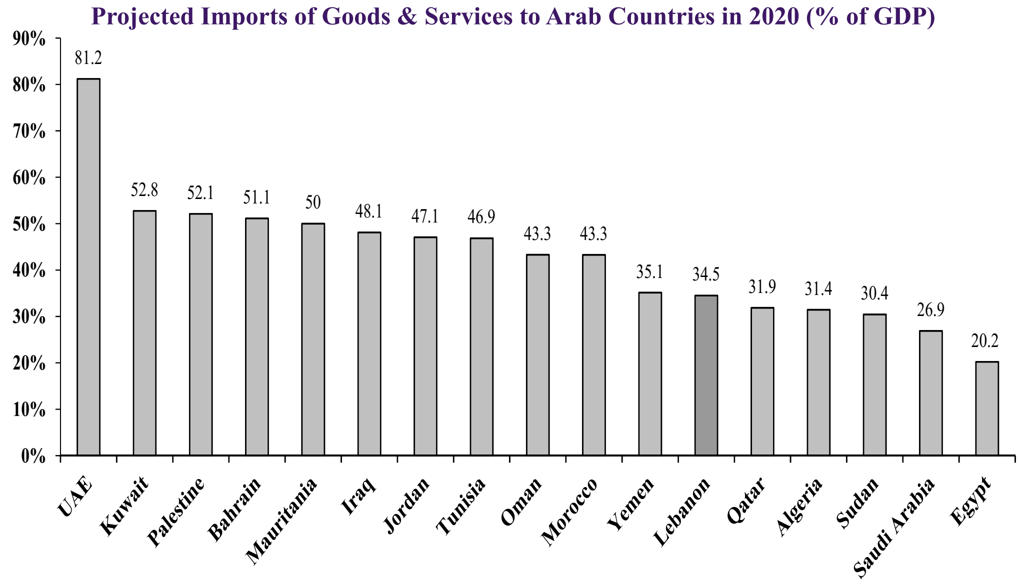
600 ISSUES+
Issue 630 | April 27 - May 2, 2020

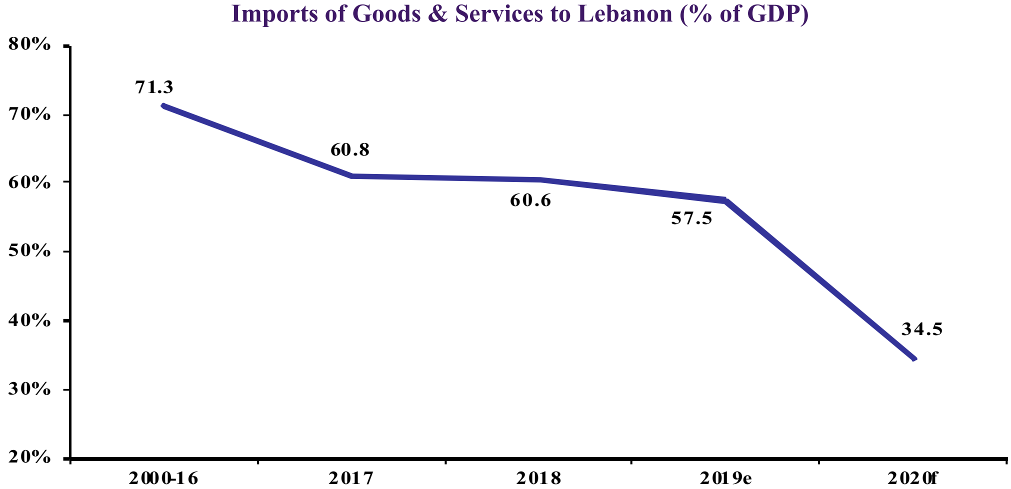
BYBLOS BANK SAL
Economic Research & Analysis Department

LEBANON THIS WEEK

In This Issue

Charts of the Week





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

Quote to Note

"Since March, the Lebanese government under Prime Minister Hassan Diab, with the support of external advisors, has made only limited progress in engaging creditors on debt-restructuring negotiations."

S&P Global Ratings, on the need to engage creditors in the restrucruing of the public debt

Number of the Week

3%: Insurance penetration rate in Lebanon, or premiums relative to the size of the economy, at the end of 2019

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"	12.17	16.24	159,824	18.63
Solidere "B"	12.25	16.67	74,802	12.19
Audi Listed	1.30	0.00	20,000	11.71
BLOM Listed	3.25	8.33	-	10.70
Audi GDR	2.00	0.00	-	3.66
Byblos Common	0.75	0.00	-	6.49
BLOM GDR	3.50	0.00	-	3.96
HOLCIM	9.71	0.00	-	2.90
Byblos Pref. 08	60.00	0.00	-	1.84
Byblos Pref. 09	59.90	0.00	-	1.83

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Apr 2021	8.25	16.25	327.88
Oct 2022	6.10	16.13	91.87
Jan 2023	6.00	16.13	79.44
Jun 2025	6.25	16.25	38.98
Nov 2026	6.60	16.13	29.84
Feb 2030	6.65	16.13	19.50
Apr 2031	7.00	16.38	17.20
May 2033	8.20	16.00	14.57
Nov 2035	7.05	16.50	11.98
Mar 2037	7.25	16.50	10.96

Source: Byblos Bank Capital Markets, Refinitiv

	Apr 27-30	Apr 21-24	% Change	April 2020	April 2019	% Change
Total shares traded	267,986	324,793	(17.5)	10,769,186	689,768	1461
Total value traded	$2,712,875	$3,103,359	(12.6)	$23,969,907	$4,931,247	386
Market capitalization	$6.53bn	$6.19bn	5.5	$6.53bn	$9.02bn	(27.6)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Mar 20, 2020	May 1, 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 24, 2020	May 1, 2020	% Change***
CDS 5-year**	330.05	309.74	(6.2)

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

Council of Ministers approves financial recovery plan, requests assistance from IMF

The Council of Ministers endorsed on April 20, 2020 the Lebanese Government's Financial Recovery Plan, which consists of adjusting the exchange rate regime, restructuring the public debt, restructuring the financial sector, fiscal consolidation, structural, social and environmental reforms, as well as requesting international financial assistance. The program also includes a medium-term macroeconomic framework that assumes that Lebanon will receive external financial support and will successfully implement the entire reform program.

The program considers that an adjustment of the official exchange rate in the foreseeable future is based on the assumption that authorities will adjust the exchange rate to LBP3,500 against the US dollar in 2020, while the government intends to move to a more flexible exchange rate afterwards, such as a managed float or a crawling peg. Under the plan, the exchange rate will depreciate by about LBP200 per dollar every year during the 2021-24 period to reach LBP4,297 per dollar in 2024. In addition, the program assumes that the government will take the needed actions in the short term to standardize capital control measures. It anticipates that authorities will begin to ease capital control measures when confidence starts to improve in 2021.

In parallel, the program estimated Lebanon's cumulative financing needs at $28.4bn during the 2020-24 period, which it expected to be funded by $10bn from multilateral and bilateral sources, as well as by $15bn to $18bn from the negotiations of a five-year grace period on the payment of Eurobond principal and the reduction of the related coupons to a minimum level over the same period. The plan assumes that the government will reach an agreement with creditors on the restructuring of the public debt in 2020.

In parallel, the government's program includes the restructuring of Banque du Liban (BdL) and of commercial banks operating in the country. It estimates BdL's losses at LBP177 trillion and its impaired liabilities at LBP121 trillion. It added that Lebanon will commission "internationally-recognized" professionals to conduct a full audit of BdL's accounts and financial operations over the past five years. It pointed out that the government will evaluate options for the restructuring of BdL's liabilities, including through the restructuring of the banks' deposits at BdL as well as the Certificates of Deposits that banks bought from BdL. The program intends to reprofile the remaining bank deposits on BdL's balance sheet in order to help bridge the liquidity gap. The government will also consider the creation of a Public Asset Management Company (PAMC), which will hold equity stakes in the main state-owned enterprises and real estate assets. The PAMC will allocate its profits to provide BdL the necessary resources to pay its remaining liabilities to the banks over time.

Further, it considered that the banking system will incur direct losses in the context of the crisis and the restructuring of the public debt, which will be added to the indirect losses incurred by banks as a result of BdL's restructuring. It estimated the banks' aggregate losses at LBP186 trillion, which the government intends to cover first by a full bail-in of existing shareholders that it calculated at LBP31 trillion. It plans to address the remaining bank losses of LBP154 trillion through the claw back of sums that have "unlawfully escaped the country", the recovery of illegally-obtained funds and assets, as well as capital injections by existing shareholders using dividends earned in 2016-20 in case shareholders want to play a role in the recapitalization of their bank. In addition, and on a bank by bank basis, large depositors will be offered to voluntarily convert part of their deposits into the bank's capital base, or into tradable equity stakes in a new established special Recovery Fund, or into long-dated subordinated bank obligations with no or limited interest rates. According to the plan, the revenue stream of the Recovery Fund will come from funds collected through anti-corruption measures and from other potential future proceeds from State assets. Also, banks will have to submit to relevant authorities their business plans and restructuring/recapitalization plans, including mergers or acquisitions involving domestic or foreign banks. Finally, the government will consider issuing five new commercial banking licenses to establish specialized banks with a minimum equity of $200m each, of which 50% needs to come from fresh money.

In parallel, the Prime Minister and the Minister of Finance signed on May 1, 2020 Lebanon's request for assistance from the International Monetary Fund.

Parliament enacts private equity investment law

The Lebanese Parliament enacted on April 21, 2020 the private equity (PE) investment law that modernizes the existing framework for PE activity in Lebanon. The law details the steps and paperwork needed to establish a PE firm, as well as the process to invest in a PE firm. It also regulates the management of PE firms, as well as the PE companies' investments, auditing and taxation systems, among other parts of the industry's value chain.

According to the law's annex, setting the rules to establish, manage and control PE companies in Lebanon will help attract domestic and foreign investments and raise capital that will be invested in a wide range of securities and other assets. It considered that this law is particularly important for foreign direct investment, which contributes to financing the Lebanese economy.

In its economic plan for Lebanon published on January 3, 2019, consulting firm McKinsey & Company cited several legal challenges that prevent having an enabling environment for financial services, such as outdated insolvency and bankruptcy laws, banking tax law, the lack of a specific PE investment law and the absence of an e-signature law. Parliament enacted Law 81 about electronic transactions and personal data that provides the legal framework for the electronic signature and e-commerce during its sessions of September 24 and 25, 2018. However, the governmemnt has yet to issue the implementing decrees for Law 81.

Association of Banks responds to government's recovery plan

The Association of Banks in Lebanon (ABL) indicated that it cannot endorse the government's financial recovery plan. It said that the government did not consult nor approach ABL about the plan, even though the ABL is a key part of any solution. It noted that the proposed restructuring of the public debt and financial sector will destroy local and foreign confidence in Lebanon. It added that the plan mentions essential building blocks for investor confidence, such as an effective anti-corruption strategy, but does not provide details about them, which raises questions about the timeline for the implementation of these measures. Overall, it considered that the government's plan is likely to deter investments in the economy, which will hinder recovery prospects.

Moreover, the ABL indicated that the government's plan is unfunded, as the authorities assume international financial support, especially from the International Monetary Fund and from the financial pledges made at the CEDRE conference. It added that the government is about to start official discussions with the IMF, while the disbursement of CEDRE-related funds is contingent on the implementation of reforms. In addition, it pointed out that the plan's fiscal measures on the revenues and spending side, which are essential for any support from the IMF, are vague and are not associated with a specific implementation calendar. Further, the ABL considered that the plan's assumptions, including its growth and fiscal assumptions, could be challenged due to "the limited impact ascribed to the aggressive nature of the domestic debt restructuring" and the unknown impact of the current global crisis. It added that an assessment of these impacts could significantly change the fiscal projections in the plan.

In parallel, the ABL said that the plan does not address inflationary pressures and may lead to hyperinflation. It also noted that the banking sector financed the public sector, which decided to spend the funds without input from banks. It considered that this "presentation portrays a borrower accusing its lender of being responsible for its failure", and that "having a punitive approach to the banking sector actually means a punitive approach to the depositors". It believes that several measures in the plan "infringe upon private property vested rights, which is guaranteed by the Lebanese Constitution and which is one of the key fundamentals of Lebanese society".

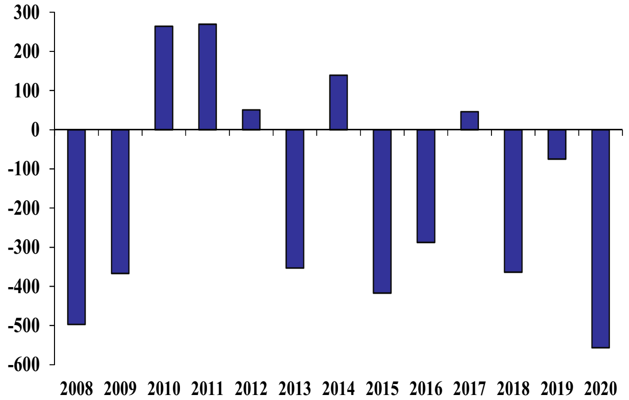
The ABL pointed out that the prevailing conditions in the country urgently call for a constructive dialogue, unity, and solidarity. It considered that it is urgent to take concrete actions and reach consensus among all stakeholders, as the lack of reforms is worsening the situation. The ABL indicated that it intends to submit shortly a plan capable of mitigating the recession and setting the stage for sustained growth.

Net foreign assets of financial sector down by $1.1bn in first quarter of 2020

Figures issued by Banque du Liban (BdL) show that the net foreign assets of the financial sector, which are a proxy for Lebanon's balance of payments, declined by $1.06bn in the first quarter of 2020 compared to a decrease of $2bn in the same quarter of 2019. The cumulative deficit in the first quarter of the year was caused by a drop of $2.15bn in the net foreign assets of BdL, which was partly offset by an increase of $1.09bn in those of banks and financial institutions. Further, the net foreign assets of the financial sector dropped by $556.8m in March 2020 compared to a decline of $347.4m in February 2020 and to a decrease of $75.1m in March 2019. The month-on-month decline in March 2020 was caused by a decrease of $551.1m in the net foreign assets of BdL and a decline of $5.7m in those of banks and financial institutions.

The cumulative increase in the banks' net foreign assets is due to the steeper decline of their foreign liabilities relative to the decrease of their foreign assets. The drop in foreign liabilities was driven to a large extent by a decrease in non-resident deposits and in non-resident financial liabilities; while the decline in the banks' foreign assets was mostly due to a contraction of their deposits with non-resident financial institutions and central banks, as well as to a decline of their claims on non-resident customers. In parallel, the decrease in BdL's net foreign assets is due in part to the financing of necessity imports, such as hydrocarbons, medicine and wheat.

Change in Net Foreign Assets of Financial Sector in March of Each Year (US$m)



Source: Banque du Liban

In comparison, the net foreign assets of the financial sector grew by $1.2bn in 2016, while they decreased by $155.7m in 2017, by $4.8bn in 2018 and by $4.35bn in 2019. They declined by the equivalent of 7.8% of GDP in 2019, 8.8% of GDP in 2018 and 0.3% of GDP in 2017, relative to an increase equivalent to 2.4% of GDP in 2016.

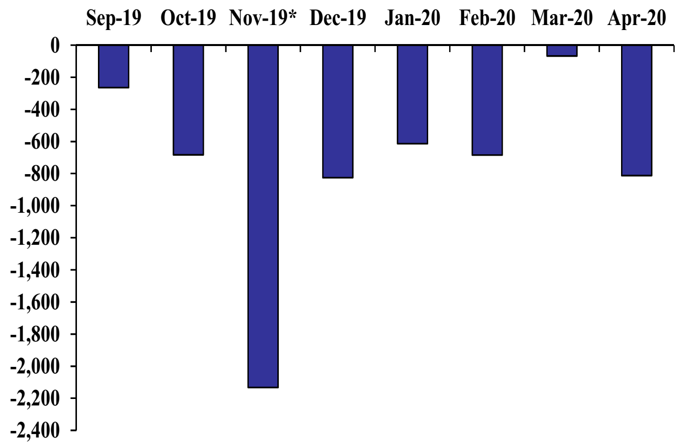
Banque du Liban's foreign assets at $34.4bn, gold reserves at $15.9bn at end-April 2020

Banque du Liban's (BdL) interim balance sheet totaled $148.9bn at the end of April 2020, constituting an increase of 5.3% from $141.4bn at the end of 2019, and an expansion of 18.8% from $125.3bn at the of end April 2019.

Assets in foreign currency reached $34.4bn at end-April 2020, down by 7.6% from $37.3bn at the end of 2019 and by 9.3% from $38bn at end-April 2019. They included $5.03bn worth of Lebanese Eurobonds at end-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 $29.4bn at end-April 2020, constituting a decline of $812m 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 $6.08bn between the end of August 2019 and end-April 2020.

Change in Gross Foreign Currency Reserves (US$m)



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

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 $4.26bn between the end of August 2019 and end-April 2020.

In addition, the value of BdL's gold reserves increased by 13.7% from end-2019 and by 33.8% from a year earlier to reach $15.9bn at end-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 $38.5bn at end-April 2020 and increased by 1.3% from end-2019 and by 20.4% from end-April 2019. In addition, loans to the local financial sector regressed by 1.2% from end-2019 to $14.8bn at end-April 2020. Further, deposits of the financial sector reached $113bn at end-April 2020, increasing by $941.9m from end-2019. Also, public sector deposits at BdL totaled $4.4bn at end-April 2020 and regressed by $1.07bn from end-2019.

In parallel, the Council of Ministers approved on April 24, 2020 the proposal of the Ministry of Finance to make consensual agreements, with each of international accounting firm KPMG, global provider of risk solutions Kroll and management consulting firm Oliver Wyman, in order to conduct a "focused" audit on BdL's accounts.

Lebanon's first exploration well yields "negative" results

Total E&P Liban sal, which is the operator of the consortium that won bids for the exploration of oil & gas in Blocks 4 and 9 of Lebanon's territorial waters, announced that the results of the drilling of Lebanon's first exploration well are "negative". It noted that it completed the drilling of the "Byblos 16/1" exploration well in Block 4 on April 26, and reached a depth of 4,076 meters below the sea level. Italy's Eni International BV and Russian firm JSC Novatek are the two other members of the consortium that was awarded the right to explore the two blocks. Total E&P Liban sal is wholly owned by France's Total S.A.

Total S.A. indicated that it found evidence of traces of gas in the exploration well, which confirms the presence of a hydrocarbon system in Lebanon's territorial waters. However, it said that it did not find reservoirs in the Tamar formation, which was the main target of the exploration well located 30 kilometers offshore of Beirut. Despite the "negative" results, it pointed out that the exploration activity has provided valuable information that will be incorporated in future complementary studies about the exploration potential of Lebanon's offshore Exclusive Economic Zone.

The drilling for oil & gas started on February 27, 2020 in the first exploratory well in Block 4 in the center of Lebanon's offshore Exclusive Economic Zone. Total S.A selected Tungsten Explorer in an international tender to explore the first well. Tungsten Explorer is managed by the U.S.-based offshore drilling contractor Vantage Drilling Company. In December 2017, the Council of Ministers approved the bid submitted by a consortium of three companies for offshore oil & gas exploration and production in Lebanon.

In parallel, the Ministry of Energy extended from the end of April 2020 to June 1, 2020 the deadline for interested companies to participate in the second licensing round for offshore oil & gas exploration in Lebanon, citing the outbreak of the coronavirus pandemic. The ministry's decision to postpone the deadline was the second such extension, as it previously delayed the deadline from the end of January to the end of April 2020, in response to requests from international oil companies to allow them to complete their administrative, technical and financial preparations. The Council of Ministers approved in April 2019 the launch of the second licensing round for offshore oil & gas exploration and production in Lebanon's territorial waters. Five blocks are open for bidding for the second licensing round, including Block 1 and Block 2, which are located in the north of Lebanon's offshore Exclusive Economic Zone, Block 5 is in the center, and Block 8 and Block 10 are in the south of Lebanon's territorial waters.

Lebanon in the News

Council of Ministers approves anti-corruption measures

The Council of Ministers approved on April 28, 2020 four measures that aim to fight corruption and recover ill-gotten funds from corruption practices, which are the activation of tax audit on parties that entered into a contract with the public administration, conducting a forensic audit on previous government contracts, the lifting of banking secrecy on parties involved in new contracts with the government, and the activation of the role of the Audit Bureau.

First, the Cabinet asked the Ministry of Finance to take the necessary measures to perform a tax investigation on all persons and legal entities that have signed contracts with public administrations and agencies, or provided services without legal documentation. It also requested the ministry to take the necessary technical and logistical measures for the exchange of tax information according to the "Convention on Mutual Administrative Assistance in Tax Matters" and the "Multilateral Competent Authority Agreement". It noted that this will allow Lebanon to receive the necessary information about all overseas bank accounts that belong to persons or legal entities that take a tax residence in Lebanon. It added that Lebanese authorities will utilize the collected information during the audit of the aforementioned persons and legal entities to recover funds that resulted from potential tax evasion.

Second, the Council of Ministers asked the Prime Minster, based on the recommendation of the Ministry of Finance, to appoint one of the top international forensic accounting firms to conduct a "forensic audit" on all contracts, including tenders, between the public administration and any persons or legal entities, in order to ensure that the contracts' underlying public funds have not been inefficiently allocated. Third, the Cabinet requested from all public administrations and agencies, especially the tender administration, to lift bank secrecy on all parties involved in new contracts, tenders or disbursements of public funds in accordance with the fifth clause of the Banking Secrecy Law. It also asked all public administrations to refrain from closing any deal or ratifying any contract without the prior inclusion of such a clause in the contracts.

Fourth, the Council of Ministers urged the Audit Bureau to give the highest priority to the audit of the accounts of persons and legal entities that have entered into contracts and commitments with public agencies, starting with contracts that involve the highest amounts. It stressed that the Audit Bureau should request detailed statements of the bank accounts where the public funds were disbursed and transferred to. Also, it said that authorities should verify that the funds disbursed in the aforementioned accounts are equivalent to the amounts stated in the related contracts.

In parallel, the Council of Ministers asked the Ministry of Finance to request from Banque du Liban (BdL) ledgers that detail the amounts transferred from bank accounts at Lebanese commercial banks to bank accounts abroad starting from January 1, 2019. It also asked for the exact amounts that were transferred from persons or legal entities that are employed in the public sector, as well as the amounts that were transferred for commercial purposes. In addition, it requested from BdL the exact amounts of funds that customers have withdrawn in cash from their accounts, as well as the amounts that have been transferred abroad when banks were closed during the protests that started on October 17, 2019.

Commercial activity deteriorates in fourth quarter of 2019

Banque du Liban's quarterly business survey about the opinions of business managers shows that the balance of opinions for the volume of commercial sales reached -63 in the fourth quarter of 2019, relative to -34 in the third quarter of 2019 and to -39 in the fourth quarter of 2018. The balance of opinions for the volume of commercial sales in the fourth quarter of 2019 reached its third lowest quarterly level during the 2004-19 period, after posting -70 in the first quarter of 2005 following the assassination of Prime Minister Rafic Hariri and -73 in the third quarter of 2006 as a result of the Israeli war on Lebanon. The current plunge reflects the disruptions to economic activity following the eruption of nationwide protests on October 17, and worsening of economic and financial conditions, which affected demand. The survey reflects the opinions of enterprise managers about their business activity in order to depict the evolution of a number of key economic variables. The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in an indicator and the proportion of those who reported a decline in the same indicator. The balance of opinions was the lowest in the Bekaa and South at -86 each, followed by Beirut & Mount Lebanon (-55), and the North (-48).

The survey shows that the balance of opinions about the sales of food items was -52 in the fourth quarter of 2019 relative to -16 in the preceding quarter and to -19 in the fourth quarter of 2018. Also, the balance of opinions about the sales of non-food products was -67 in the covered quarter, compared to -41 in the previous quarter and to -45 in the fourth quarter of 2018; while it was -67 for inter-industrial goods relative to -43 in the third quarter of the year and to -51 in the fourth quarter of 2018. Further, the balance of opinions for inventory levels in all commercial sub-sectors was -19 in the fourth quarter of 2019, compared to -12 in the previous quarter and to -3 in the fourth quarter of 2018. Opinions about the level of inventories were the lowest in the North and the South as they reached -23 each, followed by the Bekaa region (-21), and Beirut & Mount Lebanon (-15).

Commercial Activity: Year-on-Year Evolution of Opinions

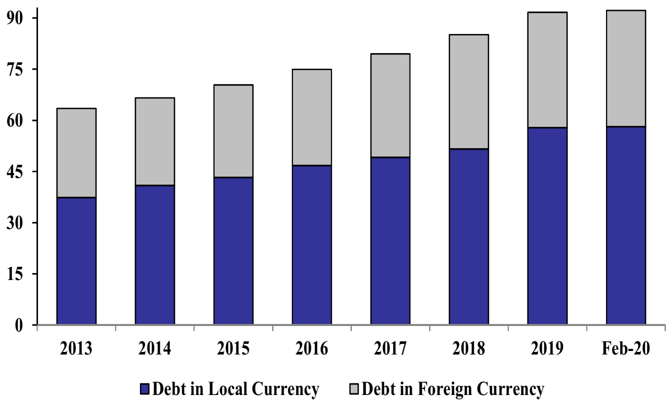
Aggregate results	**Q4-16**	**Q4-17**	**Q4-18**	**Q4-19**
Sales volume	0	-26	-39	-63
Number of employees	-4	-3	-9	-26
Inventories of finished goods	-4	+1	-3	-19
Q4-19 Regional results	**Beirut / Mount Lebanon**	**North**	**South**	**Bekaa**
Sales volume	-55	-48	-86	-86
Inventories of finished goods	-15	-23	-23	-21

Source: Banque du Liban business survey for fourth quarter of 2019

Gross public debt at $92.2bn at end-February 2020

Lebanon's gross public debt reached $92.2bn at the end of February 2020, constituting an increase of 0.7% from $91.6bn at the end of 2019, and a rise of 8.2% from $85.3bn at the end of February 2019. In nominal terms, the gross public debt grew by $600m in the first two months of 2020, relative to an increase of $113.4m in the same period of 2019. Debt denominated in Lebanese pounds totaled $58.2bn at the end of February 2020 and expanded by 0.5% from end-2019 and by 13% from end-February 2019; while debt denominated in foreign currency stood at $34.1bn and grew by 1% from end-2019 and by 0.9% from a year earlier.

Lebanon's Gross Public Debt (US$bn)



Source: Ministry of Finance, Byblos Research

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

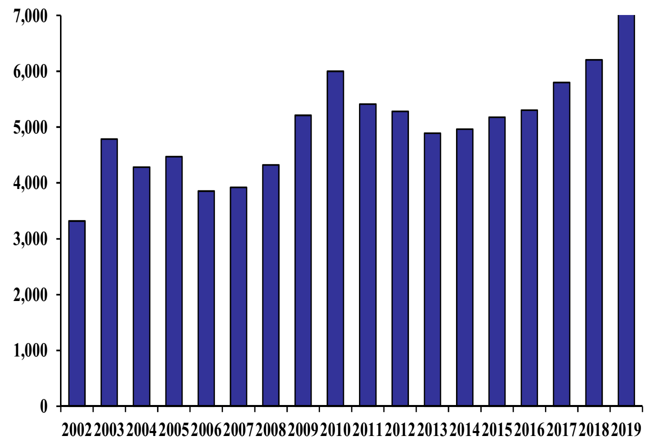
Local currency debt accounted for 63.1% of the gross public debt at the end of February 2020 compared to 60.4% a year earlier, while foreign currency-denominated debt represented the balance of 36.9% relative to 39.6% at end-February 2019. The weighted interest rate on outstanding Treasury bills was 6.49% and the rate on Eurobonds was 7.38% in February 2020. Further, the weighted life on Eurobonds was 7.84 years, while it was 1,757 days on Treasury bills and bonds.

BdL accounted for nearly 42.7% of the public debt at the end of February 2020, followed by commercial banks (30.7%), and non-bank resident financial institutions (8.3%); while other investors, including foreign investors, held 16.1% of the debt, and multilateral institutions and foreign governments accounted for 2.2%. BdL held 58.3% of the Lebanese pound-denominated public debt at the end of February 2020 compared to 50.6% a year earlier, while commercial banks accounted for 28.6% of the local debt compared to 35% at end-February 2019. Also, public agencies, financial institutions and the public held 13.1% of the local debt at end-February 2020 relative to 14.5% at end-February 2019. Further, holders of Eurobonds and special T-bills in foreign currencies accounted for 94% of foreign currency-denominated debt holders at the end of February 2020, followed by multilateral institutions with 4.2% and foreign governments with 1.9%. In addition, the net public debt, which excludes public sector deposits at BdL and at commercial and investment banks from overall debt figures, grew by 7.9% annually to $82.6bn at the end of February 2020. Further, the gross market debt accounted for about 54% of the public debt. The gross market debt is the total public debt less the portfolios of BdL, the National Social Security Fund, as well as bilateral and multilateral loans.

Tourist receipts up 13% to $7bn in first nine months of 2019

Figures released by Banque du Liban show that tourism receipts in Lebanon totaled $7.04bn in the first nine months of 2019, constituting an increase of 13.4% from $6.2bn in the same period of 2018. Tourism revenues amounted to $1.8bn in the first quarter of 2019, $2.3bn in the second quarter, and $2.9bn in the third quarter of 2019.

Tourist Receipts in Lebanon* (US$m)



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

Further, tourism receipts in the first three quarters of 2019 reached their highest level for the first nine months of a year between 2002 and 2019. This was due to the increase in the number of incoming visitors to Lebanon in the first nine months of last year, which reached their highest level for the first nine months of each year since 2010. Tourism revenues in Lebanon averaged $5.6bn during the first nine months of each year between 2009 and 2019.

In parallel, outbound tourism spending from Lebanon reached $5.2bn in the first nine months of 2019, up by 10.7% from $4.7bn in the same period of 2018. It totaled $1.4bn in the first quarter, $1.6bn in the second quarter, and $2.2bn in the third quarter of 2019. In addition, outbound tourism spending in the covered period reached its highest level for the first nine months of a year during the 2002-19 period. It averaged $3.77bn during the first nine months of each year between 2009 and 2019.

As such, net tourism receipts totaled $1.8bn in the covered period and increased by 22.2% from $1.5bn in the first nine months of 2018. Net tourism receipts in Lebanon constituted their eighth highest level for the first nine months of a year between 2002 and 2019. They averaged $1.8bn during the first nine months of each year between 2009 and 2019, and reached a high of $2.4bn in the first nine months of 2010.

Governor Riad Salamé answers government request for clarifications

Banque du Liban's (BdL) Governor Riad Salamé declared that he submitted BdL's audited financials for the 2015-17 period to Prime Minister Hassan Diab on March 9, 2020, which are audited by international firms EY and Deloitte. He also explained that BdL's Central Council, which includes the Directors General of the Ministry of Finance and the Ministry of Economy & Trade, sets BdL's annual budget. He reiterated that spending decisions at BdL are neither secret nor unilateral, and that BdL's budget is in line with the international standards of central banks around the world.

Further, he noted that BdL's "usable liquidity" in foreign currency stood at $20.9bn as at April 24, 2020. He explained that the bank's usable foreign currency reserves have declined, as BdL provided $8bn in liquidity to Lebanese banks, extended $863m to the private sector for the imports of raw materials, including fuel, wheat and medicine, as well as settled $843m worth of external obligations on behalf of the government.

In addition, the Governor stated that Lebanese laws stipulate that BdL must finance the government at the latter's request. He pointed out that BdL currently has $5bn worth of Lebanese Eurobonds as a result of financing the government. He added that BdL paid $16bn on the behalf of the State, which means that BdL's ability to interfere in the market to stabilize the exchange rate would increase if the government settles the overdraft. Moreover, he said that BdL holds 60% of the debt denominated in domestic currency and has recently been paying back to the government the interest that the bank is receiving on its Treasury bills portfolio. Further, he reasserted that BdL had to resort to financial engineering measures in order to provide the government with enough time to implement structural reforms and unlock the funds pledged at the CEDRE conference.

In parallel, he explained that the financial crisis in Lebanon is the result of the deficits in the fiscal and the current account balances. He indicated that the aggregate current account deficit reached $56.2bn in the 2015-19 period, which was used to finance imports. He estimated that Lebanon spent about $4bn per year on imports that the domestic market did not need. Further, he pointed out that the cumulative fiscal deficit over the past five years was $25bn, which means that Lebanon's aggregate twin deficits amounted to $81bn in the 2015-19 period. As such, he said that the Lebanese economy needed around $16.2bn per year to be sustainable, adding that BdL's measures aimed at securing the needed amount of US dollars in order to finance the government's fiscal and current account deficits, as well as to ensure the stability of the exchange rate. He noted that BdL covered the government's financing needs, but was not responsible for how the government spent the money. He also indicated that banks, international institutions and foreign countries have provided financial support to Lebanon, as successive governments promised reforms in exchange for funding. However, he noted that the reforms did not materialize due to political reasons and the lack of political will. He pointed out that the challenging circumstances in the public sector are creating significant losses for BdL, and not the other way around. He indicated that the government's deficits have also weighed on the banking sector, adding that monetary policy alone cannot fix the crisis.

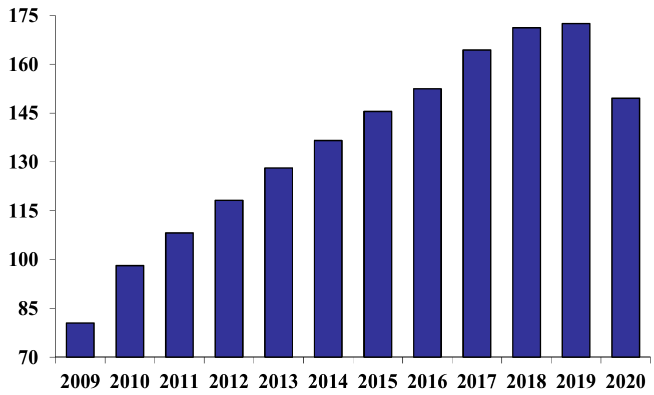
In parallel, Governor Salamé assured the Lebanese public that their deposits are safe at banks and rejected the idea of a haircut on deposits. He added that news about potential haircuts on deposits is leading to panic among depositors and is delaying the recovery of the banking sector. He stated that BdL will not allow any bank in Lebanon to go bankrupt, and that it has requested from banks to increase their capital in order to protect depositors. In addition, the Governor clarified that the banks' deposits decreased by $5.9bn in January and February, with $3.7bn used to settle loans and $2.2bn were cash withdrawals in all currencies.

He noted that BdL is refraining from injecting US dollar banknotes in the market, as it cannot guarantee that these banknotes will remain in the domestic market. As such, he explained that BdL will provide foreign currency to finance a list of necessary imports specified by the Ministry of Economy & Trade.

Private sector deposits down $23bn in seven-month period ending March 2020

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets stood at $208.5bn at the end of March 2020, constituting a decrease of 3.8% from $216.8bn at the end of 2019 and a decline of 17.5% from $252.8bn at end-March 2019. The year-on-year decline in assets is mainly due to the "netting" on the assets and liabilities' sides of the consolidated balance sheet of banks, as part of the implementation of international accounting standard IFRS 7 starting in December 2019.

Private Sector Deposits at Banks* (US$bn)



*at the end of March of each year
Source: Banque du Liban, Byblos Research

Loans extended to the private sector reached $45bn at the end of March 2020, regressing by 9.6% from end-2019 and by 21.5% from a year earlier. Loans to the resident private sector totaled $40bn, constituting a decrease of 9.5% from the end of 2019 and of 20.8% from end-March 2019. Also, credit to the non-resident private sector reached $5bn at end-March 2020, declining by 10% from end-2019 and by 26.8% from a year earlier. In nominal terms, credit to the private sector contracted by $4.8bn in the first quarter of 2020 relative to a decrease of $2.1bn in the same quarter of 2019, as lending to the resident private sector declined by $4.2bn and credit to the non-resident private sector regressed by $552.8m in the covered quarter. The dollarization rate of private sector loans fell from 69.7% at end-March 2019 to 66.3% at end-March 2020.

In addition, claims on non-resident financial institutions stood at $5.1bn at the end of March 2020 and declined by $1.6bn (-24%) from end-2019, by $4bn (-43.7%) from the end of August 2019, and by $5.5bn (-51.7%) from a year earlier. Also, deposits at foreign central banks totaled $626.2m, constituting an increase of 6.4% from end-2019 and a drop of 34.3% from end-March 2019. In addition, claims on the public sector stood at $25.1bn at end-March 2020, down by $3.6bn (-12.4%) from end-2019 and by $8.2bn (-24.6%) from the end of March 2019. The banks' holdings of Lebanese Treasury bills stood at $14.2bn at the end of March 2020, down by $473.8m (-3.2%) from the end of 2019; while their holdings of Lebanese Eurobonds reached $10.8bn at end-March 2020, constituting a decline of $3bn (-22%) from end-2019, largely due to the banks' selling of Lebanese Eurobonds. The average lending rate in Lebanese pounds was 9.41% in March 2020 compared to 10.58% a year earlier, while the same rate in US dollars was 9.55% relative to 9.31% in March 2019. Further, the deposits of commercial banks at BdL totaled $117.8bn at the end of March 2020, nearly unchanged from the end of 2019 and down by 14.1% from $137bn at the end of March 2019, following the netting operation.

In parallel, private sector deposits totaled $149.6bn at the end of March 2020, and decreased by 5.8% from the end of 2019 and by 13.3% from end-March 2019. Deposits in Lebanese pounds reached the equivalent of $33bn at end-March 2020, down by 13.4% from the end of 2019 and by 35% from a year earlier; while deposits in foreign currency stood at $116.6bn, as they regressed by 3.5% from end-2019 and by 4.3% from end-March 2019. Resident deposits totaled $120bn at the end of March 2020 and decreased by $6.5bn (-5.1%) from the end of 2019 and by $15.6bn (-11.5%) from a year earlier. Also, non-resident deposits reached $29.6bn at end-March 2020, as they regressed by $2.8bn (-8.7%) from end-2019 and by $7.3bn (-19.7%) from the end of March 2019. In nominal terms, private sector deposits declined by $3.8bn in January, by $3.4bn in February, and by $2.1bn in March 2020. As such, aggregate private sector deposits regressed by $9.3bn in the first quarter of 2020 relative to a decrease of $1.8bn in the same quarter of 2019, with deposits in Lebanese pounds dropping by $5.1bn and foreign-currency deposits declining by $4.2bn. In comparison, private sector deposits declined by $2.2bn in September, by $1.9bn in October, by $5.8bn in November and by $3.7bn in December 2019. As such, aggregate private sector deposits dropped by $22.9bn in the seven-month period ending in March 2020, due largely to the repayment of loans, to the hoarding of cash at households, and to deposit outflows. The dollarization rate of private sector deposits was 77.9% at end-March 2020, up from 76% at the end of 2019, and compared to 70.6% a year earlier.

In parallel, the liabilities of non-resident financial institutions reached $8.2bn at the end of March 2020 and decreased by 7.5% from end-2019. Further, the average deposit rate in Lebanese pounds was 5.13% in March 2020 compared to 8.75% a year earlier, while the same rate in US dollars was 2.53% relative to 5.69% in March 2019. The ratio of private sector loans to deposits in foreign currency stood at 25.6% at the end of March 2020 compared to 32.8% a year earlier, well below BdL's limit of 70%. The same ratio in Lebanese pounds reached 46% at end-March 2020 relative to 34.3% from a year earlier. As such, the total private sector loans-to-deposits ratio reached 30.1% compared to 33.2% at end-March 2019. The banks' aggregate capital base stood at $20.7bn at end-March 2020, down by 6% from $22.1bn a year earlier.

Corporate Highlights

Stock market capitalization down 28% to $6.5bn at the end of April 2020

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 19,067,473 shares in the first four months of 2020, constituting a decline of 89.6% from 183,686,867 shares traded in the same period last year; while aggregate turnover amounted to $67.3m, down by 91.4% from a turnover of $782.2m in the first four months 2019. The sharp decline in trading volume and turnover in the first four months of 2020 came from a high base in the same period last year, which saw eight block trades in the shares of three listed companies. The market capitalization of the BSE regressed by 27.6% from $9bn at the end of April 2019 to $6.5bn at end-April 2020, with banking stocks accounting for 65.3% of the total, followed by real estate equities (30.8%), industrial shares (3.3%), and trading firms' equities (0.5%). The market liquidity ratio was 1% in the covered period compared to 8.7% in the first four months of 2019.

Banking stocks accounted for 71.7% of the aggregate trading volume in the first four months of 2020, followed by real estate equities with 28%, and trading firms' equities and industrial shares with 0.2% each. Also, real estate equities accounted for 70% of the aggregate value of shares traded, followed by banking stocks with 29.7%, industrial stocks with 0.3%, and trading firms' equities with 0.2%. The average daily traded volume for the period was 247,630 shares for an average daily value of $874,147.6. The figures reflect a year-on-year decrease of 89.6% in average daily traded volume, and an annual drop of 91.4% in the average value in the first four months of the year. In parallel, the Capital Markets Authority's (CMA) Market Value-Weighted Index for stocks traded on the BSE rose by 73.7% in the first four months of 2020, while the CMA's Banks Market Value-Weighted Index regressed by 12.6% in the covered period.

Import activity of top five shippers and freight forwarders down 50% in first two months of 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 21,613 20-foot equivalent units (TEUs) in the first two months of 2020, constituting a decrease of 50.4% from 43,578 TEUs in the same period of 2019. The five shipping and freight-forwarding firms accounted for 77.4% of imports to the Lebanese market for local use and for 31.8% of the total import freight market, which includes transshipments to other ports, in the covered period. Mediterranean Shipping Company (MSC) handled 7,875 TEUs in imports in the first two months of 2020, or 11.6% of the total import freight market. Merit Shipping followed with 5,276 TEUs (7.8%), then MAERSK with 3,717 TEUs (5.5%), Metz Group with 2,515 TEUs (3.7%), and Gezairy Transport with 2,230 TEUs (3.3%). The five shipping and freight forwarding companies registered year-on-year decreases in import shipping in the first two months of 2020, with Gezairy Transport posting a decline of 56%, 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 10,288 TEUs in the first two months of 2020, constituting an increase of 10.8% from 9,288 TEUs in the same period of 2019. The five shipping companies and freight forwarders accounted in the first two months of 2020 for 86.5% of exported Lebanese cargo and for 13.6% of the total export freight market that includes transshipments through Lebanese ports. Merit Shipping handled 4,735 TEUs of freight in the covered period, equivalent to 39.8% of the Lebanese cargo export market. MAERSK followed with 2,197 TEUs (18.5%), then Metz group with 1,464 TEUs (12.3%), MSC with 976 TEUs (8.2%), and Tourism & Shipping Services with 916 TEUs (7.7%). MSC registered a year-on-year rise of 87.7% in export shipping in the first two months of 2020, the highest growth rate among the top five shipping and freight forwarding companies, while Tourism & Shipping Services posted a drop of 15.5%, the only decline among the top five firms.

Ratio Highlights

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

*change in percentage points 19/18; **includes portion of public debt owed to non-residents, liabilities to non-resident banks, non-resident deposits (estimated by the IMF), Bank for International Settlements' claims on Lebanese non-banks; ***The decline in assets in 2019 is mainly due to the "netting" on the assets and liabilities' sides of the consolidated balance sheet of commercial banks as part of the implementation of international accounting standard IFRS 7; **** in January 2018, Lebanese banks started reporting their financials based on international accounting standard IFRS 9, and revised the 2017 figures accordingly
Source: Association of Banks in Lebanon, Institute of International Finance, Central Administration of Statistics, Byblos Research Estimates & Calculations
Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

Risk Metrics

Lebanon	Feb 2018	Jan 2019	Feb 2019	Change**	Risk Level
Political Risk Rating	55.0	54.0	54.0	▲	High
Financial Risk Rating	33.0	31.5	31.5	▲	Moderate
Economic Risk Rating	28.5	24.0	24.0	▲	Very High
Composite Risk Rating	58.25	54.75	54.75	▲	High

MENA Average*	Feb 2018	Jan 2019	Feb 2019	Change**	Risk Level
Political Risk Rating	58.2	58.1	58.2	⧓	High
Financial Risk Rating	37.9	39.1	39.2	▼	Low
Economic Risk Rating	31.4	33.8	33.8	▼	Moderate
Composite Risk Rating	63.8	65.5	65.6	▼	Moderate

*excluding Lebanon
**year-on-year change in risk
Source: The PRS Group, Byblos Research
Note: Political & Composite Risk Ratings range from 0 to 100 (where 100 indicates the lowest risk)
Financial & Economic Risk ratings range from 0 to 50 (where 50 indicates the lowest risk)

Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's Investors Service	Ca	NP	Stable	Ca		Stable
Fitch Ratings	RD	C	-	CC	C	-
S&P Global Ratings	SD	SD	-	CC	C	Negative
Capital Intelligence Ratings	SD	SD	-	C-	C	Negative

*for downgrade
**CreditWatch negative
Source: Rating agencies

Banking Sector Ratings	Outlook
Moody's Investors Service	Negative

Source: Moody's Investors Service

Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut – Lebanon
Tel: (961) 1 338 100
Fax: (961) 1 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com

BYBLOS BANK GROUP

LEBANON
Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605 Riad El Solh - Beirut 1107 2811- Lebanon
Phone: (+ 961) 1 335200
Fax: (+ 961) 1 339436

IRAQ
Erbil Branch, Kurdistan, Iraq
Street 60, Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457/8/9 - 2560017/9
E-mail: erbilbranch@byblosbank.com.lb

Sulaymaniyah Branch, Kurdistan, Iraq
Salem street, Kurdistan Mall - Sulaymaniyah
Phone: (+ 964) 773 042 1010 / (+ 964) 773 041 1010

Baghdad Branch, Iraq
Al Karrada - Salman Faeq Street
Al Wahda District, No. 904/14, Facing Al Shuruk Building
P.O.Box: 3085 Badalat Al Olwiya – Iraq
Phone: (+ 964) 770 6527807 / (+ 964) 780 9133031/2
E-mail: baghdadbranch@byblosbank.com.lb

Basra Branch, Iraq
Intersection of July 14th, Manawi Basha Street, Al Basra – Iraq
Phone: (+ 964) 770 4931900 / (+ 964) 770 4931919
E-mail: basrabranch@byblosbank.com.lb

UNITED ARAB EMIRATES
Byblos Bank Abu Dhabi Representative Office
Al Reem Island - Sky Tower - Office 2206
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336050 - 2 6336400
Fax: (+ 971) 2 6338400
E-mail: abudhabirepoffice@byblosbank.com.lb

ARMENIA
Byblos Bank Armenia CJSC
18/3 Amiryan Street - Area 0002
Yerevan - Republic of Armenia
Phone: (+ 374) 10 530362 Fax: (+ 374) 10 535296
E-mail: infoarm@byblosbank.com

NIGERIA
Byblos Bank Nigeria Representative Office
161C Rafu Taylor Close - Off Idejo Street
Victoria Island, Lagos - Nigeria
Phone: (+ 234) 706 112 5800
(+ 234) 808 839 9122
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

BELGIUM
Byblos Bank Europe S.A.
Brussels Head Office
Boulevard Bischoffsheim 1-8
1000 Brussels
Phone: (+ 32) 2 551 00 20
Fax: (+ 32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

UNITED KINGDOM
Byblos Bank Europe S.A., London Branch
Berkeley Square House
Berkeley Square
GB - London W1J 6BS - United Kingdom
Phone: (+ 44) 20 7518 8100
Fax: (+ 44) 20 7518 8129
E-mail: byblos.london@byblosbankeur.com

FRANCE
Byblos Bank Europe S.A., Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+33) 1 45 63 10 01
Fax: (+33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

CYPRUS
Limassol Branch
1, Archbishop Kyprianou Street, Loucaides Building
P.O.Box 50218
3602 Limassol - Cyprus
Phone: (+ 357) 25 341433/4/5 Fax: (+ 357) 25 367139
E-mail: byblosbankcyprus@byblosbank.com.lb

ADIR INSURANCE
Dora Highway - Aya Commercial Center
P.O.Box: 90-1446
Jdeidet El Metn - 1202 2119 Lebanon
Phone: (+ 961) 1 256290
Fax: (+ 961) 1 256293