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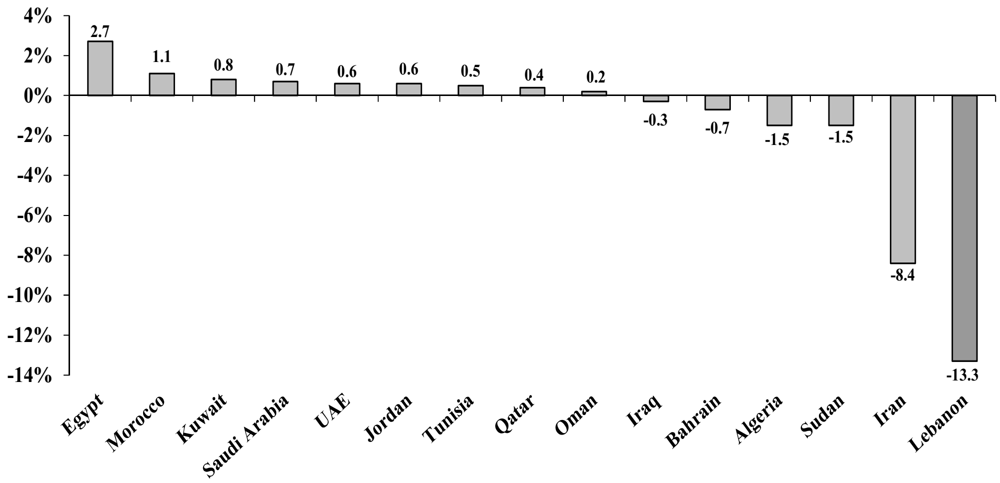
BYBLOS BANK SAL
Economic Research & Analysis Department

LEBANON THIS WEEK

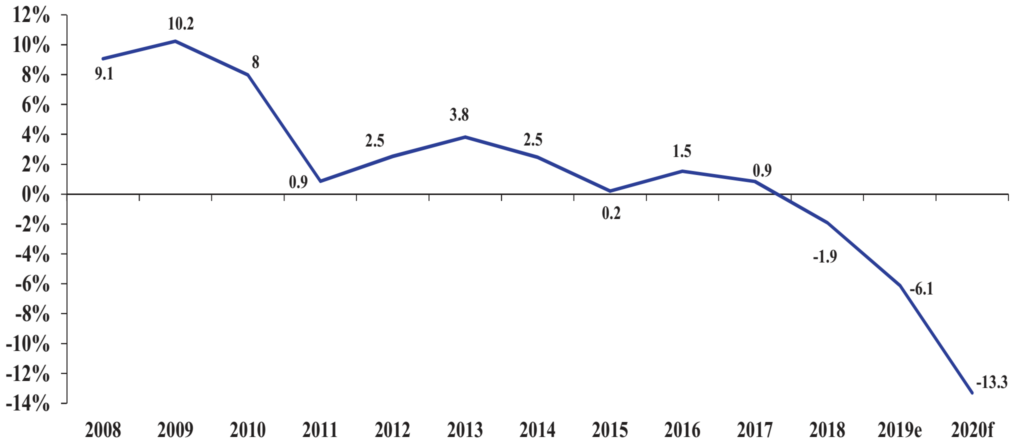
In This Issue

Charts of the Week

Projected Real GDP Rates in MENA Countries in 2020 (% change)



Real GDP Rates for Lebanon (% change)



Source: Institute of International Finance, Byblos Bank

Quote to Note

"Reform implementation is key and could be challenging in the absence of an external anchor, given the scale of the issues, a poor track record and lack of internal credibility."

Bank of America, on the importance of implementing structural reforms within a program with the International Monetary Fund

Number of the Week

148: Lebanon's rank out of 180 countries on the Government Integrity indicator, according to the Heritage Foundation's Index of Economic Freedom for 2020

Lebanon in the News

$m *(unless otherwise mentioned)*	2018	2019	% Change*	Jan-19	Nov-19	Dec-19	Jan-20
Exports	2,952	3,731	26.4	236	309	324	333
Imports	19,980	19,239	(3.7)	1,404	1,281	1,346	1,154
Trade Balance	(17,028)	(15,508)	(8.9)	(1,168)	(972)	(1,022)	(821)
Balance of Payments	(4,823)	(4,351)	(9.8)	(1,380)	1,143	(841)	(158)
Checks Cleared in LBP	22,133	22,146	0.1	1,856	2,232	2,403	2,281
Checks Cleared in FC	44,436	34,827	(21.6)	3,045	2,946	3,898	4,413
Total Checks Cleared	66,569	56,973	(14.4)	4,901	5,178	6,301	6,694
Fiscal Deficit/Surplus	(6,246)	(5,837)	(6.6)	(73)	(892)	(920)	-
Primary Balance	(636)	(287)	(54.8)	232	17	(521)	-
Airport Passengers	8,842,442	8,684,937	(1.8)	606,784	438,674	544,967	522,683
Consumer Price Index**	6.1	2.9	(317bps)	4.0	3.2	7.0	10.0

$bn *(unless otherwise mentioned)*	Dec-18	Jan-19	Oct-19	Nov-19	Dec-19	Jan-20	% Change*
BdL FX Reserves	32.51	31.93	30.98	30.15	29.55	28.96	(9.3)
In months of Imports	20.72	22.74	23.68	23.54	21.95	25.10	10.4
Public Debt	85.14	85.32	87.08	89.48	91.64	91.99	7.8
Bank Assets	249.48	248.88	262.80	259.69	216.78***	213.8	(14.1)
Bank Deposits (Private Sector)	174.28	172.11	168.36	162.60	158.86	155.10	(9.9)
Bank Loans to Private Sector	59.39	58.14	54.17	52.48	49.77	47.91	(17.6)
Money Supply M2	50.96	49.79	45.77	43.82	42.11	40.82	(18.0)
Money Supply M3	141.29	139.59	138.37	136.44	134.55	132.56	(5.0)
LBP Lending Rate (%)	9.97	9.97	11.19	9.69	9.09	9.86	(11bps)
LBP Deposit Rate (%)	8.30	8.30	9.03	9.40	7.36	6.62	(168bps)
USD Lending Rate (%)	8.57	8.57	10.05	10.64	10.84	10.07	150bps
USD Deposit Rate (%)	5.15	5.15	6.61	6.31	4.62	4.00	(115bps)

**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
Solidere "A"	9.09	1.11	76,863	14.76%
Solidere "B"	9.10	1.22	15,145	9.60%
Byblos Common	0.81	(10.00)	850	7.44%
BLOM Listed	3.00	(4.76)	4	10.47%
BLOM GDR	3.50	0.00	2	4.20%
Audi Listed	1.50	0.00	-	14.33%
HOLCIM	9.71	0.00	-	3.08%
Byblos Pref. 08	60.00	0.00	-	1.95%
Audi GDR	2.39	0.00	-	4.64%
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	16.00	285.44
Oct 2022	6.10	15.13	91.32
Jan 2023	6.00	16.00	76.63
Jun 2025	6.25	16.00	38.54
Nov 2026	6.60	16.00	29.51
Feb 2030	6.65	15.75	19.56
Apr 2031	7.00	15.63	17.51
May 2033	8.20	14.00	15.55
Nov 2035	7.05	15.00	12.55
Mar 2037	7.25	15.00	11.49

Source: Byblos Bank Capital Markets, Refinitiv

	Mar 23-27	Mar 16-20	% Change	February 2020	February 2019	% Change
Total shares traded	92,864	496,871	(81.3)	1,729,973	121,955,414	(98.6)
Total value traded	$829,833	$2,532,749	(67.2)	$11,322,149	$569,916,249	(98.0)
Market capitalization	$6.16bn	$5.94bn	3.65	$6.24bn	$9.34bn	(33.2)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Mar 20, 2020	Mar 27, 2020	% Change
CDS 1-year*	24,762	0	-
CDS 3-year*	17,668	0	-
CDS 5-year*	14,717	0	-

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

CDX EM 30*	Mar 20, 2020	Mar 27, 2020	% Change***
CDS 5-year**	449.85	343.27	(23.7)

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

Lebanon to face significant challenges in restructuring its public debt

Global investment bank Morgan Stanley considered that the restructuring of Lebanon's public debt will be challenging, given that the country requires substantial debt relief that is equivalent to more than 100% of GDP. It indicated that the inter-linkages are complex between the balance sheets of commercial banks on one hand, and those of the government and Banque du Liban (BdL) on the other hand. It considered that addressing the public sector's vulnerabilities will be insufficient to achieve sustained economic growth in the future. It estimated that Lebanon's total public debt, which includes the government's debt and the Certificates of Deposits in Lebanese pounds and US dollars issued by BdL, and excludes BdL's holdings of government debt, amounted to $96.5bn at the end of 2019 or the equivalent to 178% of the 2018 GDP.

Further, it indicated that the large share of Lebanese Eurobonds held by non-resident investors could significantly increase the risk of holdouts, through which bondholders could block a sovereign debt restructuring and seek full repayment. It said that the restructuring vote will take place separately for each Eurobond series due to the absence of an enhanced collective action clause in the Eurobonds' contracts. It noted that changing the terms of the contracts requires the consent of at least 75% of the holders of each bond series, and that BdL is not allowed to participate in the restructuring vote as per the contracts.

In addition, the investment bank pointed out that authorities could achieve the needed debt relief by restructuring the portion of the debt that is held by resident financial and non-financial institutions, which amounts to $84bn out of the $96.5bn in total debt. However, it considered that the restructuring of the domestic debt could be challenging, given that the banking sector is the main creditor of the sovereign. As such, it anticipated that any restructuring of the domestic debt will impact the banks' capital position, which will, in turn, lead to contingent liabilities for the sovereign to recapitalize the banks. It estimated the banks' claims on the public sector at 7.5 times their capital positions. Further, it considered that a bail-in of deposits will be politically sensitive, even though the banking sector's deposits are equivalent to more than 300% of GDP. However, it considered that, with the ongoing capital control measures and limits on deposit withdrawals, the bail-in option is not "inconceivable".

In parallel, it indicated that Lebanese authorities should have four objectives to address the debt burden during the restructuring process. First, it noted that authorities should adopt a reform plan to tackle the country's structural challenges, and should address the overvaluation of the exchange rate to narrow the current account deficit. Second, it pointed out that the government should ensure that it will be able to meet its gross funding requirements in the coming two to three years, in order to have time to implement the needed reforms. Third, it said that the government should reduce the public debt level to 70% of GDP, which it considered it to be a sustainable level. Fourth, it added that the sovereign should take into account the contingent liabilities related to the capitalization of banks ahead of the restructuring process.

Morgan Stanley modeled three different scenarios of debt restructuring from the perspective of foreign investors. It noted that its "harsh" scenario stipulates a reduction in the principal payments on Eurobonds, while the domestic debt and bank deposits would not undergo a haircut on the principal. Instead, it noted that this scenario would incorporate a reduction in coupon payments on domestic debt and a limited adjustment of the exchange rate. It assigned a probability of 60% for this scenario, as it considered it to be politically easier to implement. In contrast, it indicated that its "soft" and "medium" scenarios are easier for Eurobond holders but are stricter on domestic creditors, as the two scenarios imply a haircut on domestic debt and on bank deposits, in addition to the haircut on the Eurobonds, as well as a larger adjustment to the foreign exchange rate. It assigned a 20% probability to each of the two scenarios.

In parallel, it considered that the materialization of multilateral or bilateral financial support would be positive for Lebanon. It noted that Lebanon's quota at the International Monetary Fund allows the country to have a funded program of $3.8bn over a three-year period. But it said that Lebanon's funding needs are significantly higher. It added that it would be difficult for Lebanon to get exceptional access to an IMF funding package, given that the Fund classifies the country's debt as unsustainable and may push for a debt restructuring prior to providing the package. Further, it considered that bilateral funding from Gulf Cooperation Council countries to be unlikely, due in part to the current low oil price environment. It also noted that the pledges made at the CEDRE conference are unlikely to materialize, given that the disbursement of the funds was tied to fiscal consolidation of 1% of GDP annually to reduce the fiscal deficit to 4% of GDP by 2023. It said that Lebanon's fiscal deficit is now in double digits, which makes the initial fiscal deficit target ambitious, and which means that the terms of the package may need to be renegotiated.

Council of Ministers extends general mobilization to face coronavirus crisis

The Council of Ministers extended on March 26, 2020 its declared general mobilization until April 12, 2020, which required Lebanon's residents to stay at home and to refrain from leaving their residences except for urgent matters, in an attempt to contain the spread of the coronavirus in the country. In addition, the Cabinet approved an overnight shutdown of businesses, supermarkets, and of companies in the production, storage and sale of foodstuff, as well as a curfew from 7:00pm until 5:00am every day starting on March 27, in order to limit the movement of people. It exempted from the shutdown and curfew decisions bakeries, mills, pharmacies, and companies that manufacture medical supplies. The government ordered the military and security forces to enforce these decisions.

Further, the government indicated that it will allocate to the Higher Relief Council LBP75bn from the reserves of the 2020 budget, in order to provide food and aid for people to help offset the social implications of the general mobilization. Also, the government is following up on equipping public hospitals with the needed equipment to treat patients infected with the coronavirus. The equipment is being financed through a previously approved loan from the World Bank, as well as from other grants and contributions.

Lebanon in the News

Lebanon inquires about coronavirus-related funding from International Monetary Fund

The Lebanese government has reportedly expressed interest in receiving emergency financing from the International Monetary Fund in order to reduce the economic impact of the coronavirus outbreak in the country. Lebanese authorities reportedly inquired about Lebanon's eligibility to obtain support from the IMF's emergency funding facilities, without filing a formal request. According to press reports, the Fund indicated that Lebanon qualifies for $500m under these facilities.

In early March, the Fund made available $50bn through its rapid-disbursing emergency financing facilities for low- and middle-income countries that may need assistance in responding to the coronavirus outbreak. Specifically, it made available $10bn at a zero percent interest rate for low-income countries, without the need for a fully fledged IMF program, through the Rapid Credit Facility; while other economies can potentially access $40bn through the Rapid Financing Instrument. It pointed out that 81 countries have so far placed requests and inquiries, and expected the number of interested countries and jurisdictions to grow. As such, it is considering doubling the available facilities to $100bn. The Fund approved on March 26 the first emergency request, which came from the Kyrgyz Republic. Iran is the first country in the Middle East and North Africa region to request such funding, as it has officially asked the IMF for a $5bn loan to help it face the coronavirus pandemic.

The Lebanese government has taken several measures to contain the coronavirus outbreak, as well as measures to limit its impact on the economy. The first coronavirus case in Lebanon was officially registered on February 21, 2020 and, according to the Ministry of Public Health, there was 446 infected persons in Lebanon as at March 30, 2020.

Council of Ministers suspends discussions on draft capital control law

Minister of Finance Ghazni Wazni announced that he withdrew indefinitely the draft text of the capital control law that the Council of Ministers has been discussing since at least four weeks. The draft text that Minister Wazni submitted has been subject to criticism and political opposition from several political parties in Lebanon.

The current government had pledged in its Ministerial Statement to coordinate with Banque du Liban and Parliament to draft the required laws that would safeguard bank deposits and standardize the banks' relations with their clients, including bank withdrawals and foreign transfers. In addition, Minister Wazni had announced on February 13, following a financial and monetary meeting at the Presidential Palace, that participants, including the Speaker of Parliament, the Prime Minister, the Governor of Banque du Liban and the President of the Association of Banks in Lebanon, agreed to issue a circular to standardize the banks' relations with their clients and that the circular will be issued in the following few days. But since then, the authorities did not provide any update on the circular and, instead, the Council of Ministers has been debating a draft law on capital controls.

In November 2019, banks operating in Lebanon introduced temporary measures on banknote withdrawals, on foreign transfers, and on some other banking operations, as they were expecting the executive branch to take the initiative, implement the necessary measures and reassure the markets. Banks had to introduce these measures to cope with the liquidity problem in the financial sector that resulted from the drop in confidence in the Lebanese economy and political system.

Government takes measures to ease coronavirus impact on economy

The Council of Ministers and the Ministry of Finance announced several measures that aim to ease the adverse economic and financial impact from the lockdown on companies and individuals in Lebanon. The Ministry of Finance suspended all deadlines on obligations that taxpayers had to meet after March 1, 2020. It noted that these obligations include the payment of taxes and fees, and the declarations of taxes to the ministry, among others. It also postponed taxpayers' installments that are due on March 31, 2020 until the end of April of this year, while it suspended the deadlines for taxpayers to file an objection or appeal to the tax administration or the Shuraa Council, among other deadlines related to the tax administration.

In addition, the Ministry of Finance and the Ministry of Interior & Municipalities agreed to settle the payments owed to municipalities from the receipts of the telecommunications sector for the year 2017. The Finance Ministry also announced that it settled all the pending payment requests that public and private hospitals submitted previously. According to the Council of Ministers, the Ministry of Finance paid LBP20bn to private hospitals.

In parallel, the Council of Ministers called on all ministries to postpone the deadlines for residents to pay the fees and taxes related to electricity, water, telecommunications, and social security services, as well as to the Motor Vehicle Inspection and to the courthouse. In addition, the Council of Ministers agreed to prepare a draft law that suspends for a period of six months the payment of the value-added tax on local grants made to public administrations, to public institutions, and to municipalities. It also said that it will draft a law that allows all public institutions, municipalities, councils, funds, and independent authorities to finance, either with cash or in-kind grants, any public or private entity in order to secure medical or food aid. Further, the Cabinet decided to implement measures to support residents under the current general mobilization, such as reducing for a limited period of time some of the tariffs imposed on data and Internet service providers, among other measures.

Lebanon in the News

Converging factors to weigh on Lebanon's economic outlook in 2020

Barclays Capital indicated that the Lebanese government's decision to default on its foreign debt, along with policy inaction, political divisions, the opposition of some political parties to a program with the International Monetary Fund (IMF) and the recent outbreak of the coronavirus, will significantly impact Lebanon's economic outlook in 2020. It considered that the government's decision to default on its foreign obligations in the absence of a comprehensive economic reform plan, external financial support and political consensus, will keep the outlook highly uncertain, with considerable downside risks to financial and social stability. It considered that the disorderly restructuring of the public debt has substantially increased risks to government stability. It also expected negotiations with bondholders to be challenging and protracted. Under these conditions, it projected Lebanon's real GDP to contract by 15% in 2020, following an estimated contraction of 3.4% in 2019. It also forecast the inflation rate to increase from 7% at the end of 2019 to 18.8% at end-2020.

Further, it pointed out that the government has officially requested technical assistance from the IMF. But it did not expect the government to engage in a fully funded IMF program in the near term, as it considered that the political and economic crisis will need to worsen further, before authorities are convinced to start negotiations on a potential loan agreement with the Fund. In addition, it indicated that persistent political divisions have delayed the implementation of pressing economic reforms. It considered that any discussions about debt sustainability cannot take place separately from considerations about the exchange rate regime and financial stability, especially those related to the recapitalization of banks, as debt restructuring could affect depositors. It also noted that the government needs to find a way to cover the financing gap over the next few years in the absence of an IMF program and other bilateral and multilateral funding. It added that the implementation of reforms will be complicated by the outbreak of the coronavirus, which has tested the country's healthcare system and exacerbated the economic contraction. It said that the capital controls draft law will demonstrate the government's ability to implement painful economic reforms. It noted that the highly divided political backdrop will significantly complicate the current government's ability to pass unpopular but required reforms.

Surveyed economists expect Lebanon's real GDP to contract by 3% in 2020

Bloomberg's quarterly survey of economists and analysts about the outlook on the Lebanese economy projected economic activity to contract by 3.2% in 2020 compared to an earlier forecast of a growth rate of zero percent in the December 2019 survey. The individual forecasts for 2020 ranged from a contraction of 10% to a growth rate of 2%, while the consensus forecast among 83.3% of participants is that real GDP will shrink by 10% to 1% this year. The results displayed a median real GDP contraction figure of 2% for 2020, relative to a previous median real GDP retreat of 0.1% in the December survey. Bloomberg conducted the poll in March 2020, and the survey's results are based on the opinions of seven economists and analysts based in Lebanon and abroad.

Further, participants forecast Lebanon's average inflation rate at 7.7% in 2020 compared to a projection of 3.2% in the previous survey. The opinions of surveyed analysts differed on the direction of consumer prices in 2020 with expectations ranging from 2.3% to 15%, while 57% of participants predicted that the inflation rate would be between 2.3% and 7% this year. The poll's results revealed a median inflation rate of 7% for 2020 relative to a median of 2.9% in the December survey.

In parallel, surveyed analysts projected Lebanon's fiscal deficit at 10% of GDP in 2020, nearly unchanged from the previous forecast of 10.1% of GDP in December 2019. The projections of polled economists for the fiscal deficit ranged from 4% of GDP to 12% of GDP in 2020, with a median deficit of 11% of GDP. Further, surveyed analysts projected the current account deficit at 18.9% of GDP in 2020, compared to a previous forecast of a deficit of 23.6% of GDP in December 2019. The survey's participants expected the current account deficit to range between 12% of GDP and 28.4% of GDP in 2020, with a median deficit of 18.4% of GDP for 2020.

In parallel, respondents assigned a median probability of 82.5% for Lebanon to enter into a recession in the next 12 months. The opinions of surveyed economists about the probability of a recession ranged between 75% and 90%.

Treasury transfers to Electricité du Liban down 15% to $1.4bn in first 11 months of 2019

Figures released by the Ministry of Finance show that Treasury transfers to Electricité du Liban (EdL) totaled $1.4bn in the first 11 months of 2019, constituting a decline of 15.4% from $1.6bn in the same period of 2018.

Reimbursements for the purchase of natural gas, fuel and gas oil reached $1.37bn, or 99.8% of transfers, in the covered period, while EdL's debt servicing represented the balance of $2.65m, or 0.2% of the total. The decline in transfers is mainly due to a decrease of $247.4m in reimbursements for the purchase of natural gas, fuel and gas oil, which mostly consist of payments to the Kuwait Petroleum Corporation and to the Algerian energy conglomerate Sonatrach, as well as to a drop of $3.3m in debt servicing. Reimbursements fell by about 15.3% year-on-year from $1.62bn in the first 11 months of 2018, while debt servicing declined by 57.8% from $6m. In addition, there were no transfers to Electricity Syria in the first 11 months of 2019, compared to transfers of $12.6m in the same period of 2018.

Treasury transfers to EdL accounted for 13.8% of budgetary primary expenditures in the covered period, relative to 14.5% in the first 11 months of 2018. They constituted the third largest expenditures item, or 9.1%, of overall fiscal spending after public sector personnel costs and debt servicing. EdL transfers were equivalent to 5.1% of GDP in 2012, 4.3% of GDP in each of 2013 and 2014, 2.3% of GDP in 2015, 1.8% of GDP in 2016, 2.5% of GDP in 2017, and 3.1% of GDP in 2018.

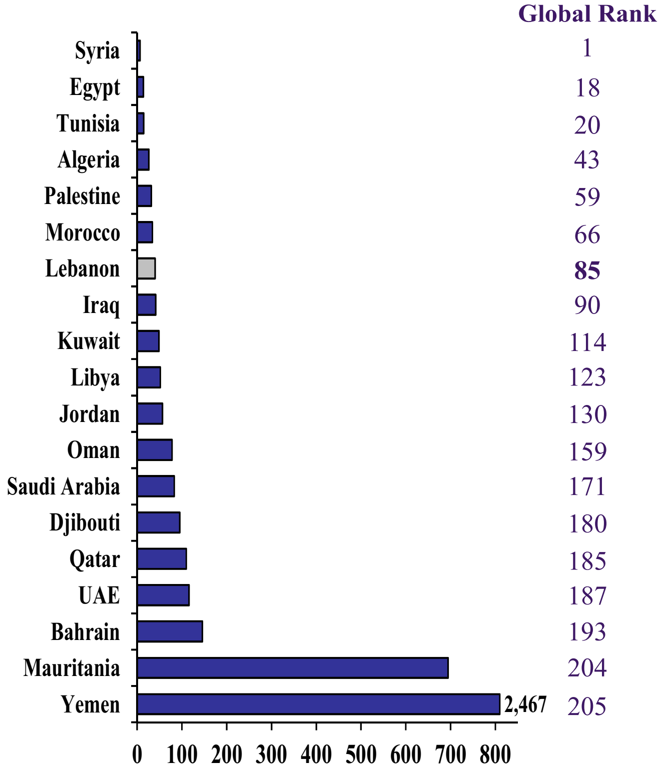
Cost of fixed-line broadband package in Lebanon is 85th lowest globally, seventh cheapest among Arab countries in 2020

The Global Broadband Pricing survey published by Cable.co.uk ranked the average cost of fixed-line broadband packages in Lebanon as the 85th lowest among 206 countries around the world and the seventh cheapest among 19 Arab countries in 2020. Lebanon also came in 30th place among 53 upper middle-income countries (UMICs) included in the 2020 survey. In comparison, Lebanon's average cost of a fixed-line broadband package was the 58th lowest among 195 countries globally and the seventh cheapest regionally in 2018.

Cable.co.uk compiled the figures from 3,095 fixed-line broadband deals across the world between November 28, 2019 and January 8, 2020. The average cost of a fixed-line broadband package per month in a country is the median of all qualified packages sampled in that country. The survey only included consumer broadband packages, while it excluded business and enterprise broadband deals. All prices are converted to US dollars for comparison purposes, which means that fluctuations in the exchange rates tend to affect pricing in US dollars.

The average cost of a fixed-line broadband package in Lebanon is $40.14 per month, which is lower than the global average cost of $83.32 per month, the UMICs' average cost of $47.4 per month, as well as the Arab region's average cost of $218.64 per month. Also, Lebanon's average cost of a fixed-line broadband package is lower than the Gulf Cooperation Council's (GCC) average cost of $96.9 per month and the non-GCC Arab countries' average cost of $274.83 per month. The cost of a fixed-line broadband package in Lebanon ranges between $6.08 per month and $176.97 per month in 2020.

Average Cost of a Fixed-Line Broadband Package in Arab Countries (Per month in US$)



Source: Cable.co.uk, Byblos Research

Globally, the average cost of a fixed-line broadband package per month in Lebanon is lower than the corresponding cost in Greece ($40.56), and in Japan and Malta ($40.33 each), while it is higher than in Uruguay ($40.1), Sweden ($39.6), and Spain ($39.38) among economies with a GDP of $10bn or more. Also, the average cost of a fixed-line broadband package per month in Lebanon is lower than in Ecuador ($43.87), Costa Rica ($43.22), and Iraq ($41.49), while it is higher than in Guatemala ($38.13), Mexico ($33.15), and Malaysia ($31.75) among UMICs.

In parallel, Syria is the cheapest country in the world in terms of fixed-line broadband packages, where the average cost of one package is $6.6 per month in 2020. In contrast, Eritrea is the most expensive country worldwide to buy a fixed-line broadband, as the average cost of one package stands at $2,667 per month this year.

Compensation of public-sector personnel at $5.9bn in first 11 months of 2019, absorbs 58% of revenues

Figures issued by the Ministry of Finance show that the compensation of public-sector personnel totaled $5.88bn in the first 11 months of 2019, nearly unchanged from $5.9bn in the same period of 2018. Salaries, wages and related benefits accounted for 60.7% of the total in the first 11 months of 2019, followed by retirement benefits (27.7%), end-of-service indemnities (7.1%), and transfers to public institutions to cover salaries (4.5%). The compensation of public-sector personnel represented the largest component of current primary spending and accounted for 71.8% of such expenditures in the covered period, compared to 65.8% in the first 11 months of 2018. Also, the compensation of public-sector personnel absorbed 57.9% of total fiscal receipts in the first 11 months of 2019 relative to 59% in the same period of 2018. It accounted for 39% of overall fiscal spending in the first 11 months of 2019 compared to 35.6% in the same period of 2018.

Salaries, wages & related benefits paid to public-sector employees reached $3.57bn in the first 11 months of 2019, constituting a decline of 3.9% from $3.72bn in the same period of 2018. This category includes basic salaries, employment benefits, allowances, contributions to civil servants' cooperatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly civil and religious judges, and employees at the Parliament. In addition, retirement benefits grew by 15% to $1.63bn in the first 11 months of 2019, while end-of-service indemnities declined by 8.5% to $417.3m, and transfers to public institutions to cover salaries fell by 13.7% to $264m in the covered period. The Finance Ministry previously indicated that the increase in retirement benefits partly reflects the implementation of the new salary scale, which encouraged public sector employees to retire before reaching the legal retirement age.

Trade deficit narrows by 30% annually to $820.5m in January 2020

Total imports reached $1.15bn in January 2020, constituting a decrease of 17.8% from $1.4bn in the same month of 2019; while aggregate exports grew by 41.3% annually to $333.1m in January 2020. As such, the trade deficit narrowed by 29.8% year-on-year to $820.5m in the first month of 2020 due to a rise of $97.4m in exports and a decline of $250.4m in imports.

Non-hydrocarbon imports declined by $444.7m annually to $695.5m in January 2020, while imports of oil & mineral fuels increased by $194.2m year-on-year to $458.1m and accounted for 39.7% of total imports in the covered month. Lebanon imported 771,622 tons of mineral fuel & oil in January 2020, relative to 491,175 tons in the same month of 2019.

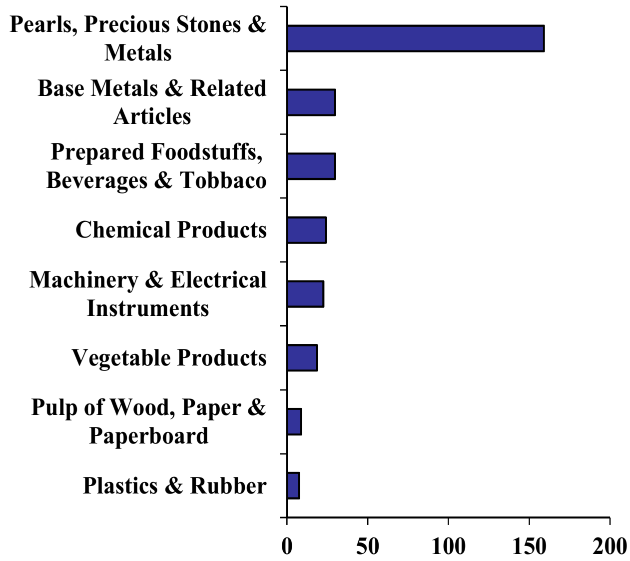
The increase in exports in January 2020 was mainly due to a rise of $80.6m, or of 47.8%, in the exports of jewelry, mostly unwrought gold; an expansion of $11m (+58.7%) in exported base metals; a growth of $3.7m (+24.7%) in exported vegetable products; and a rise of $3.1m (+2.3 times) in the exports of vehicles, aircraft & vessels. The increase in exports was partly offset by a drop of $5.5m (-42.4%) in the exports of plastics & rubber; a decrease of $1.4m (-31.5%) in exported mineral products; and a decline of $1.2m (-12.3%) in the exports of pulp of wood.

Exports to Switzerland jumped by 4.6 times year-on-year in January 2020, those to Greece surged by 2.1 times, exports to Jordan expanded by 60%, those to Saudi Arabia rose by 50.3%, exports to Iraq grew by 47.2%, and those to the U.S. increased by 11.6%. In contrast, exported goods to Syria dropped by 29%, those to Qatar decreased by 18%, exports to the UAE declined by 1.8%, and those to Egypt regressed by 0.4%. Re-exports totaled $23m in January 2020 compared to $27.6m in the same month of 2019. The Hariri International Airport was the exit point for 54.8% of Lebanon's exports in the first month of 2020, followed by the Port of Beirut (33.4%), the Masnaa crossing point (5.2%), and the Port of Tripoli (4.3%).

Lebanon's main non-hydrocarbon imports were chemical products that reached $126.4m in January 2020 and declined by 25.3% annually from the first month of 2019. Imported jewelry followed at $91.1m (+14.6%), then vegetable products at $75.7m (-22.5%), prepared foodstuff at $72m (-34.6%), machinery & electrical instruments at $67.3m (-63.2%), animal products at $65.5m (+22.1%), vehicles, aircraft & vessels at $41.4m (-62%), base metals at $29.6m (-62.2%), and textiles $25.1m (-47.1%). The Port of Beirut was the entry point for 66.7% of Lebanon's merchandise imports in January 2020, followed by the Hariri International Airport (20%), and the Port of Tripoli (7.3%).

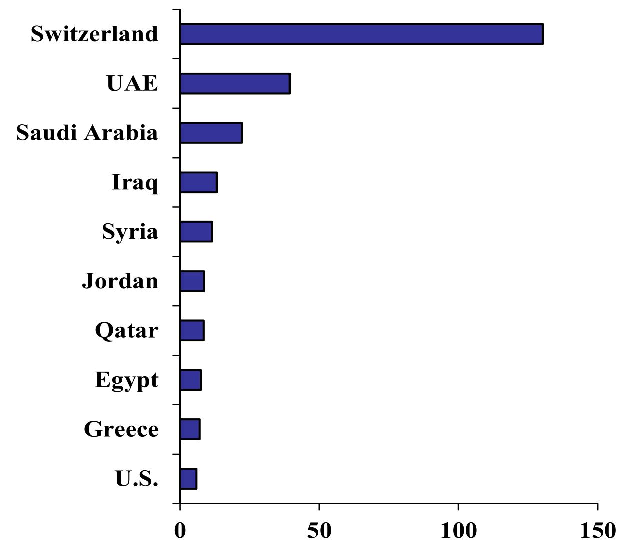
Greece was the main source of imports with $112.1m, or 9.7% of the total, in the first month of 2020, followed by Italy with $104.6m (9.1%), Turkey with $103m (8.9%), the U.S. with $73m (6.3%), China $65.9m (5.7%), Russia with $64.9m (5.6%), the UAE with $62.3m (5.4%), and Germany with $44.9m (4%). Imported goods from Turkey surged by 68.5% year-on-year, those from the UAE grew by 21.1%, and imports from Greece rose by 12.8% in January 2020. In contrast, imported goods from China dropped by 57%, those from Germany fell by 48.5%, imports from the U.S. and Russia decreased by 4.3% each, and those from Italy contracted by 2.7% year-on-year in January 2020.

Main Lebanese Exports in January 2020 (US$m)



Source: Lebanese Customs Administration, Byblos Research

Main Destinations of Lebanese Exports in January 2020 (US$m)



Source: Lebanese Customs Administration, Byblos Research

Government begins communication with Eurobond holders

The Ministry of Finance held on March 27, 2020 its first presentation for holders of Lebanese Eurobonds after the government suspended on March 23, 2020 the payments on all of outstanding Eurobonds. The Lebanese Republic had suspended on March 7, 2020 the payments related to the $1.2bn Eurobond that matured on March 9, 2020. The presentation consisted of an overview of Lebanon's current situation, recovery plan, and debt restructuring process.

The ministry estimated that real GDP contracted by 6.9% in 2019 following a contraction of 1.9% in 2018, and forecast the economy to further shrink by 12% in real terms this year. It considered that the shortages of US dollars in the market will significantly weigh on non-hydrocarbon imports, while the coronavirus outbreak could exacerbate the contraction in economic activity. In addition, it projected the inflation rate to average 27.1% in 2020, compared to an average of 2.9% in 2019, due to the sustained depreciation of the exchange rate on the black market. It also said that 45% of people live below the annual poverty line of LBP4,729,000 per year and 22% live below the extreme poverty line of $2.4 per day, while the national unemployment rate is 11.4% and the youth unemployment rate is 23.3%. It expected that inflationary pressures will further worsen social indicators in the country. Further, it estimated the fiscal deficit at 11.3% of GDP in 2019, nearly unchanged from the deficit registered in 2018, while it indicated that the primary deficit narrowed from 1.6% of GDP in 2018 to 0.9% of GDP in 2019. It added that debt servicing absorbed 47% of public revenues in 2019. It also estimated that the government's debt level increased from 155% of GDP at the end of 2018 to 178% of GDP at end-2019. Moreover, it considered that limited capital inflows have reduced the net reserve position of Banque du Liban (BdL) and limited clients' access to bank deposits. It considered that "reshaping" the Lebanese economy and the banking system will allow for the resolution of the current crisis.

In parallel, it pointed out that the government's recovery plan will consist of a comprehensive approach to resolve the prevailing economic and financial crisis. Consequently, the plan will include the restructuring of the entire public debt stock; reforming the banking system, including the restructuring of commercial banks and reviewing the role of BdL; a fiscal reforms plan; and a pro-growth and structural reforms agenda.

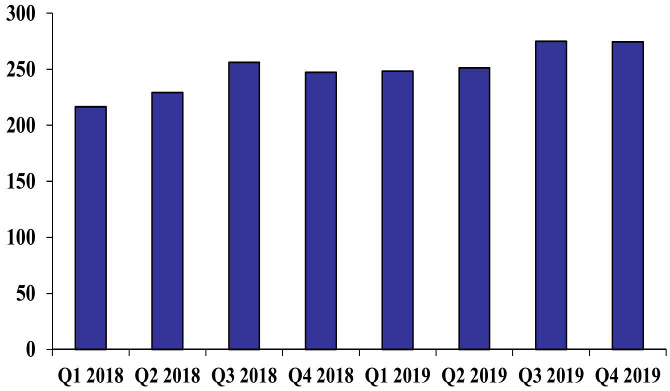
Further, the ministry said that the restructuring of Lebanon's public debt is needed to restore debt sustainability. It added that the restructuring of the foreign currency and Lebanese-pound denominated debt will be in line with available resources in foreign and local currencies. It noted that the government will develop and approve a detailed economic recovery plan before the end of the year, and that authorities will engage with multilateral partners on potential external support. Also, it indicated that authorities will engage between March and December 2020 with the holders of the public debt in order to reach an agreement on key financial and legal terms of the debt restructuring process. The Lebanese government reiterated that it is prepared to engage in "good faith discussions" with its creditors, and invited all bondholders to participate in the identification exercise launched in cooperation with advisory firm D.F. King Limited, in order to facilitate communication between Lebanon and the beneficial owners of the 29 Eurobond series.

Gross written premiums down 4% to $1.6bn in 2019, claims up 10.5% to $1.05bn

Figures released by the Insurance Control Commission show that the gross written premiums of 50 licensed insurance companies in Lebanon reached $1.61bn in 2019, constituting a decrease of 4% from $1.68bn in 2018. Premiums reached $471.4m in the first quarter, $400.4m in the second quarter, $387.5m in the third quarter, and $351.9m in the fourth quarter of 2019.

Medical insurance premiums totaled $539.8m in 2019 and accounted for 33.5% of the sector's aggregate premiums. Life insurance premiums followed with $471.1m (29.2%), then motor premiums with $334.3m (20.8%), and property & casualty insurance premiums with $266m (16.5%). Further, medical insurance premiums grew by 5.6% annually in 2019, while motor premiums dropped by 11.8%, life insurance premiums declined by 9.2%, and property & casualty insurance premiums regressed by 1.1% in 2019.

Total Claims Paid (US$m)



Source: Insurance Control Commission

Further, gross claims settled by insurance companies stood at $1.05bn in 2019, constituting a rise of 10.5% from $949m in 2018. Claims reached $248.3m in the first quarter, $251.3m in the second quarter, $274.8m in the third quarter, and $274.3m in the fourth quarter of 2019. Gross claims paid for the medical segment amounted to $417.1m and accounted for 39.8% of total claims settled by the insurance sector last year. Claims disbursed for the life insurance category followed at $336.4m (32.1%), then the motor segment at $200.6m (19.1%), and the property & casualty segment at $94.6m (9%). Also, life insurance claims rose by 16.3% annually in 2019, medical claims grew by 15.2%, and property & casualty claims increased by 5.1%, while motor insurance claims declined by 3.4% in 2019.

In parallel, the sector's acquisition and administration costs reached $472m last year, down by 2.8% from $485.3m in 2018. Also, net investment income totaled $197.1m in 2019 and increased by 27.2% from $155m in the previous year. In addition, the ratio of gross claims settled to gross written premiums stood at 65% in 2019, up from 57% in 2018. Further, the ratio of expenditures for acquisition and administration to gross written premiums reached 29% last year, unchanged from 2018; and the ratio of net investment income to gross written premiums stood at 12% in 2019 compared to 9% in 2018.

BLOM Bank extends deadline to participate in cash contributions

BLOM Bank sal announced that it will extend the deadline for shareholders to participate in the cash contributions to capital from April 3 to April 23, 2020, amid the exceptional circumstances that Lebanon and the region are facing due to the spread of the coronavirus. The bank’s announcement is in line with the decision by the Council of Ministers to declare a general mobilization.

The Extraordinary General Assembly of BLOM Bank that took place on January 14, 2020 approved the terms and conditions of the increase in the bank's capital base by $261.94m, or the equivalent of 10% of its Common Equity Tier One (CET1) as at the end of 2018. The bank indicated that the capital increase will take place through the issuance of cash contributions to capital in US dollars, and that the latter will be part of the Additional Tier One capital. It also noted that the holders of common shares and global depositary receipts will have the right to participate in the cash contributions, which are perpetual and which can be converted, partially or fully, into shares each year in the next five years. The bank added that it may pay interest annually on the cash contributions. BLOM Bank's capital increase is in line with Banque du Liban's Intermediate Circular 532 dated November 4, 2019 that requested banks to increase their capital base by the equivalent of 20% of their CET1 at the end of 2018 in two stages.

EFG Hermes reduces value of investment in Crédit Libanais

Regional investment bank EFG Hermes indicated in its financial results for the fourth quarter of 2019 that it implemented a 36% "haircut" on its investment in Crédit Libanais sal (CL) following a fair value reassessment of its stake in the bank. It indicated that its decision reflects the recent political and economic situation in Lebanon, which has impacted the value of its investment in CL, and which is in line with the management's efforts to pursue a prudent stance amid very volatile conditions. It added that it will continue to assess the evolving situation in Lebanon and will take further action if necessary.

EFG Hermes indicated that its stake in CL stood at 2,062,242 shares at the end of 2019, equivalent to 8.8% of CL's shares. It pointed out that the fair value of the shares was EGP753.5m, or about $47m as at the end of 2019 compared to EGP1.2bn, or about $76m as at end-2018. In 2010, EFG Hermes purchased a 63.74% controlling stake in CL, or 14,914,883 shares for a total of $577.8m, but has started to gradually divest from CL in 2016.

Ratio Highlights

(in % unless specified)	2017	2018	2019	Change*
Nominal GDP ($bn)	53.1	55.0	56.8	1.85
Public Debt in Foreign Currency / GDP	57.2	60.9	59.4	(1.54)
Public Debt in Local Currency / GDP	92.5	94.0	101.9	7.94
Gross Public Debt / GDP	149.7	154.9	161.3	6.40
Total Gross External Debt / GDP**	139.2	137.0	128.4	(8.62)
Trade Balance / GDP	(31.5)	(31.0)	(27.3)	3.69
Exports / Imports	14.5	14.8	19.4	4.62
Fiscal Revenues / GDP	21.9	21.0	19.5	(1.53)
Fiscal Expenditures / GDP	28.9	32.4	29.7	(2.62)
Fiscal Balance / GDP	(7.1)	(11.4)	(10.3)	1.09
Primary Balance / GDP	2.7	(1.2)	(0.5)	0.65
Gross Foreign Currency Reserves / M2	68.2	63.8	70.2	6.38
M3 / GDP	260.8	257.1	236.7	(20.33)
Commercial Banks Assets / GDP	413.7	453.9	381.6	(72.37)***
Private Sector Deposits / GDP	317.4	317.1	279.6	(37.48)
Private Sector Loans / GDP****	112.3	108.1	87.6	(20.45)
Private Sector Deposits Dollarization Rate	68.7	70.6	76.0	5.41
Private Sector Lending Dollarization Rate	68.6	69.2	68.7	(0.50)

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, Central Administration of Statistics, 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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