# Part I
# GENERAL ECONOMIC DEVELOPMENTS



**THE REPORT**

# 01 THE LEBANESE ECONOMY

## 01 | 1

The beginning of the year 2019 witnessed the formation of a new government for Lebanon after a delay that lasted for more than eight months, which revived hopes for launching the long-awaited financial and economic reforms that were included in the government's paper presented to the CEDRE conference for Investment Expenditure, the implementation of which was also delayed for more than a year and a half (since May 2018). The new positive atmosphere and ambition to the restoration of confidence, the reduction of uncertainty, the revitalization of the economic activity and the stimulation of growth have been accompanied by reassuring statements made by external parties, where it was stressed that the stability of the Lebanese financial system is essential to the security of the country and that a good relationship with the monetary authorities allows to address urgent issues before turning into crisis. This argument implied that any financial collapse in Lebanon is not expected and not beneficial to the international community, and that the common interests require maintaining financial and security stability in Lebanon.

## 01 | 2

However, systematic and progressive attacks on the banking sector from inside and outside, from economists, journalists, analysts, rating institutions and others soon appeared and began to unleash judgments, opinions, and analysis, most of them unfairly, and sow anxiety and despair in the hearts of the Lebanese knowingly or ignorantly, calling for uncommon and non-market procedures to deal with and forcibly cancel public debt, with excessive highlights on the sovereign risks, political turmoil, and public debt. Also, the banking sector has not been spared from the first quarter of the year 2019 from the attack and falsehood by political and non-political parties and for various purposes calling for charging banks more taxes on their income, in conjunction with external pressures that weaken the banking sector and monetary stability. New and recurring attempts by many foreign banks to persuade large depositors in Lebanon to transfer their money abroad in order to avoid any deduction that might be imposed on them as a result of the measures that will be taken by the Lebanese state were reported. These attempts have undermined confidence and encouraged the exit of funds.

## 01 | 3

In parallel, and contrary to what was hoped, the deteriorating political performance and political wrangling in the country continued and so the waste of time for known and unknown reasons instead of carrying out the required structural and sectoral reforms and instead of addressing waste and corruption, and launching the public investment program submitted by the government to the CEDRE conference. The continuous bleeding in the balance of external payments since the outbreak of events in Syria worsened, and the growth of bank deposits and assets decreased to unprecedented levels. The monetary authorities, in order to address the de facto situation, intensified the financial engineering operations that were reflected by an increase in interest rates, with their negative impact on the credit activity. Economic activity has been weak due to all of these implications related to the developments referred to above.

## 01 | 4

The credit rating agencies were not out of the context of the economic crisis, as Fitch, Moody's and Standard & Poor's downgraded the credit rating of the Lebanese state, which raised the level of concern among investors, depositors and citizens. This downgrade was due to several factors, including increased financial and monetary risks, increased risks to the government›s ability to service the debt, and the growing possibilities of rescheduling debts and considering default, knowing that the weak creditworthiness of the Lebanese government is reflected on the creditworthiness of banks due to the high exposure of the latter to the Lebanese sovereign debt.

## 01 | 5

In September 2019, Jamal Trust Bank (JTB) took the decision to self-liquidate in coordination with the Bank of Lebanon in light of the US Treasury decision to include the name of the bank on the sanctions list on August 29, 2019. This was preceded and followed by visits to Lebanon by officials in the US Treasury, and that in turn caused disturbing confusion to groups of depositors with banks and unleashed speculation and rumors that affected the reputation of some other banks and weakened confidence in the banking sector and monetary stability. People then began to hear about an unusual demand for the dollar and its scarcity in the markets and its exit from Lebanon, although the exit of funds may date back to much earlier period of time. In light of the continuing pressures, and political discard within the Lebanese government and the intensification of US sanctions, the civil uprising exploded in October 2019, raising legitimate social demands that forced the government to resign less than a month after the uprising outbreak and the formation of a new government after about two months from this date. Due to street pressure, riots and heightened uncertainties, banks were forced to close around two weeks and put restrictions on transfer abroad and cash withdrawals in foreign currency. However, the right of individuals and institutions to their deposits and their use internally remained, as were the interest paid on them. Since that time, heavy use for deposits have been recorded by their owners with the intention of purchasing properties and real estate, settling debts with banks and domestic cash savings in Lebanese pounds and dollars.

## 01 | 6

With the emergence of a severe liquidity crisis and the outflow of funds in the last quarter of the year and in the absence of confidence and stability in the country and its negative repercussions on consumption and investment, overall demand decreased significantly and Lebanon experienced a sharp economic contraction in the year 2019, as it recorded a negative real growth rate of 6.9%, and the gross domestic product (GDP) fell to about USD 49 billion (LBP 77.5 trillion), according to official figures. The public deficit was about 11.4% of GDP, while the deficit in the current account approached 24% of the GDP. The public debt to GDP rose to about 178%, and the balance of payments recorded a deficit of USD 5.85 billion.

## 01 | 7

The difficult economic and financial situation continued over the first half of the year 2020, that is, the date of preparation of this report, knowing that the expectations of the International Monetary Fund (IMF) indicate real negative economic growth of 12% in 2020, the worst since the Lebanese war. The situation even worsened with the spread of the Corona pandemic in late February 2020, which necessitated complete and partial closure and general mobilization, with negative repercussions on economic activity, the financial position of institutions, the labor market and employment opportunities, lending portfolios at banks and public revenues. The situation was further aggravated by the government's announcement of a suspension of the payment on Eurobonds due and the publication of its rescue plan, which was inspired by a set of papers that appeared after the uprising in an attempt to explain what happened and propose remedies, some of them in good faith and others for slander and falsehood purposes.

### 01 | 8

On March 7, 2020, the Lebanese government announced the suspension of payment on Lebanese government bonds in foreign currencies, due on March 9, 2020, amounting to USD 1.2 billion, in order to protect the reserves of foreign currency at the Bank of Lebanon. Then, on March 27, 2020, the suspension of all Eurobonds denominated in US dollar was announced, on condition that the Lebanese state holds talks in good faith with its creditors. The Lebanese government laid down its plan for economic and financial recovery in its first version on April 7, 2020, and in its second version on April 30, 2020, in which it negatively affected the banking sector in both its commercial banks and the central bank, prompting the Association of Banks to prepare and publish its contribution and approach for the financial and economic recovery of Lebanon.

### 01 | 9

The government's plan is based on reducing the ratio of public debt to GDP to less than 100% once, i.e. in less than a year by canceling about USD 69 billion of public debt in Lebanese pounds and US dollar, which is mainly held by banks and the central bank. This approach implies a deduction with the same value of banks' capital and customers' deposits at banks according to the segment that will be used for deduction. The plan specifically talks about "losses" of LBP 241,000 billion, which is equivalent to USD 69 billion, using an exchange rate of 3,500 LBP per US dollar. The plan distributes this amplified volume of "losses", regardless of the accounting and methodological error in its estimation, between the Banque du Liban balance sheet with a value of LBP 177 thousands billion, or 73%, and the banks' balance sheet with a value of LBP 64 thousands billion, or 27%. Accordingly, the government's solution consists of canceling all state debts and whistling them with a stroke of pen and in one day charging them to banks and the Bank of Lebanon by showing losses in their balance sheets, which may pave the way for putting the hand on the existing banking sector and replacing it, according to what is being circulated, with five banks that some political forces will apparently control their ownership and management.

### 01 | 10

The government's plan has been also criticized as it does not address the root causes of the crisis represented by the chronic weakness of the productivity of the Lebanese economy, the absence of growth and employment opportunities, the spread of corruption, the plundering and waste of the country's capabilities, the weakening of the state and its absenteeism from performing its basic functions at the expense of the interest of sectarian political forces that have distributed its resources, shared its powers and managed its public institutions with low efficiency. In practice, this approach has led to the country's financial exhaustion, as demonstrated by accumulated deficits in public finances and foreign trade.

### 01 | 11

As for "the contribution of the Association of Banks in Lebanon to the government's financial recovery program", it calls on all parties to cooperate and to bear responsibility and its consequences. This contribution includes several axes. **First,** the restructuring of public debt that would lower as possible the negative repercussions on depositors and the economy as a whole, and avoid as much default on domestic debt due to its damaging effects on restoring confidence and investment in the country. The Association's paper estimates the need for external financing at USD 8 billion within five years, instead of USD 28 billion in the government's plan. **Second,** the creation of a fund (GDDF) that preserves the state's full ownership of its assets and allows by allocating a portion of the fund's revenues to the Bank of Lebanon to write off the latter's debts on the state estimated at USD 40 billion. The Association's paper also proposes that banks negotiate with the state to reschedule banks 'debts in terms of extending loans maturities and reducing their returns so that the debt-to-GDP ratio falls from the current level of 178% to 74% by 2030 without any deduction (Haircut) on debts and deposits. **Third,** a fiscal adjustment that produces a reasonable primary surplus of 2.1% instead of 4.8% of GDP so that it does not reflect negatively in the medium term on the social conditions of the most vulnerable Lebanese people. For this purpose, the Association proposes to create a social safety net, not less than 4% of GDP during the entire period of the fiscal adjustment. **Fourth,** adopting a monetary policy based on the unification of the exchange rate so that it corrects in a proper progression the external imbalances and controls the very strong inflationary pressures. It is important to adopt what is known as a "managed float" exchange regime as the central bank intervenes to avoid sharp fluctuations. It must be pointed out that maintaining the stability of the national currency exchange rate in the coming stage requires effective treatment of two imbalances: the current account deficit and the public deficit, which are twins that feed each other. **Fifth,** an organized restructuring of banks, bank by bank, managed by the monetary and supervisory authorities pursuant to the law of Money and Credit with the adoption of international banking standards and within a sufficient time frame permitted by the Basel Agreements. This approach defines the structure of the market, including mergers and acquisitions. What is also required is not to ignore the value of the real guarantees in kind taken against the loan portfolios and the value of constituted provisions declared and implicit. **Sixth,** diversifying and restructuring the Lebanese economy, including structural reforms, such as combating endemic corruption, and reducing the cost of doing business in Lebanon, in addition to policies that reduce the volume of parallel and unlicensed economic activities, etc.

The hope remains in uniting efforts and solidarity and developing an economic plan or vision that takes into account the ideas and approaches of the Association and takes the economy out of stagnation and reconstitutes liquidity. The Bank of Lebanon's reserves in foreign currencies have shrunk to a critical level with which it is difficult to continue to finance imports even for basic needs.

### Main Economic Indicators in 2019 and the first four months of 2020

| | 2018 | 2019 | Change % | Jan-Apr 2019 | Jan-Apr 2020 | Change % |
|---|---|---|---|---|---|---|
| BDL Coincident Indicator (average) | 307.7 | 292.6 | -4.9 | 304.9 | 222.4 | -27.1 |
| Real estate sales operations (Number) | 60,714 | 50,352 | -17.1 | 15,726 | 14,841 | -5.6 |
| Real estate transactions (number) | 169,536 | 141,631 | -16.5 | 48,350 | 33,532 | -30.6 |
| Value of real estate sales (LBP billion) | 12,263 | 10,310 | -15.9 | 3,108 | 3,914 | +25.9 |
| Collected real estate fees (LBP billion) | 780.4 | 565.8 | -27.5 | 202.9 | 188.7 | -7.0 |
| Construction permits area (000 s.m) | 9,020 | 6,081 | -32.6 | 2,415 | 632 | -73.8 |
| Cement deliveries (000 tons) | 4,702 | 3,203 | -31.9 | 965 | 423 | -56.2 |
| Total value of Checks cleared (USD million) | 66,569 | 56,983 | -14.4 | 19,259 | 19,025 | -1.2 |
| Number of ships | 1,872 | 1,746 | -6.7 | 563 | 512 | -9.1 |
| Weight of unloaded merchandises (tons) | 7,054,693 | 5,696,800 | -19.2 | 2,081,843 | 1,231,391 | -40.9 |
| Weight of shipped merchandises (tons) | 929,859 | 827,209 | -11.0 | 268,128 | 242,660 | -9.5 |
| Number of unloaded containers | 279,901 | 226,531 | -19.1 | 81,373 | 42,252 | -48.1 |
| Port of Beirut revenues (USD million) | 231.5 | 198.9 | -14.1 | 65.3 | 37.8 | -42.1 |
| Value of agricultural imports (000 USD) | 2,004,892 | 1,773,065 | -11.6 | 669,160 | 512,225 | -23.5 |
| Value of agricultural exports (000 USD) | 206,315 | 198,468 | -3.8 | 56,695 | 88,548 | +56.2 |
| Weight of agricultural imports (tons) | 2,185,067 | 2,132,548 | -2.4 | 799,613 | 701,580 | -12.3 |
| Weight of agricultural exports (tons) | 331,636 | 293,591 | -11.5 | 64,848 | 112,897 | +74.1 |
| Weight of unloaded merchandises (000 tons) | 15,856 | 19,353 | +22.1 | 5,641 | 3,867 | -31.4 |
| Number of tourists | 1,963,917 | 1,936,320 | -1.4 | 559,789 | 194,910 | -65.2 |
| Number of arrivals | 4,436,574 | 4,280,141 | -3.5 | 1,238,426 | 540,380 | -56.4 |
| Number of departures | 4,401,439 | 4,351,380 | -1.1 | 1,307,752 | 617,700 | -52.8 |

**Sources:** BDL, Customs, BIA, Cadastre, Beirut Port.



# 02 PUBLIC FINANCES AND PUBLIC DEBT

## 02 | 1

The fiscal conditions in the year 2019 as in the first months of the year 2020 were affected by the economic and financial developments and the uncertainty as mentioned above. The total public deficit decreased to LBP 8,799 billion compared to LBP 9,416 billion in 2018, but remained unchanged when measured to GDP (11.4% in the two mentioned years) and exceeded what was estimated in the 2019 budget law, that is, LBP 6,823 billion. The primary deficit decreased as well to LBP 433 billion (0.6% of GDP) in 2019, compared to a largest deficit of LBP 958 billion (1.2% of GDP) in 2018. In the first four months of 2020, the deficit rose to LBP 2,640 billion compared to a lower deficit of LBP 2,080 billion in the same period of 2019, and the primary balance achieved a deficit of LBP 899 billion compared to a slight surplus of LBP 35 billion in the alike months of 2019.

On March 5th 2020, the budget law for the year 2020 was ratified, in which the total expenditures are estimated at LBP 19,732 billion, including the treasury advance to Electricité du Liban at LBP 1,500 billion, compared to LBP 13,396 billion for total revenue, implying a total public deficit of LBP 6,336 billion. Article 20 of this law imposes a withholding tax of 2% of the turnover for the year 2019 on banks, financial institutions and financial intermediation institutions, which are paid in 3 equal installments (before 1/6, before 1/9 and before 1/12). Article 38 of the law included a raise in the value of the bank deposit guarantee by the National Deposit Guarantee Institute (INGD) to LBP 75 million instead LBP 5 million.

### Public Finances (LBP Billion)

| | 2018 | 2019 | Change (%) 2019/2018 | Jan-April 2019 | Jan-April 2020 |
|---|---|---|---|---|---|
| Total Revenues (Budget +Treasury) | 17,405 | 16,680 | -4.2 | 5,217 | 4,740 |
| Total Expenditures (Budget + Treasury) | 26,821 | 25,479 | -5.0 | 7,297 | 7,380 |
| Overall Deficit | 9,416 | 8,799 | -6.6 | 2,080 | 2,640 |
| Primary Balance | -958 | -433 | | 35 | -899 |
| Overall Deficit / GDP % | 11.4 | 11.4 | | | |
| Primary Balance / GDP % | -1.2 | -0.6 | | | |

**Source:** Ministry of Finance

## 02 | 2

As for total government revenues, they decreased to LBP 16,680 billion in 2019 from LBP 17,405 billion in 2018, to account for 21.5% of GDP in 2019. Tax revenues diminished by 1.8%, non-tax revenue by 2.0%, and Treasury receipts by 35.0%. Their share of total revenues accounted for 75.2%, 20.1% and 4.7%, respectively. With regard to tax revenues, the revenue from the value-added tax (26.0% of the tax revenue) decreased compared to the increase in income tax on interest, knowing that the tax rate on interest has become 10% instead of 7% since August 2019 under Article 31 of the 2019 Budget Law. Higher interest rates on accounts subject to this tax also contributed to this outcome. It is worth to mention that deposits in the banking sector decreased by about 8.8% in the year 2019 against an increase in the placements of banks, subject to this tax, with the Bank of Lebanon. It is worth noting also that banks are the largest contributor to achieving this tax. On the other hand, the declining transfer from telecom surplus lead mainly to the decrease in non-tax revenues. Government revenues continued to decrease in the first four months of 2020, with the contraction in economic growth and the Corona pandemic, which halted economic activity and impeded collection in favor of the Treasury.

### Total Revenues (LBP Billion)

| | 2018 | Share % | 2019 | Share % | Jan-April 2020 | Share % |
|---|---|---|---|---|---|---|
| **Taxes on income, profits and Capital gains** | 4,500 | 25.9 | 5,447 | 32.7 | 1,742 | 36.8 |
| o/w: income tax on profits | 1,357 | 7.8 | 1,377 | 8.3 | 158 | 3.3 |
| tax on interest income | 1,801 | 10.3 | 2,806 | 16.8 | 1,272 | 26.8 |
| **Taxes on Property** | 1,139 | 6.5 | 858 | 5.1 | 246 | 5.2 |
| **Domestic Taxes on Goods and Services** | **4,500** | **25.8** | **3,891** | **23.3** | **789** | **16.6** |
| o/w: VAT | 3,841 | 22.1 | 3,258 | 19.5 | 577 | 12.2 |
| **Taxes on International Trade** | **2,025** | **11.6** | **1,800** | **10.8** | **387** | **8.2** |
| o/w : Customs | 745 | 4.3 | 632 | 3.8 | 106 | 2.2 |
| Gasoline | 668 | 3.8 | 703 | 4.2 | 226 | 4.8 |
| **Other Tax Revenues** | **602** | **3.5** | **537** | **3.2** | **120** | **2.5** |
| **Tax Revenues** | **12,766** | **73.3** | **12,535** | **75.1** | **3,285** | **69.3** |
| **Income from public institutions and Government properties** | **2,188** | **12.6** | **2,155** | **12.9** | **320** | **6.8** |
| o/w : Transfer from the telecom surplus | 1,614 | 9.3 | 1,428 | 8.6 | 200 | 4.2 |
| **Other non-tax revenues** | **1,235** | **7.1** | **1,201** | **7.2** | **266** | **5.6** |
| **Non-tax revenues** | **3,423** | **19.7** | **3,356** | **20.1** | **586** | **12.4** |
| **Treasury receipts** | **1,216** | **7.0** | **790** | **4.7** | **869** | **18.3** |
| **Total Revenues** | **17,405** | **100.0** | **16,680** | **100.0** | **4,740** | **100,0** |

**Source:** Ministry of Finance

## 02 | 3

Total government expenditures decreased by 5.0% in the year 2019 to LBP 25,479 billion (32.9% of GDP) following a 15.7% increase in the year 2018. The primary expenditures, excluding debt service, decreased to LBP 17,113 billion in 2019 from LBP 18,363 billion in the preceding year, or by 6.8%. Transfers to EDL decreased and did not reach what was allocated in the 2019 budget (LBP 2,500 billion). Capital expenditures also decreased by 25.6% to LBP 1,028 billion, to constitute 4% of total expenditures in the year 2019. In contrast, salaries, wages and other benefits in the public sector increased by 4.4% between 2018 and 2019, amounting to LBP 10,146 billion, representing therefore, 39.8% of the total public expenditures and 13.1% of the GDP in 2019.

## 02 | 4

Despite the increase in the total public debt in 2019, the debt service decreased by 1.1% between 2018 and 2019, amounting to LBP 8,366 billion and representing about 10.8% of GDP and 32.8% of total expenditures. The effective interest rate, that is, the debt service to the average gross public debt, decreased to 6.3% in 2019 from 6.8% a year ago. This decline is due to the subscriptions of the Central Bank to Lebanese Treasury bonds in LBP, at a value of LBP 4,500 billion at 1% interest rate in the last two months of the year 2019, which is a step that followed previous steps in 2018, when the Bank of Lebanon subscribed to treasury bonds in LBP worth to LBP 8,250 billion at 1% interest.

### Total Expenditures (LBP Billion)

| | 2018 | Share % | 2019 | Share % | Jan-April 2020 | Share % |
|---|---|---|---|---|---|---|
| Debt Service | 8,457 | 31.5 | 8,366 | 32.8 | 1,741 | 23.6 |
| Primary Expenditures | 18,364 | 68.5 | 17,113 | 67.2 | 5,639 | 76.4 |
| o/w salaries, wages and other benefits (art. 13) | 9,719 | 36.2 | 10,146 | 39.8 | 3,318 | 45.0 |
| transfers to EDL institution | 2,647 | 9.9 | 2,269 | 8.9 | 583 | 7.9 |
| Capital expenditures | 1,382 | 5.2 | 1,028 | 4.0 | 258 | 3.5 |
| Transfers to municipalities | 860 | 3.2 | 870 | 3.4 | 201 | 2.7 |
| **Total Expenditures** | **26,821** | **100.0** | **25,479** | **100.0** | **7,380** | **100.0** |

**Source:** Ministry of Finance

Addressing waste in public finances and fighting corruption remain the basis for any reform in existing imbalances and constitute an incentive for private sector investment and job creation, as it allows for increased public investment in infrastructure and opens the door to launching the government program presented to the CEDRE Conference.

## 02 | 5

The total public debt reached LBP 140,010 billion (USD 92.9 billion) at the end of April 2020, compared to LBP 138,150 billion (the equivalent of USD 91.6 billion) at end 2019, and LBP 128,347 billion (USD 85.1 billion) at end 2018, thus registering an increase of LBP 1,860 billion in the first four months of 2020 and LBP 9,803 billion or 7.6% in 2019 (7.1% increase in 2018).

## 02 | 6

Gross public debt to GDP increased to 178.3% (the second highest ratio in the world after Japan) at the end of 2019 from 154.7% at the end of 2018, noting that it is still below the ceiling reached in 2006 (183%). It is worth noting that when calculating the market debt that does not include what the BDL holds, public institutions, and bilateral and multilateral loans, the market public debt ratio would be about 96.1% of GDP at the end of 2019.

## 02 | 7

The increase in total public debt in 2019 resulted from the increase in each of the public debt in Lebanese pound by LBP 9,427 billion, which amounted to LBP 87,279 billion at the end of the mentioned year, constituting 63.2% of the total public debt, and foreign currency debt equivalent to USD 249 million to reach the equivalent of USD 33,745 million and representing 36.8% of total public debt at end 2019. As for the increase in the total public debt in the first four months of the year 2020, it resulted from the increase in public debt in Lebanese pounds by the value of LBP 847 billion and the debt in foreign currency by the equivalent of USD 672 million.

## 02 | 8

The increase in public debt in LBP in 2019 and the first four months of 2020 is attributed to the subscriptions of the Banque du Liban in Treasury bonds in LBP, which raised its portfolio to LBP 51,818 billion at the end of April 2020 (LBP 50,717 billion at the end of 2019), and its holdings of the public debt in LBP (58.8% at the end April 2020 and 58.1% at the end of 2019). Noting that the Banque du Liban had subscribed to ten-year bonds with an exceptional interest of 1% in each of November 2019 (LBP 1,500 billion) and December 2019 (LBP 3,000 billion) as previously mentioned. On the other hand, the contribution of both banks and the non-banking sector in financing public debt in LBP was 28.0% and 13.2% respectively at the end of April 2020 (29.0% and 12.9% respectively at the end of the year 2019).

## 02 | 9

As for the evolution of debt in foreign currencies, the majority of which are Eurobonds, the Bank of Lebanon paid the principal on maturing Eurobonds in each of April 2019 worth USD 500 million (at 5.5% interest issued on April 23, 2013), May 2019 worth USD 650 million (at 6% interest and 8 years maturity), and November, USD 1.5 billion (at 5.45% interest and 8 year maturity) in addition to interest coupons of about USD 580 million. Noting that in November 2019, the Central Bank subscribed to Eurobonds worth USD 3 billion issued by the Ministry of Finance. At the end of April 2020, the debt in foreign currencies was distributed between USD 32.4 billion of Eurobonds (of which USD 5.03 billion held by the Banque du Liban, USD 10.6 billion held by commercial banks and USD 16.8 billion acquired by other domestic and foreign entities), and USD 2.0 billion for bilateral and multilateral parties.

## 02 | 10

At the end of April 2020, the net public debt, calculated after subtracting public sector deposits with the banking system, amounted to LBP 126,184 billion (USD 83.7 billion) compared to LBP 122,473 billion (USD 81.2 billion) at end 2019 and LBP 114,161 billion (USD 75.7 billion) at end 2018, thus registering an increase of 3.0% in the first four months of 2020 and an annual increase of 7.3% in 2019 compared to a higher increase of 9.5% in 2018. The public sector deposits with the central bank decreased to LBP 6,588 billion at the end of April 2020 from LBP 8,203 billion at the end of 2019 (LBP 7,578 billion at the end of 2018).

**Public debt** (End of period – LBP billion)

| | 2018 | 2019 | April 2020 | Change% 2019/2018 | Change% April 2020/2019 |
|---|---|---|---|---|---|
| **Gross Public Debt** | **128,347** | **138,150** | **140,010** | **+7.6** | **+1.3** |
| Debt in LBP | 77,852 | 87,279 | 88,126 | +12.1 | +1.0 |
| Debt in Foreign Currencies | 50,495 | 50,871 | 51,884 | +0.7 | +2.0 |
| Public Sector Deposits at the Banking System | 14,186 | 15,677 | 13,826 | +10.5 | -11.8 |
| **Net Public Debt** | **114,161** | **122,473** | **126,184** | **+7.3** | +3.0 |

**Source:** BDL

## 02 | 11

As a result, the weighted average interest rate on the total portfolio reached 6.50% at the end of April 2020 compared to 6.44% at the end of 2019 and 6.11% at the end of 2018, while the average life for this portfolio reached 4,81 years, 4,87 years and 4,47 years respectively. Regarding the interest rates on regular Treasury bills in LBP, they increased in 2019 compared to 2018, but started to decrease in the year 2020 as shown below.

**Yields on regular LBP Treasury bills**

| | 3 Months | 6 Months | 12 Months | 24 Months | 36 Months | 60 Months | 84 Months | 120 Months |
|---|---|---|---|---|---|---|---|---|
| Dec 2018 | 4.44% | 4.99% | 5.35% | 5.84% | 6.50% | 6.74% | 7.08% | 10.00%* |
| Dec 2019 | 5.30% | 5.85% | 6.50% | 7.00% | 7.50% | 8.00% | 9.00% | 10.00% |
| Latest issue 2020 | 3.50% | 4.00% | 4.50% | 5.00% | 5.50% | 6.00% | 6.50% | 7.00% |

**Source:** BDL

* This interest became 10% as of December, after it has been 7.46% between March 2015 and November 2018.

## 02 | 12

In the Eurobonds market, the weighted interest on this portfolio attained 7.38% at the end of 2019 compared to 6.81% at the end of 2018 due to the maturity of bonds with a relatively low interest, and the weighted life was 8.0 years and 7.83 years in the two years respectively.

# 03 MONETARY POLICY DEVELOPMENTS

## 03 | 1

Lebanon has been adopting since 1999 the fixed exchange rate regime of the Lebanese pound to the US dollar[1] and it was basically a decision taken by the Lebanese authorities and which was confirmed by successive governments in their ministerial statements. Without going into an argument about the correctness of this choice and its cost on growth, this policy, in its positive aspect, and in light of the political and security conditions that Lebanon went through, ensured confidence and stability at the financial, economic and social levels for many years, during which the central bank made great efforts to preserve the credibility of the peg. After all available means were used to continue the adopted monetary policy, the latest of which was the financial engineering with banks, this policy reached its maximum limits so that it was no longer sustainable in light of the slowdown in the capital inflows to Lebanon and the absence of auxiliary policies and other supporting factors.

As a reminder, the central bank has resorted to multiple financial operations with banks since 2016[2] that allowed securing a necessary minimum level of financial inflows and maintaining an acceptable level of BDL's foreign assets. However, these operations were increasing in size, cost, and complexity, and were even becoming more limited in order to give the country more time. It was very pressing for the concerned authorities to quickly launch the reform measures that they were planning on conducting in order to receive the soft loans promised by the international countries and parties at the CEDRE conference, to stimulate the economic activity and ensure the sustainability of the public debt, in particular to reduce the burden on monetary policy and the BDL. Unfortunately, this did not happen, so the promises remained, and the monetary and financial crisis that we are currently suffering from, occurred.

## 03 | 2

Monetary conditions have witnessed a clear and accelerating deterioration since the last quarter of 2019, after having entered since the beginning of November 2017 a new phase characterized by a greater level of delicacy and risk[3] , preceded by years of relative calm.

With the continuous decline in the FC reserves of the central bank and the need to preserve what remains, signs of a monetary and banking crisis began to appear, specifically in the last week of September 2019, when a number of banks put restrictions on some banking operations- due to the difficulty of obtaining liquidity in dollars from the central bank- such as the abstention from opening credits to traders for imports purposes, so the latter partially resorted to the foreign exchange market to secure their US dollar needs, and the exchange rate of the LBP against the USD at the money exchange institutions started to decline, albeit in a relatively small way. This crisis intensified strongly with the beginning of November 2019, when banks opened their doors after a two-week closure imposed by the outbreak of the October 17 uprising, where banks were exposed to an unprecedented liquidity crisis due to depositors rush to withdraw deposits in cash or to transfer money abroad. These exceptional circumstances imposed on the banking system, along with the limited remaining capacity, to take necessary measures for the public interest, such as limiting commercial and non-commercial transfers abroad and setting ceilings on cash withdrawals, especially in dollars. These measures in terms of restricting transfers and withdrawals were a necessary evil to protect depositors. Otherwise, huge withdrawals would have occurred, leading to the collapse of the banking sector. This, of course, led to a sharp and rapid decline in the exchange rate of the national currency in the parallel market, which the central bank tried to limit its fluctuations, as we will see later.

### In the causes of the crisis

A number of reasons contributed to this crisis. The monetary and banking situation, especially the liquidity of the banking system in foreign currencies, was not at its best conditions for more than two years ago, especially due to the significant slowdown in financial inflows to Lebanon, which has intensified since 2018, and the continuous financing needs of the economy in foreign currencies. Among the contributing factors are also the intersection or the large correlation among the balance sheets of the state, the banks and the central bank, and the many negative reports on the economic and financial situation in Lebanon, which have spread remarkably since 2018 and continued throughout 2019 about the imminent financial collapse, and which greatly affected the expectations and behaviour of people, so that some of them stored cash money in Lebanese pounds and US dollars at homes and transferred money abroad. We can also add the huge imports of goods activity in recent years, which exceeded the needs of the Lebanese economy and the acceptable limits since 2019, greatly depleting reserves. A clear disappointment of the Lebanese people arose at the end of summer 2019, resulting from dissatisfaction with the political and economic performance in the country after the May 2018 elections, and the lack of feeling in the existence of a state that looks after the interests of its citizens and works to secure their needs (expressed forcefully since October 17, 2019). This contributed to a further decline in the economic activity and in the capital inflows in all their forms. All these factors combined and the growing concerns about the future led to an unprecedented rush by depositors to withdraw their money from banks when the latter opened their doors at the beginning of November 2019, which resulted in a severe liquidity crisis in the banking sector. What exacerbated this deterioration is that the government did not succeed in bringing about any positive change in terms of restoring domestic and foreign confidence in the future of Lebanon, especially after announcing in March 2020 that Lebanon will discontinue payments on all its foreign currency denominated Eurobonds, its intention to reduce the exchange rate of the Lebanese pound, as expressed in the financial recovery plan, in addition to the multiple leaks about the possibility that the haircut will affect bank deposits, and the divergence of views between the government and the banking system in approaching the causes of the current crisis and how to get out of it, which has greatly increased the level of negativity in the country.

## 03 | 3

### Some statistical data

- Pressure continued on the Lebanese pound throughout the year 2019, and at a strong pace from the end of the summer until the date of preparing this report. A parallel market emerged for the exchange rate of the lira against the dollar

1 At an average rate of 1507.5 Lebanese pounds per USD, and before that, Lebanon has been adopting the pegged exchange rate regime of the Lebanese pound to the US dollar since 1993.
2 You can find details in the previous annual reports.
3 For more details, please refer to previous annual reports.

as the circulation of the USD banknotes rose in the exchange institutions market, then a black market appeared for the circulation of the dollar and it was very active most of the time, while the official exchange rate continued to be applied to banking operations (1507.5 LBP per dollar). Huge conversion of deposits were recorded from the national currency to the US dollar, with an estimated value of about USD 15 billion in 2019 and about USD 6 billion in the first four months of 2020.

It is worth noting that the private sector deposit dollarization rate in commercial banks remained within the range of 65% in the years 2014-2017, then registered a gradual increase during 2018 to 70.4% at the end of the aforementioned year, and continued this upward trend to reach 76.4% at the end of 2019 and around 80% at the end of April 2020. Of course, this is reflected in the liabilities/commitments of the BDL towards banks in dollars, which are estimated to have expanded by no less than USD 20 billion during 2019 and the first four months of 2020.

• In parallel, it was natural for the interbank rate to record high overall levels, especially since the last quarter of 2019 until the date, where it reached 100%, 120% and 125% in some operations. Also, some deposits outflow was also recorded but at lower volumes than those reported in the media. On the other hand, currency in circulation outside the banking system increased dramatically from LBP 5,008 billion at the end of 2018 to LBP 9,818 billion at the end of 2019, then to LBP 14,562 billion at the end of April 2020 because of the Lebanese preference for cash during this critical period and also following the money creation in Lebanese pounds as a result of the circulars that enabled owners of small deposits to withdraw their deposits in LBP banknotes at the market rate on the day of execution, and also enabled the owners of deposits in dollars to withdraw part of it at the market rate. The same behaviour was observed with regard to dollar banknotes, which were also widely stored in homes and institutions with an estimated value of USD 7 billion. On the other hand, interest rates on deposits increased until November 2019, to gradually decline after that, following the issuance of the BDL's circular regarding setting ceilings on deposit interest rates.

• The central bank continued to secure government payment in foreign currencies, including Eurobonds, before the Lebanese government decided to discontinue payments on all its outstanding USD denominated Eurobonds in March 2020. BDL was also the main, if not the only, financier who secured in recent years public sector financing needs in LBP at existing market interest rates or at reduced rates. The portfolio of Treasury bills in LBP owned by the BDL recorded a continuous increase in recent years to new historical levels, reaching LBP 50,717 billion at the end of 2019 and LBP 51,501 billion at the end of March 2020 (LBP 39,006 billion at the end of 2018). The central bank's share out of the total portfolio of Treasury bills increased to 58.3% at the end of 2019 and 58.8% at the end of March 2020 (50.3% at the end of 2018). Noting that the central bank subscribed in the last two months of 2019 to LBP 4500 billion in 10-year LBP treasury bills at a reduced interest rate of 1%.

• As a result of the aforementioned developments, the central bank's total liquid reserves in foreign currencies declined to USD 29.6 billion at the end of 2019, then to USD 27.4 billion at the end of April 2020, compared to USD 32.5 billion at the end of 2018, while usable reserves amounted to about USD 20 billion, given that the central bank granted loans to banks during the crisis that exceeded USD 9 billion. BDL's placements in local and international securities in foreign currencies[4] amounted to USD 7.7 billion at the end of 2019, then decreased to USD 7.1 billion at the end of April 2020 (USD 7.2 billion at the end of 2018). As a result, BDL's foreign assets (excluding gold) declined to USD 37.3 billion at the end of 2019, then to USD 34.3 billion at the end of April 2020, compared to USD 39.7 billion at the end of 2018. We note in this context that the central bank holds a huge stock of gold[5], knowing that the value of the gold reserves increased to USD 13.9 billion at the end of 2019, then to around USD 15.9 billion at the end of April 2020 (USD 11.8 billion at the end of 2018) with the increase in the gold price internationally.

## 03 | 4
## Measures taken by the Banque du Liban since the beginning of the crisis

In keeping with the developments taking place, especially the crisis that Lebanon has been going through since the last quarter of 2019, and taking into consideration the remaining capacities and in light of the bleak future, the central bank has taken a series of exceptional measures in an attempt to limit the decline in foreign currency reserves, to calm the pace of fluctuations in the LBP exchange rate in the parallel market, and to support the economy and citizens. We will try to shed light on the most prominent measures.

### A | The gradual intervention of the central bank in the parallel market

Since the end of 2019, BDL has requested money transfer companies to pay transfers in USD, in order to inject cash dollars in the Lebanese market, that is, to increase the USD supply while the demand was high. However, the price of the USD dollar in the parallel market began to rise gradually and significantly in the first quarter of 2020, even after the central bank asked exchange institutions to adhere exceptionally to a maximum limit for the purchase of foreign currencies against the Lebanese pound which does not exceed 30% of the rate it fixes in its dealings with banks. Therefore, the central bank took several measures to protect the stability of the LBP exchange rate, without compromising the freedom to trade in foreign currencies, by playing the role of a foreign exchange center, in the sense of being the recipient and distributor of foreign currencies in an attempt to control the market. At the beginning of April 2020, the central bank established a special unit in its cash operations department, which would handle foreign currencies, especially the US dollar, according to the market price and asked the institutions that carry out cash transfers by electronic means to pay the value of the incoming money transfer in Lebanese pounds according to the market price and to sell the foreign currencies resulting from the operation to the special unit of the cash operations department. The central bank has just completed the organization of the electronic platform for exchange operations, so that exchange institutions register on the electronic application "Sayrafa" affiliated to its platform and downloaded on special tablets, and enter the required information for each transaction immediately and clearly. Also, all exchange offices must respect the ceiling set by the central bank for selling USD in exchange for LBP. The electronic platform started operating on June 23, 2020.

In this context, it must be noted that controlling the downward trend of the exchange rate cannot succeed with temporary solutions that will only work for a short period of time, but rather by restoring the confidence factor inside Lebanon and also from abroad, given the need for an inflow of new funds

4 Starting November 2017, the BDL's foreign assets include the internationally traded Lebanese government's sovereign bonds issued in FC and held by BDL.
5 Lebanon ranked 20th internationally and 2nd in the MENA region in terms of country reserves according to the list published by the "World Gold Council" in June 2020.

to the country. This requires the intention and the will to build a real state that places the interest of the country and citizens above every consideration, and in turn works to build the economy on sound foundations, carries out the required reforms, adopts governance, and focuses on strengthening and diversifying the economy. The exchange rate is, after all, the mirror of the economy.

**B | On the part related to helping the Lebanese citizens, and specifically banks' clients,** the Central Bank of Lebanon, through Basic Circular No. 148/2020, allowed small depositors whose total creditor accounts do not exceed LBP 5 million or USD 3 thousands, to obtain the available balance in Lebanese pounds according to the market price on the day of the operation (3,000 pounds per dollar according to the last day of execution). The central bank has also taken exceptional measures with regard to cash withdrawals from foreign currencies bank accounts, whereby any customer who does not benefit from Circular 148 can make cash withdrawals from his accounts in foreign currencies and to obtain the equivalent of the requested amount in Lebanese pounds at market rate and in accordance with the measures and limits adopted by the concerned bank. In view of the exceptional circumstances that Lebanon is experiencing and in light of the Covid-19 pandemic and its impact on the economic cycle, the central bank requested banks to grant exceptional loans for a period of 5 years at zero percent interest rate to their customers who benefited previously from loans (of all types) by the concerned bank, and are unable to pay their dues over the four-month period (from March till June 2020). Within the same framework and also with the aim of facilitating or encouraging the entry of new or fresh dollars into the banking sector, the central bank made exceptional exemptions from the obligatory placements of banks in relation to funds transferred from abroad and/or funds received in cash in foreign currencies after April 9, 2020, provided that banks allow the free use of these funds by their owners to benefit from all banking services provided by the bank. On the other hand, other transactions that banks undertake with their customers in US dollars remained subject to the rate set by the central bank in its dealings with banks (1501-1515 pounds per dollar).

**C** | With regard to reducing the interest cost on the economy, in both its private and public sectors, the central bank imposed ceilings on the interest rates on deposits[6] as there is no need for these rates to remain high, given that the exceptional circumstances since October 2019 obliged banks to impose limits on dollar transfers abroad, which was subsequently reflected by a fall in interest rates on loans since the end of 2019, and by a marked decline in the Beirut Reference Rates BRR, published by the Association of Banks. Also, interest rates on all categories of treasury bills have been reduced since March 2020.

**D** | In the context of securing foreign currencies within the best possible conditions for some basic and vital sectors and commodities, the central bank issued several intermediate circulars in recent months that gradually improved and simplified the conditions for accessing these foreign currencies. Latest information in this respect are summarized in the box below.

Currently, banks can ask the central bank to secure foreign currencies equivalent to 90% of the value of the invoices allocated, exclusively, for the import of petroleum derivatives such as gasoline, diesel, and gas, and 85% of the value of the bills allocated, exclusively, for the import of wheat, medicines, medical supplies and infant formula until age 1, and the medical materials (raw materials) that are used in the manufacturing of medicines, all of which provided that the imported goods are exclusively for local consumption according to the needs of the Lebanese market. Banks can also ask BDL to secure foreign currencies equivalent to 90% of the value of imported raw materials to meet the needs of industrial enterprises, with a total amount of USD 100 million. Banks are also allowed to ask the central bank to secure foreign currencies to meet the needs of importers and manufacturers of basic foodstuffs and raw materials as specified in the list issued by the Ministry of Economy and Trade, and where the market exchange rate is adopted.

**E** | In the context of reducing foreign currency obligations on the banking system, the central bank requested banks to pay 50% of interest on the customers' deposits in foreign currencies in the account currency and the remaining 50% in Lebanese pounds, also the central bank will pay exceptionally 50% of interest on term deposits of banks at BDL in dollars and on USD denominated certificates of deposit in dollars and the remaining 50% in LBP, until the end of 2020.

**F** | On the other hand, in order to bring foreign currencies into the country and improve the solvency of banks, the central bank has asked the latter in November 2019 not to distribute the profits for the fiscal year 2019, and to increase their capital, or more precisely the "Common Equity Tier One" by 20% as it is at the end of the year 2018, through cash injections in dollars, within a deadline at the end of June 2020.

## 03 | 5
## Monetary Aggregates

The monetary aggregate in the broad sense "M3" declined in 2019 -for the first time in its history- by 4.8% and continued the same trend in the first four months of 2020, where it decreased by 3.7%. M3 decreased to LBP 202,831 billion at the end of 2019, then to LBP 195,245 billion at the end of April 2020 (LBP 212,993 billion at the end of 2018), while its dollarization rate registered a further increase to 68.70% at the end of 2019, then to 70.17% at the end of April 2020 (63.93% at the end of 2018), and this is normal due to the large conversion of bank deposits in LBP to foreign currencies.

The following table summarizes the main components that have contributed to the decrease of M3 by LBP 10,162 billion in 2019 and by LBP 7,586 billion in the first four months 2020. We will focus on two components that had a clear contractionary effect on M3.

Firstly, loans to the private sector, recorded a remarkable decline from the beginning of 2019 until April 2020 -amounting to about USD 14 billion-, which is explained in particular by the repayment of loans by some individuals and institutions through their deposits, and secondly, the drop in net foreign assets of the banking system (excluding gold) that continued strongly the downward trend recorded since 2011, and which was affected by financing Lebanon's foreign trade and public sector foreign expenditures, huge cash withdrawals in foreign currencies that were hoarded in houses, and the outflow of some deposits from Lebanon while financial inflows have reached the minimum level.

6 Intermediate Circular No. 544 of February 13, 2020 sets the ceilings for deposits in foreign currencies at 2% for one-month deposits, 3% for 6-months deposits and 4% for one-year or above deposits. Regarding LBP deposits, the ceilings were 5.5% for one-month deposits, 6.5% for 6-month deposits and 7.5% for one-year and above deposits.

**Evolution of money supply and its counterparts** (End of period – LBP billion)

| | 2018 | 2019 | Change 2019/2018 | April 2020 | 4 months 2020 |
|---|---|---|---|---|---|
| Currency in circulation | 5,008 | 9,818 | +4,810 | 14,562 | +4,744 |
| Demand deposits in LBP | 6,653 | 6,802 | +149 | 7,865 | +1,063 |
| Money in LBP (M1) | 11,661 | 16,620 | +4,959 | 22,427 | +5,807 |
| Money and quasi-money in LBP (M2) | 76,828 | 63,484 | -13,344 | 58,243 | -5,241 |
| Money and quasi-money in LBP & FC (M3) | **212,993** | **202,831** | **-10,162** | **195,245** | **-7,586** |
| Currency in circulation/M3 | 2.35% | 4.84% | +2.49% | 7.46% | +2.62% |
| **Counterparts** | | | | | |
| Net foreign assets | 43,308 | 37,823 | -5,485 | 37,792 | +969 |
| o/w : gold | 17,743 | 21,013 | +3,270 | 23,898 | +2,885 |
| : foreign currencies | 25,565 | 16,810 | -8,755 | 14,894 | -1,917 |
| Net claims on public sector | 82,439 | 84,150 | +1,711 | 80,841 | -3,310 |
| Valuation adjustment | -9,464 | -12,835 | -3,371 | -15,779 | -2,944 |
| Claims on private sector | 83,099 | 70,814 | -12,285 | 62,246 | -8,568 |
| Other items (net) | 13,610 | 22,879 | +9,269 | 29,145 | +6,266 |

**Source:** BDL

### 03 | 6
### Inflation

The inflation rate declined to 2.90% in 2019 from 6.07% in 2018, according to the Consumer Price Index prepared by the Central Administration of Statistics (CAS). The moderate rise in prices in 2019 came in parallel with the decline in world oil prices (by 10.6%), the decrease of the average USD per Euro rate, and the slight rise in global food prices and mineral prices.

As for the year 2020, it is expected that the inflation rate will reach a very high level, even a record level, with the dramatic decline in the exchange rate of the Lebanese pound against the US dollar in the parallel market, and where it is difficult to know the limits it may reach in light of the almost complete absence of confidence in Lebanon's political and economic outlook. In its latest report issued in April 2020 on the world economic outlook, the International Monetary Fund expected that the consumer price index in Lebanon would increase by 17.0% in 2020. However, recent data indicate that it will exceed this level by many times, as the CPI issued by the CAS recorded an increase of 28.6% in the first five months of 2020 compared to the same period in 2019, and increased by 48.9% from December 2019 to May 2020[7] .

7 And by 58.1% from September 2019 till May 2020.



# 04 EXTERNAL PAYMENTS

## Current Account and Balance of Payments

### 04 | 1

According to the data issued by the Central Bank of Lebanon, the estimated current account deficit in Lebanon decreased to around USD 11.5 billion in 2019 compared to USD 13.4 billion in 2018, given that the trade deficit in goods (FOB) decreased to about USD 13.4 billion from USD 15.1 billion in the two mentioned years in a row, whereas the estimated surplus in the balances of services, current transfers and income rose slightly to about USD 1.8 billion from USD 1.7 billion. Thus, the current account deficit to GDP ratio decreased to 23.5% in 2019 compared to 24.4% in 2018, and this ratio is expected to decline further in 2020 due to the significant decrease recorded by the goods imports, according to the published statistics for the first four months of 2020, and also due to the decline in workers' remittances from Lebanon to abroad, which we began to observe since the last quarter of 2019.

Knowing that the latest IMF estimates regarding the current account deficit, which may differ from those published by the Banque du Liban, also indicated a decline in the current deficit to about USD 11.5 billion in 2019 compared to USD 15.7 billion in 2018 and also a decrease in the current account deficit to GDP ratio to 20.6%, compared to 26.7% in the two mentioned years respectively. It is worth noting that if we take into account the value of errors and omissions as income entering the country without knowing exactly its nature, the current account deficit to GDP becomes in the range of 16% to 17%. Nevertheless, this ratio remains very high by all international standards, as it reached 5.7% in the Middle East and North Africa region and 0.9% in the emerging markets.

### 04 | 2

The expatriates' remittances to Lebanon increased by 7.6% in 2019 to reach USD 7.5 billion, according to the latest World Bank estimates, compared to USD 6.9 billion in 2018, knowing that they may sometimes differ from the IMF and the BDL's estimates. The regularity and level of these remittances reflect the size of the Lebanese Diaspora in all parts of the world, the high efficiency that it enjoys in various fields and its continuous social and economic connection with their families and the country.

The net current transfers rose, according to BDL estimates, to about USD 2.9 billion in 2019, compared to USD 1.4 billion in 2018, also affected by the decline in the remittance outflows from Lebanon, especially in the last quarter of 2019. The direction of the net remittances in 2020 will remain unknown till it becomes clear how much the remittance inflows will be affected by the repercussions of the Covid-19 pandemic, despite the expectation of a significant decline in remittance outflows in light of their related higher costs.

### 04 | 3

The high current account deficit in Lebanon, which is affected to a large extent by the huge deficit in the trade balance - one of the major imbalances in the Lebanese economy-, is financed by the surplus in the capital and financial accounts, i.e. through the net capital inflows in various forms including direct investments, portfolio investments, deposits at banks, net loans from abroad to the public and private sectors. Based on the above figures and the deficits in the balance of payments, the net capital inflows to Lebanon have further and sharply decreased in 2019 by nearly 30% invoking once again the use of BDL's reserves to finance the current account deficit. This trend is no longer sustainable due to lack of resources, after the reserves of the Central Bank of Lebanon declined to alarming levels.

## 04 | 4

According to the data provided by the BDL which is adopted in the report of UNCTAD on investments in the world, it is estimated that net foreign direct investments flowing to Lebanon has decreased slightly to USD 1.8 billion in 2019 (3.7% of GDP) compared to USD 2 billion in 2018 (also 3.7% of GDP). Foreign direct investments flowing to Lebanon decreased according to the same source to around USD 2.2 billion in 2019 (4.5% of GDP) in comparison with USD 2.7 billion in 2018 (4.9% of GDP). It is to mention that foreign direct investments usually finance a large part of the current account deficits and were largely concentrated in the real estate sector differing from the nature of foreign direct investments in many emerging countries where they are diverse, affecting several economic sectors.

## 04 | 5

In conclusion, the net capital inflows in 2019, as in previous years, were not able to cover the current account deficit, causing a huge deficit in the balance of payments amounting to USD 5,851 million according to the figures released by the BDL, following a large deficit of USD 4,823 million in 2018. This trend continued in the first four months of 2020, where the BOP deficit reached about USD 1.3 billion.

## 04 | 6

According to the Customs Higher Council, the value of imported goods decreased to USD 19.2 billion in 2019 from USD 20.0 billion in 2018, i.e. by USD 741 million and 3.7%. The value of imported goods from all customs items witnessed a decline, except for one item, the mineral products, mainly composed of petroleum derivatives, which registered a remarkable increase of USD 2.5 billion and by 58.5%. So when excluding the "mineral products" item from the total, imports from all other products recorded a significant decline of USD 3.2 billion and by 20.1%.

Import quantities recorded in 2019 a remarkable increase of 22.0%, reaching 19,351 thousand tons, compared to 15,855 thousand tons in the previous year. This came as a result of the remarkable increase in the imported quantities of mineral products -that weigh heavily-, by 60% and by more than 4,300,000 tons compared to the previous year, while the imported quantities recorded a significant decline for the most customs items. Thus, after excluding mineral products, the imported quantities of other goods decreased by 17.1%.

To summarize, imports for all customs items recorded a decline in terms of value and quantities, which is normal given the economic crisis in the country, except for the imports of petroleum derivatives, which went into an opposite direction and surely surpassed the needs of the Lebanese economy. If we could have avoided this excess in imports, we would have likely saved at least USD 3 billion in the import bill and central bank reserves.

There is a final positive point despite its connection to the monetary and banking crisis that Lebanon is going through. The value of imported goods recorded a significant decline of 41.7% in the first four months of 2020 compared to the same period of 2019, as it is useful and required for Lebanon to control the imports bill as much as possible, since it has formed in the past years a major weakness of the economy and contributed to the depletion of foreign currencies reserves.

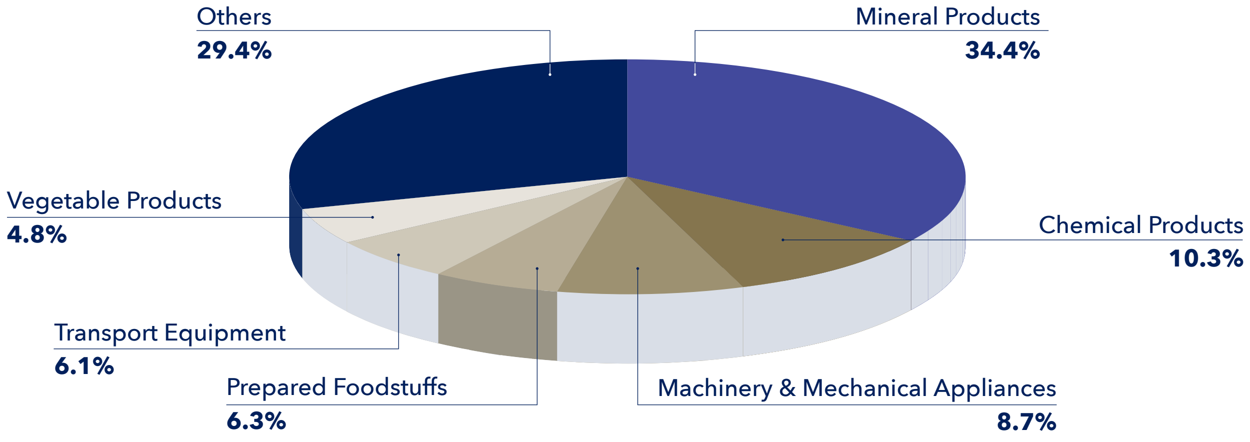
### Imports of goods

| | 2017 | 2018 | 2019 | Till April 2019 | Till April 2020 |
|---|---|---|---|---|---|
| Value - USD million | 19,582 | 19,980 | 19,239 | 6,306 | 3,676 |
| Change- % | +2.4 | +2.0 | -3.7 | | -41.7 |
| Quantities - Thousand tons | 18,975 | 15,855 | 19,351 | 5,641 | 3,867 |
| Change- % | +0.2 | -16.4 | +22.0 | | -31.4 |

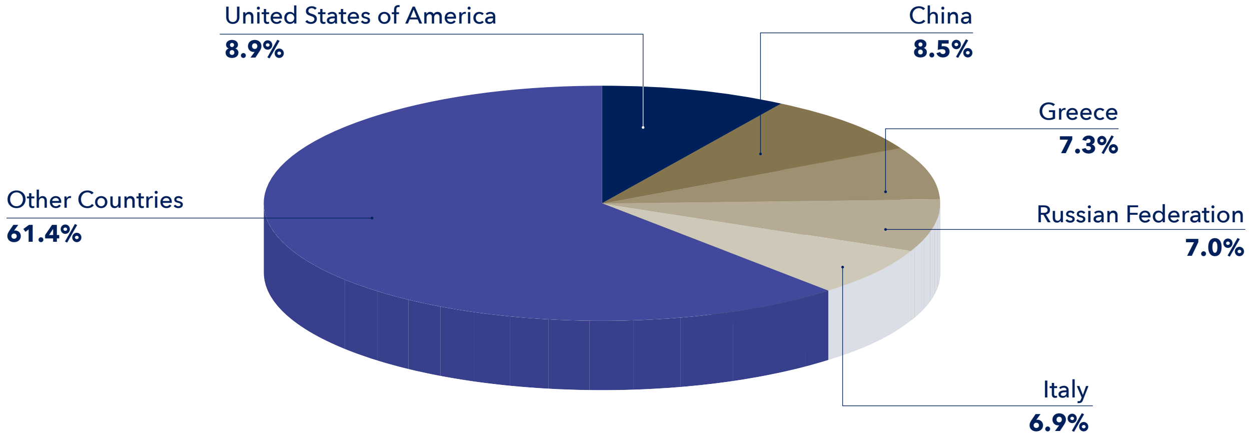
**Source:** Customs Higher Council.

The two graphs below summarize the distribution of imported goods by type and country of origin in 2019.

### Main imported products - In % of total in 2019




### Imports by countries of origin - In % of total in 2019



04 | **7**

On the other hand, the value of exported goods increased to USD 3,731 million in 2019 compared to USD 2,952 million in 2018, or by an amount of USD 779 million and by 26.4%. This improvement resulted entirely from an increase in exports of precious and semi-precious stones and precious metals, by an amount of USD 807 million, and by 125%, that went mainly to Switzerland (the exported quantities of precious and semi-precious metals and stones also increased by 30%), while the export value of all other goods witnessed a very slight decline (by USD 28 million). Thus, exports of goods approached in 2019 the threshold of USD 4 billion, and recorded their highest level since 2014.

In the first four months of 2020, exports of goods maintained almost the same relatively high level recorded in the same period of 2019, despite a slight decrease of 3.4%.

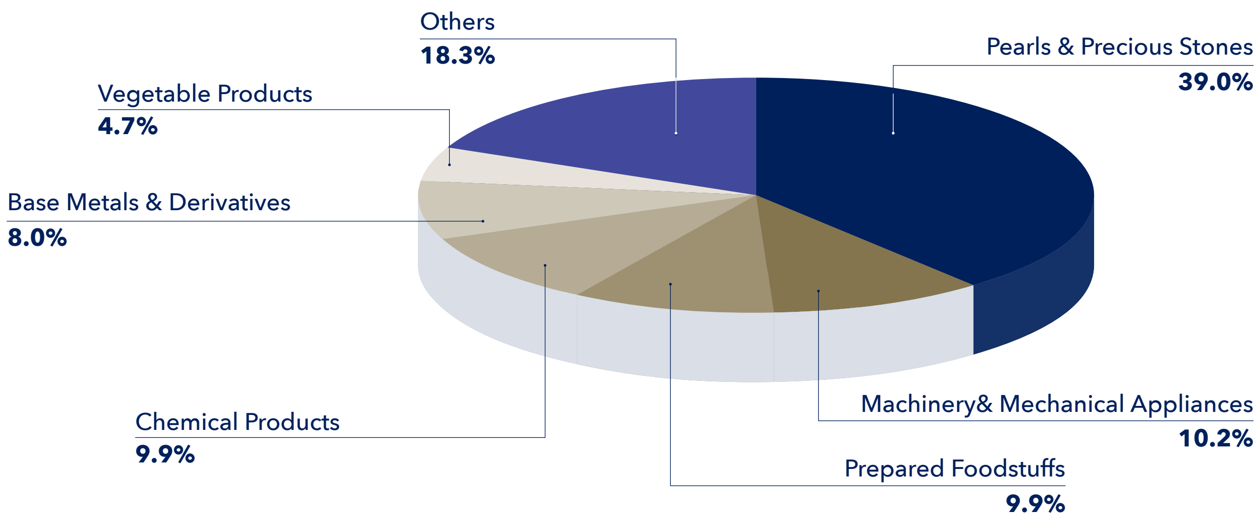
As for the exports quantities in 2019, they registered a decrease of 8.9% reaching 1,677 thousand tons against 1,840 thousand tons in the previous year, most of which resulted from the decline in the quantities exported from one customs item that weighs a lot, the "base metals and articles of base metal" by about 142 thousand tons or about 87% of the total decrease in exports quantities. When this item is eliminated, exports quantities from all other goods recorded a slight decrease of 1.6%.

### Exports of goods

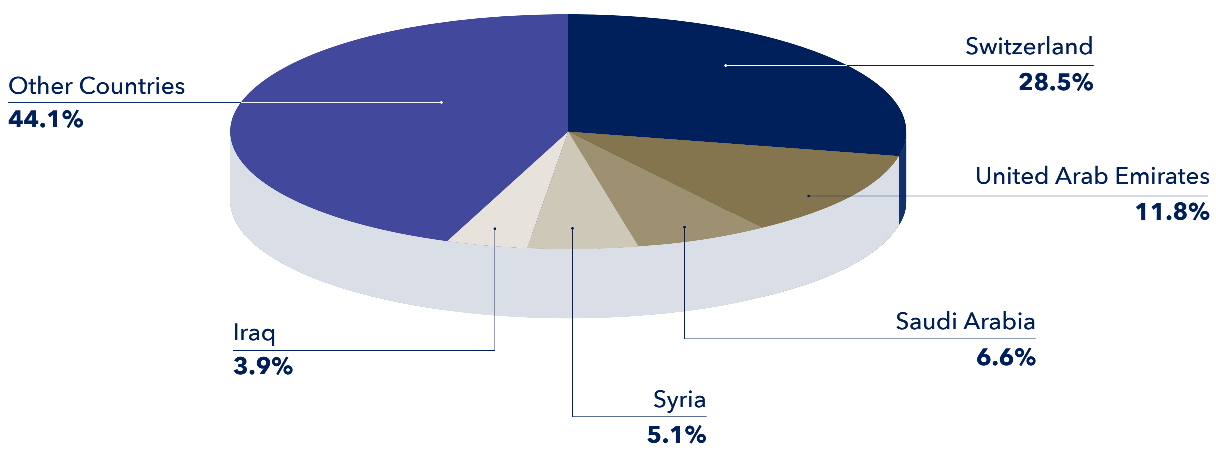
| | 2017 | 2018 | 2019 | Till April 2019 | Till April 2020 |
|---|---|---|---|---|---|
| Value - USD million | 2,844 | 2,952 | 3,731 | 1121 | 1,085 |
| Change- % | -4,5 | +3.8 | +26,4 | | -3.2 |
| Quantities - Thousand tons | 1,937 | 1,840 | 1,677 | 562 | 526 |
| Change- % | +16,8 | -5.0 | -8,9 | | -6.4 |

**Source:** Customs Higher Council.

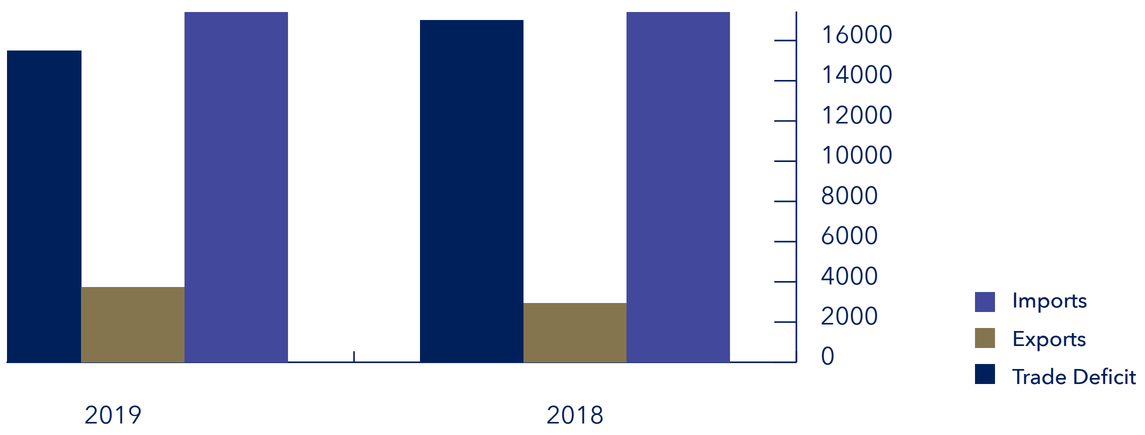
### Main exported products - In % of total in 2019




### Export by countries of destination - In % of total in 2019




### Lebanon's Foreign Trade - USD million




**Source:** Customs Higher Council.

# 05 BANKS AND THE FINANCING OF THE ECONOMY

## 05 | 1

In 2019, the banking sector was targeted by some politicians and other parties, before the uprising and the economic and financial distress, to load banks more tax burdens for realizing profits, and after the uprising due to the restrictions that banks adopted on deposits. This is because of the need to shift attention and find a scapegoat to compensate the policies of organized and legal looting of the country during three decades, thus avoiding any responsibility. The truth is said that banks refuse to harm their customers' deposits and fiercely defend this trust. The authority wasted spending, and the banking sector, banks and central bank, were forced to finance the government with high sovereign risks. This places responsibilities in varying degrees on the three sides: the State, the Bank of Lebanon and the banks.

## 05 | 2

In parallel, there were also external pressures that the Association of Banks responded to through intensive, organized and costly efforts that they have been doing for nearly seven years with the Congress and the US administration in Washington and with correspondent banks in New York and other financial capitals (London, Paris, Frankfurt ...). The most recent of which was the visit of the Association's working team during the period from 6 to 10 May 2019 to the USA. This visit was successful and beneficial in terms of strengthening relations with correspondent banks, as well as at the level of Congress and the American administration, and the Association's delegation was able to strengthen the relationship with these parties despite the prevailing harsh climate. The continuity of this relationship was confirmed, based on the commitment of the Lebanese banks to fight money laundering and terrorist financing, and to keep the banking sector away from any transactions through individuals, companies and groups listed on the terrorism list.

## 05 | 3

It is to clarify on the issue of taxes on banks' profits that amendment and introduction of new taxes on banks at an accelerated pace in the past few years, in an attempt to enhance government revenues without any effort to control expenditures, waste and tax evasion, has exhausted banks and weakened their role in the economy. The actual tax rate on profits, which includes the income tax on the profits of companies that rose from 15% to 17%, and the tax on interest that progressed from 5% to 7% and then 10%, and with the double taxation calculation to which banks were subjected to contrary to logic, in addition to a 2% tax on turnover recently, ranges between 50 and 60% starting 2018 and over the coming years if profits will be realized. How can the capitalization of banks be carried out under the weight of these burdens, which are easy to place on the banks but unbearable, especially in this difficult and accurate stage the economy is going through and at a time when the need for a solid and effective banking sector is more urgent than before.

## 05 | 4

As a reminder, banks reinjected over three decades, most of their profits, that is, at least 60% to the constitution of their capital. They were also able to attract new investments in their capital accounts exceeding USD 8 billion from a large number of Lebanese and non-Lebanese investors. It is possible to refer to the approvals of the monetary and supervisory authorities on the capital increases and to the reports of the banks published on their websites, which are subject to review and control by at least two international audit firms. The interest received by banks from their loans and placements cannot be considered as net income or profits. In fact, what banks collect in terms of receivable and debit interest goes mostly to depositors as credit interest. What remains, i.e. interest margins, finances, on one hand, the cost of salaries, wages and their benefits, and on the other hand, operating expenses in addition to the needs for the constitution of various provisions. Also, net profits are not measured in absolute numbers, but rather after they are attributed to total assets or to total capital, so that these ratios show that the profitability performance of the Lebanese banking sector is similar or lower than in many neighboring or distant countries, as the return on average assets (ROAA) reached 0.9% in Lebanon in 2018 (latest available data) compared to 1.75% in emerging markets and 1.56% in the Middle East and North Africa region. In addition, the return after tax on average shareholders' equity (ROAE) was 10.8% in Lebanon, compared to 16.7% in emerging markets and 12.2% in the Middle East and North Africa region in the aforementioned year.

## 05 | 5

The banking sector always needs to strengthen its capital base and general reserves in line with the financial and accounting standards of the global banking industry, especially in light of the current crisis and the sovereign downgrade, and that of the operating banks. It has to bear the consequences of this downgrading in the form of higher risk-weights on domestic loans and placements, and thus rose capital requirements, on one hand, and be able to continue providing financing to the economy, on the other hand. Profits are one of the most important ways to increase capitalization, not only in Lebanon, but also internationally. Instead of asking to raise taxes on banks, we think it would be necessary to pay attention to the volume of evasion and the huge tax leakage outside the banking sector, which we estimate at no less than USD 4 billion annually. In fact, the banks alone contributed during the year 2018 to more than 58% of the income tax on the profits of individuals, SA and SARL companies, with the number exceeding 150 thousands (compared to 65 banks operating in Lebanon), in addition to what thousands of self-employed persons pay. The banks 'contribution is 60% of the total proceeds of the interest tax.

## 05 | 6

In the light of the current economic and financial crisis and opinions about economic and financial recovery, the need for bank capitalization has increased dramatically, as banks are supposed to bear losses as a result of rescheduling public debt, and their placements with the Banque du Liban, and as a result of the decline in the quality of lending portfolios for the private sector with the deterioration of economic conditions; in addition to the volume of the provisions imposed by banks' commitment to the rules of international financial accounting, even with recent amendments by the monetary and supervisory authorities. Also, as a reminder, there are requirements for the constitution of cash advances in foreign currencies, with a total of 20% of bank capital, according to BDL Circular No. 532 issued on November 4, 2019, i.e. an amount exceeding USD 4 billion required to be provided by the end of June 2020.

## 05 | 7

The banking sector has participated for a quarter of a century in financing and securing monetary stability and preserving the financial system. It has also provided the state with all the elements of continuity and expansion and more than it should, and thus bears part of the responsibility for what happened. The banking sector also financed the private sector as needed, and thus contributed to the continuation and expansion of its institutions' work without being accompanied by a noticeable increase in the capital of these institutions, which are accustomed to grow through debt. The sector also satisfies the consumption of individuals of durable goods and other goods and services, etc. This reality has changed now, and what is required is more corporate capitalization, less indebtedness for the private sector, a reduction of imports, and a focus on industry and exports and the needs of real economic growth. The country needs everyone and needs to exploit the vast human and organizational capabilities, whether at home or abroad, to promote the economy. The banking sector must learn lessons from what happened and reorganize its business according to strict criteria and gradually build up its liquidity and capital. There is no substitute for an active banking sector capable of performing its key role in the economy, which is financial intermediation.

# 06 BANKING ACTIVITY IN 2019 AND IN THE FIRST FOUR MONTHS OF 2020

## 06 | 1

At the end of 2019, total assets of commercial banks operating in Lebanon reached LBP 326,797 billion (the equivalent of USD 216.8 billion based on the official exchange rate), knowing that the comparison is not possible with the end of 2018 because starting December 2019, and according to the offsetting criteria in IAS 32 "Financial Instruments: Presentation" and the disclosure on offsetting financial assets and liabilities in IFRS 7, the new reporting would offset loans taken from the central bank in LBP with their corresponding deposits at the central bank in LBP carrying same maturities. Thus, noting that total assets, deposits at the central bank and non -deposit liabilities are published on this basis.

## 06 | 2

The table below shows the evolution of the main liabilities' items of commercial banks, in absolute value and percent of the total. At the end of April 2020, the share of each of resident private sector deposits reached 57.5% of total liabilities, non-resident private sector 14.2 %, capital accounts 10.1 %, non-resident financial sector deposits 3.9%, public sector deposits 2.3% and other liabilities 12.0%.

Note that these other liabilities have been increasing since May 2016 precisely and continued to rise in the next three years as a result of the financial operations carried out by the Banque du Liban with the banks. The volume of these operations was large to contain the pressure on the monetary situation amid the deterioration of economic and financial conditions and the wave of rumors affecting the Lebanese pound. "Other liabilities" generally include loans granted by the BDL to banks and interbank operations between banks' branches in Lebanon and abroad and miscellaneous liabilities, and it constitutes an additional source of funding besides deposits and capital accounts.

**Commercial Banks' Liabilities at the end of the period** (Billion LBP and %)

| | 2018 | | 2019 | | April 2020 | |
|---|---|---|---|---|---|---|
| | Value | % | Value | % | Value | % |
| Resident private sector deposits | 205,859 | 54.7 | 190,566 | 58.3 | 178,415 | 57.5 |
| Public sector deposits | 6,445 | 1.7 | 7,379 | 2.3 | 7,156 | 2.3 |
| Non-resident private sector deposits | 56,870 | 15.1 | 48,920 | 15.0 | 43,967 | 14.2 |
| Non-resident financial sector deposits | 13,961 | 3.7 | 13,310 | 4.1 | 12,034 | 3.9 |
| Capital accounts | 30,383 | 8.1 | 31,240 | 9.6 | 31,336 | 10.1 |
| Other liabilities | 62,579 | 16.6 | 35,382 | 10.8 | 37,265 | 12.0 |
| **Total** | **376,097** | **100.0** | **326,797** | **100.0** | **310,173** | **100.0** |

**Source:** BDL

06 | **3**
Total deposits remain the primary source for the activity of commercial banks operating in Lebanon although their share declined to 74.0% of total liabilities at end April 2020 from 75.6% at the end of 2019. Remarkably, the banking sector is suffering from the third quarter 2019 from continuous bleeding in deposits. Noting that there is a draft law concerning restrictions on deposits and transfers aiming to organize transfer and withdrawal operations to protect peoples' money at banks.

06 | **4**
Usually, banks seek to increase their medium and long-term resources through the issuance of certificates of deposits, preferred shares and subordinated debt obligations and getting credit lines from Arab and international institutions, organizations and funds, in addition to attracting new shareholders, especially credible institutions, into their capital. However, this seems very difficult in light of the reluctance of investors as a result of recent developments.

## Deposits

06 | **5**
At the end of 2019, the total deposits' base, which includes deposits of resident (including financial sector) and non-resident private sector and deposits of some institutions of the public sector, reached LBP 246,865 billion (the equivalent of USD 163.8 billion), in comparison to LBP 269,174 billion (USD 178.6 billion) at the end of 2018. So these deposits decreased with a value of LBP 22,309 billion (the equivalent of USD 14.8 billion) following a higher increase of 3.2% i.e USD 5.6 billion in 2018. Total deposits amounted to LBP 229,539 billion (USD 152.3 billion) at the end of April 2020 in comparison to LBP 267,356 billion (USD 177.4 billion) at the end of April 2019, thus decreasing with a value of USD 25.1 billion and by 14.1%.

06 | **6**
Thus, total deposits in 2019 declined and continued in 2020 due to several factors, such as reimbursement and cancellation of credits against cash collateral, depositing funds in houses in line with the decline of confidence and heightened fears and large outflows from the country especially during the last quarter of the year, in addition to the financing of foreign trade. The liquidity control measures taken since October 2019 had an impact on changes of deposits' volume in LBP and FC.

06 | **7**
In terms of the distribution of deposits by currency, those denominated in LBP declined with a value of LBP 19,772 billion and by 25.6% in 2019 partly due to the conversion from the LBP to US dollar, also to depositing funds in houses, and the decline of deposits in FC with a value of LBP 3,466 billion and by 1.9%, to remove them from the sector or to get them out of the country. Accordingly, the private sector deposit dollarization rate significantly increased to 78.9% at the end of April 2020 (the highest since 13 years) against 76% at the end of 2019 and 70.6% at the end of 2018.

### Distribution of Private Sector Deposits at Commercial Banks

| USD Million | End of December 2018 | End of April 2019 | End of December 2019 | End of April 2020 | Change 2018/ 2019 | Change April/April 2020/2019 |
|---|---|---|---|---|---|---|
| **Resident Deposits** | **136,556** | **135,496** | **126,412** | **118,351** | **-10,144** | **-17,145** |
| - In LBP | 46,896 | 45,959 | 34,950 | 28,567 | -11,946 | -17,392 |
| - In FC | 89,660 | 89,537 | 91,462 | 89,784 | +1,802 | +247 |
| **Non Resident Deposits** | **37,724** | **37,213** | **32,451** | **29,165** | **-5,273** | **-8,048** |
| - In LBP | 4,312 | 4,253 | 3,140 | 2,494 | -1,172 | -1,759 |
| - In FC | 33,412 | 32,960 | 29,311 | 26,671 | -4,101 | -6,289 |
| **Total Deposits** | **174,280** | **172,709** | **158,863** | **147,516** | **-15,417** | **-25,193** |
| - In LBP | 51,208 | 50,212 | 38,090 | 31,061 | -13,118 | -19,151 |
| - In FC | 123,072 | 122,497 | 120,773 | 116,455 | -2,299 | -6,042 |

06 | **8**
On the other hand, the share of the resident private sector represented 77.7% out of total deposits at the end of April 2020 (77.2% at the end of 2019 and 76.5% at the end of 2018), the share of non-resident private sector 19.2% (19.8% and 21.1% respectively) and public sector share (3.1%, 3.0% and 2.4% respectively). It should be noted that deposits include certificates of deposits issued by banks which amounted to USD 300 million at the end of 2019. The majority of bank deposits are saving and term accounts (82% at the end of April 2020).

06 | **9**
Bank deposits are concentrated in Beirut and its suburbs which attracted 66.1% of total deposits at the end of 2019, allocated to 47.6% of the total number of depositors, whereas 33.9% of the deposits belong to other regions and were allocated to 52.4% of depositors, indicating a difference in the average deposit value between Beirut & suburbs and the other regions.

06 | **10**
In terms of interest rates, they maintained in the first eleven months 2019 their rising pace, which has started significantly since year 2018, where banks, in coordination with the Banque du Liban, have raised interest rates on LBP deposits if kept in LBP, especially if maturities are extended, to encourage depositors not to convert to US dollars. Banks also have raised interest rates on the dollar in the Beirut market in parallel with the Central Bank measures that have encouraged attracting US dollar deposits and controlling their exit. While interest rates started their decline by December 2019 through the implementation of the BDL intermediate circular no 536 dated 4/12/2019 (followed by the BDL intermediate circular no 544 dated 13/2/2020), especially given the restrictions applied by banks on customers. The average interest rate on new or renewed deposits in LBP increased from 8.30% in December 2018 to 9.40% in November 2019 (+110 basis points) to gradually decrease to 5.06% in April 2020 (-434 basis points). The average interest rate on new or renewed deposits in USD increased from 5.15% in December 2018 to 6.31% in November 2019 (+116 basis points) to gradually decrease to 2.32% in April 2020 (-399 basis points).

## Capital accounts

### 06 | 11

At the end of 2019, capital accounts of commercial banks operating in Lebanon reached LBP 31,240 billion (the equivalent of USD 20.7 billion), increasing by 2.8% compared to the year 2018. At the end of April 2020, capital accounts reached LBP 31,336 billion (the equivalent of USD 20.8 billion) hence registering a decrease of 2% in comparison to April 2019. At the end of April 2020, capital accounts represented 10.1% of the consolidated balance sheet (9.6% at the end of 2019) and 47.4% of total claims on private sector (41.6% at the end of 2019). The supplementary capital, which includes subordinated bonds and some types of preferred shares, remains low as it represented 5.0% of capital accounts at the end of April 2020 (6.3% at the end of 2019).

### 06 | 12

Banks usually expand their capital base by issuing common and preferred shares classified as core capital, attracting investors in Lebanon and abroad, and by retaining most of their profits into their capital. High country risk has always necessitated an increase in capital, albeit at the expense of dividends distribution, which enhances the soundness of the financial position of the bank and the sector as a whole. However, the consecutive downgrade of Lebanese banks from the international rating agencies poses the problem of securing resources to banks from capital increase in light of the reluctance of investors with the lack of confidence and the retreat of the quality of banks credit portfolio, with the increase of risk weights, originally suffering from a high percentage of non-performing loans, thus, the high cost to the borrower and to the economy is inevitable in light of implementing international standards especially the International Financial Reporting Standard 9 (IFRS9).

### 06 | 13

The increased exposure of banks to sovereign debt, especially in foreign currencies (Eurobonds, certificate of deposits at BDL and deposits at BDL), and the increased risk of non-performing loans, especially banking loans in FC to the private sector, threaten banking capital, thus explain the request of the central bank to banks to increase their capital through the intermediate circular no 532. The mentioned circular aims to respond to the liquidity crisis in foreign currencies in the short term, and to enhance banking solvency to face the increase of non-productive debt. Knowing that the increase of capital accounts imposed by the circular is not enough to recapitalize the sector, especially after the decision of public debt restructuring following the government announcement of the suspension of payment of Eurobonds in March 2020. Studies indicates that banks will need to significantly increase their capital after the public debt restructuring, however, the increase in capitalization varies from one bank to another, in order to reach the solvency ratio at minimum of 8% according to the requirements of the Basel standards.

## Placements of the Banking Sector

### 06 | 14

At the end of April 2020, the share of each of loans to the private sector dropped to 18.8% and loans to the public sector to 12% and foreign assets to 7.4% against an increase of the share of deposits at BDL to 56.7%.

**Commercial Banks' Assets at the end of period** (Billion LBP and %)

| | 2018 | | 2019 | | April 2020 | |
|---|---|---|---|---|---|---|
| | Value | % | Value | % | Value | % |
| Reserves | 197,138 | 52.4 | 178,208 | 54.5 | 177,033 | 57.1 |
| o/w : deposits with BDL | 196,288 | 52.2 | 177,468 | 54.3 | 175,908 | 56.7 |
| Claims on customers and financial sector (resident) | 78,796 | 21.0 | 66,627 | 20.4 | 58,178 | 18.8 |
| Claims on the public sector | 50,651 | 13.5 | 43,240 | 13.2 | 37,367 | 12.0 |
| Foreign assets | 37,990 | 10.1 | 26,534 | 8.1 | 23,051 | 7.4 |
| o/w : claims on NR financial sector | 18,074 | 4.8 | 10,202 | 3.1 | 7,425 | 2.4 |
| claims on NR private sector | 10,728 | 2.9 | 8,400 | 2.6 | 7,998 | 2.6 |
| Resident private sector securities portfolio | 2,671 | 0.7 | 2,413 | 0.7 | 2,303 | 0.7 |
| Fixed assets & Non-classified assets | 8,851 | 2.4 | 9,775 | 3.0 | 12,242 | 3.9 |
| **Total** | **376,097** | **100.0** | **326,797** | **100.0** | **310,173** | **100.0** |

**Source:** BDL

## Claims on Private Sector

### 06 | 15

Bank loans to the resident and non-resident private sectors reached around LBP 75,027 billion at the end of December 2019, against LBP 89,524 billion at the end of 2018. Thus, registering a significant decline of 16.2% against a slight decrease of 0.5% in 2018, reflecting the severe contraction of the economic activity which seemed clear since the beginning of the year and worsened in the last quarter especially following the developments that erupted after the uprising of October 17. At the end of April 2020, bank loans to the resident and non-resident private sectors reached LBP 66,175 billion against LBP 85,885 billion at the end of April 2019, thus decreasing with a value of LBP 19,710 billion (around USD 13 billion) and by 22.9%.

### 06 | 16

The decrease of demand for lending reflects the retreat of consumer and investor confidence and the weak and negative economic growth in Lebanon due to the prevailing political and economic conditions. In order to reduce risks, banks continued their "precautionary" policy through decreasing total credit portfolio, knowing that a number of customers resorted after October 17 to paying off debts by withdrawing from their creditor accounts. The increase in interest rates in 2019 and 2018 also contributed to the reduction of demand for lending.

### 06 | 17

Loans granted to the non-resident private sector, of which a large part is related to the financing of projects for Lebanese businesses abroad, particularly in Arab and African countries, represented 12.1% of the total loans granted to the private sector at the end of April 2020 (11.2% at the end of 2019 and 12% at the end of 2018).

### 06 | 18

Loans granted to the resident private sector represented the equivalent of 86% of GDP according to the estimates for the year 2019. This relatively high level in Lebanon could be partly explained, by the low capitalization of the corporate sector, its weak capacity for self-financing, and its excessive reliability on banks' financing, away from financing through stocks and corporate bonds markets, knowing that the competitiveness in finance is the best and most successful way that make growth a sustainable process ensuring financial and social stability.

06 | **19**
The ratio of loans in foreign currencies to deposits in foreign currencies decreased to 24.7% at the end of April 2020 against 28.3% at the end of December 2019 and 33.4% at the end of December 2018. However, loans in LBP to deposits in LBP increased to 48.7% at the end of April 2020 from around 40.9% at the end of 2019 and 35.7% at the end of December 2018. These results were influenced by several factors, o/w transfers of deposits from LBP to foreign currencies which remained quasi frozen in the last quarter of 2019 after the uprising in October 17 and the tightening policy adopted by banks and almost hard currency loss from banks and resort to the money dealers market and the decreased demand for lending, and low opportunities or even paying off debts by withdrawing from creditor accounts as mentioned above. Noting that BDL issued circular no 503 in August 2018, requesting that total net credits in Lebanese pounds granted by a bank to the private sector must not exceed 25% of its clients' total deposits in Lebanese pounds. Lebanon's ratio of loans to deposits remains low, against high liquidity levels that often characterize the Lebanese banking sector despite the large retreat of domestic savings (resident and non-resident) reflected by the large deficit of the current account.

06 | **20**
With the decrease of loans in LBP by 2.8% in the first four months of 2020 (14.8% in 2019) and the decline of loans in FC by 15.9% in the first four months of 2020 (16.8% in 2019), the loan dollarization rate decreased to reach 65.5% at the end of April 2020 (the lowest rate) against 68.7% at the end of 2019 and 69.2% at the end of 2018.

06 | **21**
In parallel with the increase of deposit interest rates, the interest rates on new and renewed loans witnessed an ascending trend in 2019 same as the year 2018 before the descending trend in the beginning of the year 2020. The average lending rate on the USD increased from 8.57% in December 2018 to 10.84% in December 2019, to drop to 7.79% in April 2020. Concerning the average lending rate on the LBP, it reached 9.97%, 9.09% and 9.29% in the three mentioned dates consecutively.

## Claims on Public Sector

06 | **22**
The claims of commercial banks on the public sector reached at the end of 2019 LBP 43,241 billion in comparison with LBP 50,651 billion at the end of 2018, thus registering a decrease of 14.6% after a decline of 5.2% in 2018. Claims reached LBP 37,367 billion at the end of April 2020 against LBP 49,985 billion at the end of April 2019, thus decreasing in the amount of LBP 12,618 billion and by 25.2%.

06 | **23**
In details, the commercial banks' portfolio of Treasury bills in LBP decreased from LBP 26,198 billion at the end of 2018 to LBP 22,071 billion at the end of 2019, to reach LBP 21,071 billion at the end of April 2020. In general, banks' new subscriptions in LBP treasury bills came less than maturing bills. The banks' portfolio of Eurobonds decreased from USD 16,039 million at the end of December 2018 to USD 13,816 million at the end of 2019, and reached USD 10,626 million at the end of April 2020. This decrease resulted from Eurobonds arriving to maturity in April (USD 500 million), May (USD 650 million) and November (USD 1.5 billion), in addition to the payment of coupon yields. Banks held a share of matured Eurobonds and sold a part of the bonds close to maturity.

06 | **24**
As a result, the share of the claims on the public sector in LBP out of total loans to the public sector decreased from 52.3% at the end of 2018 to 51.8% at the end of 2019, then increased to 57.1% at the end of April 2020. While the share of claims in foreign currencies increased from 47.7% to 48.2% then decreased to 42.9% at the end of the mentioned dates consecutively.

## Foreign Assets

06 | **25**
Deposits of commercial banks at correspondent banks reached USD 6.8 billion at the end of 2019 against USD 12 billion at the end of 2018. Thus, these deposits decreased significantly by 43.6% in 2019 after an increase of 6.1% in 2018. At the end of April 2020, these assets decreased to USD 4.9 billion against USD 10.3 billion at the end of April 2019, thus decreased in the amount of USD 5.4 billion and by 52.1%.

06 | **26**
The share of these deposits out of total banks' assets reached 2.4% at the end of April 2020 against 3.1% at the end of 2019. The ratio of these deposits out of total customer's deposits in foreign currencies at banks decreased to 4.2% against 5.6% at the end of 2019. It is to note that deposits of commercial banks at correspondent banks, net of deposits of non-resident banks, decreased to USD - 2.1 billion at the end of 2019 and USD - 3.1 billion at the end of April 2020 against USD +2.7 billion at the end of 2018.

## Deposits at BDL

06 | **27**
At the end of April 2020, deposits of commercial banks at the BDL reached LBP 175,908 billion in comparison with LBP 177,468 billion at the end of 2019. Thus, they decreased by 0.9%. The share of these deposits out of total banks' assets reached 56.7% and 54.3% at the end of both mentioned dates consecutively. These deposits included required reserves imposed on banks and free deposits in LBP and USD, in addition to certificate of deposits issued by BDL in favor of banks. CDs in LBP reached LBP 45,251 billion at the end of April 2020 against LBP 48,043 billion at the end of 2019, while CDs in USD reached USD 22.5 billion and USD 22.7 billion consecutively.