In memory of the victims of
the Beirut Port explosion

BYBLOS BANK SAL
Economic Research & Analysis Department

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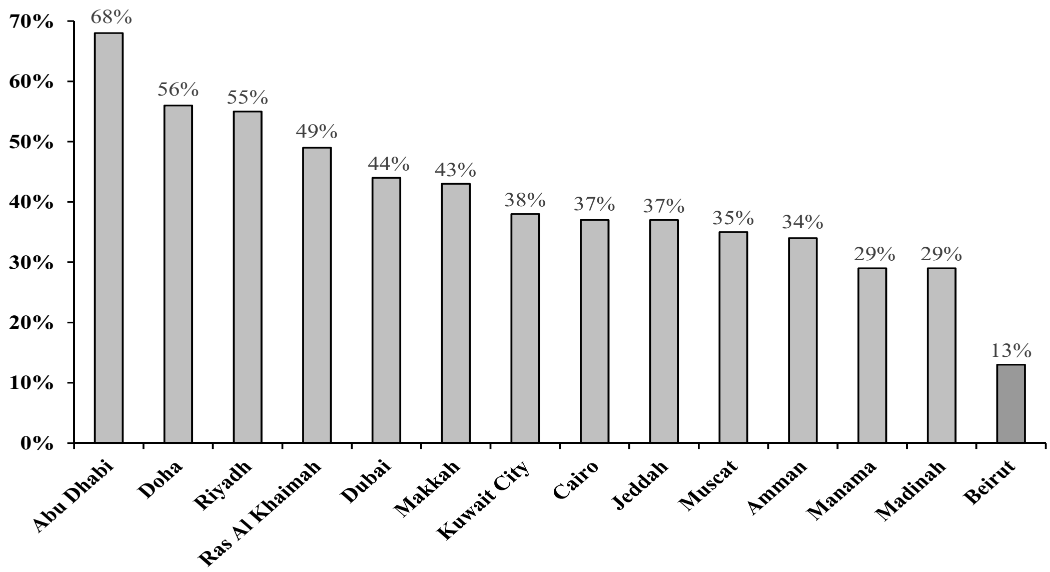
LEBANON THIS WEEK

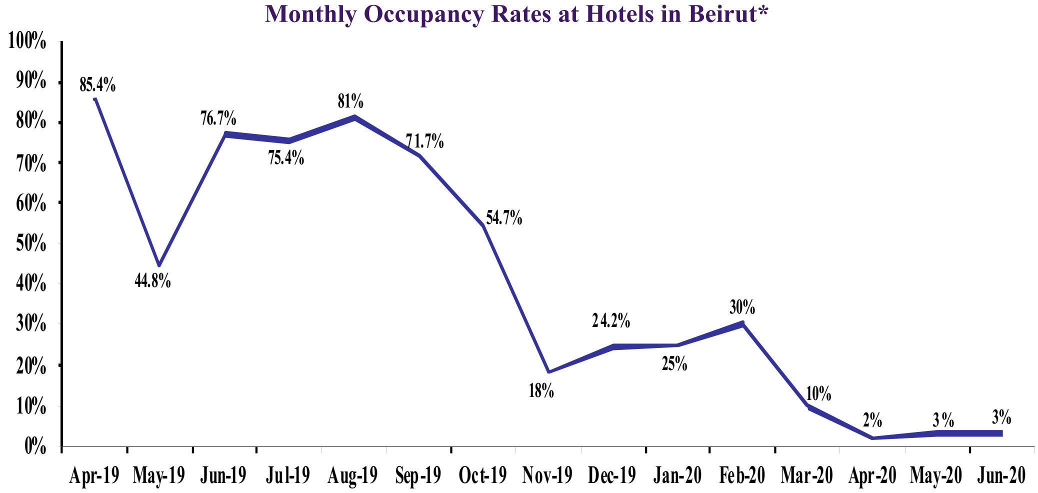
In This Issue

Charts of the Week

Occupancy Rates at Hotels in Selected Arab Cities in First Half of 2020* (%)



Monthly Occupancy Rates at Hotels in Beirut*



**at four- and five-star hotels*
Source: EY, Byblos Research

Quote to Note

"The Group reaffirms its willingness to support credible efforts to tackle corruption and combat tax evasion, including the adoption and implementation of an anti-corruption national strategy, the anti-corruption agency law, and judicial reforms, as well as other measures that guarantee both transparency and full accountability."

The International Support Group for Lebanon, on its expectations from Lebanese authorities to improve governance in the public sector

Number of the Week

86%: Percentage of Lebanese who believe that consumer prices will increase in the six months ending January 2021, according to the July 2020 survey of the Byblos Bank/AUB Consumer Confidence Index

Lebanon in the News

$m (unless otherwise mentioned)	2019	Jan-Jun 2019	Jan-Jun 2020	% Change*	Jun-19	May-20	Jun-20
Exports	3,731	1,725	1,612	(6.5)	285	251	277
Imports	19,239	10,139	5,202	(48.7)	1,377	674	854
Trade Balance	(15,508)	(8,414)	(3,590)	(57.3)	(1,092)	(423)	(577)
Balance of Payments	(5,851)	(5,391)	(2,486)	(53.9)	(204)	(888)	(296)
Checks Cleared in LBP	22,146	10,313	9,514	(7.8)	1,581	1,105	1,766
Checks Cleared in FC	34,827	17,178	16,944	(1.4)	2,501	1,467	3,097
Total Checks Cleared	56,973	27,498	26,461	(3.8)	4,084	2,572	4,863
Fiscal Deficit/Surplus	(5,837)	(2,420)	(2,223)	(8.1)	(33)	(247)	(225)
Primary Balance	(287)	308	(876)	-	347	(120)	(160)
Airport Passengers	8,684,937	3,978,188	1,206,671	(69.7)	838,498	20,253	15,295
Consumer Price Index	2.9	3.3	38.8	3550bps	1.7	56.5	89.7

$bn (unless otherwise mentioned)	Dec-19	Jun-19	Mar-20	Apr-20	May-20	Jun-20	% Change*
BdL FX Reserves	29.55	29.75	28.23	27.37	26.44	25.87	(13.0)
In months of Imports	1.54	21.61	34.18	36.76	39.24	30.30	(40.2)
Public Debt	91.64	85.73	92.40	92.87	93.14	93.40	(8.9)
Bank Assets	216.78**	255.98	208.55	205.75	203.84	201.09	(21.4)
Bank Deposits (Private Sector)	158.86	172.13	149.59	147.52	146.30	144.50	(16.1)
Bank Loans to Private Sector	49.77	56.00	45.02	43.90	42.91	41.42	(26.0)
Money Supply M2	42.11	49.11	39.60	38.64	38.78	39.02	(20.5)
Money Supply M3	134.55	139.93	130.34	129.52	129.67	129.51	(7.4)
LBP Lending Rate (%)	9.09	10.94	9.41	9.29	8.45	6.84	(410bps)
LBP Deposit Rate (%)	7.36	8.80	5.13	5.06	4.63	4.16	(464bps)
USD Lending Rate (%)	10.84	9.49	8.55	7.79	7.90	7.49	(200bps)
USD Deposit Rate (%)	4.62	5.84	2.53	2.32	1.99	1.64	(420bps)

*year-on-year **The decline in assets in December 2019 is mainly due to the "netting" on the assets and liabilities' sides of the consolidated balance sheet of commercial banks as part of the implementation of international accounting standard IFRS 7
Source: Association of Banks in Lebanon, Banque du Liban, Ministry of Finance, Central Administration of Statistics, Byblos Research

Capital Markets

Most Traded Stocks on BSE	Last Price ($)	% Change*	Total Volume	Weight in Market Capitalization
Audi Listed	1.03	(1.90)	450,209	9.44%
Solidere "A"	15.25	4.38	338,284	23.76%
Solidere "B"	15.20	4.11	61,249	15.39%
Audi GDR	1.00	5.26	6,500	1.86%
BLOM Listed	2.80	(0.36)	5,001	9.38%
BLOM GDR	2.95	63.89	5,000	3.40%
Byblos Common	0.39	0.00	4,481	3.44%
HOLCIM	12.00	0.00	-	3.65%
Byblos Pref. 08	49.89	0.00	-	1.55%
Byblos Pref. 09	52.75	0.00	-	1.64%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Apr 2021	8.25	19.50	628.69
Oct 2022	6.10	18.38	102.17
Jan 2023	6.00	17.63	88.60
Jun 2025	6.25	17.88	39.82
Nov 2026	6.60	17.63	30.05
Feb 2030	6.65	17.25	19.49
Apr 2031	7.00	17.25	17.28
May 2033	8.20	16.63	14.67
Nov 2035	7.05	17.63	11.81
Mar 2037	7.25	18.00	10.65

Source: Byblos Bank Capital Markets, Refinitiv

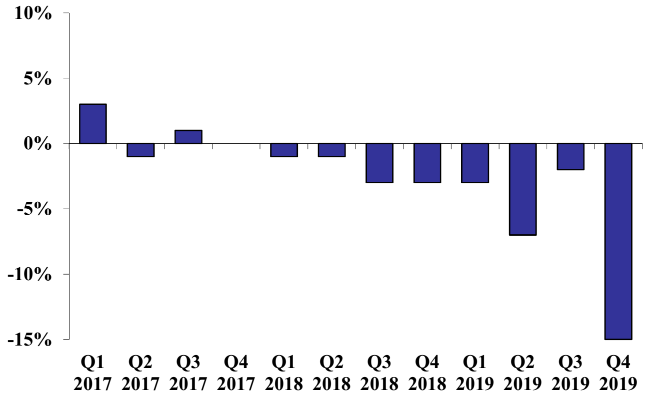
	Sep 7-11	Aug 31-Sep 4	% Change	Aug 2020	Aug 2019	% Change
Total shares traded	871,724	221,496	293.6	941,951	1,085,556	(13.2)
Total value traded	$6,513,333	$2,387,747	172.8	$10,392,324	$6,488,622	60.2
Market capitalization	$6.42bn	$6.24bn	2.9	$6.20bn	$7.87bn	(21.2)

Source: Beirut Stock Exchange (BSE)

Real GDP contracts by 7% in 2019 according to national accounts, shrinks by 15% in fourth quarter

The Central Administration for Statistics (CAS) released national economic data that covers official figures for quarterly gross domestic product (GDP) and its structure and components up until the fourth quarter of 2019. It considered that growth in small economies like Lebanon tend to be more rapid and that contractions are usually steeper than in larger economies. It noted that quarterly statistics can be volatile and should be used with caution.

Lebanon's Quarterly Real GDP (year-on-year % change)



Source: Central Administration of Statistics

The CAS estimated that Lebanon's real GDP contracted by 6.7% in 2019 relative to a contraction of 1.9% in 2018, as real GDP shrank by 3% year-on-year in the first quarter, by 7% in the second quarter, by 2% in the third quarter and by 15% in the fourth quarter of 2019.

In addition, it estimated Lebanon's nominal GDP at LBP80.8 trillion (tn), or $53.6bn in 2019, constituting a decline of 2.5% from LBP82.9tn, or $55bn in 2018. It estimated nominal GDP in the first quarter of 2019 at LBP20tn or $13.3bn, up by 1% from LBP19.8tn in the same quarter of 2018; while GDP in the second quarter of the year also totaled LBP20tn, or $13.3bn, and regressed by 4% from LBP20.9tn in the second quarter of 2018. Further, it indicated that the nominal GDP in the third quarter of 2019 stood at LBP21.7tn, or $14.4bn, up by 2% from LBP21.2tn in the same quarter of 2018; and GDP in the fourth quarter of the year reached LBP19.2tn, or $12.7bn, and declined by 9% from LBP21tn in the fourth quarter of 2018.

In parallel, real estate services accounted for 17.3% of output in 2019, followed by commercial trade & transport (16.1%); public administration, education & health (14.7%); personal services, private education & health (13.6%); mining, manufacturing & utilities (10.8%); financial services (9.6%); business services (6.7%); agriculture, livestock, forestry & fishing and hotels & restaurants (3.2% each); construction (2.7%); and information & communication (2.1%). Further, the output of the real estate sector and of financial services grew by 5% each in nominal terms in 2019, followed by personal services, private education & health (+3.7%); and public administration, education & health (+2.3%). In contrast, the output of the construction sector contracted by 33.7% in nominal terms in 2019, followed by activity in the information & communication sector (-7.7%); the agriculture, livestock, forestry & fishing sector (-7.4%); and business services (-7.3%). The output of the commercial trade & transport sector also declined by 6% in 2019, while activity in the mining, manufacturing & utilities sector and in hotels & restaurants regressed by 5% each.

Moreover, the output of the agriculture, livestock, forestry & fishing sector grew by 6% in real terms in 2019, while activity in the real estate sector expanded by 3% in real terms last year. In contrast, the output of the construction sector contracted by 29% in real terms in 2019, followed by activity in the business services industry (-15%); the mining & utilities sector (-13%); the hotels & restaurants industry (-12%); the commercial trade & transport sector (-11%); the information & communication sector (-9%); the financial services sector (-4%); and personal services, private education & health (-2%). Activity in public administration, education & health was unchanged in real terms in 2019.

Banque du Liban credit lines benefit 29,000 recipients

Banque du Liban (BdL) indicated that it extended to banks and financial institutions $400m in exceptional credit lines under Intermediate Circular 552 that it issued on April 22, 2020. It noted that it extended $328m or 82% of the aggregate amount, in order for banks to provide exceptional loans denominated in US dollars, while the balance of $72m, or 18% of the total, was earmarked for loans denominated in Lebanese pounds. It added that 29,000 entities, companies and individuals benefited from these credit faculties. Also, it noted that 74% of the exceptional credit lines went for the payment of monthly installments of existing loans of companies and individuals, 11% covered employees' salaries, 9% went for operating expenditures, while the balance of 6% covered production-related spending of enterprises.

Intermediate Circular 552 asked banks and financial institutions operating in Lebanon to extend, exceptionally, loans in Lebanese pounds or US dollars to clients that already have credit facilities and that were unable to meet their obligations during March, April, May and June 2020 because of the prevailing challenging conditions. Also, the circular stipulated that the exceptional loans will not be subject to any fee, commission, or interest rate, while the beneficiary will pay the loan over a period of five years.

Association of Banks requests clarifications about Banque du Liban Circular 154

The Association of Banks in Lebanon (ABL) requested clarifications from Banque du Liban (BdL) about the content of Circular 154 that was issued on August 27, 2020.

The ABL requested further information about how banks should proceed with the proper evaluation of their assets and liabilities in an attempt to meet BdL's capitalization, solvency and liquidity requirements, and stressed that such measures are contingent on the new government's comprehensive plan to put the Lebanese economy back on a sustainable footing.

Also, the association indicated that the circular places on banks the obligation to "urge" their customers, who have transferred abroad since July 2017 the equivalent of $500,000 or more, to deposit an amount equivalent to 15% of the total amount of transferred funds in a "special account". However, it noted that the circular does not specify how the bank is considered to have fulfilled the obligation of "urging" its clients, and whether it should be done through a warning to the client or in any other way. Also, it pointed out that the circular does not stipulate how the transferred sums are calculated, if the measures apply to all transfers regardless of the intended use of the funds, or if the calculation of amounts to be repatriated is based on the final balance from any previously transferred funds. It added that it is ambiguous whether the contents of the circular apply to holders of fiduciary deposits, non-resident accounts, as well as accounts held by companies or associations, or whether it includes the purchases and transfers of movable assets, as well as transfers in payment of real estate purchases, among other expenses.

In addition, the ABL pointed out that the circular does not specify if the customer should repatriate 15% of the amount exceeding the equivalent of $500,000 or 15% of the entire amount. It added that it is also unclear if such measures apply to transfers from joint accounts, or from accounts that have been closed and whose owners are no longer clients of the bank. It also pointed out that the circular stipulates that the funds should be "deposited" and not "transferred from abroad", which raises the question if a client can deposit funds from another account he or she holds at a different bank operating in Lebanon. Also, the ABL indicated that the wording that Circular 154 uses to define major shareholders, top bank management, and politically-exposed persons needs to be more precise.

Third, the association expressed concerns about subjecting a bank to measures and penalties stipulated in Law 44 about Fighting Money Laundering and Terrorist Financing, in case the bank fails to "urge" its customers to repatriate the transferred funds. Also, it asked whether any customer who does not respond to the bank's "urging", despite having verified that the transfers were not a product of corruption or tax evasion or any act considered as money laundering, would be subject to penalties under Law 44. As such, it inquired about how authorities would implement this penalty, since the client is not under any obligation to return the money and since the bank only has to "urge" its customers to repatriate the funds. Also, it raised the question about the application of such penalties to non-resident customers with deposits at Lebanese banks.

In parallel, the ABL expressed concerns that the circular would undermine what remains of the confidence of clients and depositors in the banking sector, as it requires them to repatriate funds that they transferred in accordance with the provisions of the laws that were in force at the time of the transfer. Also, the association asked if customers agreed to repatriate to Lebanon 15% of the funds they transferred abroad, how can they be assured that BdL will not issue a new circular that raises the share of funds to be transferred back. It added that banks are concerned that about the unequal enforcement of Circular 154, as the latter asks importers to transfer from abroad funds that they may no longer possess, while clients who transferred amounts that are less than $500,000 are exempt from the circular.

Further, the ABL expressed concerns about the possible resignation of members of the banks' board of directors, mainly independent board members who agreed to stay on despite the challenging operating conditions, as a means for them to avoid repatriating 30% of any funds they had transferred. It said that banks are also concerned about the possible negative repercussions of the circular on correspondent banking relationships, as the circular presumes that the transfers in question, as well as the repatriated funds, fall under concealed money laundering operations.

Revenues through Port of Beirut down 43% to $62m in first half of 2020

Figures released by the Port of Beirut show that the port's revenues reached $61.6m in the first half of 2020, constituting a decline of 43.1% from $108.1m in the same period of 2019. The Beirut port processed 2.2 million tons of freight in the covered period, decreasing by 36.1% from 3.5 million tons in the first half of 2019. Imported freight amounted to 1.9 million tons in the first half of the year, down by 39.2% from 3.1 million tons in the same period of 2019, and accounted for 84.3% of total freight. In parallel, export cargo reached 352,000 tons in the covered period, down by 11.1% from 396,000 tons in the first half of 2019, and accounted for 15.7% of total freight in the first half of 2020. A total of 737 vessels docked at the port in the covered period, down by 14.4% from 861 ships the same period of 2019.

In parallel, revenues generated through the Port of Tripoli reached $4.9m in the first half of 2020, constituting a decrease of 41.3% from $8.4m in the same period of 2019. The Tripoli port handled 864,892 tons of freight in the first half of the year, down by 25.4% from 1.15 million tons in the first half of 2019. Imported freight amounted to 655,056 tons in the first half of 2020, down by 18.7% from 805,490 tons in the same period of last year. It accounted for 75.7% of total freight in the covered period. In parallel, export cargo reached 209,836 tons, or 24.3% of total freight, and decreased by 40.6% from 353,459 tons in the first half of 2019. A total of 229 vessels docked at the port in the first half of 2020, decreasing by 26.4% from 311 ships in the same period of 2019.

Fiscal deficit equivalent to 32.5% of expenditures in first half of 2020

Figures released by the Ministry of Finance show that the fiscal deficit reached $2.22bn in the first half of 2020 and narrowed by 8.1% from a deficit of $2.42bn in the same period of 2019, based on the official exchange rate of the Lebanese pound. The deficit was equivalent to 32.5% of total budget and Treasury expenditures relative to 29.6% of spending in the same period last year. Government spending reached $6.84bn in the first half of 2020 and decreased by 16.3% from the first half of 2019, while revenues stood at $4.61bn and regressed by 19.8% year-on-year. As such, the widening of the deficit was caused by a drop of $1.34bn in spending due to lower debt servicing cost and Treasury transfers to Electricité du Liban (EdL), which was partly offset by a decline of $1.14bn in revenues.

On the revenues side, tax receipts decreased by 28% year-on-year to $3.33bn in the first half of 2020, of which 17%, or $564.4m, were in VAT receipts that dropped by 50% annually. Tax receipts accounted for 84.1% of budgetary revenues and for 72.3% of Treasury and budgetary income in the covered period. The distribution of other tax revenues shows that revenues from taxes on income, profits & capital gains declined by 23.1% to $1.66bn in the first half of 2020; revenues from customs dropped by 32.4% to $423.2m; receipts from property taxes grew by 2.2% to $322.8m; while revenues from taxes on goods & services rose by 7.2% to $227.8m, and proceeds from stamp fees fell by 28.4% to $132.5m.

The distribution of income tax receipts shows that the tax on interest income accounted for 72.4% of income tax revenues in the first half of 2020, followed by the tax on wages & salaries with 15.1%, the tax on profits with 10.1%, and the capital gains tax with 2.1%. Receipts from the tax on interest income surged by 49.4%, while revenues from the tax on capital gains dropped by 81.2%, revenues from the tax on profits decreased by 80.4%, and proceeds from the tax on wages & salaries dipped by 17.6%, in the covered period. Also, revenues from real estate registration fees grew by 47.6% to $243.6m, while receipts from the built property tax dropped by 47.4% to $58.6m and revenues from the inheritance tax fell by 47.8% to $20.6m in the first half of 2020.

Further, non-tax budgetary receipts declined by 29.5% year-on-year to $632.6m in the covered period. They mainly included $330.6m in revenues generated from government properties that fell by 38.8%, as well as $192.2m in receipts from administrative fees and charges that decreased by 27.6% annually. Receipts from telecommunication services dropped by 44.4% to $199m in the first half of 2020, and accounted for 60.2% of income from government properties and for 31.5% of non-tax budgetary revenues. In parallel, Treasury receipts surged by 183.1% to $647m in the covered period, due to Banque du Liban's repayment to the Ministry of Finance interest payments on its holdings of debt-denominated in Lebanese pounds for the first quarter of this year.

On the expenditures side, total budgetary spending, which includes general expenditures and debt servicing, declined by 19.7% to $6.04bn in the first half of 2020. General spending regressed by 2.1% to $4.7bn in the covered period, and included $433.6m in transfers to EdL that dropped by 39.6% year-on-year, and $1.26bn in outlays from previous years that rose by 10.4% annually, among other general spending items. Also, debt servicing totaled $1.35bn in the first half of 2020 and dropped by 50.6% from the first half of 2019. Interest payments on Lebanese pound-denominated debt regressed by 26.1% year-on-year to $1.14bn in the first half of 2020, while debt servicing on foreign currency debt fell by 87.6% to $134.9m, due to the government's decision to suspend all payments on its outstanding Eurobonds starting in March 2020. In addition, Treasury expenditures, excluding transfers to EdL, grew by 22.5% year-on-year to $798.2m in the covered period. Further, the primary budget balance posted a deficit of $725m in the first half of 2020, equivalent to 12% of budgetary expenditures, while the overall primary balance registered a deficit of $876.2m, or 12.8% of spending.

Fiscal Results in First Half of Each Year

	2019 (US$m)	2020 (US$m)	Change (%)
Budget Revenues	5,524	3,966	-28.2%
Tax Revenues	4,627	3,334	-27.9%
Non-Tax Revenues	898	633	-29.5%
of which Telecom revenues	*358*	*199*	*-44.4%*
Budget Expenditures	7,521	6,039	-19.7%
Budget Surplus/Deficit	**(1,997)**	**(2,072)**	**3.8%**
In % of budget expenditures	*-26.5%*	*-34.3%*	
Budget Primary Surplus	**731**	**(725)**	
In % of budget expenditures	*9.7%*	*-12.0%*	
Treasury Receipts	229	647	183.1%
Treasury Expenditures	651	798	22.5%
Total Revenues	5,753	4,613	-19.8%
Total Expenditures	8,173	6,837	-16.3%
Total Deficit	**(2,420)**	**(2,223)**	**-8.1%**
In % of total expenditures	*-29.6%*	*-32.5%*	
Total Primary Surplus/Deficit	**307.9**	**(876.2)**	
In % of total expenditures	*3.8%*	*-12.8%*	

Source: Ministry of Finance, Byblos Research

Finance Ministry signs three contracts to audit Banque du Liban

The Ministry of Finance in the caretaker government signed contracts with three international professional services firms to audit Banque du Liban (BdL). The minister signed a contract with U.S.-based financial services firm Alvarez & Marsal Middle East Limited (A&M) to carry out a forensic audit of BdL, while he signed two other contracts with international accounting and auditing firm KPMG and management consulting firm Oliver Wyman in order to conduct an accounting and financial audit of BdL.

Under its contract agreement with the Ministry of Finance (MoF), A&M will conduct a preliminary forensic audit of BdL's activities and accounts. It will validate that the funds related to the financial transactions that occurred in or through BdL's accounts in the last five years have been used for their intended purposes. It will also examine if there were any amounts in these transactions that were inflated or unsubstantiated, and if any payments were made to 'fictitious' companies. Further, it will assess, review and analyze any potential “red flags that could indicate inappropriate financial reporting schemes, misappropriations, embezzlement, or the inappropriate use of funds”. In addition, it will examine how the assets and liabilities of BdL have accumulated over time, as well as the composition of BdL's foreign currency reserves. It will also assess the conditions surrounding the issuance of government debt and BdL's subscription to debt instruments, and will examine the financial engineering transactions of the last five years, among other tasks.

In addition, A&M will review the compliance and internal controls procedures that BdL has in place, and will evaluate if such procedures are sufficient to prevent financial inconsistencies and misappropriation. The contract stipulates that the firm will produce the preliminary forensic audit report 10 weeks after it begins its task. The report will contain the auditor's “conclusive evidence and irrefutable findings”, areas that need further investigations, and any challenges that the firm faced and that prevented it from completing its mandate.

In parallel, Oliver Wyman will review BdL's current balance sheet, examine the nature of BdL's foreign currency reserves and other relevant assets, develop a pro-forma balance sheet of BdL based on international accounting principles, as well as assess the nature of BdL's past profits and losses. The firm indicated that it will perform an in-depth analysis of BdL's financial position, based on BdL's audited balance sheets and on KPMG's work on identifying and documenting accounting practices that BdL currently conforms with. It will then provide its view on how these practices reconcile with international accounting standards. Further, the company will provide a comprehensive assessment of BdL's current foreign currency reserves, and will check the accounting treatment and valuation of BdL's gold reserves. It will also compare the adjusted profit and loss statements of BdL with the latter's underlying policy objectives, as well as examine the effects of the financial engineering operations that BdL has conducted over the last five years, and review the adequacy of the treatment of future expected profits.

Further, the contract with KPMG consists of four phases. First, it will assess the statement of financial position of BdL as at December 31, 2018, in order to obtain a better understanding of BdL’s activities, the nature of the transactions performed and the financial position as presented by BdL. Second, it will review a revised accounting framework that will be proposed by the MoF with the technical support of Oliver Wyman. Third, KPMG will audit of BdL's special purpose balance sheet as at December 31, 2019, which will serve as a basis for the audit of the special purpose financial statements of 2020. Fourth, the firm will audit the special purpose financial statement of BdL as of end-2020.

Value of cleared checks down 4%, returned checks down 24% in first eight months of 2020

The value of cleared checks reached $36.1bn in the first eight months of 2020, constituting a decrease of 3.5% from $37.4bn in the same period of 2019. In comparison, the value of cleared checks declined by 15.2% year-on-year in the first eight months of 2019 and by 3.7% annually in the same period of 2018. The value of cleared checks in Lebanese pounds regressed by 9% year-on-year to the equivalent of $12.8bn in the first eight months of 2020, while the amount of cleared checks in foreign currencies was nearly unchanged at $23.3bn in the covered period. The dollarization rate of cleared checks expanded from 62.4% in the first eight months of 2019 to 64.5% in the same period of 2020. There were 4 million cleared checks in the first eight months of 2020, down by 42.3% from 7 million cleared checks in the same period of 2019.

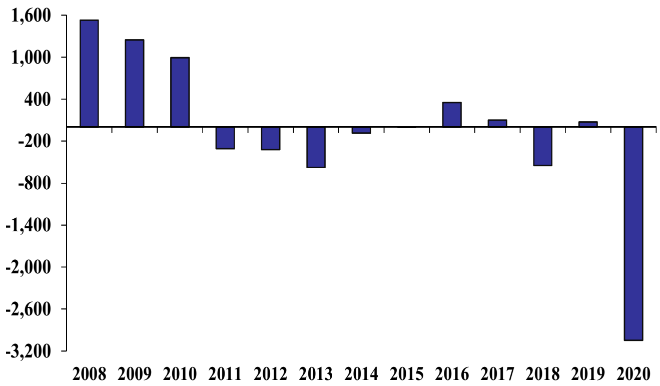
In addition, the value of cleared checks reached $3.8bn in August 2020, constituting a decline of 33.4% from $5.8bn in the preceding month, and compared to $4.8bn in August 2019. The value of cleared checks in Lebanese pounds decreased by 23.2% from the equivalent of $1.9bn in July 2020 to $1.4bn in the covered month; while the amount of cleared checks in foreign currencies dropped by 38.3% month-on-month to $2.4bn in August 2020. There were 402,752 cleared checks in August 2020 relative to 535,224 cleared checks in the preceding month.

In parallel, the amount of returned checks in domestic and foreign currencies was $701.2m in the first eight months of 2020 compared to $926m in the same period of 2019 and to $1.02bn in the first eight months of 2018. This constitutes a decline of 24.3% in the first eight months of 2020 relative to a decrease of 9% in the same period of 2019. Also, there were 91,046 returned checks in the covered period, down by 47.5% from 173,409 returned checks in the first eight months of 2019. Further, the amount of returned checks in domestic and foreign currencies was stood at $54.4m in August 2020, constituting a decrease of 31.1% from $78.9m in the previous month, and compared to $108.8m in August 2019. Also, there were 4,698 returned checks in August 2020, down by 29.6% from 6,677 returned checks in July 2020.

Net foreign assets of financial sector down by $5.5bn in first seven 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 $5.5bn in the first seven months of 2020 compared to a decrease of $5.32bn in the same period of 2019. The cumulative deficit in the first seven months of the year was caused by a drop of $7.2bn in the net foreign assets of BdL, which was partly offset by an increase of $1.68bn in those of banks and financial institutions. The deficit in the covered period reached its widest level in the first seven months of a year since BdL started to publish data in 1993. on record, mainly due to sustained drawdowns of BdL's foreign currency reserves amid the drying up of capital inflows after the government defaulted on its foreign obligations in March, as well as due to the growing burden on BdL to subsidize an increasing range of imported products. Further, the net foreign assets of the financial sector regressed by $3.05bn in July 2020 compared to a decline of $296m in June 2020 and to an increase of $72.5m in July 2019. The deficit in July 2020 reached its widest monthly level on record. The July decline was caused by a drop of $2.8bn in the net foreign assets of BdL and a decrease of $266.5m in those of banks and financial institutions.

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



Source: Banque du Liban

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 at 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, wheat, medicine, medical products, basic food products, milk for babies who are less than one year old, as well as raw materials that are used in the manufacturing of medicine and in the agro-food industry.

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 $5.85bn in 2019. They increased by the equivalent of 2.4% of GDP in 2016, and decreased by the equivalent of 0.3% of GDP in 2017, 8.8% of GDP in 2018, and 11.2% of GDP in 2019.

Implementation of reforms is key to unlock international aid

Bank of America (BofA) pointed out that the Lebanese authorities' implementation of structural reforms will be crucial to unlock international funding to support the economy. But it pointed out that the entrenched vested interests of Lebanon's political class could hinder reforms. It also considered that the government's ability to service its external debt under a restructuring proposal could weaken, in case authorities fail to implement the necessary reforms to unlock rapid external support.

It indicated that the initiative of French President Emmanuel Macron could represent a path towards the implementation of reforms and could unlock international assistance. It added that potential positive developments in the relations between the U.S. and Iran after the upcoming U.S. presidential elections could have favorable spillover effects on Lebanon's domestic political backdrop and, in turn, increase the likelihood of reforms and international aid. However, it cautioned against a scenario where the political class could implement the minimum number of reforms to temporarily reduce pressure from the international community.

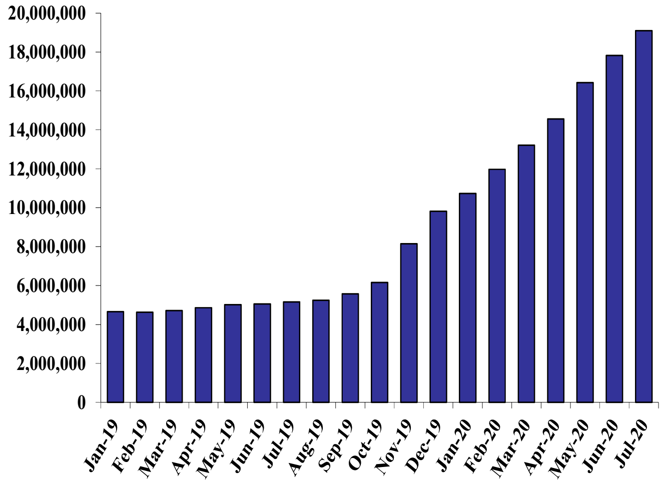
Also, the investment bank considered that Lebanon's new borrowing needs from multilateral institutions, following the August 4 explosion at the Port of Beirut, could imply deeper haircuts on Eurobonds. It indicated that the government's additional international borrowing needs, which the World Bank estimated at between $1.8bn and $2.2bn, or between 3.4% of GDP and 4.2% of the 2019 GDP, are outside the scope of any debt restructuring exercise, and could therefore impact the debt sustainability analysis. As such, it noted that additional haircuts on local- and foreign-currency debt may be needed to reduce the government's debt to the targeted level of about 100% of GDP, in case the new government decides to implement the financial plan produced by the caretaker government.

Further, BofA indicated that the Beirut Port explosion could reduce customs receipts and tax revenues, which would widen the fiscal deficit. It also noted that some companies that have been affected by the blast may not be able or willing to resume their operations. As such, it said that the deteriorating trade links between Lebanese firms and companies abroad could reduce imports and, in turn, support the current account balance; but it noted that this would be at the cost of slower economic activity and higher inflation. It added that the pace and extent of the reconstruction of the port could impact the country's medium-term import and export ability and, in turn, the country's inflation and growth prospects. It considered that the reconstruction of the Port of Beirut will constitute a key test to the implementation of institutional governance reforms.

Broad money supply down 4%, currency in circulation up 95% in first seven months of 2020

Figures released by Banque du Liban show that money supply M1, which includes currency in circulation and demand deposits in Lebanese pounds, reached LBP28,668bn at the end of July 2020, constituting an increase of 72.5% from LBP16,620bn at the end of 2019 and a rise of 165.5% from LBP10,800bn at end-July 2019. Currency in circulation stood at LBP19,101bn at the end of July 2020, up by 94.6% from LBP9,818bn at end-2019 and by 270.3% from LBP5,159bn at end-July 2019. Also, demand deposits in local currency reached LBP9,567bn at the end of July 2020, constituting an increase of 40.6% from end-2019 and a rise of 69.6% from end-July 2019. Money supply M1 rose by 6.2% in July from LBP27,002bn at end-June 2020, with currency in circulation growing by 7.2% and demand deposits in local currency expanding by 4.1% month-on-month. The increase in money supply largely reflects the migration of term deposits to demand deposits, as well as the shift to a cash-based economy.

Currency in Circulation (LBP Millions)



Source: Banque du Liban, Byblos Research

In addition, money supply M2, which includes M1 and term deposits in Lebanese pounds, reached LBP59,170bn at the end of July 2020, constituting a decrease of 6.8% from LBP63,484bn at the end of 2019 and a decline of 19.7% from LBP73,729bn a year earlier. Term deposits in Lebanese pounds totaled LBP30,502bn at the end of July 2020, down by 35% from LBP46,864bn at end-2019 and by 51.5% from LBP62,929bn at end-July 2019. Money supply M2 grew by a marginal 0.6% in July from LBP58,820bn at end-June 2020, with term deposits in local currency declining by 4.1% month-on-month.

Further, broad money supply M3, which includes M2, deposits in foreign currency and debt securities issued by the banking sector, reached LBP195,195bn at the end of July 2020, constituting a decrease of 3.8% from LBP202,831bn at the end of 2019 and a decline of 7.7% from LBP211,565bn at end-July 2019. Deposits in foreign currency totaled LBP135,535bn at the end of July 2020, declining by 2.4% from end-2019 and by 1.4% from a year earlier. Also, debt securities issued by the banking sector amounted to LBP490bn at the end of July 2020, compared to LBP437bn at the end of 2019 and to LBP431bn at end-July 2019. Money supply M3 was nearly unchanged from LBP195,197 at the end of June 2020, with deposits in foreign currency declining by a marginal 0.3% and debt securities issued by the banking sector decreasing by 0.8% month-on-month. In parallel, M3 regressed by LBP7,636bn in the first seven months of 2020, due to a drop of LBP12,905bn in claims on the private sector, a decline of LBP10,362bn in net claims on the public sector and a decrease of LBP2,139bn in the net foreign assets of deposit-taking institutions, which were partly offset by a rise of LBP17,770bn in other net items.

Eighty seven percent of Treasury securities in Lebanese pounds have five-year maturities or longer

Figures released by the Association of Banks in Lebanon (ABL) show that the face value of outstanding Treasury securities denominated in Lebanese pounds reached LBP86,934bn, or the equivalent of $57.7bn at the official exchange rate of the Lebanese pound against the US dollar, at the end of July 2020, compared to LBP79,413bn, or $52.7bn, at the end of July 2019. The weighted interest rate on Lebanese Treasury securities denominated in Lebanese pounds was 6.49% in July 2020 compared to 6.4% in July 2019.

The distribution of outstanding Treasury securities denominated in Lebanese pounds at end-July 2020 shows that 15-year Treasury bonds accounted for 1.6%, or LBP1,417bn, of aggregate securities in Lebanese pounds; 12-year Treasury securities represented 3.5% of the total (LBP3,076bn); and 10-year Treasury bonds had a share of 37.8% (LBP32,818bn). Also, the share of eight-year Treasury securities was 2.1% (LBP1,832bn), seven-year Treasury bonds represented 18.7% (LBP16,238bn), five-year Treasury securities accounted for 23% (LBP19,933bn), the share of three-year Treasury bonds was 10.3% (LBP8,995bn), two-year Treasury bills represented 1.8% (LBP1,540bn), one-year T-bills accounted for 1.1% (LBP964bn), the share of six-month T-bills was 0.1% (LBP75bn), and three-month T-bills represented 0.05% (LBP46bn) of the total. As such, 63.7% of outstanding Treasury securities have seven-year maturities or longer and 86.6% have five-year maturities or more.

In parallel, LBP563bn in outstanding Treasury securities denominated in Lebanese pounds matured in July 2020, of which 33.2% were three-year Treasury bonds, 26.8% were two-year Treasury securities, 24.5% were five-year Treasury bonds, 7.8% were one-year T-bills, 4.1% were three-month Treasury bills, and 3.6% were six-month T-bills. According to ABL, LBP5,881bn, or the equivalent of $3.9bn of outstanding Treasury bonds in Lebanese pounds, will mature in the remainder of 2020, while LBP9,618bn ($6.38bn) will come due in 2021 and LBP9,641bn ($6.4bn) will mature in 2022.

Number of real estate transactions up 45% in first eight months of 2020

Figures released by the Ministry of Finance show that 45,047 real estate transactions took place in the first eight months of 2020, constituting an increase of 44.7% from 31,131 deals in the same period of 2019. In comparison, there were 38,102 real estate transactions in the first eight months of 2018 and 47,723 real estate deals in the same period of 2017. The number of transactions reached 7,438 in August 2020, down from 10,393 in July and relative to 5,747 deals in August 2019. The increase in real estate activity in August 2020 from the same month of 2019 mainly reflects the continuous migration of some deposits out of the banking sector towards real estate.

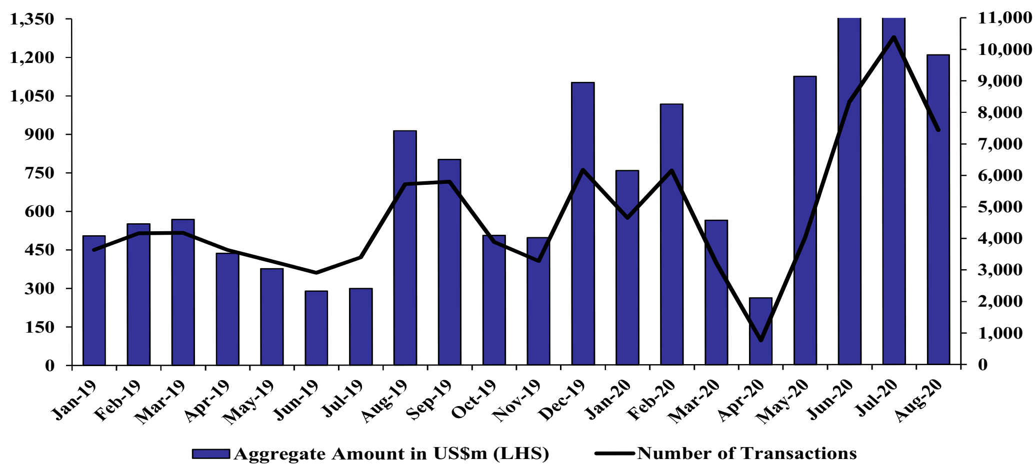
Further, there were 8,475 real estate transactions in the Baabda area in the first eight months of 2020, representing 18.8% of the total. The North region followed with 5,898 deals and the South with 5,884 transactions (13.1% each), then the Metn district with 5,750 deals (12.8%), the Keserwan region with 5,556 transactions (12.3%), the Zahlé area with 4,847 deals (10.8%), the Nabatieh area with 3,789 transactions (8.4%), and Beirut with 3,668 deals (8.1%).

The aggregate amount of real estate transactions reached $8.4bn in the first eight months of 2020 and increased by 113.1% from $3.9bn in the same period of 2019. In comparison, the amount of real estate deals regressed by 23.5% in the first eight months of 2019 and declined by 16.1% in the same period of 2018. The amount of transactions reached $1.2bn in August 2020, down from $1.79bn in July 2020 and up from $913m in August 2019. Further, the value of real estate transactions in Beirut totaled $2.88bn and accounted for 34.4% of the total in the first eight months of 2020. The Metn district followed with $1.46bn (17.5%), then the Baabda region with $1.4bn (17%), the Keserwan area with $982.4m (11.7%), the South with $694.1m (8.3%), the North with $407m (5%), the Zahlé area with $261.1m (3.1%), and the Nabatieh region with $233.9m (2.8%). The amount of real estate transactions in the Keserwan region increased by 153% in the first eight months of 2020, followed by deals in Beirut (+127.6%), the South (+125.8%), the Baabda area (+116.7%), the Nabatieh region (+110.4%), the Metn district (+92.7%), the Zahlé area (+74%), and the North (+53.5%).

In parallel, the average amount per real estate transaction was $186,230 in the first eight months of 2020, up by 47.2% from an average of $126,478 in the same period of 2019 and relative to an average of $135,074 in the first eight months of 2018. Further, there were 620 real estate transactions executed by foreigners in the first eight months of 2020, compared to 646 deals in the same period of 2019 and to 742 transactions in the first eight months of 2018. The number of real estate deals by foreigners accounted for 1.4% of total real estate transactions in the covered period, down from 2.1% in the first eight months of 2019 and from 1.9% in the same period of 2018.

Further, 25% of real estate transactions executed by foreigners in during the covered period were in the Baabda area, followed by Beirut (22.4%), the Metn district (17.7%), the South (9.7%), the Keserwan region (8.5%), the North (7.4%), the Zahlé area (7.3%), and the Nabatieh region (1.9%). Syrian citizens accounted for 21.4% of the amount of real estate transactions executed by foreigners in August 2020, followed by Saudi nationals (5.3%), citizens of the Dominican Republic (2%), Iraqi nationals (1.4%), and Emirati citizens (1.3%).

Number and Amount of Real Estate Transactions



Source: Ministry of Finance, Byblos Research

Compensation of public-sector personnel absorbs 71% of public revenues in first five months of 2020

Figures issued by the Ministry of Finance show that the compensation of public-sector personnel totaled $2.69bn in the first five months of 2020, constituting a decline of 3% from $2.77bn in the same period of 2019. Salaries, wages and related benefits accounted for 61.3% of the total in the covered period, followed by retirement benefits (29%), transfers to public institutions to cover salaries (4.9%), and end-of-service indemnities (4.7%).

The decrease in the compensation of public-sector personnel is mainly due to an annual decline of 63.6% in end-of-service indemnities, which was offset by a 3.5% increase in salaries, wages and related benefits, an 8.7% growth in retirement benefits and a 16.7% expansion in transfers to public institutions to cover salaries. The compensation of public-sector personnel represented the largest component of current primary spending and accounted for 70.7% of such expenditures in the first five months of 2020 compared to 75% in the same period of 2019. It accounted for 46.5% of fiscal spending in the covered period, relative to 40.4% from the same period of 2019; while it absorbed 71% of public revenues in the first five months of 2020 compared to 62% of government receipts in the same period of 2019.

In parallel, salaries, wages and related benefits paid to public-sector workers amounted to $1.65bn in the first five months of 2020, up by 3.5% from $1.59bn in the same period of 2019. This category includes basic salaries, employment benefits, allowances, contributions to civil servants' cooperatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly civil and religious judges, and employees at the Parliament. Salaries and benefits of military personnel reached $1.1bn and accounted for 66.4% of salaries, wages and related benefits paid to public sector employees in the first five months of 2020. The salaries and benefits of personnel in public education followed with $278.6m (17% of the total), then civil staff with $165.8m (10.1%), the government's contribution to the employees' cooperative with $90.2m (5.5%), and the salaries and benefits of customs employees with $18.6m (1.1%).

Also, the Lebanese Army's salaries totaled $703.8m in the first five months of 2020 and represented 64.3% of the salaries and benefits of military personnel. The salaries of the Internal Security Forces followed with $300.5m (27.5%), those of the General Security Forces with $67m (6.1%), and the salaries of State Security Forces with $23.2m (2.1%).

In addition, the breakdown of salaries, wages and related benefits paid to public-sector employees shows that allowances increased by $66.3m annually, and benefits and other payments given to non-military bodies rose by $33.2m; while basic salaries regressed by $44.4m year-on-year. Benefits include payments for transportation, overtime and family-related benefits, while other payments to non-military bodies include the State's contribution to the Mutual Funds and to the National Social Security Fund, as well as bonuses, among others. Basic salaries declined by 3.5% annually to $1.22bn in the first five months of 2020, allowances rose by 38% to $240.8m, and benefits and other payments grew by 23.7% year-on-year to $173.1m in the first five months of 2020.

Treasury transfers to Electricité du Liban down 34% to $403m in first five months of 2020

Figures released by the Ministry of Finance show that Treasury transfers to Electricité du Liban (EdL) totaled $402.7m in the first five months of 2020, constituting a drop of 33.5% from $605.6m in the same period of 2019.

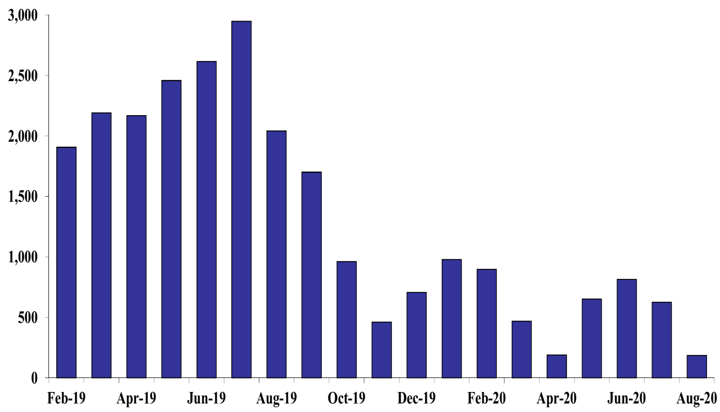
Reimbursements for the purchase of natural gas, fuel and gas oil reached $401.3m, or 99.7% of transfers, in the first five months of 2020, while EdL's debt servicing represented the balance of $1.3m, or 0.3% of the total. The decline in transfers is mainly due to a decrease of $203m in reimbursements for the purchase of natural gas, fuel and gas oil, which mostly consist of payments to the Kuwait Petroleum Corporation and to the Algerian energy conglomerate Sonatrach. Reimbursements regressed by about 33.6% from $604.3m in the first five months of 2019, while debt servicing increased by 15.2% year-on-year.

Treasury transfers to EdL accounted for 9% of budgetary primary expenditures in the first five months of 2020, relative to 13.5% in the same period of 2019. They constituted the third largest expenditures item, or 7% of overall fiscal spending, after public sector personnel costs and debt servicing. EdL transfers were equivalent to 5.1% of GDP in 2012, 4.3% of GDP in 2013, 4.4% of GDP in 2014, 2.3% of GDP in 2015, 1.8% of GDP in 2016, 2.5% of GDP in 2017, 3.2% of GDP in 2018, and 2.7% of GDP in 2019.

New car sales down 73.5% in first eight months of 2020

Figures released by the Association of Automobile Importers (AAI) in Lebanon show that dealers sold 4,808 new passenger cars in the first eight months of 2020, constituting a drop of 73.5% from 18,165 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, 188 new cars in April, 651 new vehicles in May, 815 new automobiles in June, 624 new cars in July, and 186 new vehicles in August 2020. In comparison, clients bought 1,838 new vehicles in January, 1,906 new automobiles in February, 2,190 new cars in March, 2,168 new vehicles in April, 2,458 new automobiles in May, 2,616 new cars in June, 2,948 new vehicles in July and 2,041 new automobiles in August 2019.

Number of Passenger Cars Sold



Source: Association of Automobile Importers

The market for new passenger cars in Lebanon has been facing increasing challenges in the past few years, including the contraction in economic activity, 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. Further, the AAI anticipated that importers of new cars incurred damages in the tens of millions of dollars as a result of the explosion at the Port of Beirut on August 4, 2020. It expected that a number of companies could close down and lay off a large number of their employees, and that car sales could further deteriorate in coming months. The association stopped releasing its monthly data on car sales by brand, distributor and source country since January 2020.

Beirut Port explosion to weigh on insurance sector

International rating agency AM Best expected that the explosion at the Port of Beirut on August 4, 2020 will further weigh on the operating environment of the insurance sector in Lebanon, given the damages to areas that are considered among the busiest in the country. It anticipated the explosion to affect the marine and property insurance lines. It also anticipated commercial properties, including hotels and restaurants, to account for a large share of insurance claims from the blast. However, the agency indicated that insurance penetration rates in Lebanon are generally low and that the property insurance segment represents only a small share of the Lebanese insurance industry, which is dominated by the life, medical and motor segments. Still, it noted that property insurance has been a growing line of business and accounted for 6% of total gross written premiums in 2018, as insurers have leveraged their relationships with policyholders to offset the weaker performing motor segment by cross-selling more profitable products.

In parallel, global reinsurer Munich Re estimated at more than EUR100m, or $118m, the expected claims that the firm will incur as a result of the Beirut Port explosion, while global reinsurer Hannover Re considered that the blast constitutes a "major loss" for the company. The firm classifies a "major loss" as one that generates claims in excess of EUR10m.

Also, Fitch Ratings indicated that initial estimates from the local insurance industry suggest that insured losses in Lebanon could reach about $3bn. It expected Lebanese insurers to undertake most of the primary insurance coverage, and for European reinsurers to share a large part of the losses. It said that the insurance industry estimated that only about 30% of the economic losses from the explosion were likely to be insured.

Figures released by the Insurance Control Commission show that the gross written premiums of 50 licensed insurance companies in Lebanon reached $1.61bn in 2019, constituting a decrease of 4% from $1.68bn in 2018. Medical insurance premiums totaled $540m in 2019 and accounted for 33.5% of the sector's aggregate premiums. Life insurance premiums followed with $471m (29.2%), then motor premiums with $334.3m (20.8%), and property & casualty insurance premiums with $266m (16.5%). Further, medical insurance premiums grew by 5.6% annually in 2019, while motor premiums dropped by 11.8%, life insurance premiums declined by 9.2%, and property & casualty insurance premiums regressed by 1.1% in 2019.

Ratio Highlights

(in % unless specified)	2017	2018	2019	Change*
Nominal GDP ($bn)	53.1	55.0	51.7	(3.3)
Public Debt in Foreign Currency / GDP	57.2	60.9	64.6	3.71
Public Debt in Local Currency / GDP	92.5	94.0	110.9	16.95
Gross Public Debt / GDP	149.7	154.9	175.6	20.66
Total Gross External Debt / GDP**	190.3	192.8	196.3	3.50
Trade Balance / GDP	(31.5)	(31.0)	(29.7)	1.27
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	257.7	0.59
Commercial Banks Assets / GDP	413.7	453.9	415.3	(38.64)***
Private Sector Deposits / GDP	317.4	317.1	304.3	(12.76)
Private Sector Loans / GDP****	112.3	108.1	95.3	(12.71)
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

National Accounts, Prices and Exchange Rates

	2018	2019e	2020f
Nominal GDP (LBP trillion)	82.8	81.4	142.0
Nominal GDP (US$ bn)	55.0	51.7	32.7
Real GDP growth, % change	-1.9	-7.3	-23.5
Private consumption	-1.3	-7.1	-17.1
Public consumption	6.7	1.5	-47.7
Gross fixed capital	-1.8	-10.7	-33.3
Exports of goods and services	0.5	-5.0	-35.1
Imports of goods and services	1.1	-4.5	-36.3
Consumer prices, %, average	6.1	2.9	95.4
Official exchange rate, average, LBP/US$	1,507.5	1,507.5	1,507.5
Parallel exchange rate, average, LBP/US$	n/a	1,620	5,587
Weighted average exchange rate LBP/US$	1,507.5	1,575	4,283

Source: Institute of International Finance- August 9, 2020

Ratings & Outlook

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

**for downgrade*
***CreditWatch negative*
Source: Rating agencies

Banking Sector Ratings	Outlook
Moody's Investors Service	Negative

Source: Moody's Investors Service

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