Issue 577 | March 18-23, 2019

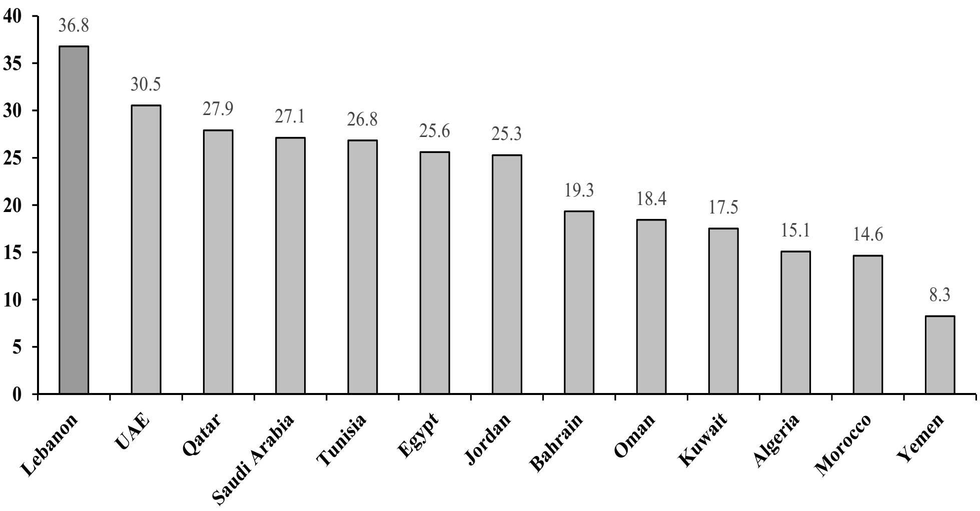
BYBLOS BANK SAL
Economic Research & Analysis Department

LEBANON THIS WEEK

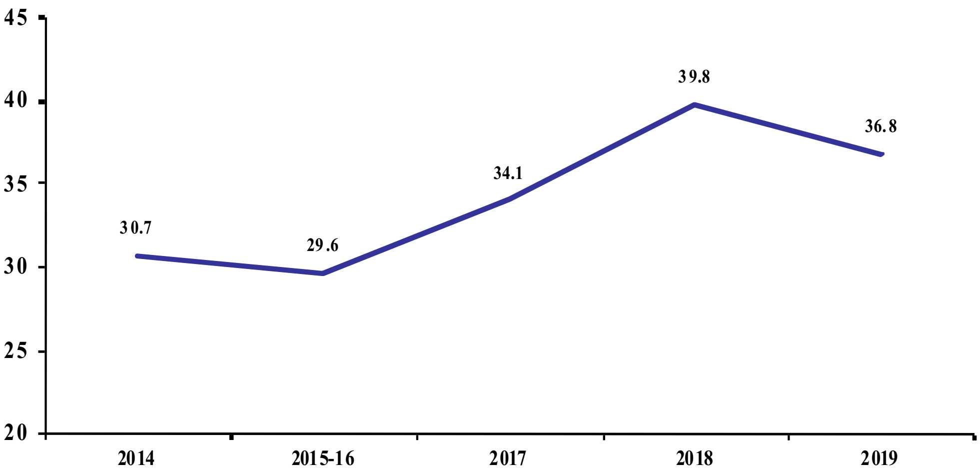
In This Issue

Charts of the Week

Performance of Arab Countries on the Global Knowledge Skills Pillar*



Performance of Lebanon on the Global Knowledge Skills Pillar*



**higher score reflects a better performance in terms of developing entrepreneurial talent and innovation*
Source: INSEAD's 2019 Global Talent Competitiveness Index, Byblos Research

Quote to Note

"Provide licenses to private operators to produce electricity at much lower cost than current rates."

The Institute of International Finance, on a key component of any lasting and credible solution to the electricity problem in Lebanon

Number of the Week

34%: Percentage of outstanding Lebanese pound-denominated Treasury securities that have a maturity of 10 years or longer as at February 2019, according to the Association of Banks in Lebanon

Lebanon in the News

$m (unless otherwise mentioned)	2017	2018	% Change*	Jan-18	Nov-18	Dec-18	Jan-19
Exports	2,844	2,952	3.81	283	242	246	236
Imports	19,582	19,980	2.03	1,705	1,536	1569	1405
Trade Balance	(16,738)	(17,028)	1.73	(1,422)	(1,294)	(1,323)	(1,169)
Balance of Payments	(156)	(4,823)	2997.74	237	(954)	(748)	(1,380)
Checks Cleared in LBP	21,677	22,133	2.11	1,967	1,875	2,024	1,856
Checks Cleared in FC	46,578	44,436	(4.60)	3952	3,481	3,455	3,046
Total Checks Cleared	68,255	66,569	(2.47)	5,919	5,356	5,479	4,902
Fiscal Deficit/Surplus**	(3,756)	(5,809)	-	(379)	(1,075)	-	-
Primary Balance**	1,428	(490.7)	-	(106)	(89.1)	-	-
Airport Passengers***	8,235,845	8,842,442	7.37	597,768	628,205	677,845	606,761
Consumer Price Index****	4.4	6.07	163bps	5.6	5.8	4.0	3.2

$bn (unless otherwise mentioned)	Dec-17	Jan-18	Oct-18	Nov-18	Dec-18	Jan-19	% Change*
BdL FX Reserves	35.81	35.25	34.62	33.56	32.51	31.93	(9.41)
In months of Imports	18.57	20.67	20.15	21.85	20.72	22.73	9.97
Public Debt	79.53	80.40	84.04	83.66	85.14	85.32	6.12
Bank Assets	219.86	222.59	242.61	246.51	249.48	248.88	11.81
Bank Deposits (Private Sector)	168.66	169.14	173.25	173.19	174.28	172.11	1.75
Bank Loans to Private Sector	59.69	59.02	59.15	59.21	59.39	58.14	(1.48)
Money Supply M2	52.51	52.88	52.06	51.55	50.96	49.79	(5.84)
Money Supply M3	138.62	138.62	140.24	140.32	141.29	139.59	0.70
LBP Lending Rate (%)	8.09	8.56	9.60	10.15	9.97	10.41	185bps
LBP Deposit Rate (%)	6.41	6.53	7.74	7.97	8.30	8.93	240bps
USD Lending Rate (%)	7.67	7.74	8.30	8.57	8.57	8.89	115bps
USD Deposit Rate (%)	3.89	3.91	4.63	4.90	5.15	5.58	167bps

**year-on-year ** 2018 figures are for first 11 months of the year ***includes arrivals, departures, transit ****year-on-year percentage change*
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
Audi Listed	5.00	0.00	8,008,650	21.03%
Byblos Common	1.33	0.00	104,104	7.91%
Solidere "A"	5.88	(3.13)	29,402	6.19%
BLOM GDR	9.45	3.62	28,299	7.35%
BLOM Listed	9.20	3.37	22,975	20.81%
Audi GDR	4.98	(0.40)	13,410	6.28%
Solidere "B"	5.98	(0.66)	12,191	4.09%
Byblos Pref. 09	72.00	(6.37)	312	1.51%
HOLCIM	15.30	0.00	46	3.14%
Byblos Pref. 08	76.00	0.00	-	1.60%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
May 2019	6.00	99.50	9.13
Mar 2020	6.38	97.13	9.59
Apr 2021	8.25	95.00	11.04
Oct 2022	6.10	88.25	10.15
Jun 2025	6.25	83.38	9.89
Nov 2026	6.60	81.88	10.04
Feb 2030	6.65	78.63	9.89
Apr 2031	7.00	78.38	10.15
Nov 2035	7.05	78.75	9.64
Mar 2037	7.25	79.25	9.71

Source: Byblos Bank Capital Markets

	Mar 18-22	Mar 11-15	% Change	February 2019	February 2018	% Change
Total shares traded	8,243,095	114,065	7,127	121,955,414	5,480,337	2,125
Total value traded	$41,055,351	$905,439	4,434	$569,916,249	$43,415,304	1,213
Market capitalization	$9.51bn	$9.45bn	0.57	$9.34bn	$11.65bn	(19.8)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Mar 15, 2019	Mar 22, 2019	% Change**
CDS 1-year*	698.4	626.32	(10.3)
CDS 3-year*	772.0	791.56	2.5
CDS 5-year*	746.3	794.38	6.5

*Source: ICE CMA; *mid-spread in bps **week-on-week*

CDX EM 30*	Mar 15, 2019	Mar 22, 2019	% Change***
CDS 5-year**	97.07	96.58	(0.5)

*Source: ICE CMA; * CDX Emerging Market CDS Index-Series 30*
***mid-spread in bps ***week-on-week*

Foreign direct investments up 13% to $2.2bn in first nine months of 2018

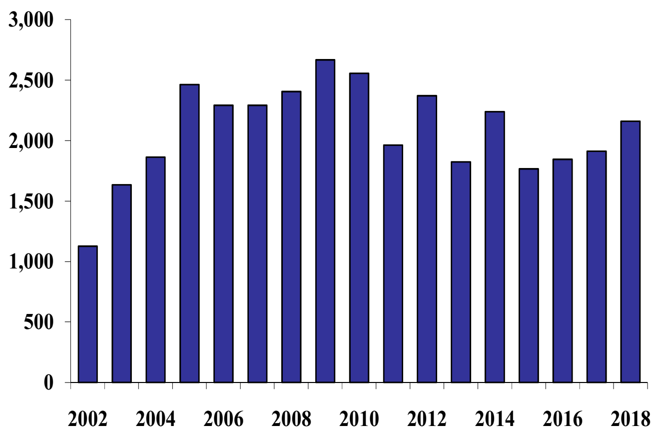
Figures released by Banque du Liban show that foreign direct investments (FDI) in Lebanon totaled $2.2bn in the first nine months of 2018, constituting an increase of 13% from $1.9bn in the first nine months of 2017. FDI inflows to Lebanon increased by 4.9% year-on-year to $783.7m in the first quarter of 2018 and by 45.2% annually to $736.7m in the second quarter. In contrast, they regressed by 2.6% year-on-year to $639.5m in the third quarter of 2018.

Further, FDI inflows to Lebanon in the first three quarters of 2018 reached their ninth highest level for the first nine months of a year between 2002 and 2018. FDI inflows to the country averaged $2.2bn during the first nine months of each year between 2008 and 2018, and reached a high of $2.7bn in the first nine months of 2009. Also, FDI inflows to Lebanon posted a compound annual growth rate of -1.1% between the first nine months of 2008 and the same period of 2018.

In parallel, FDI outflows from Lebanon amounted to $793.8m in the first nine months of 2018, down by 10.4% from $886.1m in the first nine months of 2017. FDI outflows from Lebanon totaled $289m in the first quarter, $294m in the second quarter, and $211m in the third quarter of 2018. In addition, FDI outflows from Lebanon in the covered period reached their sixth highest level for the first nine months of a year during the 2002-18 period. They averaged $809.4m during the first nine months of each year between 2008 and 2018, with a high of $1.4bn in the first nine months of 2013.

As such, net FDI inflows to Lebanon reached $1.4bn in the first nine months of 2018, constituting an increase of 33.3% from $1bn in the first nine months of 2017. Net FDI inflows to Lebanon constituted their eighth highest level for the first nine months of a year between 2002 and 2018.

FDI Inflows to Lebanon* ($USm)



**in the first nine months of each year*
Source: Banque du Liban, Byblos Research

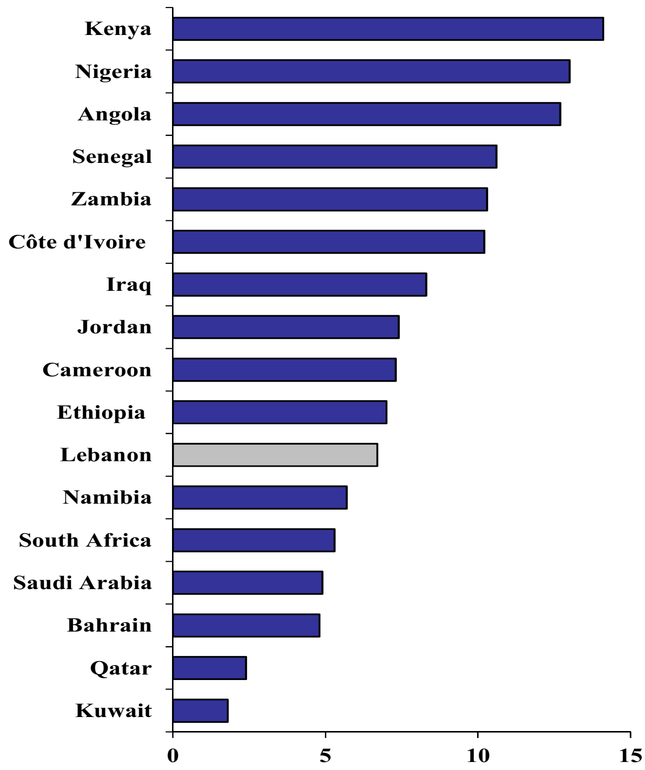
Lebanon's external debt outperforms emerging markets in February 2019

Figures issued by Citi Research indicate that Lebanon's external sovereign debt posted a return of 6.7% in February 2019, constituting, along with El Salvador, the 16th highest return among 49 emerging markets included in the Citi EM Sovereign Bond Index. Also, Lebanon's sovereign debt posted the 11th highest return among countries in the Middle East & Africa region in the covered month. Lebanon's sovereign debt return was higher than returns in Namibia (+5.7%), South Africa (+5.3%), Saudi Arabia (+4.9%), Bahrain (+4.8%), Qatar (+2.4%), and Kuwait (+1.8%) in February 2019. Lebanon outperformed the emerging markets' return of 1.9%, the 'B'-rated sovereigns' return of 2.7% and the speculative grade sovereigns' return of 2.3% during the covered month.

Further, Lebanon's sovereign debt posted a return of 6.8% in the first two months of 2019, constituting the 16th highest return in emerging markets during the covered period. Also, Lebanon's sovereign debt posted the 11th highest return in the Middle East & Africa region in the first two months of 2019. Lebanon's sovereign debt return was higher than returns in Namibia (+5.4%), South Africa (+4.9%), Bahrain (+4.7%), Saudi Arabia (+4.1%), Qatar (+1.6%), and Kuwait (+1.3%) in the covered period.

Lebanon outperformed the overall emerging markets' return of 4.9%, and the speculative grade sovereigns' return of 6.7%, but it underperformed the 'B'-rated sovereigns' return of 7.6% during the first two months of 2019.

External Debt Performance in Middle East & Africa in February 2019 (%)



Source: Citi Research, Byblos Research

Moody's Investors Service maintains 'stable' outlook on banking sector

Moody's Investors Service maintained its 'stable' outlook on Lebanon's banking system for the next 12 to 18 months, amid the agency's expectations that economic activity will pick up slightly and that deposit growth will be sufficient to allow the banks to finance the government and the economy. It noted that its outlook on the sector reflects the banks' stable operating environment, funding and liquidity, and government support.

The agency indicated that the formation of a new government in January 2019 provides the economy and the financial sector with some respite following months of investor and depositor uncertainty. However, it anticipated operating conditions to depend on the new government's implementation of significant fiscal and economic reforms in order to achieve long-term fiscal sustainability. It considered that the successful delivery on major reforms would improve the economy's growth outlook and narrow the government's fiscal deficit, which would help stabilize the banks' large exposure to the sovereign. It said that the ensuing increase in investor and depositor confidence would raise prospects of higher financial inflows and help reduce the risk premiums that banks pay for deposits. In contrast, it considered that the failure of the government to implement reforms will weigh on confidence and economic activity, and further compound the pressures on banks.

In parallel, Moody's noted that lending to the private sector contracted by 3% in 2018, following a growth rate of 5% in 2017, due to the political uncertainty that has delayed investment decisions, as well as to elevated interest rates. It forecast lending growth to be flat in the coming 12 to 18 months and to pick up from 2020 onwards. But it considered that demand for credit this year will be supported by the renewal of BdL's economic stimulus package that provides subsidized loans for housing and specific sectors.

In addition, Moody's expected deposit inflows to pick up from $5.6bn in 2018 to about $6.5bn in 2019, provided that the new government implements reforms that will support confidence. It anticipated that this would allow the banks to finance the country's fiscal and current account deficits, as well as to preserve economic and financial stability. However, it considered that banks may face challenges in attracting deposits in case of any adverse political developments. Still, it expected BdL to continue to help banks attract deposits through its financial engineering operations. It added that the Lebanese banking system proved to be resilient to political shocks that can cause sudden shifts in depositor sentiment. It added that BdL's elevated assets in foreign currency would act as a buffer against a period of slower financial inflows, short-term outflows and conversions to foreign currency.

Further, the agency expected the banks' sovereign exposure, which represented 55% of the banks' assets at the end of 2018, to be the main source of financial risk for the banks in the next 12 to 18 months, as it links the banks' creditworthiness to that of the government. Also, it anticipated the banks' loan quality to further deteriorate over the coming 12 to 18 months following several years of subdued economic growth.

Further, the agency forecast the banks' regulatory capital ratios to remain stable in the coming 12 to 18 months, and noted that banks already meet BdL's Basel III capital requirements of 13% for the end of 2018. Still, it viewed the banks' capital buffers as modest, given their high sovereign exposure, as well as the challenging operating environment in Lebanon. In parallel, it expected the sector's profitability to remain under pressure in coming quarters amid higher funding costs, limited new business opportunities and increased provisioning charges. It anticipated the sector's profitability to improve towards the end of 2019 in case the political environment improves.

Broad money supply up 1% in January 2019

Figures released by Banque du Liban show that money supply M1, which includes currency in circulation and demand deposits in Lebanese pounds, reached LBP10,488bn at the end of January 2019, constituting a decline of 10.1% from LBP11,661bn at the end of 2018 and an increase of 2% from LBP10,278bn at end-January 2018. Currency in circulation stood at LBP4,661bn at the end of January 2019, down by 6.9% from LBP5,008bn at end-2018, but up by 2.1% from LBP4,567bn at end-January 2018. Also, demand deposits in local currency stood at LBP5,826bn at the end of January 2019, down by 12.4% from end-2018 and up by 2% from end-January 2018.

In addition, money supply M2, which includes M1 and term deposits in Lebanese pounds, reached LBP75,056bn at the end of January 2019, constituting a decrease of 2.3% from LBP76,828bn at the end of 2018, and a decline of 5.8% from LBP79,712bn a year earlier. Term deposits in Lebanese pounds totaled LBP64,568bn at the end of January 2019, down by 0.9% from LBP65,167bn at end-2018 and by 7% from LBP69,434bn at end-January 2018.

Further, broad money supply M3, which includes M2, deposits in foreign currency and debt securities issued by the banking sector, reached LBP210,434bn at the end of January 2019, constituting a decline of 1.2% from LBP212,993bn at the end of 2018 and an increase of 0.7% from LBP208,966bn at end-January 2018. Deposits in foreign currency totaled LBP135,101bn at the end of January 2019, down by 0.6% from end-2018 and up by 4.8% from a year earlier. Also, debt securities issued by the banking sector amounted to LBP277.4bn at the end of January 2019, compared to LBP272.4bn at the end of 2018 and to LBP332.6bn at end-January 2018. In parallel, M3 regressed by LBP2,558bn in January 2019, due to a decline of LBP1,430bn in the net foreign assets of deposit-taking institutions, a decrease of LBP1,324bn in claims on the private sector, and a decline of LBP685.5bn in claims on the public sector, which were partly offset by an increase of LBP881.3bn in other net items.

Lebanon ranks 101st globally, last in Arab world in terms of energy sector performance

The World Energy Council ranked Lebanon in 101st place among 125 countries globally and in last place among 13 Arab countries on its Energy Trilemma Index for 2018. Lebanon also came in last place among 35 upper middle-income countries (UMICs) included in the survey. Lebanon's global rank declined by six spots from 95th place in the 2017 survey, while its regional rank was unchanged year-on-year.

The index measures a country's ability to provide a secure, affordable and environmentally sustainable energy system. It assesses the performance of a country's energy sector based on three dimensions that are Energy Security, Energy Equity and Environmental Sustainability. The index assigns each country a rating on a scale from A to D on each dimension, with an 'A' rating reflecting the best performance. As such, a country's overall rating is a combination of its performance on each dimension, where the best performing country across all three dimensions receives a 'AAA' rating. In contrast, lower ratings point to an imbalance in a country's energy sector performance, which reflects current or future challenges in its energy policy.

Energy Trilemma Index for 2018
Arab Countries' Rankings & Ratings

	Rank	Rating
UAE	36	AAD
Qatar	39	BAD
Kuwait	45	BAD
Saudi Arabia	47	BAD
Bahrain	50	CAD
Egypt	55	CBA
Algeria	64	CBB
Tunisia	66	DBB
Oman	67	CAD
Morocco	68	DBB
Iraq	77	CBC
Jordan	86	DBC
Lebanon	**101**	**DBB**

Source: World Energy Council, Byblos Research

Globally, the performance of Lebanon's energy sector was better than the energy sector performance of Angola, Pakistan and Nicaragua, and worse than the energy sector performance of Namibia, Bolivia and Guatemala. Lebanon received a rating of 'DBB', compared to a rating of 'DBC' in the 2017 survey, which reflects the country's improved performance in environmental sustainability and good performance in energy equity, despite its poor outcome in energy security. Further, the World Energy Council noted that Lebanon is on track in meeting its renewable energy target of 12% of its total energy mix by 2020. It added that both the private and public sectors are focused on increasing investments in this area.

In parallel, Lebanon ranked in 66th place globally, in 18th place among UMICs and in fifth place regionally on the Environmental Sustainability indicator, which measures a country's ability to mitigate the depletion of natural resources and the degradation of the environment. Globally, Lebanon ranked ahead of Georgia, Ecuador and Nicaragua, while it came behind Algeria, Lithuania and Mauritania. Also, Lebanon came behind only Egypt, Tunisia, Morocco and Algeria regionally.

Further, Lebanon came in 76th place globally, in 21st place among UMICs and in last place regionally on the Energy Equity indicator, which assesses a country's ability to provide access to reliable and affordable energy for domestic and commercial use. Globally, Lebanon ranked ahead of the Dominican Republic, Peru and Venezuela, while it came behind Georgia, Moldova, and Thailand. Also, Lebanon ranked in 124th place globally, ahead of only Nepal, while it came in last place among UMICs and Arab countries on the Energy Security indicator, which measures a country's ability to meet current and future energy demand.

In addition, the World Energy Council assessed a country's "contextual energy sector performance", which reflects the authorities' ability to effectively develop and implement a country's energy policy and achieve targeted energy goals. It ranked Lebanon in 97th place on this indicator, ahead of Paraguay, Swaziland and Côte d'Ivoire, and behind Argentina, Sri Lanka and Tanzania.

Revenues through Port of Beirut at $20m in January 2019

Figures released by the Port of Beirut show that the port's overall revenues reached $20.2m in January 2019, constituting a decline of 6% from $21.5m in the same month of 2018 and relative to receipts of $17.5m in December 2018. The Port of Beirut handled 582,000 tons of freight in the covered month, down by 8.9% from 639,000 tons in January 2018. Imported freight amounted to 535,000 tons in January 2019 and accounted for 92% of the total, while the remaining 47,000 tons, or 8%, consisted of export cargo. A total of 129 ships docked at the port in the first month of 2019, down by 15.7% from 153 in January 2018.

In parallel, revenues generated through the Port of Tripoli reached $1.6m in January 2019, constituting a decrease of 22.6% from $2.1m in January 2018 and compared to receipts of $1.8m in December 2018. The Port of Tripoli handled 97,573 tons of freight in the covered month, constituting a decline of 40.4% from 163,760 tons in January 2018. Imported freight amounted to 72,730 tons and accounted for 74.5% of the total, while the remaining 24,843 tons, or 25.5%, were export cargo. A total of 40 vessels docked at the port in January 2019, constituting a drop of 16.7% from 48 ships in January 2018.

Banque du Liban reiterates commitment to exchange rate stability

In the monthly meeting between Banque du Liban (BdL), the Banking Control Commission of Lebanon (BCCL) and the Association of Banks in Lebanon (ABL), Governor Riad Salamé indicated that monetary conditions in the country are stable, compared to the volatility in the Lebanese Eurobond market that has been negatively affected by the government's lack of action regarding the reforms it pledged at the CEDRE conference. But he noted that the Cabinet is expected to start discussing reforms in the electricity sector.

Further, Governor Salamé pointed out that macroeconomic indicators for the first two months of 2019 were not favorable, as the deficit persisted in the fiscal and external balances. He added that the balance of payments posted a deficit in February 2019, but it was narrower than the $1.4bn deficit registered in January.

In parallel, Governor Salamé reiterated BdL's commitment to the policy of exchange rate stability. He added that BdL will continue with the mechanism that it has been using in the monetary and interest rate markets until the economy recovers. He added that the slowdown in the banks' lending activity persisted during the first two months of 2019, and hoped that lending would recover with the improvement in political conditions and the start of the Cabinet's work. Further, he noted that the available funds from BdL, Banque de l'Habitat and some commercial banks are sufficient to meet additional demand for subsidized housing loans, despite the increase in interest rates on mortgages.

Further, Governor Salamé indicated that he will discuss with the Minister of Finance the prospects of a new Eurobond issuance. He added that BdL does not have details about Qatar's announcement to purchase $500m worth of Lebanese Eurobonds nor about the purchasing mechanism. Also, he indicated that commercial demand for foreign currency is determined by the market and depends on the relationship between banks and importers. He pointed out that importers settle their import bills in foreign currency, while imported products are sold in Lebanese pounds in the local market.

In addition, the BdL and ABL indicated that Lebanese banks are being more flexible when dealing with clients facing difficulties in repaying their debt before settling this matter in the courts, due to the challenging economic conditions. Finally, the BdL and ABL agreed that the ongoing political tensions continue to weigh heavily on the banks' lending activity, deposit growth, the balance of payments, as well as on the business environment amid subdued new projects and investments.

Launch of initiative to support local economy

The Beirut Traders Association launched the "Think about Lebanon" initiative, which is a national campaign to support the Lebanese economy. The campaign aims to raise awareness among the Lebanese people about the challenges that the economy is facing, and to encourage them to use their financial resources locally. As such, the initiative calls on all Lebanese to support the economy by increasing local consumption and investment, as well as prioritizing Lebanese nationals for employment opportunities in the country, which will help reduce emigration. In turn, this would help develop internal trade, domestic tourism, and the industrial and agricultural sectors, as well as support the labor force. In addition, it called on suppliers and businesses to further attract local demand by lowering their retail prices and by offering promotions, which would stimulate the economic cycle.

Number of real estate transactions down 20% in first two months of 2019

Figures released by the Ministry of Finance indicate that there were 7,859 real estate transactions in the first two months of 2019, constituting a decrease of 20% from 9,819 deals in the first two months of 2018. In comparison, there were 9,603 real estate transactions in the same period of 2017 and 9,460 real estate deals in the first two months of 2016. There were 1,469 real estate transactions in the Baabda area in the first two months of 2019, representing 18.7% of the total. The North followed with 1,302 transactions (16.6%), then the South region with 966 deals and the Zahlé area with 963 deals (12.3 each%), the Metn district with 855 transactions (10.9%), the Keserwan region with 788 transactions (10%), the Nabatieh area with 645 deals (8.2%), and Beirut with 564 deals (7.2%).

Also, the aggregate value of real estate transactions reached $1.06bn in the first two months of 2019 and decreased by 19.7% from $1.32bn in the first two months of 2018. In comparison, the value of real estate deals grew by 3.4% in the same period of 2018 and dropped by 9.8% in the first two months of 2017. Further, the value of real estate transactions in Beirut reached $372m and accounted for 35.2% of the total in the first two months of 2019. The Metn district followed with $182.8m (17.3%), then the Baabda region with $177.1m (16.8%), the Keserwan area with $104.7m (9.9%), the South with $80.5m (7.6%), the North with $70.9m (6.7%), the Zahlé area with $34.6m (3.3%), and the Nabatieh region with $26.6m (2.5%).

In parallel, the average value per real estate transaction was $134,375 in the first two months of 2019, up by a marginal 0.3% from an average of $133,979 in the same period of 2018 and relative to $132,473 in the first two months of 2017. Further, there were 149 real estate transactions executed by foreigners in the first two months of 2019, down by 10.8% from 167 deals in the same period of 2018 and compared to 171 deals in the first two months of 2017. The number of real estate deals executed by foreigners accounted for 1.9% of total real estate transactions in the first two months of 2019 compared to 1.7% of deals in the same period of 2018 and to 1.8% of deals in the first two months of 2017. Further, 24.8% of the real estate transactions executed by foreigners were in the Baabda district, followed by Beirut and the South (17.4% each), the Keserwan area (13.4%), the Metn region (10.7%), the North (8.7%), the Zahlé area (5.4%), and the Nabatieh region (2%). Also, Syrian nationals accounted for 6% of the total value of real estate transactions executed by foreigners in February 2019, followed by Tunisian citizens (3.6%), Iraqis (3.1%), Qataris (2.5%), U.S. citizens (1.1%) and Canadian nationals (0.8%).

Consumer Price Index up 3.2% in first two months of 2019

The Central Administration of Statistics' Consumer Price Index increased by 3.2% in the first two months of 2019 from the same period of 2018, compared to a growth of 5.4% in the first two months of 2018. Also, the CPI increased by 3.1% in February 2019 from the same month of 2018. The prices of clothing & footwear grew by 6.8% in February 2019 from the same month of 2018, followed by the prices of food & non-alcoholic beverages (+6.5%), recreation & entertainment costs (+5.3%), the cost of education (+5.2%), the prices of furnishings & household equipment (+5.1%), the prices of water, electricity, gas & other fuels (+4%), actual rents (+3.8%), imputed rents (+2.9%), miscellaneous goods & services costs (+2.5%), prices at restaurants & hotels (+1.7%), healthcare costs (+1.6%), and the prices of alcoholic beverages & tobacco (+1%). In contrast, transportation costs declined by 2.5% year-on-year in February 2019, and communication costs regressed by 0.2%. Also, the distribution of actual rents shows that old rents grew by 6% annually in February 2019, while new rents increased by 2.3% year-on-year.

Further, the CPI grew by 0.2% in February 2019 from the preceding month compared to a month-on-month decline of 0.7% in January 2019. The cost of water, electricity, gas & other fuels increased by 1.7% month-on-month in February 2019, followed by transportation costs (+1.3%), the prices of furnishings & household equipment (+1.2%), actual rents and the cost of recreation & entertainment (+0.4% each), imputed rents (+0.3%), and costs of miscellaneous goods & services and prices at restaurants & hotels (+0.2% each). In contrast, the prices of clothing & footwear regressed by 4.2% month-on-month in February 2019, followed by healthcare costs (-1.1%), and the cost of food & non-alcoholic beverages (-0.1%). The prices of alcoholic beverages & tobacco, communication costs and the cost of education were unchanged in the covered month. The CPI increased by 1.1% month-on-month in February 2019 in Beirut, by 0.6% in Nabatieh, by 0.2% in the North, and by 0.1% in each of the Bekaa and the South, while it regressed by 0.1% in Mount Lebanon from the previous month. In parallel, the Fuel Price Index increased by 3.8% month-on-month in February 2019, while the Education Price Index was unchanged in the covered month.

Occupancy rate at Beirut hotels at 60%, room yields up 36% in January 2019

EY's benchmark survey of the hotel sector in the Middle East indicated that the average occupancy rate at four- and five-star hotels in Beirut was 59.8% in January 2019 relative to 49.1% in January 2018, and compared to an average rate of 64% in 14 Arab markets included in the survey. The occupancy rate at Beirut hotels was the sixth lowest in the region in the first month of the year, while it was the lowest in January 2018. The occupancy rate at hotels in Beirut increased by 10.7% in January 2019, while the average occupancy rate in Arab markets improved by 0.3% in the covered month.

The average rate per room at Beirut hotels was $197 in January 2019, up by 11.4% from $177 in January 2018, and constituting the second highest rate in the region after Dubai ($280). The average rate per room in Beirut was higher than the regional average of $156.1 that regressed by 6.7% from January 2018.

Further, revenues per available room (RevPAR) were $118 in Beirut in January 2019 compared to $87 in the first month of 2018, ranking the capital in the second place in the region behind Dubai ($235). Beirut's RevPAR grew by 35.6% year-on-year and posted the largest increase regionally. Dubai posted the highest occupancy rate in the region at 83.8%, as well as the highest average rate per room at $280 and RevPAR at $235 in the first month of 2019.

Hotel Sector Performance in January 2019

	Occupancy Rate (%)	RevPAR (US$)	RevPAR % change
Dubai	83.8	235	(14.5)
Beirut	**59.8**	**118**	**35.6**
Kuwait City	61.1	115	(20.0)
Ras Al Khaimah	67.2	112	(6.4)
Riyadh	62.2	102	(24.2)
Abu Dhabi	83.3	92	5.2
Jeddah	49.8	90	(7.8)
Muscat	57	86	2.9
Cairo City	75.9	84	10.3
Manama	52.3	82	(3.8)
Amman	54.6	76	2.0
Makkah	70.9	75	(2.7)
Madina	56.6	69	(28.9)
Doha	62.1	69	0.6

Source: EY, Byblos Research

Coincident Indicator down 4.4% year-on-year in January 2019

Banque du Liban's Coincident Indicator, an index of economic activity in Lebanon, reached 295.9 points in January 2019 compared to 300.7 in December 2018 and 309.4 in January 2018. The Coincident Indicator, an average of 8 weighted economic indicators, declined by 1.6% month-on-month and by 4.4% year-on-year in January 2019. The indicator averaged 306.6 in the 12 months ending January 2019, compared to an average of 307.7 in the 12-month period ending December 2018 and to an average of 306.9 in the 12 months ending January 2018. As a result, the 12-month average coincident indicator declined marginally by 0.4% month-on-month, while it was nearly unchanged year-on-year. In parallel, the indicator regressed 14 times and improved 12 times on a monthly basis in the month of January since 1993. It averaged 249.5 points in 2010, 255.7 points in 2011, 256.6 points in 2012, 264.7 points in 2013, 273.2 points in 2014, 278.6 points in 2015, 289.5 points in 2016, 305.9 points in 2017 and 307.7 points in 2018.

Life premiums up 4% to $541.5m in 2018

The annual survey by *Al-Bayan* magazine of the insurance sector in Lebanon indicates that total life premiums generated by 34 providers of life insurance in the Lebanese market reached $541.5m in 2018, constituting a rise of 3.9% from $521m in 2017, and compared to increases of 4.3% in 2017, 6% in 2016, and 6.2% in 2015. Life premiums generated in the Lebanese market totaled $471.1m in 2015 and $499.2m in 2016.

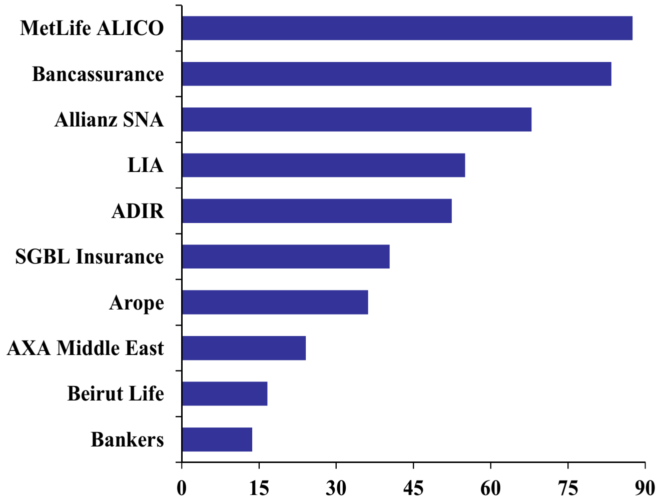
MetLife ALICO maintained its market lead with $87.6m in life premiums, equivalent to a 16.2% market share in 2018 relative to a share of 17.8% in 2013. It was followed by Bancassurance with $83.4m for a market share of 15.4%, Allianz SNA with $67.9m (12.5%), LIA with $55m (10.2%), and ADIR with $52.4m (9.7%) as the top five providers of life insurance in Lebanon.

In parallel, 19 life insurance providers posted increases in their premiums last year, with 10 firms registering double-digit growth rates and the remaining nine companies posting single-digit increases. Also, 14 firms saw a decline in their life premiums, while the premiums of one firm were unchanged year-on-year. Further, seven out of the top 10 life insurers posted increases in their premiums in 2018.

Byblos Bank's insurance affiliate ADIR registered a 6% increase in life premiums, posting the seventh best performance among the top 10 providers of life insurance. The composition of the top 10 insurers was unchanged from 2017. Further, SGBL Insurance improved by one spot to sixth place in 2018, while Arope Insurance regressed by one notch to seventh place.

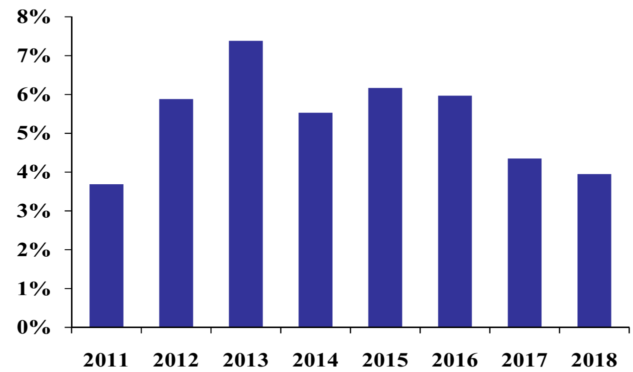
The survey shows that the top 10 providers of life insurance in Lebanon accounted for 88.1% of the life insurance market, while the top 20 firms generated 97.6% of life premiums in 2018. Further, the top five life insurers in Lebanon accounted for 64% of the market in 2018 compared to 64.7% in 2017 and 64.2% in 2016. Their premiums totaled $346.3m in 2018, compared to $337.1m in 2017 and $320m in 2016.

Life Premiums of the Top 10 Insurers in 2018 (US$m)



Source: Al-Bayan, Byblos Research

Growth in Life Premiums (%)



Source: Al-Bayan, Byblos Research

Chalhoub Group and Pearl Brands to merge retail operations

The Dubai-based Chalhoub Group agreed to merge its two retail operations in Lebanon, the Luxury Development Company sal (LDC) and the Beauty Retail Company sal (BRC), with the Lebanon-based Pearl Brands sal. The combined entity will operate under the Pearl Brands name and will have 35 points-of-sales in Lebanon. It will offer a diversified portfolio of international brands of jewelry, as well as of fashion and beauty products. The merger is anticipated to help the two retailers address the challenges in the Lebanese market, and to allow them to capitalize on any market recovery.

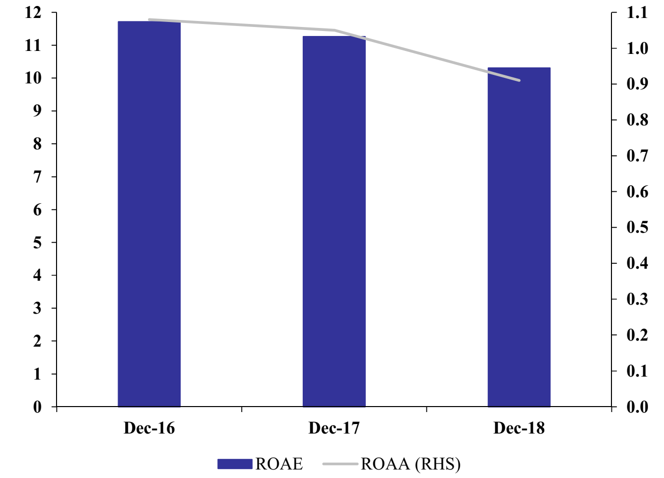
Established in 1955, the Chalhoub Group is a distributor and retailer of perfumes and cosmetics in the Middle East region. The Group manages a portfolio of international brands, such as Carolina Herrera, Céline, Lacoste, Marc Jacobs, Michael Kors and Tory Burch, among other brands. Established in 1935 in Lebanon, Pearl Brands, formerly known as G. Zahar & Co, is a retailer of fashion, apparel, jewelry and gifts that has over 23 retail outlets across Lebanon. Its porfolio of brands includes Zahar Kids, Zahar Lingerie, L'Occitane, Faces, Oliviers, MOA and Culti.

Net income of top 16 banks down 5.5% to $2.3bn in 2018, ROAA at 0.91% and ROAE at 10.31%

The unaudited consolidated net profits of the Alpha Group of banks reached $2.27bn in 2018, constituting a drop of 5.5% from net earnings of $2.4bn in 2017. The Alpha Group consists of 16 banks with deposits in excess of $2bn each. Aggregate net operating income regressed by 4% to $5.65bn in 2018. The banks' net interest income grew by 10.5% to $4.5bn, while their net fees & commissions decreased by 0.5% to $907m. In addition, net gains on financial assets at fair value decreased by 35% to $385.6m in 2018, with net interest income from financial assets declining by 56.2% to $124.1m and net profits on foreign exchange operations decreasing by 3.6% to $123.6m. Also, net gains on financial investments dropped by 90% to $20.8m in 2018. Non-interest income accounted for 23.6% of total income in 2018, down from 32.3% in 2017; with net fees & commissions representing 63.3% of non-interest income, up from 43.6% in 2017. Also, the net interest spread was 1.87% in 2018 relative to 1.92% in 2017.

In parallel, total operating expenditures declined by 4.9% to $2.96bn in 2018, with staff expenses regressing by 0.5% to $1.7bn and administrative & other operating expenditures decreasing by 2.2% to $1.1bn. Further, the cost-to-income ratio was 48.7% in 2018, up from 48.1% in 2017. The banks' return on average assets was 0.91% in 2018 relative to 1.05% in 2017, while their return on average equity was 10.31% in 2018 compared to 11.26% in 2017.

Profitability Metrics of Top 16 Banks (%)



Source: Bankdata Financial Services, Byblos Research

The banks' aggregate assets reached $261.5bn at the end of 2018, constituting an increase of 11.3% from end-2017. Net loans & advances to customers totaled $63.4bn, down by 4.6% from end-2017; while credit extended to related parties regressed by 10.1% from end-2017 to $488.5m at the end of 2018. Also, customer deposits stood at $185.3bn at the end of 2018, and increased by 2.5% from end-2017; while deposits from related parties totaled $2.96bn at end-2018, down by 18.1% from end-2017. The banks' shareholders equity reached $22bn at the end of 2018 and grew by a marginal 0.3% from end-2017.

In addition, the banks' loans-to-deposits ratio decreased from 36.3% at the end of 2017 to 33.9% at end-2018. The loans-to-deposits ratio in local currency was 28% compared to 28.8% at end-2017, while the ratio in foreign currency was 36.1% at the end of 2018 relative to 39.3% a year earlier. Also, the primary liquidity-to-assets ratio was 46.5% at the end of 2018, up from 40.6% at end-2017. In addition, the banks' gross non-performing loans-to-gross loans ratio increased from 7.63% at end-2017 to 8.93% at the end of 2018. Further, the loan-loss reserves on non-performing loans covered 62.1% of non-performing loans at end-2018, up from a coverage of 60.8% at end-2017. The ratio of collective provisions-to-net loans decreased from 1.5% at the end of-2017 to 1.33% at end-2018.

Ratio Highlights

(in % unless specified)	2016	2017	2018	Change*
Nominal GDP ($bn)	51.2	53.4	56.1	
Public Debt in Foreign Currency / GDP	54.9	56.9	59.7	2.82
Public Debt in Local Currency / GDP	91.3	92.0	92.1	0.10
Gross Public Debt / GDP	146.2	149.0	151.9	2.92
Total Gross External Debt / GDP**	182.6	182.4	183.3	0.90
Trade Balance / GDP	(31.5)	(31.3)	(30.4)	1.11
Exports / Imports	15.6	14.5	14.8	0.25
Fiscal Revenues / GDP	19.4	21.8	21.2	(0.57)
Fiscal Expenditures / GDP	29.0	28.8	32.1	3.29
Fiscal Balance / GDP	(9.6)	(7.0)	(11.0)	(3.97)
Primary Balance / GDP	0.04	2.7	(0.5)	-
Gross Foreign Currency Reserves / M2	62.2	68.2	63.8	(4.39)
M3 / GDP	259.2	259.6	252.1	(7.55)
Commercial Banks Assets / GDP	398.7	411.8	445.1	33.32
Private Sector Deposits / GDP	317.1	315.9	310.9	(4.97)
Private Sector Loans / GDP***	111.6	111.8	105.9	(5.84)
Private Sector Deposits Dollarization Rate	65.8	68.7	70.6	1.90
Private Sector Lending Dollarization Rate	72.6	68.6	69.2	0.57

**change in percentage points 18/17*
***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 *** in January 2018, Lebanese banks started reporting their financials based on international accounting standard IFRS 9, and revised the 2017 figures accordingly*
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	Mar 2017	Feb 2018	Mar 2018	Change**	Risk Level
Political Risk Rating	56.5	55.0	55.5	▲	High
Financial Risk Rating	33.0	33.0	33.0	►◄	Moderate
Economic Risk Rating	27.5	28.5	28.5	▼	High
Composite Risk Rating	58.5	58.25	58.5	►◄	High

MENA Average*	Mar 2017	Feb 2018	Mar 2018	Change**	Risk Level
Political Risk Rating	57.9	58.2	58.0	▼	High
Financial Risk Rating	38.4	37.9	38.1	▲	Low
Economic Risk Rating	29.6	31.4	31.4	▼	Moderate
Composite Risk Rating	63.0	63.8	63.7	▼	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 Investors Service	Caa1	NP	Stable	Caa1		Stable
Fitch Ratings	B-	B	Negative	B-		Negative
S&P Global Ratings	B-	B	Negative	B-	B	Negative
Capital Intelligence Ratings	B	B	Negative	B	B	Negative

Source: Rating agencies

Banking Ratings	Outlook
Moody's	Stable

Source: Moody's Investors Service

Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut – Lebanon
Tel: (961) 1 338 100
Fax: (961) 1 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com

BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605 Riad El Solh - Beirut 1107 2811- Lebanon
Phone: (+ 961) 1 335200
Fax: (+ 961) 1 339436

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60, Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457/8/9 - 2560017/9
E-mail: erbilbranch@byblosbank.com.lb

Sulaymaniyah Branch, Kurdistan, Iraq
Salem street, Kurdistan Mall - Sulaymaniyah
Phone: (+ 964) 773 042 1010 / (+ 964) 773 041 1010

Baghdad Branch, Iraq
Al Karrada - Salman Faeq Street
Al Wahda District, No. 904/14, Facing Al Shuruk Building
P.O.Box: 3085 Badalat Al Olwiya – Iraq
Phone: (+ 964) 770 6527807 / (+ 964) 780 9133031/2
E-mail: baghdadbranch@byblosbank.com.lb

Basra Branch, Iraq
Intersection of July 14th, Manawi Basha Street, Al Basra – Iraq
Phone: (+ 964) 770 4931900 / (+ 964) 770 4931919
E-mail: basrabranch@byblosbank.com.lb

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Al Reem Island - Sky Tower - Office 2206
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336050 - 2 6336400
Fax: (+ 971) 2 6338400
E-mail: abudhabirepoffice@byblosbank.com.lb

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryan Street - Area 0002
Yerevan - Republic of Armenia
Phone: (+ 374) 10 530362 Fax: (+ 374) 10 535296
E-mail: infoarm@byblosbank.com

NIGERIA

Byblos Bank Nigeria Representative Office
161C Rafu Taylor Close - Off Idejo Street
Victoria Island, Lagos - Nigeria
Phone: (+ 234) 706 112 5800
(+ 234) 808 839 9122
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

BELGIUM

Byblos Bank Europe S.A.
Brussels Head Office
Rue Montoyer 10
Bte. 3, 1000 Brussels - Belgium
Phone: (+ 32) 2 551 00 20
Fax: (+ 32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

UNITED KINGDOM

Byblos Bank Europe S.A., London Branch
Berkeley Square House
Berkeley Square
GB - London W1J 6BS - United Kingdom
Phone: (+ 44) 20 7518 8100
Fax: (+ 44) 20 7518 8129
E-mail: byblos.london@byblosbankeur.com

FRANCE

Byblos Bank Europe S.A., Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+33) 1 45 63 10 01
Fax: (+33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

CYPRUS

Limassol Branch
1, Archbishop Kyprianou Street, Loucaides Building
P.O.Box 50218
3602 Limassol - Cyprus
Phone: (+ 357) 25 341433/4/5 Fax: (+ 357) 25 367139
E-mail: byblosbankcyprus@byblosbank.com.lb

ADIR INSURANCE

Dora Highway - Aya Commercial Center
P.O.Box: 90-1446
Jdeidet El Metn - 1202 2119 Lebanon
Phone: (+ 961) 1 256290
Fax: (+ 961) 1 256293