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Report | LEBANON'S MACROECONOMY in the first half of 2020

Introduction

During the first half of 2020, the socio-economic and financial conditions have further worsened. The fast spread of COVID-19 in all Lebanese regions have added further pressures on Lebanon's macroeconomy and its private sector, as well as living and social conditions. The partial lockdown of the country and the continued economic crisis have adversely affected the domestic economic sectors, especially the trade, industrial, real estate, and construction, transport, banking, and tourism sectors.

The public finances of the State remains a major source of destabilization in the national economy, with growing fiscal deficits and indebtedness. The banking sector and financial markets continue to suffer from unfavorable conditions. The monetary market is still operating under multiple exchange rates and higher inflation.

The country's balance of payments remains under a substantial deficit, caused by declining capital inflows and high trade deficits.

The overall confidence in the country and its future has experienced a substantial degradation. The domestic authorities have to implement fast recovery measures and radical reforms in order to restore confidence, domestic and international confidence, and growth prospects.

I. Real Sector

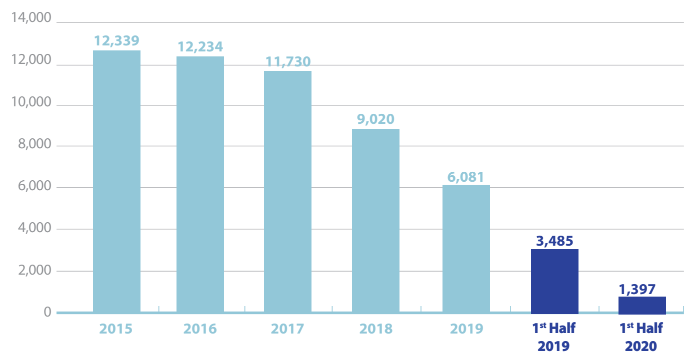
The aggregate economic has slumped into further contraction during the first half of 2020. This is largely caused by the declining activity of almost all economic sectors. The current socio-economic crisis, the aggravating COVID-19 problem and the related partial lockdown, and the declining incomes and purchasing power of these incomes, are major drivers of decreasing consumption and demand for all types of goods and services.

A major reflection of this overall economic contraction is the decline by an annual rate of 45.3% in the Central Bank's Coincident indicator until end-May 2020. This indicator is an index of economic activity in Lebanon, and is an average of eight weighted economic indicators.

The economic sectors continue to suffer and try to survive as long as possible, in hopes that the government would implement effective measures and reforms to restore economic growth.

The **construction sector** experienced a further retarding activity, with the area of construction permits falling by annual rate of 59.9% to 1,397 thousand square meters in the first half of 2020. In addition, cement deliveries fell by 56.6% during this period. These figures reflect a paralysis in the future construction activity.

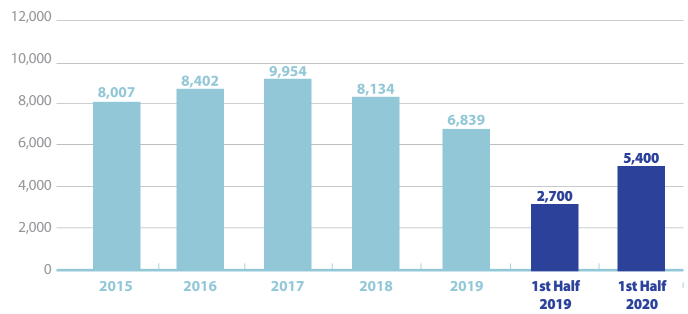
Area of Construction Permits (Thousand SQM)



Electricity Production, as a proxy for industrial production activity, contracted by an annual rate of 12.4% to reach 5,176 mkwh as of end-May 2020.

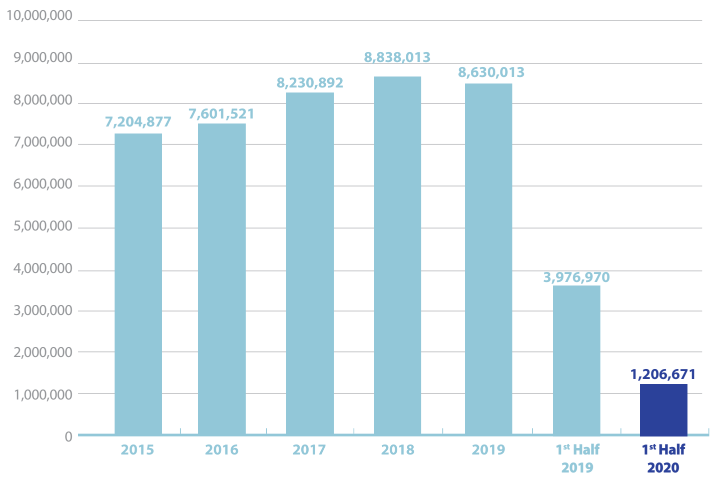
The **property sector** witnessed a relative improvement, with the number of real estate transactions increasing by an annual rate of 24% to 27,216 operations in the first half of 2020, and the value of property transactions surged by 98% to USD 5.4 billion during the same period.

Value of Real-Estate Transactions (USD, million)

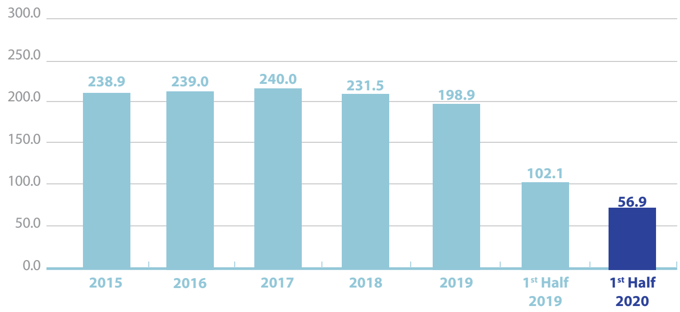


The performance of the **transport sector**, both the air transport and the maritime transport, was inferior in 2020 relative to 2019. Passengers via Rafic Hariri International Airport declined in number by an annual rate of 69.8% to nearly 1.2 million passengers, and in its aircraft activity dropped by 62.1% to 12,704 planes in the first half of 2020. The Port of Beirut's number of containers, number of ships and the quantity of goods all declined by an annual rate of 45.3%, 14.4% and 36% respectively in the first half of 2020. Also, the port's revenues decreased by an annual rate of 44.3% to reach USD 56.9 million in the first half of 2020.

Passengers at the Airport

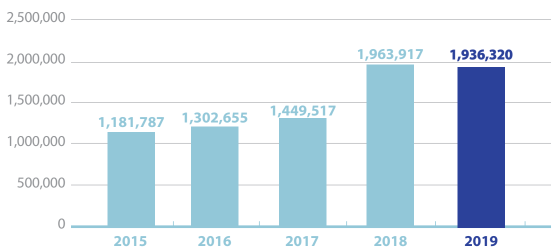


Port of Beirut Revenues (USD, million)



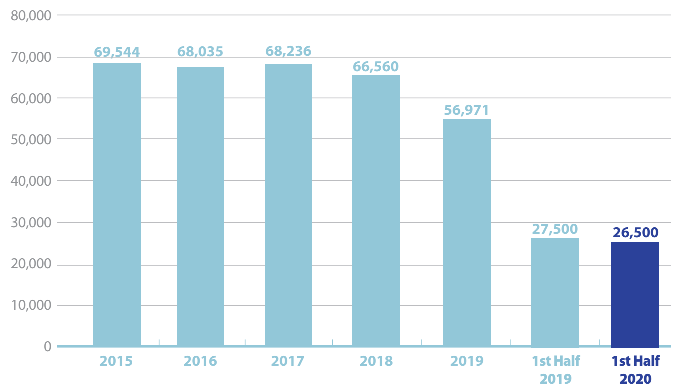
The **tourism sector** experienced a weak performance in the first half of 2020. The **hotel sector** was negatively affected by a retarding tourism activity, where the occupancy rate of Beirut 4 and 5 stars hotels was at nearly 13% in the first half of 2020, against 70% for the first half of 2019.

Tourists Activity in Lebanon



The **internal trade sector** witnessed a contraction in its activity, with the value of cleared checks dropping by an annual rate of 3.8% to USD 26.5 billion in the first half of 2020. This indicator also reflects a declining private consumption and investment spending during this period.

• | **Clearing Activity** (USD, million)



The **export sector** recorded a retarding activity in the first 5 months of 2020, with total industrial and agricultural exports decreasing by 7.3% on annual basis to reach USD 1.34 billion.

• Real-Sector Indicators

Indicators	1H 2019	1H 2020	% Change
Construction permits surface area (thousand sqm)	3,485	1,397	(59.9)
Value of property sales transactions (USD, billion)	2.7	5.4	98.0
Passengers activity via HIA (million)	3.98	1.2	(69.8)
Hotel occupancy rate (%)	70	13	-
Value of cleared checks (USD, billion)	27.5	26.5	(3.8)
Total exports (USD, billion)	1.45	1.34	(7.3)
Post of Beirut's Revenues (USD, million)	102.1	56.9	(44.3)

Source: Official Directorates

II. Fiscal Conditions

During the first half of this year, the revenues of the State experienced a drop due to the economic slowdown, weak performance of the private sector, and growing pressures on living and social conditions. On the other hand, government spending has increased in recent months, mainly on healthcare and social security, due to the negative consequences of the COVID-19 on the overall economy and social conditions. This is fueling further deficits and debt and thus further fiscal pressures on Lebanon's macroeconomy and society.

A- Fiscal Deficit

Lebanon's fiscal balance remains largely in deficit, due to weakened public revenues, which fell by 15.4% over the first five months of 2020 relative to its corresponding level last year to reach USD 3.8 billion as of end-May 2020. In addition, this fiscal imbalance is caused by the substantial amount of public spending which decreased by 15.7% to reach USD 5.8 billion. during the same period. In this sense, public revenues represent some 63.3% of public expenditures.
Because of such mismatching between public revenues and spending, the fiscal deficit continues to emerge on continued basis. The level of this deficit reached USD 2 billion as of end-May 2020, growing by an annual rate of 16.2% during the period under consideration. The fiscal deficit constitutes nearly 34.5% of public spending which is high.
Both tax revenues (which dropped by 22.6%) and non-tax revenues (which declined by 39.9%) are weak, caused by people's declining incomes and lower purchasing power of these incomes in line with continued exchange rate depreciation and increasing prices of goods and services. On the other hand, the high levels of debt service (USD 1.2 billion) and government's financial transfers to EDL (USD 403 million) are major driving factors of public spending growth.

• **Public Finances Indicators** (USD, billion)

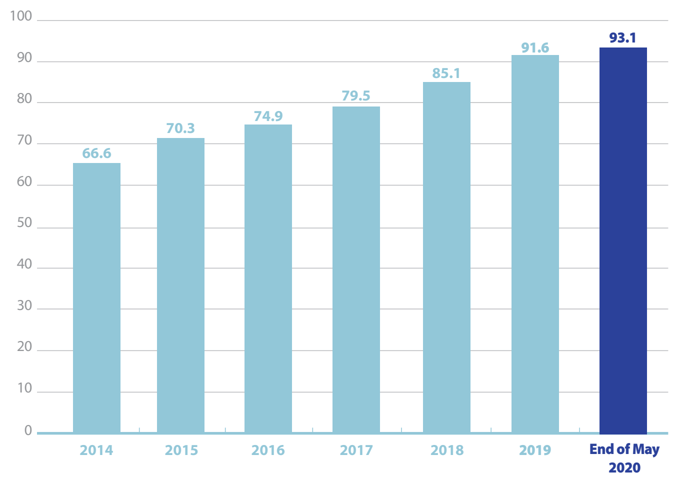
Indicators	First Five Months of 2019	First Five Months of 2020	% Change
Public revenues	4.5	3.8	(15.4)
Public spending	5.9	5.8	(15.7)
Fiscal balance	2.4	2.0	(16.2)

Source: Ministry of Finance

B- Public Indebtedness

The State's public debt remains on growth trajectory, fueled by continued fiscal deficits and debt servicing. So far, the government did not implement any actions and measures to establish fiscal consolidation and debt control. The government seized the payment of any Eurobond issues to creditors, in light of the aggravating financial and economic conditions in recent months, and is currently undertaking debt-restructuring negotiations with international creditors.
Lebanon's gross public debt grew by an annual rate of 9.1% to reach USD 93.1 billion at the end of May 2020. The domestic debt increased by 10% to USD 58.5 billion, and the foreign debt grew by 7.7% to USD 34.6 billion during this period. The net public debt expanded by 9.5% to reach USD 84 billion during the same period.

• | **Evolution of the Gross Public Debt** (USD, billion)



• **Public Debt Indicators** (USD, billion)

Indicators	2019 1st five months	2020 1st five months	% Change
Gross debt:	85.4	93.1	9.1
Domestic debt	53.2	58.5	10.0
Foreign debt	32.1	34.6	7.7
Net debt	76.7	84.0	9.5

Sources: Ministry of Finance and Central Bank of Lebanon

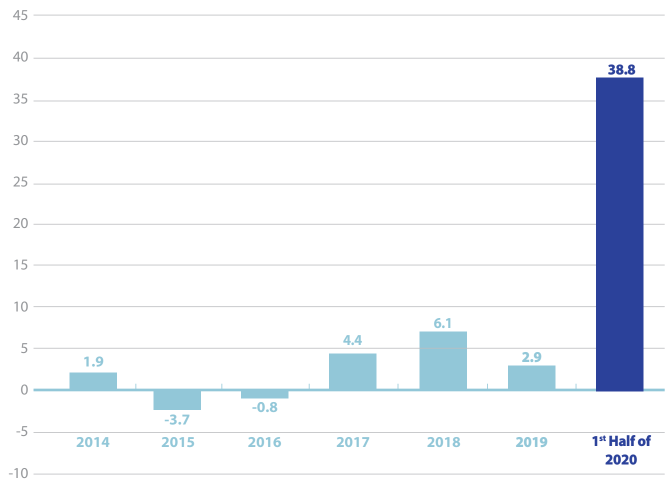
III. Financial Sector Conditions

The financial sector of Lebanon has experienced further pressures during the first half of 2020 due to the unfavorable socio-economic conditions and fiscal conditions prevailing in the country since 2019. The banking sector continues to witness a relative paralysis in its overall activity, coupled by declining banking indicators. The monetary situation continues to experience the pressures of exchange rate deterioration, and shrinking foreign-currency reserves of the Central Bank. The activity of both the capital market and financial institutions have worsened in the first half of 2020.

A- Monetary Conditions

Regarding the Central Bank's situation, its balance sheet increased by 7.5% on annual basis to reach USD 152 billion at end-June 2020. The Bank's foreign-currency assets dropped by 9.4% on annual basis to reach USD 33 billion at end-June 2020. The latter assets reached USD 27.9 billion at end-June 2020, when excluding Lebanese Eurobonds. The value of the Bank's gold reserves rose by 25% on annual basis to reach USD 16.3 billion at end-June 2020. Deposits of the financial sector at the central Bank reached USD 112.2 billion at end-June 2020, up by USD 0.2% from end-June 2019.
The inflation rate was 38.8% in the first half of 2020 relative to 3.3% in the same period last year, according to the Central Directorate of Statistics. The inflation rate was 90% in June 2020.

Evolution of Average Annual Inflation Rate (%)



- **Monetary Indictors**

Indicators	1H 2019	1H 2020	% Change
LBP/USD Official Exchange Rate	1507.5	1507.5	-
Central Bank's Total Assets (USD, billion)	141.4	152	7.5
CB Assets in Foreign Currencies (USD, billion)	37.3	33	(11.6)
CB Assets in Foreign Currencies without Eurobonds (USD, billion)	28.5	27.9	(2.1)
Deposits of Financial Sector (USD, billion) at Central Bank	111.9	112.1	0.2

Source: Central Bank

B- Banking Conditions

The unstable banking conditions prevailing in recent months can be traced through the development of the major indicators of the banking sector. The consolidated assets of commercial banks decreased by 21.4% on annual basis to reach USD 201.1 billion at end – June 2020. The loans extended to the private sector declined by 26% to reach USD 41.4 billion during this period. In addition, the loans extended to the public sector dropped by 25% on annual basis to reach USD 24.4 billion during this period. The private sector deposits declined by 16.1% on annual basis to reach USD 144.5 billion during the same period. The banks' aggregate capital accounts recorded an annual drop of 6.4% to reach USD 19.6 billion at end – June 2020.

On the dollarization of the economy front, the dollarization of private sector loans was 63.6% at end – June 2020, relative to 70% at end – June 2019. On the other hand, the dollarization of private sector deposits was 79.8% at end – June 2020, while it was 71.5% at end – June 2019. In this sense, the dollarization of deposits increased during the period under consideration.

- **Banking Indicators**

Indicators	1H 2019	1H 2020	% Change
Total Assets (USD, billion)	256.0	201.1	(21.4)
Loans to Private Sector (USD, billion)	55.9	41.4	(26.0)
Loans to Public Sector (USD, billion)	32.5	24.4	(25.0)
Deposits of Private Sector (USD, billion)	172.2	144.5	(16.1)
Total Capital (USD, billion)	20.9	19.6	(6.4)
Loan Dollarization (%)	70.0	63.6	-
Deposit Dollarization (%)	71.5	79.8	-

Sources: Central Bank of Lebanon and Association of Banks in Lebanon

B- Capital Market

The Beirut Stock Exchange (BSE) was negatively affected by the deteriorating economic and financial conditions during the first half of 2020. The total trading volume declined sharply by 81.4% on annual basis to reach 34,839,869 shares at end – June 2020. Aggregate turnover also fell by an annual rate of 84.4% to reach USD 123.6 million during the same period.
The BSE market capitalization shrank by 26% on annual basis to reach USD 6.4 billion at end – June 2020. The market liquidity ratio dropped from 9.3% in the first half of 2019 to 1.9% in the first half of 2020.

• BSE Indicators

Indicator	1H 2019	1H 2020	% Change
Total trading volume (shares)	187,498,273	34,839,869	(81.4)
Aggregate Turnover (USD, million)	793.8	123.6	(84.4)
Market capitalization (USD, billion)	8.6	6.4	(26)
Market Liquidity Ratio (%)	9.3	1.9	-

Source: BSE

C- Financial Institutions

In the first half of 2020, the activity of financial institutions operating in Lebanon was inferior to that recorded during the same period of 2019.
The total assets of these financial institutions decreased by 16.6% on annual basis to reach USD 1.22 billion at end – June 2020. In addition, the claims on resident customers fell by 22.2% on annual basis to reach USD 538.6 million during this period. Claims on the public sector declined by 7.7% to USD 4.7 million during the same period. On the other side, resident customer deposits dropped by 6.5% to USD 146.3 million during the same period. The capital accounts of these financial institutions shrank by 4% to USD 467.7 million during the same period.

• **Indicators of Financial Institutions** (USD, million)

Indicators	1H 2019	1H 2020	% Change
Total Assets	1,470	1,220	(16.6)
Claims on Resident Customers	692.3	538.6	(22.2)
Claims on Public Sector	5.1	4.7	(7.7)
Resident Customer Deposits	156.5	146.3	(6.5)
Capital Accounts	487.2	467.7	(4.0)

Source: Central Bank

IV- Foreign Trade and Balance of Payments

The aggravating economic conditions during the first half of 2020, the weaker activity of the RHIA (foreign activity) with respect to merchandise activity and Beirut port, the newly emerging controls on airports around the world, and domestic banking controls on certain types of imports, all were driving forces that led to weaker imports, exports, and foreign trade of Lebanon. On the other side of the foreign sector, the balance of payment continued to record further deficits, caused mainly by shrinking foreign capital inflows and lower remittances from the Lebanese expatriates.

A- Trade Balance

The volume of foreign trade of Lebanon totaled USD 5.69 billion in the first five months of 2020, declining by an annual rate of 44.2%. This is caused by lower imports (50.4% to USD 4.35 billion), and lower exports (7.3% to USD 1.34 billion) during the same period.
Because of such trade exchanges, Lebanon's trade deficit shrank by 58.5% from the first five months of 2019 to USD 3 billion in the same period of 2020.
The export-to-import ratio was 30.8% at end - May 2020, relative to 16.6% at end - May 2019.
During the first half of 2020, total imports reached USD 5.2 billion, declining by an annual rate of 48.7%. Also, total exports declined by 6.5% to USD 1.6 billion during this period. As such, the trade deficit narrowed by 53.3% to USD 3.6 billion during the same period.

B- Capital Balance

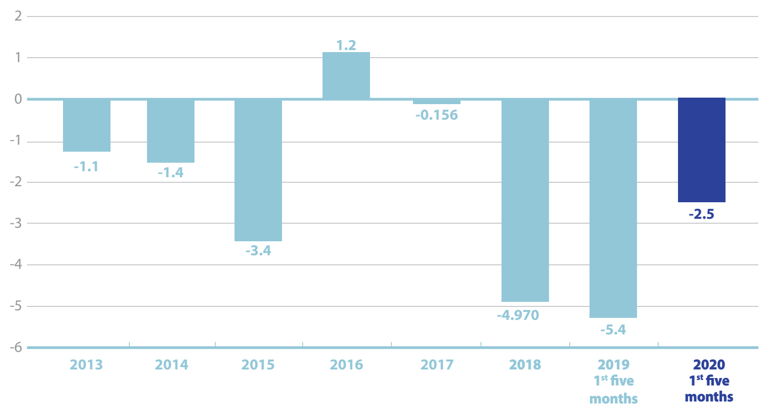
Lebanon continues to experience lower foreign capital inflows to its national economy, to its banking sector, capital market, real estate sector, and productive sectors. Several factors are behind this: economic contraction in many countries around the world, lower capital exchanges between international borders, and shrinking remittances from expatriates due to bad economic conditions in host countries and domestic capital controls.

The level of foreign capital inflows to Lebanon reached USD 0.5 billion in the first five months of 2020, declining by an annual rate of 73.6%. At the same time, Lebanon has experienced an acute capital flight in billions of dollars over the past six months, leading to chronic shortage of foreign currencies (especially the US dollar) in the local market.

C- Balance of Payments

The weaker inflows of capital and investments from abroad in the first five months of 2020, besides capital flight and weak export activity have all led to a further deficit in the country's balance of payments during this period.
The deficit recorded in the balance of payments in the first five months of 2020 totaled USD 2.5 billion, relative to a deficit of USD 5.4 billion for the same period of 2019. This deficit is based on the net foreign assets of both the Central Bank and commercial banks. The former declined by USD 4.4 billion, and the latter increased by USD 1.9 billion during the same period.

• | **Balance-of-Payments** (USD, billion)



• Balance-of-Payments Components (USD, billion)

Components	2019 1st five months	2020 1st five months	% Change
Trade Balance:	(7.3)	(3.0)	(58.8)
Imports	8.76	4.35	(50.4)
Exports	1.45	1.34	(7.3)
Capital Balance	1.9	0.5	(73.6)
Balance-of-Payments	(5.4)	(2.5)	-

Sources: Central Bank of Lebanon and Higher Customs Council

V- Sovereign Ratings

The current adverse economic, financial, and social conditions prevailing in Lebanon have forced the international credit rating agencies to classify the level of political, financial, and economic risks in Lebanon as "high". The suspension of Eurobond settlement by the government of Lebanon, and its decision to restructure its public debt, have added further pressures on Lebanon's sovereign ratings.

According to the ratings of international agencies, Lebanon has fallen to a "Relative or Selected Default" grade on its short-term or long term foreign currency obligations, and to below "CCC" grade concerning its short-term or long-term local-currency obligations. These rating agencies classify the "outlook" of Lebanon's sovereign ratings as "negative" or "stable".

• Lebanon's Sovereign Rating, March 2020

	Foreign Currency			Local Currency		
Agencies	LT	ST	Outlook	LT	ST	Outlook
Moody's	Ca	NP	Stable	Ca	-	Stable
Fitch	RD	C	-	CC	C	-
S&P	SD	SD	-	CC	C	Negative
CI	SD	SD	-	C-	C	Negative

LT: long term **ST:** short term
Sources: Rating agencies

Study | Ramifications of the U.S. Caesar Act on the Lebanese Economy

This study sheds light on the U.S. Caesar Act for 2019, which came into force on June 12, 2020. The Act imposes new sanctions on the Syrian regime, and on the governments, private institutions, and individuals of countries that deal or support the Syrian official authorities. The study also analyzes the potential ramifications of this Act on the Syrian-Lebanese economic relations, and on the Lebanese economy and private sector, in case the Lebanese authorities did not get exemptions on trade exchanges from the Act's sanctions. The study specifies the required actions to be undertaken by the Lebanese authorities to achieve that goal.

I. Caesar Act: Main Content

The "Caesar Syrian Civilian Protection Act", or shortly Caesar Act, is a legislation issued by the U.S. Congress and approved by the American President Donald Trump, and came into force on June 17, 2020. The Act imposes new sanctions on the Syrian regime for the war crimes it executed against the Syrian civilians.

The Act's sanctions are against the Central Bank of Syria, members of the Syrian government, members of the Syrian Parliament, and the companies and individuals that support the Syrian regime in the military, economic, and financial fields.

The Act's sanctions are also imposed on any government, private institutions, and individuals that have relations or business or support to the Syrian official authorities, or provides it with goods and services related to military or technological or oil-production fields. The Act also prevents foreign investors to sign any investment contracts related to Syria's reconstruction without the prior consent of the USA.

Hence, the Act imposes financial sanctions on all countries that implement activities or business with Syria or its companies operating in the energy, construction, engineering, and aviation fields.
The Caesar Act prohibits any normalization of relations by countries that have strong relations with Syria, such as Russia, Iran, Iraq, China, UAE, and Lebanon.

On the other side, the Act focuses on assisting the Syrian civilians to overcome the war results in Syria, mainly through the provision of humanitarian, social, financial, and development aid via international and U.S. aid organizations.

II. Lebanon and Syria: Strong, Diversified, and Historical Relations

Lebanon and Syria have always enjoyed strong relations on the political, economic, and financial levels, over the past years. However, these relations have experienced a relative slowdown since 2005 following the assassination of the prime Minister of Lebanon Rafic Hariri, and due to the eruption of war in Syria since 2011.

Before 2005, Lebanon and Syria were linked with a close political and military cooperation: exchange of official visits and meetings, and agreed-on Syrian military presence in Lebanon.
However, this military presence seized since 2005, with the Syrian army leaving the Lebanese territories.

Several official agreements and treaties, in the political, economic, and trade fields, mainly the fellowship, friendship, and coordination treaties, create strong correlation between Lebanon and Syria. Nevertheless, the effectiveness of these agreements and treaties has lessened over the past years starting 2005.

In this context, and since 1991 to date, the two countries are linked by agreements and treaties in the fields of learning and scientific research, education, labor, mail, youth and sports, courts, investment promotion and protection, tax evasion and double taxation, custom duties reduction, formation of cross-border offices, commercial maritime transport, social affairs, electricity, environment, tourism, water, manufacturing, medical sector and medicines, gas, agriculture, air transport, and others.

Also there are mutual cooperation institutions on the government and private levels. For instance, there is the Syrian-Lebanese Higher Council that coordinates official relations, and there is the Lebanese-Syrian Business Council that coordinates the business relations between the Lebanese and Syrian private sectors. Currently, the activity of both Councils is paralyzed in general.

On the economic level, Lebanon breathes economically through Syria in its relations with other countries of the region. Syria also constitutes a major trading partner to Lebanon. Some Lebanese Banks have presence in the Syrian financial market, and so does a group of Lebanese companies. Syria provides Lebanon with some of its electricity needs. Some Lebanese companies have set plans for investing in Syria's reconstruction process, where the war has led to a huge destruction of the country's infrastructure and social structure.

In parallel, Lebanon constitutes a major gateway for Syria towards the region's countries, where some Syrian companies have established offices in Lebanon to execute business with some Arab and foreign countries. Also, some Syrian businessmen have accounts at some Lebanese banks.

In addition, Lebanon hosts some 1.5 million Syrian refugees because of the ongoing war in Syria. Lebanon provides humanitarian, educational, social, and financial assistance to those refugees through domestic resources and some aid from international organizations such as the UN and some of its specialized agencies.

III. Effects of the Caesar Act on Lebanon's Foreign Trade

The volume of trade exchanges between Lebanon and Syria, without smuggling that is taking place in both directions, is considered low when compared with gross foreign trade of both countries. According to 2019 statistics, the amount of Lebanese exports to Syria totaled USD 190 million, while the Lebanese imports from Syria totaled USD 92.2 million.

Thus, the Lebanese trade balance reported a surplus of USD 97.8 million in this year. The Lebanese exports to Syria represent some 6.3% of total Lebanon's exports, and its imports from Syria account for 0.4% of total Lebanon's imports. If we estimate smuggling in both directions by 50%, then the amount of Lebanese exports to Syria reach USD 380 million, and Lebanese imports from Syria reach USD 185 million. This means that total trade exchanges between both countries total some USD 565 million or 2.5% of Lebanon's total foreign trade.

In fact, Lebanon's exports to Syria experienced a surge from an annual average of USD 255 million in years 2011 and 2012 to a peak figure of USD 524 million in 2013, then to a lower annual average of USD 215 million during the period 2014 -2019. On the other hand, Lebanon's imports to Syria dropped gradually from USD 310 million in 2011 to USD 92.2 million in 2019, and these numbers do not include the impact of smuggling taking place between the two countries.

The major cross-borders between Lebanon and Syria are Al-Aboudieh, which represents nearly 10% of Lebanese exports to Syria, Al-Arida (21%), and Al-Masnaa (64%). On the imports front, the major cross-borders are Al-Masnaa (66%), Al- Arida (27%), and Al-Aboudieh (7%).

In this sense, the Caesar Act could affect the trade exchanges between Lebanon and Syria, if the Lebanese administration fails to persuade the US administration of exempting it from the Act's sanctions. Unsuccessful efforts could lead to further drops in Lebanon's exports and imports towards Syria. Lebanon could be more impacted by the Act's sanctions, as Syria is the only land trade route for Lebanon towards other countries of the region, especially Jordan, Iraq and the GCC countries.

In this sense, Lebanon breathes economically through Syria and it represents its main lung towards the Arab region. If Lebanon were not exempted from the Act's sanctions, then this would further aggravate Lebanon's trade balance and balance of payments.

• **Trade Exchanges between Lebanon and Syria** (2019, USD million)

Years	Lebanon's exports to Syria	Lebanon's imports from Syria	Lebanon's trade balance
2011	214.8	310.1	(95.3)
2012	294.3	266.2	28.1
2013	523.6	181.3	242.3
2014	242.0	124.8	117.2
2015	209.8	137.6	72.2
2016	198.9	130.5	68.4
2017	246.2	137.5	108.7
2018	205.3	91.6	113.7
2019	190.0	92.2	97.8

Sources: Center for Economic Studies at the Chamber of Beirut and Mount Lebanon

IV. Implications of the Caesar Act for Lebanon's Banking Sector

Prior to the eruption of war in Syria in 2011, seven Lebanese banks established affiliate banks operating in the Syrian banking market and became later on independent banks operating under the country's banking system that is controlled and supervised by the Central Bank of Syria. These banks are: Banque Bemo Saudi Fransi, Bank of Syria and Overseas (established by BLOM Bank), Fransabank - Syria, Bank Audi - Syria, Byblos Bank - Syria, Al Sharq Bank (established by Banque Libano-Française), and Syria Gulf Bank. These banks operating in Syria tend to finance, to some extent, the Syrian economy and private sector, and they have relations with Syrian governmental institutions as well as with the Central Bank of Syria, which is on the top of the Caesar Act's sanctions.

In fact, several local Lebanese banks operating in Lebanon have closed the accounts of some Syrians to avoid US sanctions outside the Caesar Act. There are some high net worth Syrian individuals residing in Lebanon who have large accounts in some of Lebanon's banks, valued in billions of US dollars, and who have no interest in investing and spending their wealth in Syria in light of the current unfavorable conditions.

Under the Caesar Act, the banks operating in Syria and that deal with the Central Bank of Syria, the Syrian government and its institutions will be exposed to the Act's sanctions in case they implement direct or indirect business and activities with those Syrian entities. Likewise, the Lebanese banks operating in Lebanon should ensure that the Syrian depositors have no relations or activities with Syrian official entities, to avoid the Act's sanctions.
Eventually the banks established by some Lebanese banks which are operating in Syria are seizing or reducing their operations in the country since the eruption of hostilities. This trend may increase during the coming period.

There is no doubt that the Caesar Act, along with the current deterioration in the value of the Syrian national currency, will negatively affect the activity of the banks established by banks operating in Syria, and their balance sheets. These banks manage assets of nearly USD 2.2 billion, they have a credit portfolio in excess of USD 583 million, they have customer deposits of more than USD 1.2 billion, and they have private funds that exceed USD 348 million, as of end 2019. These banks recorded a net profit of USD 15.9 million in 2019.

It is worth noting here that the balance sheets of these banks are denominated in US dollars according to the official exchange rate of SP 436 Syrian Pounds per one US dollar. The Syrian pound has been experiencing since the beginning of this year a severe depreciation in its value vis-à-vis the US dollar, where the exchange rate has reached more than SP 2000 per US dollar.

Definitely, this monetary development has negative repercussions on the financial indicators of those banks operating in Syria, when evaluated at the market exchange rate.

• **Major indicators of the banks established by Lebanese banks in Syria in 2019** (USD million)

Indicators	Banque BEMO Saudi Fransi	Bank of Syria and Overseas	Fransabank -Syria	Bank Audi Syria	Byblos Bank Syria	Al Sharq Bank Syria	Gulf Bank
Assets	737.5	317.2	304.6	279.3	209.2	188.0	121.2
Loans	226.2	34.3	91.1	69.3	74.7	66.6	21.2
Customer deposits	595.5	209.2	178.6	149.3	127.0	137.5	81.2
Net profits	6.2	0.5	1.0	2.8	2.4	4.2	-1.2

Sources: Banks' Balance Sheets

V. Repercussions of the Caesar Act on the Lebanese Private Sector's Investments

The investments of the Syrian private sector in Lebanon exceed those of the Lebanese private sector in Syria, where the latter investments are mainly in the banking, insurance and industrial sectors.
The Syrian investments in Lebanon are carried out by individuals, while the Lebanese investments in Syria are carried out by private institutions and companies. It should be noted that Lebanese investments increased dramatically during Syria's economic and banking openness which occurred prior to hostilities in 2011 which slowed down Lebanese and foreign investments in general in the Syrian economy.

Today, the Lebanese private sector has maintained a part of its banking, financial and economic investments in Syria, and it is looking forward with great interest to the reconstruction process in Syria, especially in infrastructure sectors such as electricity, water, telecoms, roads, railways, ports, energy and others. The Lebanese private sector is well aware of the needs of Syria's reconstruction process, given the deep correlation between the Lebanese and Syrian economies, its early entry into the Syrian economy, and its long economic and investment experience in the Syrian economy.

Needless to say, if the Lebanese government does not succeed in exempting the Lebanese investments in Syria from the Caesar Act's sanctions, then the direct and indirect capital exchanges between the two countries will be negatively affected.

VI. Effects of the Caesar Act on the Energy and Tourism sectors and Smuggling

For many years, Lebanon has been always importing part of its electricity needs from Syria, at a rate of approximately 250 megawatts out of 3,500 megawatts total needs of Lebanon. Also, Syria is a major source for Lebanon's electricity maintenance contracts.

There is unconfirmed information as to whether Lebanon imports this electrical power from Syria. In any case, the implementation of the Caesar Act may deprive Lebanon of benefiting from the electricity consumption needs imported from Syria.

On the other hand, the smuggling of fuels and foods stuffs, and the US dollar, across legal and illegal cross borders, from Lebanon to Syria, has sharply increased since last year. Such smuggling has added further pressure on the supply of these goods in the Lebanese market, thereby leading to substantial increases in its prices, keeping in mind that the prices of these goods are lower in Lebanon than they are in Syria due to government support for these goods in Lebanon.

Today, this smuggling could be reduced due to the Caesar Act, the surge in the prices of those goods in Lebanon, and the sharp deterioration of the Lebanese pound leading to further pressures on prices.

The smuggling of goods between Lebanon and Syria occurs in order to avoid paying taxes and fees, to avoid complications of customs control on borders, and to avoid paying VAT of 15% in Lebanon.

Lebanon and Syria enjoy a significant tourism exchange, where the number of tourists in both directions reach 2 million tourists per annum. Both Lebanese and Syrian tourists spend some USD 0.5 billion per annum. These tourism figures could have been greater but the hostilities in Syria since 2011, have hampered the growth of mutual tourism.

VII. Required Government Actions

It is obvious that the current socio-economic conditions ion in Lebanon cannot tolerate the further pressures induced by the Caesar Act and its sanctions that could reach the country. Lebanon is recently facing several crises at the same time: economic, financial, monetary, social and health crises that could lead to a comprehensive collapse if the country does not undertake the necessary recovery measures that could restore confidence in the country, a major prerequisite for a quick and effective recovery and growth process.

In this sense, the Lebanese government must quickly undertake all necessary diplomatic measures to convince the US administration to exempting Lebanon's economic exchanges with Syria from the Caesar Act.
The Lebanese Administration could justify this as Lebanon is not targeted by the Act, the major bulk of mutual economic exchanges occur between the private sectors of both countries, and as such exchanges are beneficial to the Syrian people, given the fact that the Caesar Act's main target is to protect and safeguard Syrian civilians from the effects of this war.

The Lebanese authorities are called to act in that direction as Syria is the only land gateway for Lebanon to the region. The dependence on the airport and ports are not sufficient to compensate for potential trade loss with Syria and other Arab countries. The Caesar Act does not mention any sanctions on the transit activity with Syria.

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