end of 2019, constituting a decrease of \$42.9bn from the end of November 2019. The decline in assets is mainly due to the "netting" on the assets and liabilities' sides of the consolidated balance sheet of commercial banks as part of the implementation of international accounting standard IFRS 7. As such, banks have offset the loans in Lebanese pounds that they took from Banque du Liban (BdL) with their corresponding placements in Lebanese pounds at BdL that carry the same maturities.

Loans extended to the private sector reached \$49.8bn at the end of 2019, regressing by 16.2% from end-2018. Lending to the private sector was equivalent to 88.7% of GDP at the end of 2019 relative to 108% of GDP a year earlier. The decline in lending to the private sector is mostly due to clients' decision to settle their loans prior to their maturity, and to the banks' risk aversion amid the challenging conditions in the country.

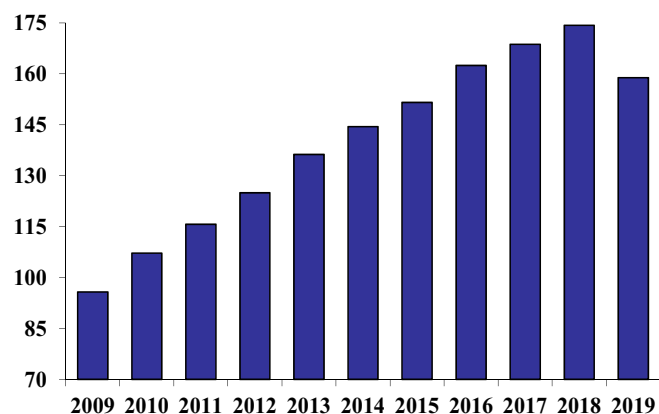
Loans to the resident private sector totaled \$44.2bn at end-2019, constituting a decrease of 15.4% from end-2018, and were equivalent to 78.7% of GDP last year compared to 95.1% of GDP in 2018. Also, credit to the non-resident private sector reached \$5.6bn at end-2019, declining by 21.7% from a year earlier. In nominal terms, credit to the private sector contracted by \$9.6bn in 2019 relative to a decrease of \$300m in 2018, as lending to the resident private sector declined by \$8.1bn and credit to the non-resident private sector regressed by \$1.5bn last year. The dollarization rate of private sector loans regressed from 69.2% at end-2018 to 68.7% at end-2019.

In addition, claims on non-resident financial institutions reached \$6.8bn at the end of 2019 and declined by \$5.2bn, or 43.6%, from the end of 2018. Also, deposits at foreign central banks totaled \$588.4m and dropped by 40.4% from end-2018. The decline in the banks' deposits abroad is due to the fact that banks have been using their own liquidity for foreign transfers and, more recently, to meet clients' demand amid sustained cash withdrawals. In parallel, claims on the public sector stood at \$28.7bn at end-2019, down by \$4.9bn, or 14.6% from end-2018. The average lending rate in Lebanese pounds was 9.09% in December 2019 compared to 9.97% a year earlier, while the same rate in US dollars was 10.84% relative to 8.57% in December 2018. Further, the deposits of commercial banks at BdL totaled \$117.7bn at the end of 2019, down by \$37.5bn from end-November 2019, following the netting operation, and compared to \$130.2bn at the end of 2018.

In parallel, private sector deposits totaled \$158.9bn at the end of 2019, and decreased by 8.8% from the end of 2018. Private sector deposits were equivalent to 283% of GDP in 2019 relative to 317% of GDP in 2018. The decline in private sector deposits was due to deposit outflows and, more recently, to hoarding of banknotes at households, amid the exacerbating confidence crisis. Deposits in Lebanese pounds reached the equivalent of \$38.1bn at end-2019, down by 25.6% from the end of 2018; while deposits in foreign currency totaled \$120.8bn and regressed by 1.9% from a year earlier. Resident deposits totaled \$126.4bn at the end of 2019 and decreased by \$10.1bn, or 7.4% from the end of 2018. Also, non-resident deposits reached \$32.5bn at end-2019, and dropped by \$5.3bn or 14% 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, by \$5.77bn in November and by \$3.7bn in December; 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 \$15.4bn in 2019 relative to an increase of \$5.6bn in 2018, with deposits in Lebanese pounds dropping by \$13.1bn and foreign-currency deposits declining by \$2.3bn. The dollarization rate of private sector deposits was 76% at end-2019, up from 70.6% at the end of 2018.

In parallel, deposits of non-resident financial institutions reached \$8.8bn at the end of 2019 and decreased by 4.7% from end-2018. Further, the average deposit rate in Lebanese pounds was 7.36% in December 2019, down from 9.4% in November 2019 and compared to 8.3% a year earlier. Also, the average deposit rate in US dollars was 4.62%, relative to 6.31% in November 2019 and to 5.15% in December 2018. Further, the ratio of private sector loans to deposits in foreign currency stood at 28.3% at the end of 2019 compared to 33.4% a year earlier, well below BdL's limit of 70%. The same ratio in Lebanese pounds reached 40.9% at end-2019 relative to 35.7% a year earlier. As such, the total private sector loans-to-deposits ratio reached 31.3% compared to 34.1% at end-2018. The banks' aggregate capital base stood at \$20.7bn at end-2019, up by 2.8% from \$20.2bn a year earlier.

Private Sector Deposits at Banks* (US\$bn)



*at the end of each year

Source: Banque du Liban, Byblos Research

Import activity of top five shippers and freight forwarders down 11% in first 11 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 254,637 20-foot equivalent units (TEUs) in the first 11 months of 2019, constituting a decrease of 11.4% from 287,502 TEUs in the same period of 2018. The five shipping and freight-forwarding firms accounted for 77.8% of imports to the Lebanese market for local use and for 46.1% of the total import freight market, which includes transshipments to other ports, in the first 11 months of 2019. Mediterranean Shipping Company (MSC) handled 102,807 TEUs in imports in the covered period, or 18.6% of the total import freight market. Merit Shipping followed with 54,414 TEUs (9.8%), then MAERSK with 40,539 TEUs (7.3%), Metz Group with 29,836 TEUs (5.4%), and Tourism & Shipping Transport with 27,041 TEUs (5%). Further, MAERSK registered an increase of 18.4% in import shipping in the first 11 months of 2019, the only firm to report an increase among the top five shipping and freight forwarding companies, while Metz Group posted a decrease of 29%, 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 60,195 TEUs in the first 11 months of 2019, constituting a decrease of 1% from 60,751 TEUs in the same period of 2018. The five shipping companies and freight forwarders accounted for 86.3% of exported Lebanese cargo and for 11% of the total export freight market that includes transshipments through Lebanese ports, in the first 11 months of 2019. Merit Shipping handled 29,902 TEUs of freight in the first 11 months of 2019, equivalent to 43% of the Lebanese cargo export market. MAERSK followed with 11,187 TEUs (16%), then Metz group with 7,199 TEUs (10.3%), Sealine Group with 6,230 TEUs (9%), and Tourism & Shipping with 5,677 TEUs (8.1%). Further, MAERSK registered an increase of 40% in export shipping in the first 11 months of 2019, the highest growth rate among the top five shipping and freight forwarding companies, while Metz group posted a decline of 31%, the steepest decrease in the covered period.

Creditbank invites shareholders to Extraordinary General Assembly

The Board of Directors of Creditbank sal invited the bank's shareholders to attend an Extraordinary General Assembly that will be held on February 17, 2020 to deliberate and take decisions about raising the bank's capital by the equivalent of 10% of its Common Equity Tier One capital (CET1) as at end-2018. The agenda of the meeting also includes setting the terms and conditions of the capital increase, among other measures. The capital increase is in line with BdL's Intermediate Circular 532 dated November 4, 2019 that requested banks to increase their capital base by the equivalent of 20% of their CET1 at the end of 2018.

Creditbank sal, one of Lebanon's top 16 banks in terms of deposits, announced unaudited consolidated net profits of \$20.7m in the first half of 2019, constituting an increase of 66% from net earnings of \$12.4m in the first half of 2018. The bank's total assets reached \$4.6bn at end-June 2019 and increased by 8.6% from end-2018, while loans & advances to customers, excluding those to related parties, declined by 2.6% from end-2018 to \$1.9bn. Also, customer deposits, excluding those from related parties, totaled \$3.4bn at end-June 2019 and grew by 0.6% from end-2018. The bank's shareholders' equity reached \$425.2m at end-June 2019, up by 3.1% from end-2018.

Digital dental startup raises \$1.2m to expand operations

The Beirut-based digital dental startup Basma raised \$1.2m in seed funding to expand its operations across the Middle East & North Africa region and to improve its technological base. Basma is a direct-to-consumer digital healthcare company that aims to provide access to affordable orthodontic care without the need to visit an orthodontist. The funding round was led by the Beirut-based Venture Capital firms B&Y Venture Partners and Cedar Mundi, along with the iSME program of the Kafalat Corporation and several angel investors. The main products of the startup include invisible aligners and whitening kits, which the company sells online.

Fransabank approves capital increase

The Extraordinary General Assembly of Fransabank sal that took place on January 21, 2020 approved the increase of the bank's capital base by the equivalent of 20% of its Common Equity Tier One capital (CET1) as at end-2018 through the issuance of cash contributions in US dollars. The capital increase is in line with Banque du Liban's Intermediate Circular 532 dated November 4, 2019 that requested banks to raise their capital base by the equivalent of 20% of their CET1 at the end of 2018 in two stages.

Fransabank sal, one of Lebanon's top 16 banks in terms of deposits, announced unaudited consolidated net profits of \$47.9m in the first half of 2019 compared to \$69.5m in the first half of 2018. The bank's total assets reached \$22.6bn at end-June 2019 and decreased by 4.4% from end-2018, while loans & advances to customers, excluding those to related parties, declined by 4.2% from end-2018 to \$6.4bn. Also, customer deposits, excluding those from related parties, totaled \$15.9bn at end-June 2019 and regressed by 0.4% from end-2018. Further, the bank's shareholders' equity reached \$2.1bn at end-June 2019, down by 6.1% from end-2018.



Lebanese media adversely impacted by economic crisis

The Lebanese English-language newspaper the *Daily Star* announced the temporary suspension of its printed edition. It noted that the decline in its advertising revenues in the last quarter of 2019 and in January 2020, amid deteriorating economic conditions in Lebanon, along with the financial challenges that are facing the printed press with the rise of digital media, contributed to the decision. It added that the *Daily Star's* website and social media platforms will remain operational. Founded in 1952, the *Daily Star* is the oldest English-language newspaper in the Arab world.

The *Daily Star* is the latest among a number of newspapers to suspend their print editions, or to cease their operations in Lebanon. In February 2019, *Al-Mustaqbal* newspaper suspended its printed edition after 20 years of publishing. In September 2018, *Al-Anwar* newspaper stopped publishing printed copies after around 60 years in the market, while pan-Arab newspaper *Al-Hayat* closed its Beirut offices in June 2018 and suspended its printed edition. Also, *As-Safir* newspaper ended its operations in December 2016, and *Al-Balad* newspaper ceased its operations in June 2018. In addition, *Al-Ittihad* newspaper closed in December 2017 after only two months of operations.

In parallel, English-language radio station Radio One closed down on February 1, 2020 after 37 years of airtime, partly due to the prevailing economic crisis in Lebanon, among other factors. Founded in 1983, Radio One played international music and broadcast daytime and nighttime shows across the country. Further, Arabic-language radio station Jaras Scoop FM closed its doors in November 2019 after 10 years of operations, citing challenging economic conditions in the country.

BLC Bank approves raise in capital

The Extraordinary General Assembly of BLC Bank sal that took place on January 30, 2020 approved the increase of the bank's capital base by the equivalent of 20% of its Common Equity Tier One capital (CET1) as at end-2018, or by \$93.9m, through the issuance of cash contributions in US dollars. The bank's capital increase is in line with Banque du Liban's Intermediate Circular 532 dated November 4, 2019 that requested banks to raise their capital base by the equivalent of 20% of their CET1 at the end of 2018 in two stages.

BLC Bank sal, one of six listed banks in Lebanon, announced unaudited consolidated net profits of \$15.5m in the first nine months of 2019, compared to net earnings of \$28.9m in the same period of 2018. The bank's total assets reached \$5bn at end-September 2019, nearly unchanged from end-2018, while loans & advances to customers declined by 7.7% from end-2018 to \$1.5bn. Also, customer deposits totaled \$3.7bn at end-September 2019 and dropped by 5% from end-2018. Further, the bank's total equity reached \$531.8m at end-September 2019, down by 7.6% from end-2018.



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

Banking Sector Ratings	Outlook
Moody's Investors Service	Stable

Source: Moody's Investors Service



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