

LEBANON THIS WEEK

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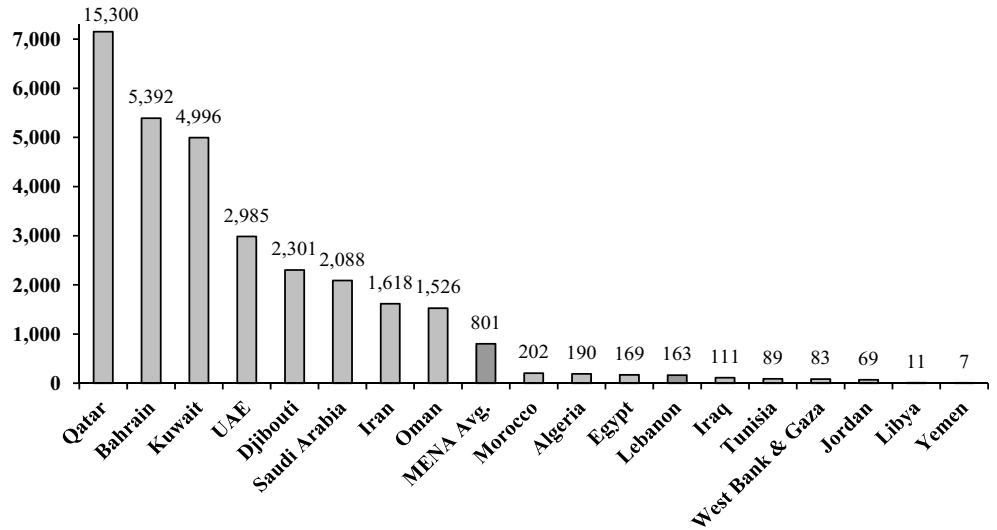
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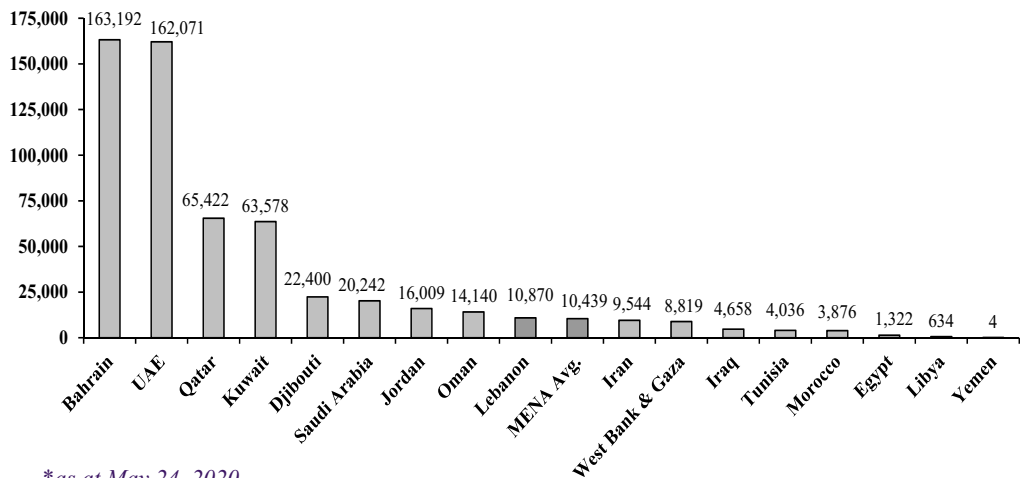
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Charts of the Week

Number of COVID-19 Cases per One Million Persons in MENA Countries*



Number of COVID-19 Tests per One Million Persons in MENA Countries*



*as at May 24, 2020

Source: World Bank Group, Byblos Bank

Quote to Note

"The government's financial plan appears to be radical and is imposing a disproportionate burden on commercial banks."

The Institute of International Finance, on the need for a gradual and balanced plan to reform the Lebanese financial sector

Number of the Week

48%: Percentage of females employed in the Lebanese financial sector at the end of 2019, according to Banque du Liban

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)	(670)	-
Primary Balance	(287)	(89)	-	-	(321)	(326)	-
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
BLOM Listed	3.29	0.30	3,987,606	11.94
BLOM GDR	3.50	0.00	410,822	4.36
Solidere "A"	10.11	(2.13)	336,543	17.06
Solidere "B"	10.11	(3.25)	108,035	11.09
Audi Listed	1.00	(16.67)	54,291	9.93
Byblos Common	0.64	(14.67)	1,886	6.11
Byblos Pref. 08	49.95	(16.75)	1,000	1.69
Byblos Pref. 09	52.75	(11.94)	1,000	1.78
HOLCIM	10.00	2.99)	375	3.29
Audi GDR	2.00	0.00)	-	4.04

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Apr 2021	8.25	17.00	352.30
Oct 2022	6.10	17.25	90.68
Jan 2023	6.00	16.50	80.48
Jun 2025	6.25	17.50	37.76
Nov 2026	6.60	17.38	28.84
Feb 2030	6.65	16.75	19.20
Apr 2031	7.00	16.00	17.54
May 2033	8.20	16.50	14.39
Nov 2035	7.05	17.50	11.62
Mar 2037	7.25	16.50	11.01

Source: Byblos Bank Capital Markets, Refinitiv

	May 18-22	May 11-13	% Change	April 2020	April 2019	% Change
Total shares traded	4,902,558	257,280	1805.5	10,769,186	689,768	1461
Total value traded	\$17,933,125	\$2,746,967	552.8	\$23,969,907	\$4,931,247	386
Market capitalization	\$5.93bn	\$6.18bn	(4.1)	\$6.53bn	\$9.02bn	(27.6)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Mar 20, 2020	May 22, 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 15, 2020	May 22, 2020	% Change***
CDS 5-year**	311.83	279.28	(10.4)

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

Association of Banks issues plan to revive economy and safeguard deposits

The Association of Banks in Lebanon (ABL) published on May 20, 2020 its contribution to the Lebanese Government's Financial Recovery Plan. The ABL's plan consists of five strategic priorities that support an immediate and sustainable economic and financial recovery, as opposed to the government's plan that envisages a shrinking of nominal GDP by \$16bn in the 2020-24 period. The ABL considered that the government's plan is an accounting exercise, that it seeks to achieve "ephemeral equilibrium" through an internal default; and that it does not offer an economic vision to drive the economy out of recession.

First, the ABL advocates for a restructuring of the public debt that minimizes negative repercussions on bank depositors and on the economy, and that allows for a faster economic recovery and higher medium-term growth potential. Specifically, it calls on the government to avoid defaulting on its internal debt, as it estimated that an internal default will lead to unsustainable external financing requirements, which exceed the \$28bn that the government forecasts in its plan for the 2020-24 period. Instead, it projected the country's external financing requirements at about \$8bn in the 2020-24 period in case Lebanon avoids an internal default. It estimated that Lebanon could receive up to \$3.9bn in financial support from the IMF over three years, with an annual limit of \$1.3bn. It noted that Lebanon will need additional multilateral and bilateral external financing, including access to the funding pledged at the CEDRE conference, as well as potential support from the Diaspora in order to close the external funding gap.

As such, the ABL's plan envisages a settlement mechanism of the government's debt to BdL. It suggests that the government creates a "Government Debt Defeasance Fund" (GDDF), which will include public assets valued at \$40bn, such as the telecommunication operators, public lands and other public real estate assets, and/or exploration rights and concessions. The government will own 100% of GDDF's shares in exchange of the contributed assets. The GDDF will then issue \$40bn worth of long-dated, interest bearing, covered securities to Banque du Liban (BdL) in exchange for the debt that the government owes to BdL. Further, the ABL called on the government to reprofile the debt held by non-residents, as well as the domestic debt, excluding the debt settled between the government and BdL. It said that the Ministry of Finance will need to launch a voluntary debt exchange offer for the domestic debt, which will be subject to a minimum acceptance threshold set by the government. It also noted that the plan offers non-resident Eurobond holders several options, including exchanging their outstanding Eurobonds for newly-issued securities under New York law, or exchanging them for new securities governed by Lebanese law. The ABL anticipates that the successful reprofiling of the internal and foreign debt will put the public debt level on a sustainable path.

Second, the ABL suggests a medium-term fiscal strategy that will help restore the sustainability of the public debt and that will protect the vulnerable segments of the population. It noted that the economic adjustment program will allow the primary budget balance to post a surplus of 2.1% of GDP by 2024, which will help put the public debt on a downward trend. It added that the adjustment will incorporate a social safety net equivalent to 4% of GDP by 2024. Third, the ABL called on the government to unify the multiple exchange rates in order to address the massive external imbalances, supported by a monetary policy that will help contain inflationary pressures and avoid hyperinflation. It suggested that authorities manage a "dirty float", where BdL intervenes in the market during unwarranted volatility.

Fourth, the ABL advocates for an orderly restructuring of the banking sector on a case-by-case basis, as it considers that a one size-fits-all approach of the banking sector's restructuring will harm the economy. It considers that, in order to restore confidence, the banking sector must not default on its depositors. It pointed out that the deep economic recession that started in 2019, along with the *de facto* currency devaluation, the government's decision to default on its Eurobonds, and its intent to default on the country's internal debt, have undermined the banking sector's capital position. It suggested that BdL will assess the capital position of each bank separately and then decide which institutions, if any, need to be resolved. The ABL anticipates that BdL will also encourage some of the more weakly-capitalized financial institutions to merge, while it will allow others to continue operating provided that they fully comply with Basel III capital and leverage ratios by the end of 2025.

Fifth, the ABL suggests the implementation of reforms that will help diversify the economy and improve the business environment, such as reducing the cost of doing business, reforming public procurement, fighting corruption, and lowering the size of the informal sector.

Banque du Liban launches financing mechanism for basic food imports

Banque du Liban (BdL) issued announcement 930 on May 22, 2020, to inform banks operating in the country that it will give importers access to foreign currency to finance the imports of basic food and raw materials used in the manufacturing of specific food products. It noted that the Ministry of Economy & Trade will issue the list of products that this financing mechanism will cover. Banks that are interested in participating in the financing mechanism have to inform BdL as soon as possible.

BdL indicated that will use the foreign currency that BdL collects from money transfer operators (MTOs) under Intermediate Circular 551. The circular mandated MTOs to settle incoming foreign transfers in Lebanese pounds and to sell to BdL the foreign currency that results from these operations. BdL added that the market rate of incoming transfers, especially of US dollars, will be set through the electronic platform that includes BdL, banks and money dealers. BdL has yet to launch the electronic platform, but it set the current market rate at LBP3,200 per US dollar. BdL has been financing since November 2019 the imports of hydrocarbons, medicine and wheat at the official exchange rate.



Banque du Liban's foreign assets at \$34.2bn, gold reserves at \$15.7bn at mid-May 2020

Banque du Liban's (BdL) interim balance sheet totaled \$149.1bn on May 15, 2020, nearly unchanged from \$148.9bn at the end of April 2020, and constituting an increase of 5.5% from \$141.4bn at the end of 2019.

Assets in foreign currency reached \$34.2bn at mid-May 2020, constituting a decline of 0.6% from \$34.4bn at end-April 2020 and a decrease of 8.2% from \$37.3bn at the end of 2019. They included \$5.03bn worth of Lebanese Eurobonds at mid-May 2020, unchanged from end-April and end-March, and relative to \$5.7bn at the end of 2019.

BdL's assets in foreign currency, excluding Lebanese Eurobonds, reached \$29.2bn at mid-May 2020, constituting a decline of \$200m from the end of April 2020. They decreased by \$613.3m in January 2020, by \$684.6m in February, by \$67m in March, and by \$812m in April, resulting in a cumulative decline of \$2.38bn since the start of the year. They also decreased by \$6.28bn between the end of August 2019 and mid-May 2020.

The decrease in BdL's assets in foreign currency, excluding Lebanese Eurobonds, is largely due to the fact that BdL has been paying, at the request of the government, maturing Eurobonds and external debt servicing until early March 2020, as well as to the financing of the imports of hydrocarbons, wheat and medicine, and to deposit outflows. In comparison, assets in foreign currency, including Lebanese Eurobonds, declined by \$3bn since the start of 2020 and by \$4.46bn between the end of August 2019 and mid-May 2020.

In addition, the value of BdL's gold reserves reached \$15.7bn at mid-May 2020, constituting a decline of 1% from \$15.9bn at end-April 2020, but an increase of 12.6% from end-2019. 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 mid-May 2020 and grew by 1.4% from the end of 2019. In addition, loans to the local financial sector regressed by 1.3% from end-2019 to \$14.7bn at mid-May 2020. Further, deposits of the financial sector reached \$112.5bn at mid-May 2020, constituting a decline of \$455.4m from end-April and an increase of \$486.5m from end-2019. Also, public sector deposits at BdL totaled \$4.6bn at mid-May 2020 and increased by \$236m from the end of April, while they regressed by \$835.5m from end-2019.

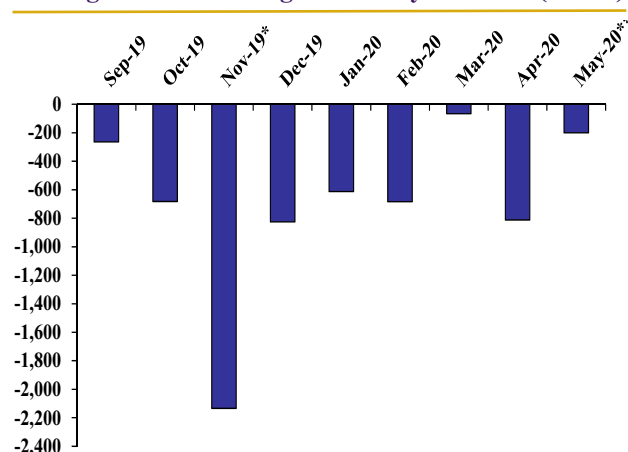
Finance Ministry updates list of countries eligible for exchange of tax information

The Ministry of Finance issued on May 8, 2020 Decision 158/1 about the application of Law 55, or the Exchange of Information for Tax Purposes Law. The ministry's decision updates the list of countries and jurisdictions that Lebanon will have to report to and exchange financial information with, as required under the Organization for Economic Co-operation and Development's (OECD) Multilateral Competent Authority Agreement for the Common Reporting Standard. The list now consists of 63 countries, including 40 countries in Europe & Central Asia, nine economies in the East Asia & Pacific region, seven jurisdictions in Latin America & the Caribbean, three economies in Sub-Saharan Africa, two states in South Asia, and one economy in each of North America and the Middle East & North Africa region. Lebanon will be required in 2020 to report to and exchange financial information with these countries about tax information covering 2019. The Lebanese Parliament ratified Law 55 on October 27, 2016, which replaced Law 43 dated November 24, 2015.

In July 2019, the Global Forum on Transparency and Exchange of Information for Tax Purposes rated Lebanon as "Largely Compliant" with the international standard on the exchange of information on request. The rating is based on the Global Forum's second-round peer review for Lebanon about the exchange of information on request, which assessed the legal and regulatory framework in Lebanon as at May 6, 2019, as well as the practical implementation of this framework between 2015 and 2017. The 2019 peer review covered 10 elements grouped into three categories, which are the Availability of Information, Access to Information, and Exchanging Information. A country's overall rating can be "Compliant", "Largely Compliant", "Partially Compliant" or "Non-Compliant".

At the time, the Global Forum indicated that Lebanon has made encouraging progress since the 2016 peer review, as it amended many laws to make them compliant with the international standard on the exchange of information on request. It noted that Lebanon has introduced several changes to its legal framework, especially to legislations related to the Availability of Information and Access to Information. It added that the changes have largely contributed to ensuring that banking information is available with treaty partners and that ownership information is available about holders of bearer shares and foreign trusts administered by Lebanese trustees. Overall, the Global Forum rated Lebanon as "Partly Compliant" on the availability of ownership and identification information, as well as "Largely Compliant" in terms of the availability of accounting and banking information. Also, it rated Lebanon as "Largely Compliant" on the access to information and the rights and safeguards elements. Further, the Global Forum rated Lebanon as "Compliant" on four out of the five elements related to Exchanging Information; as it rated the fifth element, which assesses the quality and timeliness of response to information requests, as "Largely Compliant" due to delays in responding to requests. It attributed the majority of the delays to the lack of experience by relevant Lebanese authorities in handling such requests.

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



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

**As of mid-May

Source: Banque du Liban

Consumer Price Index up 11% in first two months of 2020

The Central Administration of Statistics' Consumer Price Index increased by 10.7% in the first two months of 2020, compared to a growth of 3.2% in the same period of 2019. Also, the CPI expanded by 11.4% in February 2020 from the same month of 2019, the highest increase since December 2008.

The surge in inflation is due in part to the deterioration of the Lebanese pound's exchange rate on the parallel market that encouraged opportunistic wholesalers and retailers to raise consumer prices disproportionately. It also reflects the authorities' inability to monitor and to contain the price hikes.

The prices of alcoholic beverages & tobacco grew by 36.6% annually in February 2020, followed by the prices of clothing & footwear (+31%), the prices of furnishings & household equipment (+30.5%), the prices of food & non-alcoholic beverages (+19.8%), transportation costs (+17.7%), recreation & entertainment costs (+15%), the cost of miscellaneous goods & services (+10%), actual rents (+5.3%), prices at restaurants & hotels (+5.2%), the cost of education (+4%), communication costs (+3.1%), imputed rents (+3%), the prices of water, electricity, gas & other fuels (+2.2%), and healthcare costs (+1.3%). In addition, the distribution of actual rents shows that old rents grew by 8% and new rents increased by 3.4% annually in February 2020.

In parallel, the CPI increased by 1.4% in February 2020 from the previous month, compared to a month-on-month growth of 2.1% in January 2020. The prices of furnishings & household equipment grew by 6.7% month-on-month in February 2020, followed by the prices of food & non-alcoholic beverages (+4.6%), actual rents (+2.8%), the prices of alcoholic beverages & tobacco (+2.4%), recreation & entertainment costs (+2.2%), the cost of miscellaneous goods & services (+1.8%), the prices of clothing & footwear and transportation costs (+0.9% each), prices at restaurants & hotels (+0.8%), imputed rents (+0.7%), and healthcare costs (+0.3%). In contrast, the cost of water, electricity, gas & other fuels declined by 2.5% month-on-month in February 2020, while the costs of education and communication were nearly unchanged in the covered month.

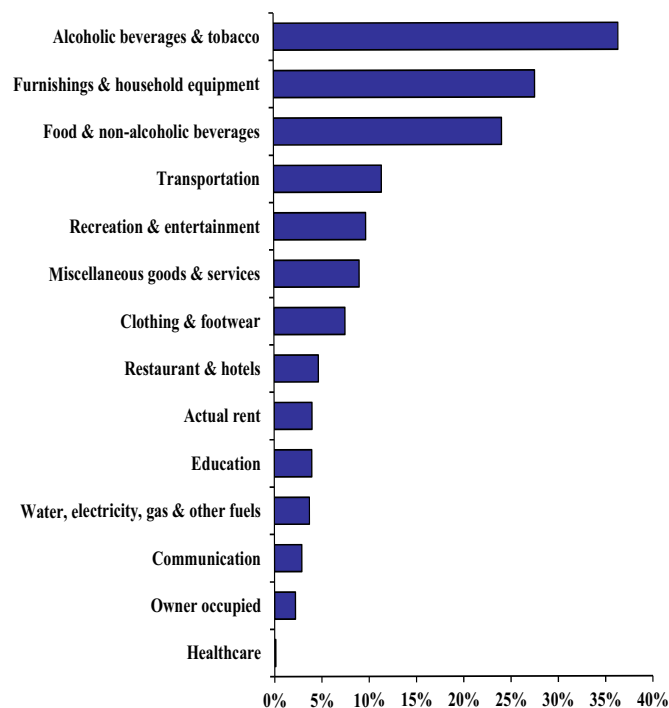
Further, the CPI increased by 3.2% in February 2020 in Beirut, by 2.3% in the North, by 1% in each of Mount Lebanon and Nabatieh, by 0.5% in the Bekaa, and by 0.4% in the South. In parallel, the Fuel Price Index decreased by 4.8% month-on-month in February 2020, while the Education Price Index increased marginally by 0.5% in the covered month.

Number of real estate transactions down 5.6% in first four months of 2020

Figures released by the Ministry of Finance indicate that 14,841 real estate transactions took place in the first four months of 2020, constituting a decrease of 5.6% from 15,726 deals in the same period of 2019. In comparison, there were 17,651 real estate transactions in the first four months of 2018 and 22,966 real estate deals in the same period of 2017. The number of transactions reached 773 in April 2020, down from 3,234 deals in March 2020 and relative to 3,659 transactions in April 2019. The significant decrease in April 2020 was due in part to the outbreak of the coronavirus in the country and to the lockdown measures that the government enforced, which led to the closure of many public agencies and departments and to delays in the processing of transactions. There were 2,885 real estate transactions in the Baabda area in the first four months of 2020, representing 19.4% of the total. The North followed with 2,015 deals (13.6%), then the South with 2,000 transactions (13.5%), the Metn district with 1,953 transactions (13.2%), the Keserwan region with 1,748 deals (11.8%), the Zahlé area with 1,528 deals (10.3%), Beirut with 1,305 transactions (8.8%), and the Nabatieh area with 1,000 deals (6.7%).

The aggregate amount of real estate transactions reached \$2.6bn in the first four months of 2020 and increased by 26% from \$2.1bn in the same period of 2019. In comparison, the amount of real estate deals regressed by 16.2% in the first four months of 2019 and declined by 20% in the same period of 2018. The amount of transactions reached \$260.5m in April 2020, down from \$562.7m in March 2020 and relative to \$436.5m in April 2019. Further, the value of real estate transactions in Beirut totaled \$899m and accounted for 34.6% of the total in the first four months of 2020. The Metn district followed with \$481m (18.5%), then the Baabda region with \$415.1m (16%), the Keserwan area with \$271.4m (10.5%), the South with \$239m (9.2%), the North with \$133m (5.1%), the Zahlé area with \$77.4m (3%), and the Nabatieh region with \$64.8m (2.5%). The amount of real estate transactions in the South increased by 46.5% in the first four months of 2020, followed by deals in the Keserwan region (+38.3%), Beirut (+36.6%), the Baabda region (+25.5%), the Metn district (+13.6%), the Nabatieh region (+10.9%), and the Zahlé area (+7.1%); while the value of real estate transactions in the North regressed by 1.8% annually in the covered period. In parallel, there were 237 real estate transactions executed by foreigners in the first four months of 2020, constituting a decrease of 26.6% from 323 deals in the same period of 2019 and relative to 367 transactions in the first four months of 2018. The number of real estate deals that foreigners concluded accounted for 1.6% of total real estate transactions in the covered period.

Change in Prices between September 2019 and February 2020 (%)



Source: Central Administration of Statistics, Byblos Research

Utilized credits by private sector down \$10bn in 2019

Figures issued by Banque du Liban show that utilized credits by the private sector totaled \$59.55bn at the end of 2019, constituting a decrease of \$5.85bn or 9%, from \$65.4bn at the end of September 2019 and a decline of \$10bn (-14.3%) from \$69.5bn at end-2018. The drop in lending to the private sector is mostly due to clients' decision to settle their loans prior to their maturity, to limited demand for new loans amid high interest rates, and to lenders' risk aversion amid the challenging conditions in the country. The figures cover loans extended by commercial banks and financial institutions.

Utilized credits for trade & services reached \$19.65bn and accounted for 33% of aggregate credit at the end of 2019; followed by personal credit with \$18.67bn (31.3% of the total) that include mortgages with \$12.17bn (20.4% of total utilized credits); construction with \$9.88bn (16.6%); industry with \$6.4bn (10.8%); financial intermediaries with \$2.47bn (4.1%); and agriculture with \$753.75m (1.3%); while other sectors represented the remaining \$1.7bn (2.9%). Also, the distribution of utilized credits in trade & services shows that wholesale trade accounted for 50.2% of overall trade & services credits at the end of 2019, followed by retail with 17%; real estate, rent & employment services with 14.1%; hotels & restaurants with 7.6%; transport & storage with 6.7% and educational services with 4.4%.

Further, utilized credits for financial intermediaries declined by 20.4% in 2019, followed by utilized credits for trade & services (-17%), industry (-16%), personal credits (-11.7%) that include mortgages (-5.6%), construction (-11.4%), and agriculture (-4.5%), while utilized credits for other sectors decreased by 15.4% annually in 2019.

In parallel, Beirut and its suburbs accounted for 74% of bank credits and for 52.8% of beneficiaries at the end of 2019. Mount Lebanon followed with 13.6% of credits and 18.4% of beneficiaries, then North Lebanon with 4.65% of credits and 11.3% of beneficiaries, South Lebanon with 4.5% of credits and 10.1% of beneficiaries, and the Bekaa region with 3.3% of credits and 7.3% of beneficiaries.

Government debt restructuring plan to result in heavy losses for domestic and foreign creditors

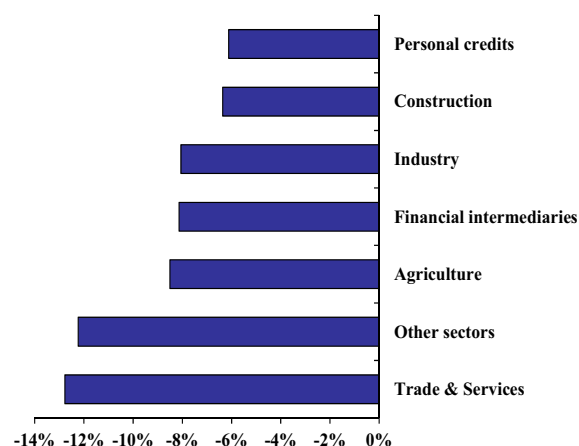
In an update to its February assessment of Lebanon's macroeconomic prospects, Moody's Investors Service indicated that Lebanon's 'Ca' government bond rating reflects the country's unsustainable debt trajectory and the agency's expectation that domestic and international private creditors will likely incur significant losses under the government's debt restructuring plan. Also, it said that the coronavirus pandemic is exacerbating the ongoing deterioration in Lebanon's economic and financial conditions, which will increase social risks. It added that the 'stable' outlook takes into account the agency's assumption that the restructuring of the public debt could take place in coordination with creditors and under the umbrella of an economic adjustment program with the International Monetary Fund, which would unlock external funding. However, it factored-in the possibility that external funding may not materialize given the government's weak track record of policy implementation, which would result in larger losses for investors.

The agency said that Lebanon's 'b2' Economic Strength score reflects the credit crunch that the economy is facing and the anticipated protracted economic contraction. It projected real GDP to shrink by 13.8% in 2020 and by 4.4% in 2021 following a contraction of 6.9% in 2019, and expected the slowdown in economic activity to reduce GDP per capita in the 2020-21 period. Also, it noted that Lebanon's 'caa1' Institutions and Governance Strength score reflects the country's weak governance framework, with very weak fiscal policy effectiveness, as well as a deteriorating monetary and financial policy effectiveness amid rising economic and external challenges.

In addition, Moody's indicated that Lebanon's 'ca' Fiscal Strength score points to the country's elevated debt burden, which it forecast to rise from 178.4% of GDP at the end of 2019 to 205% of GDP at end-2020. It added that the debt trajectory is sensitive to a contraction in economic activity and to interest rate shocks, while it considered that a potential adjustment to the peg of the Lebanese pound to the US dollar will entail a significant increase in the debt burden, given that 40% of the debt stock is denominated in foreign currency. It estimated that the cost of servicing the debt was equivalent to 48.4% of public revenues in 2019 and projected it to decrease to 14.1% of receipts by 2021, in case authorities restructure the public debt. However, it expected this ratio to increase further over time if authorities do not restructure the debt.

Further, the agency noted that Lebanon's 'ca' Susceptibility to Event Risk score, which assesses a country's vulnerability to sudden events that would materially impact the government's creditworthiness, is driven by the government's liquidity risk and its impact on other drivers of event risk. It said that the country's 'ca' Government Liquidity Risk score reflects the government's limited traditional funding sources, such as deposits at commercial banks, as well as the country's closed access to international capital markets, and the authorities' sustained drawdown of usable foreign currency reserves at Banque du Liban. Also, it noted that the 'caa' External Vulnerability Risk score points to reduced confidence in the sustainability of the currency peg due to persistent external imbalances and declining foreign currency buffers to support the exchange rate, while ensuring at the same time the necessary funding of key imports. It added that Lebanon's 'caa' Banking Sector Risk score reflects the interconnectedness between the sovereign and the banking system, which increases the reliance of the government on the financial health of the banking sector.

Change in Utilized Credits at End-2019* (%)



*from end-September 2019

Source: Banque du Liban

Trade deficit narrows by 51% to \$2bn in first quarter of 2020

Total imports reached \$2.9bn in the first quarter of 2020, constituting a decrease of 40.8% from \$4.95bn in the same period of 2019; while aggregate exports grew by 6.8% annually to \$914m in the first quarter of 2020. As such, the trade deficit narrowed by 50.7% year-on-year to \$2bn in the first quarter of 2020 due to a decline of \$2bn in imports and a rise of \$58.3m in exports.

Non-hydrocarbon imports decreased by \$1.4bn annually to \$1.9bn in the first quarter of 2020, while imports of oil & mineral fuels regressed by \$601m year-on-year to nearly \$1bn and accounted for 34.1% of total imports in the covered period. Lebanon imported 1.9 million tons of mineral fuel & oil in the first quarter of 2020 relative to 2.8 million tons in the same period of 2019.

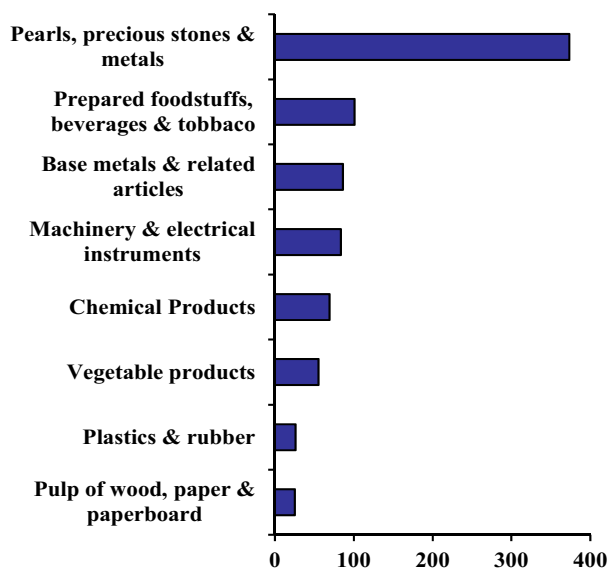
The increase in exports in the covered period was mainly due to a rise of \$98m, or of 35.5%, in the exports of jewelry, mostly unwrought gold; an expansion of \$15.4m (+38.6%) in exported vegetable products; a growth of \$9.3m (+12.1%) in exported base metals; and an increase of \$6.1m (+1.8 times) in the exports of the "vehicles, aircraft & vessels" category. The rise in exports was partly offset by a drop of \$18.8m (-76.5%) in exported mineral products, a decrease of \$15.7m (-15.9%) in the exports of machinery & electrical instruments, a contraction of \$14.6m (-35.7%) in the exports of plastics & rubber, a retreat of \$13.4m (-16.2%) in exported chemical products, and a fall of \$9.2m (-26.7%) in the exports of pulp of wood.

Exports to Switzerland jumped by 2.1 times in the first quarter of 2020, those to Greece surged by 38.4%, exports to Egypt rose by 23.3%, those to Saudi Arabia grew by 17.2%, exports to the UAE increased by 13.5%, those to U.S. expanded by 6.5%, exports to Iraq rose by 3.3%, and those to Jordan increased by 2.9%. The surge in exports to Switzerland is due to higher gold exports. In contrast, exported goods to Syria dropped by 43.6% annually in the covered period and those to Qatar decreased by 19.3%. Re-exports totaled \$47.4m in the first quarter of 2020 compared to \$96.4m in the same period of 2019. The Hariri International Airport was the exit point for 49.2% of Lebanon's exports in the first quarter of 2020, followed by the Port of Beirut (37.5%), the Masnaa crossing point (5.5%), and the Port of Tripoli (4.6%).

Lebanon's main non-hydrocarbon imports were chemical products that reached \$360m in the first quarter of 2020 and that declined by 30.6% from the same period of 2019. Imported jewelry followed with \$267.5m (+14.2%), then vegetable products with \$220.5m (-28.4%), prepared foodstuff with \$185.4m (-40%), machinery & electrical instruments with \$180.2m (-61%), animal products with \$164.4m (-16%), vehicles, aircraft & vessels with \$106m (-64.4%), base metals with \$83.3m (-64.8%), textiles with \$77m (-53%), and plastics & rubber with \$65.3m (-60.1%). The Port of Beirut was the entry point for 64.1% of Lebanon's merchandise imports in the first quarter of 2020, followed by the Hariri International Airport (23.6%), the Port of Tripoli (6.6%), and the Port of Saida (4.2%).

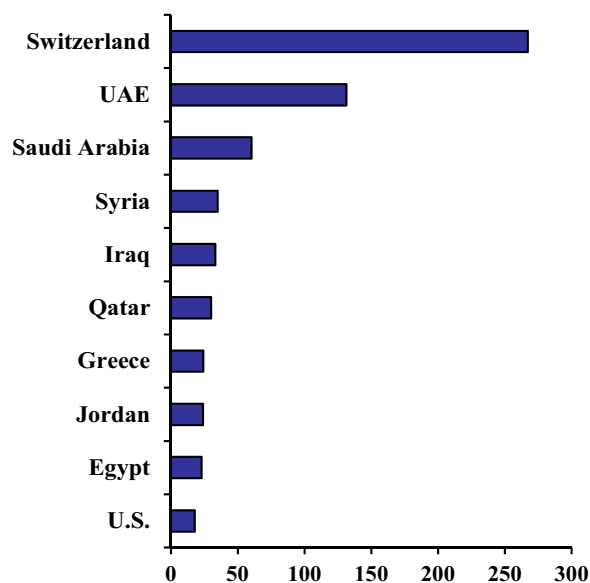
Greece was the main source of imports with \$278.1m, or 9.5% of the total, in the first quarter of 2020, followed by Italy with \$230.5m (7.9%), Turkey with \$225.4m (7.7%), the U.S. with \$182.6m and the UAE with \$181.3m (6.2% each), China with \$160.7m (5.5%), Russia with \$135.5m (4.6%), and Germany with \$125.5m (4.3%). Imported goods from Turkey surged by 15.7% year-on-year, while those from the UAE grew by 6%. In contrast, imported goods from Russia dropped by 77%, those from China fell by 63%, imports from Germany decreased by 46%, those from Italy declined by 25%, imported goods from the U.S. contracted by 19.6%, and those from Greece dropped by 13.6% year-on-year in the first quarter of 2020.

Main Lebanese Exports in First Quarter of 2020 (US\$m)



Source: Lebanese Customs Administration, Byblos Research

Main Destinations of Lebanese Exports in First Quarter of 2020 (US\$m)



Source: Lebanese Customs Administration, Byblos Research

Lebanon lacks processes for public participation in budget preparation and oversight

The International Budget Partnership's Open Budget survey for 2019 provided information about the level of participation by civil society and members of the public in the budget process, and about the strength of the legislative and audit institutions responsible for overseeing the management of public funds. It grouped the information in three categories that are Public Participation, Oversight by the Legislature, and Oversight by Supreme Audit Institutions (SAIs). It assigned to each country a score between zero and 100, with 100 representing the best performance. The survey assesses events, activities or developments that occurred throughout 2017 and 2018, and does not cover developments that took place in 2019.

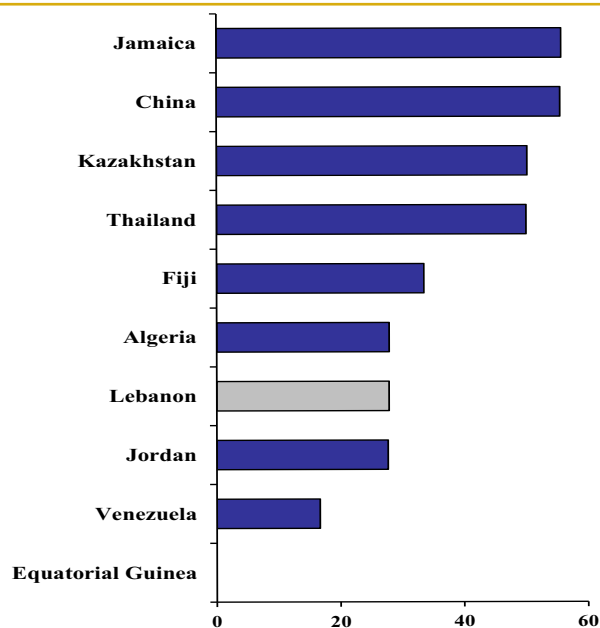
Lebanon came in last place among 117 countries worldwide on the Public Participation category. This category evaluates the extent that the executive, legislature and SAIs provide space for public participation in the budget process. Globally, Lebanon tied with 22 other countries that include Algeria, Chad, Iraq, Qatar, Saudi Arabia, Senegal, Turkey and Yemen, among others, on this category. Lebanon received a score of zero compared to the global average score of 13.8 points, the upper middle-income countries' (UMICs) average of 12.6 points and the Arab region's average score of 3.6 points. The survey noted that Lebanon's score reflects the lack of opportunities for the public to participate in the budget process.

Lebanon came in 112th place globally, in second to last place among 36 UMICs and in 10th place among 13 Arab countries on the Oversight by the Legislature category. This category examines the Parliament's involvement in the budget process prior to the submission of the budget proposal, its access to research and analytical capacity, its amendment powers, and the time to discuss amendments before approving the budget proposal, as well as the extent that the executive branch can circumvent the legislature in making changes to the enacted budget during its implementation. Globally, Lebanon ranked ahead of only Burundi, Venezuela, Qatar, Yemen and Saudi Arabia on this category. Lebanon posted a score of 13.8 points on this category, significantly lower than the global average score of 49 points, the UMICs' average of 48.4 points and the Arab region's average score of 31.2 points. The survey noted that Lebanon was among 42 countries worldwide with weak legislative oversight.

Further, Lebanon ranked in 107th place globally, in 32nd place among UMICs and in seventh place among Arab countries in terms of Oversight by Supreme Audit Institutions. This category assesses the independence of the SAI from the executive branch, the availability of an independent quality control system to assess the quality of produced audit reports, and the extent that the SAI has adequate resources to fulfill its mandate. Globally, Lebanon tied with Algeria and Tunisia, preceded Jordan, and came behind Cameroon on this category. It also preceded only Jordan, Venezuela and Equatorial Guinea among UMICs, while it ranked ahead of only Jordan, Somalia, Yemen and Qatar regionally. Lebanon posted a score of 27.8 points on this category, significantly lower than the global average score of 63 points, the UMICs' average of 65.3 points and the Arab region's average score of 34.2 points. The survey noted that Lebanon was among 21 countries worldwide that have weak SAIs.

Finally, the survey noted that Lebanon was among 81 countries worldwide that did not have any independent fiscal institutions (IFIs). IFIs are government-financed technical agencies that engage in independent and objective analysis of the economy and budget, in order to enhance the credibility of a country's public finances. Specifically, IFIs prepare economic forecasts, evaluate the forecasts prepared by executives, estimate the costs of policy proposals, monitor compliance with fiscal rules and provide direct budget analysis support to legislators.

Oversight by Supreme Audit Institutions in bottom 10 UMICs



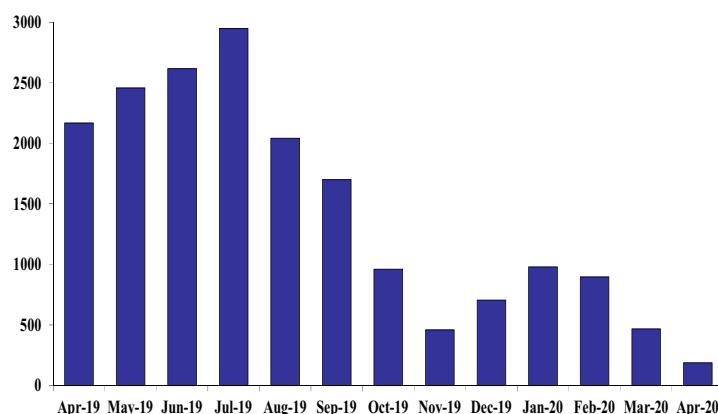
Source: International Budget Partnership, Byblos Research

New car sales down 69% in first four months of 2020

Figures released by the Association of Automobile Importers (AAI) in Lebanon show that dealers sold 2,532 new passenger cars in the first four months of 2020, constituting a drop of 68.7% from 8,102 cars sold in the same period of 2019. Individuals and institutional clients purchased 979 new cars in January, 897 new vehicles in February, 468 new automobiles in March and 188 new cars in April 2020. The number of cars sold in April 2020 is the lowest since August 2006. In comparison, clients bought 1,838 new vehicles in January, 1,906 new automobiles in February, 2,190 new cars in March and 2,168 new vehicles in April 2019.

The market for new passenger cars in Lebanon has been facing increasing challenges in the past few years, including economic contraction, job insecurity, reduced purchasing power of consumers, as well as more stringent requirements for car loans. In addition, the market has been affected by the measures that banks had to put in place since last October, as well as by the outbreak of the coronavirus in the country and the related general mobilization measures. The AAI stopped releasing its monthly data on car sales by brand, distributor and source country since January 2020.

Number of Passenger Cars Sold



Source: Association of Automobile Importers

BLOM Bank keeps timeframe open for cash contributions to capital

BLOM Bank sal announced that the period for the bank's shareholders to participate in the cash contributions to capital remains open until further notice. It attributed its decision to the ongoing general mobilization and the exceptional circumstances that Lebanon is facing from the spread of the coronavirus. The bank also pointed out that it will issue details about the deadline to participate in the cash contributions before June 19, 2020. Previously, the bank decided to postpone the deadline to participate twice, once from April 3 to April 23, 2020 and a second time from April 23 to an undetermined date, in line with the general mobilization that the government introduced to contain the spread of the virus in Lebanon.

The Extraordinary General Assembly of BLOM Bank that took place on January 14, 2020 approved the terms and conditions of the increase in the bank's capital base by \$261.94m, or the equivalent of 10% of its Common Equity Tier One (CET1) as at the end of 2018. The bank indicated that the capital increase will take place through the issuance of cash contributions to capital in US dollars, and that the latter will be part of the Additional Tier One capital. It also noted that the holders of common shares and global depositary receipts will have the right to participate in the cash contributions, which are perpetual and which can be converted, partially or fully, into shares each year in the next five years. The bank added that it may pay interest annually on the cash contributions. BLOM Bank's capital increase is in line with Banque du Liban's Intermediate Circular 532 dated November 4, 2019 that requested banks to increase in two stages their capital base by the equivalent of 20% of their CET1 at the end of 2018.

End of negotiations to sell Bank Audi's Egyptian subsidiary

Bank Audi sal announced that it mutually agreed with First Abu Dhabi Bank (FAB) to stop their negotiations to sell its fully-owned subsidiary in Egypt to FAB, due to the prevailing circumstances and the uncertain economic outlook. The Lebanese bank had reportedly selected EFG Hermes as its financial advisor and Zulficar & Partners Law Firm as its legal advisor for the sale of its subsidiary.

In January 2020, Bank Audi announced that it was in exclusive negotiations with FAB to sell its Egyptian subsidiary. At the time, it said that any final agreement would be subject to regulatory approvals, including the approval of the Central Bank of Egypt, and would be in compliance with the directives and instructions of the Central Bank of Egypt and Banque du Liban, as well as in accordance with laws and regulations that are applicable to Bank Audi in Egypt and in Lebanon.

Further, Moody's Investors Service indicated in January 2020 that the sale of Bank Audi's Egyptian subsidiary would be credit positive for the bank, even though the bank is selling a prized asset and is sacrificing diversification, future growth and earnings. It noted that the assets of the Egyptian subsidiary totaled \$4.4bn, and its equity stood at \$427m at the end of September 2019. It added that the sale of the Egyptian unit would increase the Lebanese bank's foreign liquidity and improve its Common Equity Tier One (CET1) capital ratio, in case the valuation of the subsidiary exceeds the book value of its equity, and through the decrease in its risk-weighted assets related to Egypt.

Ratio Highlights

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

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

Risk Metrics

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

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

*excluding Lebanon

**year-on-year change in risk

Source: The PRS Group, Byblos Research

Note: Political & Composite Risk Ratings range from 0 to 100 (where 100 indicates the lowest risk)

Financial & Economic Risk ratings range from 0 to 50 (where 50 indicates the lowest risk)

Ratings & Outlook

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

*for downgrade

**CreditWatch negative

Source: Rating agencies

Banking Sector Ratings

Banking Sector Ratings	Outlook
Moody's Investors Service	Negative

Source: Moody's Investors Service



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