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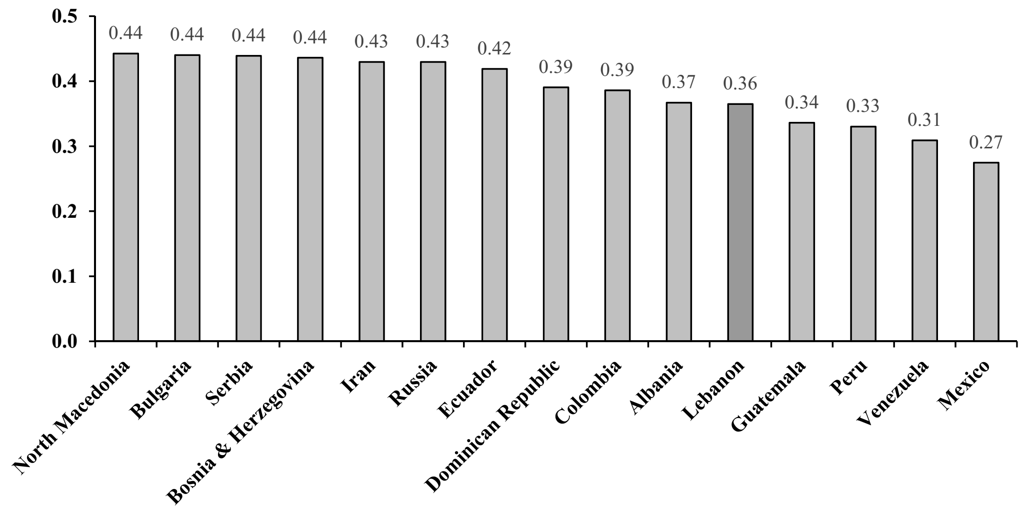
LEBANON THIS WEEK

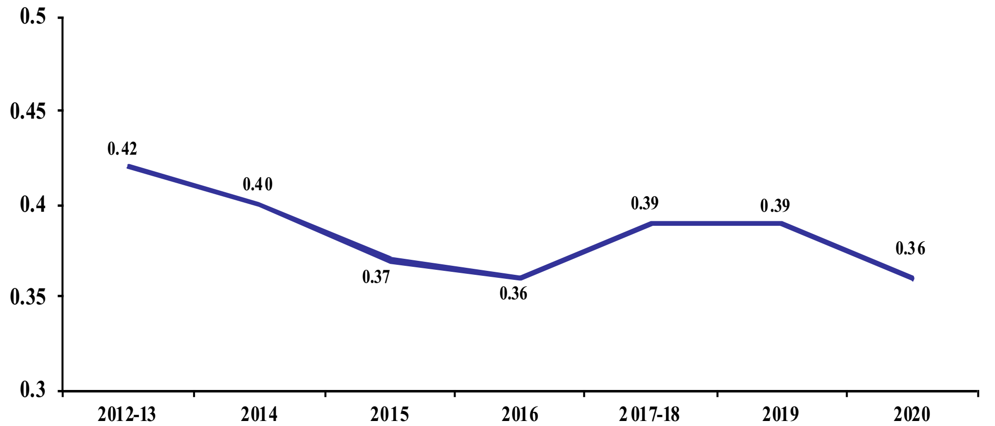
In This Issue

Charts of the Week

Performance of Upper Middle Income Countries in terms of the Absence of Corruption*



Performance of Lebanon in terms of the Absence of Corruption



**bottom 15 upper middle income countries with a GDP of $10bn or more; higher score reflects better control of corruprion*
Source: World Justice Project's 2020 Rule of Law Index, Byblos Research

Quote to Note

"Depending on the severity of the restructuring terms, haircuts on nominal payments could have ripple effects across the domestic financial system, including on depositors and the economy."

S&P Global Ratings, on the consequences of the Lebanese government's recent default on its Eurobond payments

Number of the Week

87%: Percentage of countries that have defaulted on their external obligations and restructured their external debt in conjunction with a program with the International Monetary Fund, according to Goldman Sachs

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	(6,246)	(5,837)	(6.55)	(437)	(432)	(892)	(920)
Primary Balance	(636)	(287)	(54.82)	(145)	21	17	(521)
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 **year-on-year percentage change; bps i.e. basis points ***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*
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
Audi Listed	1.50	(9.64)	202,000	10.09%
Solidere "B"	8.99	(0.11)	142,933	9.83%
Solidere "A"	8.99	(0.11)	84,938	15.13%
BLOM Listed	3.15	(17.75)	55,000	11.40%
Byblos Common	0.90	0.00	10,000	8.56%
BLOM GDR	3.50	0.00	-	4.35%
HOLCIM	9.71	0.00	-	3.19%
Byblos Pref. 08	60.00	0.00	-	2.02%
Audi GDR	2.39	0.00	-	4.81%
Byblos Pref. 09	59.90	0.00	-	2.02%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Apr 2021	8.25	14.88	295.56
Oct 2022	6.10	15.00	91.07
Jan 2023	6.00	14.50	80.93
Jun 2025	6.25	16.38	37.88
Nov 2026	6.60	14.63	30.98
Feb 2030	6.65	13.50	21.24
Apr 2031	7.00	14.25	18.39
May 2033	8.20	12.50	16.46
Nov 2035	7.05	11.13	14.58
Mar 2037	7.25	15.75	11.18

Source: Byblos Bank Capital Markets, Refinitiv

	Mar 16-20	Mar 9-13	% Change	February 2020	February 2019	% Change
Total shares traded	496,871	909,470	(45.4)	1,729,973	121,955,414	(98.6)
Total value traded	$2,532,749	$7,156,909	(64.6)	$11,322,149	$569,916,249	(98.0)
Market capitalization	$5.94bn	$6.16bn	(3.46)	$6.24bn	$9.34bn	(33.2)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Mar 13, 2020	Mar 20, 2020	% Change**
CDS 1-year*	35,862	24,762	(31.0)
CDS 3-year*	22,491	17,668	(21.4)
CDS 5-year*	18,226	14,717	(19.3)

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

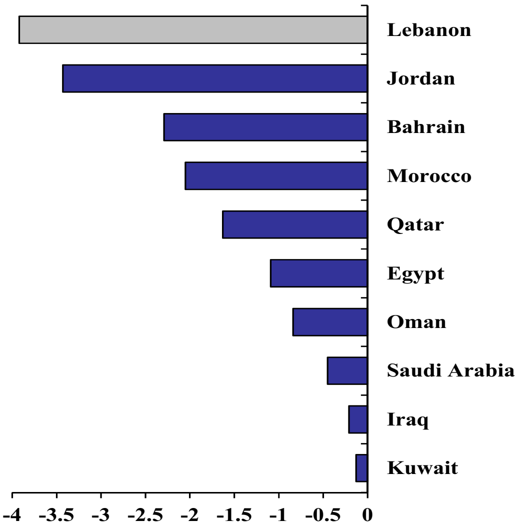
CDX EM 30*	Mar 13, 2020	Mar 20, 2020	% Change***
CDS 5-year**	364.14	449.85	23.5

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

Slowdown in global tourism activity to have "moderate impact" on Lebanon's fiscal and external metrics in 2020

In its assessment of the impact of a coronavirus-driven slowdown on global tourism activity, S&P Global Ratings indicated that a slowdown in global tourism receipts would have a moderate effect on Lebanon's real GDP growth rate, fiscal balance, external liquidity and external balance sheet. The agency noted that the outbreak of the coronavirus will have a major impact on global tourism activity, given that the tourism sector constitutes a key source of foreign currency, economic growth, and fiscal revenues to many sovereigns. As such, it assessed the impact of a coronavirus-related decline in global tourism receipts on the real GDP growth rate, fiscal balance, external liquidity and external balance sheet of 122 sovereigns in 2020. It based its analysis on three shock scenarios that it calibrated to be in line with a similar stress model conducted by the International Air Transport Association (IATA). These scenarios consist of "limited", "extensive" and "extreme" shocks to global tourism revenues whereby S&P assumes that such receipts would decline by 11%, 19% and 27%, respectively, in 2020. It added that its stress scenarios assume that there is no policy response from national governments, the contribution of the tourism sector to current account receipts would remain constant, tourist receipts would recover by 2021, and governments would fully fund the weakening of the current account balance by a drawdown of their foreign currency reserves, among other assumptions.

Deviation in Real GDP Growth of Arab Countries from a Slowdown in Global Tourism Activity (%)*



**in case of a 27% shock*
Source: S&P Global Ratings, Byblos Research

In this context, it estimated that a "limited" shock scenario, or an 11% decline in global tourism receipts due to the spread of the coronavirus, would reduce Lebanon's real GDP growth rate by 1.6 percentage points in 2020, while an "extensive" shock scenario, or a 19% drop in tourism revenues, would decrease the country's economic growth rate by 2.76 percentage points this year. Also, it said that the materialization of an "extreme" shock scenario, whereby global tourist receipts regress by 27%, would lead to a retreat of 3.92 percentage points in Lebanon's real GDP growth rate this year. As such, it ranked Lebanon as the 12th most exposed country globally and the most exposed among 10 Arab countries to the impact of lower global tourism receipts on economic activity.

Further, the agency indicated that a "limited" shock to tourism would weaken Lebanon's fiscal balance by 0.57 percentage points of GDP in 2020; an "extensive" shock would deteriorate the fiscal balance by 1.01 percentage points of GDP; and an "extreme" shock would weaken the fiscal balance by 1.47 percentage points of GDP this year. As such, it ranked Lebanon as the 12th most vulnerable country globally and the most exposed regionally to the impact of a coronavirus-related reduction in tourism receipts on the fiscal balance.

In parallel, S&P estimated that an 11% decline in global tourism revenues this year would result in a deterioration of 2.67 percentage points in Lebanon's external liquidity, which it measures as the ratio of gross external financing needs to current account receipts plus usable reserves. It said that this ratio would deteriorate by 4.68 percentage points under an "extensive" shock scenario and by 6.75 percentage points under an "extreme" shock scenario. As such, it ranked Lebanon as the 21st most vulnerable country globally and the third most exposed country regionally, behind Bahrain and Jordan, to the implication of a slowdown in global tourism activity on external liquidity.

In addition, the agency pointed out that a "limited" shock scenario would result in a deterioration of 2.41 percentage points in Lebanon's external balance sheet, which it measures as the ratio of the narrow net external debt to current account receipts or to current account payments. It noted that this ratio would deteriorate by 4.17 percentage points under an "extensive" shock scenario and by 5.95 percentage points under an "extreme" shock scenario. As such, it ranked Lebanon as the 31st most vulnerable country globally and the third most exposed country regionally, behind Jordan and Egypt, to the impact of a coronavirus-related decline in global tourism receipts on the external balance sheet.

Coincident Indicator down 13% year-on-year in January 2020

Banque du Liban's Coincident Indicator, an index of economic activity in Lebanon, reached 259 points in January 2020 compared to 266 in December 2019 and 296 in January 2019. The Coincident Indicator, an average of eight weighted economic indicators, decreased by 2.6% month-on-month and regressed by 12.5% year-on-year in January 2020. The annual decline in the indicator in January 2020 is the fourth steepest on record. In comparison, the indicator contracted by 18.7% annually in July 2006 and 33% in August 2006 during the Israeli war on Lebanon, as well as by 13.4% in November 2019.

The indicator averaged 289.5 in the 12 months ending January 2020, compared to an average of 292.6 in the 12-month period ending December 2019 and to an average of 306.6 in the 12 months ending January 2019. As a result, the 12-month average coincident indicator declined by 1.1% month-on-month, while it regressed by 5.6% year-on-year. In parallel, the indicator regressed 15 times and improved 12 times in the month of January since 1994. It average 256.6 points in 2012, 264.7 points in 2013, 273.2 points in 2014, 278.6 points in 2015, 289.5 points in 2016, 305.9 points in 2017, 307.7 points in 2018, and 292.6 points in 2019.

Lebanon in the News

Lebanon discontinues payments on outstanding Eurobonds, will hold investor presentation on March 27, 2020

The Ministry of Finance announced on March 23, 2020 that the Lebanese Republic will discontinue payments on all of its outstanding Eurobonds due to increased pressure on the country's access to foreign currency. It also plans to hold an investor presentation on March 27, 2020 as part of its effort to engage in "good faith discussions" with its creditors as early as possible. It instructed Lazard Frères, the country's financial advisors, to initiate appropriate arrangements to facilitate such "good faith discussions".

The ministry indicated that the government will take "all measures it deems necessary to prudently manage Lebanon's foreign currency reserves". It also reiterated the government's commitment to undertake reforms that aim to address fiscal imbalances, improve the business environment, and stabilize the financial sector, as well as to develop a sustainable macroeconomic plan to help the economy recover. The government previously announced that it 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.

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. On March 7, 2020, Prime Minister Hassan Diab announced 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. Lebanon appointed financial advisory firm Lazard Frères and law firm Cleary Gottlieb Steen & Hamilton to provide advisory services for debt-related matters.

Banque du Liban takes measures to support private sector firms

Banque du Liban (BdL) issued on March 23, 2020 Intermediate Circular 547 that amends Basic Circular 23 about the facilities that BdL can provide to commercial banks and financial institutions. The circular asked banks and financial institutions operating in the country to extend, exceptionally and on their own responsibility, loans in Lebanese pounds or US dollars to clients that already have credit facilities and that are unable to meet their obligations during March, April and May 2020, because of the prevailing conditions.

It said that the exceptional loans will only be extended to pay the monthly settlements of existing loan, and/or to cover the salaries, operating expenditures or production-related spending for enterprises. It noted that these loans will not be subject to any fee, commission or interest rate, while the beneficiary will pay the loan over a period of five years. It added that these loans will be excluded from the ceiling that banks have for each client. Further, the circular indicated that BdL will provide banks and financial institutions credit lines in US dollars at an interest rate of zero percent, to be repaid over five years, and for an amount equivalent to the value of exceptional loans they extend in local and foreign currencies.

Reform implementation challenging in the absence of external anchor

Bank of America (BofA) indicated that Lebanon has been running wide fiscal and external imbalances for 30 years, which along with poor governance, culminated in a severe crisis that started in October 2019. It also noted that Lebanon withheld the payment of a $1.2bn Eurobond that matured on March 9, 2020, breaking an unblemished track record of external debt payments irrespective of political, security or economic conditions in the country.

It pointed out that Prime Minister Hassan Diab announced on March 7, 2020 that the government will withhold payments of the maturing Eurobond, as well as Lebanon's commitment to implementing a comprehensive reform program. However, it noted that the implementation of reforms could be challenging in the absence of an external anchor, given the severity of the crisis that Lebanon is facing, the poor track record of successive governments in implementing reforms, and the lack of domestic credibility in enforcing pledged reforms. It said that PM Diab announced that the government intends to implement fiscal reforms, including the reduction of Treasury transfers to Electricity du Liban and improving tax compliance, as well as plans to strengthen social safety nets, to implement structural measures to fight corruption and improve governance, and to restructure the banking sector. It added that the Council of Ministers approved a law to remove banking secrecy on public sector officials, and will adopt in the near term a law that regulates relations between depositors and banks.

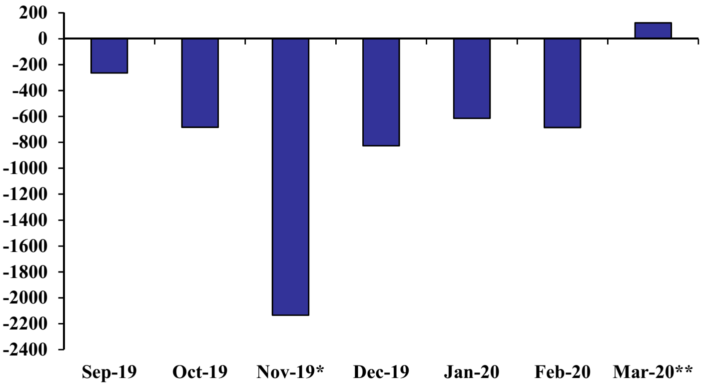
Further, BofA indicated that PM Diab's speech on March 7 did not include any reference to a program with the International Monetary Fund, which could reflect the opposition of some political parties to such a program. But it considered that political opposition to an IMF program could recede as the economic crisis worsens. It added that PM Diab suggested the implementation of CEDRE reforms, which he considered to be crucial to regain support from Gulf Cooperation Council countries and international partners. It anticipated that Lebanon will pay coupons on long-dated Eurobonds amid the lack of a debt recovery plan and external financial support, which would prevent cross acceleration of the debt. However, it considered that a full external debt moratorium is more likely, and that the government could proceed with a restructuring of the domestic debt.

Banque du Liban's foreign assets at $35.7bn, gold reserves at $14.6bn at mid-March 2020

Banque du Liban's (BdL) interim balance sheet totaled $144.7bn on March 15, 2020, nearly unchanged from $144.5bn at the end of February 2020, and constituting an increase of 2.3% from $141.4bn at the end of 2019.

Assets in foreign currency reached $35.7bn at mid-March 2020, down by 4.1% from $37.3bn at the end of 2019. They included $5.35bn worth of Lebanese Eurobonds at mid-March 2020 relative to $5.5bn at end-February and $5.7bn at end-January. Assets in foreign currency 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, by $869.9m in February and by $41.9m in the first half of March 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 mid-March 2020.

Change in Gross Foreign Currency Reserves (US$m)



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

Excluding Lebanese Eurobonds, BdL's assets in foreign currency reached $30.4bn at mid-March 2020, constituting an increase of $123m from the end of February 2020. The increase is due in part to BdL selling $150m in of Lebanese Eurobonds from its portfolio. In comparison, these assets decreased by $264.2m in September 2019, by $683.1m in October, by $2.1bn in November, by $826.4m in December, by $613.3m in January 2020, and by $684.6m in February, resulting in a cumulative decline of $5.08bn between the end of August 2019 and mid-March 2020. The downward trend 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 parallel, the value of BdL's gold reserves declined by 2.8% from end-February 2020, while it rose by 4.7% from the end of 2019 to reach $14.6bn at mid-March 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 $38.3bn at mid-March 2020, and increased by 0.8% from end-2019. In addition, loans to the local financial sector regressed by 0.8% from end-2019 to $14.8bn at mid-March 2020. Further, deposits of the financial sector reached $113.2bn at mid-March 2020, up by $592.9m from end-February and by $1.2bn from end-2019. Also, public sector deposits at BdL totaled $4.8bn at mid-March 2020 and decreased by $644.5m from end-2019.

Council of Ministers declares general mobilization to face coronavirus crisis

The Council of Ministers declared on March 15, 2020 a general mobilization until March 29, 2020, in an attempt to contain the spread of the coronavirus in Lebanon. It called on Lebanon's residents to stay at home, and to refrain from leaving their residences except for urgent matters. It stressed that all types of gatherings, whether in public or private places, are prohibited. The government also decided to close the Beirut Rafic Hariri International Airport, as well as all seaports and cross-border entry points from March 18 until March 29, 2020 for incoming visitors, with the exception of members of the United Nations Interim Force, diplomatic missions, international organizations, aircrafts that transport cargo, and employees of companies involved in the drilling of the offshore oil and gas exploration well in Block 4. It also ordered the closing of public administrations and institutions, municipalities, independent authorities, public and private schools and universities, and preschools.

The Cabinet pointed out that the lockdown decision excludes the main divisions at the Ministry of Defense, the General Directorate of Internal Security Forces, the General Directorate of General Security, the General Directorate of State Security, the General Directorate of Civil Defense, municipal security personnel, and firefighters. It also excludes the Ministry of Public Health, as well as public and private hospitals and clinics, non-governmental organizations, social welfare centers, and all entities related to the healthcare sector, such as pharmacies and laboratories, among others. In addition, it indicated that the lockdown decision does not cover the general directorate of the National Social Security Fund, the general directorate for the Cooperative of Government Employees, mutual funds, and insurance companies, among others. Further, it excluded from the lockdown public and private firms that provide utilities, such as electricity, water, fuel and gas, while it called on the financial sector, including banks and Banque du Liban, to maintain a minimum level of operations in order to secure basic customer needs. It added that all companies in the production, storage and sale of foodstuff and other basic consumable goods and necessary raw materials, as well as all firms in the transport of products, should remain open.

In parallel, the Cabinet exempted from custom fees and excise taxes all imports of medical and hospital supplies and equipment used for prevention against the coronavirus and in the treatment of infected persons. Also, the government tasked the Ministry of Foreign Affairs to communicate with foreign countries and international organizations to provide Lebanon with the needed medical equipment and if possible to collect grants.

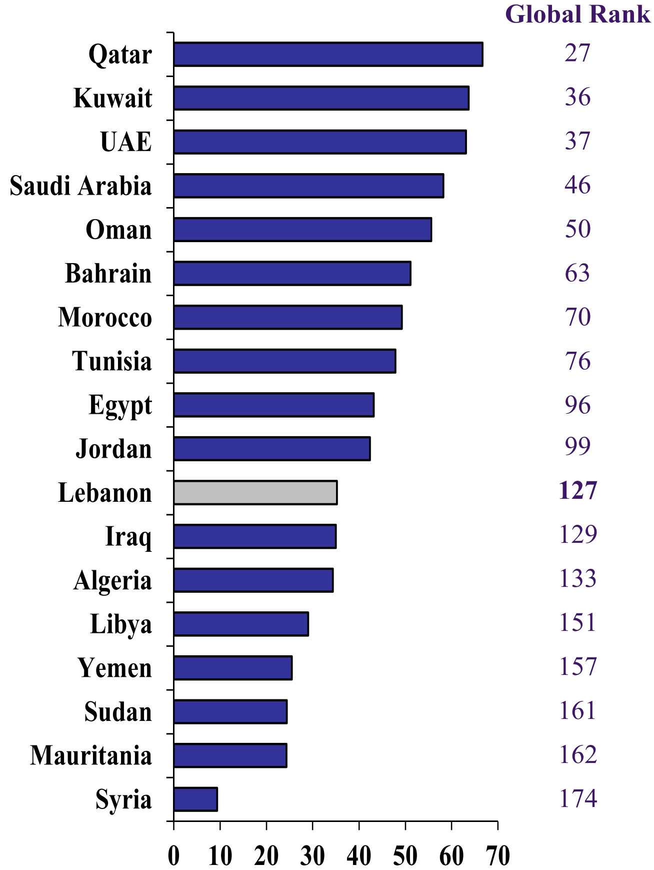
Lebanon ranks 127th globally, 11th in Arab region in country risk in fourth quarter of 2019

In its quarterly survey of the country risk level in 174 countries, the Euromoney Group ranked Lebanon in 127th place worldwide and in 11th place among 18 Arab countries in the fourth quarter of 2019. Also, Lebanon came in 40th place among 52 upper middle-income countries (UMICs) included in the survey. Lebanon's global rank deteriorated by 25 spots, the second steepest decline globally, while its regional rank was unchanged from the third quarter of 2019. The survey evaluates individual country risk by assigning a weighting to five categories that cover Political Assessment, Economic Assessment, Structural Assessment, Access to International Capital Markets, and Debt Indicators. A higher score reflects a lower country risk level.

Globally, Lebanon had a lower country risk level than Nepal, Iraq and Madagascar, and a higher risk level than Pakistan, Angola and Mongolia among economies with a GDP of $10bn or more. It also ranked ahead of Iraq and Algeria, and came behind Jamaica and Ecuador among UMICs. Lebanon's global rank dropped by 26 spots on the Economic Assessment category, by 22 notches on the Political Assessment indicator, by 17 spots on the Access to International Capital Markets category and by two notches on the Structural Assessment indicator, while it was unchanged quarter-on-quarter on the Debt Indicators category.

Lebanon received a score of 35.23 points in the fourth quarter of 2019, down from 40.57 points in the preceding quarter. Lebanon's score came well below the global average score of 47.27 points and the average score of 43 points for UMICs and of 42.13 for Arab countries. Also, its score was lower than the Gulf Cooperation Council (GCC) countries' average score of 59.74 points, but it came above the average score of non-GCC Arab countries of 33.33 points. Further, Lebanon's score declined by 19% on the Economic Assessment indicator, by 15% on the Political Assessment category, and by 12% on the Access to International Capital Markets indicator in the fourth quarter of 2019. It also increased by 0.3% on the Structural Assessment indicator, while it was unchanged on the Debt Indicators category from the third quarter of 2019.

Country Risk in Arab World in Fourth Quarter of 2019
Arab Countries' Scores & Rankings



Source: Euromoney Group, Byblos Research

In parallel, Lebanon ranked ahead of Nepal and behind Cuba worldwide, and came ahead of Algeria and behind Jordan regionally on the Economic Assessment indicator. Also, it came ahead of Bolivia and behind Ukraine globally, and ranked ahead of Iraq and behind Mauritania in the Arab region on the Political Assessment category. In addition, Lebanon ranked ahead of Romania and behind Saudi Arabia worldwide, and came ahead of Morocco and behind Saudi Arabia regionally on the Structural Assessment indicator. Further, it ranked ahead of Cyprus and behind Iceland globally, and came ahead of Egypt and behind Bahrain among Arab countries on the Access to International Capital Markets indicator. Finally, Lebanon ranked ahead of Mozambique and behind Equatorial Guinea worldwide, and came ahead of Syria and behind Oman regionally on the Debt Indicators category.

Country Risk Indicators for Lebanon - Fourth Quarter of 2019

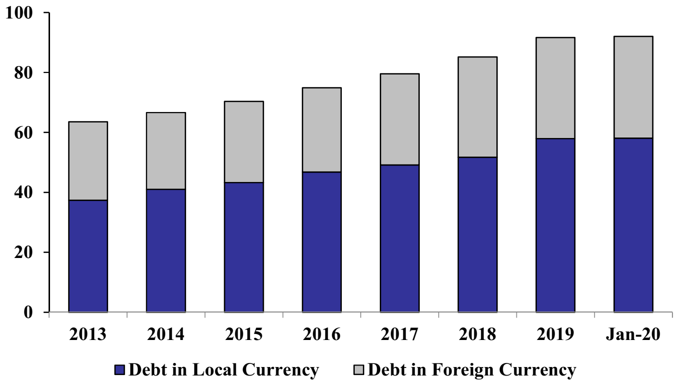
	Weighting (%)	Score	Arab Rank	Global Rank	Arab Avge Score	Global Avge Score
Economic Assessment	35	14.44	13	139	14.85	16.46
Political Assessment	35	12.01	13	143	13.83	16.49
Structural Assessment	10	5.00	8	74	4.44	4.49
Access to Int'l Capital Mkts	10	7.00	7	50	4.58	4.53
Debt Indicators	10	2.12	17	168	4.44	5.30

Source: Euromoney Group, Byblos Research

Gross public debt at $92bn at end-January 2020

Lebanon's gross public debt reached $92bn at the end of January 2020, constituting an increase of 0.4% from $91.6bn at the end of 2019, and a rise of 7.8% from $85.3bn at the end of January 2019. In nominal terms, the gross public debt grew by $353m in January 2020, relative to an increase of $180.4m in the same month of 2019. Debt denominated in Lebanese pounds totaled $58bn at the end of January 2020, up by 0.3% from end-2019 and by 12.3% from end-January 2019; while debt denominated in foreign currency stood at $33.9bn, and grew by 0.6% from end-2019 and by 0.9% from a year earlier.

Lebanon's Gross Public Debt ($bn)



Source: Ministry of Finance, Byblos Research

The year-on-year increase of the local-currency debt was mostly due to the Ministry of Finance's (MoF) issuance in November and December of LBP1,500bn and LBP3,000bn 10-year Treasury bonds, respectively, at a rate of 1%, which were entirely subscribed by Banque du Liban (BdL). The two issuances were part of a deal between the MoF and BdL, which stipulated that the MoF issues $3bn worth of Eurobonds to BdL to cover external debt payments that BdL made on behalf of the government throughout the year, while BdL would subscribe to LBP4,500bn worth of Treasury bonds.

Local currency debt accounted for 63.1% of the gross public debt at the end of January 2020 compared to 60.6% a year earlier, while foreign currency-denominated debt represented the balance of 36.9% relative to 39.4% at end-January 2019. The weighted interest rate on outstanding Treasury bills was 6.46% and the rate on Eurobonds was 7.38% in January 2020. Further, the weighted life on Eurobonds was 7.92 years, while it was 1,760 days on Treasury bills and bonds.

BdL accounted for nearly 43% of the public debt at the end of January 2020, followed by commercial banks (32%), and non-bank resident financial institutions (8.2%), while other investors, including foreign investors, held 14.7% of the debt, and multilateral institutions and foreign governments accounted for 2.2%. BdL held 58.2% of the Lebanese pound-denominated public debt at the end of January 2020 compared to 50.3% a year earlier, while commercial banks accounted for 28.8% of the local debt compared to 35% at end-January 2019. Also, public agencies, financial institutions and the public held 13.1% of the local debt at end-January 2020 relative to 14.7% at end-January 2019. Further, holders of Eurobonds and special T-bills in foreign currencies accounted for 94% of foreign currency-denominated debt holders at the end of January 2020, followed by multilateral institutions with 4.2% and foreign governments with 1.9%. In addition, the net public debt, which excludes public sector deposits at BdL and at commercial and investment banks from overall debt figures, grew by 7.6% annually to $81.7bn at the end of January 2020. Further, the gross market debt accounted for about 54% of the public debt. The gross market debt is the total public debt less the portfolios of BdL, the National Social Security Fund, as well as bilateral and multilateral loans.

Agency downgrades foreign currency rating to Restricted Default

Fitch Ratings downgraded Lebanon's long-term foreign currency Issuer Default Rating (IDR) from 'C' to 'RD' (Restricted Default), following the end of the seven-day grace period for the payment of the $1.2bn Eurobond that matured on March 9, 2020. It also lowered to 'D' (Default) the rating on the defaulted Eurobond and withdrew the rating.

Further, it affirmed at 'C' the ratings on Lebanon's remaining Eurobond series and simultaneously withdrew the ratings as the agency no longer considers them to be relevant to its coverage, given that the Lebanese Republic has announced its intention to restructure all its Eurobond series. It expected all the remaining Eurobonds to be in default in due course, either as the sovereign misses debt service payments or as the government reaches an agreement with creditors on the restructuring these bonds. The agency indicated that it would raise the foreign currency rating, once Lebanon reaches an agreement with bondholders on restructuring its foreign currency debt, and completes the restructuring process.

In parallel, the agency affirmed at 'CC' the country's long-term local currency IDR. It indicated that the government has not explicitly indicated if the debt restructuring will also involve the local currency-denominated debt. It considered that some restructuring of the local currency-denominated debt is highly probable, given the government's intention to put the public debt level on a sustainable path, but it noted that the timeline for such a restructuring is still unclear. It also pointed out that it would lower the local currency IDR to 'C' if the government clearly announces plans to restructure its Lebanese pound-denominated debt. It added that it will downgrade the local currency IDR to 'RD' in case the government defaults on the Lebanese pound-denominated debt before any restructuring announcement.

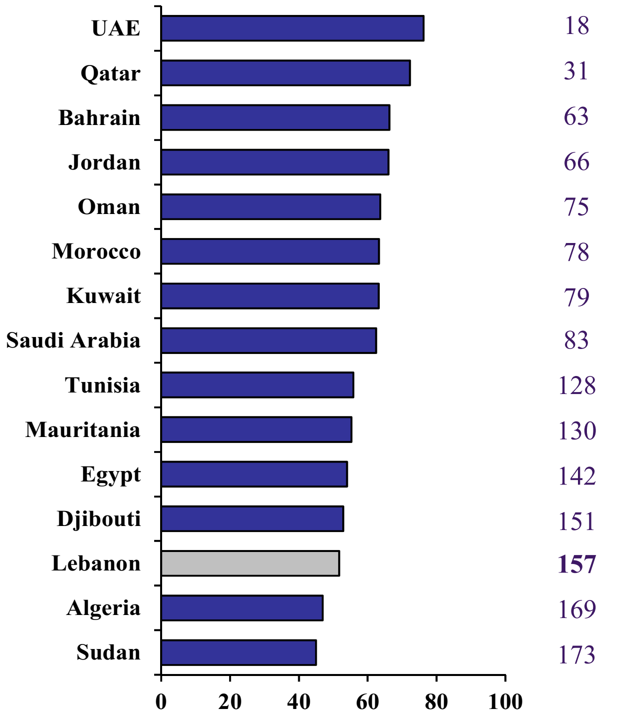
Lebanon ranks 157th globally, 13th among Arab countries in economic freedom, economy remains "mostly unfree"

The Heritage Foundation's Index of Economic Freedom for 2020, a broad indicator of economic freedom in 180 countries, ranked Lebanon in 157th place worldwide and in 13th place among 15 Arab countries that have a full dataset. Also, Lebanon came in 45th place among 53 upper middle-income countries (UMICs) included in the survey. In comparison, Lebanon ranked in 154th place globally and in 12th place regionally in 2019, while it came in 140th place worldwide and in 12th place among Arab countries on the 2018 index.

The Index evaluates individual economies based on 12 equally-weighted broad factors of economic freedom divided into four pillars that are the Rule of Law, the size of the Government, Regulatory Efficiency and Market Openness. A country's score ranges between zero and 100, with 100 reflecting the most free economy.

Globally, Lebanon has a higher level of economic freedom than Ecuador, Mozambique and Chad, and a lower level than Zambia, Argentina and Angola among economies with a GDP of $10bn or more. It also has a higher level of economic freedom than Ecuador, Iran, Equatorial Guinea, Algeria, Turkmenistan, Cuba and Venezuela among UMICs. Lebanon's level of economic freedom reached 51.7% in the 2020 survey relative to 51.1% in 2019 and 53.2% in the 2018 survey. Lebanon's 2020 score was well below the global level of economic freedom of 61.6%, the UMICs' level of 61% and the Arab level of economic freedom of 59.7%. The survey maintained Lebanon's economic freedom status in the "mostly unfree" category for the eighth consecutive year. Lebanon was downgraded in the 2013 survey from the "moderately free" category. It indicated that Lebanon's overall economic freedom score in the 2020 survey takes into consideration a weaker performance on the Government Spending, Monetary Freedom, Business Freedom, Trade Freedom, and Tax Burden indicators.

Index of Economic Freedom for 2020
Arab Countries' Scores & Rankings



Source: Heritage Foundation 2020, Byblos Research

The survey indicated that Lebanon's fragile political institutions have failed to address the deep structural issues that weakened the rule of law, which is one of the main factors constraining economic freedom in the country. Lebanon ranked ahead of Afghanistan and behind Madagascar globally, while it came ahead of only Mauritania among Arab countries on the Government Integrity Indicator. This category assesses the extent of government intervention in economic activity and the degree of corruption that follows. Also, Lebanon ranked ahead of Zimbabwe and behind Bosnia & Herzegovina globally, while it came last regionally on the Business Freedom Indicator, which reflects the ability to create, operate and close an enterprise without undue interference from the state. This category also measures the extent that the regulatory and infrastructure environments constrain the efficient operation of businesses. Further, Lebanon came ahead of Zambia and behind Ecuador globally, while it ranked ahead of only Morocco regionally on the Labor Freedom Indicator, which assesses the legal and regulatory framework of a country's labor market.

Economic Freedom in Lebanon by Category

	Arab Rank	Global Rank	Lebanon Score	Change in Score*	Long-Term Trend**	Arab Avge	Global Avge
Tax Burden	8	24	90.8%	↓	-7.2	88.4%	77.3%
Trade Freedom	7	88	77.4%	↓	2.4	71.9%	73.9%
Monetary Freedom	12	111	75.6%	↓	9.2	76.6%	75.0%
Government Spending	6	85	72.5%	↓	-7.4	64.1%	66.2%
Investment Freedom	6	85	60.0%	↔	10	53.7%	57.7%
Financial Freedom	8	72	50.0%	↔	-20	51.3%	48.8%
Business Freedom	15	165	45.6%	↓	-24.4	65.3%	63.8%
Labor Freedom	14	149	47.8%	↑	N/A	57.2%	59.6%
Property Rights	12	134	44.6%	↑	-5.4	56.6%	57.3%
Judicial Effectiveness	13	146	30.8%	↑	N/A	47.6%	45.8%
Government Integrity	14	148	25.0%	↑	15	41.9%	44.4%
Fiscal Health	15	177	0.0%	↔	N/A	41.0%	69.1%

*year-on-year; ** Change in score from 1996 in percentage points;*
Source: Heritage Foundation 2020, Byblos Research

Price of minimum survival food basket up 28.4% in fourth quarter of 2019

The World Food Program (WFP) indicated that the monthly average price of the food component of the Survival Minimum Expenditure Basket (SMEB) in Lebanon reached LBP48,400 in December 2019, constituting an increase of 28.4% from LBP37,700 in September 2019. The WFP noted that it has been monitoring supply trends, food prices and the exchange rate between the Lebanese pound and the US dollar, since the worsening of the economic crisis and the start of the protests on October 17, 2019, in order to detect market anomalies and to better understand the impact of the current crisis on vulnerable households in Lebanon. It pointed out that the SMEB consists of 6 kilograms (kg) of rice, 3.9 kg of bulgur, 1.5 kg of pasta, 1.5 kg of white beans, 1.5 kg of sugar, 0.9 litres of sunflower oil, 0.3 kg of salt, and 1.2 kg of canned meat.

On a monthly basis, it estimated that the average countrywide food price of the SMEB increased by 2.1% in October from the preceding month, by 8.3% in November, and by 16.1% in December 2019. Further, it said that the average price of the food component of the SMEB stood at LBP48,819 in the last week of December, reflecting a rise of 31.2% from LBP37,196 in the week starting October 14, 2019, which preceded the beginning of the crisis. In addition, it estimated that the average price of sugar in Lebanon increased by 39% between October and December 2019, followed by the average price of sunflower oil (+38%), rice (+30%), beans and bulgur (+25% each), meat (+19%), pasta (+17%), and salt (+14%).

In parallel, it pointed out that the monthly average food price of the SMEB increased by the same rate in all governorates, or administrative districts, in the fourth quarter of last year, with Beirut being the most expensive and Baalbek the cheapest among the six governorates. It indicated that the monthly average price of the food component of the SMEB in Beirut grew from LBP40,272 in October to LBP50,450 in December, while the monthly average food price of the SMEB in Baalbek rose from LBP37,267 in October to LBP45,737 in December. As such, it said that the transfer value for food assistance that the WFP provides to vulnerable households in Lebanon, which currently stands at LBP40,500, has become below the observed SMEB price in all Governorates in December 2019, while it was slightly higher than the food price of the SMEB in all governorates prior to October 16, 2019.

The WFP considered that the increase in the price of the food component of the SMEB has likely had a significant negative impact on food access for households in Lebanon in recent months, especially the most vulnerable households. It said that the beneficiaries of food assistance are affected by the growing gap between the food transfer value and the food price of the SMEB, which reached 19.5% on average in December 2019. It attributed the increase in the food price of the SMEB largely to the steep depreciation of the Lebanese pound against the US dollar at money dealers. In fact, it indicated that 79% of WFP-contracted shops reported that their suppliers are charging them an exchange rate above LBP2,000 in December 2019. Further, it noted that it will be difficult to adjust the transfer values for food assistance to match the new SMEB prices, as long as cash-based food and non-food assistance continues to be provided on the basis of the official exchange rate.

Exposure to Banque du Liban is main solvency risk for banks following sovereign default

Fitch Ratings considered that the main risk to the solvency of Lebanese commercial banks, following Lebanon's default on the $1.2bn Eurobond that was due on March 9, 2020, is their exposure to Banque du Liban (BdL). It said that the banks' deposits at BdL and their holdings of Certificates of Deposits issued by BdL were equivalent to 54% of the banks' total assets and to six times their core capital at the end of 2019. It noted that the ability of BdL to meet its foreign currency-denominated obligations to banks is already constrained due to the rising pressure on its foreign currency reserves. It considered that BdL's recent decision to pay in Lebanese pounds 50% of the interest income that the banks receive on their foreign currency-denominated deposits at BdL and their holdings of Certificates of Deposits issued by BdL highlights the increasing pressure on the latter's assets in foreign currency. It added that BdL's assets in foreign currency, excluding holdings of Lebanese Eurobonds and gold, stood at $32bn at the end of 2019, which covers less than 50% of BdL's foreign currency liabilities to banks that Fitch estimates at $70bn. In this context, the agency anticipated that BdL will face significant pressure in the 2022-23 period, when large amounts of foreign currency-denominated Certificates of Deposits that banks bought from BdL in 2016 mature. It estimated that a 20% haircut on BdL's obligations to the banking sector would reduce the banks' capital base to minimal levels. As such, it said that the banks' ability to meet their outstanding foreign currency obligations is uncertain in light of their limited access to foreign currency from their placements at BdL, their decreasing deposits at foreign banks, and in the absence of external financial support for the banking sector.

In parallel, the agency pointed out that the commercial banks' direct exposure to the recent Eurobond default was equivalent to 6% of the banks' balance sheets and to about two thirds of their equity as at end-2019. Also, it said that, in January 2020, banks sold $1.1bn worth of Lebanese Eurobonds from their portfolios at less than half of the face value, due to their rising need for liquidity in foreign currency and in anticipation of a sovereign default. It added that any potential debt restructuring could involve nominal haircuts, coupon omissions or maturity extensions.

Banque BEMO reviews and approves cash contribution to capital agreements

The Extraordinary General Assembly of Banque BEMO sal, which took place on March 2, 2020, reviewed and approved the bank's cash contribution to capital agreements pursuant to Banque du Liban's Intermediate Circular 532. The bank had previously invited its shareholders to attend an Extraordinary General Assembly on December 23, 2019, but the assembly did not convene due to the lack of quorum. Intermediate Circular 532 dated November 4, 2019 requested banks to increase their capital base by the equivalent of 20% of their end-2018 Common Equity Tier One (CET1) capital in two stages. The bank's CET1 capital stood at $148.8m at the end of 2018.

Banque BEMO announced unaudited consolidated net profits of $13.2m in the first nine months of 2019, constituting a decrease of 0.7% from net earnings of $13.3m in the same period of 2018. The bank's assets reached $2.05bn at end-September 2019, and rose by 1.3% from end-2018, while loans & advances to customers, excluding those to related parties, decreased by 9.1% from end-2018 to $660m. Also, customer deposits, excluding those from related parties, totaled $1.2bn at end-September 2019 and regressed by 5% from the end of 2018. Further, the bank's total equity reached $193.4m at end-September 2019, and increased by 1.8% from end-2018.

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	RD	C	-	CC	C	-
S&P Global Ratings	SD	SD	-	CC	C	Negative
Capital Intelligence Ratings	SD	SD	-	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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