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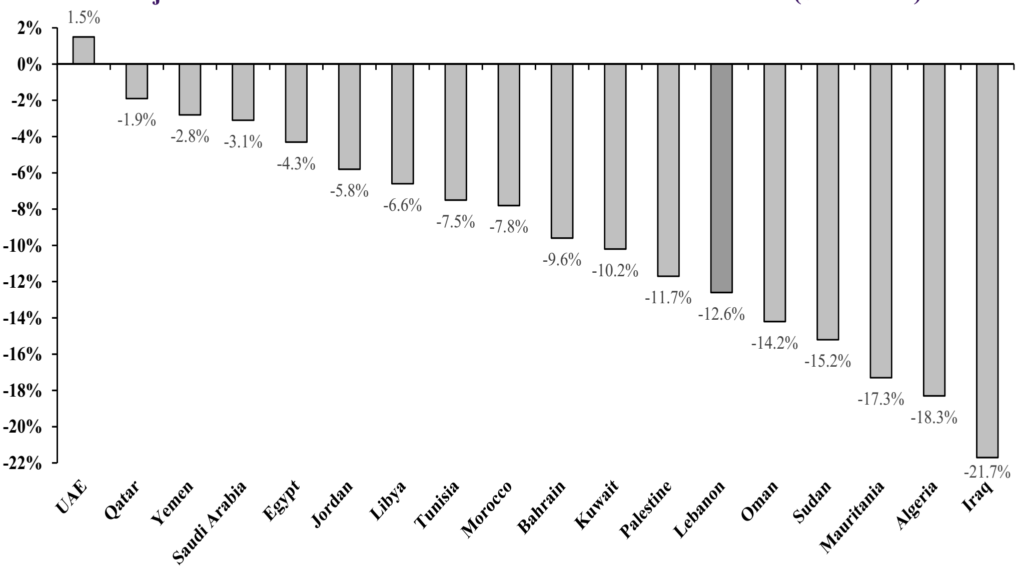
LEBANON THIS WEEK

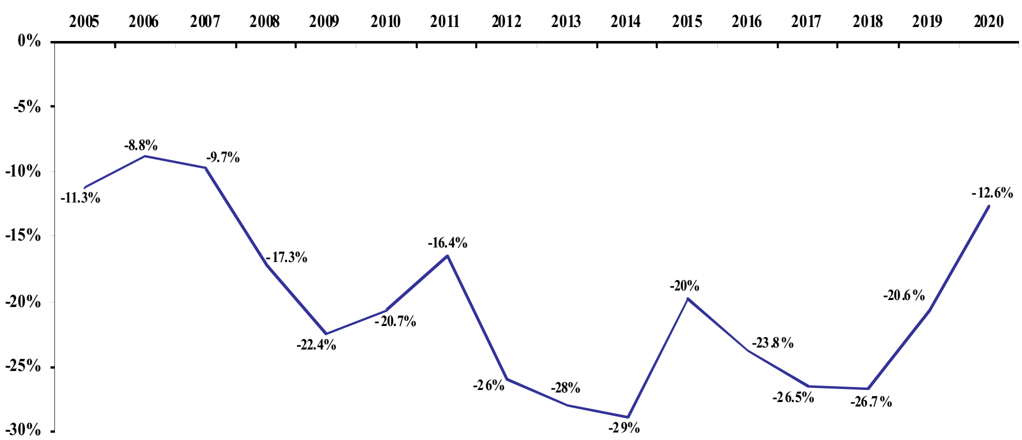
In This Issue

Charts of the Week

Projected Current Account Balance of Arab Countries in 2020 (% of GDP)



Current Account Deficit of Lebanon (% of GDP)



Source: International Monetary Fund - April 2020, Byblos Bank

Quote to Note

"An IMF program typically works as a policy anchor, as it is contingent on reforms, such as a reduction in public spending and a currency devaluation to alleviate pressures on the balance of payments."

Goldman Sachs, on what Lebanese authorities should expect from negotiations with the International Monetary Fund on a funded program

Number of the Week

67%: Percentage of polled Lebanese who believe that multilateral institutions should closely monitor the spending of funds that they disburse to Lebanon, according to an opinion poll conducted through the mysay online application

Lebanon in the News

$m *(unless otherwise mentioned)*	2019	Jan-Feb 2019	Jan-Feb 2020	% Change*	Feb-19	Jan-20	Feb-20
Exports	3,731	536	676	26.2	300	333	343
Imports	19,239	2,768	2,105	(24.0)	1,364	1,154	951
Trade Balance	(15,508)	(2,232)	(1,428)	(36.0)	(1,064)	(820)	(608)
Balance of Payments	(4,351)	(1,930)	(505)	(73.8)	(550)	(158)	(347)
Checks Cleared in LBP	22,146	3,638	4,502	23.7	1,782	2,281	2,221
Checks Cleared in FC	34,827	6,117	8,023	31.2	3,072	4,412	3,611
Total Checks Cleared	56,973	9,755	12,525	28.4	4,854	6,693	5,832
Fiscal Deficit/Surplus	(5,837)	(658)	-	-	(585)	-	-
Primary Balance	(287)	(89)	-	-	(321)	-	-
Airport Passengers	8,684,937	1,131,076	977,524	(13.6)	524,292	522,683	454,841
Consumer Price Index	2.9	3.2	-	-	3.1	10.0	-

$bn *(unless otherwise mentioned)*	Dec-18	Feb-19	Nov-19	Dec-19	Jan-20	Feb-20	% Change*
BdL FX Reserves	32.51	31.27	30.15	29.55	28.96	28.34	(9.4)
In months of Imports	20.72	22.92	23.54	21.95	25.10	29.80	30.0
Public Debt	85.14	85.25	89.48	91.64	91.99	92.24	8.2
Bank Assets	249.48	250.24	259.69	216.78**	213.80	210.34	(15.9)
Bank Deposits (Private Sector)	174.28	171.97	162.60	158.86	155.10	151.71	(11.8)
Bank Loans to Private Sector	59.39	57.38	52.48	49.77	47.91	46.08	(19.7)
Money Supply M2	50.96	50.23	43.82	42.11	40.82	39.59	(21.2)
Money Supply M3	141.29	139.86	136.44	134.55	132.56	130.95	(6.4)
LBP Lending Rate (%)	9.97	10.55	9.69	9.09	9.86	9.33	(122)
LBP Deposit Rate (%)	8.30	9.16	9.40	7.36	6.62	5.81	(335)
USD Lending Rate (%)	8.57	8.91	10.64	10.84	10.07	9.11	20
USD Deposit Rate (%)	5.15	5.62	6.31	4.62	4.00	3.22	(240)

**year-on-year **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
Audi Listed	1.20	(7.69)	903,900	10.99
Solidere "A"	11.93	(1.97)	274,763	18.56
Solidere "B"	11.86	(3.18)	55,079	11.99
BLOM Listed	3.28	0.92	10,600	10.97
Audi GDR	2.00	0.00	-	3.72
Byblos Common	0.75	0.00	-	6.60
BLOM GDR	3.50	0.00	-	4.02
HOLCIM	9.71	0.00	-	2.95
Byblos Pref. 08	60.00	0.00	-	1.87
Byblos Pref. 09	59.90	0.00	-	1.86

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Apr 2021	8.25	18.25	305.80
Oct 2022	6.10	16.75	90.45
Jan 2023	6.00	16.63	78.54
Jun 2025	6.25	18.13	36.58
Nov 2026	6.60	18.63	27.42
Feb 2030	6.65	17.88	18.39
Apr 2031	7.00	17.50	16.58
May 2033	8.20	16.25	14.46
Nov 2035	7.05	16.50	11.99
Mar 2037	7.25	16.50	10.98

Source: Byblos Bank Capital Markets, Refinitiv

	May 4-8	Apr 27-30	% Change	April 2020	April 2019	% Change
Total shares traded	1,254,342	267,986	368.1	10,769,186	689,768	1461
Total value traded	$5,640,963	$2,712,875	107.9	$23,969,907	$4,931,247	386
Market capitalization	$6.43bn	$6.53bn	(1.6)	$6.53bn	$9.02bn	(27.6)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Mar 20, 2020	May 8, 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*	May 1, 2020	May 8, 2020	% Change***
CDS 5-year**	309.74	310.86	0.4

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

New government plan implies haircut of 45% on top 10% of deposit accounts at banks

Bank of America (BofA) indicated that the Lebanese government's financial recovery plan that the Council of Ministers endorsed on April 30, 2020 faces implementation risks. It noted that the program lacks socio-political consensus and that Lebanon has a poor track record of implementing reforms, while some of the plan's targets are uncertain and optimistic. It also noted that the program incorporates changes from the draft version that was leaked in early April, such as amendments to the terms of the debt restructuring and to deposit bail-in requirements.

It indicated that the reform program targets significant losses for holders of Eurobonds. Based on the figures in the plan, BofA calculated a haircut of 75% on the nominal face value of Eurobonds, on top of a five-year grace period for debt repayments and significantly lower coupon rates, which will reduce the recovery value on the bonds to less than 20 cents per dollar. It also calculated a haircut of 40% on the face value of the Lebanese pound-denominated debt. It said that the government is targeting a public debt level of 102.8% of GDP at the end of 2020 after the restructuring of the public debt, and has incorporated $3bn in foreign-currency borrowing by the end of 2020 from the International Monetary Fund and from other partners. Also, it noted that authorities intend to gradually ease capital controls starting in 2021, which would lead to deposit outflows of $8.8bn that year according to the plan. However, it expected tight capital controls to stay in place for a much longer period than the government's timeline. It added that the program projects the current account deficit to narrow to 7.1% of GDP by 2024, supported by a narrower trade deficit and an improved balance in the services account, but it noted that the plan does not provide the drivers that will strengthen the services balances.

Further, BofA indicated that the government's real GDP assumptions in the current plan include a resumption of growth starting in 2022 and are more optimistic than in the earlier version of the program. It said that the government intends to implement measures that will partially limit the impact of fiscal consolidation on economic activity. However, it pointed out that the government has not yet raised the funds for these measures, estimated at about $2.1bn per year, and that it will have to negotiate the funding with international partners. Also, it indicated that the plan targets a primary deficit of 1.5% of GDP and a fiscal deficit of 5.3% of GDP in 2020, but added that it is unclear how authorities will be able to meet the set targets. It pointed out that the government's plan to compensate civil servants through a one-off nominal inflation indexation requires careful calibration to anchor inflation expectations.

In addition, BofA estimated that the bail-in requirement for bank deposits is equivalent to 45.1% of the aggregate deposits of the top 10% deposit accounts after the devaluation of the currency, compared to a 63.5% share stipulated under the earlier program. It attributed the 15 percentage point reduction in the bail-in to new measures in the plan. These measures include a claw back of deposits that exited the banking sector after banks introduced de-facto capital controls last November, forcing large shareholders at banks to reimburse the dividends they received in the 2016-2020 period; a claw back of the "excessive" interest income on deposits; as well as recuperating about $10bn in stolen assets over the next five years and injecting them into a Deposit Recovery Fund. Further, it noted that the program does not specify the threshold that defines a "large" depositor.

However, it considered that the prospects of enforcing these measures are highly uncertain, as they require political will and could offer at best partial relief to depositors. First, it noted that banks distributed common and preferred dividends worth $3.2bn during the 2016-2018 period, but it said that only a portion of this sum would have gone to bank owners and, therefore, could be recuperated. Second, it pointed out that the proceeds from financial engineering operations have boosted the banking sector's capital and government tax revenues and, therefore, cannot be recovered. It also estimated that a claw back of the interest income paid to depositors and generated through the 2016 financial engineering operations could raise around $3bn. However, it noted that it is unclear how much of the deposits remained in the banking system after the 2016 operations, and added that these deposits may already have been included in the target for the bail-in requirement.

Also, BofA considered that the reform plan has launched the process of negotiations for a funded program with the International Monetary Fund. But it said that the IMF will strengthen the reform program and will require additional actions before the approval of the IMF Executive Board, including a supplementary 2020 budget, as well as reforms related to Electricité du Liban and to the exchange rate.

Council of Ministers extends LibanPost contract until end-2020

The Council of Ministers decided to extend until the end of 2020 the contract that allows LibanPost to function as the national postal operator of Lebanon. Also, it said that it will prepare tender documents, including general and specific conditions, in order to conduct an international bidding for a new postal operator in the country. The Cabinet noted that it could shorten the timeframe in case the tender process takes place before the end of the year.

Established in 1998, LibanPost is a privately owned company that is in charge of operating the country's postal service, including mail and express mail, as well as governmental services, such as paying taxes, *mécanique* fees, traffic tickets, and other non-governmental services. LibanPost is a member of the international express postal service Express Mail Service. Saradar Group owns a majority stake in the share capital of LibanPost.

Economic bodies condemn "dangerous" measures in government's recovery plan

The Group of Economic Associations in Lebanon, which includes all the chambers of commerce, industry and agriculture in the country, as well as the Association of Banks in Lebanon, the Association of Lebanese industrialists, the Beirut Traders Association, the Association of Insurance Companies in Lebanon, and most of the other business and trade associations in the country, indicated that the government's financial recovery plan contains "unconstitutional" and "dangerous" measures that will adversely impact the economy and put additional strains on the private sector. It added that the government did not consult with any members of the Group of Economic Associations when drafting its plan, although members of the group represent major economic sectors and stakeholders in Lebanon. As such, it called on Parliament to refrain from endorsing the plan, which it considered to be "destructive" to the economy.

The group indicated that the plan takes advantage of the current financial collapse and social turmoil to impose measures that aim to overturn Lebanon's liberal economic system and permanently change its economic identity. It added that the political system failed rather than the economic system, while it acknowledged the need to strengthen the private sector. Further, it pointed out that the plan intentionally acquits the political class and the public sector, while it unjustly blames the private sector for the current crisis. It considered that the private sector, including Lebanese expatriates, is being penalized through higher arbitrary taxes, while the public sector is almost completely spared.

Further, it noted that the plan bypasses well-established constitutional principles, such as personal rights and private property, as well as violates the legal structure and harms the pillars of a liberal economy. It added that the program creates a climate of anxiety and legal uncertainties for businesses and investments. It also pointed out that the plan lacks credible measures that can successfully stimulate the economy, create a conducive business environment, achieve judicial independence, attract investors, reduce unemployment and create jobs. In addition, it said that the plan overlooks the much-needed structural reforms and, instead, repeats the same pledges and promises that successive governments made since the Paris I donor conference in 2001. It noted that the private sector, particularly the banking sector, has been responsive to the government's reform promises, but it considered that these pledges are no longer convincing.

In addition, the group indicated that the plan presents clear steps to seize the funds of shareholders and depositors directly or through the creation of state-controlled funds. It considered that the plan repeats the previous "deadly" mistakes of entrusting the government once again to manage the country's resources through the funds that will be established, which will result in additional wasteful spending. It added that the alleged financial losses have been determined without any legal or accounting definitions, and even before the start of negotiations with creditors on the restructuring of the sovereign Eurobonds. It indicated that the government is implementing a rigid analytical approach to address the financing gap that seems like a liquidation of the economy, while authorities need to adopt a dynamic method based on a gradual exit from the crisis.

In parallel, the group welcomed the government’s decision to engage with the International Monetary Fund (IMF) over a funded program, as it considered that this a "step in the right direction" that could help inject the needed liquidity in the economy. Finally, it hoped that the government will take the aforementioned comments into consideration, especially during the negotiations with the IMF, so that Lebanon does not miss its last opportunity for fiscal reforms and economic revival.

Value of cleared checks up 8.5%, returned checks down 12% in first quarter of 2020

The value of cleared checks reached $16.1bn in the first quarter of 2020, constituting an increase of 8.5% from $14.8bn in the same period of 2019. The significant growth in the amount of cleared checks reflects the increased use of checks as a mean of payment in Lebanon. In comparison, the value of cleared checks decreased by 11.9% year-on-year in the first quarter of 2019 and by 1.7% annually in the same period of 2018. The value of cleared checks in Lebanese pounds grew by 3.1% year-on-year to the equivalent of $5.6bn in the first quarter of 2020, while the amount of cleared checks in US dollars rose by 11.6% to $10.4bn in the covered period. The dollarization rate of cleared checks expanded from 63% in the first quarter of 2019 to 64.9% in the same period of 2020. There were 1.9 million cleared checks in the first quarter of 2020, down by 30% from 2.7 million in the same period of 2019.

In addition, the value of cleared checks reached $3.6bn in March 2020, constituting a decrease of 39% from $5.8bn in the preceding month, and compared to $5.1bn in March 2019. The value of cleared checks in Lebanese pounds declined by 48.5% from the equivalent of $2.2bn in February 2020 to $1.1bn in the covered month, and the amount of cleared checks in US dollars fell by 33.3% month-on-month to $2.4bn in March 2020. There were 389,044 cleared checks in March 2020 relative to 708,512 cleared checks in the preceding month.

In parallel, the amount of returned checks in domestic and foreign currencies was $329m in the first quarter of 2020 compared to $372.1m in the same period of 2019 and to $364.2m in the first quarter of 2018. This constituted a decline of 11.6% in the first quarter of 2020 relative to an increase of 2.2% in the same period of 2019. Also, there were 49,808 returned checks in the covered period, down by 27.2% from 68,453 returned checks in the first quarter of 2019. Further, the amount of returned checks in domestic and foreign currencies was $63m in March 2020, constituting a decline of 44.1% from $112.8m in returned checks in the previous month, and compared to $127.4m in March 2019. Also, there were 8,615 returned checks in March 2020, down by 45% from 15,662 returned checks in February 2020.

The decline in the number and value of cleared and returned checks in March is due to the general mobilization that the government declared on March 15, which has constrained economic activity in Lebanon and the clearing of checks in the financial sector. Specifically, BdL and banks cleared checks once a week in March.

Banque du Liban to increase expected credit losses ratio to 45% on banks' holdings of Eurobonds

In the monthly meeting between Banque du Liban (BdL), the Banking Control Commission of Lebanon (BCCL) and the Association of Banks in Lebanon (ABL), Governor Riad Salamé expressed reservations about the approach and measures that the government included in its financial recovery plan to address the alleged losses at BdL, and added that the government did not consult BdL when it prepared the plan. He said that most of the proposed measures in the plan require a careful legal and constitutional assessment, while he reiterated that BdL and banks continue to operate under the Code of Money and Credit. Further, the attendees discussed the importance of enacting a capital control law to safeguard depositors, and stressed that BdL does not have the legal power to solely enforce capital controls.

In addition, Governor Salamé asked some banks to stop promoting financial products that encourage clients to bring in "fresh funds" in foreign currency, in exchange for more than doubling this amount if it is transferred to a regular deposit account. The Governor considered that the products are exerting additional pressure on the exchange rate at money dealers. Also, he indicated that maintaining the official exchange rate at LBP1507.5 per US dollar has been crucial to reduce the financial burden of the prevailing crisis on citizens. He added that US dollar banknotes that money transfer operators are selling to BdL as per Intermediate Circular 551 are helping the latter to finance the import of basic goods.

In parallel, he noted that BdL is currently drafting, in coordination with the BCCL, a circular that increases the Regulatory Expected Credit Losses (RECL) on the banks' asset portfolios. He said that BdL could raise the ECL ratio on the banks' holdings of Lebanese Eurobonds from 9.45% currently to 45%, following the government's decision to suspend the payments of the interest and principal on all of its outstanding Eurobonds. He also noted that BdL could increase the ECL ratio on the banks' exposure to BdL in foreign currency from 1.89% currently to 30%. He added that BdL is still evaluating the regulatory ECL ratio that banks could apply on Lebanese pound-denominated Treasury bonds, in case the government decided to default on its Lebanese pound-denominated obligations. He pointed out that these adjustments will significantly impact the banks' balance sheets and capitalization levels. However, he indicated that these limits are not final and could be subject to revisions.

Further, the Governor suggested that banks could have the option to exchange their long-term foreign-currency deposits at BdL with current accounts that have a regulatory ECL ratio of 1.89% and a low risk weight when calculating the solvency ratio. He added that BdL could provide banks some flexibility when implementing capital requirements under Basel III, such as allowing banks to gradually increase their capital ratios over three to five years in order to abide by minimum international requirements. In addition, he stressed the need to implement BdL's Intermediate Circular 532, which asked banks to raise, within an acceptable period, their capital base in two stages by the equivalent of 20% of their end-2018 Common Equity Tier One Capital. He acknowledged that banks are already facing many challenges that have been exacerbated by the ongoing general mobilization, as well as by the potential impact on banks of the proposed measures in the government's financial recovery plan.

Finally, Governor Salamé called on banks to accelerate the implementation of Basic Circulars 148 and 151, as well as of Intermediate Circulars 547 and 552, in order to help bank clients face the current economic and financial crisis. Basic Circulars 148 and 151 allowed 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, subject to limits and specific conditions. Further, Intermediate Circular 547 and 552 asked banks and financial institutions to exceptionally extend loans in Lebanese pounds or US dollars to clients that already have credit facilities and that cannot meet their obligations during March, April, May and June 2020, due to the prevailing challenging conditions. The Governor reiterated that, under Intermediate Circular 547, 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. He added that he will assess the ABL's request to exempt these credit lines from regulatory ECL limits.

U.S. maintains Lebanon on Watch List of intellectual property rights violations

In its annual 'Special 301' review of the state of intellectual property rights (IPR) protection and enforcement in U.S. trading partners around the world, the Office of the United States Trade Representative (USTR) kept Lebanon, along with 22 other countries and jurisdictions, on the Watch List for the ineffective and inadequate protection of intellectual property rights and for severe copyright violations. The USTR placed Lebanon on the Watch List in 1999 and then downgraded it to the more critical Priority Watch List in 2001, where it remained until 2007. It then upgraded Lebanon to the Watch List in 2008, where it has remained since then. Lebanon, along with Egypt, Kuwait, Turkey and the United Arab Emirates are the only countries from the Middle East & Africa region that are on the 2020 Watch List. Also, the USTR included 10 countries this year on its Priority Watch List, with Algeria and Saudi Arabia representing the Middle East & Africa on the list.

The USTR called on Lebanese authorities to ratify and implement several IPR treaties, including Articles 1 to 12 of the Paris Convention for the Protection of Industrial Property, the Singapore Treaty on the Law of Trademarks, as well as the latest acts of the Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks. In addition, it encouraged authorities to implement and ratify the Berne Convention for the Protection of Literary and Artistic Works and the World Intellectual Property Organization (WIPO) Copyright Treaty, as well as to join the Patent Cooperation Treaty, the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks, as well as the WIPO Performances and Phonograms Treaty.

Occupancy rate at Beirut hotels at 22%, room yields down 79% in first quarter of 2020

EY's benchmark survey of the hotel sector in the Middle East indicates that the average occupancy rate at four- and five-star hotels in Beirut was 22% in the first quarter of 2020 relative to 70% in the same quarter of 2019, and compared to an average rate of 55% in 14 Arab markets included in the survey. The occupancy rate at Beirut hotels was the lowest in the region in the covered period, while it was the seventh lowest in the first quarter of 2019. The occupancy rate at hotels in Beirut regressed by 48.1 percentage points in the first quarter of 2020, constituting the steepest decline in the region. In comparison, the average occupancy rate in Arab markets declined by 14 percentage points in the covered period.

The occupancy rate at Beirut hotels stood at 10% in March 2020, constituting a decrease of 68.9 percentage points from 79% in March 2019. It was, along with the occupancy rates at hotels in Madinah and Makkah, the lowest rate in the region in the covered month. In comparison, the occupancy rate at Beirut hotels reached 25% in January and 30% in February 2020, while it stood at 60% in January and at 71% in February 2019.

Hotel Sector Performance in First Quarter of 2020

	Occupancy Rate (%)	RevPAR (US$)	RevPAR % change
Dubai	65	152	(35.0)
Riyadh	62	105	(4.9)
Ras Al Khaimah	60	94	(24.1)
Kuwait City	55	80	(22.4)
Jeddah	46	74	(7.5)
Abu Dhabi	77	74	(26.7)
Doha	66	74	(5.7)
Muscat	52	71	(35.0)
Cairo	62	66	(29.5)
Madina	56	64	(15.1)
Amman	47	62	(25.3)
Makkah	56	61	(12.8)
Manama	43	59	(34.8)
Beirut	**22**	**28**	**(78.6)**

Source: EY, Byblos Research

The average rate per room at Beirut hotels was $130 in the first quarter of 2020, decreasing by 31.3% from $189 in the same quarter of 2019 and constituting the sixth lowest rate in the region. The average rate per room in Beirut was lower than the regional average of $139 that regressed by 9.3% from the first quarter of 2019. The average rate per room at Beirut hotels was $122 in March 2020, down by 34.3% from $185 in March 2019 and relative to $138 in January and $123 in February 2020.

Further, revenues per available room (RevPAR) were $28 at Beirut hotels in the first quarter of 2020 compared to $132 in the same quarter of 2019, constituting the lowest rate in the region. Beirut's RevPAR regressed by 78.6% year-on-year and posted the steepest decrease regionally in the covered period. Beirut posted RevPAR of $12 in March 2020, down by 91.6% from $146 in March 2019. The RevPAR in Beirut was the third lowest rate in the region in the covered month, after Madinah ($9) and Makkah ($8). In comparison, Beirut posted RevPAR of $35 in January and of $37 in February 2020, while it registered RevPAR of $118 in January and of $132 in February 2019. Abu Dhabi posted the highest occupancy rate in the region at 77% in the first quarter of 2020, while Dubai registered the highest average rate per room at $271 and the highest RevPAR at $152 in the covered period.

EY indicated that the Lebanese government's measures to contain the spread of the coronavirus, such as the declaration of a general mobilization and the resulting countrywide lockdown, as well as worldwide travel restrictions, have weighed on the performance of Beirut's hospitality sector. It noted that the downward trend in the sector has already started in late 2019 following nationwide protests and a national financial crisis.

In parallel, Colliers International projected the occupancy rate at Beirut hotels at 29% in 2020, the lowest rate among 20 markets in the Middle East & North Africa region, and constituting a decline of 46% from 2019. It said that hospitality sectors in the region have been significantly affected by the spread of the coronavirus due to strict restrictions on travel and tourism. It forecast the occupancy rate at Beirut hotels to reach 42% in 2021, in case the recovery in hotel performance starts in the fourth quarter of 2020.

State completes takeover of mobile phone networks

The Council of Ministers approved on May 5, 2020 the transfer of the management of the state-owned mobile phone networks Mobile Interim Company 1 (MIC 1) and Mobile Interim Company 2 (MIC 2) from Orascom Telecom and Zain Group, respectively, to the Ministry of Telecommunications, following the expiration of their management contracts. It also instructed the ministry to maintain the legal entities of both companies in order to preserve their economic and market values. It added that this decision will not affect the status of the staff at the two companies, as well as the services that the two operators provide to the Lebanese people and to the economy.

Further, the Council of Ministers asked the Ministry of Telecommunications to prepare, within three months, new tender documents to award new contracts for the management of MIC 1 and MIC 2, as well as to set the terms to participate in and to qualify for the international tender. It added that the tender will take place in coordination with the Administration of Public Tenders, once all of the related documents and terms and conditions are finalized.

Mobile networks in Lebanon are owned and regulated by the Ministry of Telecommunications, and managed by two private operators. Orascom Telecom has been managing MIC 1 since 2009 under the Alfa brand, while Zain has been managing MIC 2 since 2004 under the brand Touch. The contracts of the two management companies have been repeatedly renewed since 2008. The latest contracts expired at end-2019, but the government asked the companies to continue to operate the networks until authorities decide on how to proceed.

Term deposits account for 82.5% of customer deposits at end-March 2020

Figures issued by Banque du Liban about the distribution of bank deposits at commercial banks in Lebanon show that term deposits in all currencies reached $134bn, while demand deposits in all currencies stood at $28.4bn at the end of March 2020.

Term deposits in all currencies declined by $15.7bn, or by 10.5% from $149.7bn at end-2019. They accounted for 82.5% of total deposits in Lebanese pounds and in foreign currency at end-March 2020 relative to a share of 86.7% at end-2019. The decline in term deposits was due to a drop of 19% in term deposits in Lebanese pounds of the resident private sector, a 14% contraction in term deposits of non-residents, a 10.5% decrease in term deposits in Lebanese pounds of the public sector, a 9.5% drop in term deposits of the non-resident financial sector, and a 6.5% decrease in foreign currency-denominated term deposits of the resident private sector. This was partly offset by a surge of 87.4% in foreign currency-denominated term deposits of the public sector. The drop in term deposits is due to cash withdrawals and to the migration of funds from term deposits to demand deposits, amid the confidence crisis that started in September 2019. Aggregate term deposits declined by $32.5bn since the end of September 2019. Further, foreign currency-denominated term deposits of the resident private sector amounted to $73.8bn and accounted for 45.4% of total deposits at the end of March 2020. Term deposits of non-residents followed with $25.2bn (15.5%), then term deposits in Lebanese pounds of the resident private sector with $24.6bn (15.1%), term deposits of the non-resident financial sector with $6.2bn (3.8%), term deposits in Lebanese pounds of the public sector with $3.7bn (2.3%), and term deposits in foreign currency of the public sector with $601.3m (0.4%).

In parallel, demand deposits in all currencies rose by $5.5bn, or by 24.2%, from $22.9bn at end-2019. They accounted for 17.5% of total deposits at end-March 2020 relative to a share of 13.3% at end-2019. The increase in demand deposits was mainly due to a growth of $3.2bn in foreign currency-denominated demand deposits of the resident private sector, a rise of $1.3bn in demand deposits of non-residents, and an increase of $1.1bn in demand deposits in Lebanese pounds of the resident private sector. Demand deposits in foreign currency of the resident private sector amounted to $15.8bn and represented 9.7% of total deposits at the end of March 2020. Demand deposits in Lebanese pounds of the resident private sector followed with $5.8bn (3.6%), then demand deposits of non-residents with $4.4bn (2.7%), demand deposits of the non-resident financial sector with $2bn (1.2%), demand deposits in Lebanese pounds of the public sector with $256.1m (0.2%), and demand deposits in foreign currency of the public sector with $149.5m (0.1%).

Beirut and its suburbs accounted for 66.1% of private-sector deposits and for 47.6% of the number of depositors at the end of 2019, the latest available figures. Mount Lebanon followed with 15.2% of deposits and 18.8% of beneficiaries, then South Lebanon with 7.3% of deposits and 12.4% of depositors, North Lebanon with 6.4% of deposits and 12.5% of beneficiaries, and the Bekaa with 5% of deposits and 8.8% of depositors.

Industrial activity deteriorates in fourth quarter of 2019

Banque du Liban's quarterly survey on the opinions of business managers shows that the balance of opinions about industrial production was -50 in the fourth quarter of 2019 compared to -33 in the third quarter of 2019 and to -34 in the fourth quarter of 2018. The balance of opinions for the level of industrial production in the fourth quarter of 2019 reached its second lowest quarterly level during the 2004-2019 period, after posting -64 in the third quarter of 2006 due to the Israeli war on Lebanon. The current decline reflects the disruptions to economic activity following the eruption of nationwide protests on October 17, and the worsening of economic and financial conditions, which negatively affected the overall performance of the industrial sector during the covered quarter. The business survey reflects the opinions of managers of industrial enterprises about their businesses, 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 a particular indicator and the proportion of those who reported a decline in the same indicator. The balance of opinions was the lowest in the South at -74, followed by the Bekaa (-69), Beirut & Mount Lebanon (-44), and the North (-29).

The balance of opinions about overall demand for industrial goods stood at -53 in the fourth quarter of 2019 compared to -36 in the preceding quarter and to -35 from the fourth quarter of 2018. It reached its second lowest quarterly level during the 2004-2019 period, after posting -60 in the third quarter of 2006. The balance of opinions about demand for industrial goods was the lowest in the Bekaa at -77, followed by the South (-74), Beirut & Mount Lebanon (-46), and the North (-29). In parallel, the balance of opinions about the volume of investments in the industrial sector stood at -31 in the fourth quarter of 2019 compared to -20 in the third quarter of 2019 and to -13 in the fourth quarter of 2018. The balance of opinions about the volume of investments was the lowest in the South at -76, followed by the Bekaa (-34), Beirut & Mount Lebanon (-31), and the North (zero). Also, the balance of opinions for foreign demand of industrial goods stood at -27 during the fourth quarter of 2019 compared to -24 in the previous quarter and in the fourth quarter of 2018. The balance of opinions for foreign demand of industrial goods was the lowest in the South at -76, followed by the Bekaa (-32), Beirut & Mount Lebanon (-24), and the North (zero).

Industrial Activity: Evolution of Opinions

Aggregate results	Q4-16	Q4-17	Q4-18	Q4-19
Production	0	-17	-34	-50
Total demand	-3	-19	-35	-53
Foreign demand	-21	-11	-24	-27
Volume of investments	-1	-7	-13	-31
Inventories of finished goods	-10	-5	-7	-23
Inventories of raw material	-11	-6	-15	-34
Registered orders	-6	-19	-37	-54

Source: Banque du Liban Business Survey for Fourth Quarter of 2019

Trade deficit narrows by 36% annually to $1.4bn in first two months of 2020

Total imports reached $2.1bn in the first two months of 2020, constituting a decrease of 24% from $2.8bn in the same period of 2019; while aggregate exports grew by 26.2% annually to $676.4m in the first two months of 2020. As such, the trade deficit narrowed by 36% year-on-year to $1.4bn in the first two months of 2020 due to a rise of $140.5m in exports and a decline of $663.6m in imports.

Non-hydrocarbon imports decreased by $905.3m annually to $1.4bn in the first two months 2020, while imports of oil & mineral fuels increased by $241.7m year-on-year to $750.2m and accounted for 35.6% of total imports in the covered period. Lebanon imported 1.3 million tons of mineral fuel & oil in the first two months 2020 relative to 920,952 tons in the same period of 2019.

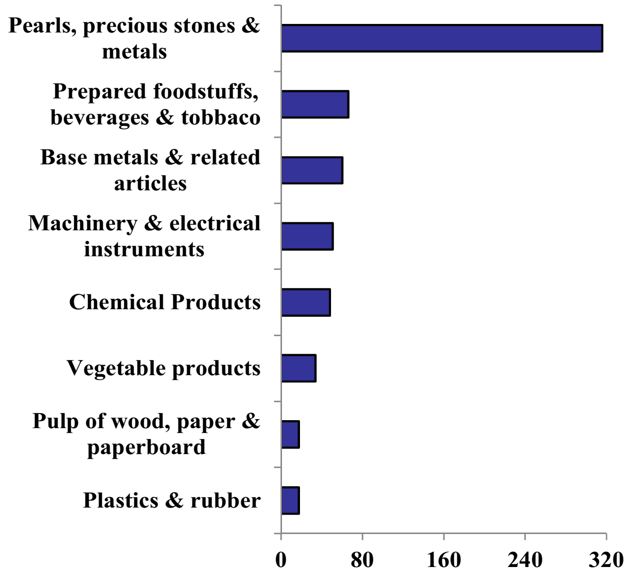
The increase in exports in the covered period was mainly due to a rise of $117.4m, or of 59.1%, in the exports of jewelry, mostly unwrought gold; an expansion of $20.6m (+52.1%) in exported base metals; a rise of $5.6m (+2.2 times) in the exports of vehicles, aircraft & vessels; and a growth of $4.7m (+16%) in exported vegetable products. The increase in exports was partly offset by a drop of $12.3m (-75.8%) in exported mineral products, a decrease of $9.5m (-35.4%) in the exports of plastics & rubber, and a decline of $3.7m (-17.6%) in the exports of pulp of wood.

Exports to Switzerland and Greece jumped each by 2.3 times year-on-year in the first two months of 2020, those to the UAE expanded by 47.2%, exports to Iraq rose by 32.5%, those to Egypt grew by 32%, exports to Jordan increased by 30.8%, those to Saudi Arabia expanded by 28.5%, and exports to the U.S. rose by 25.4%. The surge in exports to Switzerland is due to higher gold exports, while the increase in exports to Greece is due to higher exports of iron and copper. In contrast, exported goods to Syria dropped by 47.7% annually in the covered period and those to Qatar decreased by 25.7%.

Re-exports totaled $40m in the first two months 2020 compared to $65.5m in the same period of 2019. The Hariri International Airport was the exit point for 54% of Lebanon's exports in the first two months of 2020, followed by the Port of Beirut (34.1%), the Masnaa crossing point (5.2%), and the Port of Tripoli (4.6%).

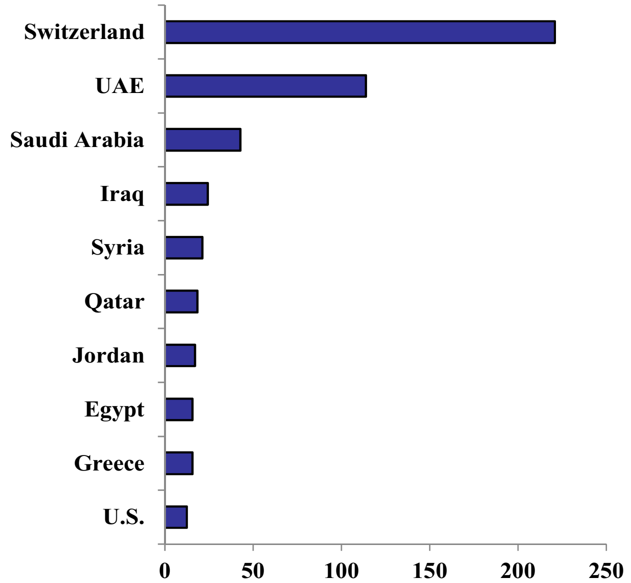
Lebanon's main non-hydrocarbon imports were chemical products that reached $256.1m in the first two months 2020 and that declined by 24% from the same period of 2019. Imported jewelry followed at $208.5m (+27.7%), then vegetable products at $147.3m (-27%), machinery & electrical instruments at $135m (-60%), prepared foodstuff at $124.7m (-40%), animal products at $101.3m (-21%), vehicles, aircraft & vessels at $77m (-61%), base metals at $61m (-64%), and textiles $54.5m (-47%). The Port of Beirut was the entry point for 62.8% of Lebanon's merchandise imports in the first two months of 2020, followed by the Hariri International Airport (24.7%), and the Port of Tripoli (7%).

Main Lebanese Exports in First Two Months of 2020 (US$m)



Source: Lebanese Customs Administration, Byblos Research

Main Destinations of Lebanese Exports in First Two Months of 2020 (US$m)



Source: Lebanese Customs Administration, Byblos Research

Greece was the main source of imports with $199.5m, or 9.5% of the total, in the first two months of 2020, followed by Turkey with $182.8m (8.7%), Italy with $177.8m (8.4%), the UAE with $132.2m (6.3%), China $119.6m (5.7%), the U.S. with $108m (5.1%), Russia with $91.8m (4.4%), and Germany with $91.1m (4.3%). Imported goods from Turkey surged by 62.1% year-on-year, while those from the UAE grew by 38.6%. In contrast, imported goods from China dropped by 61.8%, those from Germany fell by 41.2%, imports from Russia decreased by 33.2%, those from the U.S. declined by 24.6%, imported goods from Italy contracted by 11.8%, and those from Greece dropped by 2.7% year-on-year in the first two months 2020.

Lebanon ranks 102nd globally, third among Arab countries in press freedom

In its 2020 survey about press freedoms in 180 countries, international organization Reporters Without Borders ranked Lebanon in 102nd place worldwide and in third place among 20 Arab countries. In comparison, Lebanon came in 101st place globally and in third place regionally in the 2019 survey, as well as in 100th place globally and in third place among Arab countries in the 2018 survey.

The index measures the level of freedom that journalists and the media have in each country, as well as government efforts to respect press freedoms. The index's calculation is based on answers to a questionnaire that covers seven general criteria, combined with quantitative data on abuses and acts of violence against journalists and media outlets during the covered period. The criteria assess the level of opinion diversity in the media, media independence, self-censorship and the work environment of journalists, the legislative framework, the transparency of the institutions and procedures that affect the production of news and information, the quality of the infrastructure that supports the production of news and information, as well as the level of violence and abuses during the surveyed period. Reporters Without Borders assigns index scores from zero to 100, with a lower score reflecting a higher level of press freedom in a given country.

Globally, Lebanon has a higher level of press freedom than in Kenya, Mozambique and Angola, and a lower level of freedom than in Ethiopia, Paraguay and Malaysia among economies with a GDP of $10bn or more. Lebanon received a score of 33.19 points in the 2020 survey, constituting an increase of 2.3% from 32.44 points in the 2019 survey. Lebanon's score was better than the global average score of 34.8 points and the average score of 49.3 points of Arab countries.

Press Freedom Index for 2020

	Score	Arab Rank	Global Rank	Change in Rank*
Tunisia	29.45	1	72	0
Mauritania	32.54	2	97	-3
Lebanon	**33.19**	**3**	**102**	**-1**
Kuwait	34.3	4	109	-1
Jordan	42.08	5	128	2
Qatar	42.51	6	129	-1
UAE	42.69	7	131	2
Morocco	42.88	8	133	2
Oman	43.42	9	135	-3
Palestine	44.09	10	137	0
Algeria	45.52	11	146	-5
Sudan	55.33	12	159	16
Iraq	55.37	13	162	-6
Libya	55.77	14	164	-2
Egypt	56.82	15	166	-3
Yemen	58.25	16	167	1
Bahrain	60.13	17	169	-2
Saudi Arabia	62.14	18	170	2
Syria	72.57	19	174	0
Djibouti	76.73	20	176	-3

**year-on-year change in rank*

Source: Reporters Without Borders, Byblos Research

The level of press freedom in Lebanon places it, along with 62 other countries worldwide, in the "problematic situation" category. Also, Lebanon was among four Arab countries that came in the "problematic situation" category, while seven Arab states came in the "difficult situation" category and the remaining nine sovereigns were in the "very serious situation" category.

In parallel, Lebanon was among 81 countries worldwide whose rank declined from the 2019 survey, while the ranks of 65 countries improved and the rankings of 34 sovereigns were unchanged year-on-year. In addition, Lebanon was among 11 Arab countries whose rank regressed, while the rank of six Arab economies improved and the ranking of three countries was unchanged from the 2019 survey. Norway has the highest level of press freedoms globally, while North Korea has the lowest level of media freedoms worldwide in the 2020 survey.

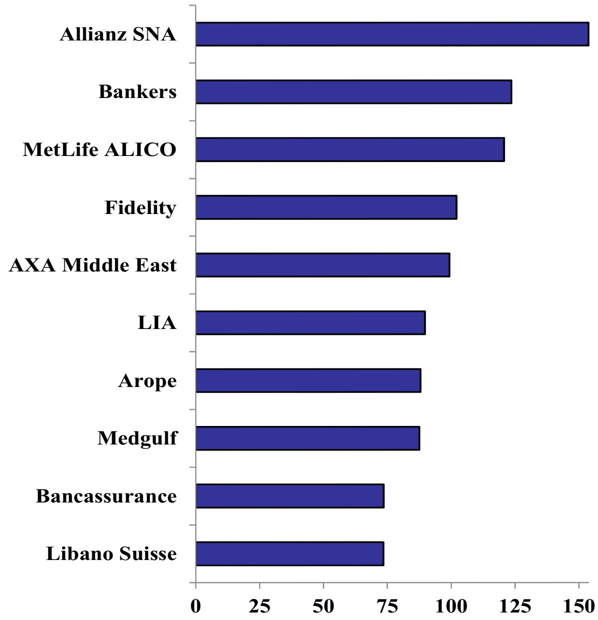
Insurance premiums down by 5% to $1.6bn in 2019

The annual survey by *Al-Bayan* magazine of the insurance sector in Lebanon indicates that overall life and non-life premiums reached $1.63bn in 2019, constituting a decrease of 5% from $1.71bn in the previous year, compared to a growth rate of 3.6% in 2018. Life premiums accounted for 30.2% of aggregate premiums in 2019 relative to 31.7% in 2018, while non-life premiums represented 69.8% of the total last year compared to 68.3% in 2018. In real terms, aggregate life and non-life premiums declined by 7.6% in 2019 and by 2.3% in 2018.

Byblos Bank's insurance affiliate ADIR generated $70.8m in premiums in 2019, and ranked in 12th place in terms of life and non-life premiums in 2010. The composition of the top 10 insurers was unchanged from 2018. The rank of Bankers Assurance improved by one spot to second place and Fidelity Assurance & Reinsurance moved up by two spots in the rankings to fourth place, while the ranking of MetLife ALICO regressed by one spot to third place and the position of LIA Insurance declined by two spots to sixth place. The ranks of the remaining six insurers were unchanged year-on-year.

The top five insurers in Lebanon accounted for 36.9% of the combined life and non-life markets in 2019 compared to 36.2% in 2018, while the top 10 firms generated 62.3% of overall premiums in 2019 relative to 62.8% in the previous year. In addition, the top 20 firms represented 86.3% of total life and non-life premiums in 2019 compared to 85.5% in 2018.

Overall Life and Non-Life Premiums of Top 10 Insurers in 2019 (US$m)



Source: Al-Bayan, Byblos Research

Further, the insurance penetration rate in Lebanon, or premiums relative to the size of the economy, stood at 2.9% of GDP in 2019 relative to 3.1% of GDP in 2018. Also, Lebanon's insurance density, or premiums per capita, reached $336 in 2019 compared to $353 in 2018.

Balance sheet of financial institutions down 9% in first quarter of 2020

Figures released by Banque du Liban show that the consolidated balance sheet of financial institutions in Lebanon totaled LBP1,895bn, or $1.26bn at the end of March 2020, constituting a decrease of 9.1% from LBP2,084bn ($1.38bn) at the end of 2019, and a decline of 16% from LBP2,255bn ($1.5bn) at the end of March 2019.

On the assets side, claims on resident customers amounted to $580.3m at the end of March 2020, down by 7% from the end of 2019 and by 17.6% from end-March 2019, while claims on non-resident customers stood at $23m at end-March 2020 and decreased by 51.5% from the end of 2019 and by 61.2% from a year earlier. In addition, claims on the resident financial sector reached $287.3m at end-March 2020, down by 6.3% from end-2019 and by 8.2% from end-March 2019; while claims on the non-resident financial sector totaled $25.4m at the end of March 2020 and dropped by 50.4% from end-2019 and by 58.7% from a year earlier. Also, claims on the public sector stood at $4.8m at end-March 2020, constituting a decrease of 6.4% from end-2019 and an increase of 5.3% from the end of March 2019; while the securities portfolio, which includes Lebanese Treasury bills and Eurobonds, amounted to $84.7m at end-March 2020 and regressed by 5.8% from end-2019 and by 22% from a year earlier. In parallel, currency and deposits with local and foreign central banks reached $55m at the end of March 2020 and increased by 40% from $39.3m at end-March 2019.

On the liabilities side, deposits of resident customers stood at $153.2m at the end of March 2020, constituting a decrease of 10.4% from end-2019 and an increase of 6.8% from the end of March 2019; while deposits of non-resident customers reached $12.4m at the end of March 2020 and dropped by 27.4% from end-2019 and by 33.7% from a year earlier. Liabilities to the resident financial sector amounted to $179.3m at end-March 2020 and declined by 20% from end-2019 and by 47% from end-March 2019; while liabilities to the non-resident financial sector regressed by 14.7% from end-2019 to $106.3m. Also, public sector deposits rose by 8.4% in the first quarter of 2020 to $4.3m, while issued debt securities totaled $108.3m at end-March 2020, and declined by 3.2% from end-2019 and by 27% from the end of March 2019. Further, the aggregate capital account of financial institutions was $469.7m at the end of March 2020, and decreased by 3.4% from the end of 2019 and by 5.8% from the end of March 2019.

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

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