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TWIN DEFICITS NARROW AS ADJUSTMENT TAKES HOLD

- **Non-fuel imports slumped by 15.6% yoy to a decade low of $10.1bn by Sep-19**
- **Travel, transportation, and remittance outflows hit $12.2bn/yr by Mar-19**
- **External conditions favor remittance inflows and exports**

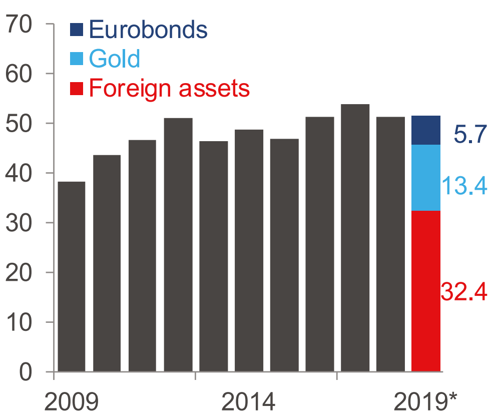
Lebanon's economic adjustment gained momentum in recent months driven by continued fiscal austerity and conservative monetary policy in response to elevated country risk and rising imbalances. The fiscal deficit narrowed by 12.8% yoy to $3bn in the first eight months of 2019, an annualized rate of 7.6% of GDP, compared with 9% of GDP over the same period in 2018, data by Ministry of Finance and International Monetary Fund showed. The primary surplus, which excludes debt service payments, widened five times to $368.9m, equivalent to 0.9% of GDP over the same period.

The country's merchandise imports have also been shrinking for several months. Non-petroleum imports fell by 15.6% yoy to $10.1bn in the first nine months of 2019, their lowest level in a decade, Customs data showed. Fuel imports surged by 62.7% yoy to $5.2bn during the period due to higher imports destined for the state-owned Électricité du Liban (EdL). However, data reporting lags cast doubt over the accuracy of EdL's imports in the early months of 2019, with nearly half of the volumes likely related to legacy imports from 2018.

A political crisis combined with popular protests and temporary restrictions on deposit withdrawals and international transfers drove up the exchange rate for the Lebanese Pound at money dealers, causing an abrupt increase in the prices of consumer goods, especially staple foods. Prices of flour and beef, both largely imported, surged at supermarkets and minimarkets by an average of 18.2% yoy and 10% yoy respectively by November 18, according to weekly data by the Ministry of Economy and Trade.

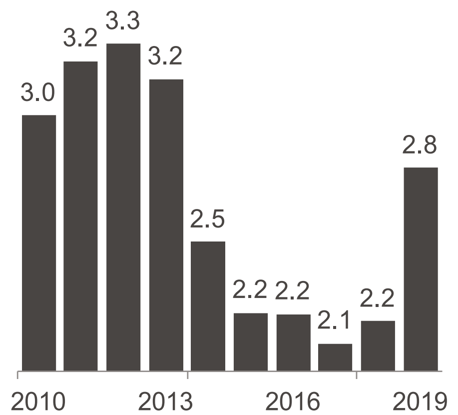
In response, Banque du Liban (BdL) offered to supply foreign currency to banks at the official exchange rate for the import of main commodities. BdL stated that it would provide foreign currency covering 85% of import bills for petroleum products, wheat, and medicine, 75% for raw materials used in the production of medicine, and 50% for medical supplies.

BdL foreign assets ($bn)



Note: Through November 2019.
Source: BdL, Economena, SGBL Research

Merchandise Exports (Jan-Sep, $bn)



Source: Customs, Economena, SGBL Research

Similar to merchandise imports, services and remittance outflows are likely to dwindle amid ongoing adjustment to the current account balance, and may even contribute to the bulk of the adjustment given the central bank's declared support for imports of basic commodities. Travel and transportation services along with remittance outflows contributed to a combined drain of $12.2bn on Lebanon's current account balance during the 12 months through March 2019, more than 28% of total drains over the period, BdL data showed.

Falling demand for foreign products and services, along with temporary restrictions on international transfers from legacy accounts contributed to a narrowing in the balance of payments deficit in October. The payments balance posted a deficit of $197.9m in October 2019, compared with an average deficit of $495m in the first nine months of the year and a deficit of $1.8bn in October 2018. Indeed, the majority of deposit outflows since the outbreak of protests in mid-October are likely held by households as banknotes or used for the amortization of outstanding debt.

Private sector deposits decreased by $1.9bn to $168.4bn in October 2019.

Private sector deposits had decreased by $1.9bn to $168.4bn in October 2019, bringing the cumulative reduction in deposits to $5.9bn since the start of the year, central bank data showed. The slump in deposits, particularly through cash withdrawals, prompted the central bank to introduce ceilings of 8.5% and 5% on new and rolled over local currency and foreign currency deposits respectively. Local currency deposit rates had surged to an average of 9.03% by October 2019, while rates on US dollars hit a post-war high of 6.61%, according to BdL.

Despite easing pressure from the country's import bill, external debt service and the retirement of Eurobonds will continue to pose a challenge to the balance of payments over the next several months. BdL had settled $2.1bn in Eurobond maturities and coupons in November 2019, a significant portion of which paid out to non-residents. The central bank simultaneously subscribed to a new $1.5bn, 2029 Eurobond and another $1.5bn, 2035 Eurobond issued by the Ministry of Finance, raising its holdings of Lebanese Eurobonds from $3.5bn in mid-November to $5.7bn by the end of the month.

BdL's international reserves and public sector deposits would be sufficient to finance the twin deficits throughout the next several months, including Eurobond and coupon maturities by June 2020, stated Barclays Capital, a UK-based investment bank. The fiscal deficit is projected to shrink to 10.2% in 2019 and to 9.2% by 2020 with economic growth picking up to 0.2% in 2020 from -0.4% in 2019, according to the bank.

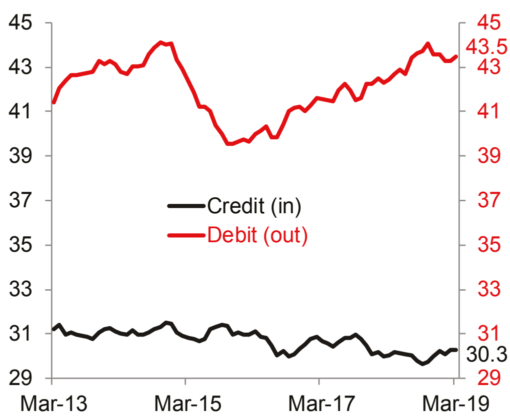
EXTERNAL CONDITIONS FAVOR EXPORTS, REMITTANCES

The pickup in economic activity in the Gulf Cooperation Council, home to a large Lebanese expatriate population, should bode well for remittance inflows and exports of goods and services. Growth in Saudi Arabia's economy is projected by the International Monetary Fund to accelerate to 2.2% in 2020 and 2021 compared with just 0.2% in 2019 with momentum from the country's Vision 2030. In Kuwait and UAE, growth would similarly rebound to 3.1% from 0.6% and to 2.5% from 1.6% respectively, according to the IMF.

Merchandise exports grew by 27.6% yoy to $2.8bn in the first nine months of 2019, a 6-year high for the period.

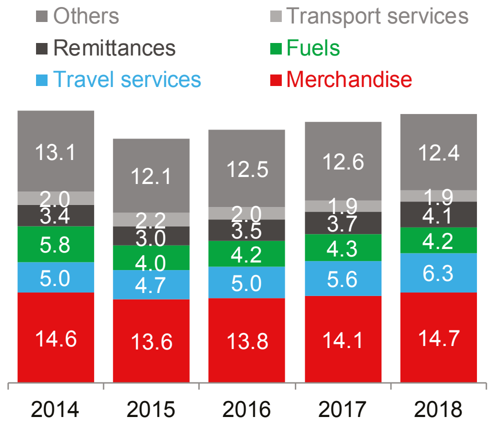
Exports of goods and travel services, particularly to the GCC, had been on the mend prior to the protests. Merchandise exports grew by 27.6% yoy to $2.8bn in the first nine months of 2019, a six-year high for the period, led by shipments to Switzerland, the United Arab Emirates, and Saudi Arabia. A surge in visitor arrivals to the country had buoyed hotel revenues in the first nine months of the year; occupancy rates at Beirut's 4- and 5-star hotels jumped by 8% to 71.6% through September 2019, a decade high for the period, according to surveys by Ernst & Young.

Current account ($bn, 12-month moving sum)



Source: BdL, Economena, SGBL Research

Current account debits (outward) ($bn)



Source: BdL, Economena, SGBL Research

ACCELERATING GROWTH IN THE GCC BODES WELL FOR LEBANON

- **Saudi Arabia's economy to grow by 2.2% in 2020 against 0.2% in 2019 - IMF**
- **Over a quarter of Lebanon's official remittances originate from the GCC**
- **Exports grew by 27.6% yoy to a six-year high of $2.8bn by September 2019**

The pickup in economic activity in the Gulf Cooperation Council, home to a large Lebanese expatriate population, should bode well for remittance inflows and exports of goods and services. Growth in Saudi Arabia's economy is projected by the International Monetary Fund to accelerate to 2.2% in 2020 and 2021 compared with just 0.2% in 2019 with momentum from the country's Vision 2030. In Kuwait and UAE, growth would similarly rebound to 3.1% from 0.6% and to 2.5% from 1.6% respectively, according to the IMF.

Remittance inflows to Lebanon, estimated at $7.3bn in 2019, had stagnated in recent years after falling oil prices weighed on economic activity in oil exporting countries, particularly Saudi Arabia and Nigeria. Military conflict and social unrest across nearly a dozen Arab countries in the region weighed further on public and private investment, creating fewer job opportunities for Lebanese workers and pressuring incomes of expatriates.

Remittance inflows to Lebanon, estimated at $7.3bn in 2019, had stagnated in recent years.

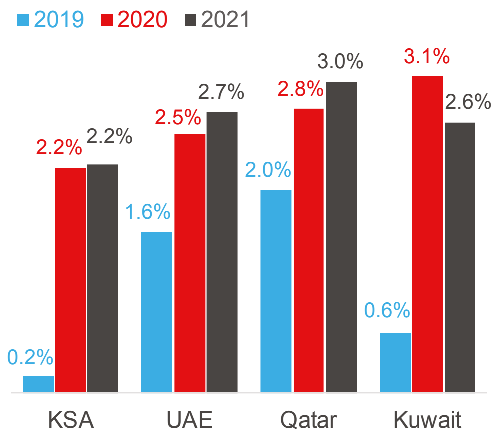
Over a quarter of personal remittances originated in GCC countries, World Bank data showed. The largest source of official remittances was Saudi Arabia, with 20.4% of total, followed by the United States and Australia with 16.2% and 12% respectively.

Official statistics, however, underreport the volume of remittances due to the scarcity of data on cash remittances and non-bank transfers, particularly in the cases of Nigeria and Ivory Coast where a sizeable number of Lebanese expatriates reside.

The Lebanese economy also stands to gain from the revival of major infrastructure projects in Saudi Arabia and from the run up to key international events hosted by the GCC, including Expo 2020 in Dubai and the World Cup in Qatar in 2022. The re-opening in 2019 of border crossings between Syria and each of Jordan and Iraq after several years of closure also bodes well for merchandise exports although domestic unrest and stalled credit activity will likely undermine prospects for a meaningful recovery in the near-term.

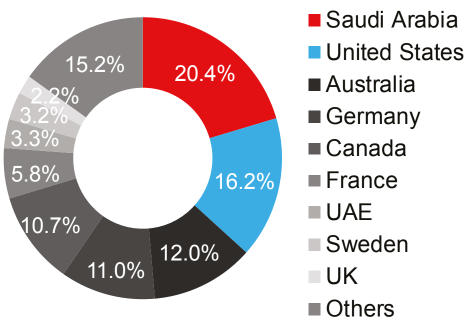
Lebanon's exports, particularly to the GCC, had been on the mend prior to the protests. Total goods exports grew by 27.6% yoy to $2.8bn in the first nine months of 2019, a six-year high for the period. Customs data showed. The United Arab Emirates and Saudi Arabia were the second and third largest export destinations respectively from Lebanon; shipments to the UAE grew by 2.8% yoy to $328.8m by September 2019 and surged by 18% yoy to $179.6m to Saudi Arabia, according to Customs.

Real GDP growth (%)



Source: IMF WEO October 2019, Economena, SGBL Research

Remittance inflows by origin



Source: World Bank (2017), Economena, SGBL Research

BALANCE OF PAYMENTS DEFICIT NARROWED TO $198M IN OCTOBER 2019

- **Money supply (M3) decreased by $2bn in the first three weeks of November 2019**
- **BdL introduces caps on average local currency and foreign currency deposit rates**
- **Balance of payment posted deficit of $197.9m in October amid transfer restrictions**

Private sector deposits decreased by $1.9bn to $168.4bn in October 2019, bringing the cumulative reduction in deposits to $5.9bn since the start of the year, central bank data showed. Deposits of non-residents, including many among the Lebanese Diaspora and expatriates, fell by $1.1bn to $35.5bn during the month, in line with previous political crisis episodes, including November 2017. The drop in residents' deposits in October was less acute, at $845.8m, or 0.6%, to $132.8bn.

The slump in deposits, particularly through cash withdrawals, prompted the central bank to introduce ceilings of 8.5% and 5% on new and rolled over local currency and foreign currency deposits respectively. Local currency deposit rates had surged to an average of 9.03% by October 2019, while rates on US dollars hit a post-war high of 6.61%, according to Banque du Liban (BdL). At the same time, 50% of interest obligations on the banking sector's foreign currency term deposits and certificates of deposit at BdL would be settled in local currency.

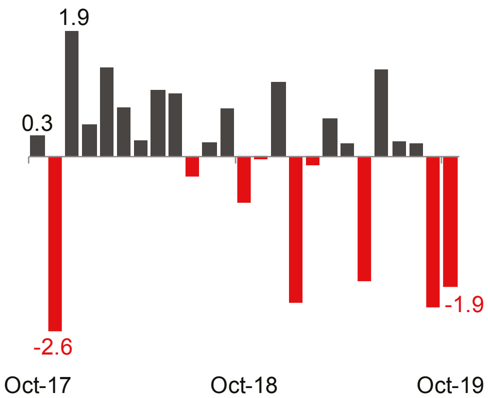
Deposit outflows from commercial banks had resumed in November, driven largely by local currency accounts in light of restrictions on withdrawals in US dollar. M3, which includes deposits in local currency and residents' foreign currency deposits, fell by $2bn to $136.1bn in the first three weeks of November. However, deposits of residents in foreign currencies grew by an estimated $222.3m between November 14 and November 21 after banks reduced their cash withdrawal limits and tightened further their measures of liquidity management.

Deposits of residents in foreign currency grew by an estimated $222.3m between November 14 and 21.

The drop in deposits did not fully translate into outflows from the country. The balance of payments posted a deficit of $197.9m in October 2019, compared with an average deficit of $495m in the first nine months of the year and a deficit of $1.8bn in October 2018. Indeed, the majority of deposit outflows since the outbreak of protests in mid-October are likely held by households as banknotes or used for the amortization of outstanding debt. Claims on the private sector fell by $303.9m to $53.8bn during the month, and by $5.1bn since the start of the year, according to BdL.

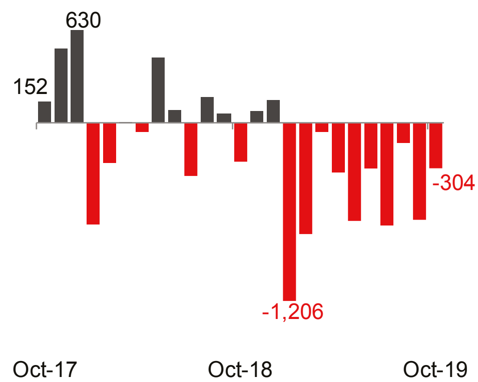
Disruptions to banking operations in October and November, along with rising unemployment post a threat to asset quality at Lebanese banks and to bank profits. The blow, however, will likely be softer in the construction industry as developers with loan obligations experience growing demand from depositors looking to swap their financial wealth at banks for real assets. Utilized credit to the construction sector reached $10.7bn as of March 2019, an estimated 16% of private sector credit.

Private sector deposits (change, $bn)



Note: Excluding JTB Bank deposits starting Sep-19.
Source: BdL, Economena, SGBL Research

Claims on private sector (change, $m)



Note: Excluding JTB Bank deposits starting Sep-19.
Source: BdL, Economena, SGBL Research

FISCAL DEFICIT NARROWED TO 7.6% OF GDP BY AUGUST 2019

- **Controlled spending partially offset by slump in revenues**
- **Fiscal deficit projected to reach 10.2% by end of 2019 – Barclays Capital**
- **Debt service costs fell by 4.1% yoy to $3.2bn supported by BdL subscriptions**

Lebanon's fiscal deficit narrowed by 12.8% yoy to $3bn in the first eight months of 2019, an annualized rate of 7.6% of GDP, compared with 9% of GDP over the same period in 2018, data by Ministry of Finance and International Monetary Fund showed. The primary surplus, which excludes debt service payments, widened five times to $368.9m, equivalent to 0.9% of GDP over the same period.

However, a political crisis along with mass protests that erupted in October will likely undercut somewhat the government's deficit targets throughout the rest of the year. The deficit is projected to reach 10.2% of GDP in 2019, according to Barclays Capital, a UK-based investment bank, only marginally better than in 2018 and far from the government's declared target of 7.6% for the year.

Political uncertainty and social unrest will undermine fiscal targets in 2019.

Spending decreased following payment delays and a series of austerity measures, but slow economic growth created a drag on revenues, offsetting much of the reduction in spending. Cash revenues fell by 4.5% yoy to $7.7bn by August led by a smaller telecommunications surplus and a slump in income from the Value Added Tax. The latter decreased by 9.2% yoy to $1.6bn through August suggesting weakening consumer and private business demand during the period.

Instead, income tax revenues accelerated on the back of higher tax rates on interest income and corporate profits. Revenues from the 10% tax on interest income jumped by 50.7% yoy to a record high of $1.1bn in the first eight months of 2019, an estimated 14.7% of public receipts and the second largest source of income for the state. Meanwhile, property taxes slid by 24.1% yoy to $385.5m through August and customs taxes slipped by 5.1% yoy to $854.7m mirroring a slump in investment and private demand.

Weak revenues were more than offset by tighter spending and lower interest payments. The government scaled back its transfers to municipalities, which largely represent their share of telecommunications revenues, by 40.5% yoy to $300.9m through August, and transfers to Électricité du Liban, the state-owned electricity company, dropped by 7.8% yoy to $1bn.

Transfers to municipalities decreased by 40.5% yoy to $300.9m through August.

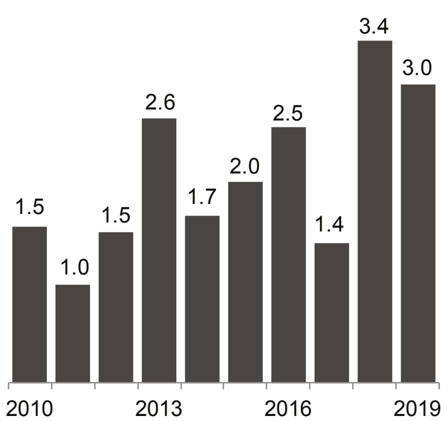
Debt service, the state's biggest expense after personnel costs, provided some respite to public finances. Total interest payments decreased by 4.1% yoy to $3.2bn in the first eight months, including $2bn in local currency and $1.2bn in foreign currencies. The central bank had subscribed in 2018 to $5.5bn in local currency Treasury bills carrying a coupon of 1%, helping relieve some of the pressure from debt service payments on public finances in 2019.

Fiscal performance (Jan-Aug, $m)

	2018	2019
Total revenues	8,065.0	7,703.8
Value Added Tax	1,763.3	*1,600.6*
Interest income tax	753.1	*1,134.7*
Corporate income tax	843.2	*872.8*
Customs tax	900.3	*854.7*
Telecom surplus	651.0	*457.8*
Property taxes	507.7	*385.5*
Total spending	11,447.4	10,654.8
Debt service	3,330.6	*3,195.2*
Transfers to EdL	1,088.1	*1,003.7*
Primary balance	74.2	368.9
Percent of GDP	*0.2%*	*0.9%*
Fiscal balance	-3,382.4	-2,951.1
Percent of GDP	*-9.0%*	*-7.6%*

Source: MoF, Economena, SGBL Research

Fiscal deficit (Jan-Aug, $bn)



Source: MoF, Economena, SGBL Research

SERVICES MAY DRIVE CURRENT ACCOUNT ADJUSTMENT

- **BdL to provide foreign currency for nearly 42% of merchandise imports**
- **Prices have surged in recent weeks, putting a damper on demand**
- **Travel, transportation, and remittance outflows reached $12.2bn per year before the crisis**

Lebanon's imports are poised to shrink substantially in the near-term amid severe compression in merchandise imports as well as flagging demand for foreign workers and travel services. The country plunged into a political crisis after mass anti-corruption protests that erupted in October led to the resignation of PM Hariri's Cabinet, prompting banks to adopt temporary restrictions on withdrawals and outgoing transfers.

The political crisis and social unrest also drove up the exchange rate for the Lebanese Pound at money dealers, causing an abrupt increase in the prices of consumer goods, especially staple foods. Prices of flour and beef, both largely imported, surged at supermarkets and minimarkets by an average of 18.2% yoy and 10% yoy respectively by November 18, according to weekly data by the Ministry of Economy and Trade. It will likely take several months before prices fully adjust to the conditions that have prevailed since the protests started on October 17. The official CPI rose by 1.4% in October 2019, according to CAS.

In response, the central bank announced its readiness to supply foreign currency at the official exchange rate for the import of main commodities. In particular, Banque du Liban (BdL) stated that it would provide foreign currency covering 85% of import bills for petroleum products, wheat, and medicine, 75% for raw materials used in the production of medicine, and 50% for medical supplies. Imports of fuel, wheat, medicine, and medical supplies reached an estimated $6.5bn in the first nine months of 2019, Customs data showed, representing 42.2% of the country's aggregate import bill during the period.

Merchandise imports (Jan-Sep 2019)

	Value ($m)	% of total
Mineral products, including fuel	5,212.4	34.1%
Products of chemical, allied industries	1,556.2	10.2%
Machinery and electrical instruments	1,332.7	8.7%
Vehicles and transport equipment	966.8	6.3%
Prepared foods, beverages, tobbaco	956.4	6.2%
Pearls, precious stones, and metals	740.6	4.8%
Vegetable products	733.6	4.8%
Base metals and articles	686.3	4.5%
Live animals and animal products	656.4	4.3%
Plastics and rubber	526.6	3.4%
Textiles and textile articles	497.4	3.2%
Miscellaneous manufactured articles	283.9	1.9%
Medical and musical instruments	269.5	1.8%
Stone, plaster, cement, and glass	249.4	1.6%
Pulp of wood, paper, paperboard	228.6	1.5%
Wood, charcoal, and cork	138.4	0.9%
Animal or vegetable fats and oils	102.2	0.7%
Others	167.4	1.1%
Total	**15,304.5**	**100%**

Source: Customs, Economena, SGBL Research

The rest of merchandise imports, meanwhile, already all but ground to a virtual halt as rising prices weigh on domestic demand and temporary restrictions on international transfers and credit facilities constrain supply. Imports of large ticket items, namely vehicles, machinery, textiles, plastics, and rubber will likely be among the hardest hit by trade restrictions and a depreciating currency at money dealers. Imports of the aforementioned merchandise products had reached $3.3bn in the first nine months of the year, equivalent to 21.7% of aggregate imports during the period.

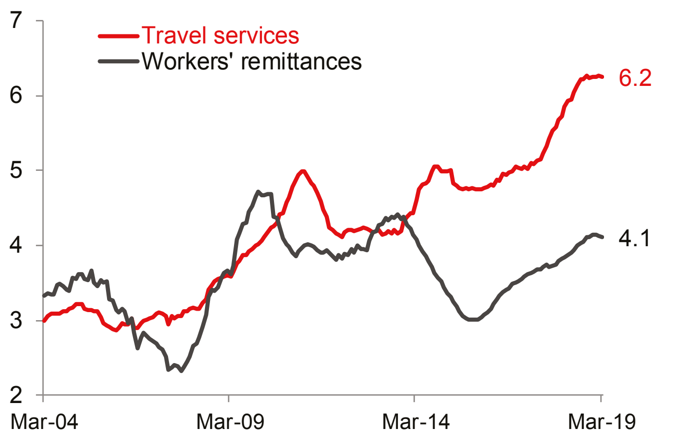
SERVICES KEY TO CURRENT ACCOUNT ADJUSTMENT

Service imports are likely to contribute the most to adjustment in the country's current account given the central bank's support for imports of basic commodities. Travel, transportation, and remittances contributed to a combined drain of $12.2bn on the current account balance in the 12 months through March 2019, more than 28% of total drains.

Travel services, the largest services drain on the country's current account balance, had been growing rapidly in recent years as more Lebanese flock to foreign tourist destinations. Current account debits attributed to travel services grew by 6.8% yoy to $6.2bn during the 12 months through March 2019, an increase of $1.6bn since March 2014, according to BdL.

Workers' remittance outflows from Lebanon grew at an even faster pace of 7.1% yoy to $4.1bn by March 2019. Outward remittances had slowed considerably in 2015 to just $3bn after domestic security conditions pushed foreign workers away, but they have since reversed direction. New and renewed work permits issued to foreigners grew by 21.5% to 306,445 permits in 2018, a decade-high, data by the Ministry of Labor showed. The majority of permits, equivalent to 71% of total, were issued to workers in category 4 which comprises domestic workers whose monthly salaries fall below the minimum wage.

Current account debits (outward) (12-month moving sum, $bn)



Source: BdL, Economena, SGBL Research

LATEST DATA

Key indicators	Unit	2018	Jul-19	Aug-19	Sep-19	%Y/Y	YTD	PYTD
Cleared cheques	$bn	66.57	5.07	4.84	5.00	-9.7	42.41	49.65
Real estate transactions	$bn	8.13	0.30	0.91	0.80	15.3	4.74	5.84
Construction permits	Sqm, m	9.02	0.63	0.48	n.a.	-28.5	4.59	6.37
Cement deliveries	Tons, m	4.70	0.37	0.32	n.a.	-24.5	2.24	3.20
Tourist arrivals	m	1.96	0.28	0.24	n.a.	5.4	1.44	1.34
Airport traffic	m	8.84	1.06	1.19	0.82	-3.6	7.04	6.85
Balance of payments	$bn	-4.82	0.07	0.92	-0.06	-59.9	-4.46	-1.31
Money supply: M3	$bn	141.29	140.34	140.40	138.83	-1.8	-2.46	2.73
BSE volumes	m	90.01	1.97	1.09	1.99	-36.9	192.54	65.38
Passenger car sales		33,012	2,948	2,041	1,700	-30.2	19,865	26,081
Hotel occupancy (average)	%	65.05	75.4	81.0	71.7	-0.6	71.61	63.64

Indices	Unit	2018	Jul-19	Aug-19	Sep-19	%Y/Y	%YTD
CMA Market Value Weighted Index		113.25	61.07	54.11	55.16	-16.3	-22.1
Consumer Price Index		106.65	108.50	108.51	108.85	1.1	0.8
Purchasing Managers' Index		46.28	47.70	47.80	46.40	1.3	0.4
BdL Coincident Indicator		307.72	304.30	291.60	n.a.	-1.7	-3.0

Trade	Unit	2018	Jul-19	Aug-19	Sep-19	%Y/Y	YTD	PYTD
Imports	$bn	19.98	2.20	1.50	1.47	1.9	15.30	15.16
Exports	$bn	2.95	0.36	0.37	0.34	60.1	2.81	2.20
Trade balance	$bn	-17.03	-1.83	-1.13	-1.12	-8.2	-12.50	-12.96
Port of Beirut volumes	TEUs, m	1.31	0.12	0.12	0.11	-4.6	0.97	0.98

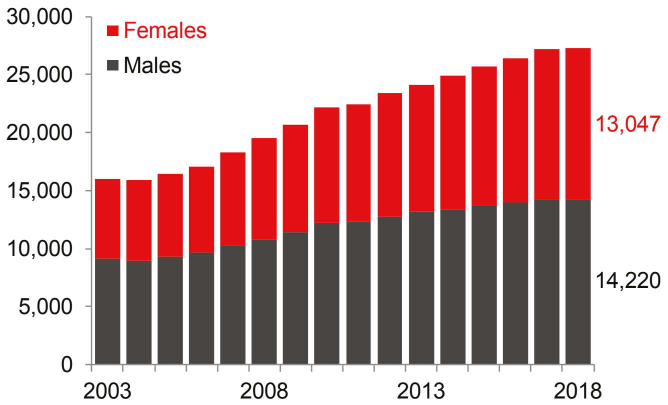
Financial and monetary	Unit	2018	Jul-19	Aug-19	Sep-19	%Y/Y	YTD	%YTD
Commercial bank assets	$bn	249.48	259.18	261.90	262.20	8.7	12.71	5.1
Claims on the resident private sector	$bn	51.80	48.40	48.16	47.44	-9.1	-4.36	-8.4
Claims on the non-resident private sector	$bn	7.12	6.49	6.60	6.67	-1.4	-0.45	-6.3
Claims on the public sector including securities	$bn	33.60	32.02	31.81	31.65	-4.7	-1.95	-5.8
Resident private sector deposits	$bn	136.56	135.48	135.52	133.68	-2.4	-2.88	-2.1
Dollarization rate (average)	%	63.83	66.97	67.24	68.27	4.0	2.61	2.6
Non-resident private sector deposits	$bn	37.72	36.87	37.02	36.62	-1.1	-1.10	-2.9
Dollarization rate (average)	%	87.63	89.22	89.47	89.76	2.6	1.19	1.2
Private sector deposits with commercial banks	$bn	174.28	172.35	172.54	170.30	-2.1	-3.98	-2.3
Private loans / deposits	%	38.48	35.73	35.54	35.49	-2.6	-2.44	-2.4
Public sector deposits	$bn	9.30	8.84	8.63	8.61	-14.9	-0.69	-7.5
BdL foreign assets	$bn	44.28	44.27	44.68	43.02	-4.5	-1.27	-2.9
BSE market capitalization	$bn	9.68	8.21	7.87	7.86	-18.9	-1.82	-18.8
Gross public debt	$bn	85.14	86.00	86.29	86.78	3.5	1.64	1.9

Public finance	Unit	2018	Jun-19	Jul-19	Aug-19	%Y/Y	YTD	PYTD
Revenues	$bn	11.55	1.29	1.22	0.73	-44.3	7.70	8.07
Value Added Tax	$bn	2.55	0.11	0.36	0.12	-68.0	1.60	1.76
Telecommunications	$bn	1.07	0.07	0.10	0.00	-	0.46	0.65
Income taxes	$bn	2.99	0.77	0.33	0.20	-33.7	2.69	2.30
Customs taxes	$bn	1.34	0.10	0.12	0.11	-13.9	0.85	0.90
Expenditures	$bn	17.79	1.32	1.21	1.27	-5.7	10.65	11.45
Transfers to EdL	$bn	1.76	0.11	0.12	0.16	-22.5	1.00	1.09
Debt service	$bn	5.41	0.36	0.24	0.33	35.4	3.20	3.33
Primary balance	$bn	-0.64	0.35	0.27	-0.21	-	0.37	0.07
Fiscal balance	$bn	-6.25	-0.03	0.01	-0.54	1,204.9	-2.95	-3.38

YTD: year-to-date, PYTD: previous year-to-date. Source: MoF, BdL, BSE, ARA, Customs, Markit, EY, RHIA, CAS, Economena, SGBL Research

Banking and financial sector staff

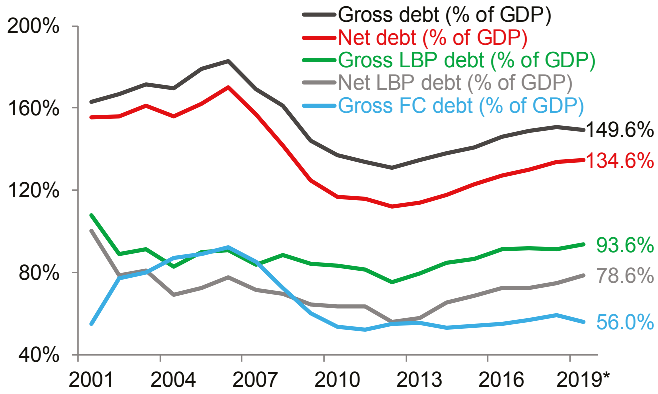
Banking and financial sector staff numbers reached a record high of 27,267 persons in 2018, but grew at their slowest pace in 14 years, Central Bank data showed. The number of male staff decreased by 0.3% to 14,220 persons, while women saw their numbers increase by 0.8% to 13,047, representing a record share of 47.8% of total sector headcount.



Source: BdL, Economena, SGBL Research

Lebanon public debt to GDP

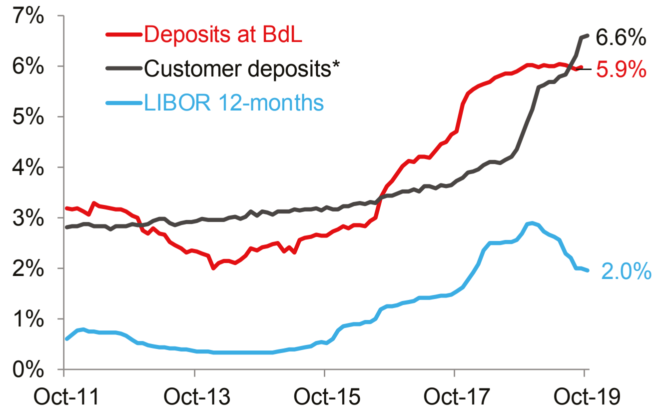
Lebanon's gross public debt decreased to 149.6% of GDP by the end of September 2019 from 151% at the start of the year, Ministry of Finance and IMF data showed. However, net debt levels, which exclude public sector deposits, ticked up slightly to 134.6% of GDP as the government increasingly drew down its deposits to meet payment obligations.



Note: Excluding bridge loans from BdL to MoF.
Source: BdL, MoF, Economena, SGBL Research

US dollar rates

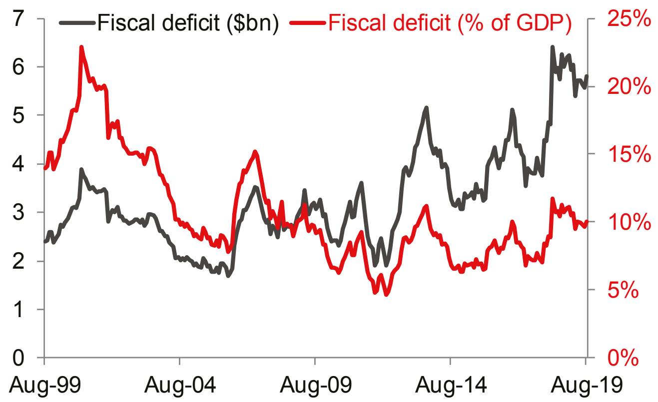
Spreads widened even more between global and domestic US dollar rates in recent months as political and economic uncertainty drove up risk premia for the country. One year LIBOR on US dollar decreased to 2% in October after the Federal Reserve lowered rates, compared with a 30-year high of 6.6% on domestic foreign currency deposits.



Source: BdL, FRED, Economena, SGBL Research

Fiscal deficit (12-month moving sum)

Lebanon's fiscal deficit decreased to 10% of GDP in the 12 months through August 2019 compared with 10.4% of GDP over the same period through August 2018, data by the Ministry of Finance and International Monetary Fund showed. The government succeeded at reining in spending in the first eight months of the year, but tepid economic growth dealt a blow to revenues.



Source: MoF, Economena, SGBL Research