

LEBANON THIS WEEK

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Number of airport passengers down 62% in first five months of 2020

Syndicate of money dealers publishes mechanism for dollar transactions

Revenues through Port of Beirut down 39% to \$33m in first quarter of 2020

Number of real estate transactions down 1% in first five months of 2020

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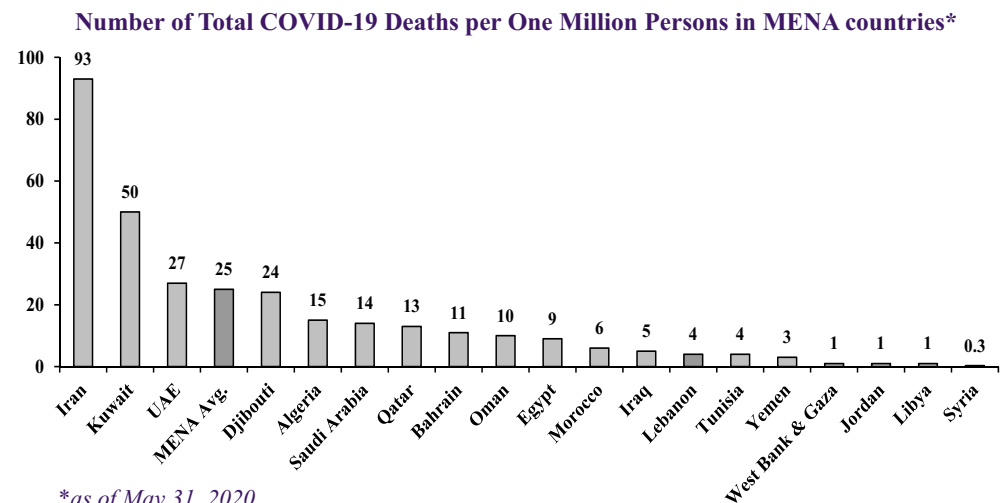
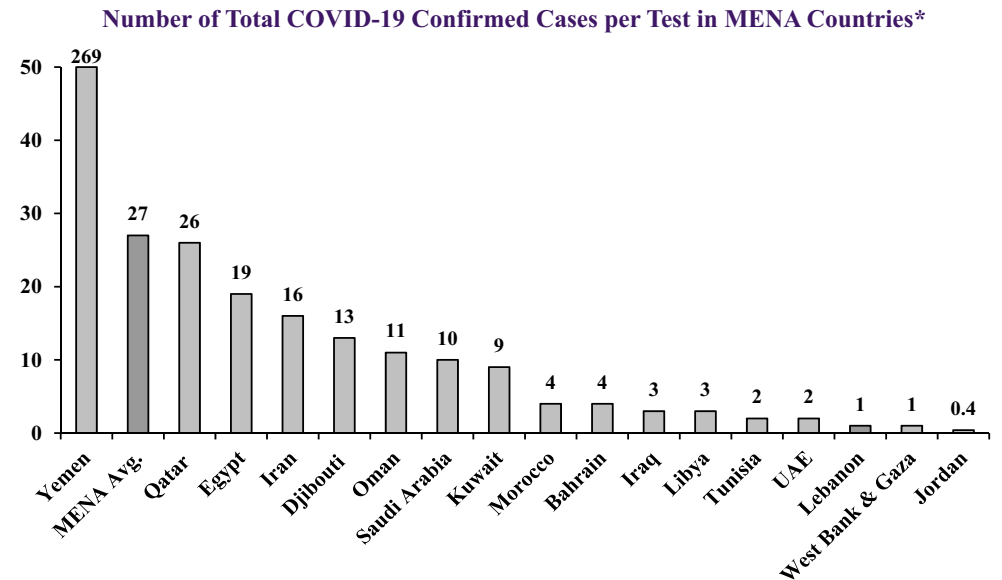
Private sector deposits down \$25bn in eight-month period ending April 2020

Net profits of Syrian affiliates of Lebanese banks at \$16m in 2019 based on official exchange rate

Import activity of top five shippers and freight forwarders down 49% in first quarter of 2020

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Charts of the Week



*as of May 31, 2020

Source: World Bank, Worldometer, Byblos Bank

Quote to Note

"This could make it very difficult to regain confidence in the banking sector for a long period of time."

The Institute of International Finance, in case the measures related to the banking sector in the government's financial plan are implemented

Number of the Week

88.3%: Percentage of Lebanese who believe that their personal financial condition will deteriorate in the coming six months, according to the April 2020 survey of the Byblos Bank/AUB Consumer Confidence Index

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
Solidere "A"	10.53	0.48	156,078	17.44%
Solidere "B"	10.52	1.84	81,605	11.32%
Audi Listed	1.00	0.00	18,010	9.75%
Byblos Common	0.60	(6.25)	8,000	5.62%
BLOM Listed	3.60	9.42	4,000	12.82%
BLOM GDR	3.50	0.00	-	4.28%
Byblos Pref. 08	49.95	0.00	-	1.65%
Byblos Pref. 09	52.75	0.00	-	1.75%
HOLCIM	10.00	0.00	-	3.23%
Audi GDR	2.00	0.00	-	3.96%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Apr 2021	8.25	18.88	338.51
Oct 2022	6.10	18.50	87.74
Jan 2023	6.00	18.75	74.83
Jun 2025	6.25	18.63	36.54
Nov 2026	6.60	18.50	27.87
Feb 2030	6.65	18.63	18.07
Apr 2031	7.00	18.50	16.14
May 2033	8.20	17.75	13.82
Nov 2035	7.05	18.75	11.17
Mar 2037	7.25	18.88	10.18

Source: Byblos Bank Capital Markets, Refinitiv

	June 1-5	May 27-29	% Change	May 2020	May 2019	% Change
Total shares traded	267,693	317,569	(15.7)	6,731,749	2,118,259	217.8
Total value traded	\$2,577,011	\$1,444,682	78.4	\$27,765,737	\$11,598,740	139.4
Market capitalization	\$6.04bn	\$5.98bn	1.0	\$5.98bn	\$8.51bn	(29.8)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Mar 20, 2020	June 5, 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 29, 2020	June 5, 2020	% Change***
CDS 5-year**	264.78	193.11	(27.1)

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

Lebanon ranks 163rd globally, 17th in Arab region in country risk in first quarter of 2020

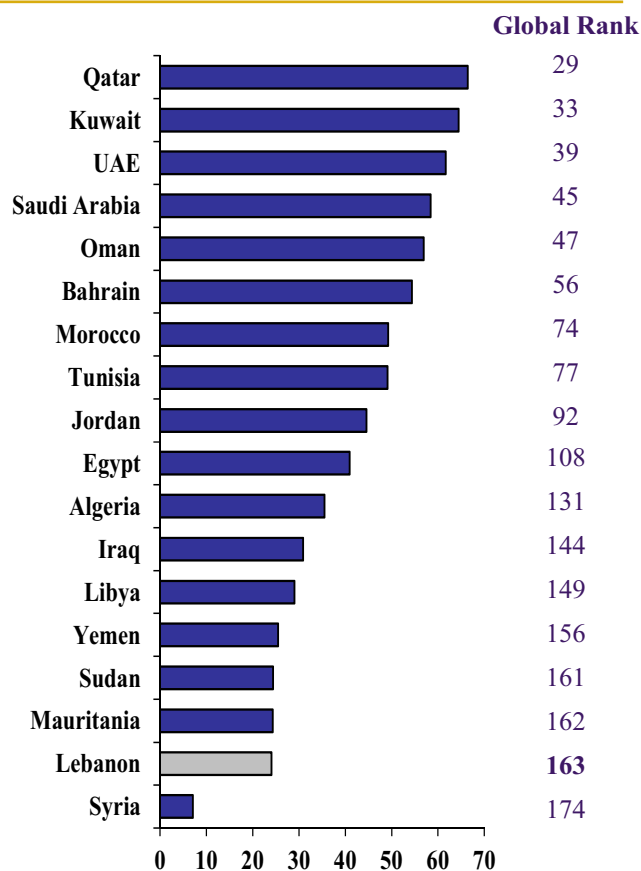
In its quarterly survey of the country risk level in 174 countries, the Euromoney Group ranked Lebanon in 163rd place worldwide and in 17th place among 18 Arab countries in the first quarter of 2020. Also, Lebanon came in 50th place among 52 upper middle-income countries (UMICs) included in the survey. Lebanon's global rank deteriorated by 36 spots, the steepest decline globally, while its regional rank dropped by six notches from the fourth quarter of 2019. The survey evaluates individual country risk by assigning a weighting to five categories that cover Political Assessment, Economic Assessment, Structural Assessment, Access to International Capital Markets, and Debt Indicators. A higher score reflects a lower country risk level.

Globally, Lebanon had a lower country risk level than Cuba, Laos and Sudan, and a higher risk level than Guinea, Equatorial Guinea and Venezuela among economies with a GDP of \$10bn or more. It also ranked ahead of Equatorial Guinea and Venezuela among UMICs. Lebanon's global rank dropped by 61 spots on the Access to International Capital Markets category, by 30 notches on the Economic Assessment indicator, by 26 spots on the Structural Assessment category and by 19 notches on the Political Assessment indicator, while it was unchanged quarter-on-quarter on the Debt Indicators category.

Lebanon received a score of 24.05 points in the first quarter of 2020, down from 35.23 points in the preceding quarter. Lebanon's score came well below the global average score of 47.53 points and the average score of 43.44 points for UMICs and of 41.5 for Arab countries. Also, its score was lower than the Gulf Cooperation Council (GCC) countries' average score of 60.39 points and the average score of non-GCC Arab countries of 32.05 points. Further, Lebanon's score declined by 47.6% on the Economic Assessment category, by 43.3% on the Access to International Capital Markets category, by 23.1% on the Political Assessment category, and by 11.5% on the Structural Assessment indicator, while it was unchanged on the Debt Indicators category from the fourth quarter of 2019.

In parallel, Lebanon ranked ahead of Zimbabwe and behind Venezuela worldwide, and came ahead of Syria regionally on the Economic Assessment indicator. Also, it preceded Equatorial Guinea and trailed Afghanistan globally, while it came ahead of Yemen, Sudan and Syria in the Arab region on the Political Assessment category. In addition, Lebanon fared better than Nigeria and worse than Honduras worldwide, while it ranked ahead of Iraq and trailed Egypt regionally on the Structural Assessment indicator. Further, it preceded Papua New Guinea and came behind Ukraine globally, while it ranked ahead of Iraq and trailed Tunisia among Arab countries on the Access to International Capital Markets indicator. Finally, Lebanon preceded Mozambique and came behind Equatorial Guinea worldwide, while it ranked ahead of Syria regionally on the Debt Indicators category.

Country Risk in Arab World in First Quarter of 2020 Arab Countries' Scores & Rankings



Source: Euromoney Group, Byblos Research

Country Risk Indicators for Lebanon - First Quarter of 2020

	Weighting (%)	Score	Arab Rank	Global Rank	Arab Avg Score	Global Avg Score
Economic Assessment	35	6.13	17	169	14.08	16.04
Political Assessment	35	7.87	15	162	14.02	16.77
Structural Assessment	10	4.44	12	100	4.51	4.70
Access to Int'l Capital Mkts	10	3.50	11	111	4.45	4.73
Debt Indicators	10	2.12	17	168	4.44	5.30

Source: Euromoney Group, Byblos Research



IMF expects lengthy negotiations with Lebanese authorities due to magnitude of challenges

The International Monetary Fund indicated that its discussions with Lebanese authorities have focused so far on understanding the government's reform plan and its implications. It added that the challenges facing Lebanon are difficult, complex, and will require the right diagnostic and the proper set of comprehensive reforms. It stressed that the government needs to demonstrate strong ownership of its economic program in order for these reforms to be implemented, and for reforms to have support across the political spectrum and from civil society.

The Fund declared that it does not have a timeline for the conclusion of its discussions with Lebanese authorities, and expected them to be "rather lengthy" due to the complexity of the issues.

In parallel, the IMF stated that it had several rounds of technical meetings with senior officials in Lebanon, in order to better understand the estimated losses stemming from the assumed public debt restructuring, exchange rate depreciation and other factors, as presented in the government's plan. It noted that these discussions have helped improve its understanding of many specific technical issues. It added, however, that there is a need for additional technical work to refine these estimates, particularly as specific reforms are implemented.

Also, the IMF considered that there is significant scope to strengthen the transparency and accountability of economic policies and public sector entities. It added that this factor will be critical to restore confidence and to ensure that loss-making public sector entities are restructured and reformed as a necessary step to improve the performance of the economy.

Further, the Fund indicated that it is discussing with Lebanese authorities how they can implement their economic reform plan in a way to ensure that the burden of adjustment does not fall on the poor and middle class, while successfully implementing the proposed fiscal adjustment strategy. Lebanon formally requested financial assistance from the International Monetary Fund on May 1, 2020, started discussions with the IMF over a funded program on May 13, and has held 10 negotiating sessions as at June 5, 2020.

Increase in food prices highest in MENA region

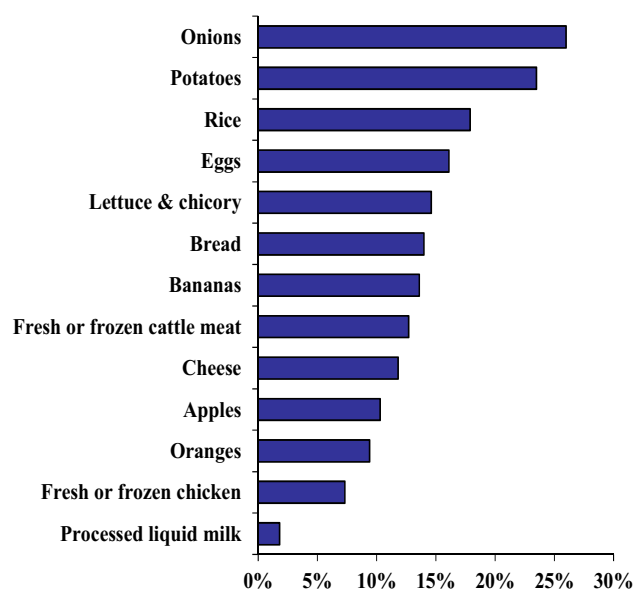
In its assessment of the impact of the COVID-19 pandemic on food-price inflation in the Middle East & North Africa (MENA) region, the World Bank indicated that prices in Lebanon have surged across all food categories between February 14 and May 28, 2020. The Bank assessed the change in food prices in 19 countries in the MENA region across five main food categories that are carbohydrates, dairy, fruits, meats and vegetables.

The price of onions in Lebanon rose by 26% between February 14 and May 28, constituting the highest increase in the price of this item in the MENA region. Lebanon, along with Qatar and the UAE, were the only countries in the region that posted double-digit increases in the price of onions. In comparison, the price of onions posted an average growth of 6% in the region. Also, the price of potatoes in Lebanon surged by 23.5% in the covered period, representing the highest growth rate in the price of this vegetable regionally, and compared to an average increase of 3.5% regionally. Lebanon, along with Libya and Yemen, were the only countries in the region that posted increases of above 10% in the price of potatoes.

In parallel, the price of rice in Lebanon grew by 18% between February 14 and May 28, the highest price increase of this product in the MENA region. Lebanon and Yemen were the only countries in the region that posted a rise of more than 10% in the price of rice. In comparison, the price of rice increased by an average of 4% in the region. Further, the prices of bananas and apples in Lebanon rose by 13.6% and 10.3%, respectively, during the February 14-May 28 period, the highest price surge of these fruits regionally, compared to average increases of 2% and 2.4%, respectively, in the MENA region. Lebanon and Yemen were the only countries that posted double-digit increases in the price of bananas, while Lebanon was the only country to register a rise of more than 10% in the price of apples.

In addition, the price of eggs in Lebanon surged by 16.1% and the price of lettuce rose by 14.6% since February 14, the second highest growth rate in the price of these food products regionally. Also, the price of bread grew by 14% and that of oranges grew by 9.4%, the third highest price surge in the region for such products. In addition, the price of fresh or frozen cattle meat rose by 12.7% in the covered period, the third highest price increase among MENA countries; while the price of cheese grew by 11.8%, the second highest price increase regionally. Further, the price of fresh or frozen chicken surged by 7.3% and the price of processed liquid milk rose by 1.8% since February 14, both representing the fifth highest price increases in the MENA region for such products.

Change in Food Prices in Lebanon
Between February 14 and May 28 (%)



Source: World Bank, Byblos Research

Association of Banks and Industry Ministry sign agreement to support industrial sector

The Association of Banks in Lebanon (ABL) and the Ministry of Industry signed an agreement that aims to support industrial companies of all sizes. The agreement stipulates that banks cap the interest rates on industrial loans at the Beirut Reference Rate (BRR) plus 1%. Further, the agreement states that banks will not incorporate in the updated lending rates additional margins to cover credit risks, operating expenses or provisions. The interest rate ceiling will be effective for one year starting in June 2020, and could be renewed depending on prevailing conditions.

Also, according to the agreement, banks will reschedule, for two to five years and depending on the borrower's ability to repay the loan, industrial loans for clients that are not able to meet their obligations between March and August 2020. Further, banks will grant exceptional loans to industrial firms to allow them to finance their working capital and the payment of their employees' salaries, in line with Banque du Liban's (BdL) Intermediate Circular 547. In addition, banks will suspend until the end of 2020 all legal actions against industrial firms that default on their loan payments. Finally, the ministry and ABL agreed that the latter will contribute to any initiatives that BdL, the government or concerned ministries will launch in support of the industrial sector.

BdL issued on March 23, 2020 Intermediate Circular 547 that amends Basic Circular 23 about the facilities that it can provide to commercial banks and financial institutions. The circular asked banks and financial institutions operating in the country to extend, exceptionally and on their own responsibility, loans in Lebanese pounds or US dollars to clients that already have credit facilities and that are unable to meet their obligations during March, April and May 2020, because of the prevailing conditions.

BdL'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 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.

Figures issued by BdL show that utilized credits by the industrial sector reached \$6.4bn at the end of 2019, or 10.8% of total utilized credits by the private sector, and declined by 16% from \$7.6bn at the end of 2018.

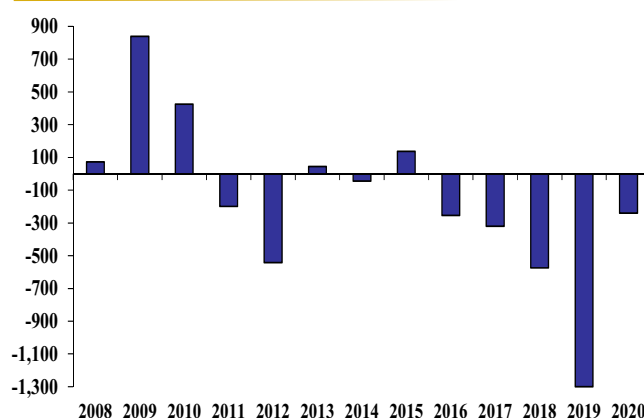
Net foreign assets of financial sector down by \$1.3bn in first four months of 2020

Figures issued by Banque du Liban (BdL) show that the net foreign assets of the financial sector, which are a proxy for Lebanon's balance of payments, declined by \$1.3bn in the first four months of 2020 compared to a decrease of \$3.3bn in the same period of 2019. The cumulative deficit in the first four months of the year was caused by a drop of \$3bn in the net foreign assets of BdL, which was partly offset by an increase of \$1.66bn in those of banks and financial institutions. Further, the net foreign assets of the financial sector regressed by \$240.6m in April 2020 compared to a decline of \$556.8m in March 2020 and to a decrease of \$1.3bn in April 2019. The decline in April 2020 was caused by a drop of \$812.4m in the net foreign assets of BdL and an increase of \$571.8m in those of banks and financial institutions.

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

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

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



Source: Banque du Liban

Fiscal deficit equivalent to 41% of expenditures in first two months of 2020

Figures released by the Ministry of Finance show that the fiscal deficit reached \$1.16bn in the first two months of 2020 and widened by 76% from a deficit of \$657.8m in the first two months of 2019. The deficit was equivalent to 40.8% of total budget and Treasury expenditures relative to 26.7% of spending in the same period last year. Government expenditures reached \$2.84bn in the first two months of 2020 and rose by 15.3% from the first two months of 2019, while revenues regressed by 6.8% to \$1.68bn. As such, the widening of the deficit reflects an increase of \$376m in overall expenditures and a drop of \$123.4m in total revenues in the covered period. The increase in spending is mostly due to a rise of \$363.1m in general expenditures.

On the revenues side, tax receipts decreased by 8.1% year-on-year to \$1.33bn in the first two months of 2020, of which 21%, or \$278m, were in VAT receipts that dropped by 40% annually. Tax receipts accounted for 84.1% of budgetary revenues and for 79% of Treasury and budgetary income in the covered period. The distribution of other tax revenues shows that receipts from taxes on income, profits & capital gains rose by 28% to \$721.1m in the first two months of 2020; revenues from customs dropped by 38% to \$127.3m; receipts from property taxes grew by 11.8% to \$111.7m; while proceeds from stamp fees decreased by 18.1% to \$61.8m, and revenues from taxes on goods & services fell by 26.5% to \$28.1m.

The distribution of income tax receipts shows that the tax on interest income accounted for 69.2% of income tax revenues in the first two months of 2020, followed by the tax on wages & salaries with 18.3%, the tax on profits with 10.1%, and the capital gains tax with 2.1%. Receipts from the tax on interest income surged by 71%, while revenues from the tax on capital gains dropped by 28%, revenues from the tax on profits dipped by 21% and proceeds from the tax on wages & salaries regressed by 13.6% year-on-year in the covered period. Also, the distribution of property taxes indicates that revenues from real estate registration fees rose by 37% year-on-year to \$80.4m, while receipts from the built property tax retreated by 20.2% to \$22m and the revenues from the inheritance tax fell by 31.4% to \$9.4m in the first two months of 2020.

Further, non-tax budgetary receipts grew by 2.6% year-on-year to \$250.3m in the covered period. They mainly included \$131.2m in revenues generated from government properties that increased by 1.4%, as well as \$82.1m in receipts from administrative fees and charges that regressed by 6.7% annually. Receipts from telecommunication services fell by 20.2% year-on-year to \$66.3m in the first two months of 2020, and accounted for 50.6% of income from government properties and for 26.5% of non-tax budgetary revenues.

On the expenditures side, total budgetary spending, which includes general expenditures and debt servicing, grew by 18.2% year-on-year to \$2.7bn in the first two months of 2020. General spending rose by 21.3% to \$2.07bn in the covered period, and included \$195m in transfers to Electricité du Liban (EdL) that regressed by 21.8% year-on-year, and \$963.6m in outlays from previous years that surged by 62.4% annually, among other general spending items. Also, debt servicing totaled \$619.7m in the first two months of 2020 and increased by 9% from the first two months of 2019. Interest payments on Lebanese pound-denominated debt rose by 12.1% year-on-year to \$482.6m in the first two months of 2020, while debt servicing on foreign currency debt regressed by a marginal 0.5% to \$113.9m. In addition, Treasury expenditures, excluding transfers to EdL, declined by 20.4% year-on-year to \$147.6m in the covered period. Further, the primary budget balance posted a deficit of \$492.6m in the first two months of 2020, equivalent to 18.3% of budgetary expenditures, while the overall primary balance registered a deficit of \$537.6m, or 19% of spending.

Fiscal Results in First Two Months of Each Year			
	2019 (US\$m)	2020 (US\$m)	Change (%)
Budget Revenues	1,689	1,578	-6.6%
Tax Revenues	1,445	1,328	-8.1%
Non-Tax Revenues	244	250	2.6%
<i>of which Telecom revenues</i>	83	66	-20.2%
Budget Expenditures	2,277	2,691	18.2%
Budget Surplus/Deficit	(588)	(1,112)	89.3%
<i>In % of budget expenditures</i>	<i>-25.8%</i>	<i>-41.3%</i>	
Budget Primary Surplus	(19)	(493)	2528%
<i>In % of budget expenditures</i>	<i>-0.8%</i>	<i>-18.3%</i>	
Treasury Receipts	115	103	-11.0%
Treasury Expenditures	186	148	-20.4%
Total Revenues	1,804	1,681	-6.8%
Total Expenditures	2,462	2,838	15.3%
Total Deficit	(658)	(1,157)	75.9%
<i>In % of total expenditures</i>	<i>-26.7%</i>	<i>-40.8%</i>	
Total Primary Surplus/Deficit	(89.0)	(537.6)	504.2%
<i>In % of total expenditures</i>	<i>-3.6%</i>	<i>-18.9%</i>	

Source: Ministry of Finance, Byblos Research



Banque du Liban's foreign assets at \$33.5bn, gold reserves at \$15.9bn at end-May 2020

Banque du Liban's (BdL) interim balance sheet totaled \$150.6bn at the end of May 2020, constituting an increase of 6.5% from \$141.4bn at the end of 2019 and a rise of 18.7% from \$126.9bn at end-May 2019.

Assets in foreign currency reached \$33.5bn at end-May 2020, constituting a decline of 10% from \$37.3bn at the end of 2019 and a decrease of 8.4% from \$36.6bn at end-May 2019. They included \$5.03bn in Lebanese Eurobonds at end-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 \$28.5bn at end-May 2020, constituting a decrease of \$907m from the end of April 2020. They declined by \$613.3m in January 2020, by \$684.6m in February, by \$67m in March, and by \$812m in April, resulting in a cumulative drop of \$3.08bn in the first five months of the year. They also fell by \$7bn between the end of August 2019 and end-May 2020.

The decline in BdL's assets in foreign currency, excluding Lebanese Eurobonds, is largely due to the fact that BdL has paid, 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, decreased by \$3.8bn since the start of 2020 and by \$5.2bn between the end of August 2019 and end-May 2020.

In addition, the value of BdL's gold reserves reached \$15.9bn at end-May 2020, constituting an increase of 14.2% from \$13.9bn at end-2019 and a rise of 33.3% from end-May 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 \$38.6bn at end-May 2020 and grew by 1.6% from the end of 2019. In addition, loans to the local financial sector regressed by 1.4% from end-2019 to \$14.7bn at end-May 2020. Further, deposits of the financial sector reached \$112.2bn at end-May 2020, constituting an increase of \$153m from end-2019. Also, public sector deposits at BdL totaled \$4.3bn at end-May 2020 and regressed by \$1.2bn from end-2019.

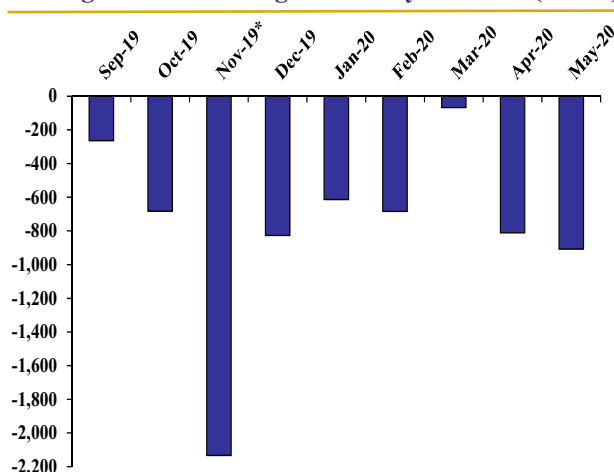
Banque du Liban extends timeframe for paying part of interest income in Lebanese pounds

Banque du Liban (BdL) issued Intermediate Circular 558 on June 1, 2020 that extends until the end of June 2020 Intermediate Circulars 536 and 544 that it issued on December 4, 2019 and February 13, 2020, respectively. The two circulars were originally effective for a period of six months.

Intermediate Circular 536 stipulates that BdL pays 50% of the interest income in US dollars on term deposits that banks placed in US dollars at BdL and on the Certificates of Deposits that it issued in US dollars, while it will settle the other 50% in Lebanese pounds. In addition, it capped the interest rates at 5% on bank deposits in foreign currency and at 8.5% on deposits in Lebanese pounds. It noted that the new cap on interest rates will apply on deposits placed at banks after December 4, 2019 or on blocked deposits that will mature after the date of the circular. It pointed out that the interest rates on bank deposits blocked prior to December 5, 2019 will not be amended before maturity. However, it noted that banks will pay 50% of the interest income on foreign currency deposits in Lebanese pounds, while they will disburse the other 50% in the same currency as the deposit accounts.

In parallel, intermediate Circular 544 capped the interest rates on bank deposits placed at banks or blocked after February 13, 2020. It capped the interest rates on deposits in foreign currency with a maturity of one month at 2%, the rates on deposits with a maturity of six months at 3%, and the interest rates on deposits with a maturity of one year or more at 4%. Further, the circular capped the interest rates on Lebanese pounds deposits with a maturity of one month at 5.5%, the rates on deposits with a maturity of six months at 6.5%, and the interest rates on deposits with a maturity of one year or more at 7.5%.

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



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

Number of airport passengers down 62% in first five months of 2020

Figures released by the Beirut-Rafic Hariri International Airport (HIA) show that 1,191,376 passengers utilized the airport (arrivals, departures and transit) in the first five months of 2020, constituting a decline of 62% from 3,138,472 passengers in the same period of 2019. The number of arriving passengers decreased by 64% to 556,966 in the first five months of 2020, compared to an increase of 1.6% in the same period last year and to a rise of 9% in the first five months of 2018. Also, the number of departing passengers fell by 60.4% to 620,991 in the first five months of 2020, relative to an increase of 2.2% in the same period of 2019 and to a rise of 6.2% in the first five months of 2018.

In parallel, the airport's aircraft activity regressed by 55% to 12,051 take-offs and landings in the covered period, relative to a growth of 0.5% in the same period of 2019 and to an increase of 1.9% in the first five months of 2018. In addition, the HIA processed 21,468 metric tons of freight in the first five months of 2020 that consisted of 10,346 tons of import freight and 11,122 tons of export freight. Middle East Airlines had 4,971 flights in the first five months of 2020 and accounted for 41.2% of HIA's total aircraft activity.

The significant decline in the number of airport passengers and aircraft activity is mainly due to the closure of the airport since March 18, 2020, as well as to the lockdown measures and the closure of airports in several countries in response to the outbreak of the coronavirus worldwide. As such, the number of passengers that utilized the airport reached 20,253 in May 2020, constituting a drop of 96.5% from 571,658 in May 2019. Also, the airport's aircraft activity registered 725 take-offs and landings in May, down by 86.4% from 5,345 take-offs and landings in May 2019. However, the number of passengers that utilized the airport grew by 3.4 times month-on-month, driven by an increase of 3.5 times in the number of arrivals amid the government's decision at end-March to repatriate Lebanese expatriates that desire to come back to Lebanon due to the COVID-19 crisis.

Syndicate of money dealers publishes mechanism for dollar transactions

The Syndicate of Money Changers in Lebanon announced a new mechanism that money dealers will follow for their transactions in US dollars after the syndicate's decision to resume operations on June 3, 2020.

First, it indicated that money dealers will announce on a daily basis the minimum rate for buying US dollars and the maximum rate for selling dollars. It added that the daily rates will gradually converge to a dollar selling rate of LBP3,200 in coming days, which is in line with Banque du Liban's (BdL) Intermediate Circular 553 issued on April 27, 2020 that set the ceiling for the selling price of US dollars by money dealers at LBP3,200 per dollar. Second, it stressed that all money exchange institutions should strictly adhere to the declared daily rates.

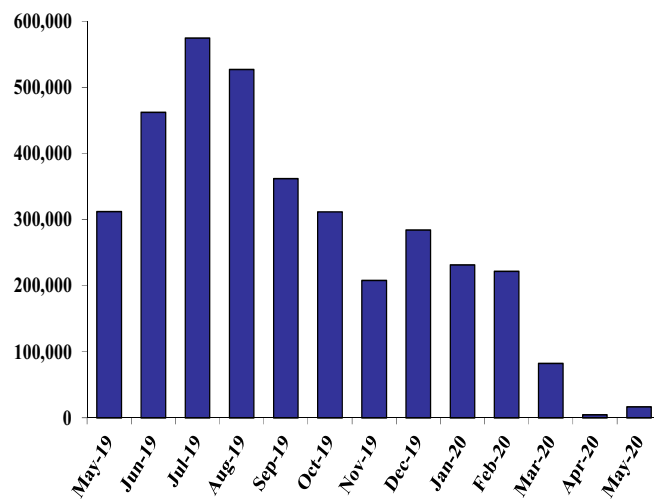
Third, it stated that money dealers will rationalize the sale of US dollars in order to prevent speculation. Fourth, it called for reporting to the relevant security parties any violations of the aforementioned measures. Finally, it asked money dealers to keep the documents related to all of the transactions that they conduct, in accordance to the circulars of BdL and the Banking Control Commission of Lebanon. The syndicate set on June 8, 2020 the buying rate of the US dollar at LBP3,890 and the selling rate at LBP3,940, compared to a buying rate of LBP3,920 and a selling rate of LBP3,970 on June 3.

Revenues through Port of Beirut down 39% to \$33m in first quarter of 2020

Figures released by the Port of Beirut show that the port's revenues reached \$32.9m in the first quarter of 2020, constituting a decline of 38.6% from \$53.6m in the same quarter of 2019. The Port of Beirut handled 1.1 million tons of freight in the covered period, decreasing by 36% from 1.8 million tons in the first quarter of 2019. Imported freight amounted to 934,000 tons in the first quarter of the year, down by 40.5% from 1.6 million tons in the same quarter of 2019, and accounting for 82.6% of total freight. In parallel, export cargo reached 197,000 tons in the covered quarter, down by 0.5% from 198,000 tons in the first quarter of 2019, and accounting for 17.4% of total freight in the first quarter of 2020. A total of 388 vessels docked at the port in the first quarter of 2020, down by 5.6% from the same quarter of 2019.

In parallel, revenues generated through the Port of Tripoli reached \$2.8m in the first quarter of 2020, constituting a decrease of 33.4% from \$4.2m in the same quarter of 2019. The Port of Tripoli handled 408,361 tons of freight in the first quarter of the year, down by 24.1% from 538,260 tons in the first quarter of 2019. Imported freight amounted to 292,321 tons in the first quarter of 2020, down by 28% from 406,244 tons in the same quarter of 2019. It accounted for 71.6% of total freight in the covered period. In parallel, export cargo totaled 116,040 tons, or 28.4% of total freight, and decreased by 12.1% from 132,016 tons in the first quarter of 2019. A total of 128 vessels docked at the port in the first quarter of 2020, decreasing by 17.4% from 155 ships in the same quarter of 2019.

Number of Arriving Passengers



Source: Beirut-Rafic Hariri International Airport

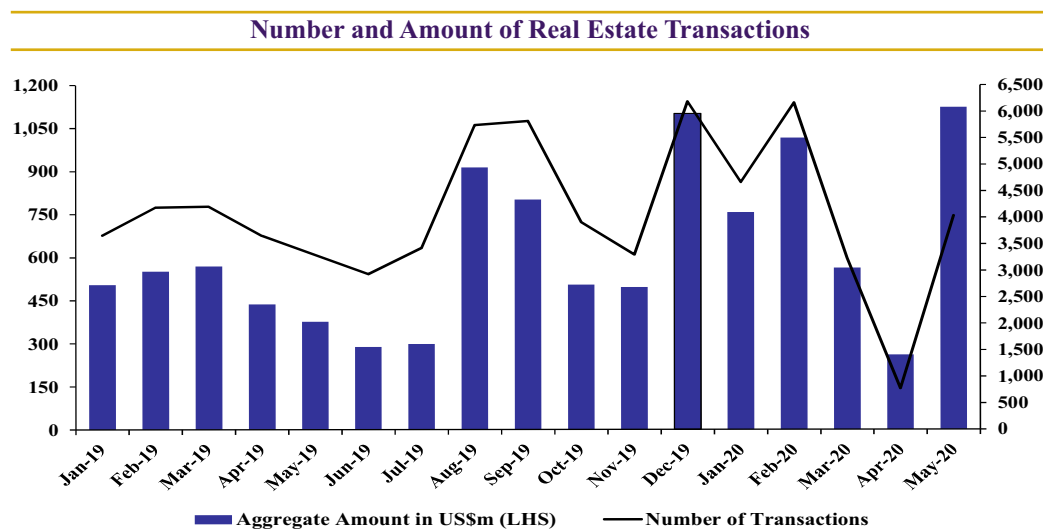
Number of real estate transactions down 1% in first five months of 2020

Figures released by the Ministry of Finance show that 18,877 real estate transactions took place in the first five months of 2020, constituting a decrease of 0.8% from 19,024 deals in the same period of 2019. In comparison, there were 22,707 real estate transactions in the first five months of 2018 and 28,768 real estate deals in the same period of 2017. The number of transactions reached 4,036 in May 2020, up from 773 in April 2020, and relative to 3,298 deals in May 2019. The increase in real estate activity in May 2020 reflects the easing of the lockdown measures that the government enforced following the outbreak of the coronavirus, which led to the closure of many public agencies and departments and to delays in the processing of transactions in March and April. The expansion in real estate activity is also due to the continuous migration of some deposits out of the banking sector towards real estate. There were 3,636 real estate transactions in the Baabda area in the first five months of 2020, representing 19.3% of the total. The Metn district followed with 2,597 deals (13.8%), then the North with 2,461 transactions and the South with 2,427 deals (13% each), the Keserwan region with 2,307 transactions (12.2%), the Zahlé area with 1,974 deals (10.5%), Beirut with 1,702 transactions (9%), and the Nabatieh area with 1,298 deals (7%).

The aggregate amount of real estate transactions reached \$3.7bn in the first five months of 2020 and increased by 52.5% from \$2.4bn in the same period of 2019. In comparison, the amount of real estate deals regressed by 24.4% in the first five months of 2019 and declined by 15.6% in the same period of 2018. The amount of transactions reached \$1.1bn in May 2020, up from \$260.5m in April 2020 and from \$376.2m in May 2019. Further, the value of real estate transactions in Beirut totaled \$1.4bn and accounted for 37.8% of the total in the first five months of 2020. The Metn district followed with \$675.4m (18.2%), then the Baabda region with \$566.7m (15.2%), the Keserwan area with \$392.8m (10.6%), the South with \$303.6m (8.2%), the North with \$167.5m (4.5%), the Zahlé area with \$103m (2.8%), and the Nabatieh region with \$85.6m (2.3%). The amount of real estate transactions in Beirut increased by 84.3% in the first five months of 2020, followed by the value of deals in the Keserwan region (+62.7%), the South (+61%), the Baabda area (+45.3%), the Metn district (+33.2%), the Nabatieh region (+22.2%), the Zahlé area (+18.5%), and the North (+2.2%).

In parallel, the average amount per real estate transaction was \$196,994 in the first five months of 2020, up by 53.7% from an average of \$128,145 in the same period of 2019 and relative to an average of \$142,039 in the first five months of 2018. Further, there were 295 real estate transactions executed by foreigners in the first five months of 2020, compared to 403 deals in the same period of 2019 and to 477 transactions in the first five months of 2018. The number of real estate deals by foreigners accounted for 1.6% of total real estate transactions in the covered period, down from 2.1% in the first five months of 2019 and in the same period of 2018.

Further, 24.4% of real estate transactions executed by foreigners in the first five months of 2020 were in the Baabda area, followed by Beirut (23.1%), the Metn district (18.6%), the South (11.2%), the Zahlé area (7.5%), the Keserwan region (7.1%), the North (5.4%), and the Nabatieh region (2.7%). Syrian citizens accounted for 41.4% of the amount of real estate transactions executed by foreigners in May 2020, followed by Jordanians (1.4%), British citizens (0.6%), and Qatari nationals and Saudi Arabian citizens (0.5% each).



Source: Ministry of Finance, Byblos Research

Private sector deposits down \$25bn in eight-month period ending April 2020

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets stood at \$205.8bn at the end of April 2020, constituting a decrease of 5.1% from \$216.8bn at the end of 2019 and a decline of 19% from \$253.6bn at end-April 2019. The year-on-year decline in assets is mainly due to the "netting" on the assets and liabilities' sides of the consolidated balance sheet of banks, as part of the implementation of international accounting standard IFRS 7 starting in December 2019.

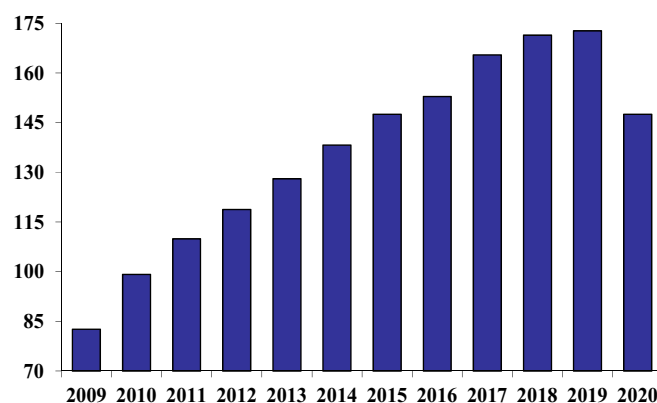
Loans extended to the private sector reached \$43.9bn at the end of April 2020, regressing by 11.8% from end-2019 and by 23% from a year earlier. Loans to the resident private sector totaled \$38.6bn, constituting a decrease of 12.7% from the end of 2019 and of 23% from end-April 2019. Also, credit to the non-resident private sector reached \$5.3bn at the end of April 2020, declining by 4.8% from end-2019 and by 23.6% from a year earlier. In nominal terms, credit to the private sector contracted by \$5.9bn in the first four months of 2020 relative to a decrease of \$2.4bn in the same period of 2019, as lending to the resident private sector declined by \$5.6bn and credit to the non-resident private sector regressed by \$266.4m in the covered period. The dollarization rate of private sector loans fell from 69.8% at end-April 2019 to 65.5% at end-April 2020.

In addition, claims on non-resident financial institutions stood at \$4.9bn at the end of April 2020 and declined by \$1.8bn (-27.2%) from the end of 2019, by \$4.2bn (-46.1%) from end-August 2019, and by \$5.4bn (-52.1%) from the end of April 2019. Also, deposits at foreign central banks totaled \$507m, constituting a decrease of 14% from end-2019 and a drop of 41.1% from end-April 2019. In addition, claims on the public sector reached \$24.8bn at end-April 2020, down by \$3.9bn (-13.6%) from end-2019 and by \$8.4bn (-25.2%) from the end of April 2019. The banks' holdings of Lebanese Treasury bills stood at \$14bn at the end of April 2020, down by \$663.3m (-4.5%) from the end of 2019; while their holdings of Lebanese Eurobonds reached \$10.6bn at end-April 2020, constituting a decline of \$3.2bn (-23.1%) from end-2019. The average lending rate in Lebanese pounds was 9.29% in April 2020 compared to 10.74% a year earlier, while the same rate in US dollars was 7.79% relative to 9.34% in April 2019. Further, the deposits of commercial banks at BdL totaled \$116.7bn at the end of April 2020, down by 1% from \$117.7bn at the end of 2019 and by 16% from \$138.8bn at the end of April 2019, following the netting operation.

In parallel, private sector deposits totaled \$147.5bn at the end of April 2020, and decreased by 7.1% from the end of 2019 and by 14.6% from end-April 2019. Deposits in Lebanese pounds reached the equivalent of \$31.1bn at end-April 2020, and declined by 18.5% from the end of 2019 and by 38.1% from a year earlier; while deposits in foreign currency stood at \$116.5bn, as they regressed by 3.6% from end-2019 and by 5% from end-April 2019. Resident deposits totaled \$118.4bn at the end of April 2020 and decreased by \$8.1bn (-6.4%) from the end of 2019 and by \$17.1bn (-12.7%) from a year earlier. Also, non-resident deposits reached \$29.2bn at end-April 2020, as they regressed by \$3.3bn (-10.1%) from end-2019 and by \$8bn (-21.6%) from the end of April 2019. In nominal terms, private sector deposits declined by \$3.8bn in January, by \$3.4bn in February, by \$2.1bn in March and by \$2.1bn in April 2020. As such, aggregate private sector deposits regressed by \$11.35bn in the first four months of 2020 relative to a decrease of \$1.6bn in the same period of 2019, with deposits in Lebanese pounds dropping by \$7bn and foreign-currency deposits declining by \$4.3bn. In comparison, private sector deposits declined by \$2.2bn in September, by \$1.9bn in October, by \$5.8bn in November and by \$3.7bn in December 2019. As such, aggregate private sector deposits dropped by \$25bn in the eight-month period ending in April 2020, due largely to the repayment of loans, to the hoarding of cash at households, to deposit outflows, and to the buying of real estate. The dollarization rate of private sector deposits was 78.9% at end-April 2020, up from 76% at the end of 2019, and compared to 70.9% a year earlier.

In parallel, the liabilities of non-resident financial institutions reached \$8bn at the end of April 2020 and decreased by 9.6% from end-2019. Further, the average deposit rate in Lebanese pounds was 5.06% in April 2020 compared to 8.6% a year earlier, while the same rate in US dollars was 2.32% relative to 5.68% in April 2019. The ratio of private sector loans to deposits in foreign currency stood at 24.7% at the end of April 2020 compared to 32.5% a year earlier, well below BdL's limit of 70%. The same ratio in Lebanese pounds reached 48.7% at end-April 2020 relative to 34.2% from a year earlier. As such, the total private sector loans-to-deposits ratio reached 29.8% compared to 33% at end-April 2019. The banks' aggregate capital base stood at \$20.8bn at end-April 2020, down by 2% from \$21.2bn a year earlier.

Private Sector Deposits at Banks* (US\$bn)



*at the end of April of each year

Source: Banque du Liban, Byblos Research

Corporate Highlights

Net profits of Syrian affiliates of Lebanese banks at \$16m in 2019 based on official exchange rate

Financial results issued by the affiliates of seven Lebanese banks operating in Syria show that their aggregate net profits reached SYP6.9bn in 2019 relative to net earnings of SYP5.2bn in 2018. The improvement in the banks' net profits is due to the stability of the official exchange rate at SYP436 against the US dollar since November 27, 2018, which did not result in any unrealized net foreign exchange losses on the banks' structural positions. In US dollar terms, the seven banks generated net profits of \$15.9m last year relative to net earnings of \$11.9m in 2018. The banks use the official exchange rate in their income statements and balance sheets, which means that fluctuations in the black market exchange rate do not affect their reporting.

The profits of Bank Al-Sharq, the affiliate of Banque Libano-Française rose by SYP1.5bn, followed by an expansion of SYP934.1m in the net income of Bank Audi Syria, and an improvement of SYP381m in the earnings of Fransabank Syria in 2019. In contrast, the profits of Bank of Syria & Overseas dropped by SYP2.87bn and those of Banque BEMO Saudi Fransi declined by SYP877.3m in 2019. In parallel, Byblos Bank Syria posted profits of SYP1.06bn last year relative to losses of SYP734.3m in 2018, while Syria Gulf Bank, the affiliate of First National Bank, posted losses of SYP519.3m in 2019 relative to losses of SYP1.39bn in the preceding year.

The net interest income of the seven banks totaled SYP26.1bn in 2019, up by 58.7% from SYP16.4bn in 2018; while their net fees & commission income rose by 2.2 times year-on-year to SYP8.88bn. In US dollar terms, the banks' net interest income totaled \$20.4m, while their net fees & commission income stood at \$9.4m in 2019. The seven banks' operating income rose by 77.7% from SYP23bn (\$52.7m) in 2018 to SYP40.8bn (\$93.6m) in 2019; while their total operating expenses reached SYP32.8bn (\$75.2m) in 2019, up by 2.1 times from SYP15.85bn (\$36.4m) in 2018.

In parallel, the banks' aggregate assets reached SYP940.4bn (\$2.16bn) at the end of 2019 and increased by 3.2% from SYP911.4bn (\$2.09bn) at end-2018. Also, the banks' total loans reached SYP254.4bn (\$583.5m) at end-2019, reflecting a growth of 40.7% from SYP180.8bn (\$414.7m) at the end of 2018. Further, the banks' customer deposits totaled SYP644.5bn (\$1.48bn) at the end of 2019, constituting an increase of 2.8% from SYP627.1bn (\$1.44bn) a year earlier. The ratio of the banks' loans-to-customer deposits stood at 39.5% at the end of 2019 relative to 28.8% at end-2018. Also, the aggregate shareholders' equity of the banks reached SYP151.8bn (\$348.2m) at the end of 2019, relative to SYP139.5bn (\$320m) at end-2018.

Results of Affiliates of Lebanese Banks in Syria in 2019 (US\$m)

	Banque BEMO Saudi Fransi	Bank of Syria & Overseas	Fransabank Syria	Bank Audi Syria	Byblos Bank Syria	Bank Al-Sharq	Syria Gulf Bank
Net Profits	6.19	0.51	0.97	2.82	2.44	4.20	-1.19
Total Assets	737.46	317.17	304.61	279.32	209.15	187.95	121.19
% Change*	5.7%	-18.5%	12.9%	-0.5%	9.8%	22.6%	11.3%
Loans	226.24	34.33	91.14	69.32	74.70	66.59	21.15
% Change*	29.8%	54.0%	52.3%	122.9%	29.0%	24.5%	33.8%
Customer Deposits	595.48	209.17	178.58	149.29	127.00	137.51	81.16
% Change*	4.1%	-15.5%	19.7%	-1.9%	1.1%	25.1%	-0.8%

*Change from end-2018

Source: Banks financial statements

Import activity of top five shippers and freight forwarders down 49% in first quarter of 2020

Figures released by the Port of Beirut show that overall import shipping operations by the top five shipping companies and freight forwarders through the port reached 34,209 20-foot equivalent units (TEUs) in the first quarter of 2020, constituting a decrease of 49.4% from 67,621 TEUs in the same quarter of 2019. The five shipping and freight-forwarding firms accounted for 75.7% of imports to the Lebanese market for local use and for 33.5% of the total import freight market, which includes transshipments to other ports, in the covered period. Mediterranean Shipping Company (MSC) handled 13,060 TEUs in imports in the first quarter of 2020, or 12.8% of the total import freight market. Merit Shipping followed with 8,103 TEUs (8%), then MAERSK with 5,291 TEUs (5.2%), Gezairy Transport with 4,189 TEUs (4.1%), and Sealine Group with 3,566 TEUs (3.5%). The five shipping and freight forwarding companies registered year-on-year decreases in import shipping in the first quarter of 2020, with MAERSK posting a decline of 56%, the steepest among the top five firms.

In parallel, export shipping operations by the top five shipping and freight-forwarding firms through the Port of Beirut reached 15,724 TEUs in the first quarter of 2020, constituting an increase of 4.4% from 15,058 TEUs in the same quarter of 2019. The five shipping companies and freight forwarders accounted for 86% of exported Lebanese cargo and for 14.7% of the total export freight market that includes transshipments through Lebanese ports. Merit Shipping handled 7,312 TEUs of freight in the first three months of 2020, equivalent to 40% of the Lebanese cargo export market. MAERSK followed with 3,426 TEUs (18.7%), then Metz group with 1,851 TEUs (10%), Sealine Group with 1,747 TEUs (9.5%), and MSC with 1,388 TEUs (7.6%). MSC registered a year-on-year rise of 42% in export shipping in the first quarter of 2020, the highest growth rate among the top five shipping and freight forwarding companies, while Sealine Group posted a drop of 24.5%, the steepest decline among the top five firms.

Ratio Highlights

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

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

Risk Metrics

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

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

*excluding Lebanon

**year-on-year change in risk

Source: The PRS Group, Byblos Research

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

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

Ratings & Outlook

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

*for downgrade

**CreditWatch negative

Source: Rating agencies

Banking Sector Ratings

Banking Sector Ratings	Outlook
Moody's Investors Service	Negative

Source: Moody's Investors Service



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