600 ISSUES+
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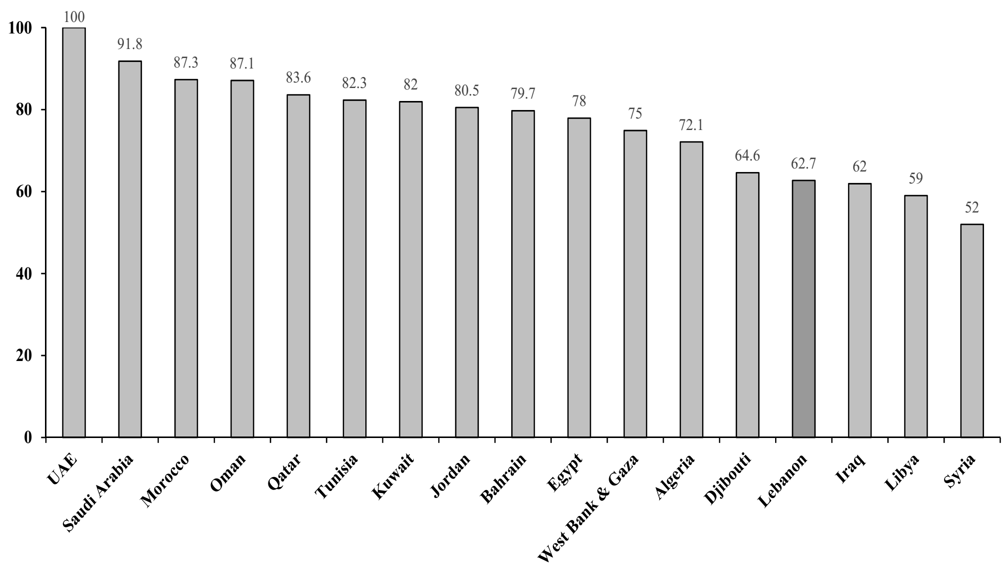
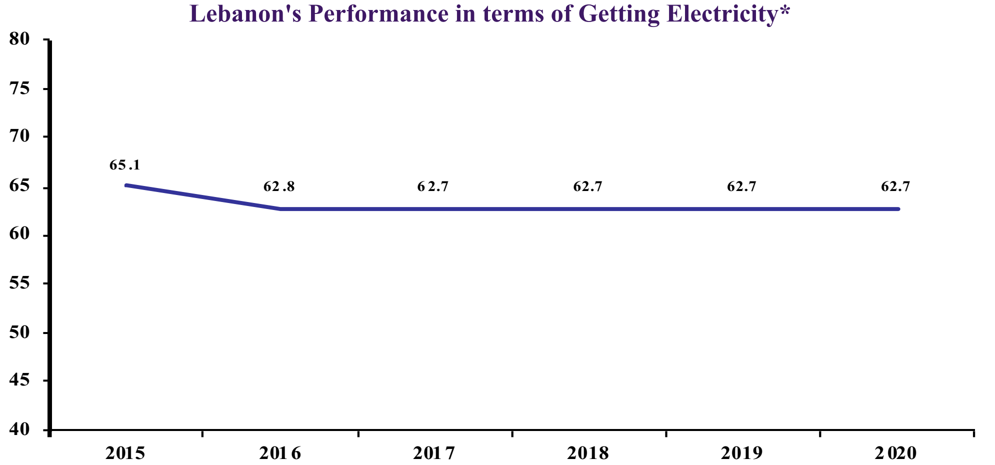
BYBLOS BANK SAL
Economic Research & Analysis Department

LEBANON THIS WEEK

In This Issue

Charts of the Week





**The score reflects the procedures, time and cost for a business to obtain permanent electricity supply*
Source: World Bank Group Doing Business 2020, Byblos Bank

Quote to Note

"There are very significant policy decisions that Lebanon has to make."

Ms. Kristalina Georgieva, Managing Director of the International Monetary Fund, on the need to implement much-delayed structural reforms

Number of the Week

150: Lebanon's rank out of 167 countries in terms of the functioning of the government, according to the Economist Intelligence Unit's Democracy Index for 2020

Lebanon in the News

$m (unless otherwise mentioned)	2018	2019	% Change*	Dec-18	Oct-19	Nov-19	Dec-19
Exports	2,952	3,731	26.41	246	292	309	324
Imports	19,980	19,239	(3.70)	1,569	1,308	1,281	1,346
Trade Balance	(17,028)	(15,508)	(8.92)	(1,323)	(1,016)	(972)	(1,022)
Balance of Payments	(4,823)	(4,351)	(9.79)	(748)	(198)	1,143	(841)
Checks Cleared in LBP	22,133	22,146	0.06	2,024	1,378	2,232	2,403
Checks Cleared in FC	44,436	34,827	(21.62)	3,455	1,717	2,946	3,898
Total Checks Cleared	66,569	56,973	(14.42)	5,479	3,095	5,178	6,301
Fiscal Deficit/Surplus***	(4,734)	(4,024)	(15.00)	(437)	(432)	-	-
Primary Balance***	(402)	217	-	(145)	21	-	-
Airport Passengers	8,842,442	8,684,937	(1.78)	677,845	659,737	438,674	544,967
Consumer Price Index****	6.1	2.9	(317bps)	4.0	1.3	3.2	7.0

$bn (unless otherwise mentioned)	Dec-17	Dec-18	Sep-19	Oct-19	Nov-19	Dec-19	% Change*
BdL FX Reserves	35.81	32.51	29.30	30.98	30.15	29.55	(9.1)
In months of Imports	18.57	20.72	19.99	23.68	23.54	21.95	5.9
Public Debt	79.53	85.14	86.78	87.08	89.48	91.64	7.6
Bank Assets	219.86	249.48	262.20	262.80	259.69	216.78**	(13.1)
Bank Deposits (Private Sector)	168.66	174.28	170.30	168.36	162.60	158.86	(8.8)
Bank Loans to Private Sector	59.69	59.39	54.50	54.17	52.48	49.77	(16.2)
Money Supply M2	52.51	50.96	46.73	45.77	43.82	42.11	(17.4)
Money Supply M3	138.62	141.29	138.83	138.37	136.44	134.55	(4.8)
LBP Lending Rate (%)	8.09	9.97	10.92	11.19	9.69	9.09	(88bps)
LBP Deposit Rate (%)	6.41	8.30	9.13	9.03	9.40	7.36	(94bps)
USD Lending Rate (%)	7.67	8.57	10.26	10.05	10.64	10.84	227bps
USD Deposit Rate (%)	3.89	5.15	6.57	6.61	6.31	4.62	(53bps)

*year-on-year **The decline in assets in December 2019 is mainly due to the "netting" on the assets and liabilities' sides of the consolidated balance sheet of commercial banks as part of the implementation of international accounting standard IFRS 7 ***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
Byblos Common	1.00	(8.26)	217,299	9.27%
Solidere "A"	8.58	(0.23)	169,640	14.06%
Solidere "B"	8.57	1.42	38,347	9.13%
BLOM Listed	3.83	12.32	8,900	13.49%
Audi Listed	1.66	(8.79)	1,800	10.87%
BLOM GDR	3.00	(2.60)	39	3.63%
HOLCIM	9.61	0.00	-	3.07%
Byblos Pref. 08	60.00	0.00	-	1.97%
Audi GDR	2.39	0.00	-	4.68%
Byblos Pref. 09	59.90	0.00	-	1.96%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Mar 2020	6.38	55.00	2,008.16
Apr 2021	8.25	32.50	147.19
Oct 2022	6.10	31.00	63.45
Jun 2025	6.25	29.88	37.73
Nov 2026	6.60	29.13	33.89
Feb 2030	6.65	30.00	27.46
Apr 2031	7.00	30.00	27.20
May 2033	8.20	25.00	34.28
Nov 2035	7.05	30.00	24.95
Mar 2037	7.25	30.00	25.18

Source: Byblos Bank Capital Markets, Refinitiv

	Feb 17-21	Feb 10-13	% Change	January 2020	January 2019	% Change
Total shares traded	438,025	257,122	70.4	2,048,141	50,963,287	(96.0)
Total value traded	$2,024,906	$1,919,721	5.5	$16,307,970	$152,075,281	(89.3)
Market capitalization	$6.10bn	$6.13bn	(0.4)	$6.96bn	$9.38bn	(25.8)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Feb 14, 2020	Feb 21, 2020	% Change**
CDS 1-year*	12,454	28,666	130.2
CDS 3-year*	9,643	24,368	152.7
CDS 5-year*	8,498	23,164	172.6

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

CDX EM 30*	Feb 14, 2020	Feb 21, 2020	% Change***
CDS 5-year**	188.62	196.86	4.4

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

Lebanon in the News

Implementation of structural reforms could have prevented current crisis

The Institute of International Finance indicated that the current economic and financial crisis in Lebanon stems from the failure of successive governments over the years to implement a credible economic policy that addresses macroeconomic challenges. It noted that domestic factors, including political, economic and institutional weaknesses, along with a challenging external environment, have steadily eroded confidence and led to the current crisis. For instance, it said that the poor record of fiscal performance in Lebanon has resulted in a sustained increase in the public debt level, while the authorities failed to address the rigidities in the economy. It noted that widespread corruption originating from a dysfunctional sectarian system has hampered the implementation of decisions to redirect economic policies. It added that regional instability, including the Syrian conflict, has led to a sharp slowdown in tourism receipts and in capital inflows.

In parallel, the IIF pointed out that the persistently wide fiscal and current account deficits have largely contributed to the current crisis. It noted that the wide fiscal deficit was a result of poor revenue performance amid weak tax administration and a high level of tax evasion, the authorities' failure to reform the electricity sector, as well as the increase in public-sector wages and salaries in 2018. It indicated that these factors worsened fiscal solvency and led to a surge in the public debt level since 2011, which reached 164% of GDP at end-2019. It considered that putting the public debt level on a more sustainable path would have required high real GDP growth rates and sizeable primary fiscal surpluses over the years, as well as lowering real interest rates and ensuring access to international funding. But it said that successive governments did not take any measure to improve the sustainability of the public debt.

In addition, the IIF expected Lebanon's real GDP growth in 2020 to continue to contract for the third consecutive year. Further, it indicated that the shortages of US dollars in the market have reduced non-fuel imports and consumer demand, and led to an increase in consumer prices. It forecast the average inflation rate to reach about 20% in 2020 due to the pass-through effects of the exchange rate depreciation at money dealers. It noted that the spread between the official exchange rate and the rate at money dealers has reached about 40% in recent weeks.

Banque du Liban's foreign reserves sufficient to cover external debt payments in 2020 and 2021

Fitch Ratings indicated that Banque du Liban's (BdL) assets in foreign currency are sufficient to cover Lebanon's external debt payments in 2020 and 2021, provided that the restrictions that the banks introduced in November 2019 on deposit withdrawals remain in place. However, it noted that the political costs the government would incur from paying its debt obligations would be elevated, which makes this outcome unrealistic. It said that BdL has $29bn in gross foreign currency reserves that it can tap to cover Lebanon's gross external financing requirements, which it estimates at $9.8bn in 2020 and $9.3bn in 2021. As such, it anticipated that BdL's gross foreign currency reserves would reach about $20bn at the end of 2020 and $10bn at the end of 2021. However, it said that the shortage of foreign currency in the market is significantly weighing on the economy, which raised questions about the government's willingness to continue to prioritize foreign currency reserves to meet its debt obligations.

In parallel, the agency did not expect Lebanon's public debt to become sustainable without some form of debt restructuring, given the broader economic and political developments, the difficulty of implementing fiscal and structural reforms, and the challenges facing the banking sector. It considered that an agreement with the International Monetary Fund is the most likely scenario for external financing support. It noted that a financing package from the IMF would require some restructuring of the sovereign debt, as the Fund is unlikely to lend money to Lebanon without putting the debt on a sustainable path. It pointed out some concerns related to the restructuring process, such as whether Lebanon will differentiate between resident and non-resident bondholders, and if there will be significant litigation from bondholders. It added that restructuring negotiations could be complicated by the absence of enhanced Collective Action Clauses (CACs) for Lebanese Eurobonds, which means that Lebanon will have to negotiate with the bondholders of each series. It estimated that the restructuring of Lebanese Eurobonds with a 60% haircut would reduce the public debt level by 33% of GDP at the current official exchange rate. But it noted that the debt level would remain elevated at about 120% of GDP. It said that restructuring the debt denominated in Lebanese pounds would help further reduce the public debt, but would weigh on BdL's already weak balance sheet.

Lebanon needs funding plan in order to address public debt options

Standard Chartered Bank indicated that Lebanon does not have yet a plan to address its funding crisis. It noted that the 2020 budget that Parliament enacted on January 27, 2020 does not include fiscal reforms, which makes it increasingly difficult for the government to secure external funding, whether from international donors that took part in the CEDRE conference, or from Gulf Cooperation Council countries, or from any other external party.It considered that Lebanon may eventually need to restructure its sovereign debt in the absence of external funding. However, it noted that a sovereign debt default or restructuring, without a clear funding plan or economic framework, would further strain the country's economic, political and social conditions. It added that a sovereign debt default or restructuring without a comprehensive plan would reduce the pressure on Banque du Liban's foreign currency reserves in the short term, but it could further obstruct Lebanon's ability to attract funding in the future.

It indicated that Lebanon would need a full program with the International Monetary Fund (IMF) in order to restore confidence in the country's economic and funding outlook. It noted, however, that the authorities appear to be reluctant to request financial assistance from the IMF, due to concerns that IMF conditions would be difficult to implement amid prevailing social unrest. It pointed out that the IMF's oversight of government spending could align with some of the key demands of protesters, which focus on fighting corruption and addressing wasteful public spending. Overall, it considered that Lebanese authorities need to tighten fiscal policy in order to improve fiscal sustainability and have to try afterwards to unlock new external support, regardless of an engagement with the IMF.

S&P takes rating action on the sovereign

S&P Global Ratings downgraded Lebanon's long- and short-term foreign and local currency sovereign ratings from 'CCC/C' to 'CC/C', with a 'negative' outlook. It also lowered the country's transfer and convertibility assessment from 'CCC' to 'CC'.

The agency attributed its rating action to its expectation that the severe fiscal, external and political pressures in the country will make debt restructuring increasingly likely in the near term. It noted that pressures have mounted since 2019, as the protracted political vacuum and weak governance led to reduced depositor confidence, lack of foreign currency availability, and economic contraction. As such, it said that a potential debt restructuring could include an exchange offer to swap the Eurobonds maturing in 2020 with longer-dated securities, an exercise that it considered to be a distressed exchange and to be equivalent to a default under its methodology. It considered that a potential debt restructuring would have an adverse impact on the domestic banking sector and on the economy.

Further, it indicated that Lebanon has $2.5bn in upcoming Eurobond maturities in 2020, which would pose a potential drain on Banque du Liban (BdL's) foreign currency reserves. It considered that BdL's gross foreign currency reserves of about $30bn remain sufficient to service government debt in the near term, but it noted that funding pressures have increased along with growing social and political opposition to debt repayment.

In parallel, the agency indicated that the new Cabinet decided to seek the International Monetary Fund for technical assistance, which would enable the government to assess the potential scope and form of debt restructuring and its impact on different stakeholders. It considered that the engagement with the IMF constitutes an early step towards a complex debt restructuring exercise. It added that potential reforms at this stage could prove insufficient to address the financial and economic crisis.

S&P indicated that the negative outlook reflects the risks to the repayment of near-term debt in the context of ongoing political, financial, and monetary challenges. It said that it could affirm or upgrade the ratings in case the likelihood of a distressed exchange of government debt recedes. It added that substantial external donor support, which enables the government to implement immediate and transformative reforms, would contribute to a positive rating action.

Term deposits account for 87% of customer deposits at end-2019

Figures issued by Banque du Liban about the distribution of bank deposits at commercial banks in Lebanon show term deposits in all currencies reached $149.7bn while demand deposits in all currencies stood at $22.9bn at the end of 2019.

Term deposits in all currencies declined by 10.5% from $167.3bn at end-2018. They accounted for 86.7% of total deposits in Lebanese pounds and in foreign currency at end-2019 relative to a share of 89.1% at end-2018. The decline in term deposits was due to a year-on-year drop of 28.6% in term deposits of the resident private sector in Lebanese pounds, a 15% decline in term deposits of non-residents, a 4.2% decline in term deposits of the non-resident financial sector and a 0.8% decline in term deposits of the resident private sector denominated in foreign currency. This was partly offset by a surge of 102.3% in term deposits of the public sector in foreign currency and an 11.4% increase in term deposits of the public sector in Lebanese pounds. Also, aggregate term deposits fell by $17.6bn in 2019, with term deposits of the resident private sector in Lebanese pounds falling by $12.1bn and term deposits of non-residents declining by $5.2bn. In fact, the drop in terms deposits of the resident private sector in Lebanese pounds reflects cash withdrawals, deposit conversion to foreign currency and the migration of funds from term to demand deposits.

Term deposits of the resident private sector denominated in foreign currency amounted to $78.9bn and accounted for 45.7% of total deposits at the end of 2019. Term deposits of the resident private sector in Lebanese pounds followed with $30.2bn (17.5%), then term deposits of non-residents with $29.3bn (17%), term deposits of the non-resident financial sector with $6.8bn (4%), term deposits of the public sector in Lebanese pounds with $4.1bn (2.4%), and term deposits of the public sector in foreign currency with $321m (0.2%).

In parallel, demand deposits in all currencies rose by 11.5%, or by $2.37bn, from $20.5bn at end-2018. They accounted for 13.3% of total deposits in Lebanese pounds and in foreign currency at end-2019 relative to a share of 10.9% at end-2018. The increase in demand deposits was due to a growth of $2.43bn in demand deposits of the resident private sector denominated in foreign currency and a rise of $145.3m in demand deposits of the resident private sector in Lebanese pounds, which were partly offset by a drop of $130.3m in demand deposits of the non-resident financial sector and a decline of $117.2m in demand deposits of non-residents.

Demand deposits of the resident private sector in foreign currency amounted to $12.5bn and represented 7.3% of total deposits at the end of 2019. Demand deposits of the resident private sector in Lebanese pounds followed with $4.7bn (2.7%), then demand deposits of non-residents with $3.2bn (1.8%), demand deposits of the non-resident financial sector with $2bn (1.2%), demand deposits in Lebanese pounds of the public sector with $302m (0.2%), and demand deposits in foreign currency of the public sector with $160.7m (0.1%).

Beirut and its suburbs accounted for 66.7% of private-sector deposits and for 47.3% of the number of depositors at the end of September 2019, the latest available figures. Mount Lebanon followed with 15% of deposits and 18.8% of beneficiaries, then South Lebanon with 7.2% of deposits and 12.4% of depositors, North Lebanon with 6.2% of deposits and 12.6% of beneficiaries, and the Bekaa with 4.9% of deposits and 8.8% of depositors.

Lebanon in the News

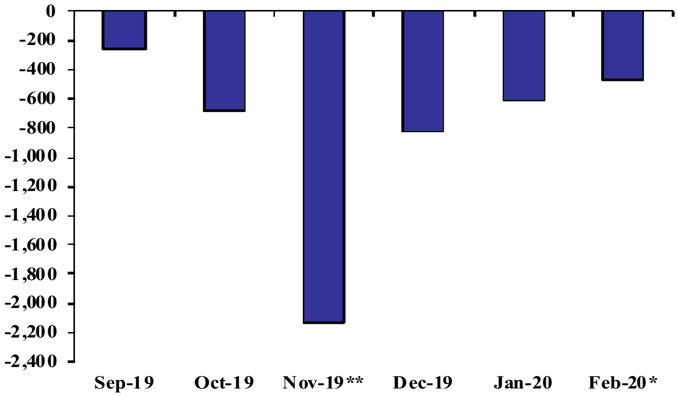
Banque du Liban's foreign assets at $36.2bn, gold reserves at $14.5bn at mid-February 2020

Banque du Liban's (BdL) interim balance sheet totaled $143.6bn on February 15, 2020, constituting an increase of 1.6% from $141.4bn at the end of 2019.

Assets in foreign currency reached $36.2bn in mid-February 2020, down by 1.3% from $36.7bn at the end of January 2020, and by 2.9% from $37.3bn at end-2019. They included $5.7bn worth of Eurobonds. Excluding Lebanese Eurobonds, BdL's assets in foreign currency reached $30.5bn at mid-February 2020, constituting a decline of $473.7m from end-January 2020.

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, by $826.4m in December, and by $613.3m in January 2020, resulting in a cumulative decline of $5bn between the end of August 2019 and mid-February 2020. The decrease in BdL's assets in foreign currency, excluding Lebanese Eurobonds, is largely due to deposit outflows, to the fact that BdL has been paying on behalf of the government maturing Eurobonds and external debt servicing, and to the financing of imports of fuel, wheat and medicine.

Change in Gross Foreign Currency Reserves (US$m)



**as at mid-February*
***BdL paid $2.1bn in external public debt servicing in November*
Source:Banque du Liban, Byblos Research

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, by $613.3m in January and by $473.7m in the first half of February 2020. This resulted in an aggregate decrease of $2.5bn in BdL's total assets in foreign currency between the end of August 2019 and mid-February 2020.

In parallel, the value of BdL's gold reserves increased by 4.1% from end-2019 to reach $14.5bn at mid-February 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 $38.2bn at mid-February 2020, up by 0.5% from end-2019. In addition, loans to the local financial sector regressed by 0.7% from end-2019 to $14.8bn at mid-February 2020. Further, deposits of the financial sector reached $112.3bn at mid-February 2020, down by $82.9m from end-January 2020, but up by $286.7m from end-2019. Also, public sector deposits at BdL totaled $5.3bn at mid-February 2020, down by $141.1m from end-2019.

Consumer Price Index up 10% year-on-year in January 2020

The Central Administration of Statistics' Consumer Price Index increased by 10% in January 2020 from the same month of 2019. In comparison, the CPI rose by 3.2% year-on-year in January 2019. The double-digit increase in the inflation rate in January 2020 is the first since January 2013 when it posted a similar rate. Also, the inflation rate in January reached its fifth highest level since December 2008, following inflation rates of 11.1% in October 2012, 10.3% in September 2012 and November 2012, and 10.1% in December 2012.

The surge in inflation is due in part to the shortages in US dollar liquidity in the market that led importers to source US dollars from money dealers. It also reflects the insufficient monitoring from authorities of some opportunistic merchants who took advantage of the market situation to increase their prices disproportionately.

The prices of alcoholic beverages & tobacco grew by 33.4% annually in January 2020, followed by the prices of clothing & footwear (+24.3%), the prices of furnishings & household equipment (+24%), transportation costs (+18.2%), the prices of food & non-alcoholic beverages (+14.5%), recreation & entertainment costs (+12.8%), the cost of miscellaneous goods & services (+8.4%), the prices of water, electricity, gas & other fuels (+6.6%), prices at restaurants & hotels (+4.6%), the cost of education (+4%), communication costs (+3.1%), actual rents (+2.9%) and imputed rents (+2.5%). In parallel, healthcare costs were nearly unchanged year-on-year in January 2020. Also, the distribution of actual rents shows that both old and new rents increased by 2.9% year-on-year in January 2020.

Further, the CPI increased by 2.1% in January 2020 from the preceding month, compared to a month-on-month growth of 2.7% in December 2019. The prices of food & non-alcoholic beverages grew by 6.2% month-on-month in January 2020, followed by the prices of alcoholic beverages & tobacco (+5.3%), the prices of furnishings & household equipment (+5%), the cost of water, electricity, gas & other fuels (+3.7%), prices at restaurants & hotels (+2%), the cost of miscellaneous goods & services (+1.9%), communication costs (+1.5%), recreation & entertainment costs (+1.4%), transportation costs (+0.8%), imputed rents (+0.7%) and actual rents (+0.5%). In contrast, the prices of clothing & footwear declined by 4.1% month-on-month in January 2020, while the cost of education and healthcare costs were nearly unchanged in the covered month. Further, the CPI rose by 2.9% in January in the Nabatieh area, by 2.8% in the South, by 2.4% in the Bekaa, by 2.2% in Beirut, by 2.1% in Mount Lebanon and by 1.6% in the North. In parallel, the Fuel Price Index grew by 3.9% month-on-month in January 2020, while the Education Price Index was unchanged in the covered month.

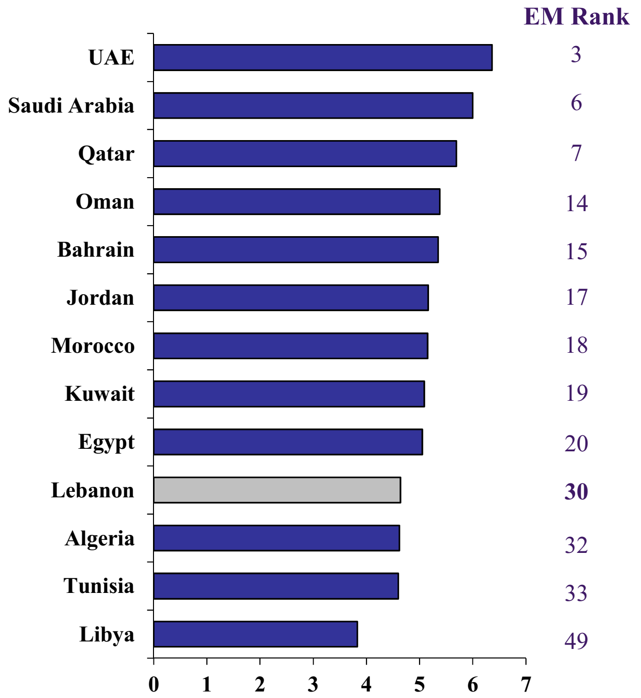
Lebanon ranks 30th in emerging markets, 10th in Arab world in terms of logistics infrastructure

Transport Intelligence's 2020 Agility Emerging Markets Logistics Index ranked Lebanon in 30th place among 50 emerging markets (EMs). Also, Lebanon came in 10th place among 13 Arab countries and in 13th place among 21 upper middle-income countries (UMICs) included in the survey. In comparison, Lebanon came in 29th place globally and in 10th place regionally in the 2019 survey. Transport Intelligence is an analysis and research firm for the logistics industry.

The index compares a country's prevailing operational environment to its current logistics opportunities and potential. The index is an average of three equally weighted sub-indices that are Domestic Logistics Opportunities, International Logistics Opportunities and Business Fundamentals. A higher score reflects a better performance on the index.

Lebanon has a more developed logistics infrastructure than Argentina, Algeria and Tunisia, and a less developed logistics environment than Ukraine, Pakistan and Kenya among EM countries. It received a score of 4.64 points on the 2020 index, down by 1.5% from a score of 4.71 points on the 2019 index. Lebanon's score is lower than the EM average score of five points, the UMICs' average of 5.05 points and the Arab average score of 5.15 points. Lebanon's score is also lower than the Gulf Cooperation Council (GCC) countries' average score of 5.65 points, but is higher than the non-GCC Arab countries' average score of 4.72 points.

Agility Emerging Markets Logistics Index for 2020 Scores & Rankings of Arab Countries



Source: Transport Intelligence, Byblos Research

Lebanon ranked ahead of Chine, Iran and Uruguay, and came behind Argentina, Algeria and Jordan among EMs on the Domestic Logistics Opportunities Sub-Index. This category measures the size and growth of a country's economy, population and logistics markets, as well as income equality, urbanization levels, and the development of business clusters in the country. Lebanon ranked ahead of Morocco, Tunisia and Libya among Arab countries.

In addition, Lebanon was ahead of Kuwait, Pakistan and Ecuador, and came behind Sri Lanka, Argentina and Bahrain on the International Logistics Opportunities Sub-Index. This category assesses the size and growth of the international logistics markets and of logistics intensive trade, the quality and connectedness of a country's infrastructure, as well as the time needed for border procedures and the cost of such procedures. Lebanon came ahead of Kuwait, Tunisia, Libya and Algeria regionally.

Further, Lebanon ranked ahead of Iran, Nigeria and Argentina, and came behind Uganda, Pakistan and Cambodia on the Business Fundamentals Sub-Index. This category assesses a country's credit and debt dynamics, contract enforcement and anti-corruption frameworks, inflation and price stability, the cost of crime and violence, as well as a country's market accessibility and domestic stability. Lebanon came ahead of only Libya among Arab countries.

In parallel, Transport Intelligence's survey of 780 professionals in the logistics industry, which it conducted between October and December 2019, shows that Lebanon has the 20th lowest potential to become a logistics hub among emerging economies.

Components of the 2020 Agility Emerging Markets Logistics Index

	EM Rank	Arab Rank	UMICs Rank	Lebanon Score	EM Avge Score	Arab Avge Score	UMICs Avge Score
Domestic Logistics Opportunities	25	10	11	4.89	5.00	5.00	5.05
International Logistics Opportunities	28	9	15	4.62	4.99	4.79	5.19
Business Fundamentals	37	12	15	4.14	5.01	6.22	4.73

Source: Transport Intelligence, Byblos Research

Lebanon in the News

Lebanon receives 7% of IMF regional technical assistance in first nine months of FY2019/20

The International Monetary Fund's Middle East Technical Assistance Center (METAC) indicated that Lebanon received 7% of the center's overall allocation of technical assistance delivery to member countries during the first nine months of the fiscal year that ends in April 2020. The center provided five technical assistance projects to Lebanon during the covered period, of which two projects in public financial management between May and July 2019, two projects in revenue administration and in statistics between August and October 2019, and another project in public financial management between November 2019 and January 2020.

In comparison, it provided nine technical assistance projects to Egypt between May 2019 and January 2020, eight projects to Jordan, seven technical assistance projects to Tunisia, six projects to each of Afghanistan and Iraq, four technical assistance projects to each of Libya and Morocco, three projects to Djibouti, two projects to each of Algeria and Sudan, and one project to each of West Bank & Gaza and Yemen. It indicated that there are 10 technical assistance projects planned for Lebanon in the fiscal year that ends in April 2020, the second highest number of such projects among member countries, behind Egypt (11 projects).

In terms of public financial management, METAC indicated that, between November 2019 and January 2020, Lebanon participated in a one-week mission that focuses on updating the internal Fiscal Risk Statement (FRS). The FRS analyzes macroeconomic risks and evaluates the impact of a series of macroeconomic shocks on government revenues, spending, and the fiscal balance. The mission analyzed with authorities the various sections of the FRS, and gave them a perspective on practices in other countries. It also assessed the extent of the authorities' implementation of previous Technical Assistance recommendations, and suggested further improvements to the FRS.

In addition, it noted that planned activities in the fourth quarter of FY2019/20, which extends from February to end-April 2020, consist of workshops for gender-based budgeting and developing gross domestic product by expenditure.

The IMF established METAC in Beirut in October 2004 to serve Afghanistan, Algeria, Djibouti, Egypt, Iraq, Jordan, Lebanon, Libya, Morocco, Palestine, Sudan, Syria, Tunisia, and Yemen. The center's mandate is to assist in capacity-building, facilitate the reform process in member countries, and support the region's integration in the world economy.

Value of cleared checks up 37%, returned checks up 17% in January 2020

The value of cleared checks reached $6.7bn in January 2020, constituting a rise of 36.6% from $4.9bn in January 2019, and the second consecutive month during which the value of cleared checks exceeded $6bn. The significant growth in the amount of cleared checks reflects the increased use of checks as a mean of payment, following the temporary disruption to banking operations in the aftermath of October 17. In comparison, the value of cleared checks declined by 17.2% in January 2019 from the same month of 2018, while it increased by 3.7% in January 2018 from January 2017. The value of cleared checks in Lebanese pounds grew by 23% year-on-year to the equivalent of $2.3bn in January 2020, while the amount of cleared checks in US dollars rose by 45% to $4.4bn in the covered month. The dollarization rate of cleared checks expanded from 62.1% in January 2019 to 66% in the same month of 2020. There were about 0.76 million cleared checks in January 2020, down by 12% from 0.86 million in January 2019.

The total value of cleared check in January 2020 exceeded by 41% the average monthly value of cleared checks in 2019, while the number of checks was 8.5% lower than the average monthly number of checks in 2019, which reflects a significant increase in the amount per check in January 2020.

In parallel, the value of returned checks in domestic and foreign currency was $153m in January 2020, compared to $179m in December 2019, $131m in January 2019 and to $121m in January 2018. This constituted a year-on-year increase of 16.8% in January 2020 relative to an annual growth of 7.9% in the same month of 2019 and 10.9% in January 2018. The value of returned checks continued to normalize from unusual fluctuations in October and November following the disruption of economic and banking activities in the second half of October and to some extent in November. Also, there were 25,531 returned checks in January 2020, up by 6.4% from 23,998 returned checks in January 2019.

Broad money supply down 5% in 2019

Figures released by Banque du Liban show that money supply M1, which includes currency in circulation and demand deposits in Lebanese pounds, reached LBP16,620bn at the end of 2019, constituting a rise of 42.5% from LBP11,661bn at end-2018. Currency in circulation stood at LBP9,818bn at the end of 2019, up by 96% from LBP5,008bn at end-2018. Also, demand deposits in local currency stood at LBP6,802bn at the end of 2019, constituting an increase of 2.2% from end-2018. Money Supply M1 rose by 10.1% in December from LBP15,089bn at end-November 2019, with currency in circulation growing by 20.5% and demand deposits in local currency regressing by 2% month-on-month. The surge in money in circulation was due to the significant increase in demand for banknotes in Lebanese pounds amid the prevailing restrictions on withdrawals in US dollars, the exchange of foreign currency banknotes to Lebanese pounds in the more expensive parallel market, and hoarding of cash at households.

In addition, money supply M2, which includes M1 and term deposits in Lebanese pounds, reached LBP63,484bn at the end of 2019, constituting a decrease of 17.4% from LBP76,828bn at the end of 2018. Term deposits in Lebanese pounds totaled LBP46,864bn at end-2019, down by 28.1% from LBP65,167bn at the end of 2018. Money Supply M2 regressed by 3.9% in December from LBP66,054bn at end-November 2019, with term deposits in local currency declining by 8% month-on-month. The drop in term deposits in Lebanese pounds reflects cash withdrawals, deposit conversion to foreign currency, and the migration of funds from term to demand deposits.

Further, broad money supply M3, which includes M2, deposits in foreign currency and debt securities issued by the banking sector, reached LBP202,831bn at the end of 2019, constituting a decrease of 4.8% from LBP212,993bn at the end of 2018. Deposits in foreign currency totaled LBP138,910bn at end-2019, up by 2.2% from end-2018. The increase in deposits in foreign currency is due the conversion of Lebanese pounds-denominated deposits into US dollars, and was contained by cash withdrawals in US dollars as well as foreign transfers. Also, debt securities issued by the banking sector amounted to LBP437bn at the end of 2019 compared to LBP272bn at the end of 2018. Money supply M3 declined by 1.4% from LBP205,681bn at the end of November 2019, with deposits in foreign currency nearly unchanged and debt securities issued by the banking sector decreasing by 4% month-on-month. In parallel, M3 regressed by LBP10,162bn in 2019, due to a drop of LBP12,285bn in claims on the private sector, a decline of LBP3,224bn in the net foreign assets of deposit-taking institutions and a decrease of LBP1,660bn in net claims on the public sector, which were partly offset by a surge of LBP7,007bn in other net items.

Moody's downgrades sovereign ratings, revises outlook to 'stable'

Moody's Investors Service downgraded Lebanon's issuer ratings from 'Caa2' to 'Ca', and revised the outlook to 'stable', which concluded the review for downgrade that the agency initiated as part of its rating action on November 5, 2019. Also, it lowered the country's long-term foreign currency bond ceiling from 'Caa1' to 'Ca', its long-term foreign currency deposit ceiling from 'Caa3' to 'Ca', and the country's long-term local currency bond and deposit ceilings from 'B2' to 'Caa1'. Further, it downgraded Lebanon's senior unsecured Medium-Term Note Program rating from (P)Caa2 to (P)Ca, and affirmed the other short-term rating at (P)NP.

The agency attributed the rating downgrades to the rapidly deteriorating economic and financial conditions in the country, which are making debt restructuring increasingly likely in the near term. It added that the downward revision of the ratings reflects the likelihood that private domestic and external creditors would incur substantial losses of between 35% and 65% in the event of debt restructuring.

It noted that the 'stable' outlook indicates that the debt restructuring may take place in coordination with creditors and under the umbrella of an economic adjustment program with the International Monetary Fund (IMF), which could unlock external funding either through the CEDRE package or through funding from the IMF. However, it considered that Lebanon's weak track-record of policy implementation could reduce the creditors' willingness to finance the government, which would lead to a cycle of pressure on liquidity, exacerbate the economic recession and would, in turn, require a larger policy adjustment to restore stability.

Further, the agency indicated that BdL's holdings of government securities imply that Lebanon has options for debt management in the near term that could limit the losses that the private sector might incur in case of default. It said that Lebanon could extend the maturity of BdL's public debt holdings, which are equivalent to about 50% of GDP. However, it pointed out that such an option could lead to significant economic and financial costs to BdL's already stretched balance sheet and could exacerbated the losses of private creditors. It added that BdL is already paying in local currency 50% of interest earned on banks' US dollar deposits at BdL and on US dollar-denominated Certificates of Deposits, and has instructed banks to do the same on their clients' US dollar deposits.

Number of real estate transactions up 27% in January 2020

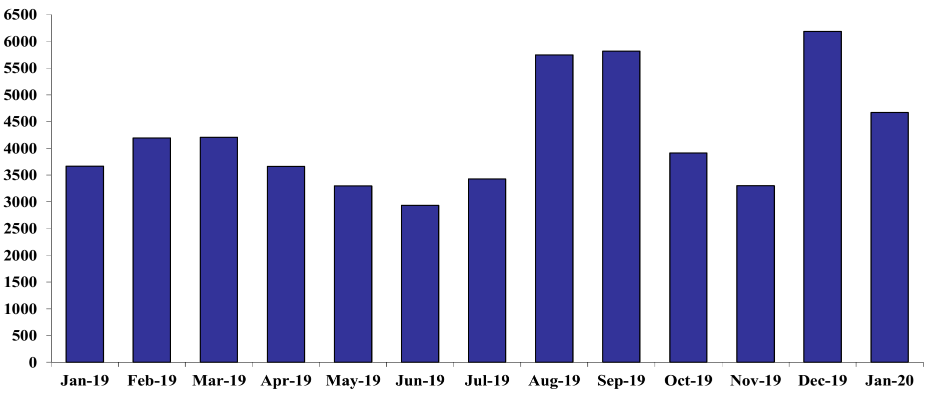
Figures released by the Ministry of Finance indicate that 4,668 real estate transactions took place in January 2020, constituting an increase of 27.3% from a low base of 3,667 deals in January 2019 and a decrease of 24.6% from 6,189 transactions in December 2019. In comparison, there were 5,346 real estate transactions in the first month of 2018 and 4,350 deals in January 2017. The year-on-year rise in the number of deals could also reflect higher demand for real estate as a way for bank depositors to diversify their assets. There were 871 real estate transactions in the Baabda area in January 2020, representing 18.7% of the total. The North followed with 692 deals (14.8%), then the Metn district with 605 transactions (13%), the South with 569 deals (12.2%), the Keserwan region with 533 transactions and the Zahlé area with 530 deals (11.4% each), Beirut with 389 transactions (8.3%), and the Nabatieh area with 302 deals (6.5%).

Also, the aggregate amount of real estate transactions reached $756.8m in January 2020 and increased by 50% from $504.7m in the same month of 2019, while it declined by 31.2% from $1.1bn in December 2019. In comparison, the amount of real estate deals regressed by 26.3% in January 2019 and grew by 20% in January 2018. Further, the value of real estate transactions in Beirut totaled $243.3m and accounted for 32.1% of the total in January 2020. The Metn district followed with $150.6m (20%), then the Baabda region with $134m (17.7%), the Keserwan area with $89.4m (11.8%), the South with $49.8m (6.6%), the North with $41.8m (5.5%), the Zahlé area with $27.9m (3.7%), and the Nabatieh region with $15.4m (2%).The amount of real estate transactions in the Zahlé area increased by 70.7% in January 2020 from the same month last year, followed by the Keserwan region (+63.1%), the Metn district (+60.1%), the Baabda region (+54.7%), the South (+44.2%), Beirut (+42.1%), the North (+32%), and the Nabatieh region (+23.3%).

In parallel, the average amount per real estate transaction was $162,134 in January 2020, up by 17.8% from an average of $137,642 in January 2019 and down by 8.8% from an average of $177,782 in December 2019. In comparison, the average amount per real estate transaction reached $128,018 in January 2018. Further, there were 72 real estate transactions executed by foreigners in the first month of 2020, constituting an increase of 4.3% from 69 deals in January 2019 and a decrease of 22.6% from 93 transactions in December 2019. In comparison, real estate deals executed by foreigners reached 91 transactions in January 2018. The number of real estate deals by foreigners accounted for 1.5% of total real estate transactions in January 2020, down from 1.9% in the same month of 2019 and was unchanged from December 2019. In comparison, the number of real estate deals executed by foreigners accounted for 1.7% of total real estate transactions in January 2018.

Further, 20.8% of real estate transactions executed by foreigners in January 2020 were in each of the Baabda district and in Beirut, followed by the Metn district (18.1%), the South (11.1%), the North (9.7%), the Zahlé area (8.3%), and the Keserwan region and the Nabatieh region (5.6% each). Also, Syrian citizens accounted for 9.2% of the total amount of real estate transactions executed by foreigners in January 2020, followed by Saudi nationals (5.6%), Pakistani citizens (3.1%), French citizens (3%), Indians (2.6%), Kuwaiti citizens (1.7%), and German nationals (1.6%).

Number of Real Estate Transactions in Lebanon



Source:Ministry of Finance, Byblos Research

Extraordinary General Assembly of Byblos Bank approves capital increase

The Extraordinary General Assembly of Byblos Bank sal, which took place on February 21, 2020, approved the increase in the Bank's capital, through cash contributions to capital agreements in the amount of $135m that are convertible to Byblos Bank shares. The Bank's decision is subject to the approval of Banque du Liban (BdL).

In December 2019, the Board of Directors of Byblos Bank agreed to increase the Bank's capital base by $135m, or the equivalent of 10% of the Bank's Common Equity Tier One (CET1) capital as at the end of 2018, through the issuance of cash contribution interests. It added that the cash contributions can be converted into common equity each year during the next five years at a conversion rate of LBP1,515 per US dollar.

Byblos Bank's capital increase is in line with BdL 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. BdL specified that banks should raise their capital by the equivalent of 10% of their CET1 by the end of 2019 and by another 10% of their CET1 by the end of June 2020 through cash contributions in US dollars. Byblos Bank's CET1 stood at $1.3bn at the end of 2018.

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

Agencies withdraw ratings on Lebanese banks

S&P Global Ratings indicated that it withdrew its 'SD' long- and short-term issuer credit ratings on Bank Audi and on BLOM Bank at the request of the two banks. Consequently, Bankmed is currently the only Lebanese bank that S&P rates, with long- and short-term issuer credit ratings of 'SD' (Selective Default). In parallel, Fitch Ratings indicated that is has withdrawn the ratings of Bank Audi and Byblos Bank, and attributed the withdrawal to commercial purposes.

Net profits of Syrian affiliates of Lebanese banks at $25.3m in 2019

Preliminary financial results issued by the affiliates of seven Lebanese banks operating in Syria show that their aggregate net profits reached SYP11bn in 2019 relative to net earnings of SYP8.6bn in 2018. In US dollar terms, the seven banks generated net profits of $25.3m last year relative to net earnings of $19.3m in 2018. The banks use the official exchange rate in their income statements and balance sheets, which means that fluctuations in the black market exchange rate do not affect their reporting.

The profits of Bank Al-Sharq, the affiliate of Banque Libano-Française increased by SYP1.33bn, followed by a rise of SYP992.7m in those of Banque BEMO Saudi Fransi, a growth of SYP654.5m in the net income of Syria Gulf Bank, the affiliate of First National Bank, an improvement of SYP638.6m in the profits of Bank Audi Syria, an increase of SYP396.6m in those of Byblos Bank Syria, and a growth of SYP210.2m in the income of Fransabank Syria; while the earnings of Bank of Syria & Overseas dropped by SYP1.78bn in 2019.

In parallel, the banks' aggregate assets reached SYP945.8bn at the end of 2019 and increased by 4% from SYP909.5bn at end-2018. The rise in assets was due to a 22.6% growth in the assets of Bank Al Sharq (+SYP15.1bn), a 12.9% expansion in those of Fransabank Syria (+SYP15.2bn), an 11.6% increase in the assets of Byblos Bank Syria (+SYP9.6bn), an 11.3% rise in those of Syria Gulf Bank (+SYP5.4bn), a 6.5% increase in the assets of Banque BEMO Saudi Fransi (+SYP19.7bn), and a 1.6% growth in those of Bank Audi Syria (+SYP1.88bn); which were partly offset by an 18% decline in the assets of Bank of Syria & Overseas (-SYP30.5bn). In US dollar terms, the assets of the seven banks increased from $2.1bn at the end of 2018 to $2.2bn at end-2019. In parallel, the aggregate shareholders' equity of the seven banks reached SYP155bn at end-2019, constituting an increase of 13.6% from SYP136.4bn at end-2018; while, in US dollar terms, the banks' shareholders' equity rose from $312.7m the end of 2018 to $355.3m at end-2019. The seven banks have not published yet their detailed financial results for 2019.

Results of Affiliates of Lebanese Banks in Syria for 2019 ($USm)

	Net Earnings		Total	Shareholder's
	2018	2019	Assets	Equity
Banque BEMO Saudi Fransi	$8.2	$10.5	$742.9	$76.5
Bank of Syria & Overseas	$7.1	$3.0	$319.5	$59.3
Fransabank Syria	$0.5	$1.0	$304.6	$47.3
Bank Audi Syria	$2.6	$4.1	$281.0	$67.3
Byblos Bank Syria	$2.8	$3.7	$212.2	$57.8
Bank Al-Sharq	$1.1	$4.2	$187.9	$33.1
Syria Gulf Bank	-$2.7	-$1.2	$121.2	$14.0

Source: Banks' financial statements

Ratio Highlights

(in % unless specified)	2017	2018	2019	Change*
Nominal GDP ($bn)	53.1	55.0	56.1	
Public Debt in Foreign Currency / GDP	57.2	60.9	60.0	(0.89)
Public Debt in Local Currency / GDP	92.5	94.0	103.2	9.20
Gross Public Debt / GDP	149.7	154.9	163.2	8.31
Total Gross External Debt / GDP**	189.4	191.1	195.7	4.60
Trade Balance / GDP	(31.5)	(31.0)	(27.6)	3.36
Exports / Imports	14.5	14.8	19.4	4.62
Fiscal Revenues / GDP	21.9	21.0	18.4	(2.61)
Fiscal Expenditures / GDP	28.9	32.4	30.2	(2.17)
Fiscal Balance / GDP	(7.1)	(11.4)	(11.8)	(0.44)
Primary Balance / GDP	2.7	(1.2)	(2.0)	(0.84)
Gross Foreign Currency Reserves / M2	68.2	63.8	70.2	6.38
M3 / GDP	260.8	257.1	239.6	(17.43)
Commercial Banks Assets / GDP	413.7	453.9	386.2	(67.68)***
Private Sector Deposits / GDP	317.4	317.1	283.1	(34.05)
Private Sector Loans / GDP****	112.3	108.1	88.7	(19.38)
Private Sector Deposits Dollarization Rate	68.7	70.6	76.0	5.40
Private Sector Lending Dollarization Rate	68.6	69.2	68.7	(0.51)

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

Source: Association of Banks in Lebanon, Institute of International Finance, 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	Ca	NP	Stable	Ca		Stable
Fitch Ratings	CC	C	-	CC	C	-
S&P Global Ratings	CC	C	Negative	CC	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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