

LEBANON THIS WEEK

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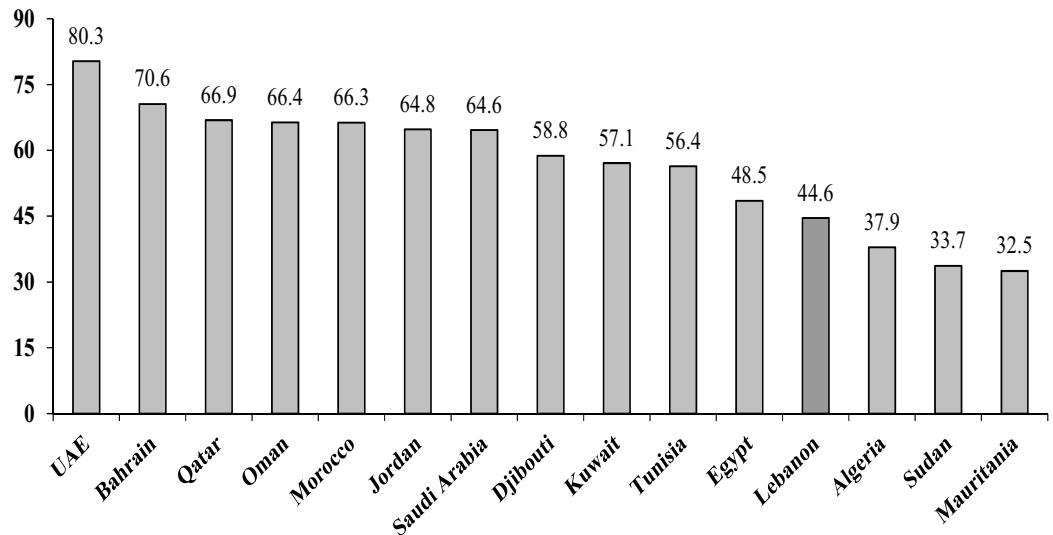
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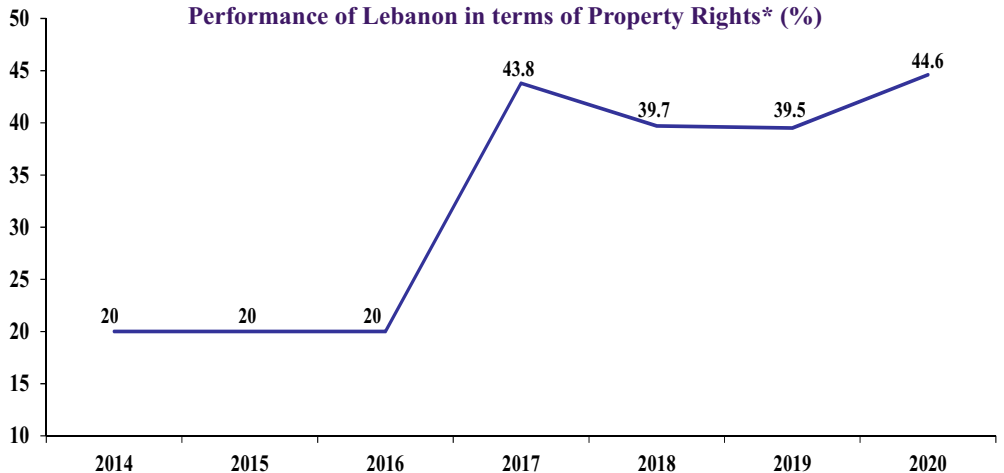
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Charts of the Week

Performance of Arab Countries in terms of Property Rights* (%)



Performance of Lebanon in terms of Property Rights* (%)



*higher score reflects a more effective legal protection of property

Source: The Heritage Foundation's Index of Economic Freedom for 2020

Quote to Note

"The government will need to implement wide-reaching economic and fiscal reforms to access a package of external financial aid."

Moody's Investors Service, on expectations that Lebanese authorities have to carry out structural reforms prior to any international financial support

Number of the Week

12.4%: Non-performing loans ratio at Lebanese banks as at September 2019, according to the most recent figures from International Monetary Fund

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
BLOM Listed	3.00	0.00	332,570	10.53%
Solidere "A"	10.15	2.42	111,288	16.56%
Solidere "B"	9.97	(1.09)	56,470	10.58%
Audi Listed	1.30	(3.70)	34,230	12.49%
Audi GDR	2.00	0.00	-	3.91%
Byblos Common	0.75	0.00	-	6.92%
BLOM GDR	3.50	0.00	-	4.22%
HOLCIM	9.71	0.00	-	3.09%
Byblos Pref. 08	60.00	0.00	-	1.96%
Byblos Pref. 09	59.90	0.00	-	1.96%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Apr 2021	8.25	19.13	267.13
Oct 2022	6.10	17.63	84.91
Jan 2023	6.00	18.00	72.66
Jun 2025	6.25	19.13	34.90
Nov 2026	6.60	18.63	27.16
Feb 2030	6.65	18.00	18.20
Apr 2031	7.00	18.00	16.21
May 2033	8.20	17.50	13.79
Nov 2035	7.05	18.00	11.35
Mar 2037	7.25	18.25	10.31

Source: Byblos Bank Capital Markets, Refinitiv

	Apr 14-16	Apr 6-9	% Change	March 2020	March 2019	% Change
Total shares traded	538,358	245,394	119.4	4,520,173	10,078,398	(55.1)
Total value traded	\$2,808,168	\$1,558,052	80.2	\$15,709,340	\$55,317,527	(71.6)
Market capitalization	\$6.13bn	\$6.14bn	(0.2)	\$6.2bn	\$9.63bn	(35.6)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Mar 20, 2020	Apr 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*	Apr 10, 2020	Apr 17, 2020	% Change***
CDS 5-year**	361.54	385.73	6.7

Source: ICE CMA; * CDX Emerging Market CDS Index-Series 30

mid-spread in bps *week-on-week

Consumer confidence retreats in first quarter of 2020

The results of the Byblos Bank/AUB Consumer Confidence Index show that the Index averaged 38.7 points in the first quarter of 2020, constituting a decline of 19.1% from 47.8 points in the fourth quarter of 2019 and a decrease of 49% from 75.5 points in the first quarter of 2019. Most of the Index's decline in the first quarter of the year was driven by the March reading that dropped by 34.2% from the preceding month and retreated by 62.3% from the same month of 2019. Further, the Byblos Bank/AUB Present Situation Index averaged 33.2 in the first quarter of 2020 and retreated by 17.7% from the preceding quarter, while the Byblos Bank/AUB Expectations Index averaged 42.4 and regressed by 19.8% from the fourth quarter of 2019. In addition, the average monthly score of the Index in the first quarter of 2020 was 63.4% lower than the quarterly peak score of 105.8 registered in the fourth quarter of 2008, and was 31% lower than the monthly trend average of 56. The first-quarter results constitute the 18th lowest level in 51 quarters.

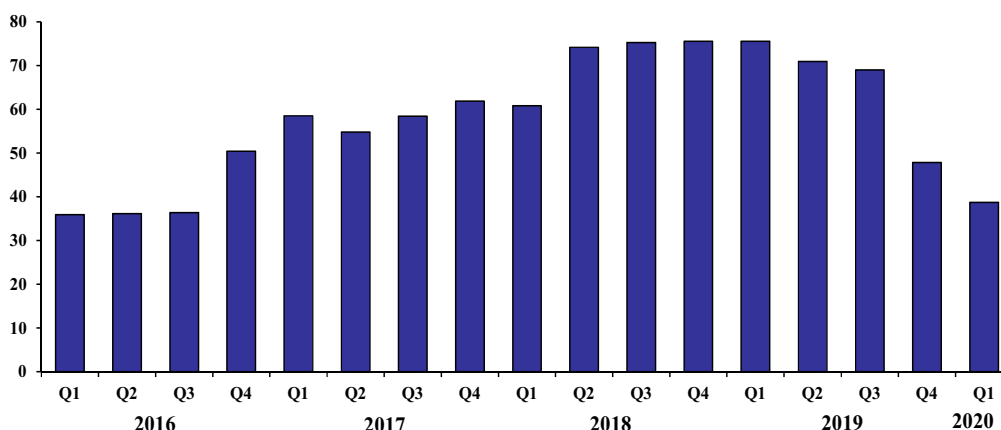
The first-quarter results plunged to their lowest level since the fourth quarter of 2016, while the index reading for March 2020 registered its lowest level since December 2013. The downward trend in household sentiment is due to mounting economic and financial uncertainties following the government's decision to default on its external debt obligations without a clear path out of the crisis, as well as to the outbreak of the coronavirus in the country and the lockdown measures that added to economic uncertainties. In addition, the substantial increase of consumer prices as well as the government's emerging intention to implement a significant haircut on bank deposits, contributed to the steep drop of the Index in March.

The detailed results of the Index's monthly survey show that only 0.3% of Lebanese polled in March 2020 considered that their personal financial conditions improved from six months earlier, while 78.2% of respondents said that their financial situation deteriorated from September 2019. Further, 0.2% of the Lebanese polled in March believed that their personal financial conditions will improve in the coming six months, while 81.4% of households considered that their financial conditions will deteriorate by September 2020. In parallel, none of the Lebanese surveyed in March 2020 considered that economic conditions in Lebanon improved from six months earlier, while 89.3% indicated that economic conditions deteriorated from September 2019. In addition, 1.2% anticipated economic conditions to improve in the coming six months, while 86.4% of respondents expected business conditions to deteriorate by September 2020.

The results of the Byblos Bank/AUB Consumer Confidence Index for the first quarter of 2020 show that the confidence level of residents in Beirut increased by 7.4% in the covered quarter from a very low base in the fourth quarter of 2019; while the sentiment of households in the North regressed by 27.7% from the preceding quarter, followed by households in the Bekaa and the South (-25.2% each), and in Mount Lebanon (-18.6%). The sentiment of residents in Beirut was the highest among all geographic regions during the first quarter of 2020, followed by households in the Bekaa, Mount Lebanon, the North, and the South. Also, the confidence level of Druze households dropped by 42.5% quarter-on-quarter in the first quarter of 2020, followed by the sentiment of Christian households (-20.5%), Shiite households (-14.5%) and Sunni households (-13.6%). Shiite households registered the highest level of confidence in the first quarter of 2020, followed by Sunni, Christian and Druze households.

The Byblos Bank/AUB Consumer Confidence Index is a measure of the sentiment and expectations of Lebanese consumers toward the economy and their own financial situation. The Index is compiled, implemented and analyzed in line with international best practices and according to criteria from leading consumer confidence indices worldwide. It is composed of two sub-indices, the Byblos Bank/AUB Present Situation Index and the Byblos Bank/AUB Expectations Index. The first sub-index covers the current economic and financial conditions of Lebanese consumers, and the second one addresses their outlook over the coming six months. In addition, the data segregates the Index based on age, gender, income, profession, geographical region, and religious affiliation. The Byblos Bank Economic Research and Analysis Department has been calculating the Index on a monthly basis since July 2007, with January 2009 as its base month. The Index is based on a face-to-face monthly survey of a nationally representative sample of 1,200 males and females living throughout Lebanon, but the March 2020 survey was conducted by phone amid the coronavirus pandemic. The monthly field survey is conducted by Statistics Lebanon Ltd, a market research and opinion-polling firm.

Byblos Bank/AUB Consumer Confidence Index*



* Quarterly Average Score

Source: Byblos Bank Economic Research & Analysis Department, based on surveys conducted by Statistics Lebanon

Government plan implies haircut of 63.5% on top 10% of deposit accounts at banks

Bank of America (BofA) considered that the Lebanese government's draft reform program may constitute an adequate starting point for negotiations with the International Monetary Fund (IMF) on a financing program.

However, it highlighted four main risks to the plan. First, it said that the draft program could face popular opposition amid the elevated "sacrifices" it requires from the people. It considered that the government will likely need to pursue high-profile anti-corruption efforts, the deployment of a social safety net and greater accountability for the crisis, in order to ease social discontent. It noted that the syndicates of liberal professions, the National Social Security Fund, as well as several political parties, expressed dissatisfaction with the draft reform plan. Second, it pointed out that execution risks are elevated amid the authorities' weak track record and possible regulatory capture. It anticipated that the proposed option to compensate large depositors through a dedicated fund financed from the recuperation of stolen funds or from other state assets, could generate domestic controversy. Third, it said that the government's debt would remain at elevated levels in the aftermath of the debt's restructuring, reaching 103% of GDP by 2024, which would constrain policy-making. Fourth, it considered that the government's initial macroeconomic projections are optimistic and that the starting economic position could be weaker than what the plan assumes, as the figures exclude the impact of the coronavirus outbreak on the economy.

Fifth, it expressed concerns about the risk of fiscal slippages, as the government could miss its revenue targets because the proposed measures to improve customs collection, to enforce fines on illegally-built maritime properties, and to recover stolen assets could face political opposition from vested interests. It added that the contraction in economic activity could reduce tax revenues, while reforms to the electricity sector may not fully eliminate Treasury transfers to Electricité du Liban as stipulated under the draft reform plan. Sixth, it indicated that the lack of engagement with the IMF constitutes a risk and that the Fund's conditionality may require more stringent targets, particularly as the financing gap could be larger than the government's estimates. Finally, it pointed out that the implied net foreign currency reserves accumulation in the government's draft plan is modest and is unlikely to provide a significant buffer in the event of negative shocks, given that it expected the government's debt level to remain elevated. It noted that the low net reserve position reflects the still wide current account deficit, which means that the adjustment to the exchange rate could be steeper than the government's projections.

In parallel, it estimated that the plan targets a 55% face-value cut to the government's debt stock. It noted that the plan treats Banque du Liban (BdL) and banks broadly similarly to other bondholders. It said that BdL's losses from the sovereign debt's restructuring are at \$20.8bn, equivalent to a 52% face-value cut on its sovereign debt holdings. It added that banks will incur \$16.1bn in losses from the debt restructuring, equivalent to a 62% face-value cut of their public debt holdings.

Further, it pointed out that the government estimated the banking sector's total losses at \$83.2bn as at the end of February, excluding the impact of the currency devaluation. They include \$54.9bn in losses from the banks' exposure to BdL, \$12.2bn in losses from their private-sector loan portfolio, as well as \$16.1bn in losses from the restructuring of the public debt. Bank of America estimated that a 52.1% bail-in of total bank deposits is needed to restore the banking sector's capital adequacy ratio to the minimum regulatory requirement of 10.5%, in the absence of any additional sources of capital. However, it noted that the government claims that it intends to protect the assets of 90% of deposits of less than \$100,000. As such, it estimated that, when taking into account the top 10% of deposit accounts, as well as the State guarantee of LBP75bn of deposits, the bail-in will amount to 63.5% of unguaranteed funds of the top 10% of deposit accounts. It expected all of the bail-in requirements to fall on foreign-currency denominated deposits, in order to allow the banking sector to improve its net foreign currency position. It estimated that the bail-in requirement of unguaranteed funds of the top 10% of deposit accounts will increase by 1.7 percentage points if authorities exclude social security and insurance funds from nominal reductions in the restructuring of the domestic debt.

Nearly one-third of surveyed Lebanese say government did not achieve anything yet

A survey conducted by opinion-polling firm Information International shows that 31% of Lebanese view the government's overall performance as "good", 27% consider it to be "average" and 17% said it is "excellent", while 17% perceive the government's performance as "bad" or "very bad" and 6% said that it is too soon to assess the government's performance. The firm conducted the survey on April 14 and 15 with a national representative sample of 500 Lebanese.

The survey indicated that 17% of Lebanese considered that the economic situation should be on top of the government's priorities, followed by addressing the coronavirus crisis (15%), containing the increase in domestic prices (13%), allowing depositors to withdraw their money from banks (12%), and recuperating embezzled public funds (11%). In addition, 54% of respondents said that containing the spread of the coronavirus is the government's most important achievement to date, while 31% of surveyed Lebanese noted that the government did not achieve anything so far. Further, 71% of respondents anticipate that protests will resume in the aftermath of the coronavirus crisis, with 37% of them expecting the protests to be violent.

IMF projects Lebanon's real GDP to contract by 12% in 2020

The International Monetary Fund projected Lebanon's real GDP to contract by 12% in 2020, the first double-digit contraction of the Lebanese economy since 1989, relative to an October 2019 forecast for growth of 0.9%. In comparison, it forecast real GDP to shrink by 3.3% for the Middle East & North Africa (MENA) region, by 0.7% for the region's oil-importing economies, as well as by 1% in emerging & developing economies and by 3% for the global economy in 2020; while it projected economies of the Mashreq region to grow by 1% this year. The anticipated economic contraction in Lebanon this year would be the second steepest, after Libya, in the MENA region.

Further, the Fund expected the inflation rate in the country to average 17% in 2020, relative to 8% for the MENA region, 8.7% for oil-importing economies and 6% for the Mashreq region this year. Lebanon's projected average inflation rate would be the fifth highest among 20 countries in the MENA region in 2020. The country's inflation rate averaged 4.5% in 2017, 6.1% in 2018 and 2.9% in 2019.

In parallel, the IMF forecast Lebanon's fiscal deficit to widen from 10.7% of GDP in 2019 to 15.3% of GDP in 2020, with public revenues at 16% of GDP this year relative to 21% of GDP in 2019, and public spending at 31.3% of GDP in 2020 compared to 31.7% of GDP last year. As such, it expected the public debt level to increase from 172.2% of GDP at the end of 2019 to 183.6% of GDP at end-2020.

Moreover, the Fund projected Lebanon's exports of goods & services at \$11.8bn in 2020 relative to \$20.3bn last year, and its imports of goods & services at \$18.6bn this year compared to \$30.3bn in 2019. As such, it forecast the current account deficit to narrow from \$10.9bn or 20.6% of GDP in 2019, to \$6.8bn or 12.6% of GDP in 2020, compared to deficits of 6% for the MENA region, 6.5% of GDP for MENA oil-importing economies, and of 5.4% of GDP for the Mashreq countries this year. It anticipated the country's gross external debt to decline from 196.3% of GDP at the end of last year to 186.6% of GDP at the end of 2020. Also, it forecast Lebanon's gross foreign currency reserves at \$24.4bn at the end of 2020, equivalent to 16 months of imports, relative to \$31.8bn or 20.5 months of import coverage at end-2019.

The IMF indicated that Lebanon is facing several challenges that include an economic and financial crisis, as well as the spread of the coronavirus. It stated that Lebanese authorities inquired about Lebanon's eligibility to obtain support from the IMF's emergency funding facilities in order to reduce the economic impact of the virus outbreak in the country, without filing a formal request. In addition, it pointed out that it received a copy of the government's draft reform program and that it will discuss the details of the plan with Lebanese authorities. It considered that the government's priority should be to provide an economic recovery plan that would help restore confidence, address structural imbalances and improve the well-being of the population.

Government announces LBP1,200bn stimulus package

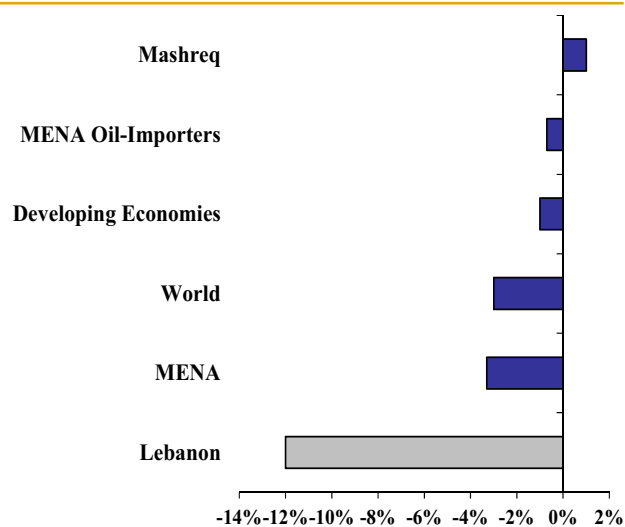
The Lebanese government announced on April 16, 2020, a LBP1,200bn stimulus and social security plan in order to alleviate the impact of the coronavirus outbreak on the economy. The stimulus package aims to provide aid to daily-paid workers in the public sector and to farmers, as well as to support the healthcare sector. Also, the initiative aims to incentivize the industrial sector by providing subsidized loans to small industrial firms.

Further, the government indicated that it will soon finalize the list of households that are most in need of emergency aid. This falls under the government's decision to provide vulnerable households with a cash contribution of LBP400,000 to help them cope with the economic and financial impact of the general mobilization.

In parallel, the government noted that it has started to discuss a plan to re-initiate progressively the economic cycle, mainly by gradually easing the current lockdown, given the economic and financial burden of the enforced measures to limit the spread of the coronavirus. Earlier this month, international non-governmental organization Human Rights Watch warned that millions of residents in Lebanon are at risk from hunger due to the lockdown measures, unless the government puts in place a robust and coordinated plan to provide them with the needed assistance. It added that the majority of the poorest workers in Lebanon have precarious informal and seasonal jobs with wages below or close to the poverty threshold, making them particularly vulnerable to economic shocks.

Prior to the coronavirus pandemic, the World Bank estimated that about one third of the Lebanese people live in poverty, up from 27.4 percent in the 2011-12 period.

Projected Real GDP Growth in 2020 (%)



Source: International Monetary Fund, April 2020

Banque du Liban's foreign assets at \$34.7bn, gold reserves at \$15.8bn at mid-April 2020

Banque du Liban's (BdL) interim balance sheet totaled \$147.4bn on April 15, 2020, constituting an increase of 1% from \$146.3bn at the end of March 2020, and an expansion of 4.5% from \$141.4bn at the end of 2019.

Assets in foreign currency reached \$34.7bn at mid-April 2020, down by 7% from \$37.3bn at the end of 2019. They included \$5.03bn worth of Lebanese Eurobonds at mid-April 2020, unchanged from end-March, and relative to \$5.5bn at end-February and \$5.7bn at end-January.

BdL's assets in foreign currency, excluding Lebanese Eurobonds, reached \$29.6bn at mid-April 2020, constituting a decline of \$560m from the end of March 2020. They 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, by \$684.6m in February and by \$67m in March, resulting in a cumulative decline of \$5.8bn between the end of August 2019 and mid-April 2020.

The decrease in BdL's assets in foreign currency, excluding Lebanese Eurobonds, is largely due to the fact that BdL has been paying, at the request of the government, maturing Eurobonds and external debt servicing until early March 2020, as well as to the financing of the imports of hydrocarbons, wheat and medicine, and to deposit outflows. In comparison, assets in foreign currency, including Lebanese Eurobonds, declined by \$4bn between the end of August 2019 and mid-April 2020.

In addition, the value of BdL's gold reserves increased by 6.6% from end-March 2020 and by 13.3% from the end of 2019 to reach \$15.8bn at mid-April 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 \$38.4bn at mid-April 2020 and increased by 1.1% from end-2019. In addition, loans to the local financial sector regressed by 1.2% from end-2019 to \$14.8bn at mid-April 2020. Further, deposits of the financial sector reached \$112.5bn at mid-April 2020, declining by \$556.2m from end-March and increasing by \$516.2m from end-2019. Also, public sector deposits at BdL totaled \$4.9bn at mid-April 2020 and regressed by \$512.4m from end-2019.

In parallel, the Council of Ministers indicated that the Ministry of Finance communicated with international accounting firm KPMG in order to audit BdL's accounts for 2019 and 2020. It noted that the ministry could contact other auditing companies for this task. The Council of Ministers announced on March 26, 2020 that it has mandated the Ministry of Finance to take the necessary measures, in coordination with BdL and the relevant authorities, to conduct a "focused" audit within a period of one month, in order to clarify the reasons that led to the current financial and monetary conditions in Lebanon. It also said that the audit should help reveal the accurate numbers on BdL's balance sheet and income statement, in an attempt to show the exact level of foreign currency reserves available at BdL.

Association of banks further reduces reference rates on US dollar and Lebanese pound lending

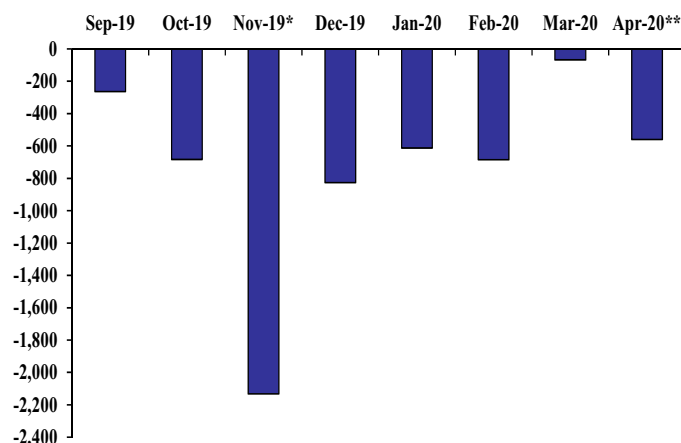
The Association of Banks in Lebanon (ABL) recommended to its member banks to decrease the Beirut Reference Rate (BRR) in US dollars by 100 basis points to 5.75%. This follows ABL's recommendations to lower the BRR by 104 basis points to 9.35% on January 3, to cut the rate by an additional 85 basis points to 8.5% on January 16, as well as to lower the BRR by 175 basis points to 6.75% on February 14. The four decisions resulted in a cumulative decline of 464 basis points of the BRR in US dollars so far in 2020. The rate, considered as the reference rate for lending in foreign currency, replaced the London Interbank Offered Rate (LIBOR) in 2009, as the ABL decided that the LIBOR does not reflect the cost of funding and lending in Lebanon.

In addition, the ABL recommended to its member banks to decrease the BRR in Lebanese pounds by 125 basis points to 7.75%. The ABL had recommended to reduce the rate in Lebanese pounds by 104 basis points to 12.45% on January 3, to lower the rate by 95 basis points to 11.5% on January 16, and to reduce the rate by 250 basis points to 9% on February 14. Consequently, the decisions resulted in a cumulative decline of 574 basis points of the BRR in Lebanese pounds so far in 2020.

The ABL indicated that the decreases in the BRR in both currencies is consistent with Banque du Liban's circulars. It noted that the BRR's cuts aim to reduce the cost of debt on borrowers and to stimulate the economic cycle in the current challenging environment. The ABL considers that the BRR does not replace the Beirut Prime Lending Rate in each currency, but constitutes the basis for calculating the prime rate after adding the cost of liquidity and refinancing, credit risk and the profitability of banks.

The average lending rate in Lebanese pounds was 9.33% in February 2020, down from 9.86% in January 2020 and from 10.55% a year earlier, while the same rate in US dollars was 9.11% relative to 10.07% in January 2020 and 8.91% in February 2019.

Change in Gross Foreign Currency Reserves (US\$m)



*BdL paid \$2.1bn in external public debt servicing in November

**as at mid-April

Source: Banque du Liban, Byblos Research

Banque du Liban explains accounting practices related to the treatment of losses

Banque du Liban (BdL) issued a statement that clarifies the accounting practices it uses in its financial reporting. It indicated that it has adopted since 2007 new accounting standards, similar to the European Central Bank and several central banks around the world. It also noted that, like many other central banks, it has partially adopted International Financial Reporting Standards (IFRS) in its financial disclosures. It specified that it excluded certain standards and accounting treatments to prevent the disclosure of market sensitive activities.

In parallel, BdL pointed out that a central bank can carry losses generated during a particular year over several years, or register these losses as claims against the national government as per a study conducted by the European Central Bank about profit distribution and loss coverage rules for central banks. It also said that the U.S. Federal Reserve, the Bank of England, the European Central Bank and the national central banks of member states of the Eurozone implemented unconventional measures during financial crises, which expanded their balance sheets.

BdL clarified that it carries forward interest expenses on financial instruments, and records them on the asset side in transitory accounts. It added that part of these expenses are offset by the end of each year, while the remaining amounts are amortized against future profits from BdL's different revenue sources, such as seigniorage on currency, open market operations and intangible assets. It said that several central banks recorded losses as assets or as negative liabilities, rather than as reductions in equity, such as the Central Bank of Costa Rica did in the early 1980s, the Central Reserve Bank of Peru did in the 1980s, the Bank of Thailand did after the 1997 crisis, and the Central Bank of Hungary did in the 1990s. It added that the future income that these central banks expected to generate was not guaranteed in any of these cases. Consequently, BdL pointed out that it does not consider the interest expenses on financial instruments as losses, and that it carries these amounts forward and amortizes them against future revenues.

Banque du Liban clarifies mechanism for withdrawal of small amounts from banks

Banque du Liban (BdL) issued Intermediate Circular 549 on April 15, 2020, which clarifies Basic Circular 148 on April 3, 2020 about exceptional measures related to cash withdrawals from small accounts at banks in Lebanon.

Basic Circular 148 allowed clients to withdraw, through a specific mechanism, the total amount they have in Lebanese pounds in all their accounts at a bank, provided that the aggregate amount does not exceed LBP5,000,000, or the equivalent of \$3,000 in any foreign currency as at March 3, 2020. It added that the bank will compute the aggregate amount in all accounts after netting all obligations that the client has towards the bank.

Consequently, and for the purpose of computing the amount clients have in their accounts, Intermediate Circular 549 specified that the clients' accounts at a bank consist of all accounts under their individual bank identification number or related bank identification numbers, such as joint accounts. It also noted that clients, in agreement with the bank, must settle any overdraft facility they have from the bank before the bank computes the aggregate amount they have in their accounts.

Revenues through Port of Beirut down 32% to \$14m in January 2020

Figures released by the Port of Beirut show that the port's revenues reached \$13.8m in January 2020, constituting a decline of 5.8% from \$14.7m in December 2019 and a decrease of 31.8% from \$20.2m in January 2019. The Port of Beirut handled 363,000 tons of freight in January 2020, increasing by 6.5% from 341,000 tons in December 2019 and dropping by 37.6% from 582,000 tons in the same month of 2019. Imported freight amounted to 299,000 tons in the first month of the year, up by 11.6% from 268,000 tons in December 2019 and down by 44% from 535,000 tons in January 2019, while it accounted for 82.4% of total freight. In parallel, export cargo amounted to 64,000 tons, or 17.6% of the total in January 2020. It decreased by 12.3% from 73,000 tons in December 2019, while it increased by 36.2% from 47,000 tons in January 2019. A total of 130 vessels docked at the port in the first month of 2020, up by 7.4% from 121 ships in December 2019 and by 0.8% from 129 vessels in January 2019.

In parallel, revenues generated through the Port of Tripoli reached \$1.3m in January 2020, constituting an increase of 3% from \$1.2m in December 2019 and a decline of 20% from \$1.6m in January 2019. The Port of Tripoli handled 188,669 tons of freight in the first month of the year, up by 78% from 105,959 tons in December 2019 and by 93.4% from 97,573 tons in January 2019. Imported freight amounted to 128,252 tons in January 2020, up by 72.4% from 74,396 tons in December 2019 and by 76.3% from 72,730 tons in January 2019. It accounted for 68% of total freight in the covered month. In parallel, export cargo totaled 60,417 tons, or 32%, and increased by 91.4% from 31,563 tons in December 2019 and by 143.2% from 24,843 tons in January 2019. A total of 51 vessels docked at the port in the first month of 2020, increasing by 59.4% from 32 ships in December 2019 and by 27.5% from 40 vessels in January 2019.

Life premiums down 9% to \$492m in 2019

The annual survey by *Al-Bayan* magazine of the insurance sector in Lebanon indicates that total life premiums generated by 32 providers of life insurance in the Lebanese market reached \$491.7m in 2019, constituting a decline of 9.2% from \$541.5m in 2018. In comparison, life premiums increased by 3.9% in nominal terms in 2018, by 4.3% to \$521m in 2017, and by 6% to \$499.2m in 2016. However, life premiums contracted by 11.8% in 2019 and by 2% in 2018 in real terms, while they were nearly unchanged in 2017 and grew by 6.8% in 2016.

MetLife ALICO maintained its market lead with \$84.5m in life premiums, equivalent to a 17.2% market share in 2019. It was followed by Bancassurance with \$73.6m for a market share of 15%, Allianz SNA with \$71.2m (14.5%), Adonis Insurance and Reinsurance Co. (ADIR) with \$47.4m (9.6%), and SGBL Insurance with \$38.2m (7.8%) as the top five providers of life insurance in Lebanon.

In parallel, 10 life insurance providers posted increases in their premiums last year, with Arabia Insurance, UFA Assurances and Amana Insurance registering double-digit growth rates. Also, 20 firms saw a decline in their life premiums, while the premiums of two firms were unchanged year-on-year. Allianz SNA was the only insurance company out of the top 10 life insurers to post an increase in its premiums in 2019.

The composition of the top 10 insurers was unchanged from 2018. ADIR's rank improved by one spot to fourth place, the rank of SGBL Insurance increased by one spot to fifth place and the ranking of Arope Insurance improved by one notch to sixth place in 2019, while the rank of LIA Insurance regressed by three spots to seventh place. The ranks of the remaining six insurers were unchanged year-on-year.

The survey shows that the top 10 providers of life insurance in Lebanon accounted for 88.2% of the life insurance market, while the top 20 firms generated 98% of life premiums in 2019. Further, the top five life insurers in Lebanon accounted for 64% of the market in 2019, unchanged from 2018, compared to 64.7% in 2017. Their premiums totaled \$314.8m in 2019, \$346.3m in 2018, and \$337.1m in 2017. In parallel, Trust Life Insurance suspended its operations last year, while L'Union Nationale (Al Ittihad al Watani) merged with Bankers Assurance.

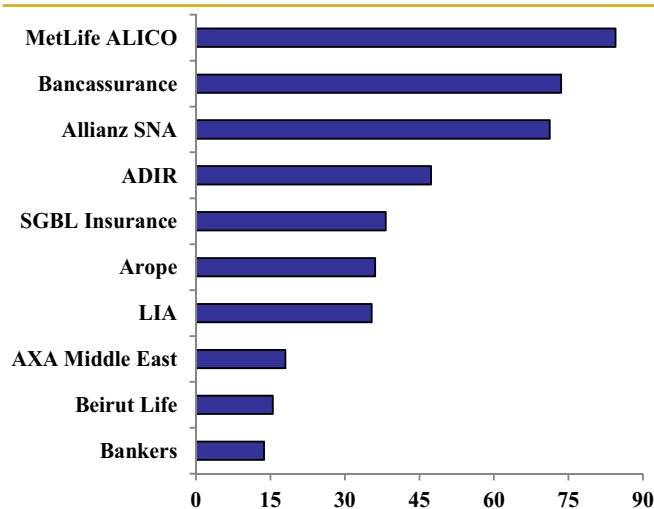
Council of Ministers approves LBP450bn to cover dues to private hospitals

The Council of Ministers approved on April 16, 2020 the opening of a line of credit of LBP450bn to supplement the 2020 budget, in order to pay part of the government's dues to private hospitals. It reiterated the need for private hospitals to receive their dues from governmental institutions, as well as from insurance companies and from the National Social Security Fund, which prompted the decision for an additional credit line to pay the hospitals' dues.

The announcement came following a private hospital's decision to shut down its operations within a month, while an additional 20 private hospitals are facing mounting challenges that have led to unpaid salaries, the layoff of employees, and the closure of certain departments, among other cost-cutting measures. Further, the occupancy rate of hospital beds has reportedly dropped by 60% as patients who do not have severe or acute medical conditions are opting to avoid hospital visits due to financial considerations and, more recently, due to fears of contracting the coronavirus at hospitals.

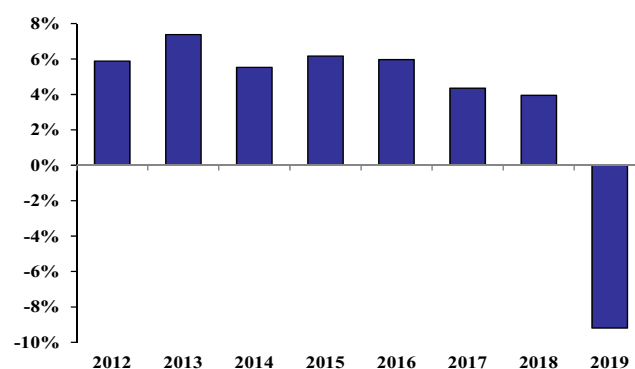
The Syndicate of Hospitals in Lebanon indicated that arrears to private hospitals have reached LBP2,000bn, of which about LBP600bn cover arrears due from 2019, while the remainder represent arrears that have accumulated during the 2012-18 period. Also, it pointed out that the weaker exchange rate at money dealers has increased the prices of medical equipment and, in turn, the hospitals' operating expenses, which have surged by 35% in the last two months.

Life Premiums of the Top 10 Insurers in 2019 (US\$m)



Source: *Al-Bayan, Byblos Research*

Nominal Growth in Life Premiums (%)



Source: *Al-Bayan, Byblos Research*

Money transfer operators to settle incoming transfers in Lebanese pounds at market rates

Banque du Liban (BdL) issued Intermediate Circular 551 on April 16, 2020, which amended Basic Circular 69 issued on March 30, 2000, about electronic financial and banking operations.

The circular cancelled the clause that BdL introduced in Intermediate Circular 537 issued on December 30, 2019, which asked non-banking financial institutions that conduct cross-border electronic transfers of funds, such as Western Union and MoneyGram, to settle incoming foreign transfers in the same currency of the transfer. Consequently, the new circular indicated that such institutions have to settle incoming foreign transfers in Lebanese pounds at the market exchange rate of the US dollar. In addition, the circular pointed out that money transfer operators have to sell to BdL the foreign currency that results from these operations.

Non-banking financial institutions that conduct cross-border electronic transfers of funds had to settle incoming foreign transfers in Lebanese pounds from January 2019 until January 2020, as per BdL's Intermediate Circular 514 issued on January 14, 2019.

In parallel, OMT, which is an accredited agent of Western Union in Lebanon, indicated that it abides by BdL's regulations, and that it will take the necessary measures to start implementing Intermediate Circular 551. However, it noted that it will continue to settle incoming foreign transfers in US dollars until these procedures are ready. OMT indicated that it settles about \$120m in incoming transfers per month to around 130,000 beneficiaries, and that 30% of incoming transfers do not exceed \$600 per transaction. It noted that it receives about \$1bn in incoming transfers per year, while it sends around \$300m annually with a maximum of \$7,500 per transaction.

According to a survey conducted by Université Saint-Joseph, 35% of Lebanese who send money to their families in Lebanon use bank transfers, 25.7% give the money to their family when they visit the country and/or send it with someone visiting, and 25.6% use money transfer operators. BdL's latest available figures show that the inflows of expatriates' remittances to Lebanon stood at \$5.8bn in the first nine months of 2019, constituting an increase of 10% from the same period of 2018.

Import activity of top five shippers and freight forwarders down 52% in January 2020

Figures released by the Port of Beirut show that overall import shipping operations by the top five shipping companies and freight forwarders through the port reached 11,036 20-foot equivalent units (TEUs) in January 2020, constituting a decrease of 4% from 11,479 TEUs in December 2019 and a decline of 51.8% from 22,882 TEUs in January 2019. The five shipping and freight-forwarding firms accounted for 77.7% of imports to the Lebanese market for local use and for 30.7% of the total import freight market, which includes transshipments to other ports, in the covered month. Mediterranean Shipping Company (MSC) handled 4,386 TEUs in imports in January 2020, or 12.2% of the total import freight market. Merit Shipping followed with 2,423 TEUs (6.7%), then MAERSK with 1,781 TEUs (5%), Lotus Shipping with 1,308 TEUs (3.6%), and Metz Group with 1,138 TEUs (3.2%). The five shipping and freight forwarding companies registered a year-on-year decreases in import shipping in January 2020, with Metz Group posting a decline of 57.1%, the steepest among the top five firms.

In parallel, export shipping operations by the top five shipping and freight-forwarding firms through the Port of Beirut reached 5,316 TEUs in January 2020, constituting a decline of 12.2% from 6,053 TEUs in December 2019 and an increase of 38.3% from 3,845 TEUs in January 2019. The five shipping companies and freight forwarders accounted in January 2020 for 93.5% of exported Lebanese cargo and for 13.2% of the total export freight market that includes transshipments through Lebanese ports. Merit Shipping handled 2,948 TEUs of freight in the covered month, equivalent to 52% of the Lebanese cargo export market. MAERSK followed with 877 TEUs (15.4%), then Metz group with 668 TEUs (11.8%), Tourism & Shipping Services with 481 TEUs (8.5%), and MSC with 342 TEUs (6%). Merit Shipping registered a year-on-year rise of 85.8% in export shipping in January 2020, the highest growth rate among the top five shipping and freight forwarding companies, while Tourism & Shipping Services posted a drop of 4.2%, the only decline among the top five firms.

BLOM Bank extends deadline to participate in cash contributions

BLOM Bank announced that it will extend the deadline for shareholders to participate in the cash contributions to capital, from April 23 to an undetermined date until further notice, amid the exceptional circumstances that Lebanon and the region are facing due to the spread of the coronavirus. The bank also pointed out that it will issue more details before May 8, 2020. The bank's decision to postpone the deadline constitutes the second such extension, as it previously delayed the deadline from April 3 to April 23, 2020. The bank noted that the extensions are in line with the general mobilization that the government introduced to contain the spread of the coronavirus in the country.

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 in two stages their capital base by the equivalent of 20% of their CET1 at the end of 2018.

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

Banking Sector Ratings	Outlook
Moody's Investors Service	Negative

Source: Moody's Investors Service



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