LEBANON

A&T BANK

Economic Research

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EXECUTIVE SUMMARY

The political structure in Lebanon, where many religious and ethnic groups live together, was created on the basis of the division of political duties among the sects in proportion with their population, within the framework of the National Pact, which was defined as the founding document of the country and agreed in 1943. As of 2018, estimated 61 % was Muslim (31% Sunni, 30% Shia) and 34 % was Christian. With the National Pact, it was decided that the President was Maruni-(Eastern catholic churc), head of parliament was Shiite, the Prime Minister was Sunni and the members of the Parliament were shared equally between Christians and Muslims. After the 1967 War, the increasing number of Palestinian refugees in Lebanon, changed the demographic structure. A small and open economy, Lebanon has been strongly affected by the spillover from the civil war in neighbouring Syria. The Syria conflict cut off one of Lebanon's major markets and a transport corridor through the Levant (eastern Mediterranean countries). Between 2011 and 2016, economic growth averaged just 1.7% in real terms, IMF studies suggest that income inequality and poverty in the country have increased significantly as a result of the influx of more than 1.4mn Syrian refugees. Policy paralysis – the result of long-running institutional failures – has worsened the impact of this external shock.

Economically, private consumption remains Lebanon's traditional growth driver. The tourism, trade and financial sectors employ a large share of the population, real estate and construction remain key sectors, though they have lost dynamism since 2011. Government consumption represents a much smaller share due to fiscal constraints and the political authorities inability to pass or implement a budget.

In 2019, the already worrying economic situation in Lebanon worsened, raising fears of a collapse of the country. In a context of economic slowdown and declining transfers of Lebanese migrants and bank deposits, the state has become over-indebted and lacks liquidity. In order to raise funds, the government has decided to impose a tax on Internet calls like WhatsApp, triggering the biggest uprising the country has known in a decade and forcing Prime Minister Saad Hariri to resign in October 2019. Public debt has continued to increase, reaching 178 % of GDP in 2019. Lebanon is the third most indebted country in the world, after Japan and Greece. The Lebanese Pound lost 80% in 8 months. Inflation slowed from 4.6% in 2018 to 2.9 % in 2019.

IMF forecasts rate of inflation increase in 2020, due to the worsening of the economic crisis, the pressures exerted on the Lebanese currency, Beirut port blast and the outbreak of the COVID-19 pandemic. In October 2019, the banks had to close for two weeks, causing panic among depositors who saw their withdrawals limited and their transfers abroad prohibited. Credit dried up, preventing companies from financing imports, and non-performing loans were on the rise. An interim government has been put in place, to restore political stability in order to implement the reforms necessary for economic recovery and to obtain international funding.

Hassan Diab was elected as prime minister on 21.01.2020. When the port of Beirut damaged extensively by the explosion of a 2,750-ton cache of ammonium nitrate on 04.08.2020 Lebanon was already coming apart at the seams. Protests promptly dispatched the 7-month-old government, who blamed his failure to prevent the disaster.

LEBANON'S SWOT ANALYSIS

Strengths

- Lebanon has a strong tradition of commerce and enterprise, centered on Beirut as an important trading hub.
- Decades of emigration have established extensive trade networks of Lebanese communities around the world. These form a basis of the country's financial stability through their vast deposits into the banking system.
- Relative to other Arab states, Lebanon enjoys a relatively free press. In Reporters Without Borders' 2019 World Press Freedom Ranking, Lebanon was ranked 101 out of 180 countries, one of the highest in the region.
- Lebanon's democratic credentials are reasonably good, compared with the rest of the region.

Weaknesses

- Lebanon's large public debt load means that a significant share of fiscal spending goes into debt servicing rather than more productive capital expenditure.
- The country runs a large trade deficit, and the currency peg has meant there is little flexibility to adjust this.
- Lebanon's business environment remains weak, suffering from corruption and burdensome procedures.
- Religious and ethnic identity plays a large role in determining political affiliation. The confessional political system, in which the president must be a Maronite Christian, the prime minister a Sunni Muslim and the speaker of parliament a Shi'a Muslim, is inherently unstable.
- Perceptions of widespread corruption is one of the biggest challenges facing the government.
- Elements of the largest minority, the Shi'a, say they are under-represented by the current system, and a new national census – which has not been conducted in decades – is still unlikely given potentially dangerous political ramifications.
- In the past year, a breakdown in the country's banking system and skyrocketing inflation had triggered mass protests. Even before the Covid-19 pandemic hit, the World Bank projected that 45 % of people in Lebanon would be below the poverty line in 2020.

Opportunities

- Improving non-oil economic conditions in the Gulf post-2020-2021 could have a positive impact on tourism receipts and remittances.
- The government may be able to draw on a large commitment of aid and investments to improve its crumbling infrastructure network if it embarks on fiscal reform.
- A genuine attempt to redress the prevailing high levels of corruption and clientelism in the political system would generate both economic benefits and political legitimacy.

Threats

- The Beirut port where the blast occurred is the nation's main maritime hub, and 60 % of the country's imports pass through it.
- Tourism accounted for nearly a fifth of Lebanon's GDP in 2018, when two million people visited the country. That sector has suffered another huge hit from the blast and covid-19 pandemic.
- Lebanon is one of the most vulnerable economies in the region to heightened global financial volatility and 'risk-off' sentiment towards emerging markets.
- The now-formalized influence of Hezbollah through their position in the current cabinet will increase the risk of the government falling foul with Saudi Arabia or the US, which could threaten inflows of aid and investment.
- Tensions between Israel and Hezbollah remain, with ever-present potential for renewed conflict.
- Fiscal reforms could spark social unrest if carried out in a manner that disproportionately affects the poor. In turn, this could fuel sectarian tensions, raising risks of internal conflict.

1. ECONOMIC OUTLOOK

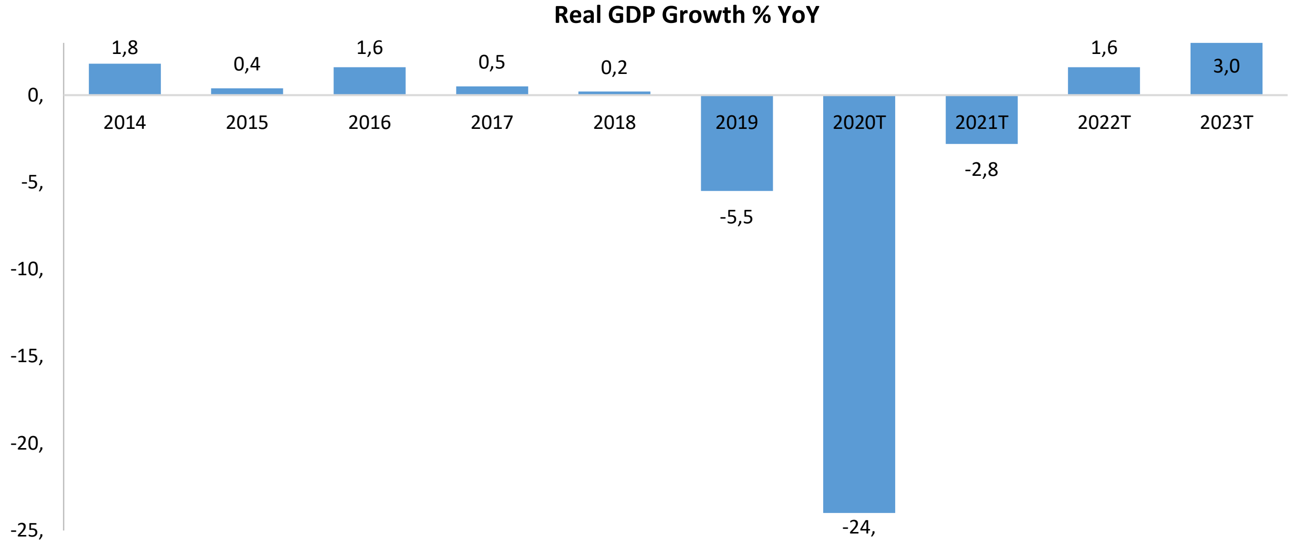
Main Economic Indicators				
	2015	2016	2017	2018
Nominal GDP, USD bn	50	51	53	57
Real GDP growth, % y-o-y	0,42	1,61	0,55	0,20
Consumer price inflation, % y-o-y, ave	-3,75	-0,78	4,32	6,08
Budget balance, % of GDP	-7,48	-8,87	-8,64	-11,29
Current account balance, % of GDP	-17,09	-20,44	-22,73	-21,97

Source: World bank

A&T Bank View: *Lebanese economic growth, slowing since 2011 following the Arab springs, the Syrian conflict and internal political tensions, experienced a sharp deterioration in 2019, economic difficulties mixed with a political crisis and nourishing destructive social demands. The GDP growth at 0,2% in 2018, decreased to -5,5% in 2019 and is estimated to decrease even more in 2020, due to the outbreak of COVID-19 and Beirut port blast. The traditional engines of growth in Lebanon (real estate, construction and tourism) have stalled and the banking sector, which has so far been praised for its resilience, has proven to be vulnerable, revealing worrying prospects for growth.*

CORE VIEWS

- The damage from the Beirut port blast disaster exceeds USD15 billion, Lebanese President Michel Aoun said on Aug. 12, a figure that amounts to more than 28% of last year's gross domestic product. (a quarter of Lebanon 's GDP in 2019) Lebanon's economy may contract by 24% or more in the aftermath of the Aug. 4 explosion, which damaged critical infrastructure and precipitated the government's ouster.
- Deeming the debt-service burden unsustainable, Hassan Diab's government defaulted on USD 30 billion in bonds in March, then turned to the International Monetary Fund for a USD10 billion bailout. Negotiations with the fund never advanced as bankers, politicians, and other vested interests blocked a reform plan that would have forced them to pay for the country's economic calamity. With talks at an impasse and the nation locked out of international debt markets, Lebanon's central bank began printing money with abandon, causing the value of the currency to plunge further and igniting inflation, which neared an annualized 90% in June.
- Signs that Lebanon had become a failed state were everywhere, even before that reality was vividly rendered in the mushroom cloud over Beirut. Rubbish sits uncollected in the streets as officials fight about whose area it should be dumped in. Streetlights are on in the day and off at night, and traffic lights work only intermittently, leaving motorists to make their own luck on increasingly potholed streets, as they did during the darkest years of the civil war. Civil war lasted 15 year, ended in 1990.
- Prices in the import-dependent nation—including those for food staples, which had soared 250% in the 12 months to June—are no doubt headed higher as a result of the blast, which damaged the country's main grain silo and other infrastructure vital to commerce. The country's imports estimated to drop by more than 70% this year.
- The population's frustration was evident in the welcome for Macron when he toured some of the hardest-hit areas of Beirut in the aftermath of the blast. Some even drew up a petition inviting the French back to run the country, as they did from 1923 to 1943.
- In the absence of a credible reform plan and external support, mounting pressure on Lebanon's financing model could eventually result in a sharp external fiscal adjustment. This would take a heavy toll on economic activity and job creation, which in turn would further fuel social discontent and protest action.



Source: World bank f:forecast

Fiscal and external pressures on the economy are mounting, spurring exchange rate weakness and rising inflation. Lebanon's government has made limited progress on reining in its wide budget deficit (-10.6% of GDP in 2019) and containing its exceptionally large debt burden (178 % of GDP in 2019) over the past couple of years. As a result – and also due to growing social unrest – investor confidence towards the country has deteriorated, causing large-scale foreign funding outflows and downside pressure on reserves. Hard currency shortages have led the Lebanese pound to depreciate sharply on the black market (through which most transactions are now made), trading at LBP 4,455/ USD as of June 10 versus an official rate of LBP 1,507/ USD. The government fixed the Lebanese Pound / U.S. dollar rate at 1507. Import costs have risen substantially – despite lower fuel prices – sending inflation soaring, at 11.4% y-o-y in February 2020 compared to an average 2.9% y-o-y in 2019. The currency has lost 80 % of its value since October due to Beirut port blast. These dynamics are in turn increasingly weighing on local households' purchasing power and local businesses ability to invest and expand.

Meanwhile, the Covid-19 crisis and associated restrictions are causing severe disruptions to activity. Lebanon introduced a nationwide lockdown in response to the Covid-19 outbreak in March, severely constraining local activity. This will have caused already-weak household consumption and business activity to sharply reduce over Q1 and Q2 of 2020. Although the lockdown is now in the process of gradually being eased, restrictions expected to be fully lifted by the end of 2020. In addition, the local economy is being hit by the ongoing global recession and resultant loss of external demand, which will place downside pressure on key sectors such as tourism, estimated to contribute almost 20% to Lebanon's overall GDP. Unlike many other countries, local authorities do not have sufficient fiscal and monetary policy flexibility to launch large-scale stimulus packages in support of the economy, meaning the impact of the crisis may be more acutely felt here than elsewhere in the region – for instance in terms of the number of permanent business closures and job losses. Economists say blast, which also damaged large parts of commercial Beirut, could lead to a GDP contraction of around 20-25% in 2020 due to a deepening economic and political crisis.

The combination of these factors sent Purchasing Managers Index (PMI) readings to a record-low 30.9 in April 2020. Output and orders contracted sharply, while business sentiment fell to an unprecedented level, with the vast majority of businesses anticipating further declines in activity over the next months. May 2020 readings displayed some improvement (37,2 level), likely reflecting the partial easing of lockdown measures. Its expected this to remain the case over the quarters ahead, as dollar shortages persist, domestic demand stays weak, and uncertainty surrounding the future economic trajectory of the country remains elevated. Overall, real GDP growth forecasted at -24% in 2020, down from -5.5% in 2019.

Beyond 2020, growth prospects depend on the authorities ability to secure foreign assistance and implement reforms to stabilise the country's fiscal and external positions. The authorities ongoing talks with the IMF will result in some form of a deal, unlocking foreign financing inflows and spurring fiscal and external reforms. While such reforms – including fiscal spending cuts and pound devaluation – would add pressure on local households and businesses in the near term, they would also halt the deteriorating trend in fiscal and external dynamics, helping to restore some degree of investor confidence.

Over the medium term, this coupled with enhanced export competitiveness would help the economy gradually recover. In such a scenario, growth expected to remain in negative territory at -2.8% in 2021, before swinging back into positive territory thereafter. Lebanon's challenging political environment, risks of such a deal failing to materialise are elevated. In this event, a sharp fiscal or external adjustment expected to follow, potentially with few options for limiting the ensuing negative impact on local households and businesses.

To retain its citizens, the Lebanese government will need to pursue significant reforms aimed at stimulating the private sector (such as proceeding with the privatisation process and reducing the public debt load), which would theoretically help filter through to increased employment opportunities in the private sector, lessening the need to move abroad for work. To this end, at the moment the long-term prospects that a host of business environment reforms can be implemented remain relatively slim. Lebanon is ranked 143 out of 190 economies under the World Bank's 2020 Doing Business Report which ranks countries in terms of the ease of doing business. Lebanon is among the more investor-friendly states in the MENA region, and is consequently ranked third out of 18 countries in the region for investment openness, placing between Jordan and Morocco. With a current account deficit which forecasted to average 16.7% of GDP over the coming years despite lower oil prices Lebanon's ongoing reliance on external capital is certainly a major threat to underlying economic stability.

2. FOREIGN DIRECT INVESTMENT (FDI)

Lebanon has been traditionally open to foreign direct investment. However, according to the 2020 World Investment Report published by the UNCTAD, FDI inflows decreased from USD 2,6 billion in 2018 to USD 2,1 billion in 2019, mainly due to political instability, macroeconomic imbalances and a foreign currency crisis. FDI stock reached USD 68 billion in 2019, an increase of more than USD 20 billion in ten years. FDI fuelled job creation in information technology and industry sectors are expanding. Although, the unstable situation in Syria, the massive inflow of refugees that resulted from it, and the global economic slowdown weakened this dynamism. Also, regulatory and institutional bottlenecks affect the prospects for FDI diversification. Main investors are France, the United Arab Emirates, the United States, Germany, the United Kindgom, the Netherlands, Jordan and Egypt. Foreign investersment is, to a large extent, concentrated in construction, telecommunications, tourism, and other services. However,regional instability and Lebanon's paralysed political system have made the country a less attractive place for investors in recent years.

FDI in Lebanon is coordinated through the Investment Development Authority of Lebanon (IDAL), which is mandated to grant permits for new investment and provide incentives and exemptions to foreign investors where appropriate. The Lebanese government is keen to encourage further FDI inflows in order to boost the country's already considerable inward FDI stock, which is required to cover the significant current account shortfall. There are relatively few barriers to FDI in Lebanon, as the government actively encourages foreign investment in the majority of industries. The other remaining barriers exist in terms of some localisation and job creation requirements, particularly if businesses wish to benefit from incentive programmes, the dominant presence of state owned enstitute (SOEs) in a few sectors and limited foreign ownership restrictions. In general, the foreign investment regime is one of the most open in the MENA region, making Lebanon an attractive location for businesses were it not for the pressing domestic political situation and wider regional insecurity.

The serious economic and political crisis that Lebanon is going through, the downgrade of its sovereign debt rating and the risk of bankruptcy will affect investor confidence. In addition, Lebanon continues to suffer from the economic slowdown of the Gulf Cooperation Council (GCC), while the country holds the second largest share. In addition to the effect of the Syrian crisis, other factors impede FDI including the fragile macroeconomic situation, high unemployment, brain drain, energy supply shortages and regulatory obstacles.

The service sector remaining the mainstay of the Lebanese economy over the long term. Although persistent political risks, which have been exacerbated by the civil war in Syria, may keep some visitors at bay, the country's strategic location at the nexus of North Africa, the Middle East and Europe bodes well for efforts at attracting increasing numbers of tourists over the comming years. The Gulf Cooperation Council (GCC) will most likely play a particularly important role in this regard, while investors seek to take advantage of Lebanon's significantly lower costs. Lebanon's exposure to the faster growing GCC helps offset problems associated with political instability and the volatility of oil prices, as the economy benefits from an influx in remittances, tourists, banking sector deposits and foreign direct investment.

Foreign Direct Investment In Lebanon				
Indicator Name	2015	2016	2017	2018
FDI inflows, USDbn	2,1	2,5	2,5	2,6
FDI inflows, % of GDP	4	5	5	5
FDI outflows, USDbn	0,6	1	1,3	1,2
FDI outflows, % of GDP	1,3	2	2,5	2,2
Net portfolio investment, USDbn	-0,5	-7	-5	1,5
Net FDI, USDbn	-1,4	-1,5	-1,2	-1,3

Source: World Bank

2.1. What to consider if you invest in Lebanon?

Strong Points: With its liberal economy, Lebanon has attracted foreign investors for many years. Advantages for investment in Lebanon include:

- Freedom of capital movements and exchanges of foreign companies
- The country is a gateway to other countries in the Middle East and to many emerging economies thanks to its geographical location.
- The relatively westernised workforce is highly skilled and has a good quality of life.
- Few restrictions exist for investment and there are still important investment opportunities in the fields of reconstruction of basic and productive infrastructure, construction and supermarkets.
- The country has a robust banking system that creates an environment of trust for investors.
- The large diaspora (there are more Lebanese outside the country than inside) guarantees recurrent financial flows to the country, thereby injecting liquidity into the national economy.
- The recent discovery of offshore natural gas deposits will enable the country to reduce its energy dependence and offer numerous opportunities for related sectors.

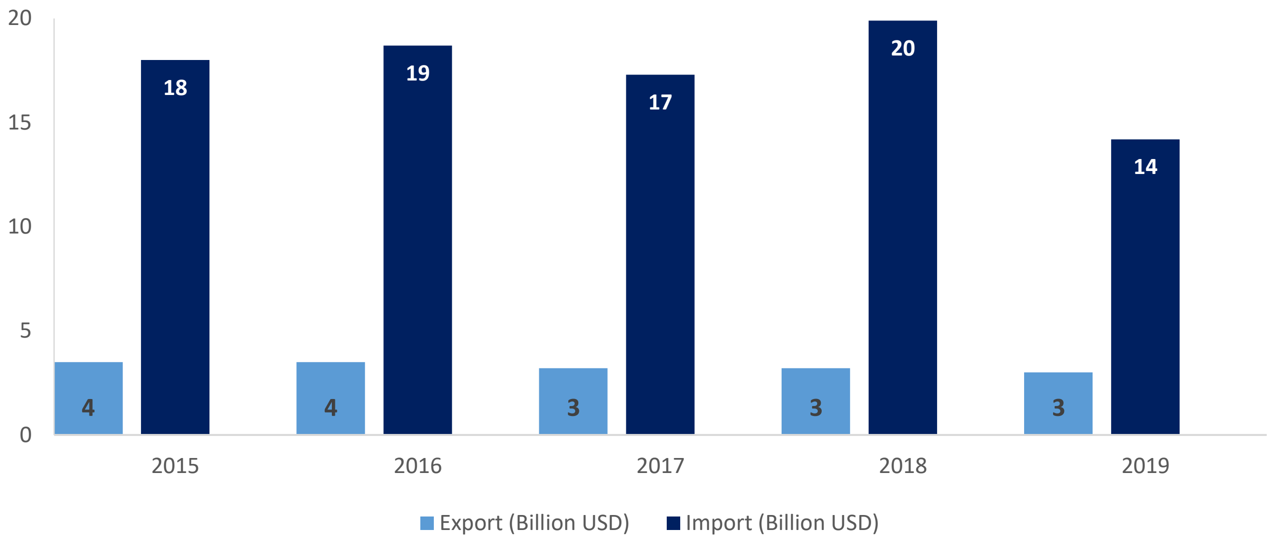
Weak Points: Disadvantages for investment in Lebanon:

- Exposure to geopolitical tensions in the region.
- Political instability: The political landscape is divided according to religious, political and cultural criteria. The Syrian question and the prevailing procrastination in dealing with it is an example.
- Companies may encounter some difficulties: a lack of transparency in the licensing system and complicated customs procedures, among others.
- Economically, the country's very high public debt remains the main obstacle to FDI.

Bilateral investment conventions signed by Lebanon

Lebanon signed bilateral agreements with about fifty countries. On the Mediterranean Basin Lebanon signed bilateral agreements with Southern Cyprus, Egypt, Spain, France, Italy, Morocco, Tunisia and Turkey.

3. FOREIGN TRADE OUTLOOK



Source : Trademap

In 2019, country's export stayed at USD 3 billion level, while imports decreased 29 % to USD 14,2 billion as the trade deficit widened. Lebanon mainly exports precious metal (gold) (41%), electric & electronic equipment, printed materials, sugar, diamonds, jewellery, oil products, pharmaceutical products and food preparations. In 2018, the major export partners of Lebanon were United Arab Emirates (15%), Saudi Arabia (7%), Syrian Arab Republic (6%) and Turkey (6%). The country mainly imports mineral fuels (22,5%), vehicles (8%), drugs and pharmaceuticals, gold, diamonds, live cattle, metal products, electrical equipment, and parts and accessories for vehicles. In 2018, main import partners were the EU (mainly Italy, Germany, Greece and France) and China (10%).

The war in Syria, the drop in demand from countries in the region and the economic and political crisis in Lebanon are having a negative impact on exports. Lebanese export performance will continue to suffer from persistent regional instability in the coming years. Trade between Lebanon and neighbouring Syria remains relatively strong, partly because Lebanese products have taken the leading role in substituting for the loss of Syrian production, notably in the food and beverages sectors. Nevertheless, the conditions faced by the export sector are hardly favourable. Disruptions to regional trade routes will continue to result in higher shipping costs and a loss in export competitiveness. Tourism will remain an important sector but could face challenges from subdued global and regional growth over the coming years.

Import growth will likely stay in negative territory in the near term, as tight fiscal and monetary policy, coupled with weak investor confidence, weigh on domestic demand. That said, Lebanon's import reliance is high, and as such, import growth expected to pick back up once the domestic picture stabilizes.

International trade is a key driver of economic growth in Lebanon, and the government operates an outward-looking policy regime. Lebanon's average tariff rate of 5.9% is not a major hurdle for businesses engaged in trade. For all that, merchandise exports remain small in comparison to imports, and have consistently declined since 2011. Services – particularly the tourism sector – are the country's primary export, with a value three times that of goods exports in 2017.

Remittances have also traditionally helped to compensate for the large trade deficit: the Gulf is a key source, hosting a large Lebanese expatriate population – many of whom work in higher-skilled sectors such as the financial services industry. Although Lebanon's large external imbalances will take time to improve, the current account deficit expected to narrow gradually over the coming decade.

Relatively weaker oil prices will help to narrow the trade account shortfall, and the current transfers balance will remain in the black over the coming years, given the relative stability of remittance inflows. However, a lasting resolution to Syria's crisis will likely be required before a tangible recovery can be recorded in Lebanon's tourism receipts, goods exports and investment inflows.

The conflict has made it very difficult for Lebanese goods to be exported overland, especially as the southern border with Israel is also effectively closed. Throughout the coming years, this will continue to put increased pressure on the Lebanese port and airport infrastructure.

Lebanon Foreign Trade Indicators

Indicator Name	2015	2016	2017	2018	2019
Exports, USDmn	3.459	3.509	3.288	3.275	3.001
Exports, USD, % y-o-y	-7,8	1,4	-6,3	-0,4	-8,4
Exports, % of GDP	6,9	6,8	6,2	5,8	3,6
Imports, USDmn	18.069	18.705	17.304	19.980	14.233
Imports, USD, % y-o-y	-11,8	3,5	-7,5	15,5	-28,8
Imports, % of GDP	36,2	36,5	32,4	35,3	16,9
Net trade, USDmn	-14.610	-15.196	-14.016	-16.705	-11.232
Balance of trade , USD, % y-o-y	-13	4,0	-7,8	19,2	-32,8
Balance of trade, % of GDP	-29,2	-29,7	-26,3	-29,5	-13,3

Import Partners in 2018	Value (Million USD)	Shares (%)
World	19.979	100
China	2.048	10
Greece	1.708	9
Italy	1.595	8
United States of America	1.438	7
Germany	1.168	6
Turkey	948	5

Export Partners in 2018	Value (Million USD)	Shares (%)
World	3.275	100
United Arab Emirates	507	15
Saudi Arabia	215	7
Syrian Arab Republic	210	6
Turkey	195	6
South Africa	174	5
Qatar	155	5

Import Products in 2019	Value (Million USD)	Shares (%)
All products	14.233	100
Mineral Products	3.291	23
Vehicles other than railway	1.105	8
Machinery And Equipment	917	6
Pharmaceutical products	888	6
electrical machinery	611	4
Plastic	469	3

Export Products in 2019	Value (Million USD)	Shares (%)
All products	3.002	100
pearl, precious metal	1.226	41
Arms and thereof	416	14
Coper an articles thereof	102	3
Vegetables, fruits, nuts	100	3
Machinery	86	3
Iron and steel	80	3

Source : Trademap,

4. BANKING SECTOR OUTLOOK

There are 66 banks licensed to operate in the market, comprising a mix of domestic and foreign institutions. Many of the domestic banks are operating on a small local scale and cannot compete on the same level as the market leaders. Over time, these are likely to be consolidated into larger banks operating in the market, which have greater capital backing. Overall, despite the country's economic and political instability, the banking sector remains strong enough.

The presence of foreign banks, both smaller regional banks and major multinationals, is a positive sign for the banking sector in Lebanon, as these banks will bring greater expertise to the market, as well as access to capital to support future growth. For the time being, however, domestic banks lead the market. In total the Banking Control Commission, which regulates the banking industry, reports that there are 66 banks licensed to provide services in Lebanon. Of these, 43 are majority domestically owned and 23 are majority foreign owned. In terms of the foreign banks, 11 operate as subsidiaries in Lebanon, while the remaining 12 are branches of foreign banks. While the number of domestic banks has held steady over recent years, the number of foreign banks has shrunk since 2011 (when there were 27 foreign banks operating in Lebanon).

The Lebanese banking sector has remained stable over recent years, despite the turmoil that has intermittently engulfed the country. However, nationwide protests on October 17,2019 and Prime Minister Hariri’s resignation on October 29,2019 have driven the country into political unrest causing uncertainty level to elevate. Demonstrations in Lebanon started when the government tried to impose a tax on Internet calls like WhatsApp. Informal capital control as well as rate cuts are expected, and their consequences are yet to be known.

Lebanon's large diaspora continues to send remittances back to the country. However, the Lebanese banking sector does not have the requisite financial market infrastructure to support this growth sustainably in the long term. Therefore, the asset management sector is currently receiving high levels of attention, with several of the leading banks setting up investment management subsidiaries. While volumes of assets under management are currently small, they are expected to rise steadily over the coming years.

One factor that will hinder the development of the investment sector is the country's very small stock exchange. There are currently only 10 companies listed on Lebanon's stock exchange (the Beirut Stock Exchange), with banks accounting for over 77% of its market capitalisation. While some companies have multiple listings - particularly the banks that have several securities listings - the range of investment opportunities is very limited. Privatising the stock exchange, strengthening market regulations and attracting more listings will be key if the Beirut Stock Exchange is to become a more competitive trading platform in the region.

The largest bank in terms of total assets is Bank Audi. Originally established in 1830, Bank Audi now operates as a private joint stock company with limited liability. The shareholder base is made up of around 1,500 shareholders and the bank is listed on the Beirut Stock Exchange and the London Stock Exchange. Although primarily focused on Lebanon, Bank Audi has expanded into other Middle Eastern markets such as Jordan, Egypt, Qatar and Saudi Arabia, as well as Turkey. It also has a presence in Switzerland, France and Monaco (through an asset management company). In total, Bank Audi has more than 7,000 employees. Bank Audi offers a range of commercial, corporate, retail, personal and private banking services and also has an investment banking segment. In Lebanon, Bank Audi has over 80 branches with an additional 120 branches in foreign markets. The company intends to further expand its presence outside Lebanon over the coming years.

Banque du Liban et d'Outre-Mer (Blom Bank) is the second-largest bank in Lebanon in terms of total assets. Its largest shareholders are the Bank of New York (34.37%) and Blom Bank France (formerly Banque Banorabe) (17.55%). It offers a range of commercial, investment and insurance services, as well as operating an Islamic banking division. Blom Bank has expanded into a number of regional and European markets, including Jordan, Egypt, Qatar, Iraq, Saudi Arabia, the UAE, France, Switzerland, Romania, Southern Cyprus and the UK. It intends to expand further overseas over the coming years. Blom Bank is also expanding in Lebanon and in 2017, completed the acquisition of HSBC's subsidiary HSBC Bank Middle East Limited, which had been present in the market since 1946.

The third leading bank in Lebanon is Byblos Bank. It is one of the younger banks, having been established in 1963, but similar to the others, it has expanded rapidly into a number of overseas markets, such as Syria, Iraq, the Democratic Republic of Congo, Sudan, Nigeria, the UAE, Armenia, Belgium, Southern Cyprus, the UK and the US. It has also expanded through local acquisitions, such as the Bank of Nova Scotia's Lebanese subsidiary in 1999 and ING Barings' Lebanese branch in 2000. It offers a wide range of personal and corporate banking services, including capital management services.

Banking regulation in Lebanon is complex and at times the market has come under criticism for its lack of transparency, particularly related to money laundering and terrorism financing offences. The government has taken a number of steps to update the market's regulatory framework and a range of new laws have been adopted over recent years. Supervision of the market has also been strengthened and expanded, though there is still significant room for improvement.

Lebanon Commercial Banking Sector						
Indicator Name	**2017**	**2018**	**2019f**	**2020f**	**2021f**	**2022f**
Total assets, USDmn	218.912	249.566	268.996	292.100	313.520	338.552
Total assets, LBPmn	331.432.800	376.097.200	406.184.976	441.072.401	474.042.576	512.229.881
Total assets, % of GDP	411,8	429,3	435,2	448,6	456,7	465,8
Total assets, USD, % chg y-o-y	7,6	13,5	8,0	8,6	7,5	8,1
Client loans, LBPmn	80.572.900	78.085.700	72.385.443	74.122.694	76.346.375	79.552.923
Client loans, USDmn	53.218	51.815	47.937	49.087	50.493	52.579
Client loans, % of GDP	100,1	89,1	77,6	75,4	73,6	72,3
Client loans, % y-o-y	4,7	-3,1	-7,3	2,4	3,0	4,2
Client deposits, LBPmn	265.539.800	275.028.200	262.651.931	256.085.632	263.256.030	271.153.711
Client deposits, USDmn	175.389	182.500	173.941	169.593	174.111	179.215
Client deposits, % of GDP	329,9	314,0	281,4	260,4	253,6	246,6
Client deposits, % y-o-y	4,4	3,6	-4,5	-2,5	2,8	3,0
Loan/deposit ratio %	30,34	28,39	27,56	28,94	29,00	29,34
Loan/asset ratio %	24,31	20,76	17,82	16,81	16,11	15,53

Top 10 commercial and retail banks by total assets and NPL , Milyon LBP						
Bank name	**Total Assets**	**Total weighted risks**	**Total common equity**	**NPL Ratio %**	**Reserves for NPL (%of NPLs)**	**Date**
Bank Audi	71.616.124	na	4.839.439	na	na	30.06.2019
BLOM Bank	58.085.512	na	4.928.373	na	na	30.06.2019
Societe Generale de Banque au Liban	38.890.604	17.630.737	2.317.402	12	65	31.12.2018
Byblos Bank	38.661.800	na	2.216.600	na	na	30.06.2019
Fransabank	35.590.665	17.685.167	2.783.104	9	52	31.12.2018
Bankmed	28.687.957	13.197.117	1.297.270	14	82	31.12.2018
Bank of Beirut	26.301.308	na	1.811.329	na	na	30.06.2019
Banque Libano-Française	22.740.452	na	1.530.447	na	na	31.12.2018
Credit Libanais	18.773.294	8.663.294	1.187.854	7	73	31.12.2018
BBAC	12.189.445	5.956.891	767.436	11	52	31.12.2018

Note: Data are latest available. na = not available. Source: Company reports, Fitch Solutions

5. TURKEY & LEBANON RELATIONS

Lebanon's total population is about 6 million, 1 million Lebanese in 2018 traveled to Turkey for various reasons. In 2010, visas were lifted mutually. Normally there are 9 flights daily between Beirut and Istanbul. The Turkish Cooperation and Coordination Agency (TİKA) and Yunus Emre Institute (YEE) have been active in Lebanon since 2010. Restoration and building construction of some historical monuments in Akkar region, was carried out by TIKA. YEE has taught Turkish lesson about 500 persons so far in Lebanon. As of 2018, there were 18 teachers. Lebanese has great interest in Turkish TV series.

When we look at foreign transactions, Turkey's exports to Lebanon increased 14 % from USD 899 million to USD 1 billion and import from Lebanon decreased by 68 % to USD 54 million in 2019 in comparison to 2018. Turkey sells to Lebanon mainly cigarette and tobacco products, motor vehicles, confectionery and bakery products, fisheries and aquaculture, vegetable oils, iron and steel profiles, sanitary paper products and buys scrap, metal, phosphoric acid, sugar, nuts, fruit and vegetables. Foreign transactions are in favour of Turkey.

Lebanon – Turkey foreign trade relationship

Years	Export (USDmn)	Import (USDmn)	Trade Balance (USDmn)	Trade Volume (USDmn)
2015	723	67	656	790
2016	735	82	653	817
2017	889	131	758	1.020
2018	899	170	729	1.069
2019*	1.027	54	973	1.081
2020/07*	255	7	248	262

Source : Turkstat
*: January – July 2020