

## LEBANON THIS WEEK

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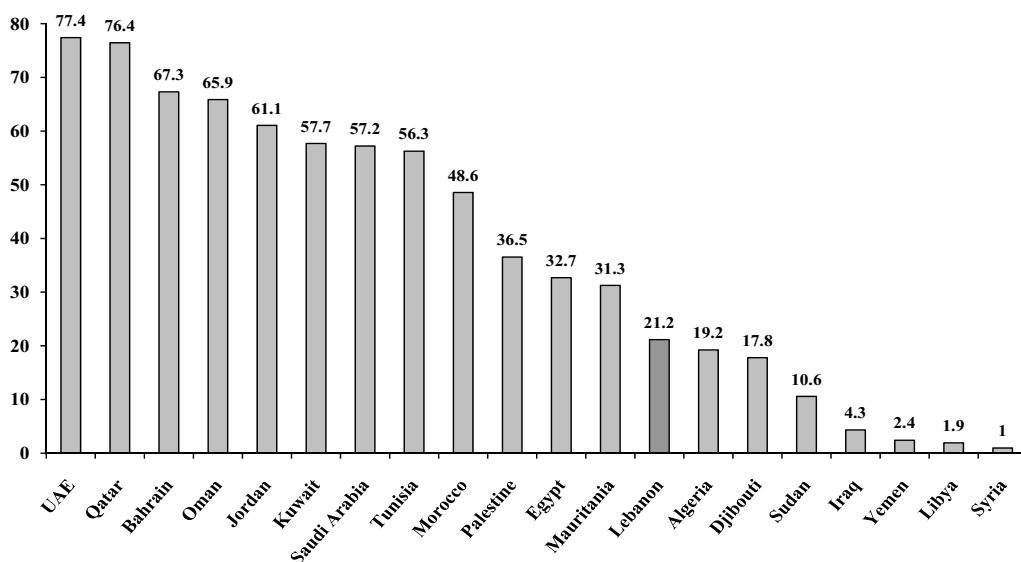
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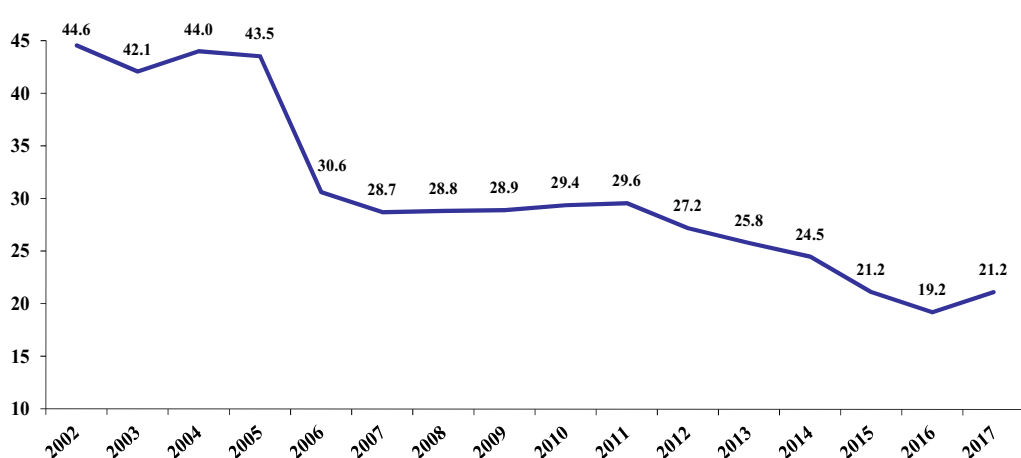
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### Charts of the Week

Percentile Rank of Arab Countries on the Rule of Law Indicator in 2017 (%)



Percentile Rank of Lebanon on the Rule of Law Indicator (%)



Source: World Bank Governance Indicators, Byblos Bank

### Quote to Note

“The implementation of such projects would address the infrastructural bottlenecks and raise potential growth gradually from 2.7% in 2017 to 5% by 2021.”

*The Institute of International Finance, on the benefits of upgrading Lebanon's infrastructure through the execution of the government-approved Capital Investment Program*

### Number of the Week

**6.8 years:** Learning-adjusted years of schooling in Lebanon, or how many years of schooling children actually benefit from, compared to an average of 10.5 years they spend at school, according to the World Bank's Human Capital Index for 2018

## Lebanon in the News

\$m (unless otherwise mentioned)	2017	Aug 2017	May 2018	Jun 2018	Jul 2018	Aug 2018	% Change*
Exports	2,844	251	254	215	218	-	-
Imports	19,582	1,685	1,591	1,616	2,318	-	-
Trade Balance	(16,738)	(1,435)	(1,337)	(1,401)	(2,100)	-	-
Balance of Payments	(156)	368	1,204	(639)	(549)	(408)	-
Checks Cleared in LBP	21,677	1,869	1,725	1,680	1,878	1,777	(4.90)
Checks Cleared in FC	46,578	4,100	3,841	3,471	3,953	3,662	(10.68)
Total Checks Cleared	68,255	5,969	5,566	5,151	5,831	5,439	(8.87)
Budget Deficit/Surplus	(3,300.82)	(513.46)	-	-	-	-	-
Budget Primary Balance	1,882.86	(192.78)	-	-	-	-	-
Airport Passengers***	8,235,845	1,067,441	598,602	762,041	1,022,467	1,159,811	8.65

\$bn (unless otherwise mentioned)	2017	Aug 2017	May 2018	Jun 2018	Jul 2018	Aug 2018	% Change*
BdL FX Reserves	35.80	34.03	34.64	33.14	34.21	33.92	(0.31)
In months of Imports	18.57	20.19	21.77	20.51	14.76	-	-
Public Debt	79.52	77.27	82.50	82.95	82.90	-	-
Bank Assets	219.86	209.39	232.29	234.60	236.31	238.46	13.88
Bank Deposits (Private Sector)	168.66	169.15	172.38	173.32	173.01	173.22	2.41
Bank Loans to Private Sector	59.69	58.19	59.45	59.56	59.22	59.40	2.09
Money Supply M2	52.51	55.52	53.77	53.98	53.58	53.21	(4.16)
Money Supply M3	138.60	139.20	140.49	141.29	140.85	141.04	1.32
LBP Lending Rate (%)****	8.09	8.10	8.65	8.82	8.66	8.81	71bps
LBP Deposit Rate (%)	6.41	5.55	6.71	6.72	6.94	7.03	148bps
USD Lending Rate (%)	7.67	7.29	7.87	7.93	7.96	8.12	83bps
USD Deposit Rate (%)	3.89	3.63	4.11	4.09	4.14	4.20	57bps
Consumer Price Index**	4.4	5.1	6.5	7.6	7.6	6.7	160bps

\* Year-on-Year \*\* Year-on-Year percentage change \*\*\*includes arrivals, departures, transit

\*\*\*\* Starting January 2016, lending rates in Lebanese pounds are reported before any subsidy or facility from reserve requirements according to Intermediate Circular No 389, and as such they are not comparable year-on-year

Note: bps i.e. basis points

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

## Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "A"	6.05	2.20%	1,383,413	6.20%
BLOM GDR	9.50	-5.00%	260,779	7.19%
Byblos Common	1.40	0.00%	45,821	8.11%
BLOM Listed	9.50	1.06%	45,755	20.92%
Solidere "B"	6.05	0.33%	39,595	4.03%
Audi Listed	5.00	0.00%	30,000	20.47%
Audi GDR	5.00	-2.91%	5,222	6.14%
Byblos Pref. 08	70.00	-0.28%	215	1.43%
HOLCIM	16.85	1.51%	132	3.37%
Byblos Pref. 09	84.90	0.00%	-	1.74%

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Nov 2018	5.15	99.75	8.32
May 2019	6.00	97.63	10.18
Mar 2020	6.38	94.88	10.39
Oct 2022	6.10	85.25	10.76
Jun 2025	6.25	79.00	10.74
Nov 2026	6.60	78.25	10.67
Feb 2030	6.65	75.00	10.46
Apr 2031	7.00	75.38	10.60
Nov 2035	7.05	74.75	10.20
Mar 2037	7.25	75.25	10.27

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

Source: Byblos Bank Capital Markets

	Oct 8-12	Oct 1-5	% Change	September 2018	September 2017	% Change
Total shares traded	2,055,815	903,843	127.5	3,153,549	7,527,126	(58.1)
Total value traded	\$12,729,938	\$7,558,121	68.4	\$25,051,528	\$49,770,271	(49.7)
Market capitalization	\$9.77bn	\$9.78bn	(0.13)	\$9.68bn	\$11.36bn	(14.7)

Source: Beirut Stock Exchange (BSE)



### Lebanon has eighth highest branch penetration rate world-wide, 13th highest ATM penetration rate in 2017

Figures issued by the International Monetary Fund show that there were 108.9 branches of commercial banks per 1,000 square kilometers in Lebanon in 2017, compared to 108.1 branches per 1,000 square kilometers in 2016, and to 88.1 branches per 1,000 square kilometers in 2007. As such, Lebanon had the eighth highest branch penetration rate among 124 countries and jurisdictions worldwide with available figures for 2017, the second highest among 37 upper middle-income countries (UMICs) and the highest among 13 Arab countries. Globally, Lebanon had a lower rate than Singapore, Malta and Luxembourg among economies with a GDP of \$10bn or more; while it came first among UMICs with a GDP of \$10bn or more. Lebanon's branch penetration rate in 2017 was higher than the global rate of 102.9 branches per 1,000 square kilometers, and significantly higher than the UMICs' rate of 23.5 branches per 1,000 square kilometers and the Arab countries' rate of 19.6 branches per 1,000 square kilometers.

Further, there were 23.8 bank branches per 100,000 adults in Lebanon in 2017, down from 24.1 branches per 100,000 adults in 2016, and compared to 29.9 branches per 100,000 adults in 2007. As such, Lebanon had the 38th highest branch penetration rate globally, the 12th highest among UMICs and the second highest among Arab countries. Lebanon's branch penetration rate was higher than the global rate of 20 branches per 100,000 adults, the UMICs' penetration rate of 19.1 branches per 100,000 adults, and the Arab rate of 11.9 branches per 100,000 adults.

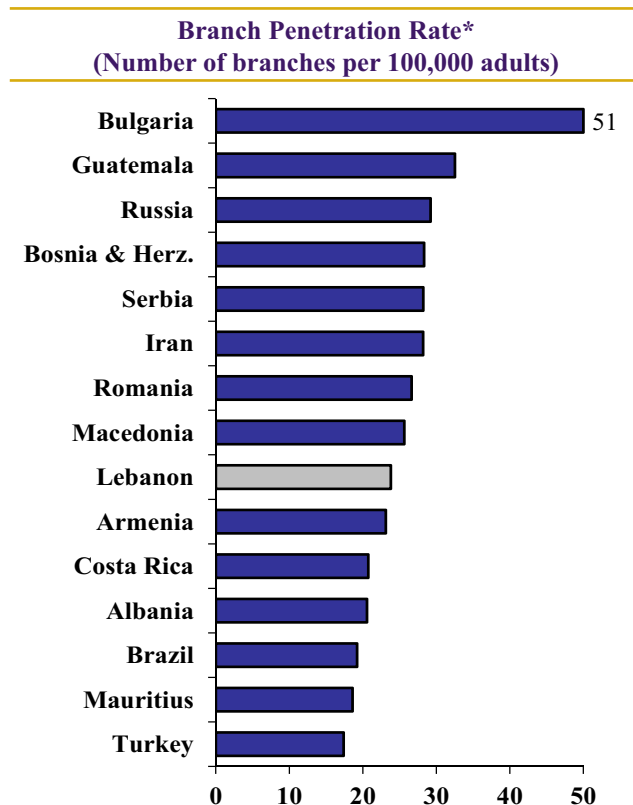
In parallel, there were 185.9 automated teller machines (ATMs) per 1,000 square kilometers in Lebanon in 2017, constituting an increase of 6.1% from 175.3 ATMs per 1,000 square kilometers in 2016, and compared to 104.7 ATMs per 1,000 square kilometers in 2007. The ATM penetration rate in Lebanon ranks the country in 13th place among 118 countries and jurisdictions worldwide, in third place among 38 UMICs and in first place among 12 Arab countries. Globally, Lebanon had a higher ATM penetration rate than Switzerland, Italy and Portugal, and a lower rate than Luxembourg, Mauritius and the Netherlands among economies with a GDP of \$10bn or more. It also had a lower penetration rate than only Mauritius among UMICs with a GDP of \$10bn or more. Lebanon's ATM penetration rate was lower than the global average penetration rate of 582.5 ATMs per 1,000 square kilometers, but was significantly higher than the UMICs' rate of 55.7 ATMs per 1,000 square kilometers, and the Arab region's rate of 44.8 ATMs per 1,000 square kilometers.

Further, there were 40.7 ATMs per 100,000 adults in Lebanon in 2017, up 4.1% from 39.1 ATMs per 100,000 adults in 2016, and compared to 35.6 ATMs per 100,000 adults in 2007. The ATM penetration rate ranks Lebanon in 71st place globally, in 24th place among UMICs and in fifth place among Arab countries. Lebanon had a lower penetration rate in this category than the global rate of 58.8 ATMs per 100,000 adults and the UMICs' average rate of 55.2 ATMs per 100,000 adults, while it had a higher rate than the Arab penetration rate of 35.5 ATMs per 100,000 adults.

### BdL to subsidize loans in US dollars for higher education

Banque du Liban (BdL) issued Intermediate Circular 509 on October 5, 2018 that amends Basic Circular 23 issued on March 7, 1996 about the facilities that BdL may provide to commercial banks and financial institutions. The circular allows banks to extend subsidized loans in US dollars to finance higher education studies under the 2018 stimulus package. It set the maximum interest rate and commissions that banks can charge on these loans at one-year LIBOR plus 1.33%, or a minimum of 4%, while BdL will provide a maximum subsidy of 4.5%.

In January 2018, BdL announced a \$1bn stimulus package for 2018 that subsidizes interest rates on loans to several sectors. In this context, BdL allocated LBP750bn in subsidies for housing loans, LBP30bn for micro credits, LBP22bn to higher education and LBP8bn to loans subsidized through the Kafalat program. It also allocated \$460m to subsidize the interest rate on loans in US dollars to finance environmentally-friendly projects, research & development projects, the knowledge economy, and housing loans for expatriates, among others. BdL indicated that banks will benefit from this facility on a first come first serve basis provided that each bank does not exceed its individual allowance for 2018 that is set by BdL. In August 2018, BdL issued Intermediate Circular 504 that increased aggregate subsidies for higher education loans to LBP47bn.



\*Top 15 upper middle-income countries, excluding economies with a GDP of less than \$10bn

Source: International Monetary Fund, Byblos Research

### Average stay at hotels in Lebanon at 3.27 nights per person in 2017

A survey conducted by the Ministry of Tourism showed that 745,377 persons used hotels in Lebanon and spent 2,440,618 nights in such facilities in 2017, leading to an average stay of 3.27 nights per person last year. The results show that Arab nationals, including Lebanese citizens, accounted for 47.4% of the total number of guests in 2017 and for 55.9% of aggregate nights spent at surveyed hotels in the country. The ministry based its 2017 figures on data collected from 200 hotels across Lebanon. It indicated that the 2017 figures are not comparable with those of previous years, given that the number of surveyed hotels changes each year.

The distribution of guests by nationality indicates that there were 81,748 clients from Lebanon, representing 11% of total clients in 2017. They were followed by 73,707 guests from Iraq (9.9%); 63,287 from Syria (8.5%); 51,512 from France (6.9%); 43,352 from the United States (5.8%); 37,955 from Jordan and 37,832 from Germany (5.1% each); 35,037 from the United Kingdom (4.7%); 32,243 from Egypt (4.3%); 31,496 from Canada (4.2%); 26,643 from Saudi Arabia (3.6%) and 19,870 clients from Australia (2.7%). Further, Iraqi citizens accounted for 13.3% of total nights spent at surveyed hotels in Lebanon in 2017, followed by Lebanese citizens with 12.8% of the total, Syrians (11.7%), French (7.7%), Americans (6.6%), Jordanians (5.5%) and Egyptians (5.3%).

In parallel, Syrian nationals stayed an average of 4.53 nights at surveyed hotels in Lebanon last year, the highest usage per night among Arab nationalities. Clients from Iraq followed with 4.42 nights, then guests from Egypt (4.03 nights), Lebanon (3.81 nights), Jordan (3.53 nights), the Comoros Islands (3.23 nights), Mauritania (3.13 nights), Libya (3.11 nights), Saudi Arabia (2.98 nights), Palestine (2.8 nights), Tunisia (2.79 nights), Yemen (2.75 nights), Algeria (2.69 nights), Qatar (2.68 nights), Kuwait (2.57 nights), Bahrain and the UAE (2.35 nights each), Sudan (2.32 nights) and Djibouti (2.3 nights). Further, the average length of stay per person for non-Arab visitors shows that nationals from Afghanistan stayed 5.07 nights, followed by clients from Slovenia (4.71 nights), Mozambique (4.47 nights), Brunei Darussalam (4.43 nights), Andorra (4.15 nights), Uzbekistan (4.13 nights), Dominica (4.08 nights), Gabon (3.99 nights), Belarus (3.94 nights), and Cameroon (3.92 nights).

### Government formation to reduce political risks and help attract capital, reforms essential to address imbalances

Global investment bank Goldman Sachs considered that the formation of a new government in Lebanon will improve investor confidence over the short term. First, it said that a political breakthrough would increase the likelihood of implementing some of the reforms needed to unlock the funds that the international community pledged at the CEDRE conference in April 2018. Second, it expected a relative increase in capital spending over the short term, as a slow progress on the reform agenda would allow the disbursement of some CEDRE-related funds. Third, it pointed out that the formation of a new government would help reduce market perception of domestic political risks in Lebanon, especially amid the tense regional geopolitical environment.

Goldman Sachs considered that the short-term benefits that would result from the formation of a new government need to be accompanied by a significant narrowing of Lebanon's structural fiscal and current account deficits. It added that the short-term benefits of a government formation would not ease concerns about the slowdown in capital inflows, which are mostly channeled towards the financing of the fiscal and external deficits. As such, it said that authorities would have to reduce the country's financing requirements and/or increase capital inflows, especially deposit inflows. It considered that the new government may not have the political will to implement deep structural reforms, including to the civil service, the electricity sector and tax system, among others. However, it noted that increasing depositor inflows is possible. It did not expect authorities to raise official interest rates to attract deposits, as it estimated that a one percentage point increase in the average cost of borrowing would increase the debt servicing cost by 1.5% of GDP, which would absorb an additional 7% of public revenues. It added that an improvement in the domestic political climate would help attract capital in the near term, but it noted that increasing deposit inflows will also depend on external factors, such as developments in the global economy, including the extent of normalization of capital flows to emerging markets. It added that other external factors include regional geopolitical developments, mostly related to the resolution of the Syrian conflict, as well as global oil prices, as higher prices would support remittance inflows from Gulf countries, and improve the prospects of the country's efforts to develop its oil and gas resources.

In parallel, Goldman Sachs indicated that Banque du Liban's (BdL) financial engineering operations since 2016 have helped increase its assets in foreign currency despite the external imbalances, supported the banks' profitability and strengthened their capital, preserved the stability of official rates, and accelerated deposit growth. It expected BdL to continue with these operations as long as the political deadlock persists and regional developments remain unsupportive of capital inflows. It considered that the BdL's operations are helping Lebanon to manage adverse economic and political conditions, but that they should be accompanied by reforms or a significant improvement in financing prospects.

#### Length of Stay at Hotels from Top 10 Sources in 2017

	Total Nights	Avg Night per Person
Iraq	325,581	4.42
Lebanon	311,313	3.81
Syria	286,402	4.53
France	187,203	3.63
United States	160,673	3.71
Jordan	133,944	3.53
Egypt	129,987	4.03
Germany	104,341	2.76
England	87,060	2.48
Saudi Arabia	79,441	2.98

Source: Ministry of Tourism, Byblos Research



### IMF projects real GDP growth in Lebanon at 1% in 2018

The International Monetary Fund projected Lebanon's real GDP growth at 1% in 2018, down from its June 2018 forecast of 1.5%. In comparison, it forecast real GDP growth rates of 2% for the MENA region, of 4.5% for the region's oil-importing economies and of 4.8% for the Mashreq economies; as well as growth rates of 4.7% in emerging & developing economies and of 3.7% for the global economy in 2018. Lebanon's projected growth rate in 2018 would make it the slowest-growing economy among 17 MENA countries with positive economic growth. The forecasts for Lebanon do not incorporate the impact of the implementation of reforms related to the CEDRE conference on growth and public finances.

In parallel, the Fund projected Lebanon's GDP per capita to increase from \$12,013 at the end of 2017 to \$12,454 at end-2018. It also forecast the average inflation rate in Lebanon at 6.5% in 2018 relative to 11.8% for the MENA region, 12.9% for oil-importing economies and 18.8% for the Mashreq region. Lebanon's projected average inflation rate would be the seventh highest in the MENA region this year. Lebanon's inflation rate averaged -3.7% in 2015, -0.8% in 2016 and 4.5% in 2017.

Further, the IMF projected Lebanon's fiscal deficit to widen from 6% of GDP in 2017 to 9.7% of GDP in 2018, with public revenues at 22.6% of GDP this year relative to 21.5% of GDP in 2017, and public spending at 32.3% of GDP in 2018 relative to 27.5% of GDP last year. Also, it forecast the primary budget surplus to narrow from 3.2% of GDP in 2017 to 0.5% of GDP in 2018. As such, it expected the public debt level to increase from 146.8% of GDP in 2017 to 150% of GDP in 2018.

In addition, the Fund projected Lebanon's current account deficit to widen from 22.8% of GDP in 2017 to 25.6% of GDP in 2018, compared to a surplus of 2.6% of GDP for the MENA region, and deficits of 6.5% of GDP for oil-importing economies and of 7.2% of GDP for the Mashreq countries.

In parallel, the IMF projected Lebanon's real GDP growth rate at 1.4% in 2019, compared to growth rates of 2.5% for the MENA region, 4% for the region's oil-importing economies and 5% for the Mashreq economies next year. Lebanon's projected growth rate for 2019 would make it the slowest-growing economy among 18 MENA countries with positive economic growth. The IMF forecast Lebanon's fiscal deficit to widen to 10.5% of GDP, while it expected its current account deficit at 25.5% of GDP in 2019.

### EBRD launches advisory program to support SMEs in Lebanon

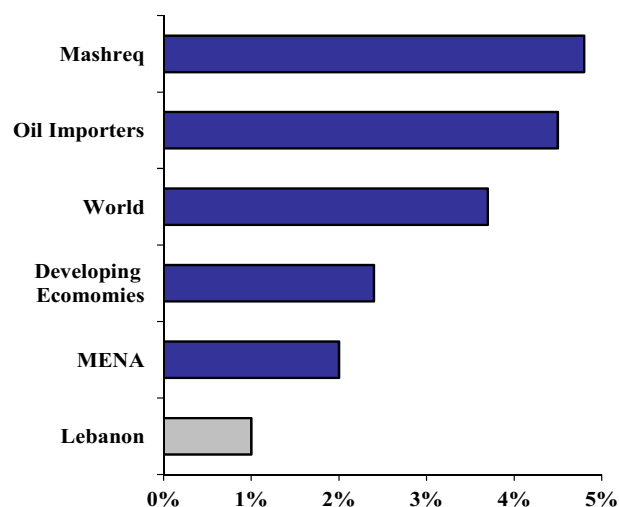
The European Bank for Reconstruction and Development (EBRD) launched the Advice for Small Businesses (ASB) program in Lebanon, which aims to support small- and medium-sized enterprises in the country, increase their access to funding, create jobs, as well as promote competitiveness and innovation in Lebanon. The ASB program will be funded by the European Union.

The advisory program seeks to link SMEs with local and international consultants that would provide them with business advice on decision-making, cost-cutting, marketing, quality management, energy efficiency and financial management, among other services. In turn, the EBRD would carry out training programs for the local consultants to strengthen their capacity and improve the range and quality of their advisory services. In order to be eligible for the ASB program, SMEs will have to meet certain criteria, which include an annual turnover of less than EUR50m and a labor force of less than 250 employees. Also, SMEs should be operating for at least two years, should be majority-owned by Lebanese citizens, and the majority of a firm's share capital should be privately held. In addition, SMEs should be operating in any of the sectors where the EBRD invests, except in financial services, financing of military activities or tobacco production, and gambling facilities. Further, SMEs should not have any previous or ongoing legal proceedings that may affect the implementation of the project that the EBRD is supporting. Finally, the ceiling of support will be EUR65,000 per company. The EBRD has already invested EUR92m in Lebanon and plans to double this amount in the coming months.

The EBRD has currently four active projects in Lebanon with a cumulative investment, including undisbursed commitments, of EUR59m as at the end of July 2018. It invests and operates in over 36 countries in South-Eastern Europe, Central Europe & Baltic States, Eastern Europe & the Caucasus, Central Asia, and the Southern & Eastern Mediterranean. Lebanon became a shareholder in the EBRD in July 2017.

Established in 1991, the EBRD aims to support economies and promote the private sector globally. The bank currently has 68 shareholders that include 66 countries as well as the European Union and the European Investment Bank. The EBRD has invested over EUR8bn in 195 projects since 2012 in the southern and eastern Mediterranean region.

Projected Real GDP Growth in 2018 (%)



Source: International Monetary Fund, October 2018

## Cost of living in Beirut is seventh highest in the world, highest in the Middle East in 2018

EuroCost International's 2018 cost-of-living survey for expatriates ranked Beirut in seventh place globally, compared to eighth place in 2017 and to 13th place in 2010. Beirut continued to have the highest cost of living for expatriates in the Middle East since the 2012 survey. The survey attributed the elevated cost of living in Beirut to the high rental rates in the capital.

The survey compares the cost of living for expatriates in major locations worldwide. It includes rental costs, but it excludes healthcare and education costs. The rankings are based on prices collected in June 2018 and were updated based on the exchange rates during the month of September.

The survey shows that the cost of living for expatriates in Beirut is lower than in Geneva, Seoul and Singapore, and higher than in London, Zurich and New York City. Beirut is the only Middle Eastern city among the 15 most expensive cities globally for expatriates. Three new cities, which are Boston (26th place), Washington DC (27th place) and Paris (30th place), joined the top 30 list in this year's survey. Overall, the rankings of 18 cities increased, reflecting a rise in their cost of living, while the rankings of 11 cities declined among the 30 most expensive cities in the world.

EuroCost International attributed the significant changes in the rankings to exchange rate fluctuations. Hong Kong came in first place and replaced Luanda, the capital of Angola, as the most expensive city in the world for expatriates in 2018. In fact, the devaluation of the Angolan kwanza reduced the cost of living in Luanda, which led its rank to regress to 14th place in 2018. EuroCost International specializes in cost of living services for expatriates in over 272 locations worldwide.

Most Expensive Cities in the World		
	2018	2017
Hong Kong	1	2
Tokyo	2	3
Kinshasa	3	27
Geneva	4	4
Seoul	5	6
Singapore	6	5
<b>Beirut</b>	<b>7</b>	<b>8</b>
London	8	15
Zurich	9	7
New York City	10	9
Honolulu	11	16
San Francisco	12	13
Lausanne	13	10
Luanda	14	1
Beijing	15	12
Shanghai	16	11
Abu Dhabi	17	21
Tel Aviv	18	19
Copenhagen	19	18
Bern	20	22

Source: EuroCost, Byblos Research

## Broad money supply up 2% in first eight months of 2018

Figures released by Banque du Liban show that money supply M1, which includes currency in circulation and demand deposits in Lebanese pounds, reached LBP11,242bn at the end of August 2018, constituting an increase of 7.8% from LBP10,426.9bn at end-August 2017 and a rise of 5.8% from LBP10,624.1bn at the end of 2017. Currency in circulation stood at LBP4,815.2bn at the end of August, nearly unchanged from a year earlier, but down by 1.5% from LBP4,886.5bn at end-2017. Also, demand deposits in local currency stood at LBP6,426.7bn at the end of August 2018, up by 14.4% year-on-year and by 12% from end-2017. Money Supply (M1) decreased by 1.9% in August from LBP11,455bn at end-July 2018, with demand deposits in local currency declining by 2.6% month-on-month and currency in circulation regressing by 0.9%.

Further, money supply M2, which includes M1 and term deposits in Lebanese pounds, reached LBP80,216.2bn at the end of August 2018, constituting a decline of 4.2% from LBP83,694.4bn a year earlier and an increase of 1.3% from LBP79,166.2bn at the end of 2017. Term deposits in Lebanese pounds totaled LBP68,974.2bn at the end of August, down by 5.9% from a year earlier but up by 0.6% from LBP68,542.1bn at end-2017. Money Supply (M2) regressed by 0.7% in August, with term deposits in local currency declining by 0.5% month-on-month.

In addition, broad money supply M3, which includes M2, deposits in foreign currency and debt securities issued by the banking sector, reached LBP212,611.7bn at the end of August 2018, constituting an increase of 1.3% from LBP209,837bn a year earlier and a growth of 1.7% from LBP208,964.7bn at the end of 2017. Deposits in foreign currency totaled LBP132,128.3bn at the end of August 2018, up by 5% from a year earlier and by 2% from end-2017. Also, debt securities issued by the banking sector amounted to LBP266.3bn at the end of August 2018, compared to LBP326.1bn at end-August 2017 and LBP321.8bn at the end of 2017. Money supply (M3) grew marginally by 0.1% in August 2018 from LBP212,334.8bn at the end of July 2018, with deposits in foreign currency increasing by 0.6% month-on-month, and debt securities issued by the banking sector rising by 6.2% from the preceding month. In parallel, M3 expanded by LBP3,646bn in the first eight months of 2018, due to a decrease of LBP3,210.2bn in the net foreign assets of deposit-taking institutions and a decline of LBP2,255.8bn in claims on the private sector, which were offset by an increase of LBP2,109.7bn in net claims on the public sector and a surge of LBP7,002.3bn in other net items.

### Lebanon's brand strength rating at 'A+' on Brand Strength Index

Consulting firm Brand Finance kept Lebanon's brand strength rating at 'A+' on its 2018 Brand Strength Index. The survey rates each country's brand strength by the performance of the Investment, Goods & Services, and Society pillars. The pillars are based on four sub-pillars that are Tourism, Market, Governance, and People & Skills, which are calculated by using several metrics. Lebanon's 'A+' rating is the seventh strongest on a scale of 18 notches that range from 'AAA+' to 'D', with a score of 'AAA+' reflecting the strongest nation brand. Brand Finance is a brand valuation and strategy consultancy firm.

The strength of Lebanon's brand is similar to that of Bulgaria, Egypt, Ghana, Guatemala, Hungary, Iran, Kazakhstan, Kenya, Mexico, Peru, the Philippines, Russia, Slovakia, South Africa, Sri Lanka, Tanzania, Trinidad & Tobago, Tunisia, Turkey and Vietnam. In comparison, two economies have a rating of 'AAA+', 10 countries have an 'AAA' rating, 10 sovereigns have a rating of 'AAA-', seven economies have a rating of 'AA+', 12 countries have a rating of 'AA' and 13 sovereigns have a rating of 'AA-'. Singapore and Switzerland have the strongest nation brand value worldwide, while the UAE has the strongest brand in the Arab region.

In parallel, the survey ranked Lebanon in 94th place among 100 countries on its Nation Brands Index for 2018, and in second-to-last place among 16 countries in the Arab region. Lebanon's rank was unchanged year-on-year globally and regionally. Lebanon also came in 25th place among 27 upper middle-income countries (UMICs) included in the survey. The index measures the strength and value of the nation brand of 100 countries based on the "royalty relief mechanism" methodology that is used to value the world's largest companies. A nation's brand valuation is based on five-year forecasts of the sales revenues of all brands in each country, with the country's gross domestic product used as a proxy for total revenues. In turn, the country's post-tax brand revenues are discounted to a net present value to calculate the current brand value.

The survey estimated Lebanon's brand value at \$22bn for 2018, compared to \$21bn in 2017. Globally, Lebanon's brand value was similar to the Democratic Republic of Congo, higher than Cyprus and Trinidad & Tobago (\$21bn each) and Mauritius and Honduras (\$20bn each), and lower than Tunisia and Yemen (\$24bn each), and Paraguay (\$23bn). Also, Lebanon's brand value was higher than only Mauritius and Libya among UMICs. The United States has the world's most valuable nation brand with a value of \$25.9 trillion, while Libya has the lowest brand value globally at \$18bn.

### Association of Banks increases reference rate on US dollar lending

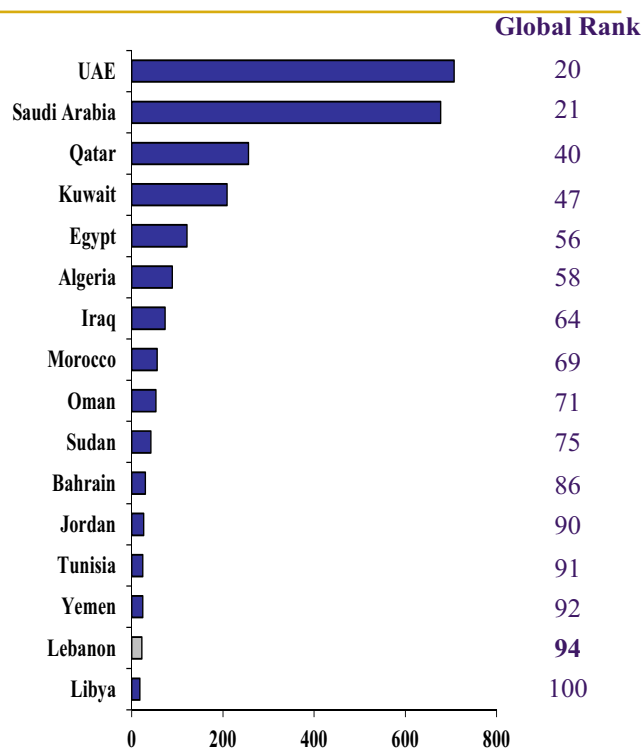
The Association of Banks in Lebanon (ABL) recommended to its member banks to increase the Beirut Reference Rate (BRR) in US dollars to 7.9% in November 2018 from 7.55% in August 2018, the most recently available rate prior to the new recommendation. The rate, considered as the reference rate for lending in foreign currency, replaced the London Interbank Offered Rate (LIBOR) in 2009, as the ABL decided that the LIBOR does not reflect the cost of funding and lending in Lebanon. In addition, the ABL recommended to its member banks to maintain the BRR in Lebanese pounds at 10.7% in November 2018, unchanged from August 2018. The BRR in US dollars and Lebanese pounds were adopted in March and May 2009, respectively. The ABL considers that the BRR does not replace the Beirut Prime Lending Rate in each currency, but constitutes the basis to calculate the prime rate after adding the cost of liquidity and re-financing, credit risk and the profitability of banks.

### Revenues through Port of Beirut up 1% to \$164m in first eight months of 2018

Figures released by the Port of Beirut show that the port's overall revenues reached \$163.8m in the first eight months of 2018, constituting an increase of 0.7% from \$162.7m in the same period of 2017. The Port of Beirut handled 5.3 million tons of freight in the covered period, down by 7.4% from 5.7 million tons in the first eight months of 2017. Imported freight amounted to 4.7 million tons in the first eight months of 2018 and accounted for 88.4% of the total, while the remaining 616,000 tons, or 11.6%, consisted of export cargo. A total of 1,246 ships docked at the port in the year-to-August 2018 compared to 1,262 vessels in the first eight months of 2017.

In parallel, revenues generated through the Port of Tripoli reached \$10.6m in the first eight months of 2018, constituting a decrease of 7.1% from \$11.4m in the same period of 2017. The Port of Tripoli handled 1,143,895 tons of freight in the covered period, constituting a decline of 11.3% from 1,289,379 tons in the first eight months of 2017. Imported freight amounted to 939,461 tons and accounted for 82.1% of the total, while the remaining 204,434 tons, or 17.9%, were export cargo. A total of 427 vessels docked at the port in the first eight months of 2018, constituting a drop of 21.1% from 541 ships in the same period of 2017.

### Nation Brand Value of Arab Countries for 2018 (US\$bn)



Source: Brand Finance, Byblos Research

### New car sales down 7% in first eight months of 2018

Figures released by the Association of Automobile Importers in Lebanon show that dealers sold 26,081 new passenger cars in the first nine months of 2018, constituting a decrease of 6.6% from 27,934 cars sold in the same period of 2017. Individuals and institutional clients purchased 2,489 new cars in January, 2,256 new vehicles in February, 2,900 automobiles in March, 2,539 new cars in April, 2,862 vehicles in May, 4,162 new automobiles in June, 3,665 new cars in July, 2,772 vehicles in August, and 2,436 new cars in September 2018.

Japanese cars accounted for 40.8% of total car sales in the first nine months of 2018, followed by Korean vehicles with a 29% share, European automobiles (19.4%), American cars (8%) and Chinese vehicles (2.9%). The sales of new Chinese cars jumped by 110.7% in the covered period and demand for Japanese automobiles grew by 2% year-on-year. In contrast, demand for Korean vehicles regressed by 19.1%, the sales of European automobiles decreased by 9.5%, and the number of American cars sold declined by 6.7% year-on-year in the covered period.

Kia is the leading brand in the Lebanese market with 4,116 passenger vehicles sold in the first nine months of 2018, followed by Hyundai with 3,418 new cars sold, Toyota (3,386), Nissan (3,089) and Suzuki (1,226). In parallel, car dealers sold 1,720 new commercial vehicles in the covered period, down by 16.1% from 2,051 commercial vehicles purchased in the first nine months of 2017. Overall, car dealers sold 27,801 new passenger cars and commercial vehicles in the first nine months of 2018, down by 7.3% from 29,985 cars sold in the same period of 2017.

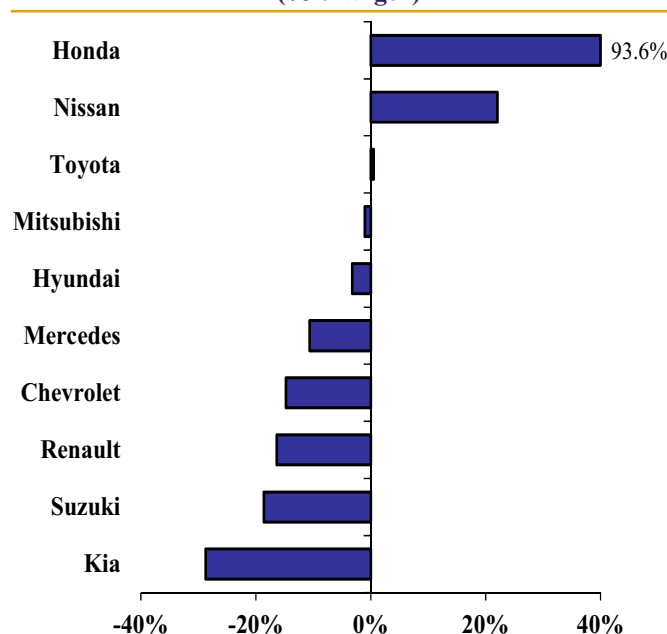
Further, Lebanon's top five distributors sold 17,429 vehicles in the first nine months of 2018 and accounted for 62.7% of new car sales. Rasamny Younis Motor Co. sal sold 4,216 vehicles, equivalent to 15.2% of the total, followed by NATCO sal with 4,131 automobiles (14.9%), Boustany United Machineries sal with 3,680 cars (13.2%), Century Motor Co. sal with 3,495 vehicles (12.6%), and Bassoul Heneiné sal with 1,907 cars (6.9%).

### Top five freight forwarders' import activity down 12% in first eight months of 2018, export activity down 22%

Figures released by the Port of Beirut show that overall import shipping operations by the top five freight forwarders through the port reached 212,998 20-foot equivalent units (TEUs) in the first eight months of 2018, constituting a decrease of 11.7% from 241,131 TEUs in the same period of 2017. The five freight forwarders accounted for 75.7% of imports to the Lebanese market and for 50.4% of the total import freight forwarding market in the first eight months of 2018. Mediterranean Shipping Company (MSC) handled 83,944 TEUs in imports in the covered period, equivalent to a 19.8% share of the total freight forwarding import market. Merit Shipping followed with 45,696 TEUs (10.8%), then Metz Group with 29,811 TEUs (7%), Sealine Group with 28,770 TEUs (6.8%), and Tourism & Shipping Services with 24,777 TEUs (5.9%). Further, Tourism & Shipping Services registered a year-on-year increase of 169.2% in import shipping in the covered period, the highest growth rate among the top five freight forwarders, while Sealine Group posted a decline of 34.5%, the steepest drop in the first eight months of 2018.

In parallel, export shipping operations by the top five freight forwarders through the Port of Beirut reached 43,330 TEUs in the first eight months of 2018, constituting a decrease of 21.5% from 55,218 TEUs in the same period of 2017. The five freight forwarders accounted for 78.8% of exported Lebanese cargo and for 10.3% of the total export freight forwarding market in the first eight months of 2018. Merit Shipping handled 19,791 TEUs of freight in the covered period, equivalent to 36% of the Lebanese cargo export market. Metz Group followed with 7,160 TEUs (13%), then Sealine Group with 6,620 TEUs (12%), MSC Shipping with 4,897 TEUs and MAERSK Shipping with 4,862 (8.8% each). Further, MAERSK shipping posted a year-on-year increase of 204.4% in export shipping in the covered period, the highest rise among the top five freight forwarders, while Metz Group posted a decrease of 35.9%, the steepest decline among the top five freight forwarders.

**Sales of Top 10 Car Brands in First Nine Months of 2018**  
(% change\*)



\* year-on-year

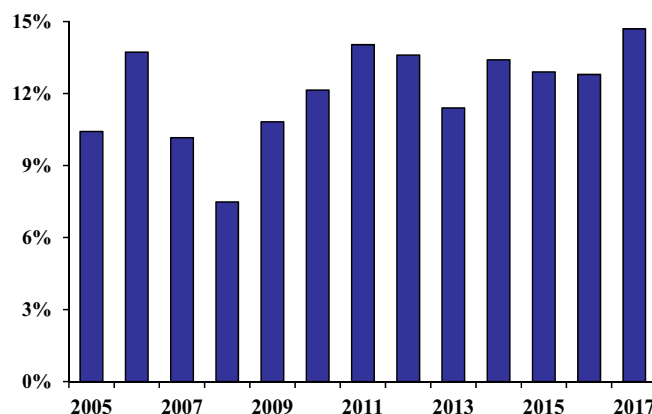
Source: AIA, Byblos Research



### Insurers' return on investment at 6.1% and return on equity at 14.7% in 2017

Figures released by the Insurance Control Commission show that the aggregate assets of 50 licensed insurance companies operating in Lebanon reached \$4.63bn at the end of 2017, compared to \$4.6bn at end-2016. The insurance sector's aggregate investments reached \$2.75bn in 2017 and accounted for 59.4% of total assets, followed by unit-linked contracts investments with \$732m (15.8%), and receivables under the insurance business of \$320.4m (6.9%). Also, blocked bank deposits and deposits with maturities of more than three months stood at \$940.8m and accounted for 34.3% of total investments, followed by fixed income investments at \$905m (32.9%), cash & cash equivalents at \$524.4m (19.1%), investments in land & real estate at \$143.8m (5.2%), and investments in subsidiaries & associates at \$76.6m (2.8%). The collective return on investments of the insurance sector reached 6.1% in 2017, up from 5% in 2016. Further, insurance companies posted a combined annualized return on assets of 3.6% in 2017 relative to 3% in 2016.

### Return on Equity of Insurance Companies in Lebanon



Source: Insurance Control Commission

In parallel, the aggregate loss ratio of the 50 insurance companies, or the ratio of claims incurred to earned gross premiums, was 67.5% in 2017; the commission ratio, or the ratio of acquisition cost to earned gross premiums, reached 16.6%; the expense ratio, or the ratio of other general expenses to earned gross premiums, was 13%; and the reinsurance ratio, or the ratio of net reinsurance income to earned gross premiums, reached 3.4% in 2017. As such, the average technical combined loss ratio, which is the aggregate of the above four ratios, reached 100.5% in 2017 compared to 99.2% in 2016. In parallel, the total shareholders' equity of the insurance firms reached \$1.14bn in 2017, constituting a rise of 4.7% from \$1.1bn in 2016. As such, the return on equity of insurers was 14.7% in 2017 relative to 12.8% in 2016.

### Banque Libano-Française's net earnings at \$61.8m in first half of 2018

Banque Libano-Française (BLF) sal, one of Lebanon's top 15 banks in terms of deposits, announced unaudited consolidated net profits of \$61.8m in the first half of 2018, constituting a decline of 3.9% from net earnings of \$64.2m in the same period of 2017. Net operating income grew by 5.2% year-on-year to \$137.2m in the first half of 2018, with net interest income improving by 34.8% to \$125.1m and net fees & commissions receipts increasing by 3.2% to \$19.6m. Non-interest income accounted for 13.6% of total income in the first half of 2018, down from 33.7% in the same period last year; with net fees & commissions representing 96.5% of non-interest earnings relative to 38.6% in the first half of 2017.

Further, the bank's interest margin was 1.91% in the first half of 2018 relative to 1.59% in the same period last year; while its spread reached 1.83% in the covered period compared to 1.54% in the first half of 2017. Total operating expenditures grew by 2.5% to \$65.1m year-on-year in the first half of 2018, with staff expenses expanding by 2.9% to \$42.3m and administrative & other operating expenditures increasing by 1.5% to \$18.5m. Also, the bank's return on average assets was 0.88% in June 2018 on an annualized basis relative to 1.02% in June 2017, while its return on average equity reached 9.77% on an annualized basis compared to 10.9% in June 2017. The bank's cost-to-income ratio increased marginally from 43.42% in the first half of 2017 to 43.7% in the same period of 2018.

In parallel, total assets reached \$14.5bn at the end of June 2018, up by 6.2% from end-2017, while loans & advances to customers, excluding those to related parties, regressed by 2.9% from end-2017 to \$4.2bn. Also, customer deposits, excluding those from related parties, totaled \$10.7bn at end-June 2018 and regressed by 0.3% from the end of 2017. The loans-to-deposits ratio stood at 38.9% at the end of June 2018 compared to 40.1% at end-June 2017. Further, the bank's shareholders' equity reached \$1.3bn at end-June 2018, unchanged from end-2017.

## Ratio Highlights

(in % unless specified)	2015	2016	2017e	Change*
Nominal GDP (\$bn)	49.5	49.7	52.5	
Public Debt in Foreign Currency / GDP	54.7	56.6	57.9	1.30
Public Debt in Local Currency / GDP	87.4	94.1	93.6	(0.54)
Gross Public Debt / GDP	142.1	150.7	151.5	0.76
Total Gross External Debt / GDP	175.8	183.9	185.6	1.70
Trade Balance / GDP	(31.6)	(32.5)	(31.9)	0.60
Exports / Imports	15.9	15.6	14.5	(1.04)
Fiscal Revenues / GDP	19.3	20.0	22.1	2.17
Fiscal Expenditures / GDP	27.3	29.9	29.3	(0.62)
Fiscal Balance / GDP	(8.0)	(9.9)	(7.2)	2.79
Primary Balance / GDP	1.5	0.0	2.7	2.68
Gross Foreign Currency Reserves / M2	58.7	62.2	68.2	5.98
M3 / GDP	249.7	267.2	263.6	(3.61)
Commercial Banks Assets / GDP	375.7	411.1	418.8	7.69
Private Sector Deposits / GDP	306.2	327.0	321.3	(5.69)
Private Sector Loans / GDP	109.5	115.0	114.9	(0.16)
Private Sector Deposits Dollarization Rate	64.9	65.8	68.7	2.88
Private Sector Lending Dollarization Rate	74.8	72.6	71.0	(1.61)

\*Change in percentage points 16/17

\*\*Includes portion of public debt owed to non-residents, liabilities to non-resident banks, non-resident deposits (estimated by the IMF), Bank for International Settlements' claims on Lebanese non-banks

Source: Association of Banks in Lebanon, Institute of International Finance, International Monetary Fund, World Bank, Byblos Research Estimates & Calculations

Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

## Risk Metrics

Lebanon	Dec 2016	Nov 2017	Dec 2017	Change**	Risk Level
Political Risk Rating	55	54.5	55	➔	High
Financial Risk Rating	36.5	33.0	33.0	▲	Moderate
Economic Risk Rating	30.5	27.5	28.5	▲	High
Composite Risk Rating	61.0	57.5	58.25	▲	High

MENA Average*	Dec 2016	Nov 2017	Dec 2017	Change**	Risk Level
Political Risk Rating	57.6	58.0	58.2	▼	High
Financial Risk Rating	38.3	38.5	38.5	▼	Low
Economic Risk Rating	29.6	31.0	30.9	▼	Moderate
Composite Risk Rating	62.8	63.8	63.9	▼	Moderate

\*excluding Lebanon

\*\*year-on-year change in risk

Source: The PRS Group, Byblos Research

Note: Political & Composite Risk Ratings range from 0 to 100 (where 100 indicates the lowest risk)

Financial & Economic Risk ratings range from 0 to 50 (where 50 indicates the lowest risk)

## Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's	B3	NP	Stable	B3		Stable
Fitch Ratings	B-	B	Stable	B-		Stable
Standard & Poor's	B-	B	Stable	B-	B	Stable
Capital Intelligence Ratings	B	B	Stable	B	B	Stable

Source: Rating agencies

Banking Ratings	Outlook
Moody's	Stable

Source: Moody's Investor Services



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