

LEBANON THIS WEEK

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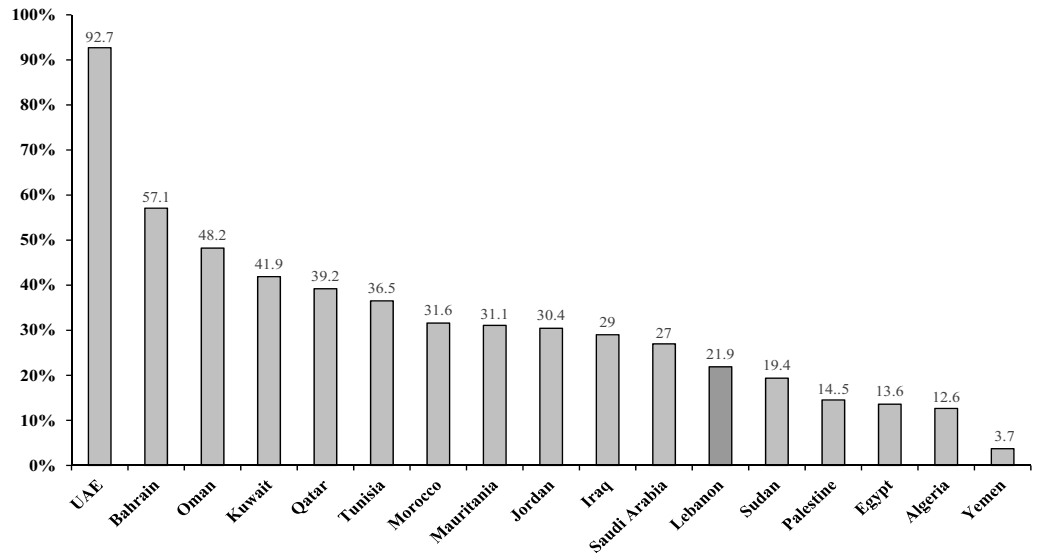
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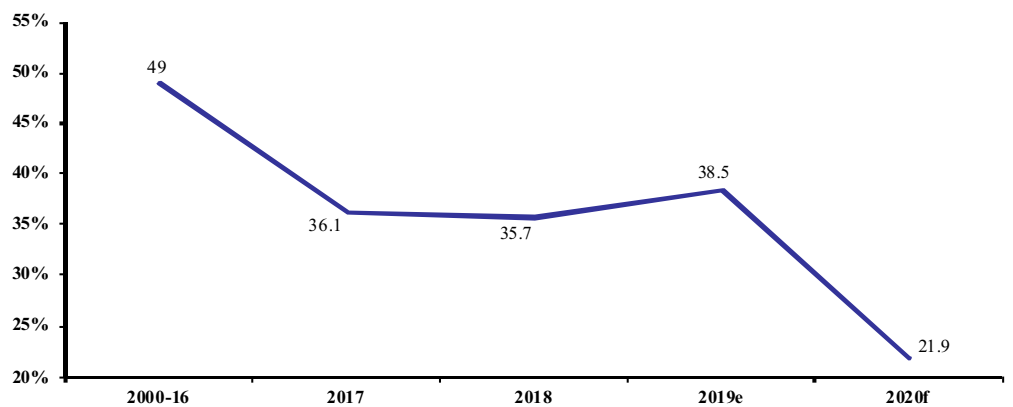
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Charts of the Week

Projected Exports of Goods & Services from Arab Countries in 2020 (% of GDP)



Exports of Goods & Services from Lebanon (% of GDP)



*Source: International Monetary Fund - April 2020, Central Administration of Statistics, Byblos Bank

Quote to Note

"Popular opposition to the draft plan; execution risks; still high government debt levels post-debt restructuring; macroeconomic performance; fiscal slippages; lack of engagement with the International Monetary Fund; and low net-foreign currency reserves after the debt restructuring."

Bank of America, on some of the numerous shortcomings in the government's draft reforms plan

Number of the Week

81.4%: Percentage of Lebanese who believe that their personal financial conditions will deteriorate in the coming six months, according to the March 2020 survey of the Byblos Bank/AUB Consumer Confidence Index

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"	10.47	3.15	243,925	16.90%
Solidere "B"	10.50	5.32	54,526	11.02%
Audi Listed	1.30	0.00	26,342	12.35%
BLOM Listed	3.00	0.00	-	10.41%
Audi GDR	2.00	0.00	-	3.86%
Byblos Common	0.75	0.00	-	6.85%
BLOM GDR	3.50	0.00	-	4.18%
HOLCIM	9.71	0.00	-	3.06%
Byblos Pref. 08	60.00	0.00	-	1.94%
Byblos Pref. 09	59.90	0.00	-	1.93%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Apr 2021	8.25	15.63	328.29
Oct 2022	6.10	15.63	92.88
Jan 2023	6.00	15.00	82.48
Jun 2025	6.25	15.63	39.73
Nov 2026	6.60	16.13	29.75
Feb 2030	6.65	15.88	19.63
Apr 2031	7.00	14.13	18.64
May 2033	8.20	14.00	15.65
Nov 2035	7.05	15.25	12.50
Mar 2037	7.25	14.13	11.92

Source: Byblos Bank Capital Markets, Refinitiv

	Apr 21-24	Apr 14-16	% Change	March 2020	March 2019	% Change
Total shares traded	324,793	538,358	(39.7)	4,520,173	10,078,398	(55.1)
Total value traded	\$3,103,359	\$2,808,168	10.5	\$15,709,340	\$55,317,527	(71.6)
Market capitalization	\$6.19bn	\$6.13bn	1.1	\$6.2bn	\$9.63bn	(35.6)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Mar 20, 2020	Apr 24, 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 17, 2020	Apr 24, 2020	% Change***
CDS 5-year**	385.73	330.05	(14.4)

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

mid-spread in bps *week-on-week

Expatriates' remittances to Lebanon up 8% to \$7.5bn in 2019, equivalent to 13.3% of GDP

The World Bank estimated the inflows of expatriates' remittances to Lebanon at \$7.5bn in 2019, constituting an increase of 7.6% from \$6.9bn in 2018, following a decline of 1.7% in 2018. In comparison, remittance inflows to developing countries grew by 4.4%, those to upper middle-income countries (UMICs) increased by 4.2%, and inflows to Arab countries rose by 2.7% in 2019.

Lebanon was the 20th largest recipient of remittances in the world and the 15th largest among 127 developing economies in 2019. Lebanon received more remittances than the Dominican Republic and Romania (\$7.2bn each), and Thailand (\$7.1bn), and less remittances than Guatemala (\$10.62bn), Russia (\$10.55bn), and Nepal (\$8.1bn) among developing economies. Also, Lebanon was the fifth largest recipient of remittances among 55 UMICs, after China (\$68.4bn), Mexico (\$38.5bn), Guatemala and Russia, and the second largest recipient among 17 Arab countries behind Egypt (\$26.8bn).

Remittance inflows to Lebanon accounted for 1% of the global flow of remittances in 2019, unchanged from 2018 and relative to 1.1% in 2017. They represented 1.3% of aggregate remittances to developing economies last year, unchanged from 2018 and compared to 1.5% in 2017, while they accounted for 12.6% of remittance inflows to Arab countries in 2019, up from 12.1% in 2018 and 12.4% in 2017. In addition, remittance inflows to Lebanon represented 3.4% of such inflows to UMICs in 2019, relative to 3.3% in 2018 and 3.6% in 2017.

Further, expatriates' remittances to Lebanon were equivalent to 13.3% of GDP in 2019, which constituted the 20th highest such ratio in the world and among developing countries, the eighth highest ratio among UMICs, as well as the second highest ratio, behind only Palestine (16.3% of GDP), among Arab countries. Expatriates' remittances to Lebanon were equivalent to 13.3% of GDP in 2017 and 12.6% of GDP in 2018. The World Bank estimated remittance inflows to Arab countries, excluding Syria, at \$57.5bn in 2019, up from \$56bn in 2018, and equivalent to about 2.6% of the region's GDP last year.

In parallel, the World Bank projected the flow of global remittances to decline by about 20% in 2020, their steepest decline in recent history, due to the global economic crisis that the coronavirus pandemic triggered. It expected remittance inflows to developing economies to contract by 19.7% to \$455bn in 2020, which represents a loss of a crucial financing lifeline for many vulnerable households. Also, it forecast remittance inflows to the Middle East & North Africa (MENA) region to retreat by 19.6% to \$47bn in 2020, following a growth of 2.6% in 2019. It attributed the decline in remittance inflows to the MENA region to the economic slowdown worldwide, as well as to the impact of lower oil prices on the economies of Gulf Cooperation Council countries.

Banque du Liban sets dollar exchange rate at money dealers

Banque du Liban (BdL) issued Intermediate Circular 553 on April 27, 2020, which amends Basic Circular 3 that regulates money exchange institutions in Lebanon.

The circular sets the ceiling for the buying price of foreign currency by money dealers at LBP3,200 per US dollar. It stipulates that money dealer should refrain from conducting any operation that is not in line with the pre-set exchange rate or with any future exchange rate that is determined by BdL's special unit that will be responsible for trading in foreign currencies according to the market exchange rate. It asks all money dealers to abide by the new ceiling and to refrain from offering unusually wide spreads between their buying and selling prices of US dollars. It cautioned that non-compliant money exchange institutions will be subject to legal and administrative sanctions. It indicated that these measures are exceptional and will be applied for a period of six months. BdL indicated that it issued the circular because of the unjustified weakening of the Lebanese pound in the parallel market in recent days.

BdL had issued Intermediate Circular 546 on March 6, 2020 that set the ceiling for the purchase by money dealers of foreign currency at 30% of the exchange rate that BdL uses in its operations with banks in the country. But it cancelled the cap on April 3, 2020.

Top 20 Recipients of Remittance Inflows in Developing Economies in 2019

Country	US\$bn	Growth	
		Rate	% of GDP
India	83.13	+5.5%	2.8%
China	68.40	+1.5%	0.5%
Mexico	38.52	+7.7%	3.0%
Philippines	35.17	+4.0%	9.9%
Egypt	26.79	+5.0%	8.9%
Nigeria	23.80	-2.1%	5.3%
Pakistan	22.51	+6.2%	7.9%
Bangladesh	18.35	+17.9%	5.8%
Vietnam	17.00	+6.3%	6.5%
Ukraine	15.81	+7.6%	10.5%
Indonesia	11.67	+4.0%	1.0%
Guatemala	10.62	+12.5%	13.1%
Russia	10.56	+22.6%	0.6%
Nepal	8.13	-2.0%	27.3%
Lebanon	7.47	+7.6%	13.3%
Dominican Rep.	7.24	+6.2%	8.1%
Romania	7.24	+3.6%	3.0%
Thailand	7.08	-5.2%	1.3%
Colombia	6.78	+6.6%	2.1%
Sri Lanka	6.75	-4.2%	7.8%

Source: World Bank, Institute of International Finance, Byblos Research

Banking sector determined to protect all deposits, calls on authorities to focus on real reforms

The Association of Banks in Lebanon (ABL) indicated that the banking sector has supported Lebanon's financial, economic and social stability over the past three decades. It pointed out that, despite all obstacles, the sector has earned the trust of Lebanese, regional and international depositors and, in turn, has attracted investments and provided liquidity to support the private sector, the government and the Lebanese people for several decades. It pointed out that the funds that Lebanese banks have lent to the government were intended to support the implementation of structural reforms in the public sector, to help develop a proper environment for the private sector, and to improve the standards of living in Lebanon through job creation. However, it indicated that successive governments have failed to take responsibility for the wasteful use of these funds and for putting at risk the deposits of citizens. Further, it pointed out that the government accused banks of earning and giving high interest rates, but the ABL said that the high rates are the result of the government's failure to tackle the instability and risks prevailing in Lebanon. It added that banks have reinvested more than 75% of their profits in the past 30 years to build up their capital base.

The ABL stressed that addressing the severe liquidity crisis in Lebanon through implementing appropriate policies should be an immediate priority, and added that the solution to this crisis is political in nature. It noted that authorities need to implement policies to restore the confidence of depositors. It considered that a second and crucial step is the accountability of government officials and public sector employees, adding that those who have ordered, executed or facilitated violations should be held accountable. It called on decision-makers in the government to initiate a dialogue with banks and depositors, in order to work out a solution that safeguards depositors' rights. It added that taking advantage of the liquidity crisis to enforce state control over banks will irreversibly change Lebanon's economic identity, will be detrimental to the national interest, and will transform the sector into a chronic weakness for the economy instead of its cornerstone.

Regarding the lifting of the restrictions and the conditions on deposit movements, it pointed out that political authorities need to deliver on their promises to begin reforms and conduct a radical restructuring of the public sector. It stressed that the government first needs to start implementing laws that are already in place and to empower the judiciary in order to improve the business environment and, in turn, restart private sector investments.

The ABL reemphasized the determination of the Lebanese banking sector to protect all bank deposits. It indicated that banks are ready to help the current government to develop solutions that are in line with the Constitution and with Lebanon's international standing, as well as with the interests of citizens and the trust of investors. It also stressed that Lebanese banks stand alongside citizens, and asked the government to initiate a dialogue with the ABL and with all economic stakeholders, in order to find a solution that would safeguard depositors' funds.

Sovereign ratings affirmed at Selected Default

S&P Global Ratings affirmed at 'SD/SD' (Selective Default) Lebanon's long- and short-term foreign currency sovereign credit ratings, and kept at 'CC/C' the country's long- and short-term local currency ratings, with a 'negative' outlook. It also affirmed at 'CC' Lebanon's Transfer & Convertibility Assessment. In addition, it revised from 'SD' to 'D' (Default) the issue ratings on the March 2027, 2032 and 2037 Eurobonds, as well as on the April 2021, 2024 and 2031 bonds with coupons payments due in March and April, respectively. It also revised from 'SD' to 'CC' the issue ratings on the remaining 14 bond issues.

The agency indicated that the 'negative' outlook on the local currency ratings reflects the risk to local currency commercial debt repayments in the context of the ongoing political, financial and monetary challenges that the country is facing.

It said that, since the Lebanese government announced the suspension of payments on its external debt in March 2020, it has made limited progress in engaging with creditors on debt-restructuring negotiations. The agency noted that Lazard, the government's financial advisor, revealed a broad recovery plan that outlines structural economic, fiscal, banking sector, and exchange rate reforms. But it pointed out that the draft plan lacks an implementation timeline as well as the government's endorsement. As such, it expected the negotiations process to extend beyond 2020 in the absence of a comprehensive restructuring plan backed by all major political institutions and parties, as well as by external support. It considered that the authorities' challenges are exacerbated by the coronavirus pandemic that has further weighed on the country's already weak economic activity and severe external, fiscal, and financial pressures.

In addition, S&P considered that the peg of the Lebanese pound to the US dollar is slowly "faltering", amid sustained foreign currency shortages and a widening gap between the official and parallel exchange rates. It also said that Banque du Liban's new regulations suggest a move toward a dual or multiple exchange rate regime.

In parallel, the agency indicated that the ratings on Lebanon's local currency debt reflect its expectations that authorities will inevitably restructure the Lebanese-pound denominated debt, which accounts for 63% of the public debt stock or about 110% of GDP. It said that, according to Lazard's draft plan, Lebanon can address the detrimental impact of the debt restructuring on the balance sheets of commercial banks by bail-ins from the banks' shareholders and from a portion of deposits, as well as by the merger and liquidation of certain banks. However, it considered that such measures could prove to be politically and socially controversial.



Mobility of Lebanese citizens down 56% amid coronavirus-related social distancing measures

Citi Research's 'Social Distancing Index' shows that, as of April 11, 2020, Lebanon's general mobility contracted by 56% relative to the period extending from January 3 to February 6, 2020, as a result of the social distancing measures amid the outbreak of the COVID-19 pandemic. Citi defines general mobility as the movement of individuals within or between different locations in a country. The decrease in the mobility level in Lebanon shows that residents have been under tighter social distancing measures than countries globally (-43%), in emerging markets (-49%), and in the Middle East & Africa (ME&A) region (-53%).

The index measures the degree of social distancing implemented across countries and regions worldwide in response to the outbreak of the coronavirus. It is based on the results of the Google COVID-19 Mobility Report, which provides mobility trends for people's frequency of visits and length of stay at retail and recreational areas, groceries and pharmacies, parks, transit stations, workplaces, and residential locations. It then compares these trends as of April 11 to the baseline period, which is the median mobility level between January 3 and February 6, 2020. The index is the simple average of four factors that are Retail & Recreation, Transit Stations, Workplaces, and Grocery & Pharmacy. A lower score on the index implies more social distancing, while a higher score reflects less social distancing.

The mobility of the residents of Lebanon for the Retail & Recreation category declined by 65% on April 11 from the baseline period, compared to retreats of 57% globally, of 62% among emerging markets, and of 66% in the ME&A region. This category measures the movement of people to places like restaurants, cafés, shopping centers, theme parks, museums, libraries, and movie theaters.

Further, the movement of the residents of Lebanon under the Grocery & Pharmacy category, which includes places like grocery markets, food warehouses, farmers markets, specialty food shops, drug stores, and pharmacies, dropped by 31% from the January 3-February 6 period, relative to contractions of 18% worldwide, of 32% among emerging markets, and of 35% in the ME&A region. In parallel, the mobility of Lebanese residents to parks, including marinas and public gardens, decreased by 45% from the baseline period, compared to contractions of 27% globally, of 47% among emerging markets, and of 55% in the ME&A region.

Also, the mobility of the residents of Lebanon under the Transit Stations sector, which includes the usage of public transportation, contracted by 78% from the January 3-February 6 period, relative to retreats of 57% worldwide, of 60% among emerging markets, and of 66% in the ME&A region. In addition, the mobility of Lebanese residents to workplaces shrank by 48% from the baseline period, compared to contractions of 41% globally and of 43% in emerging markets and the ME&A region. In contrast, the movement of Lebanese residents to places of residence rose by 16% on April 11 from the January 3-February 6 period, relative to increases of 17% globally and of 21% in emerging markets and the ME&A region.

Council of Ministers to start easing lockdown measures in five stages

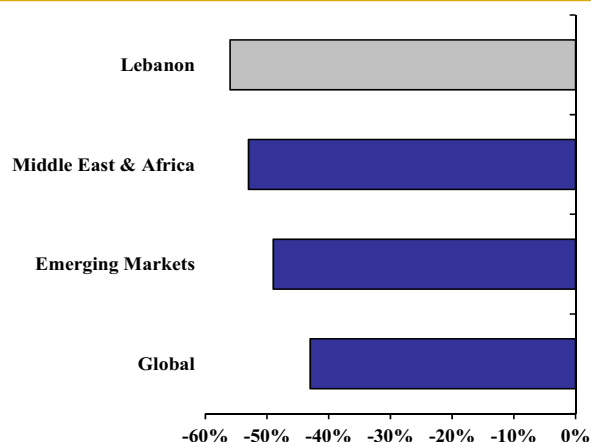
The Council of Ministers extended on April 24, 2020 its declared "general mobilization" until May 10, 2020 in an attempt to contain the spread of the coronavirus in the country. But it noted that it will start to gradually ease the lockdown measures, which have been in place since March 15, and will allow activity to normalize in five stages, provided that residents abide by social distancing measures.

The first phase, which starts on April 27, will extend the opening hours of supermarkets, mini-markets, and food delivery services until 9:00pm. It will also allow operations to resume at hotels, as well as in specific segments of the agricultural and industrial sectors. The second stage, which will start on May 4, will result the reopening of cafés and restaurants at a 30% capacity, as well as playgrounds, hairdressers, and outdoor sport courts, among others. The third phase, which will start on May 11, will allow daycare facilities to receive children under three years old. It will also permit car dealerships to reopen, special needs organizations to proceed with their activities, and Casino du Liban to resume operations but on the condition that it does not exceed 70% of the gambling halls' capacity. During the fourth stage, which will start on May 25, students who have to sit for official exams will resume their studies at schools, and universities will reopen their doors. Further, shopping malls will resume normal activity.

By the fifth stage, which will start on June 8, aircraft and bus activities will normalize; while schools, bars, nightclubs, beaches, gyms, museums and movie theaters will reopen, and construction activities will resume, among others. The Cabinet will continue to impose a ban on large gatherings, concerts, festivals and conferences until further notice.

In parallel, authorities will enforce a curfew from 9:00 pm until 5:00 am in order to limit the movement of people during the remaining period of the general mobilization. The Cabinet indicated that it will reassess the plan every week and adjust it if needed.

Percentage Change in Mobility of People*



*% change from the January 3-February 6 period

Source: Citi Research, Byblos Bank

Direct costs of treating coronavirus in Lebanon at \$43m to \$58m

A study by the Institut des Finances Basil Fuleihan assessed the direct costs of treating confirmed cases of coronavirus in Lebanon over a period of six months under two scenarios that project two possible trajectories for the spread of the virus in the country. Under the first scenario, the survey assumes that the virus is spread in two waves but with a "flat death curve" in each wave, which means that the number of cumulative deaths is contained and the mortality peak is delayed. Under the second scenario, the virus is spread in one wave but with higher contamination and mortality rates.

The institute indicated that figures released by the Ministry of Public Health show that 22.7% of persons who tested positively for the virus in Lebanon are asymptomatic and are sent automatically home for quarantine, while 68.9% of those tested consist of mild or moderate cases that are either sent home for quarantine or admitted to hospitals for quarantine depending on the severity of the symptoms, and 8.4% are critical cases that are admitted to intensive care units at hospitals. It assumed that around 55% of mild or moderate cases would need to be admitted to hospitals and quarantined. It also estimated the cost of home quarantine at \$503 per case, the cost of hospital quarantine at \$5,937 per case, the cost of intensive care for severe cases at \$26,203 per case, and the cost of the equipment of community facilities at \$7,270 per bed. In addition, the study examined the characteristics of the spread the Spanish flu pandemic in the United States in 1918, in order to assess the severity of the outbreak in Lebanon, and then established the two scenarios.

Under the first scenario, it projected the number of confirmed coronavirus cases to reach 9,049, out of which 4,193 cases would need to be hospitalized. It estimated that Lebanese hospitals have 1,500 beds available for coronavirus patients. It forecast that, under this scenario, hospitals will reach full capacity by the fourth month of the pandemic. As such, it said that 167 additional beds will be needed, which would require the authorities to deploy and equip two to three community facilities, such as hotels and temporary hospitals, for isolating mild cases. Under these circumstances, it expected the cumulative cost of treating the confirmed cases over a period of six months to reach \$43m.

Under the second scenario, it forecast the number of confirmed coronavirus cases to reach 11,918, out of which 5,522 cases would need to be hospitalized. It anticipated that hospitals will reach full capacity during the second month of the pandemic, which means that Lebanon will need 978 additional hospital beds and will have to deploy 12 to 13 community facilities. Under these circumstances, it expected the cumulative cost of treating the confirmed cases at \$57.6m during the covered period.

The institute noted that the second scenario is less likely to happen, given the strict measures that the Lebanese government has put in place, such as social distancing, the closure of schools, and the ban of public gatherings. It explained that the pattern of the curve in Lebanon will strongly depend on the duration of social distancing measures. As such, it said that the final numbers of confirmed cases could significantly deviate from the model, and a third scenario might materialize.

In parallel, it indicated that the healthcare response by Lebanese authorities, which includes the treatment of confirmed cases and the costs of a large-scale intervention, will be vital to prevent the escalation of the crisis. It pointed out that the study does not take into consideration other response options, such as prevention policies, as well as the acquisition of medical equipment and of personal protective equipment for the medical corp.

It said that the Ministry of Public Health needs additional funding of at least \$43m, which is equivalent to 10% of the ministry's current budget, to cover the direct treatment of coronavirus patients, excluding other health-related costs. It added that the financial margin of maneuver of the Lebanese government is "extremely limited" or "quasi-inexistent", given the elevated public debt level, expectations of a prolonged and sizable contraction in economic activity, as well as the rising unemployment and poverty rates. As such, it pointed out that the government is facing an unprecedented challenge to counter the heavy socio-economic impact of the pandemic without further weighing on the fiscal and monetary positions.

Banque du Liban allows withdrawals of foreign currency deposits at Lebanese pound market rate

Banque du Liban (BdL) issued Basic Circular 151 on April 21, 2020 about exceptional measures related to cash withdrawals from foreign currency accounts at banks in Lebanon.

The circular allows clients who have accounts in US dollars or in any other foreign currency at banks in Lebanon to withdraw banknotes in Lebanese pounds from these accounts at the existing market exchange rate. The circular covers clients who are not eligible to benefit from Basic Circular 148. The latter circular allows 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 net aggregate amount they have does not exceed LBP5,000,000, or the equivalent of \$3,000 in any foreign currency as at March 3, 2020.

Basic Circular 151 asked each bank to announce the market rate that it is offering on a daily basis. It also requested banks to sell to BdL the foreign currency that results from these operations. The aforementioned measures are valid for a period of three months.

Separately, BdL clarified that the maximum amount that a client can withdraw in Lebanese pounds under Basic Circular 151 is the equivalent of \$5,000 per month. It noted that it issued this circular to support the purchasing power of Lebanese citizens.

Foreign direct investments down 27% to \$1.6bn in first nine months of 2019

Figures released by Banque du Liban show that foreign direct investments (FDI) in Lebanon totaled \$1.6bn in the first nine months of 2019, constituting a decrease of 26.7% from \$2.2bn in the first nine months of 2018. FDI inflows amounted to \$688.6m in the first quarter of 2019, \$435.6m in the second quarter, and \$472.1m in the third quarter of 2019.

Further, FDI inflows to Lebanon in the first three quarters of 2019 reached their second lowest level for the first nine months of a year between 2002 and 2019. FDI inflows averaged \$2.08bn during the first nine months of each year between 2009 and 2019, and reached a high of \$2.7bn in the first nine months of 2009.

In parallel, FDI outflows from Lebanon amounted to \$328.4m in the first nine months of 2019, up by 5.1% from \$312.4m in the same period of 2018. FDI outflows totaled \$146m in the first quarter, \$115.7m in the second quarter, and \$66.8m in the third quarter of 2019. In addition, FDI outflows from Lebanon in the covered period reached their third lowest level for the first nine months of a year during the 2002-19 period. They averaged \$724.1m during the first nine months of each year between 2009 and 2019, with a high of \$1.4bn in the first nine months of 2013.

As such, net FDI inflows to Lebanon reached \$1.3bn in the first nine months of 2019, constituting a decrease of 32% from \$1.86bn in the first nine months of 2018. Net FDI inflows to Lebanon constituted their eighth lowest level for the first nine months of a year between 2002 and 2019.

Parliament enacts anti-corruption law

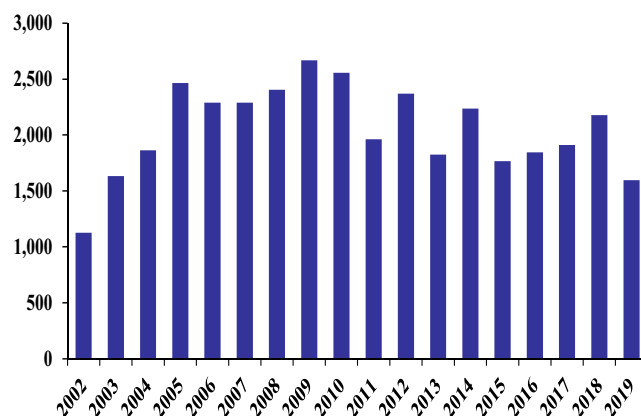
The Lebanese Parliament enacted on April 21, 2020 the anti-corruption law and the establishment of the National Anti-Corruption Commission. The law aims to address the widespread corruption in the public sector. It identifies corruption-related cases, and allows the investigation and prosecution of corruption cases and crimes without the need to obtain any permission or authorization when carried out at the request of the National Anti-Corruption Commission. It also stipulates that the prosecution in corruption cases does not cease in the event of a resignation or retirement of the person under prosecution.

Further, the law details the mechanism to establish the National Anti-Corruption Commission, as well as the latter's mission, duties and functions, investigative powers, and preventive actions that it is allowed to undertake, as well as its finances. The commission will help detect corruption and promote transparency, as well as contribute to drafting laws and regulations aimed to prevent and combat graft in the public sector. Parliament first enacted the law in June 2019, but the President of Lebanese Republic did not sign it and sent it back to Parliament's committees for additional review.

The law is part of the Anti-Corruption National Strategy that the government unveiled in 2018, which aims to increase transparency, promote accountability, limit discretionary actions in public administrations and prevent impunity. The Parliament enacted other laws under the Anti-Corruption National Strategy, including a law that protects whistleblowers in corruption-related matters dated October 10, 2018. The Anti-Corruption National Strategy calls for the enforcement of the Right to Access Information Law, dated February 10, 2017, which grants Lebanese citizens, foreigners, natural persons and legal entities the right to access information from various government agencies, ministries and municipalities, among other public and public-related institutions covered by the legislation.

In parallel, Transparency International's 2019 Global Corruption Barometer, a survey about the general public's views and experiences on corruption, indicated that 68% of respondents in Lebanon considered that the level of corruption in the country increased during the 12 months that preceded the survey. The share of respondents in Lebanon who thought that the level of corruption in the country increased during the 12 months that preceded the survey is the second highest among six Arab countries included in the survey, behind only Sudan (82% of respondents). In addition, 87% of respondents in Lebanon considered that the government at the time of the survey failed to fight corruption, while 13% believed that the government's measures to tackle graft were effective. The share of participants in Lebanon who thought that the government's efforts were ineffective in addressing corruption practices was the highest among the surveyed countries. Further, 68% of participants in Lebanon considered that most or all government officials are involved in corruption, the highest percentage among the surveyed countries. Also, 64% of respondents thought that most or all members of Parliament are corrupt, while 53% of surveyed participants believed that judges and magistrates are involved in corruption. The survey was conducted in Morocco, Sudan and Tunisia between March and August 2018, and in Jordan, Lebanon and Palestine between August and October 2019. It covered a sample of 6,600 respondents in the six Arab countries.

FDI Inflows to Lebanon* (\$USm)



*in the first nine months of each year

Source: Banque du Liban, Byblos Research

Parliament approves cultivation of cannabis for medical and industrial purposes

The Lebanese Parliament enacted on April 21, 2020 a law that legalizes the cultivation of cannabis for medical and industrial purposes, and kept illegal the production and usage of the substance for any other reason. The legislation makes Lebanon the first Arab country to legally allow the cultivation of cannabis for such purposes.

The law regulates the entire supply chain related to the cultivation of the plant. It requires the setup of a regulatory body that will ensure the proper execution of this law, including the issuance of permits to import plants and seeds, as well as to cultivate, transport, produce, store, trade and distribute cannabis. The regulatory body will also have the authority to approve research centers and laboratories that deal with the cultivation of cannabis for medical and industrial purposes. The law specifies several conditions that individuals and companies should meet in order to be eligible to apply for a permit, as well as the process and the time needed to issue the permit. It stipulates that individuals, such as farmers, property owners or tenants that are interested in applying for a cultivation permit, must be Lebanese residents and must not be convicted of a misdemeanor or of a felony, among other conditions. It also regulates the import and export procedures of cannabis, prohibits dumping and monopolies, and enforces penalties on violations. According to the law's annex, the legalization of the cultivation of cannabis for medical and industrial purposes could contribute to economic activity and employment, especially in rural areas, as well as support government revenues.

In its economic plan for Lebanon published on January 3, 2019, consulting firm McKinsey & Company included the legalization of the cultivation of cannabis for medicinal purposes among its list of 160 priority initiatives that are needed to support the Lebanese economy. It estimated that Lebanon is the world's third largest provider of cannabis resin, after Morocco and Afghanistan, as well as Asia's fifth largest provider of cannabis herbs after Afghanistan, Kyrgyzstan, Myanmar and Laos. It added that the United Nations Office on Drugs and Crime estimated the surface area used for cannabis cultivation in Lebanon at 3,500 hectares in 2012. However, the plan noted that the war in Syria has constrained the government's eradication efforts in recent years. Therefore, it considered that the area for cultivation of cannabis has increased and could have reached comparable surface areas to 2005 or 2002, when surfaces totaled 6,400 hectares and 15,000 hectares, respectively. In parallel, the Ministry of Public Health cited a survey that estimated the surface area used for cannabis cultivation at 20,000 hectares in 2015. Further, McKinsey & Company said that it is difficult to estimate the value of cannabis production in Lebanon, but it noted that aggregate cannabis production could reach up to \$4bn annually.

Lebanon represented in *Forbes* magazine's list of world billionaires

Forbes magazine's annual survey of the world's billionaires for 2020 included six persons from Lebanon, unchanged from the 2019 survey. The list included three family members of the late Prime Minister Rafiq Hariri, two members of the Mikati family, and one member from the Mouawad family. The survey ranked Mr. Taha Mikati in 945th place, down from 916th place in the 2019 survey, with an estimated net worth of \$2.2bn compared to \$2.5bn last year. It also ranked Former Prime Minister Najib Mikati in 1001st place, down from 916th place in the 2019 survey, with an estimated net worth of \$2.1bn in the 2020 list relative to \$2.5bn last year. Mr. Bahaa Hariri followed in 1063rd place, up from 1116th place in 2019, with a net wealth of \$2bn, down from \$2.1bn in the 2019 survey. Further, Mr. Robert Mouawad ranked 1415th in place, up from 1511th place in the 2019 survey, with an estimated net worth of \$1.5bn, unchanged from last year. Mr. Ayman Hariri came in 1613th place, up from 1717th place in the 2019 survey, with an estimated net worth of \$1.3bn, unchanged from last year's survey; while Mr. Fahd Hariri ranked in 1851st place, down from 1818th place in 2019, with a net worth of \$1.1bn compared to \$1.2bn last year. The survey ranks individuals according to their assets, including stakes in public and private companies, real estate, art and cash.

The survey pointed out that the coronavirus pandemic has weighed on global equity markets, and as a result, led to the decline in the net worth of many billionaires this year. As of March 18, 2020 when the list was finalized, *Forbes* said that it included 2,095 individuals, 58 fewer than a year ago and 226 fewer than 12 days earlier, when it initially did the calculations, and compared to a record-high of 2,208 billionaires in the 2018 survey. It pointed out that 51% of the billionaires that remain in 2020 from last year's list are poorer than in 2019. It indicated that the aggregate net worth of the billionaires included in the 2020 list reached \$8 trillion, down by \$700bn in 2019 and compared to a peak of \$9.1 trillion in 2018. The average net worth per billionaire stood at \$3.82bn in this year's survey, down from an all-time high of \$4.12bn in 2018.

Select Billionaires of Lebanese Descent on *Forbes'* 2020 list of the World's Richest People

	Rank	Worth (\$bn)	Trend*	Source	Country
Carlos Slim Helu & family	12	52.1	Down	Telecom	Mexico
Joseph Safra	39	19.9	Down	Banking	Brazil
Rodolphe Saadé & family	208	7.0	Down	Shipping	France
Manuel Moroun & family	1415	1.5	Down	Transportation	United States
George Joseph	1513	1.4	Down	Insurance	United States
Lily Safra	1613	1.3	Unchanged	Banking	Monaco
Alfredo Harp Helu & family	1851	1.1	Down	Banking	Mexico

*in net worth

Source: *Forbes* magazine, Byblos Research



Banque du Liban clarifies measures to support private sector firms

Banque du Liban (BdL) issued on April 22, 2020 Intermediate Circular 552 that amends Basic Circular 23 about the facilities that BdL can provide to commercial banks and financial institutions, and which provides additional details about Intermediate Circular 547 that BdL issued in March 2020.

Circular 552 asked banks and financial institutions operating in the country to extend, exceptionally and on their own responsibility, loans in Lebanese pounds or US dollars to clients that already have credit facilities and that are unable to meet their obligations during March, April, May and June 2020, because of the prevailing challenging conditions.

It noted that the exceptional loans will only be extended to pay the monthly settlements of existing loans, and/or to cover the salaries, operating expenditures, or production-related spending of enterprises. It added that clients who qualify for these loans must lack any resources, such as credit accounts or cash collateral, to settle their financial obligations.

In parallel, the circular stipulated that the exceptional loans will not be subject to any fee, commission, or interest rate, while the beneficiary will pay the loan over a period of five years. It specified that these loans must be repaid in the same currency of the original loan. Also, it allowed clients to settle the loan before its five-year maturity or to make a full prepayment without paying any commissions or fees.

In addition, the circular detailed how banks have to pay directly the salaries of employees of companies that obtain these exceptional loans. It stipulated that banks must pay the employees' salaries free of any fees or charges, whether in cash, through transfers to bank accounts, or through a debit card or a domiciliation account.

Further, the circular pointed out that businesses that are excluded from the current lockdown measures, such as pharmacies, bakeries and grocery stores, cannot benefit from the exceptional loans unless the bank determines that they have defaulted on their obligations due to the ongoing challenging conditions.

Moreover, the circular indicated that BdL will provide banks and financial institutions with credit lines in US dollars at an interest rate of zero percent, to be repaid over five years, and for an amount equivalent to the value of exceptional loans they extend in local and foreign currencies.

Saradar Bank announces \$40m capital increase

Saradar Bank announced that it will increase its shareholders' equity by \$40m, or the equivalent of 20% of its end-2018 Common Equity Tier One (CET1), through cash contributions to capital. The decision is in line with Banque du Liban's (BdL) Intermediate Circular 532 dated November 4, 2019 that requested banks to raise their capital base, in two stages, by the equivalent of 20% of their end-2018 CET1. The bank indicated that it has received the preliminary approval of BdL to increase its capital.

Saradar Bank, one of Lebanon's top 16 banks in terms of deposits, announced unaudited consolidated net profits of \$4.6m in the first half of 2019, compared to earnings of \$1.2m in the same period of 2018. Also, the bank's total assets reached \$3.3bn at the end of June 2019, up by 3.7% from end-2018, while loans & advances to customers, excluding those to related parties, dropped by 0.6% from end-2018 to \$855m. Also, customer deposits, excluding those from related parties, totaled \$1.9bn at end-June 2019 and decreased by 5% from the end of 2018. Further, the bank's shareholders' equity reached \$240.8m at end-June 2019, up by 1.9% from end-2018.

AM Best maintains ratings of Arabia Insurance

AM Best maintained the Financial Strength Rating of Arabia Insurance Company at 'B++' (Good) and its long-term Issuer Credit Rating (ICR) at 'bbb' with a 'negative' outlook, despite the weakening social, political and economic conditions in Lebanon. It indicated that these conditions have been exacerbated by the country's default in March 2020 on its \$1.2bn Eurobond, as well as by the spread of the coronavirus in the country. However, it noted that the insurer's geographic diversification provides it with a cushion against heightened political and economic risks in Lebanon, given that it operates through a network of branches and subsidiaries across nine countries in the Middle East.

The agency pointed out that less than 20% of the company's gross written premiums are generated in Lebanon, while only 16% the group's cash and deposits were held domestically as at end-2018. It added that the insurer implemented several risk management measures throughout 2019 in response to the increasing political and economic uncertainties in Lebanon. It said that it will continue to monitor the developments in Lebanon and their impact on Arabia Insurance Company.

Al-Bayan magazine's annual survey of the Insurance sector in Lebanon ranked Arabia Insurance in 16th and 15th place in 2019 in terms of life and non-life premiums, respectively. The firm's non-life premiums increased by 13.9% to \$25.1m in 2019, while its life premiums grew by 95.4% to \$3.8m last year. It had a share of 2.2% share of the local non-life market and a 0.8% share of the life market in 2019. Overall, Arabia Insurance Company and a 1.8% market share of the Lebanese insurance market in 2019, ranking it in 17th place in terms of life and non-life premiums.



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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