

LEBANON THIS WEEK

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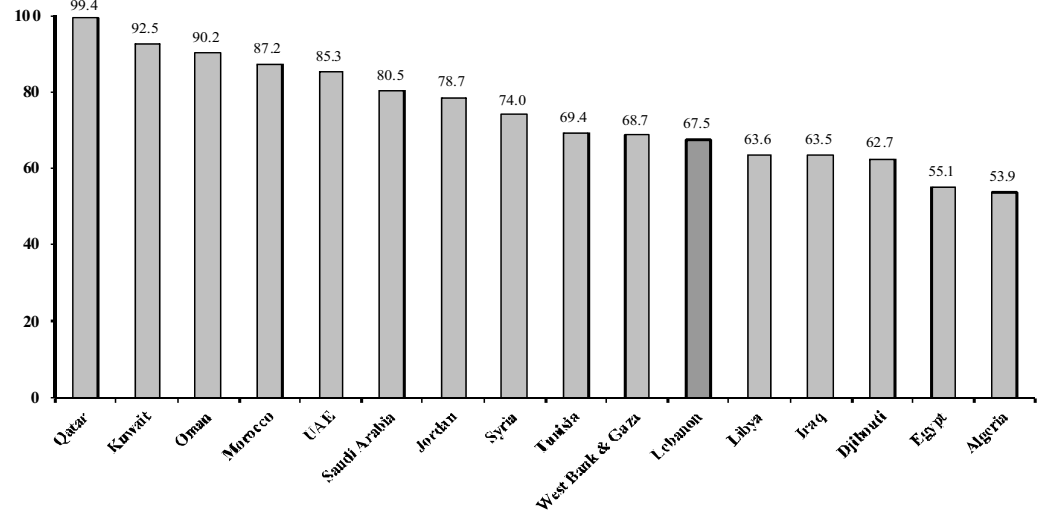
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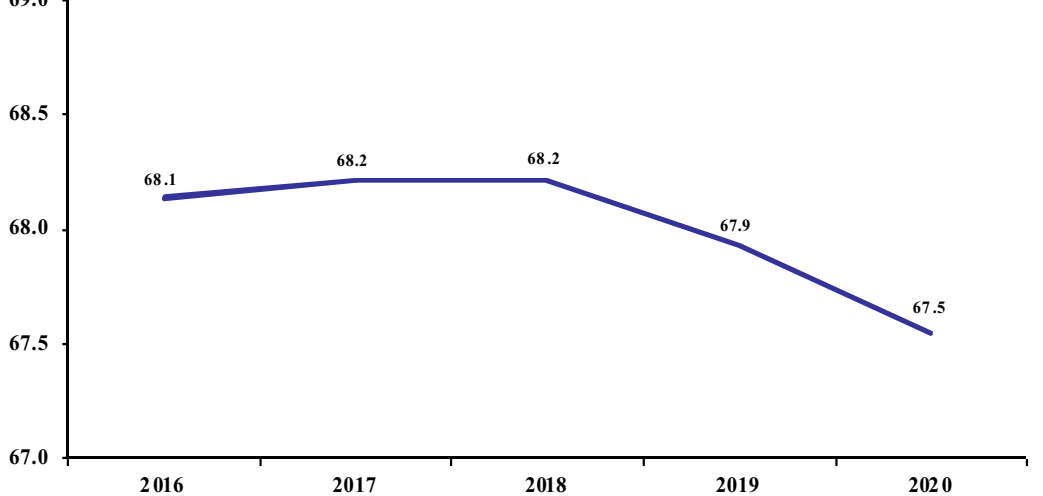
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Charts of the Week

Performance of Arab Countries in terms of Ease of Paying Taxes*



Lebanon's Performance in terms of Ease of Paying Taxes*



*The score takes into account the total amount of tax payments, the time taken to prepare, file and pay taxes, among other factors. A higher score reflects a more favorable environment for paying taxes

Source: World Bank Group Doing Business 2020, Byblos Bank

Quote to Note

"We note that countries looking to restructure their debt usually enter into IMF programs around the same time, as about 87% of the sovereign external debt restructurings since 2000 were done in combination with IMF programs."

Goldman Sachs, on the fact that the Lebanese government defaulted on its external obligations and decided to restructure its external debt without a program with the International Monetary Fund

Number of the Week

79.6%: Percentage of Lebanese who believe that their personal financial condition will deteriorate in the first six months of 2020, according to the results of the Byblos Bank/AUB Consumer Confidence Index for the fourth quarter of 2019

Lebanon in the News

\$m (unless otherwise mentioned)	2018	2019	% Change*	Dec-18	Oct-19	Nov-19	Dec-19
Exports	2,952	3,731	26.41	246	292	309	324
Imports	19,980	19,239	(3.70)	1,569	1,308	1,281	1,346
Trade Balance	(17,028)	(15,508)	(8.92)	(1,323)	(1,016)	(972)	(1,022)
Balance of Payments	(4,823)	(4,351)	(9.79)	(748)	(198)	1,143	(841)
Checks Cleared in LBP	22,133	22,146	0.06	2,024	1,378	2,232	2,403
Checks Cleared in FC	44,436	34,827	(21.62)	3,455	1,717	2,946	3,898
Total Checks Cleared	66,569	56,973	(14.42)	5,479	3,095	5,178	6,301
Fiscal Deficit/Surplus	(6,246)	(5,837)	(6.55)	(437)	(432)	(892)	(920)
Primary Balance	(636)	(287)	(54.82)	(145)	21	17	(521)
Airport Passengers	8,842,442	8,684,937	(1.78)	677,845	659,737	438,674	544,967
Consumer Price Index**	6.1	2.9	(317bps)	4.0	1.3	3.2	7.0

\$bn (unless otherwise mentioned)	Dec-17	Dec-18	Sep-19	Oct-19	Nov-19	Dec-19	% Change*
BdL FX Reserves	35.81	32.51	29.30	30.98	30.15	29.55	(9.1)
In months of Imports	18.57	20.72	19.99	23.68	23.54	21.95	5.9
Public Debt	79.53	85.14	86.78	87.08	89.48	91.64	7.6
Bank Assets	219.86	249.48	262.20	262.80	259.69	216.78***	(13.1)
Bank Deposits (Private Sector)	168.66	174.28	170.30	168.36	162.60	158.86	(8.8)
Bank Loans to Private Sector	59.69	59.39	54.50	54.17	52.48	49.77	(16.2)
Money Supply M2	52.51	50.96	46.73	45.77	43.82	42.11	(17.4)
Money Supply M3	138.62	141.29	138.83	138.37	136.44	134.55	(4.8)
LBP Lending Rate (%)	8.09	9.97	10.92	11.19	9.69	9.09	(88bps)
LBP Deposit Rate (%)	6.41	8.30	9.13	9.03	9.40	7.36	(94bps)
USD Lending Rate (%)	7.67	8.57	10.26	10.05	10.64	10.84	227bps
USD Deposit Rate (%)	3.89	5.15	6.57	6.61	6.31	4.62	(53bps)

*year-on-year **year-on-year percentage change; bps i.e. basis points ***The decline in assets in December 2019 is mainly due to the "netting" on the assets and liabilities' sides of the consolidated balance sheet of commercial banks as part of the implementation of international accounting standard IFRS 7

Source: Association of Banks in Lebanon, Banque du Liban, Ministry of Finance, Central Administration of Statistics, Byblos Research

Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "A"	9.00	1.58	718,969	14.62%
Byblos Common	0.90	2.27	102,901	8.27%
Solidere "B"	9.00	4.17	82,218	9.50%
BLOM Listed	3.83	(4.25)	351	13.38%
BLOM GDR	3.50	(9.09)	31	4.20%
Audi Listed	1.66	0.00	-	10.78%
HOLCIM	9.71	0.00	-	3.08%
Byblos Pref. 08	60.00	0.00	-	1.95%
Audi GDR	2.39	0.00	-	4.64%
Byblos Pref. 09	59.90	0.00	-	1.95%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Apr 2021	8.25	21.00	214.09
Oct 2022	6.10	22.00	69.13
Jan 2023	6.00	22.00	60.52
Jun 2025	6.25	22.50	30.60
Nov 2026	6.60	22.13	23.84
Feb 2030	6.65	22.38	15.64
Apr 2031	7.00	22.13	14.06
May 2033	8.20	21.75	11.93
Nov 2035	7.05	21.00	10.24
Mar 2037	7.25	22.25	9.03

Source: Byblos Bank Capital Markets, Refinitiv

	Mar 9-13	Mar 2-6	% Change	February 2020	February 2019	% Change
Total shares traded	909,470	314,707	189.0	1,729,973	121,955,414	(98.6)
Total value traded	\$7,156,909	\$2,580,583	177.3	\$11,322,149	\$569,916,249	(98.0)
Market capitalization	\$6.16bn	\$6.17bn	(0.22)	\$6.24bn	\$9.34bn	(33.2)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Mar 6, 2020	Mar 13, 2020	% Change**
CDS 1-year*	36,593	35,862	(2.0)
CDS 3-year*	22,775	22,491	(1.2)
CDS 5-year*	18,391	18,226	(0.9)

Source: ICE CMA; *mid-spread in bps **between March 6 and 12

CDX EM 30*	Mar 6, 2020	Mar 13, 2020	% Change***
CDS 5-year**	263.34	364.14	38.3

Source: ICE CMA; * CDX Emerging Market CDS Index-Series 30

mid-spread in bps *week-on-week

Agencies downgrade Lebanon's foreign currency ratings

Three rating agencies took actions on Lebanon's sovereign ratings following Prime Minister Hassan Diab's announcement on March 7, 2020 that the Lebanese Republic decided to withhold all payments on the \$1.2bn Eurobond that matured on March 9, 2020.

First, S&P Global Ratings downgraded Lebanon's long-term foreign currency sovereign rating from 'CC' to 'SD' (Selective Default), and the short-term foreign currency rating from 'C' to 'SD'. It considered that the government's decision to stop paying its foreign-currency debt obligations, including the \$1.2bn Eurobond, factored-in rising funding pressures, as well as widespread social and political protests and opposition to debt repayment. It noted that the Lebanese government plans to engage in debt negotiations with creditors in the coming months, which could include haircuts on principal and coupon payments, as well as an extension of maturities. However, it pointed out that negotiations could be complicated due to three reasons. First, it noted that, according to official statements, Lebanon is unlikely to request a funded program from the International Monetary Fund that could provide a policy anchor and encourage international financial support. Second, it said that one foreign investment fund holds more than 25% of the Eurobonds maturing in 2020, which gives the fund the ability to block restructuring terms. Third, the agency indicated that domestic banks and Banque du Liban hold over 60% of outstanding Eurobonds, which means that, depending on the severity of the terms of restructuring, haircuts on nominal payments could have a ripple effect across the economy and the financial system, including on depositors.

Second, Capital Intelligence Ratings downgraded Lebanon's long-term foreign currency rating from 'C-' to 'SD', and its short-term foreign currency rating from 'C' to 'SD'. It did not expect the government to pay the principal of the Eurobond during the seven-day grace period ending on March 16, 2020. It indicated that Lebanese authorities announced their intention to engage in "good faith discussions" with creditors to restructure all Eurobonds and in the meantime to refrain from making debt service payments on those instruments. S&P Global Ratings and Capital Intelligence Ratings indicated that they would remove the foreign currency ratings from 'SD' once Lebanon reaches an agreement with its creditors on a debt restructuring plan.

Third, Fitch Ratings downgraded Lebanon's long-term foreign currency Issuer Default Rating (IDR) from 'CC' to 'C'. It indicated that it assigns a 'C' rating to issuers with distressed obligations that have ceased or interrupted payments, including situations where an issuer has entered a grace period, or where an issuer has made a formal announcement of its intention to restructure its debt. It added that the Lebanese government's failure to service the maturing Eurobond during the grace period of seven days would lead to a further downward revision of the sovereign rating to 'RD' (Restricted Default) and to a downgrade of the rating on the specific bond to 'D' (Default).

In parallel, the three agencies affirmed their respective local currency ratings on Lebanon. They considered that the Lebanese government will continue to pay its local currency debt obligations for the time being. Specifically, S&P maintained the long- and short-term local currency ratings at 'CC/C', while Capital Intelligence Ratings affirmed its long- and short-term local currency ratings at 'C-/C'. In addition, Fitch Ratings kept Lebanon's long-term local currency IDR at 'CC'. The three agencies anticipate a restructuring of the local currency-denominated debt, and said that they will take the necessary actions on the ratings once the government reveals more details about the Lebanese pound-denominated debt.

Banque du Liban announces launch of Oxygen Fund to support industrial sector

Banque du Liban (BdL) announced that it will launch in April 2020 the "Oxygen Fund", which is a "financial rescue initiative" that aims to extend short-term credit facilities to help small- and medium-sized Lebanese industrial firms finance the import of raw materials. The initiative aims to raise around \$750m with the support of BdL, international investors, development finance institutions, and family offices. The project will also consist of a financial technology (fintech) company that will be based in Europe and that will provide loan settlement and other services.

The initiative will provide lending facilities in partnership with Lebanese banks and in coordination with the Association of Lebanese Industrialists (ALI) and the Ministry of Industry. It will constitute a more permanent solution for the import of raw materials, following the recent introduction of a temporary \$100m import facility for the industrial sector in February 2020. The platform will be managed by a Lebanese fintech expert and asset manager, in collaboration with senior members of the Lebanese International Finance Executives (LIFE) organization, and with the support from specialists in credit, trade finance and financial technology.

Earlier this month, the Ministry of Industry indicated that BdL would provide \$100m for the industrial sector in order to finance the import of raw materials that are utilized in the production process. However, the ALI considered that the \$100m would only cover the sector's imports of raw materials for a period of 12 to 15 days, as it estimated that the sector requires \$3bn in imports of raw materials annually.

Lebanon's industrial exports totaled \$2.5bn in 2019, constituting a decline of 2% from \$2.55bn in 2018. Exports of machinery & mechanical appliances amounted to \$492m and accounted for 19.7% of aggregate industrial exports in 2019, followed by chemical products with \$475.3m (19%), prepared foodstuffs & tobacco with \$389.8m (15.6%), base metals with \$310.4m (12.4%), plastics & rubber with \$159.1m (6.4%), and pearls or semi-precious stones with \$149.5m (6%). Arab countries were the destination of 53.2% of Lebanese industrial exports in 2019, followed by European economies with 18.6%, African countries with 11%, Asian economies with 10.8%, countries in the Americas with 4.8%, and markets in Oceania with 0.7%.



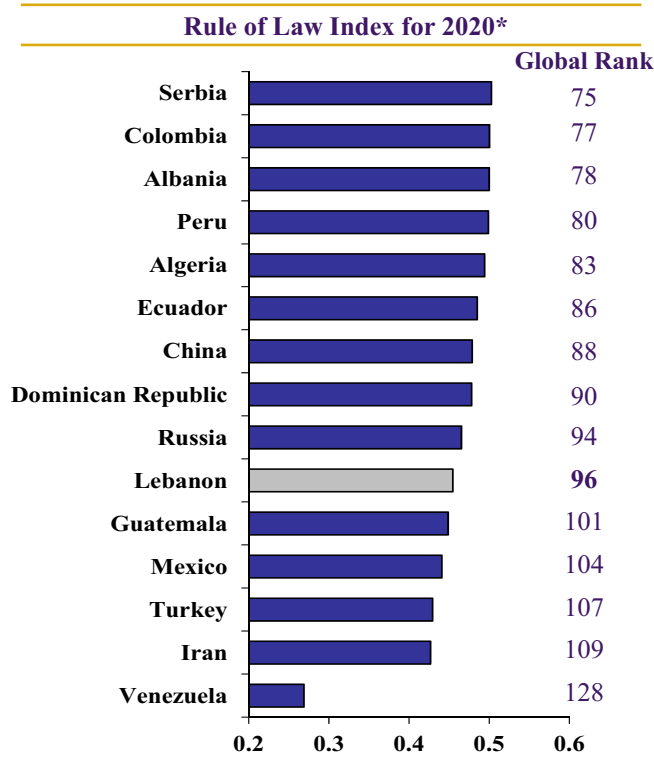
Lebanon ranks in 96th place globally on Rule of Law Index

The World Justice Project's Rule of Law Index for 2020 ranked Lebanon in 96th place among 128 countries around the world and in sixth place among eight countries in the Middle East & North Africa (MENA) region. Lebanon also came in 37th place among 42 upper middle-income countries (UMICs) included in the survey. Based on the same set of countries, Lebanon's global rank deteriorated by four spots from the 2019 survey, while its rank among MENA countries was unchanged year-on-year.

The index measures the implementation of the rule of law by aggregating 44 sub-factors into eight factors that are Constraints on Government Powers, Absence of Corruption, Open Government, Fundamental Rights, Order & Security, Regulatory Enforcement, Civil Justice, and Criminal Justice. The scores and rankings of each factor and sub-factor are based on the results of an opinion poll of the general public and of a survey of legal professionals in each country. The scores range from zero to one point, with a score of one point reflecting the strongest adherence to the rule of law. The general population poll covers the three major urban areas in each country. The Lebanon survey covered 1,000 participants in Beirut, Sidon and Tripoli.

Globally, the implementation of the rule of law in Lebanon is better than in the Zambia, Guatemala and Kenya, and is weaker than in Tanzania, Russia and Côte d'Ivoire among economies with a GDP of \$10bn or more. Also, the rule of law in Lebanon is more effective than only in Iran and Egypt in the MENA region. Lebanon received a score of 0.45 points in the 2020 survey, down from a score of 0.47 on the 2019 survey. Lebanon's score was lower than the global average score of 0.56 points, the UMICs' score of 0.53 points and the MENA region's average score of 0.5 points.

Lebanon came in the second-tier of countries on the Constraints on Government Powers factor; while it was in the third-tier of countries on the Absence of Corruption, Open Government, Fundamental Rights, Order & Security, Regulatory Enforcement, Civil Justice, and Criminal Justice factors.



*bottom 15 UMICs with a GDP of \$10bn or more

Source: World Justice Project, Byblos Research

Components of the 2020 Rule of Law Index for Lebanon

Factors	Global Rank	MENA Rank	UMICs Rank	Lebanon Score	Global Average Score	MENA Average Score	UMICs Average Score
Constraints on Government Powers	76	4	22	0.50	0.55	0.47	0.51
Absence of Corruption	101	8	38	0.36	0.52	0.50	0.49
Open Government	101	4	37	0.40	0.52	0.37	0.50
Fundamental Rights	88	2	32	0.50	0.57	0.43	0.55
Order and Security	92	7	29	0.66	0.72	0.72	0.70
Regulatory Enforcement	92	7	35	0.45	0.54	0.52	0.50
Civil Justice	110	7	39	0.42	0.55	0.53	0.53
Criminal Justice	100	8	35	0.35	0.47	0.45	0.44

Source: World Justice Project, Byblos Research

Association of Banks agrees on seven measures

State Prosecutor Ghassan Oueidat and the Association of Banks in Lebanon (ABL) agreed on March 10, 2020, on a pact of seven measures that banks in Lebanon will implement for a minimum period of one year. The first measure allows depositors that have relatively small-sized accounts to withdraw LBP25m or more per month from their accounts. The second measure enables customers to withdraw their entire monthly salary in Lebanese pounds upon their request. The third measure allows customers to transfer money abroad to cover tuition fees after providing their bank with documented proof. The fourth measure asks banks to process foreign transfers to finance the import of necessary medical supplies and equipment as per Banque du Liban's (BdL) circulars. The fifth measure requests banks to process foreign transfers to finance the imports of necessary food supplies, such as baby milk. The sixth measure prohibits banks from converting deposits denominated in foreign currency to Lebanese pounds without the consent of depositors. Finally, the seventh measure stresses on the free movement of fresh funds, in terms of withdrawals and foreign transfers.

In parallel, State Prosecutor Oueidat and the ABL indicated that another meeting with BdL Governor Riad Salamé will follow in order to establish a mechanism for the withdrawal of foreign currency-denominated deposits and salaries.



Fiscal deficit at \$5.8bn in 2019, equivalent to 34.5% of expenditures and 10.3% of GDP

Figures released by the Ministry of Finance show that the fiscal deficit reached \$5.8bn in 2019 and narrowed by 6.6% from a deficit of \$6.2bn in 2018. The deficit was equivalent to 34.5% of total budget and Treasury expenditures relative to 35.1% of spending in 2018. Government expenditures reached \$16.9bn in 2019 and declined by 5% from the previous year, while revenues regressed by 4.2% to \$11.1bn. As such, the narrowing of the deficit reflects an annual drop of \$890.3m in overall expenditures, which was partly offset by a decrease of \$481.2m in total revenues last year. The decline in spending is mostly due to a drop of \$643.5m in general expenditures.

On the revenues side, tax receipts decreased by 1.8% to \$8.3bn in 2019, of which 26%, or \$2.2bn, were in VAT receipts that dropped by 15.2% annually. Tax receipts accounted for 79% of budgetary revenues and for 75.1% of Treasury and budgetary income last year. The distribution of other tax revenues shows that receipts from taxes on income, profits & capital gains rose by 21% to \$3.6bn in 2019; revenues from customs regressed by 11.1% to \$1.2bn; receipts from property taxes dropped by 24.6% to \$569.4m; while revenues from taxes on goods & services fell by 4% to \$420.1m, and proceeds from stamp fees declined by 10.8% to \$356.4m.

The distribution of income tax receipts shows that the tax on interest income accounted for 51.5% of income tax revenues in 2019, followed by the tax on profits with 25.3%, the tax on wages & salaries with 16%, and the capital gains tax with 6.6%. Receipts from the tax on interest income surged by 55.8% and revenues from the tax on profits expanded by 1.4%; while revenues from the tax on capital gains dipped by 13.2%, and proceeds from the tax on wages & salaries were unchanged in 2019. Also, the distribution of property taxes indicates that revenues from real estate registration fees fell by 29.4% to \$348.4m and receipts from the built property tax retreated by 18.7% to \$152.2m, while revenues from the inheritance tax regressed by 8.1% to \$68.8m in 2019.

Further, non-tax budgetary receipts decreased by 2% to \$2.2bn in 2019. They mainly included \$1.4bn in revenues generated from government properties that regressed by 1.5%, as well as \$564.8m in receipts from administrative fees and charges that declined by 10%. Receipts from telecommunication services decreased by 11.5% to \$947.2m, and accounted for 66.2% of income from government properties and for 42.6% of non-tax budgetary revenues.

On the expenditures side, total budgetary spending, which includes general expenditures and debt servicing, declined by 4.3% to \$15.7bn in 2019. General spending decreased by 6% to \$10.1bn last year, and included \$1.5bn in transfers to Electricité du Liban (EdL) that regressed by 14.3%, and \$1.88bn in outlays from previous years that grew by 37.6%, among other general spending items. Also, debt servicing totaled \$5.55bn in 2019 and declined by 1.1% from 2018. Interest payments on Lebanese pound-denominated debt grew by 1.4% to \$3.2bn in 2019, while debt servicing on foreign currency debt declined by 4.6% to \$2.1bn. In addition, Treasury expenditures, excluding transfers to EdL, regressed by 13% to \$1.2bn last year, with transfers to municipalities growing by 1.2% to \$577m in 2019 and other transfers decreasing by 34.5% to \$403m. Further, the primary budget balance posted a surplus of \$433.6m in 2019, or 2.8% of budgetary expenditures, while the overall primary balance registered a deficit of \$287.2m, or 1.7% of spending.

Comparative Fiscal Results (% of GDP)		
	2018	2019
Budget Revenues	19.5%	18.6%
Tax Revenues	15.4%	14.6%
Non-Tax Revenues	4.1%	3.9%
<i>of which Telecom revenues</i>	<i>1.9%</i>	<i>1.7%</i>
Budget Expenditures	29.8%	27.6%
Budget Surplus/Deficit	(10.2%)	(9.0%)
Budget Primary Surplus	(0.02%)	0.8%
Treasury Receipts	1.5%	0.9%
Treasury Expenditures	2.6%	2.2%
Total Revenues	21.0%	19.5%
Total Expenditures	32.4%	29.7%
Total Deficit	(11.4%)	(10.3%)
Total Primary Surplus/Deficit	(1.2%)	(0.5%)

Source: Ministry of Finance, Institute of International Finance, Byblos Research

Penalties suspended on delinquent subsidized loans

The 2020 Budget that the Lebanese Parliament enacted on February 2, 2020, included a clause that suspends the effects of contractual articles for clients who missed payments on their subsidized mortgages, as well as on subsidized loans in the industrial, agriculture, tourism, technology, and energy sectors. The suspension aims to protect borrowers who have missed monthly payments or defaulted on their loans since October 1, 2019, due to the loss of income, from legal and contractual repercussions, including an increase in interest rates on the loans. Also, the clause suspended all legal actions that banks initiated after October 1, 2019 against clients that are late in settling loan payments. The suspension period will last until the end of June 2020.

Banks have been flexible with clients facing difficulties in repaying their debt since at least early 2019, amid the significant deterioration in economic conditions in the country. In addition, the Association of Banks in Lebanon recommended to its member banks to decrease the Beirut Reference Rate (BRR) in US dollars by a cumulative of 364 basis points so far in 2020, and the rate in Lebanese pounds by 449 basis points.

Figures issued by Banque du Liban show that utilized credits by the private sector totaled \$65.4bn at the end of September 2019. Utilized credits for housing reached \$12.5bn and accounted for 19% of the total at the end of September 2019, while those for industry totaled \$7bn (10.7%), and credit for agriculture reached \$823.8m (1.3%).

Draft budget for 2020 projects deficit of about 7% of GDP

The 2020 Budget Law that the Lebanese Parliament enacted on February 3, 2020 shows budget expenditures at LBP19,732bn or \$13.1bn, and revenues at LBP13,396bn or \$8.9bn, leading to a projected budget deficit of LBP6,336bn or \$4.2bn for the year. In comparison, fiscal expenditures totaled \$17bn in the 2019 budget, while revenues amounted to \$12.5bn, resulting in a target deficit of \$4.5bn.

The breakdown of budgetary spending for 2020, excluding Treasury outlays, shows that current expenditures amount to LBP19,238bn (\$12.8bn), equivalent to 97.5% of such spending. Also, capital spending, which includes investing in infrastructure, land expropriation and the purchase of equipment, reaches LBP493.3m (\$327.2m), or 2.5% of total budget spending in 2020. The compensation of public-sector personnel, which covers salaries, wages & related benefits, as well as retirement & end-of-service indemnities and transfers to public institutions to cover salaries, amounts to LBP9,934bn, or \$6.6bn, and represents 50.3% of total budget spending in 2020. It is followed by debt servicing at LBP4,695bn, or \$3.1bn (23.8% of total budget spending), and Transfers to Electricité du Liban (EdL) at LBP1,500bn, or \$1bn (7.6% of total budget spending) this year. In comparison, the compensation of public-sector personnel stood at \$6.7bn or 39.3% of total spending in the 2019 budget, while interest payments reached \$5.5bn (32.5%), and transfers to EdL amounted to \$1.7bn (9.8%). Also, the 2019 budget targeted capital spending of \$966m, equivalent to 5.7% of total expenditures in 2019. The significant drop in the debt servicing cost in the 2020 budget is due to the fact that the budget takes into account that the Ministry of Finance will withhold interest payments on Treasury instruments held by Banque du Liban for 2020, which would amount to LBP4,500bn in interest savings.

On the revenues side, the 2020 draft budget forecast tax receipts at LBP9,966bn (\$6.6bn), compared to LBP14,570bn (\$9.7bn) in the 2019 budget. Tax revenues are expected to contract even though the government introduced a one-time tax of 2% on the revenues generated in 2019 of banks, financial institutions and financial intermediaries. The significant drop in tax receipts factors in the deterioration in economic conditions in the country. Specifically, the decline in tax receipts is due to a decrease of LBP2,369bn, or 61%, in revenues from the value-added tax and the excise tax on goods & services, as well as a contraction of LBP1,308bn in revenues from the taxes on income, profits and capital gain. Receipts from the tax on income, profits & capital gain would generate 41.4% of total tax revenues, followed by revenues from the value-added tax and the excise tax on goods & services (38.8%), income from property taxes (8.4%), and receipts from custom duties (6.9%), while other taxes would generate the remaining 4.5%. The 2020 budget projects non-tax revenues at LBP3,430bn (\$2.3bn) relative to LBP4,212bn (\$2.8bn) in the 2019 budget, with \$1.1bn in transfers from the Ministry of Telecommunications.

Deposit guarantee raised to LBP75m

The 2020 Budget Law that the Lebanese Parliament enacted on February 2, 2020, included a clause that increases from LBP5m to a maximum of LBP75m the guarantee that the National Institute for the Guarantee of Deposits provides on bank deposits. The guarantee covers deposits in local and foreign currencies, and calculates the amount in foreign currency based on the exchange rate on the date of the bank's suspension of payment or seizure of the deposit.

The amount of the guarantee will depend on the client's net position at the bank, which means that the guarantee will be calculated after deducting any credit facility that the client holds. Also, a joint account, irrespective of the number of beneficiaries, will be considered as one account. The guarantee does not cover the deposits of a bank's chairman, members of the boards of directors, senior managers, auditors as well as their spouses. In addition, the guarantee does not cover accounts at a bank's foreign branches.

Further, a depositor will immediately be entitled to up to 30% of the guarantee on its deposit when the bank suspends payment or is seized. The depositor will receive the remaining balance in cash installments or through Treasury bonds within a period of one year, depending on Banque du Liban's decision.



Number of real estate transactions up 38% in first two months 2020

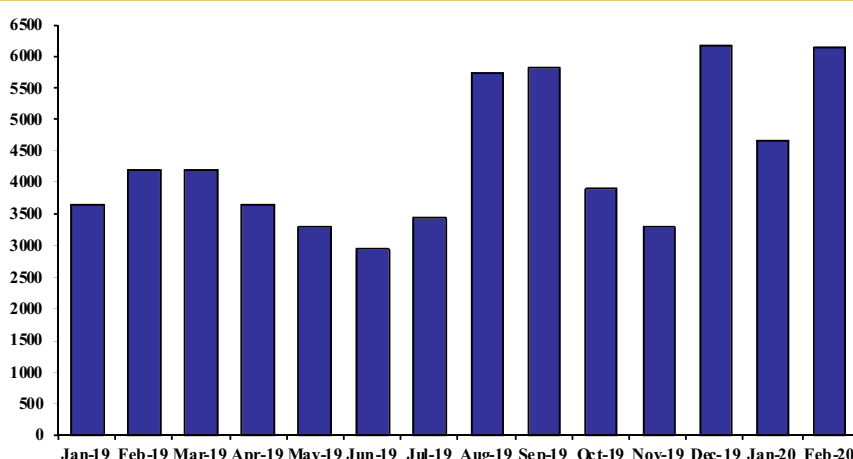
Figures released by the Ministry of Finance indicate that 10,834 real estate transactions took place in the first two months of 2020, constituting an increase of 38% from 7,859 deals in the same period of 2019. In comparison, there were 9,819 real estate transactions in the first two months of 2018 and 9,603 real estate deals in the same period of 2017. On a monthly basis, the number of real estate transactions reached 6,166 in February 2020, up from 4,668 deals in January and relative to 6,189 transactions in December 2019. In comparison, there were 3,667 deals in January and 4,192 transactions in February 2019. As such, the year-on-year increase in the first two months of 2020 is mainly due to the low number of transactions executed in January 2019 and to the high number of deals in February 2020. The rise in the number of deals also reflects higher demand for real estate as a way for bank depositors to diversify their assets. Further, there were 2,110 real estate transactions in the Baabda area in the covered period, representing 19.5% of the total. The North followed with 1,530 deals (14.1%), then the Metn district with 1,432 transactions (13.2%), the Keserwan region with 1,310 deals (12.1%), the South with 1,303 transactions (12%), the Zahlé area with 1,178 deals (11%), Beirut with 904 transactions (8.3%), and the Nabatieh area with 739 deals (6.8%).

Also, the aggregate amount of real estate transactions reached \$1.8bn in the first two months of 2020 and increased by 68% from \$1.1bn in the same period of 2019. In comparison, the amount of real estate deals regressed by 19.7% in the first two months of 2019 and grew by 3.4% in the same period of 2018. On a monthly basis, the amount of real estate transactions reached \$1bn in February 2020, up from \$756.8m in January and relative to \$1.1bn in December 2019. In comparison, the value of deals totaled \$504.7m in January and \$551.3m in February 2019. Further, the value of real estate transactions in Beirut totaled \$607.2m and accounted for 34.3% of the total in the first two months of 2020. The Metn district followed with \$334m (18.8%), then the Baabda region with \$289m (16.3%), the Keserwan area with \$197.2m (11.1%), the South with \$141.1m (8%), the North with \$96.4m (5.4%), the Zahlé area with \$59.1m (3.3%), and the Nabatieh region with \$36.4m (2.1%). The amount of real estate transactions in the Keserwan region increased by 88.4% year-on-year in the first two months of 2020, followed by deals in the Metn district (+82.7%), the South (+75.3%), the Zahlé area (+71%), Beirut (+63.3%), the Baabda region (+63.1%), the Nabatieh area (+36.7%), and the North (+36%).

In parallel, the average amount per real estate transaction was \$163,629 in the first two months of 2020, up by 21.8% from an average of \$134,375 in the same period of 2019 and relative to an average of \$133,979 in the first two months of 2018. Further, there were 166 real estate transactions executed by foreigners in the first two months of 2020, constituting an increase of 11.4% from 149 deals in the same period of 2019 and relative to 167 transactions in the first two months of 2018. The number of real estate deals by foreigners accounted for 1.5% of total real estate transactions in the covered period, down from 1.9% in the first two months of 2019 and from 1.7% in the same period of 2018.

Further, 24.7% of real estate transactions executed by foreigners in the first two months of 2020 were in the Baabda district, followed by the Metn district (20%), Beirut (18.1%), the South (9%), the Keserwan region (8.4%), the North (7.8%), the Zahlé area (7.2%), and the Nabatieh region (4.8%). Also, Syrian citizens accounted for 33.2% of the total amount of real estate transactions executed by foreigners in February 2020, followed by Saudi nationals (11.6%), Yemeni citizens (4%), Iraqi citizens (3%), and Qatari nationals (1.4%).

Number of Real Estate Transactions in Lebanon



Source: Ministry of Finance, Byblos Research

Illicit financial flows from Lebanon at \$3bn annually in 2008-2017 period

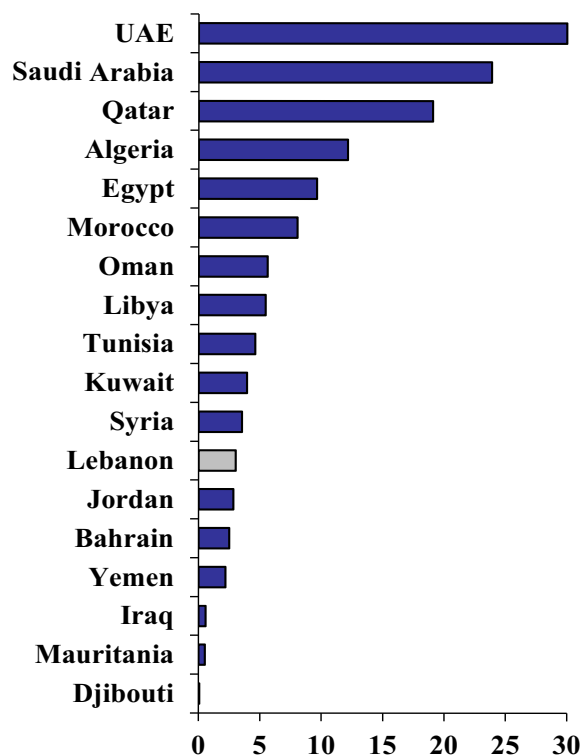
Global Financial Integrity, a Washington-based non-profit research and advocacy organization, estimated Lebanon's cumulative illicit financial flows (IFFs) at an average of \$3bn annually over the 2008-2017 period. It noted that Lebanon's IFFs were equivalent to 21.3% of the country's aggregate trade during the covered period.

The survey defines IFFs as illegal movements of money or capital from one country to another, or funds that are illegally earned, transferred or utilized. Specifically, it provides details about the illicit flows into and out of developing and emerging markets as a result of their merchandise trade with advanced and developing economies. It defines such flows as illegal flows from trade misinvoicing. The survey calculates a country's IFFs from trade misinvoicing by adding two components, which are total illicit inflows and total illicit outflows. The illicit inflows component is the sum of the under-invoicing of imports and the over-invoicing of exports, while the illicit outflows component is the addition of import over-invoicing and export under-invoicing.

Lebanon's annual average IFFs from the misinvoicing of trade was the 50th highest among 135 emerging markets, while it was the 25th highest among upper middle income countries (UMICs) and the seventh lowest among Arab countries. Lebanon's IFFs were higher than the IFFs of Kenya (\$2.86bn), Jordan (\$2.84bn) and Uzbekistan (\$2.64bn), and lower than those of Costa Rica (\$3.5bn), Myanmar (\$3.26bn), and Guatemala (\$3.15bn) among developing markets.

Also, Lebanon's IFFs accounted for 2.4% of the Arab countries' cumulative IFFs during the 2008-17 period, for 0.3% of the UMICs' IFFs and for 0.2% of global IFFs during the 10-year period. Further, Lebanon's IFFs from trade misinvoicing as a share the country's total bilateral trade were the 38th highest globally, the 13th highest among UMICs and the fourth highest regionally during the 2018-2017 period.

Arab Economies' Average Annual Illicit Financial Flows from Global Trade Misinvoicing in 2008-2017 (\$bn)



Source: Global Financial Integrity, Byblos Research

Agency takes rating actions on Lebanese banks

Capital Intelligence Ratings (CI) affirmed at 'SD' (Selective Default) the long- and short-term Foreign Currency Ratings (FCRs) of Bank Audi, BLOM Bank, Crédit Libanais, Fransabank and Byblos Bank, given the ongoing restrictions on the withdrawal of foreign currency deposits. In addition, it maintained at 'c' their Bank Standalone Rating (BSR), which reflects the stressed economic conditions in the country and the elevated risk that the banks will remain unable to meet their financial obligations on time and in full without applying capital controls.

Further, the agency downgraded the Core Financial Strength (CFS) rating of BLOM Bank from 'b' to 'b-', the CFS rating of Bank Audi, Fransabank and Byblos Bank from 'b-' to 'c+', and the rating of Crédit Libanais from 'b-' to 'c'. It attributed the downgrades of the banks' CFS ratings to the ongoing deterioration in sovereign credit risk, following the government's announcement that it suspended payments related to the Eurobond that matured on March 9, as well as to the banks' large exposure to the government and to Banque du Liban. It anticipated the sovereign credit risk to continue to weaken, either due to additional defaults on forthcoming maturities, or if the government restructures the public debt.

In parallel, it expected the banking sector's foreign currency liquidity to further tighten, in case authorities do not rapidly take credible measures that could secure substantial external financial support for Lebanon. It noted that the banks are in the process of completing the 20% equity increase that Banque du Liban requested from them.

New car sales down 50% in first two months of 2020

Figures released by the Association of Automobile Importers (AAI) in Lebanon show that dealers sold 1,876 new passenger cars in the first two months of 2020, constituting a drop of 50% from 3,744 cars sold in the same period of 2019. Individuals and institutional clients purchased 979 new cars in January and 897 new vehicles in February 2020 compared to 1,838 new automobiles in January, and 1,906 new cars in February 2019.

The market for new passenger cars in Lebanon has been facing increasing challenges over the past few years, including regional political instability, job insecurity, the decline in tourism activity, the reduced purchasing power of consumers, as well as more stringent requirements for car loans. More recently, the market has been affected by worsening socioeconomic conditions in the country that culminated in the October 2019 national protests. The decline in car sales that started in August 2019 reached its steepest level in November, as the number of cars sold stood at 460 automobiles, the lowest since August 2006. The AAI stopped releasing its monthly data on car sales by brand, distributor and source country since January 2020.

Bank Audi completes procedures for capital increase

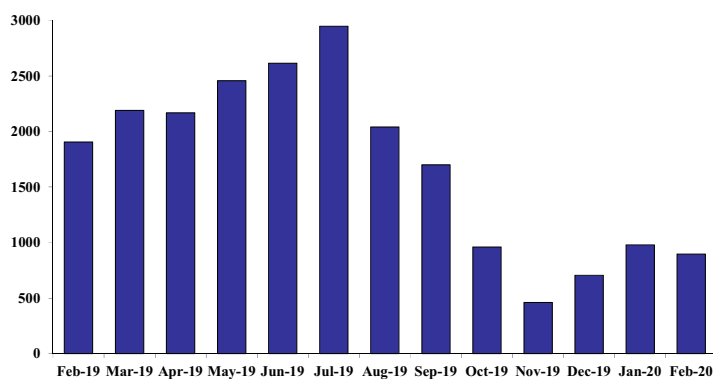
The Extraordinary General Assembly of Bank Audi sal, which took place on March 6, 2020, announced the completion of the procedures related to the increase of the bank's capital by LBP315.3bn, or \$209.6m, through the issuance of 188,789,011 common shares with a nominal value of LBP1,670, or \$1.11, per share. As such, it noted that the bank's capital is currently at LBP992.88bn, or \$658.6m, and consists of 594,538,215 nominal shares with a nominal value of LBP1,670 (\$1.11) per share. Also, the bank announced the listing of the 188,789,011 newly-issued shares on the Beirut Stock Exchange. The capital increase is in line with BdL's Intermediate Circular 532 dated November 4, 2019 that requested banks to raise their capital base by the equivalent of 20% of their end-2018 Common Equity Tier One Capital by the end of June 2020 in two stages.

Creditbank General Assembly agrees to increase capital

The Extraordinary General Assembly of Creditbank sal, which took place on February 17, 2020, agreed to increase the bank's capital by the equivalent of 10% of its end-2018 Common Equity Tier One (CET1) capital through cash contributions in US dollars. The capital increase is in line with Banque du Liban's Intermediate Circular 532 dated November 4, 2019 that requested banks to increase their capital base by the equivalent of 20% of their end-2018 CET1 in two stages. The bank's net CET1 capital was at \$264m at end-2018.

Creditbank sal, one of Lebanon's top 16 banks in terms of deposits, announced unaudited consolidated net profits of \$20.7m in the first half of 2019, constituting an increase of 66% from net earnings of \$12.4m in the first half of 2018. The bank's total assets reached \$4.6bn at end-June 2019 and increased by 8.6% from end-2018, while loans & advances to customers, excluding those to related parties, declined by 2.6% from end-2018 to \$1.9bn. Also, customer deposits, excluding those from related parties, totaled \$3.4bn at end-June 2019 and grew by 0.6% from end-2018. The bank's shareholders' equity reached \$425.2m at end-June 2019, up by 3.1% from end-2018.

Number of Passenger Cars Sold



Source: Association of Automobile Importers

Ratio Highlights

(in % unless specified)	2017	2018	2019	Change*
Nominal GDP (\$bn)	53.1	55.0	56.1	
Public Debt in Foreign Currency / GDP	57.2	60.9	60.0	(0.89)
Public Debt in Local Currency / GDP	92.5	94.0	103.2	9.20
Gross Public Debt / GDP	149.7	154.9	163.2	8.31
Total Gross External Debt / GDP**	189.4	191.1	195.7	4.60
Trade Balance / GDP	(31.5)	(31.0)	(27.6)	3.36
Exports / Imports	14.5	14.8	19.4	4.62
Fiscal Revenues / GDP	21.9	21.0	18.4	(2.61)
Fiscal Expenditures / GDP	28.9	32.4	30.2	(2.17)
Fiscal Balance / GDP	(7.1)	(11.4)	(11.8)	(0.44)
Primary Balance / GDP	2.7	(1.2)	(2.0)	(0.84)
Gross Foreign Currency Reserves / M2	68.2	63.8	70.2	6.38
M3 / GDP	260.8	257.1	239.6	(17.43)
Commercial Banks Assets / GDP	413.7	453.9	386.2	(67.68)***
Private Sector Deposits / GDP	317.4	317.1	283.1	(34.05)
Private Sector Loans / GDP****	112.3	108.1	88.7	(19.38)
Private Sector Deposits Dollarization Rate	68.7	70.6	76.0	5.40
Private Sector Lending Dollarization Rate	68.6	69.2	68.7	(0.51)

*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, International Monetary Fund, World Bank, 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	C	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	Stable

Source: Moody's Investors Service



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