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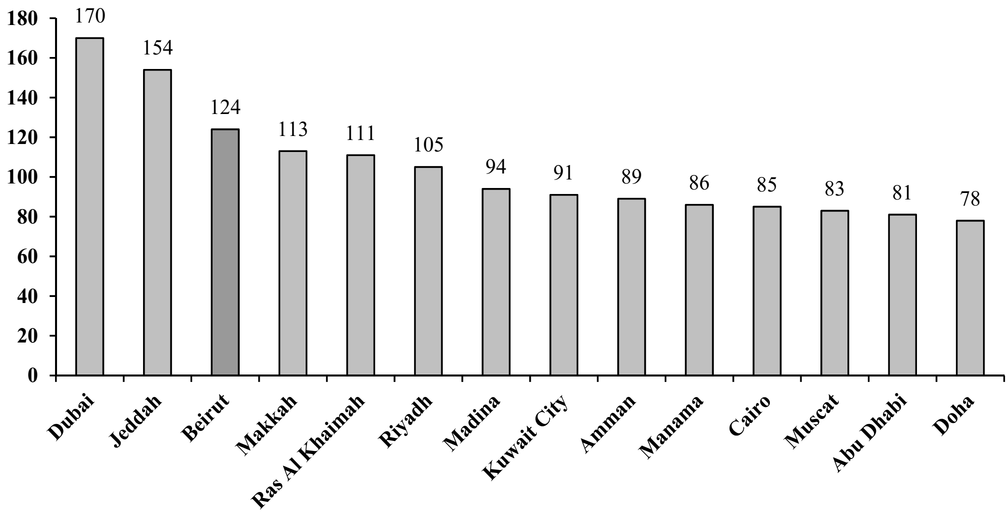
Economic Research & Analysis Department

LEBANON THIS WEEK

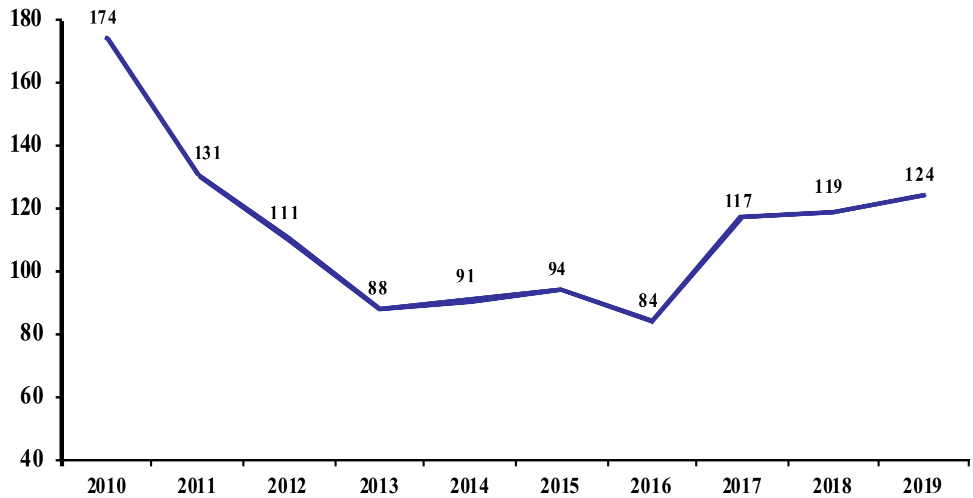
In This Issue

Charts of the Week

Revenues Per Available Room (RevPAR) at Hotels in Select Arab Cities in 2019* (US$)



Revenues Per Available Room (RevPAR) at Hotels in Beirut* (US$)



**at four- and five-star hotels*
Source: EY, Byblos Research

Quote to Note

"Lebanon is encouraged to take measures to ensure women are more involved and allowed to actively take part in the realization of change and in shaping the image of their country's future."

UN Special Coordinator for Lebanon Jan Kubis, on the need for greater inclusion and participation of Lebanese women in the decision-making process

Number of the Week

86.2%: Percentage of Lebanese who think economic conditions in the country will deteriorate in the first six months of 2020, according to the Byblos Bank/AUB Consumer Confidence Index

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
Solidere "A"	8.86	3.14	224,709	14.36%
Solidere "B"	8.64	1.53	70,975	9.10%
Byblos Common	0.88	(12.00)	10,667	8.07%
Audi Listed	1.66	(12.63)	6,530	10.76%
BLOM GDR	3.85	28.33	978	4.61%
BLOM Listed	4.00	0.00	18	13.94%
HOLCIM	9.71	0.00	-	3.07%
Byblos Pref. 08	60.00	0.00	-	1.94%
Audi GDR	2.39	0.00	-	4.63%
Byblos Pref. 09	59.90	0.00	-	1.94%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Apr 2021	8.25	25.50	196.95
Oct 2022	6.10	25.00	77.31
Jan 2023	6.00	25.38	68.56
Jun 2025	6.25	24.88	43.82
Nov 2026	6.60	25.25	38.05
Feb 2030	6.65	24.88	32.01
Apr 2031	7.00	24.25	32.50
May 2033	8.20	21.50	39.26
Nov 2035	7.05	22.75	31.97
Mar 2037	7.25	23.50	31.53

Source: Byblos Bank Capital Markets, Refinitiv

	Mar 2-6	Feb 24-28	% Change	February 2020	February 2019	% Change
Total shares traded	314,707	561,264	(43.9)	1,729,973	121,955,414	(98.6)
Total value traded	$2,580,583	$4,015,357	(35.7)	$11,322,149	$569,916,249	(98.0)
Market capitalization	$6.17bn	$6.24bn	(1.1)	$6.24bn	$9.34bn	(33.2)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Feb 28, 2020	Mar 6, 2020	% Change**
CDS 1-year*	45,547	36,593	(19.7)
CDS 3-year*	28,925	22,775	(21.3)
CDS 5-year*	23,525	18,391	(21.8)

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

CDX EM 30*	Feb 28, 2020	Mar 6, 2020	% Change***
CDS 5-year**	249.24	263.34	5.7

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

Lebanon in the News

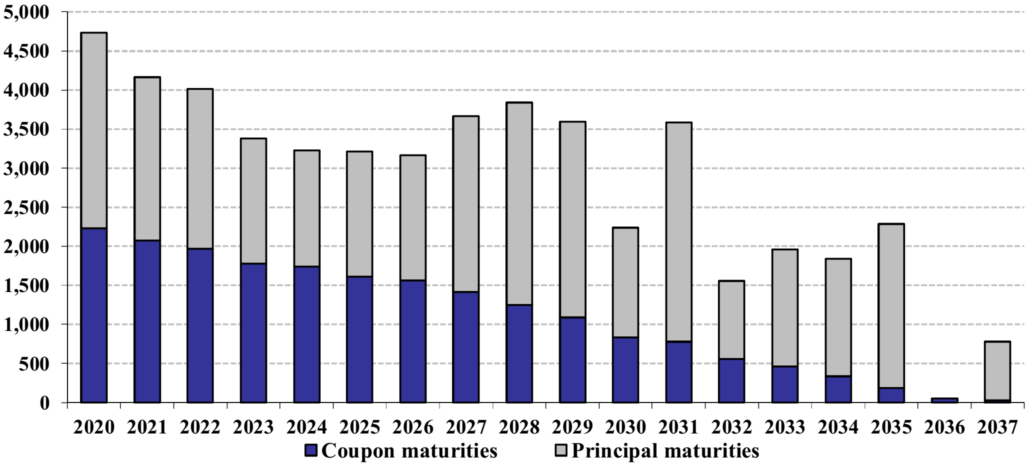
Lebanon suspends payments of upcoming Eurobonds

Prime Minister Hassan Diab announced on March 7, 2020 that the Lebanese Republic decided to withhold all payments on the $1.2bn Eurobond that matures on March 9, 2020 in order to safeguard the country's foreign currency reserves. He also announced the government's commitment to undertake reforms that aim to address fiscal imbalances, improve the business environment, and stabilize the financial sector. He claimed that the government intends to restore the sustainability of public finances by restructuring the public debt and implementing fiscal measures, as well as to strengthen the business climate by implementing a comprehensive structural reform agenda that includes measures to improve governance and fight corruption.

Further, the government indicated that it is prepared to engage in "good faith discussions" with its creditors to explore options that would put Lebanon's public debt on a sustainable path. Lebanon appointed financial advisory firm Lazard Frères and law firm Cleary Gottlieb Steen & Hamilton to provide advisory services for debt-related matters. In addition, the Ministry of Finance said that it will hold an investor presentation at a later stage, and will periodically post on its website information for creditors.

Lebanon has $2.5bn worth of Eurobonds that will mature in 2020, including $1.2bn in March, $700m in April and $600m in June, as well as $2.2bn in coupons. Overall, Lebanon has $31.3bn worth of Eurobonds, divided into 29 series, with the longest maturing series consisting of a $750m Eurobond that comes due in March 2037.

Lebanon's Outstanding Eurobonds



Source: Refinitiv Datastream, Byblos Research

Sovereign ratings downgraded, outlook 'negative'

Capital Intelligence Ratings (CI Ratings) downgraded Lebanon's long-term foreign and local currency ratings from 'C+' to 'C-', and maintained the 'negative' outlook on the ratings. It also affirmed the short-term foreign and local currency ratings at 'C'. The agency attributed the downgrade to the increased risk that the Lebanese government will undertake some form of debt restructuring in the near term, given the lack of access to capital markets, the ongoing crisis in the banking sector, the decrease in Banque du Liban's (BdL) foreign currency reserves, as well as heightened political risks. It noted that the government relies heavily on monetary financing from BdL, which it considered as unsustainable or inconsistent in the context of Lebanon's fixed exchange rate regime.

The agency indicated that Lebanese authorities have $2.5bn in Eurobonds maturing between March and June 2020. It said that the government is currently discussing with domestic and foreign bondholders the possibility of exchanging the maturing bonds with longer-dated securities, a decision that it considered as a distressed exchange, which could lead to a default under its methodology.

In parallel, it noted that BdL's assets in foreign currency continued to decline and reached $35.8bn at the end of February 2020 compared to $37.3bn at end-2019. It said that foreign currency shortages in the market have increased, while the parallel exchange market continues to grow due the higher cost of conversion from Lebanese pounds to US dollars. It did not expect the shortages in foreign currency to dissipate in the short to medium term.

In addition, it pointed out that the banking sector is displaying increased signs of structural weaknesses, including weakening asset quality and significant asset-liability maturity mismatches. It added that some weaker banks might not be able to comply with BdL's regulation of increasing capital by 20% by June 2020 through US-dollar cash contributions. Further, the agency noted that it could revise the outlook to 'stable' if the government succeeds in securing a sustainable source of funds to repay maturating debt obligations, and implements an internationally-accepted reform agenda. But it considered this scenario to be currently unlikely.

International financial support depends on credible IMF program

Bank of America (BofA) anticipated Lebanon's economic contraction, fiscal deficit and inflation rate to post double-digit figures in 2020, in the absence of external funding and of reforms under a program with the International Monetary Fund (IMF). It estimated real GDP to have contracted by 4% in 2019 and expected it to shrink by 10% in 2020. In addition, it projected the average annual inflation rate to increase from 2.9% in 2019 to 20% in 2020. It considered that material support from the international community would depend on a credible IMF program. But it noted that the political divisions in the country limit the potential for reforms and for an IMF program. Still, it considered that further dialogue between Lebanese authorities and the Fund could allow political parties to become more receptive to the idea of an IMF program, given the country's worsening economic conditions.

It estimated the fiscal deficit at 11.5% of GDP in 2019, similar to the deficit posted in 2018, and well above the target deficit of 7.8% of GDP in the 2019 budget, mainly due to the significant drop in public revenues in the fourth quarter of last year. It projected the deficit to widen to 14.3% of GDP in 2020, relative to a target deficit of 9.6% in the 2020 budget, as a result of the sharp deterioration in economic activity. It added that the 2020 budget includes a reduction in domestic debt servicing costs and a cap on Treasury transfers to Electricité du Liban (EdL) that would help narrow the deficit by 5.6% of GDP. Excluding the two spending measures, it estimated that the deficit would widen to 20% of GDP this year.

It also projected the primary budget deficit to widen from an estimated 1.3% of GDP in 2019 to 8.9% of GDP in 2020, partly due lower revenues to the Treasury from the banking sector. It noted that lower interest rates are likely to lead to a decline in tax receipts on interest income, while the banks' deteriorating profits would weigh on revenues from the corporate income tax. Further, it estimated that the public debt level increased to 172% of GDP at end-2019. It noted that Banque du Liban (BdL) is likely to have monetized the fiscal deficit in the fourth quarter of 2019 in the absence of access to external and domestic markets. Further, it considered the start of the off-shore hydrocarbon exploration to be a positive step towards the potential commercial exploitation of gas in Lebanon. But it noted that there are significant uncertainties about the exact potential of hydrocarbon reserves in Lebanon's Exclusive Economic Zone. It also considered that the hydrocarbon sector could deter the implementation of structural reforms.

In parallel, BofA highlighted that, in the event of a restructuring of Lebanon's external debt, potential complexities could arise from the elevated level of foreign ownership of Eurobonds, the presence of a concentrated foreign ownership of the bonds among only a few investors, and the exclusion of the BdL from the vote to modify the financial terms of the Eurobonds. It noted that Lebanon's Eurobond agreement contains series-by-series Collective Action Clauses to modify the payment terms of a Eurobond series, including their coupon, principal amount or maturity, which means that a restructuring of the series would be legally binding for all bondholders if at least 75% of them agree to the changes. As such, it said that the elevated share of foreign ownership in Lebanese Eurobonds could facilitate the formation of a blocking minority of over 25% of bondholders, which would complicate the negotiations on restructuring the series. It also pointed out that the 75% threshold applies to several categories of votes, such as changing the maturity of the bond, modifying the currency of payment, and reducing or cancelling the principal amount to be paid. It added that the likely exclusion of BdL from the vote to restructure the debt could marginally increase the voting power of foreign investors.

Banque du Liban's foreign assets at $35.8bn, gold reserves at $15bn at end-February 2020

Banque du Liban's (BdL) interim balance sheet totaled $144.5bn at the end of February 2020, constituting an increase of 2.2% from $141.4bn at the end of 2019 and a decrease of 0.6% from $145.3bn at end-February 2019.

Assets in foreign currency reached $35.8bn at the end of February 2020, down by 4% from $37.3bn at the end of 2019, and by 8% from $38.9bn at end-February 2019. They included $5.5bn worth of Eurobonds at the end of February 2020 relative to $5.7bn at end-January. Excluding Lebanese Eurobonds, BdL's assets in foreign currency reached $30.3bn at end-February 2020, constituting a decline of $684.6m from the end of 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 $5.2bn between the end of August 2019 and end-February 2020. The decrease in BdL's assets in foreign currency, excluding Lebanese Eurobonds, is largely due 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, as well as to deposit outflows.

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 $869.9m in February 2020. This resulted in an aggregate decline of $2.9bn in BdL's total assets in foreign currency between the end of August 2019 and the end of February 2020.

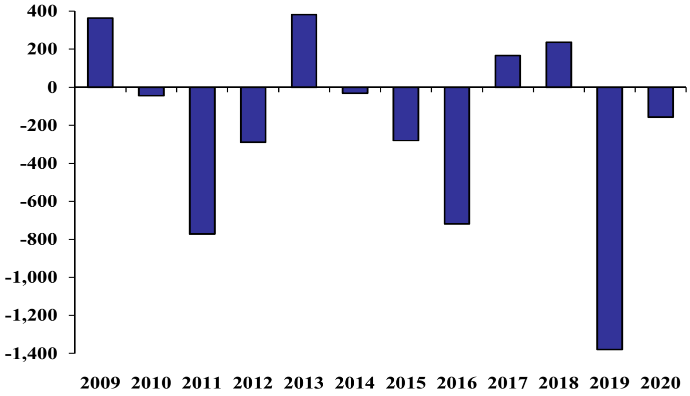
In parallel, the value of BdL's gold reserves rose by 7.7% from the end of 2019 and by 22.7% from end-February 2019 to reach $15bn at the end of February 2020. The value of gold reserves reached a peak of $16.7bn at the end of August 2011. Also, the securities portfolio of BdL totaled $38.2bn at end-February 2020, and increased by 0.6% from end-2019 and by 23.2% from a year earlier. In addition, loans to the local financial sector regressed by 0.7% from end-2019 to $14.8bn at end-February 2020. Further, deposits of the financial sector reached $112.6bn at end-February 2020, up by $622.7m from end-2019. Also, public sector deposits at BdL totaled $4.8bn at end-February 2020 and decreased by $647.8m from end-2019.

Net foreign assets of financial sector down by $158m in January 2020

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, decreased by $157.9m in January 2020 compared to a decline of $840.8m in December 2019 and to an increase of $1.38bn in January 2019. The decline in January 2020 was caused by a decrease of $612.8m in the net foreign assets of BdL, which was partly offset by an increase of $454.9m in those of banks and financial institutions.

The increase in the banks' net foreign assets is due to the steeper decline of their foreign liabilities relative to the decrease of their foreign assets. The drop in foreign liabilities was driven by a decrease in non-resident deposits; while the decline in the banks' foreign assets was mostly due to a contraction of their deposits with non-resident financial institutions and central banks as well as to a decline of their claims on non-resident customers. In parallel, the decrease in BdL's net foreign assets is due in part to the financing of necessity imports, such as hydrocarbons, medicine and wheat.

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



in January of each year
Source: Banque du Liban

The net foreign assets of the financial sector grew by $1.2bn in 2016, while they decreased by $155.7m in 2017, by $4.8bn in 2018 and by $4.35bn in 2019. 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.

Term deposits account for 85% of customer deposits at end-January 2020

Figures issued by Banque du Liban about the distribution of bank deposits at commercial banks in Lebanon show that term deposits in all currencies reached $143.5bn, while demand deposits in all currencies stood at $22.9bn at the end of January 2020.

Term deposits in all currencies declined by $6.2bn, or by 4.1% from $149.7bn at end-2019. They accounted for 85.2% of total deposits in Lebanese pounds and in foreign currency at end-January 2020 relative to a share of 86.7% at end-2019. The decline in term deposits was due to a year-on-year drop of 7.4% in term deposits in Lebanese pounds of the resident private sector, a 6.1% decrease in term deposits of the non-resident financial sector, a 5.3% decline in term deposits of non-residents, a 3.1% drop in term deposits in Lebanese pounds of the public sector, and a 2.5% decrease in foreign currency-denominated term deposits of the resident private sector. This was partly offset by a surge of 34.6% in in foreign currency-denominated term deposits of the public sector. In comparison, aggregate term deposits fell by $17.6bn in 2019, with term deposits in Lebanese pounds of the resident private sector falling by $12.1bn and term deposits of non-residents declining by $5.2bn. In fact, the drop in term deposits in Lebanese pounds of the resident private sector reflects cash withdrawals, deposit conversion to foreign currency and the migration of funds from term to demand deposits, amid the confidence crisis that started in September 2019. In this context, aggregate term deposits declined by $807.8m in the first three quarters of 2019 and by $16.8bn in the fourth quarter of last year.

Foreign currency-denominated term deposits of the resident private sector amounted to $76.9bn and accounted for 45.7% of total deposits at the end of January 2020. Term deposits in Lebanese pounds of the resident private sector followed with $28bn (16.6%), then term deposits of non-residents with $27.7bn (16.5%), term deposits of the non-resident financial sector with $6.4bn (3.8%), term deposits in Lebanese pounds of the public sector with $4bn (2.4%), and term deposits in foreign currency of the public sector with $432m (0.3%).

In parallel, demand deposits in all currencies rose by $2.1bn, or by 9.1% from $22.9bn at end-2019. They accounted for 14.8% of total deposits at end-January 2020 relative to a share of 13.3% at end-2019. The increase in demand deposits was mainly due to a growth of $1.1bn in foreign currency-denominated demand deposits of the resident private sector, a rise of $474.4m in demand deposits of non-residents, and an increase of $423.8m in demand deposits in Lebanese pounds of the resident private sector.

Demand deposits in foreign currency of the resident private sector amounted to $13.65bn and represented 8.1% of total deposits at the end of January 2020. Demand deposits in Lebanese pounds of the resident private sector followed with $5.1bn (3%), then demand deposits of non-residents with $3.6bn (2.2%), demand deposits of the non-resident financial sector with $2bn (1.2%), demand deposits in Lebanese pounds of the public sector with $332m (0.2%), and demand deposits in foreign currency of the public sector with $163.7m (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.

Banque du Liban issues circular to regulate exchange operations at money dealers

Banque du Liban (BdL) issued Intermediate Circular 546 on March 6, 2020, which amends Basic Circular 3 that regulates money exchange institutions in Lebanon. The circular sets the ceiling for the buying price of foreign currency at 30% of the exchange rate that BdL uses in its operations with banks in the country. It asks all money dealers to abide by the new ceiling and to refrain from offering unusually wide spreads between their buying and selling prices of US dollars. It stipulated that a money dealer should not stop offering any exchange service and that its operations should remain in line with its operating trends in 2018 and 2019. It cautioned that non-compliant money exchange institutions will be subject to legal and administrative sanctions and their license could be revoked. It indicated that these measures are exceptional and will be applied for a period of six months.

BdL indicated that it issued the circular because the exceptional period that Lebanon is going through has affected the exchange rate through cash transactions at money dealers. Consequently, BdL said that it needs to regulate the transactions conducted through money dealers and to take all necessary measures to prevent abusing the free convertibility of foreign currency in Lebanon.

According to the Banking Control Commission of Lebanon (BCCL), there are 305 money exchange institutions that are subject to the BCCL's supervision. In addition, the Special Investigation Commission (SIC) against money laundering and terrorism financing indicated that it conducted in 2018 on-site examinations of 90 money dealers, or 30% of the 305 money dealers under the BCCL's supervision, in order to ensure their full compliance with Law 44 about fighting money laundering and terrorism financing activities in the country. According to BdL, there are 46 Category A money dealers, while the remaining are classified under Category B. BdL defines money dealers in Category A as firms that are allowed to deal with cash, transfers, checks, traveler checks and precious metals. It defines Category B money dealers as firms that are allowed to deal with cash and traveler checks of up to $10,000, uncollected traveler checks, and precious metal bars not exceeding 1,000 grams each.

Number of new construction permits down 28% in January 2020

The Orders of Engineers & Architects of Beirut and of Tripoli issued 607 new construction permits in January 2020, constituting a decline of 27.8% from 841 permits in January 2019. In comparison, new construction permits decreased by 27.6% year-on-year in January 2019. Mount Lebanon accounted for 36% of newly-issued construction permits in the covered month, followed by the South with 24.2%, the Nabatieh area with 12.7%, the North with 14%, the Bekaa region with 6%, and Beirut with 4.6%. The remaining 2.6% were permits issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon.

The number of new construction permits issued for the Bekaa region dropped by 48.6% year-on-year in January 2020, followed by permits issued for Beirut (-48.1%), Mount Lebanon (-30.6%), the Nabatieh region (-29.4%), the North (-24.1%), and the South (-10.4%); while surface areas in regions located outside northern Lebanon decreased by 11.1% annually in the covered month.

Further, the surface area of granted construction permits reached 181,179 square meters (sqm) in January 2020, constituting a decrease of 64.1% from 504,819 sqm in the same month of 2019. In comparison, the surface area of granted construction permits regressed by 38.5% year-on-year in January 2019. Mount Lebanon accounted for 63,107 sqm, or 34.8% of the total in January 2020. The South followed with 38,770 sqm (21.4%), then the North with 32,910 sqm (18.2%), the Nabatieh area with 20,961 sqm (11.6%), the Bekaa region with 9,216 sqm (5.1%), and Beirut with 7,436 sqm (4.1%). The remaining 8,779 sqm, or 4.8% 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 Beirut dropped by 82.4% year-on-year in January 2020, followed by surface areas in the Bekaa region (-71.6%), Mount Lebanon (-67.5%), the North (-63.9%), the Nabatieh region (-48.7%), and the South (-45.2%); while surface areas in regions located outside northern Lebanon decreased by 73.6% annually in the covered month. In parallel, cement deliveries totaled 3.2 million tons in 2019, constituting a decline of 32% from 4.7 million tons in 2018, relative to a decrease of 8.7% in 2018.

Council of Ministers approves draft law to lift banking secrecy on designated persons

The Council of Ministers approved on March 5, 2020, a draft law that intends to lift the secrecy on the bank accounts of all elected or appointed public servants. Also, the draft law seeks to lift the banking secrecy on every person who has an executive or supervisory role at banks, at government-related funds, councils, political parties and non-governmental organizations, and in all media outlets, as well as third parties that get contractual agreements with the State. The government indicated that the draft law to lift banking secrecy on designated persons or entities falls within its efforts to fight corruption and improve transparency. The Cabinet will need to submit the draft law to Parliament for enactment.

In its Ministerial 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 banking 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.

Council of Ministers approves $165m Kuwaiti loan for mortgages through Banque de l'Habitat

The Council of Ministers approved on February 20, 2020 a draft law that allows the Lebanese government to accept a loan of KWD50m or the equivalent of $165m from the Kuwait-based Arab Fund for Economic and Social Development. The loan will be used to extend affordable mortgages to limited- and middle-income households through Banque de l'Habitat. It carries a 2.5% interest rate, and will be paid over a period of 30 years with a five-year grace period. The loan agreement still needs the Parliament's approval to come into effect.

Also, the Cabinet called on the Council for Development and Reconstruction to secure from the Arab Fund for Economic and Social Development a new loan for the Public Housing Corporation under the same conditions. The Arab Fund for Economic and Social Development's total contribution to development projects in Lebanon would reach KWD595m, or about $1.95bn when including the loan.

Banque du Liban provides $100m import facility for industrial sector

The Ministry of Industry indicated that Banque du Liban (BdL) will provide $100m for the industrial sector in order to finance the import of raw materials that are utilized in the production process. It noted that BdL will soon announce the details of the credit facility, and that the mechanism to access it will be transparent and non-discretionary. In parallel, the Association of Lebanese Industrialists (ALI) considered that the amount that BdL will extend to the industrial sector is significantly below the industrialists' needs, as it estimated that the sector requires $3bn in imports of raw materials annually, or $8m per day. As such, the ALI noted that the $100m would cover the sector's imports of raw materials for a period of 12 to 15 days. According to the ALI, the $3bn in imports of raw materials would enable the industrial sector to produce the equivalent of $10bn in products for the Lebanese market and about $3bn in exports, leading to a total of $13bn in industrial products.

Lebanon's industrial exports totaled $2.5bn in 2019, constituting a decline of 2% from $2.55bn in 2018. Exports of machinery & mechanical appliances amounted to $492m and accounted for 19.7% of aggregate industrial exports in 2019, followed by chemical products with $475.3m (19%), prepared foodstuffs & tobacco with $389.8m (15.6%), base metals with $310.4m (12.4%), plastics & rubber with $159.1m (6.4%), and pearls or semi-precious stones with $149.5m (6%). Arab countries were the destination of 53.2% of Lebanese industrial exports in 2019, followed by European economies with 18.6%, African countries with 11%, Asian economies with 10.8%, countries in the Americas with 4.8%, and markets in Oceania with 0.7%.

Number of airport passengers down by 14% in first two months of 2020

Figures released by the Beirut-Rafic Hariri International Airport (HIA) show that 977,524 passengers utilized the airport (arrivals, departures and transit) in the first two months of 2020, constituting a decline of 13.6% from 1,131,076 passengers in the same period of 2019. The number of arriving passengers decreased by 14.3% to 453,197 in the first two months of 2020, compared to an expansion of 0.4% in the same period last year and to a rise of 12.6% in the first two months of 2018. Also, the number of departing passengers regressed by 13.5% to 511,594 in the first two months of 2020, relative to an increase of 2.8% in the same period of 2019 and to a rise of 8% in the first two months of 2018.

In parallel, the airport's aircraft activity regressed by 14.2% to 8,792 take-offs and landings in the covered period, relative to an increase of 3.1% in the same period of 2019, while it was nearly unchanged in the first two months of 2018. In addition, the HIA processed 10,038 metric tons of freight in the first two months of 2020 that consisted of 5,584 tons of import freight and 4,454 tons of export freight. Middle East Airlines had 3,841 flights in the first two months of 2020 and accounted for 43.7% of HIA's total aircraft activity.

Broad money supply down 1.5% in January 2020

Figures released by Banque du Liban show that money supply M1, which includes currency in circulation and demand deposits in Lebanese pounds, reached LBP18,408bn at the end of January 2020, constituting an increase of 10.8% from LBP16,620bn at the end of 2019 and a rise of 75.5% from LBP10,488bn at end-January 2019. Currency in circulation stood at LBP10,734bn at the end of January 2020, up by 9.3% from LBP9,818bn at end-2019 and by 130.3% from LBP4,661bn at end-January 2019. Also, demand deposits in local currency stood at LBP7,674bn at the end of January 2020, constituting an increase of 12.8% from end-2019 and a rise of 31.7% from end-January 2019.

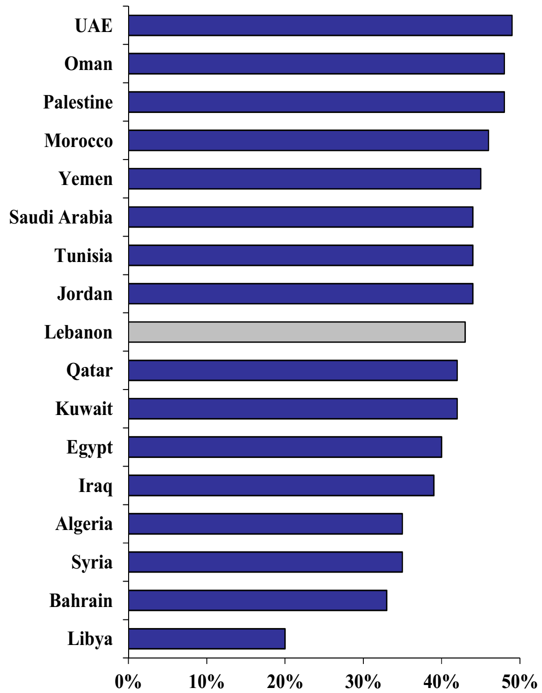
In addition, money supply M2, which includes M1 and term deposits in Lebanese pounds, reached LBP61,543bn at the end of January 2020, constituting a decrease of 3.1% from LBP63,484bn at the end of 2019 and a decline of 18% from LBP75,056bn a year earlier. Term deposits in Lebanese pounds totaled LBP43,135bn at the end of January 2020, down by 8% from LBP46,864bn at end-2019 and by 33.2% from LBP64,568bn at end-January 2019.

Further, broad money supply M3, which includes M2, deposits in foreign currency and debt securities issued by the banking sector, reached LBP199,831bn at the end of January 2020, constituting a decrease of 1.5% from LBP202,831bn at the end of 2019 and a decline of 5% from LBP210,434bn at end-January 2019. Deposits in foreign currency totaled LBP137,839bn at the end of January 2020, down by 0.8% from end-2019, but up by 2% from a year earlier. Also, debt securities issued by the banking sector amounted to LBP449bn at the end of January 2020, compared to LBP437bn at the end of 2019 and to LBP277bn at end-January 2019. In parallel, M3 regressed by LBP10,603bn in January 2020, due to a drop of LBP13,516bn in claims on the private sector, a decline of LBP3,790bn in net claims on the public sector, and a decrease of LBP1,051bn in the net foreign assets of deposit-taking institutions, which were partly offset by a surge of LBP7,754bn in other net items.

Less than one third of young Lebanese expect private sector to grow in next five years

A survey conducted by global management consulting company Oliver Wyman and non-profit organization INJAZ Al-Arab about youth perceptions in the Middle East & North Africa (MENA) region showed that 64% of young Lebanese had a positive opinion about the private sector's contribution to the country's economy. In contrast, 23% of the surveyed youth had a negative opinion and 13% were neutral. In comparison, 79% of the youth in the MENA region had a positive opinion about the private sector's contribution to their country's economy, while 7% had a negative opinion and 14% were neutral. The results also indicated that 34% of young Lebanese did not expect the private sector in Lebanon to grow in the next five years, while 30% anticipated the sector to expand and 36% of the respondents were neutral. On a regional basis, 75% of MENA youth projected the private sector in their country to grow in the next five years.

Percentage of youth with a positive opinion about the private sector's contribution to the economy in 2019



Source: Oliver Wyman, INJAZ Al-Arab

The youth employment survey was conducted in December 2019. It aims to capture the perception of young males and females about the private sector and understand their needs, in order to evaluate the demands of the future labor force. The survey represents the opinion of 2,420 respondents in the 16 to 35 year-old bracket from 17 MENA countries, out of which 62% are students.

The survey showed that 64% of the youth in Lebanon said that they see themselves working for multinational companies, 32% indicated that they will be working for small- and medium-sized enterprises, 28% will be employed by large local companies, 26% for startups, 11% in the public sector, and 10% for family businesses. In comparison, 37% of the youth in the MENA region indicated that they see themselves working for multinational companies, 32% for startups, 30% for large local companies, 28% for small- and medium-sized enterprises, 22% in the public sector, and 11% for family businesses. Also, 63% of Lebanese youth said that they aspire to start an entrepreneurial venture in Lebanon, while 21% indicated that they would not initiate such venture, and 16% had a neutral stance. In comparison, 84% of the youth in the MENA region said that they aspire to start an entrepreneurial venture in the future.

In parallel, 37% of the youth in Lebanon considered that the hospitality, food, leisure and travel sectors have the potential to contribute the most to the growth of the private sector in the country, followed by the energy & utilities sector (36% of respondents), the media & creative industries (35% of participants), the education and information & communication sectors (32% each), and the agriculture, forestry and mining industry (30%). In comparison, 36% of the youth in the MENA region believed that the industrial sector has the potential to contribute the most to the growth of the private sector in the region, followed by the energy & utilities sector (33% of respondents), and the media & creative and the information & communication sectors (28% of participants each).

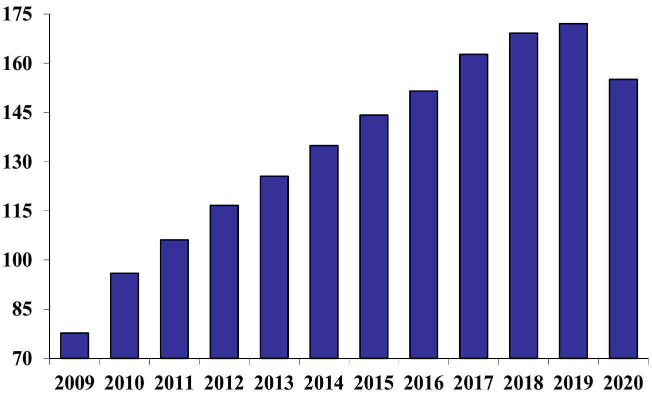
In addition, 70% of Lebanese youth pointed out that the lack of opportunities for fresh graduates is the main factor that discourages them from working in the private sector, while 54% cited the lack of job security, 39% mentioned the uncompetitive compensation and benefits, and 36% said that long working hours discourage them from seeking employment in the private sector. In comparison, 64% of the youth in the MENA region indicated that the lack of opportunities for fresh graduates is the main factor that discourages them from working in the private sector, while 45% cited the uncompetitive compensation and benefits, 37% mentioned the lack of job security, and 32% said that long working hours discourage them from seeking employment in the private sector.

Further, 74% of respondents indicated that the prevalence of personal connections is the main obstacle that Lebanese youth faces when applying to work in the private sector, while 70% cited the shortage of job opportunities and 58% named the lack of experience. In comparison, 52% of MENA youth considered that the lack in experience required by the job is the main obstacle that Lebanese youth faces when applying to work in the private sector, while 50% cited the prevalence of personal connections, 31% mentioned the lack of knowledge about available job opportunities, and 29% said that private companies prefer foreign talent over local ones.

Banking sector assets at $214bn at end-January 2020

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets stood at $213.8bn at the end of January 2020, constituting a decrease of 1.4% from $216.8bn at the end of 2019 and a decline of 14.1% from $248.9bn at end-January 2019. The year-on-year 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 starting in December 2019. 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.

Private Sector Deposits at Banks (US$bn)



**at the end of January of each year*
Source: Banque du Liban, Byblos Research

Loans extended to the private sector reached $47.9bn at the end of January 2020, regressing by 3.7% from end-2019 and by 17.6% from a year earlier. Loans to the resident private sector totaled $42.6bn, constituting a decrease of 3.6% from the end of 2019 and of 16.7% from end-January 2019. Also, credit to the non-resident private sector reached $5.3bn at end-January 2020, declining by 4.9% from end-2019 and by 23.8% from a year earlier. In nominal terms, credit to the private sector contracted by $1.9bn in January 2020 relative to a decrease of $1.2bn in the same month of 2019, as lending to the resident private sector declined by $1.58bn and credit to the non-resident private sector regressed by $273.7m in the covered month. The dollarization rate of private sector loans fell from 69% at end-January 2019 to 67.8% at end-January 2020. The contraction in the banks' loan portfolio persisted in 2020, after shrinking by $4.88bn in the first three quarters of 2019 and by $4.7bn in the fourth quarter of last year.

In addition, claims on non-resident financial institutions reached $6.1bn at the end of January 2020 and declined by $658.5m, or 9.7% from end-2019 and by $4.5bn, or 42.4%, from a year earlier. The banks' claims on non-resident financial institutions contracted by $3bn from the end of August 2019. Also, deposits at foreign central banks totaled $571.7m and dropped by 2.8% from end-2019 and by 42.7% from end-January 2019. In addition, claims on the public sector stood at $27.2bn at end-January 2020, down by $1.5bn, or 5.2% from end-2019 and by $6.3bn, or 18.7% from end-January 2019. The average lending rate in Lebanese pounds was 9.86% in January 2020 compared to 10.41% a year earlier, while the same rate in US dollars was 10.07% relative to 8.89% in January 2019. Further, the deposits of commercial banks at BdL totaled $117.6bn at the end of January 2020, nearly unchanged from the end of 2019, and down by 11.1% from $132.3bn at the end of January 2019, following the netting operation.

In parallel, private sector deposits totaled $155.1bn at the end of January 2020, and decreased by 2.4% from the end of 2019 and by 10% from end-January 2019. Deposits in Lebanese pounds reached the equivalent of $36.1bn at end-January 2020, down by 5.1% from the end of 2019 and by 28% from a year earlier; while deposits in foreign currency totaled $119bn, as they regressed by 1.5% from end-2019 and by 2.5% from end-January 2019. Resident deposits totaled $123.7bn at the end of January 2020 and decreased by $2.7bn, or 2.1% from the end of 2019 and by $11.3bn, or 8.4% from a year earlier. Also, non-resident deposits reached $31.4bn at end-January 2020, as they regressed by $1.1bn, or 3.4%, from end-2019 and by $5.7bn, or 15.3%, from the end of January 2019. In nominal terms, aggregate private sector deposits regressed by $3.8bn in January 2020 relative to a decrease of $2.2bn in the same month of 2019, with deposits in Lebanese pounds dropping by $1.95bn and foreign-currency deposits declining by $1.8bn. In comparison, private sector deposits declined by $2.2bn in September, by $1.9bn in October, by $5.8bn in November and by $3.7bn in December 2019. As such, aggregate private sector deposits dropped by $17.4bn in the five-month period ending in January 2020, due to deposit outflows and to the hoarding of cash at households. The dollarization rate of private sector deposits was 76.7% at end-January 2020, up from 76% at the end of 2019, and compared to 70.9% a year earlier.

In parallel, the liabilities of non-resident financial institutions reached $8.5bn at the end of January 2020 and decreased by 4.2% from end-2019. Further, the average deposit rate in Lebanese pounds was 6.62% in January 2020 compared to 8.93% a year earlier, while the same rate in US dollars was 4% relative to 5.58% in January 2019. The ratio of private sector loans to deposits in foreign currency stood at 27.3% at the end of January 2020 compared to 32.9% a year earlier, well below BdL's limit of 70%. The same ratio in Lebanese pounds reached 42.6% at end-January 2020 relative to 35.9% from a year earlier. As such, the total private sector loans-to-deposits ratio reached 30.9% compared to 33.8% at end-January 2019. The banks' aggregate capital base stood at $21bn at end-January 2020, down by 5.1% from $22.1bn a year earlier.

Solidere discloses sales contracts for 2019

Solidere, the Lebanese Company for the Development and Reconstruction of Beirut Central District sal, indicated that it signed $250.1m worth of real estate sales contracts in 2019, but it noted that the funds will be fully or partially disbursed in 2019. It added that the aggregate value of signed sales contracts totaled $112.8m in the first two months of 2020. Solidere pointed out that it released the sales numbers in response to the false information that is being circulated about the company's sales since the beginning of 2019. It noted that it will periodically publish the amounts of signed sales contracts in order to ensure the accuracy of the information circulated. The company's revenues from land sales totaled $1.27m in 2018, $94,500 in 2017 and $203.3m in 2016.

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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