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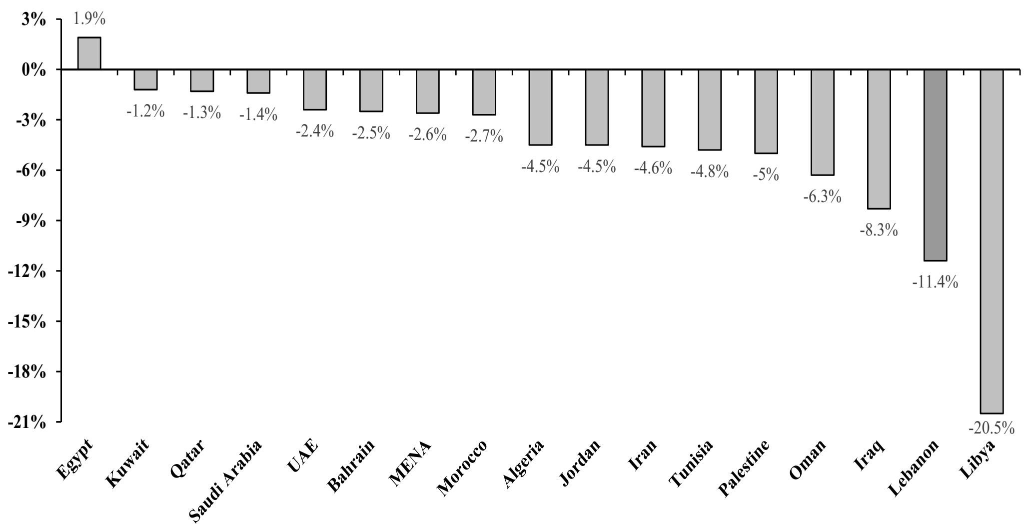
LEBANON THIS WEEK

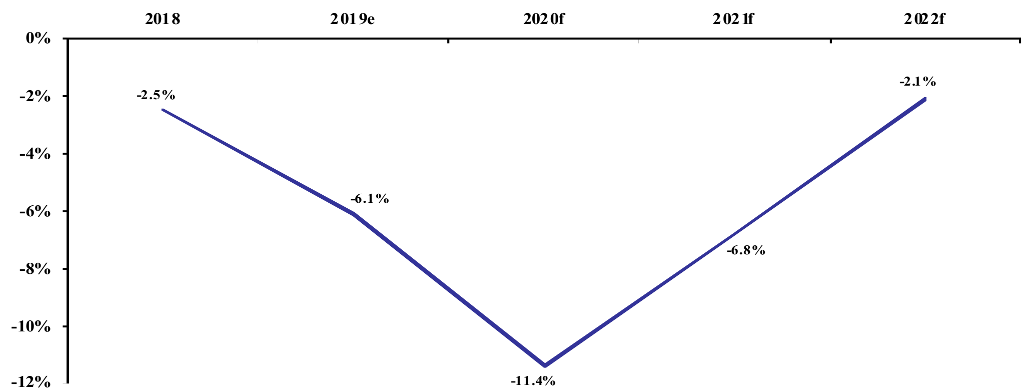
In This Issue

Charts of the Week

Projected Growth Rates of Real GDP per Capita in MENA Countries (%)



Projected Rates of Real GDP Per Capita in Lebanon (%)



Source: World Bank, Byblos Bank

Quote to Note

"The COVID-19 outbreak represents an unprecedented challenge for Lebanon, as it compounds issues the country has already been struggling with prior to the health emergency."

Mr. Jan Kubis, the UN's Special Coordinator for Lebanon, on the macroeconomic vulnerabilities that Lebanon is facing

Number of the Week

134: Lebanon's rank out of 180 countries, in terms of property rights, 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"	9.91	(0.80)	107,166	16.14%
Audi GDR	2.00	(16.32)	50,000	3.90%
Byblos Common	0.75	0.00	45,000	6.91%
Solidere "B"	10.08	8.97	32,366	10.67%
Audi Listed	1.35	0.00	5,000	12.94%
BLOM Listed	3.00	0.00	50	10.50%
BLOM GDR	3.50	0.00	12	4.21%
HOLCIM	9.71	0.00	-	3.09%
Byblos Pref. 08	60.00	0.00	-	1.95%
Byblos Pref. 09	59.90	0.00	-	1.95%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Apr 2021	8.25	19.13	260.52
Oct 2022	6.10	17.88	83.42
Jan 2023	6.00	17.88	72.49
Jun 2025	6.25	18.13	36.01
Nov 2026	6.60	18.13	27.55
Feb 2030	6.65	17.63	18.40
Apr 2031	7.00	18.00	16.18
May 2033	8.20	16.50	14.25
Nov 2035	7.05	17.75	11.43
Mar 2037	7.25	17.75	10.47

Source: Byblos Bank Capital Markets, Refinitiv

	Apr 6-9	Mar 30-Apr 3	% Change	March 2020	March 2019	% Change
Total shares traded	245,394	12,098,916	(98.0)	4,520,173	10,078,398	(55.1)
Total value traded	$1,558,052	$16,396,719	(90.5)	$15,709,340	$55,317,527	(71.6)
Market capitalization	$6.14bn	$6.14bn	0.02	$6.2bn	$9.63bn	(35.6)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Mar 20, 2020	April 10, 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*	April 3, 2020	April 10, 2020	% Change***
CDS 5-year**	441.92	361.54	(18.2)

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

Government reform plan targets restructuring of banking system

The Lebanese government's draft reform program shows that the plan consists of restructuring of the public debt, restructuring of the financial sector, fiscal consolidation, adjusting of the exchange rate regime, structural and social reforms, as well as international financial assistance. The program also includes a medium-term macroeconomic framework, which assumes that Lebanon will receive external financial support and will successfully implement the entire reform program. Accordingly, the plan projects Lebanon's real GDP to contract by 12% in 2020, by 7% in 2021, and by 3% in 2022, before posting zero percent growth in 2023 and growing by 2% in 2024. It considered that the economic recovery will be driven by external financial support that will limit the contraction in imports and domestic consumption, as well as by unlocking the CEDRE-related funds and by implementing the planned reforms and measures.

It estimated Lebanon's cumulative financing needs at $27.3bn during the 2020-24 period, which it expected to be funded by $15bn to $18bn from the debt restructuring process, and by $10bn to $15bn from multilateral and bilateral sources, as well as by a gradual return to international capital markets from 2023 onwards. It considered that meeting the country's financing needs is contingent on successfully restructuring the public debt in 2020, as well as on the gradual return of deposit inflows after a full cleanup of the financial system. In addition, it projected the public debt level to gradually regress from 176% of GDP at the end of 2019 to 103.1% of GDP at end-2024 and to 90.2% of GDP by the end of 2027. It attributed the downward trend in the debt level to narrower fiscal deficits, as well as to the restructuring of the public debt through principal discounts on Lebanese pound- and foreign currency-denominated debt, as well as through a reduction in interest rates to 3% per year.

In parallel, the government's program includes a restructuring of Banque du Liban (BdL) and banks operating in the country. It estimated BdL's losses at $63.6bn and its impaired liabilities at $54.9bn. It added that Lebanon will commission internationally-recognized professionals to conduct a full audit of BdL's accounts and financial operations over the past five years. It noted that the government will evaluate options for the restructuring of BdL's liabilities, including through the restructuring of the banks' deposits at BdL as well as the Certificates of Deposits that banks bought from BdL. Further, it considered that the banking system will incur direct losses in the context of the crisis and the restructuring of the public debt, which will be added to the indirect losses incurred as a result of BdL's restructuring. It estimated the banks' aggregate losses at $83.2bn, which the government intends to cover by a full bail-in of existing shareholders that it calculated at $20.8bn, as well as by a transitory exceptional contribution from large depositors that it estimated at $62.4bn.

Moreover, the program considers that the unification of the official and parallel exchange rates, and the formal devaluation of the official exchange rate, necessitates the prior stabilization of the economy and the restructuring of the banking sector. It anticipated the adjustment of the exchange rate to take place by mid-2021. It estimated that a 30% adjustment of the exchange rate will allow the smooth realignment of the exchange rate. It noted that the government intends to move to a more flexible exchange rate afterwards, such as a managed float or a crawling peg.

Association of Banks advisor provides input on government draft plan

Houlihan Lokey, the financial advisor of the Association of Banks in Lebanon, expressed disappointment at the government’s strategy to blame the banking sector for the prevailing financial crisis, as well as to impose the financial burden for addressing the crisis on depositors. It considered that traditional approaches to debt restructuring, like conducting a haircut on the debt principal, do not fundamentally address the problem in Lebanon, given that foreigners hold a small share of overall liabilities. Instead, it noted the need for a coordinated approach, whereby the government shares the necessary available data to adequately diagnose the problem, and then conducts a collaborative and transparent discussion with major stakeholders to “develop and implement robust and equitable solutions”. It added that Lebanese commercial banks are the largest holders of Eurobonds, a fact that the government should use to its advantage in order to come up with a credible plan that ensures that the debt is restructured while protecting the health of the banking sector and, more importantly, depositors’ funds.

In addition, it pointed out that the government’s “proposed solution to impose the financial burden of the restructuring on depositors betrays the fact that it was depositors, through commercial banks, who have been financing the government”. It added that the government mainly used these funds to to finance non-productive spending, such as interest payments on the debt and Treasury transfers to the money-losing Electricité du Liban. Consequently, it considered that the government should conduct and publish "a complete and independent audit of historical government expenditures and finances" "before asking depositors to directly assume responsibility for any portion of this problem".

Further, it agreed with the government on the crucial need for external financial support from the International Monetary Fund and/or any other available sources. However, it did not expect such funding to "materialize unless proper data is produced, analyzed and shared" before authorities submit any proposal. Also, it said that the materialization of funding is contingent on the implementation of front-loaded reforms and the presentation of a comprehensive and sustainable plan that finances the public and private sectors and that demonstrates that the lenders will be repaid.

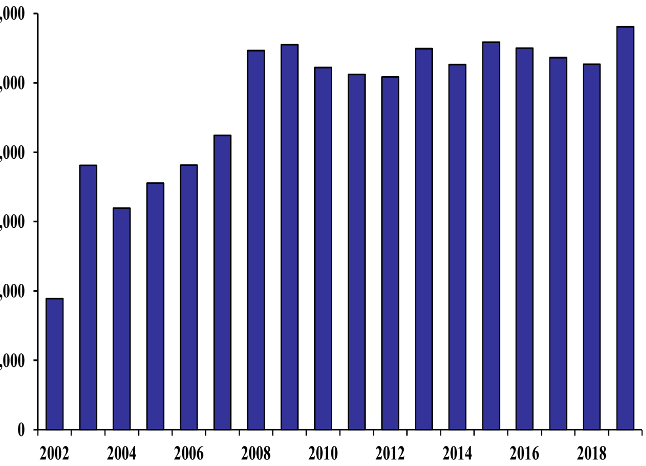
Remittance inflows to Lebanon up 10% to $5.8bn in first nine months of 2019

Figures released by Banque du Liban show that the inflows of expatriates' remittances to Lebanon totaled $5.8bn in the first nine months of 2019, constituting an increase of 10.2% from $5.26bn in the same period of 2018, and a rise of 8.3% from $5.36bn in the first nine months of 2017.

Remittance inflows to Lebanon increased by 6.6% year-on-year to $1.91bn in the first quarter of 2019, while they rose by 11.5% annually to $1.97bn in the second quarter, and grew by 12.8% year-on-year to $1.93bn in the third quarter of the year. The figures include workers' remittances and the compensation of employees, according to the World Bank's definition of remittances. Banque du Liban's figures are the only official data on remittance flows to and from Lebanon.

In addition, remittance inflows to Lebanon in the first nine months of 2019 reached their highest level in the first nine months of a year between 2002 and 2019. Remittance inflows to the country averaged $5.4bn during the first nine months of each year between 2009 and 2019.

Remittance Inflows to Lebanon* (US$m)



**in the first nine months of each year*
Source: Banque du Liban, Byblos Research

In parallel, remittance outflows from Lebanon amounted to $3.48bn in the first nine months of 2019, down by 6.8% from $3.74bn in the same period of 2018, and up by 6.1% from $3.28bn in the first nine months of 2017. Remittance outflows from Lebanon declined by 1.3% year-on-year to $1.2bn in the first quarter of 2019, while they decreased by 4.5% annually to $1.18bn in the second quarter, and dropped by 14.2% year-on-year to $1.1bn in the third quarter of the year. In addition, remittance outflows in the covered period reached their fourth highest level for the first nine months of a year during the 2002-19 period. They averaged $3.39bn during the first nine months of each year between 2009 and 2019, and reached a high of $4.1bn in the first nine months of 2009.

As such, net remittance inflows to Lebanon totaled $2.33bn in the first nine months of 2019, constituting a jump of 51.8% from $1.53bn in the same period of 2018, and an increase of 11.8% from $2.1bn in the first nine months of 2017. Net remittance inflows to Lebanon in the first nine months of 2019 reached their third highest level for the first nine months of a year between 2002 and 2019.

Value of cleared checks increases by 28%, returned checks up 9% in first two months of 2020

The value of cleared checks reached $12.5bn in the first two months of 2020, constituting a rise of 28.4% from $9.8bn in the same period of 2019. The significant growth in the amount of cleared checks reflects the increased use of checks as a mean of payment. In comparison, the value of cleared checks decreased by 12% year-on-year in the first two months of 2019, while it increased by 1.4% annually in the same period of 2018. The value of cleared checks in Lebanese pounds grew by 23.7% year-on-year to the equivalent of $4.5bn in the first two months of 2020, while the amount of cleared checks in foreign currencies rose by 31.2% to $8bn in the covered period. The dollarization rate of cleared checks expanded from 62.7% in the first two months of 2019 to 64% in the same period of 2020. There were 1.5 million cleared checks in the first two months of 2020, down by 14.3% from 1.7 million in the same period of 2019.

In addition, the value of cleared checks reached $5.8bn in February 2020, constituting a decrease of 13% from $6.7bn in the preceding month, and compared to $4.9bn in February 2019. The value of cleared checks in Lebanese pounds declined by 2.6% from the equivalent of $2.3bn in January 2020 to $2.2bn in the covered month, and the amount of cleared checks in foreign currencies fell by 18.2% month-on-month to $3.6bn in February 2020. There were 708,512 cleared checks in February 2020 relative to 757,824 cleared checks in the preceding month.

In parallel, the amount of returned checks in domestic and foreign currencies was $266m in the first two months of 2020 compared to $244.8m in the same period of 2019 and to $235.5 in the first two months of 2018. This constituted an increase of 8.7% in the first two months of 2020 relative to a rise of 4% in the same period of 2019. Also, there were 41,193 returned checks in the covered period, down by 8% from 44,710 returned checks in the first two months of 2019.

Further, the amount of returned checks in domestic and foreign currencies was $112.8m in February 2020, constituting a decline of 26.4% from $153.2m in returned checks in the previous month, and compared to $114.1m in February 2019. Also, there were 15,662 returned checks in February 2020, down by 38.7% from 25,531 returned checks in January 2020. The value of returned checks continued to normalize from unusual fluctuations in October and November, following the disruption of economic and banking activities in the second half of October and to some extent in November.

Occupancy rate at Beirut hotels at 28%, room yields down 71% in first two months of 2020

EY's benchmark survey of the hotel sector in the Middle East indicates that the average occupancy rate at four- and five-star hotels in Beirut was 28% in the first two months of 2020 relative to 65% in the same period of 2019, and compared to an average rate of 67.2% in 14 Arab markets included in the survey. The occupancy rate at Beirut hotels was the lowest in the region in the covered period, while it was the seventh lowest in the first two months of 2019. The occupancy rate at hotels in Beirut regressed by 37.4 percentage points in the first two months of 2020, constituting the steepest decline in the region. In comparison, the average occupancy rate in Arab markets improved by 0.9 percentage points in the covered period.

The occupancy rate at Beirut hotels stood at 30% in February 2020, constituting a decline of 40.6 percentage points from 71% in February 2019 and compared to 25% in January 2020. It was the lowest rate in the region in the covered month.

Hotel Sector Performance in First Two Months of 2020

	Occupancy Rate (%)	RevPAR (US$)	RevPAR % change
Dubai	82	196	(16.0)
Riyadh	74	128	21.3
Ras Al Khaimah	67	109	(5.7)
Kuwait City	68	106	5.1
Madina	79	93	21.3
Jeddah	57	92	9.5
Muscat	65	91	(16.8)
Makkah	80	89	27.5
Cairo	79	88	(5.5)
Abu Dhabi	85	86	(13.9)
Doha	71	79	7.9
Manama	53	77	(5.8)
Amman	53	73	(6.2)
Beirut	**28**	**36**	**(71.2)**

Source: EY, Byblos Research

The average rate per room at Beirut hotels was $130 in the first two months of 2020, decreasing by 32.2% from $192 in the same period of 2019 and constituting the sixth lowest rate in the region. The average rate per room in Beirut was lower than the regional average of $142.4 that regressed by 8.1% from the first two months of 2019. The average rate per room at Beirut hotels was $123 in February 2020, down by 34.3% from $187 in February 2019 and relative to $138 in January 2020.

Further, revenues per available room (RevPAR) were $36 at Beirut hotels in the first two months of 2020 compared to $125 in the same period of 2019, constituting the lowest rate in the region. Beirut's RevPAR regressed by 71.2% year-on-year and posted the steepest decrease regionally in the covered period. Beirut posted RevPARs of $37 in February 2020, down by 72% from $132 in February 2019 and compared to $35 in January 2020. It was the lowest rate in the region in the covered month. Abu Dhabi posted the highest occupancy rate in the region at 85% in the first two months of 2020, while Dubai registered the highest average rate per room at $239, and the highest RevPAR at $196 in the covered period.

EY considered that the ongoing economic and financial crisis, as well as political uncertainties in Lebanon, have weighed on the performance of Beirut's hospitality sector. It said that the recent outbreak of the coronavirus has also contributed to the downward trend in the sector. It anticipated the pandemic to continue to affect Beirut's hospitality sector in the short to medium term, as an increasing number of countries are closing their borders and imposing travel restrictions.

Broad money supply down 2.7% in first two months of 2020

Figures released by Banque du Liban show that money supply M1, which includes currency in circulation and demand deposits in Lebanese pounds, reached LBP19,549bn at the end of February 2020, constituting an increase of 17.6% from LBP16,620bn at the end of 2019 and a rise of 85.7% from LBP10,525bn at end-February 2019. Currency in circulation stood at LBP11,972bn at the end of February 2020, up by 21.9% from LBP9,818bn at end-2019 and by 158.5% from LBP4,631bn at end-February 2019. Also, demand deposits in local currency stood at LBP7,577bn at the end of February 2020, constituting an increase of 11.4% from end-2019 and a rise of 28.5% from end-February 2019. Money supply M1 rose by 6.2% in February from LBP18,408bn at end-January 2020, with currency in circulation growing by 11.5% and demand deposits in local currency regressing by 1.3% month-on-month. The increase in money supply largely reflects the migration of term deposits to demand deposits, as well as the shift to a cash based economy.

In addition, money supply M2, which includes M1 and term deposits in Lebanese pounds, reached LBP59,677bn at the end of February 2020, constituting a decrease of 6% from LBP63,484bn at the end of 2019 and a decline of 21.2% from LBP75,726bn a year earlier. Term deposits in Lebanese pounds totaled LBP40,127bn at the end of February 2020, down by 14.4% from LBP46,864bn at end-2019 and by 38.5% from LBP65,201bn at end-February 2019. Money supply M2 regressed by 3% in February from LBP61,543bn at end-January 2020, with term deposits in local currency declining by 7% month-on-month.

Further, broad money supply M3, which includes M2, deposits in foreign currency and debt securities issued by the banking sector, reached LBP197,405bn at the end of February 2020, constituting a decrease of 2.7% from LBP202,831bn at the end of 2019 and a decline of 6.4% from LBP210,836bn at end-February 2019. Deposits in foreign currency totaled LBP137,254bn at the end of February 2020, declining by 1.2% from end-2019 and increasing by 1.8% from a year earlier. Also, debt securities issued by the banking sector amounted to LBP474bn at the end of February 2020, compared to LBP437bn at the end of 2019 and to LBP291bn at end-February 2019. Money supply M3 regressed by 1.2% from LBP199,831 at the end of January 2020, with deposits in foreign currency nearly unchanged and debt securities issued by the banking sector rising by 5.4% month-on-month. In parallel, M3 regressed by LBP5,426bn in the first two months of 2020, due to a drop of LBP5,028bn in claims on the private sector and a decline of LBP4,005bn in net claims on the public sector, which were partly offset by a rise of LBP2,704bn in other net items and an increase of LBP903bn in the net foreign assets of deposit-taking institutions.

Banque du Liban exempts "fresh funds" from mandatory reserve requirements

Banque du Liban (BdL) issued Basic Circular 150 on April 9, 2020, about exceptional exemptions for banks from reserve requirements and from mandatory placements at BdL. Specifically, the circular exempted banks from placing mandatory reserves at BdL on transfers received from abroad or on cash deposits in Lebanese pounds and in foreign currency. It pointed out that banks can benefit from these exemptions if they meet two conditions. First, the banks must allow holders of accounts funded through foreign transfers or cash deposits to benefit from all banking services, which include the ability to transfer these funds abroad, to withdraw banknotes, and to access these funds through payment cards in Lebanon or abroad. Second, banks should implement the needed procedures, such as opening a specific account for these funds, so that banks can track the operations related to these funds.

Further, the circular indicated that the exemptions and conditions will be valid even if holders of these accounts convert, in part or in full, the funds to any other currency. Also, it noted that, in case the client transfers these funds to another bank operating in Lebanon, the latter bank will benefit from the exemptions instead of the bank that initially had received the funds.

In addition, the circular stipulated that the bank that does not abide by these measures will be subject to administrative penalties according to the Code of Money and Credit, and will have to place at BdL an amount equivalent to two times the funds that were exempted from the reserve requirements without benefiting from any interest on this amount. Also, the bank will have to pay a compensation equal to 15% of the fresh funds.

World Bank reallocates $40m to improve capacity of healthcare system amid coronavirus pandemic

The World Bank announced that it approved on March 12, 2020, the reallocation of $40m under Lebanon's Health Resilience Project, in order to strengthen the Ministry of Public Health's capacity to respond to the coronavirus pandemic, by equipping governmental hospitals and increasing their ability to test and treat suspected cases. It added that fast-track procurement of critically-needed medical equipment and supplies is already underway, as Lebanon finalized the signing of contracts with the World Health Organization and the United Nations Office for Project Services.

The Bank pointed out that the outbreak of the coronavirus has exacerbated Lebanon's financial and economic crisis and that the government is limited in its capacity to respond to the spread of the virus. Also, it said that the COVID-19 outbreak is weighing on Lebanon's already strained healthcare sector and is setting back the authorities' efforts to fight poverty. It stressed that the pandemic is likely to hit the poor in particular, as well as the refugee population in the country. It noted that the government took several steps to mitigate the impact of the virus, such as preparing a COVID-19 Health Sector Response Plan, mobilizing resources to equip additional public hospitals with critically-needed medical equipment, and strengthening risk communication to the population. However, it considered that Lebanon remains under-equipped to respond to such a global pandemic. In this context, it indicated that the $40m earmarked for the COVID-19 response will support the government in three main areas, which are surveillance and case detection, case management and protection of health workers, as well as supporting multi-sectoral activities, including operating command rooms at the central and regional levels, and the implementation of risk communications and community engagement campaigns.

The Ministry of Public Health contracted the World Health Organization and the United Nations Office for Project Services to procure personal protective equipment and five PCR machines with testing kits covering the supply needs of public hospitals for a duration of six months, as well as 50 ventilators and 12 electrocardiogram machines, among others, to be delivered over a period of six weeks. Also, the ministry will procure an additional 70 ventilators from private firms following a competitive bidding process.

Further, the World Bank said that the purchase of goods and services will be carried out according to the World Bank's Procurement Regulations, which will ensure full transparency and accountability in the implementation of this emergency response plan. It added that technical and financial audits will be conducted to verify the contracting approach, the suitability of prices, the adherence to acceptable and agreed procurement procedures, and the appropriate use of funds for the intended purposes.

In parallel, it said that the restructuring of the funding will not affect the initial activities planned under Lebanon's $120m Health Resilience Project, which aims to improve primary healthcare centers in order to provide essential services to the low income population, expand the provision of healthcare services in public hospitals, and strengthen the capacity of the Ministry of Public Health. The project is financed through a $95.8m contribution from the World Bank and a $24.2m grant from the Global Concessional Financing Facility.

Term deposits account for 84% of customer deposits at end-February 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 $138.6bn, while demand deposits in all currencies stood at $26.2bn at the end of February 2020.

Term deposits in all currencies declined by $11.1bn, or by 7.4% from $149.7bn at end-2019. They accounted for 84.1% of total deposits in Lebanese pounds and in foreign currency at end-February 2020 relative to a share of 86.7% at end-2019. The decline in term deposits was due to a drop of 13.8% in term deposits in Lebanese pounds of the resident private sector, a 10.3% contraction in term deposits of non-residents, a 9.3% decrease in term deposits of the non-resident financial sector, an 8.2% drop in term deposits in Lebanese pounds of the public sector, and a 4.1% decrease in foreign currency-denominated term deposits of the resident private sector. This was partly offset by a surge of 93% in foreign currency-denominated term deposits of the public sector. The drop in term deposits is due to cash withdrawals and to the migration of funds from term to demand deposits, amid the confidence crisis that started in September 2019. Aggregate term deposits declined by $27.88bn since the end of September 2019.

Foreign currency-denominated term deposits of the resident private sector amounted to $75.7bn and accounted for 46% of total deposits at the end of February 2020. Term deposits in Lebanese pounds of the resident private sector followed with $26.1bn (15.8%), then term deposits of non-residents with $26.3bn (16%), term deposits of the non-resident financial sector with $6.2bn (3.8%), term deposits in Lebanese pounds of the public sector with $3.8bn (2.3%), and term deposits in foreign currency of the public sector with $619.4m (0.4%).

In parallel, demand deposits in all currencies rose by $3.3bn, or by 14.5%, from $22.9bn at end-2019. They accounted for 16% of total deposits at end-February 2020 relative to a share of 13.3% at end-2019. The increase in demand deposits was mainly due to a growth of $2.1bn in foreign currency-denominated demand deposits of the resident private sector, a rise of $852.7m in demand deposits of non-residents, and an increase of $357m in demand deposits in Lebanese pounds of the resident private sector.

Demand deposits in foreign currency of the resident private sector amounted to $14.6bn and represented 9% of total deposits at the end of February 2020. Demand deposits in Lebanese pounds of the resident private sector followed with $5.1bn (3.1%), then demand deposits of non-residents with $4bn (2.4%), demand deposits of the non-resident financial sector with $2.1bn (1.3%), demand deposits in Lebanese pounds of the public sector with $275.1m (0.2%), and demand deposits in foreign currency of the public sector with $164.4m (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.

De-dollarization measures to impact exchange rate

Morgan Stanley considered that Banque du Liban's (BdL) recent circular that allows bank clients to withdraw small deposit accounts at a market exchange rate, rather than at the official rate, shows that authorities are gradually accepting a weaker exchange rate. It noted that BdL issued a circular that allows clients that have up to $3,000 in any foreign currency at a bank to withdraw the entire amount in Lebanese pounds at the market rate determined by banks on a daily basis. It estimated that this measure reportedly covers 60% of all bank accounts and that these accounts have in total $350m in foreign currency deposits. It added that the coverage of such a large number of accounts is positive in terms of social support.

Further, it noted that the de-dollarization measure, although affecting a small amount of deposits in foreign currency, would lead to a decline in the banks' foreign currency liabilities and, in turn, in the liabilities of BdL to banks. It added that the de-dollarization is needed to boost credit, given that there is little demand for US dollar-denominated loans.

In addition, it considered that the de-dollarization measure would lead to the practice of multiple exchange rates, which are the official rate of LBP1,507.5 per US dollar, the market rate determined by banks on a daily basis, and the parallel market rate of about LBP2,800 per dollar. It said that a market rate that is close to the parallel exchange rate, would act as a benchmark for inflation expectations, and would make it easier to move the official exchange rate to a different level in the future.

Further, it pointed out that the $3,000 ceiling for accounts eligible for the de-dollarization measure provides some benchmarking about the authorities' definition of small depositors. It estimated that Lebanon could generate significant fiscal savings in case authorities decide to convert deposit accounts in excess of $3,000 to Lebanese pounds at around the official rate. It also considered that the need for a principal haircut on deposits would decline significantly, in case the conversion rate of larger deposits is close to the official rate.

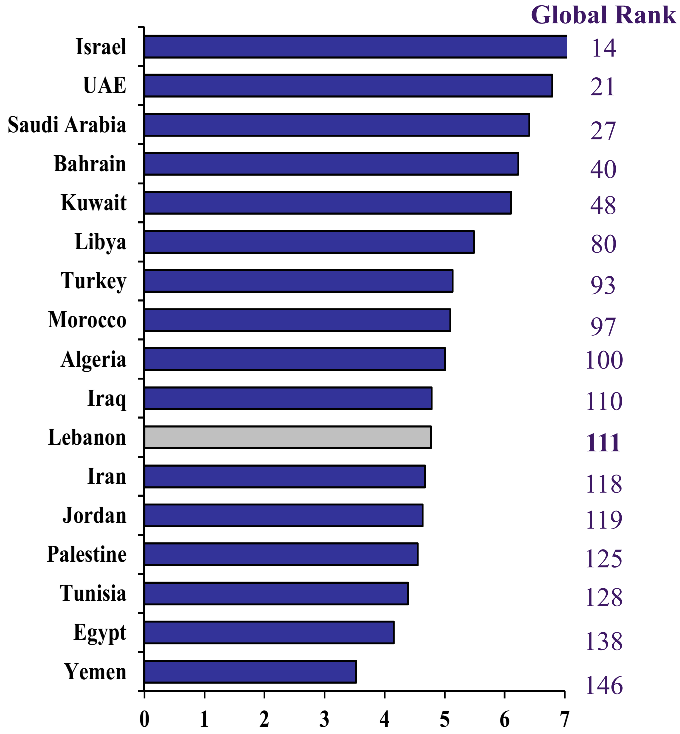
Lebanese citizens are 111st happiest people in the world, 11th happiest in MENA region

The United Nations' 2020 survey about the level of happiness in 153 countries ranked Lebanon as the 111st happiest country globally and the 11th happiest nation among 17 countries in the Middle East & North Africa (MENA) region. Also, Lebanon came in 37th place among 44 upper middle-income countries (UMICs) included in the survey.

The UN's measure of happiness is based on annual polls that were conducted by opinion polling and consulting firm Gallup between 2017 and 2019, with the results converted into a numerical score for each country. The survey asked respondents to evaluate their lives by placing their current living conditions on a "ladder" scale ranging from zero to 10, and to assign a score accordingly, where zero reflects the "worst possible life" and 10 points the "best possible life". The poll interviewed about 1,000 respondents per year in Lebanon in the covered period.

The survey indicated that social support, or having someone to count on when in distress, explains about 25% of the overall happiness of Lebanese citizens, the 19th highest share globally. The individual income level follows with 18.6% (49th highest share), then expectations of a healthy life with 16.5% (17th highest share globally), freedom to make life choices with 4% (fifth lowest share), generosity or donating money to charity with 3.3% (77th highest share), and perceptions of corruption with 0.5% (11th lowest share). The survey found that the citizens of Finland are the happiest worldwide, while those of Afghanistan are the least happy globally.

Happiness Index for 2020
Scores & Rankings of Arab Countries



Source: United Nations, Byblos Research

In parallel, the UN compared the average level of happiness between the 2008-12 period and the 2017-19 period. Based on the provided data, Lebanon came in 89th place among 149 countries worldwide in terms of the average happiness level during the 2008-12 period. Consequently, Lebanon's rank regressed by 21 spots when using countries that have data for both the 2008-2012 and the 2017-2019 periods. Lebanon was one of 74 nations globally and one of 14 countries in the MENA region to post a decrease in the level of happiness between the 2008-2012 survey and the 2017-2019 survey.

Globally, the survey's results show that Lebanese citizens are happier than the citizens of Burkina Faso, Gambia and Mali, but are less happy than the citizens of Gabon, South Africa and Iraq. Also, they are happier than their counterparts in Armenia, Georgia and Iran, but less happy than citizens in Gabon, South Africa and Iraq among UMICs. Lebanon received a score of 4.772 points for the 2017-2019 period, down by 3.7% from 4.954 points during the 2008-2012 period.

Number of airport passengers down by 33% in first quarter of 2020

Figures released by the Beirut-Rafic Hariri International Airport (HIA) show that 1,165,094 passengers utilized the airport (arrivals, departures and transit) in the first quarter of 2020, constituting a decline of 33.4% from 1,749,693 passengers in the same period of 2019. The number of arriving passengers decreased by 36.1% to 535,609 in the first quarter of 2020, compared to a marginal decline of 0.2% in the same period last year and to an increase of 14% in the first quarter of 2018. Also, the number of departing passengers fell by 31.3% to 616,495 in the first quarter of 2020, relative to an increase of 1.1% in the same period of 2019 and to a rise of 13.5% in the first quarter of 2018.

In parallel, the airport's aircraft activity regressed by 30% to 10,805 take-offs and landings in the covered period, relative to an increase of 0.4% in the same period of 2019 and to a growth of 1.9% in the first quarter of 2018. In addition, the HIA processed 14,166 metric tons of freight in the first quarter of 2020 that consisted of 7,652 tons of import freight and 6,514 tons of export freight. Middle East Airlines had 4,691 flights in the first quarter of 2020 and accounted for 43.4% of HIA's total aircraft activity.

The significant decline in airport passengers and aircraft activities is mainly due to the closure of the airport since March 18, 2020, as well as to the lockdown measures and closure of airports in several countries in response to the outbreak of the coronavirus worldwide. In fact, the Lebanese government declared on March 15 a general mobilization in response to the outbreak of the coronavirus in the country. It closed the airport, seaports and land crossing points for arrivals, and enforced other measures that include prohibiting all types of gatherings in public or private places. As such, the number of passengers that utilized the airport (arrivals, departures and transit) reached 187,570 in March 2020, constituting a drop of 59% from February 2020 and a fall of 69.7% from March 2019. Also, the airport's aircraft activity reached 2,013 take-offs and landings in March, regressing by 61% from March 2019 and by 50.5% from February 2020.

Outlook on banking sector revised to 'negative' on elevated economic and fiscal pressures

Moody's Investors Service revised the outlook on the Lebanese banking sector from 'stable' to 'negative', to reflect the deterioration in economic and financial conditions in the country, as business activity weakens and the economy slides into paralysis following the government's default on its foreign debt obligations in March 2020. As such, it expected the banking sector to face large losses given its elevated exposure to the Lebanese sovereign. Also, it noted that the outbreak of the coronavirus is adding to the challenges that the country is facing at a time when the latter has few resources to provide support to vulnerable businesses and individuals.

The agency indicated that the outlook revision reflects its expectations of a deterioration in the operating environment and a weakening in the banks' asset quality, capitalization, profitability, funding and liquidity over the next 12 to 18 months. It also projected the level of government support to the banking sector to remain low in the context of the sovereign's commitment to restructure its public debt, as well as mounting fiscal and external headwinds.

First, it forecast the Lebanese economy to contract in 2020 and 2021. It noted that the US dollar shortages and the banks' restrictions on transfers abroad are negatively affecting businesses and individuals, while the growing spread between the official and parallel exchange rates is fueling inflationary pressure. It added that the lockdown measures that the government has enforced to contain the spread of the coronavirus is causing further pressure on demand and is negatively impacting the tourism sector.

Second, it anticipated credit conditions to remain highly challenging in the next 12 to 18 months, reflecting the banks' high interlinkage with the sovereign and Banque du Liban (BdL). It said that the government seeks to restructure its debt, which will result in significant losses for private creditors, including the banking sector. It considered that an improvement in credit conditions depends on the government's ability to implement the required economic reforms and to secure external funding. It said that, without external financial support, a disorderly de-pegging of the currency could result in a sharp currency depreciation and could further weigh on the banks.

Third, it expected private sector lending to continue to contract over the forecast horizon, while it anticipated problem loans at banks to significantly increase in the context of economic contraction, rising inflation, increased job losses and salary cuts.

Fourth, it projected the banks' capitalization to come under increased pressure given their elevated sovereign exposure and the challenging domestic operating environment. It expected the banks' regulatory capital ratios to decline following an increase to 150% in the risk weights on some of the banks' assets, including their foreign-currency exposure to BdL.

Fifth, it anticipated the banks' profitability to weaken in the next 12 to 18 months, due to higher loan-loss provisions and muted new businesses generation. It added that the banks' interest income from their sovereign exposure could be significantly reduced in the future. Further, it forecast the banks' funding and liquidity pressures to persist. It noted that large deposit outflows and increased dollarization have increased the pressure on the banks' liquidity and on BdL's foreign currency reserves. It added that the banks' restrictions on deposits will weigh on depositor confidence and restrain foreign-currency inflows in the future.

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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