

LEBANON THIS WEEK

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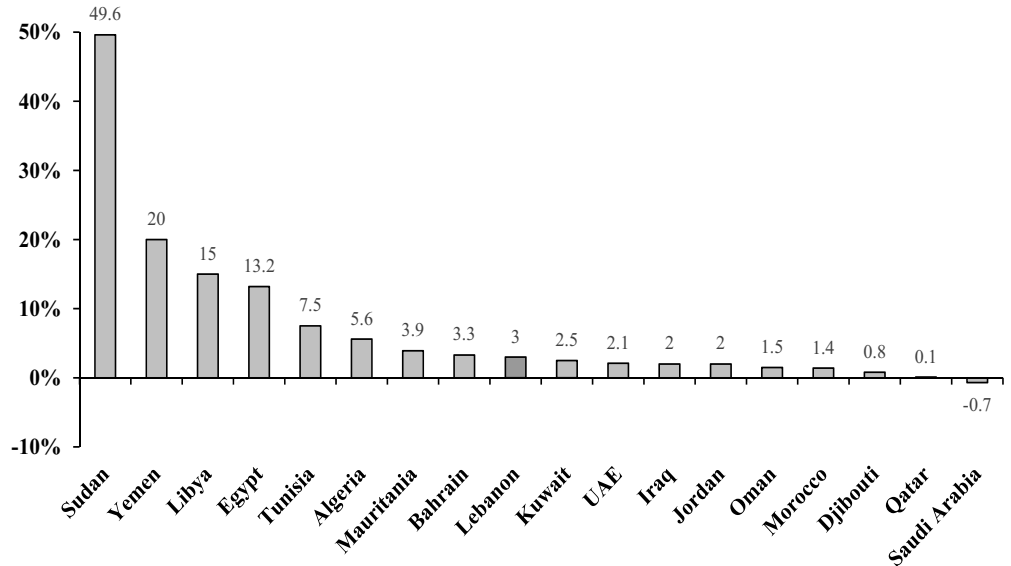
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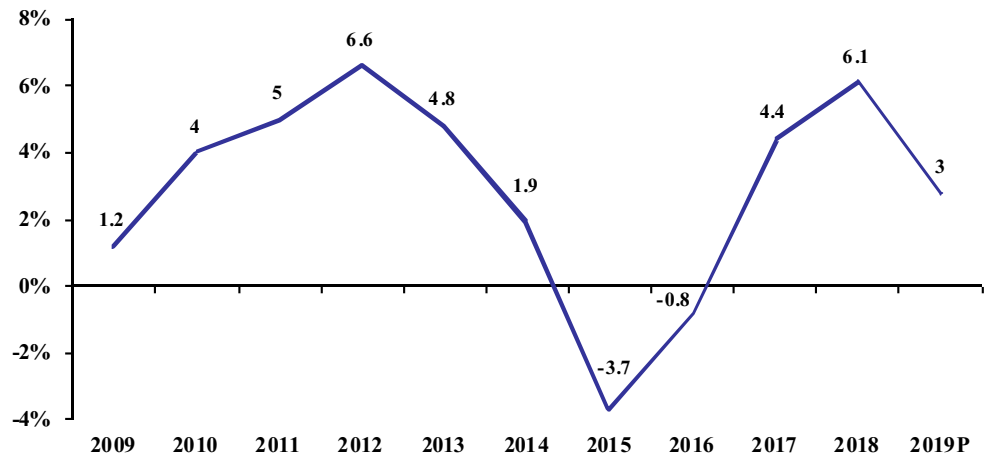
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Charts of the Week

Projected Average Inflation Rates in Arab Countries in 2019



Average Annual Inflation Rate in Lebanon



Source: International Monetary Fund, Institute of International Finance, Central Administration of Statistics, Byblos Bank

Quote to Note

"Fiscal sustainability may be better served by bolstering growth."

Global investment bank Goldman Sachs, on the expected negative impact on Lebanon's fiscal balance and economic growth from increasing the tax burden

Number of the Week

29.2%: Size of the informal economy in Lebanon as a percentage of GDP, according to the International Monetary Fund

Lebanon in the News

\$m (unless otherwise mentioned)	2018	Jan-Mar 2018	Jan-Mar 2019	% Change*	Mar-18	Feb-19	Mar-19
Exports	2,952	814	856	5.14	283	300	320
Imports	19,980	4,809	4,949	2.90	1,669	1,364	2,181
Trade Balance	(17,028)	(3,995)	(4,093)	2.45	(1,387)	(1,064)	(1,861)
Balance of Payments	(4,823)	(198)	(2,005)	911.5	(364)	(550)	(75)
Checks Cleared in LBP	22,133	5,529	5,475	(1.0)	1,876	1,782	1,837
Checks Cleared in FC	44,429	11,296	9,347	(17.3)	3,865	3,072	3,230
Total Checks Cleared	66,562	16,825	14,822	(11.9)	5,741	4,854	5,067
Fiscal Deficit/Surplus**	(5,809)	(865)	-	-	(486)	-	-
Primary Balance**	(491)	(330)	-	-	(223)	-	-
Airport Passengers***	8,842,442	1,728,816	1,749,693	1.21	626,074	524,292	618,617
Consumer Price Index****	6.1	5.4	3.5	(188bps)	5.4	3.1	4.1

\$bn (unless otherwise mentioned)	Dec-17	Mar-18	Dec-18	Jan-19	Feb-19	Mar-19	% Change*
BdL FX Reserves	35.81	34.65	32.51	31.93	31.27	31.09	(10.27)
In months of Imports	18.57	20.76	20.72	22.74	22.93	14.26	(31.32)
Public Debt	79.53	81.87	85.14	85.32	85.25	86.22	5.31
Bank Assets	219.86	224.57	249.48	248.88	250.24	252.75	12.55
Bank Deposits (Private Sector)	168.66	171.18	174.28	172.11	171.97	172.52	0.79
Bank Loans to Private Sector	59.69	59.03	59.39	58.14	57.38	57.33	(2.88)
Money Supply M2	52.51	53.65	50.96	49.79	50.23	50.40	(6.06)
Money Supply M3	138.62	139.64	141.29	139.59	139.86	140.20	0.40
LBP Lending Rate (%)	8.09	8.95	9.97	10.41	10.55	10.58	163bps
LBP Deposit Rate (%)	6.41	6.64	8.30	8.93	9.16	8.75	211bps
USD Lending Rate (%)	7.67	7.89	8.57	8.89	8.91	9.31	142bps
USD Deposit Rate (%)	3.89	4.04	5.15	5.58	5.62	5.69	165bps

*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
Solidere "A"	5.49	10.24	340,470	6.54%
Solidere "B"	5.37	6.97	52,696	4.16%
Audi Listed	4.00	0.00	38,060	19.04%
BLOM Listed	8.00	(5.88)	26,300	20.49%
BLOM GDR	7.70	0.00	16,335	6.78%
Audi GDR	4.00	0.00	4,474	5.71%
Byblos Common	1.21	(3.20)	2,000	8.15%
HOLCIM	14.30	2.14	100	3.32%
Byblos Pref. 08	69.00	0.00	-	1.64%
Byblos Pref. 09	72.00	0.00	-	1.72%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Mar 2020	6.38	97.70	9.70
Apr 2021	8.25	93.80	12.13
Oct 2022	6.10	84.50	11.92
Jun 2025	6.25	78.75	11.22
Nov 2026	6.60	77.25	11.18
Feb 2030	6.65	73.38	10.93
Apr 2031	7.00	74.00	10.97
May 2033	8.20	83.72	10.44
Nov 2035	7.05	73.50	10.46
Mar 2037	7.25	73.88	10.53

Source: Byblos Bank Capital Markets

	Jun 10-14	Jun 3-7	% Change	May 2019	May 2018	% Change
Total shares traded	481,022	111,473	331.5	2,118,259	3,629,854	(41.6)
Total value traded	\$2,513,656	\$965,584	160.3	\$11,598,742	\$28,779,512	(59.7)
Market capitalization	\$8.40bn	\$8.46bn	(0.72)	\$8.51bn	\$10.97bn	(22.4)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Jun 7, 2019	Jun 14, 2019	% Change**
CDS 1-year*	878.89	904.76	2.9
CDS 3-year*	916.85	946.12	3.2
CDS 5-year*	891.08	913.35	2.5

CDX EM 30*	Jun 7, 2019	Jun 14, 2019	% Change***
CDS 5-year**	95.98	96.06	0.1

Source: ICE CMA; * CDX Emerging Market CDS Index-Series 30

mid-spread in bps *week-on-week

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

Foreign direct investment at \$2.9bn in 2018, equivalent to 5% of GDP

Figures released by the United Nations Conference on Trade and Development (UNCTAD) show that foreign direct investments (FDI) in Lebanon totaled \$2.88bn in 2018, constituting an increase of 14.2% from \$2.52bn in 2017 and representing the third annual rise since 2010. In comparison, FDI inflows to Arab economies regressed by a marginal 0.4% year-on-year, while FDI flows to West Asia decreased by 3.2% in 2018.

The UNCTAD figures for Lebanon are based on the official figures issued by Banque du Liban (BdL). According to BdL's methodology, the sources of FDI figures in Lebanon consist of public sector data, various indicators that estimate non-resident real estate investments, banking sector statistics, as well as statistics from administrative records on the acquisition of real estate by foreigners. BdL's latest monthly data on FDI flows is for September 2018.

FDI inflows to Lebanon in 2018 were slightly higher than the annual average flows of \$2.84bn during the 2010-17 period and came 34.2% lower than the peak of \$4.38bn posted in 2009. Lebanon was the sixth largest recipient of FDI among 18 Arab countries and the fifth largest recipient among 12 countries in West Asia in 2018. Also, it was the 56th largest FDI recipient globally among 138 economies with a nominal GDP of \$10bn or more. FDI inflows to Lebanon accounted for 9.4% of total FDI in Arab countries last year relative to a share of 8.2% in 2017. They also represented 9.8% of FDI flows to West Asia in 2018 compared to a share of 8.9% in the previous year.

Further, FDI inflows to Lebanon were equivalent to 5.1% of GDP in 2018, up from 4.7% of GDP in 2017, and compared to a peak of 15.5% of GDP in 2005. FDI inflows to Lebanon were the second highest in the Arab world in 2018, behind only Djibouti (12.1% of GDP). Also, FDI inflows to Lebanon as a percentage of GDP were the 22nd highest in 2018 among 127 countries with positive FDI inflows and a nominal GDP of \$10bn or more.

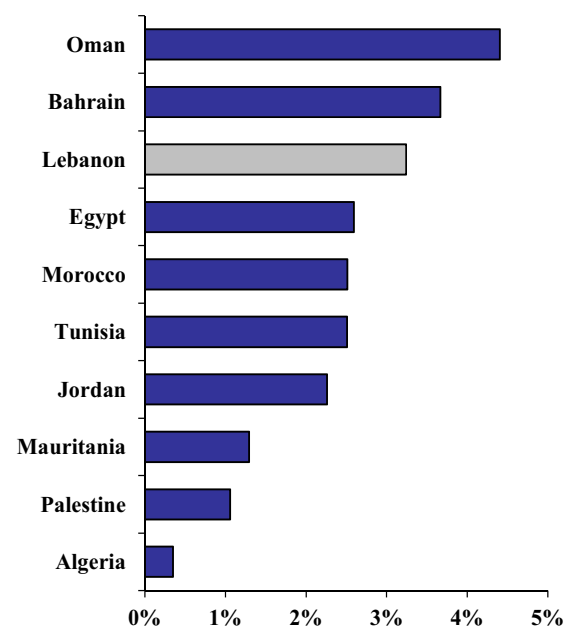
In parallel, FDI outflows from Lebanon totaled \$1.06bn in 2018, constituting a decrease of 19.7% from \$1.32bn in 2017, and compared to an annual average of \$1.08bn during the 2010-17 period and to a peak of \$2bn registered in 2013. Lebanon was the fifth largest source of FDI outflows among 16 Arab countries with available figures and the sixth largest among West Asian countries in 2018. As such, net FDI flows to Lebanon reached \$1.82bn in 2018, the fourth highest level in the Arab world, relative to net FDI flows of \$1.2bn in 2017 and to a peak of \$3.25bn in 2009. Net FDI flows to Lebanon were equivalent to 3.2% of GDP in 2018 relative to 2.3% of GDP in 2017.

Foreign Direct Investment in Arab Countries (\$m)

Country	2018	2017	Change (%)
UAE	10,385	10,354	0.3
Egypt	6,798	7,409	(8.2)
Oman	4,191	2,918	43.6
Morocco	3,640	2,686	35.5
Saudi Arabia	3,209	1,419	126.1
Lebanon	2,880	2,522	14.2
Bahrain	1,515	1,426	6.2
Algeria	1,506	1,232	22.2
Sudan	1,136	1,065	6.6
Tunisia	1,036	881	17.6
Jordan	950	2,030	(53.2)
Kuwait	346	348	(0.7)
Djibouti	265	165	60.6
Palestine	226	203	11.2
Mauritania	71	587	(88.0)
Yemen	(282)	(270)	4.5
Qatar	(2,186)	986	(321.7)
Iraq	(4,885)	(5,032)	(2.9)
Total	30,799	30,930	(0.4)

Source: UNCTAD, Byblos Research

Net FDI inflows in Arab Countries in 2018 (% of GDP)



Source: UNCTAD, IIF, IMF, Byblos Research

Tourist arrivals up 5.5% in first five months of 2019

The number of incoming visitors to Lebanon totaled 692,704 in the first five months of 2019, constituting an increase of 5.5% from 656,444 tourists in the same period of 2018 and a decline of 5.5% from 732,855 visitors in the first five months of 2010, the record year for tourism activity in Lebanon. Also, the number of incoming visitors reached 132,915 in May 2019, declining by 27.8% from 183,974 in April 2019 and regressing by 1.4% from 134,859 in May 2018. Visitors from European countries accounted for 37% of the total in the first five months of 2019, followed by those from Arab countries with 33.2%, the Americas with 15.4%, Asia with 8%, Oceania with 3.5% and Africa with 3.1%. Further, tourists from Iraq accounted for 12.1% of total visitors in the first five months of 2019, followed by visitors from France (9.6%), the United States (8%), Egypt (5.6%), Canada (5%), Jordan (4.7%), Germany and Saudi Arabia (4.5% each), the United Kingdom (4%), Australia (3.3%), Kuwait (2.5%), Turkey (2.3%), Italy (2.2%), and Sweden (1.8%).

In parallel, the number of visitors from Arab countries increased by 16.2% year-on-year in the first five months of 2019, followed by those from Europe (+8.7%), Asia (+6.2%) and the Americas (+4%); while the number of visitors from Africa regressed by 49.4% year-on-year, and those from Oceania contracted by 9.8%. On a country basis, the number of tourists from Saudi Arabia grew by 84.1% year-on-year in the covered period, followed by visitors from Kuwait (+39.4%), Turkey (+19.7%), Egypt (+14%), Italy (+11.2%), Sweden (+7%), the United Kingdom (+6.1%), France (+5.8%), the United States (5.4%), Jordan (+4.2%), Germany (+2.2%), Iraq (+1.2%) and Canada (+0.8%). In contrast, the number of visitors from Australia dropped by 10.3% year-on-year in the first five months of 2019.

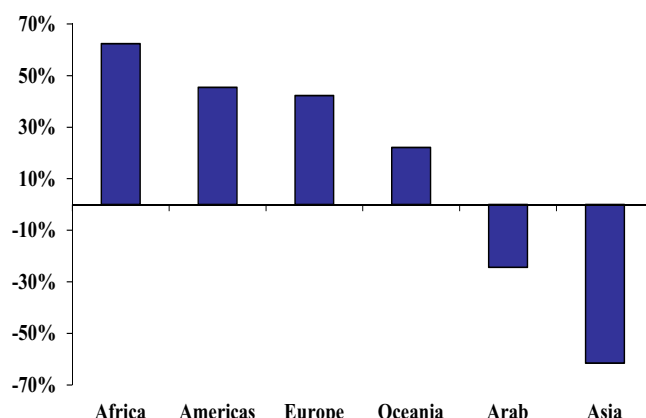
Occupancy rate at Beirut hotels at 74%, room yields up 35% in first four months of 2019

EY's benchmark survey of the hotel sector in the Middle East indicates that the average occupancy rate at four- and five-star hotels in Beirut was 73.7% in the first four months of 2019 relative to 60.5% in the same period of 2018, and compared to an average rate of 70.5% in 14 Arab markets included in the survey. The occupancy rate at Beirut hotels was the fifth highest in the region in the first four months of the year, while it was the third lowest in the same period of 2018. The occupancy rate at hotels in Beirut rose by 13.2 percentage points year-on-year in the first four months of 2019, constituting the largest increase among the 14 Arab markets. In comparison, the average occupancy rate in Arab markets grew by 2.6 percentage points year-on-year in the covered period. Occupancy rates at Beirut hotels were 59.8% in January, 70.7% in February, 79% in March and 85.4% in April 2019, compared to 49.1% in January, 61.3% in February, 63.5% in March and 68.5% in April 2018.

The average rate per room at Beirut hotels was \$193 in the first four months of 2019, increasing by 11.2% from \$174 in the same period of 2018 and constituting the second highest rate in the region after Dubai (\$282). The average rate per room in Beirut was higher than the regional average of \$154.2 that regressed by 5.9% from the first four months of 2018.

Further, revenues per available room (RevPAR) were \$142 in Beirut in the first four months of 2019 compared to \$105 in the same period of 2018, ranking the capital in second place regionally behind Dubai (\$240). Beirut's RevPAR grew by 35.4% year-on-year and posted the largest increase regionally. Beirut posted RevPARs of \$118 in January, \$132 in February, \$146 in March and \$174 in April 2019, compared to \$87 in January, \$105 in February, \$110 in March and \$120 in April 2018. Dubai posted the highest occupancy rate in the region at 84.9%, the highest average rate per room at \$282, as well as the highest RevPAR at \$240 in the first four months of 2019. EY attributed the improved performance of Beirut's hospitality market in the first four months of the year largely to the increase in tourist arrivals amid greater political stability in the country, as well as to Saudi Arabia's lifting of a 15-month old travel warning to Lebanon in mid-February 2019. It added that the government is taking initiatives to promote tourism such as organizing 'Visit Lebanon', an international business-to-business forum that aims to further support the long-term growth of the hospitality sector by promoting leisure tourism and the meetings & incentive (MICE) industry.

Change in the Number of Tourist Arrivals from Main Sources in First Five Months of 2019*



*from the same period of 2010

Source: Central Administration of Statistics, Byblos Research

Hotel Sector Performance in First Four Months of 2019

	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Dubai	84.9	240	(15.0)
Beirut	73.7	142	35.4
Ras Al Khaimah	78.2	133	(9.3)
Kuwait City	64.6	120	(12.5)
Riyadh	68.2	113	(1.8)
Abu Dhabi	84.8	100	11.4
Muscat	70.9	98	(1.4)
Manama	58.2	95	4.5
Amman	63.4	88	(1.4)
Cairo City	79.1	87	12.5
Jeddah	49.7	85	(13.5)
Doha	71.4	84	3.2
Madina	66.3	75	(14.5)
Makkah	73.6	70	(1.1)

Source: EY, Byblos Research

Lebanese technology startups attract 40 investments totaling \$28m in 2018

Figures released by ArabNet, a hub for Arab digital professionals and entrepreneurs, show that investment funds based in the Middle East & North Africa (MENA) region made 40 investments in technology startups in Lebanon for a total amount of \$28.3m in 2018. In comparison, Lebanon attracted 56 investments for an aggregate of \$54m in 2017, 49 deals totaling \$72m in 2016, 34 investments for \$35m in 2015, 23 investments for an aggregate of \$28m in 2014, and 11 investments for \$7m in 2013.

In addition, Lebanon attracted 15.7% of the number of investments in technology startups in the MENA region in 2018, down from 18.2% in 2017 and 18.5% in 2016. Lebanon, along with Egypt, attracted the second-highest number of investments in technology startups among 15 MENA countries in 2018, unchanged from 2016 and 2017. It attracted the third highest number of investments in 2015, the fifth largest number of deals in 2014 and the fourth highest number of investments in 2013.

Also, the amount of investments in technology startups in Lebanon accounted for 4.2% of total investments made by MENA-based funds in the 15 MENA markets in 2018, compared to 8.1% of the total in 2017 and to 7.4% of investments in 2016. Lebanon attracted the fifth-highest amount of investments in the MENA region in 2018, the second largest amount in each of 2015, 2016 and 2017, the fourth largest in 2014 and the fifth highest in 2013.

In parallel, MENA-based funds made 213 investments in technology startups in Lebanon for a total of \$224m between 2013 and 2018. The number of investments in Lebanese technology startups was the third highest among the 15 MENA countries, behind the UAE (348 deals) and Egypt (214 transactions) during the covered period. Also, the amount of investments in Lebanese technology startups was the third highest in the MENA region during the 2013-18 period, behind the UAE (\$2.1bn) and Egypt (\$345m).

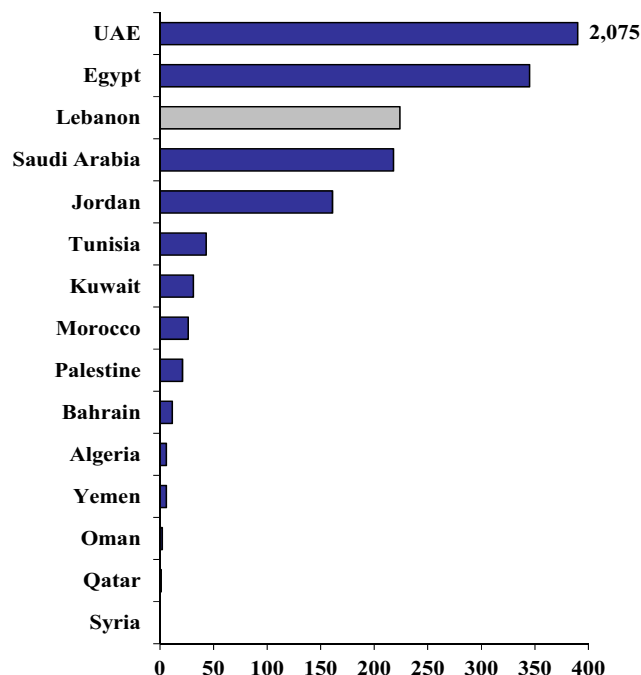
Further, the number of investments in Lebanon accounted for 15% of total deals made by MENA-based funds between 2013 and 2018, while the amount of investments in Lebanon represented 7.1% of aggregate investments during the covered period. The findings are based on data collected from 59 investment funds and accelerators in Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Palestine, Saudi Arabia, Tunisia, the UAE and Yemen.

Opened letters of credit at \$1.7bn for imports and \$883m for exports in first quarter of 2019

Figures released by Banque du Liban indicate that the value of letters of credit (LCs) opened to finance imports to Lebanon totaled \$1.7bn in the first quarter of 2019, constituting an increase of 20.4% from \$1.4bn in the same quarter of 2018. Further, utilized credits for imports reached \$1.4bn in the first quarter of 2019, up by 8.4% from \$1.3bn in the same quarter of 2018, and accounted for 84.6% of opened LCs for imports in the covered quarter. Also, outstanding import credits stood at \$1.1bn at the end of March 2019 compared to \$1.03bn a year earlier. In addition, the aggregate value of inward bills for collection reached \$250.5m in the first quarter of 2019, almost unchanged from \$250.3m in the same quarter of 2018. The outstanding value of inward bills for collection reached \$57.5m at the end of March 2019 relative to \$59m at end-March 2018.

In parallel, the value of documentary letters of credit opened to finance exports from Lebanon totaled \$882.5m in the first quarter of 2019, constituting an increase of 15.4% from \$765m in the same quarter of 2018. Further, utilized credits for exports reached \$752.2m in the first quarter of 2019, up by 4.3% from \$721.3m of used credits in the first quarter of 2018, and accounted for 85.2% of opened LCs for exports in the covered quarter. Also, outstanding export credits stood at \$898.1m at the end of March 2019 compared to \$872m a year earlier. In addition, the aggregate value of outward bills for collection amounted to \$238.9m in the first quarter of 2019, constituting a decline of 38.3% from \$387.2m in the same period of 2018. The outstanding value of outward bills for collection reached \$400.4m at the end of March 2019 relative to \$415.3m at end-March 2018.

Investments by MENA Funds in Technology Startups in 2013-18 Period (US\$m)



Source: ArabNet, Byblos Research

Gross public debt at \$86bn at end-April 2019

Lebanon's gross public debt reached \$85.8bn at the end of April 2019, constituting an increase of 0.8% from \$85.1bn at the end of 2018 and a rise of 5% from \$81.7bn at end-April 2018. In nominal terms, the gross public debt grew by \$699.2m in the first four months of 2019 relative to an increase of \$2.2bn in the same period of 2018. Debt denominated in Lebanese pounds totaled \$52.6bn at end-April 2019, up by 1.8% from the end of 2018 and by 2.7% from end-April 2018; while debt denominated in foreign currency stood at \$33.3bn, constituting a decrease of 0.7% from end-2018 and a rise of 8.9% from end-April 2018. In May 2018, the Finance Ministry issued \$5.5bn in Lebanese Eurobonds and exchanged them with LBP8,250bn worth of Lebanese pound-denominated Treasury bills from Banque du Liban's (BdL) portfolio in order to reduce the cost of debt servicing, which explains the growth in foreign-currency debt from April 2018.

Local currency debt accounted for 61.2% of the gross public debt at the end of April 2019 compared to 62.6% a year earlier, while foreign currency-denominated debt represented the balance of 38.8% relative to 37.4% at end-April 2018. The weighted interest rate on outstanding Treasury bills was 6.26% and the rate on Eurobonds was 6.83% in April 2019. Further, the weighted life on Eurobonds was 7.62 years, while it was 1,615 days on Treasury bills.

Commercial banks held 38.6% of the public debt at end-April 2019 relative to 37.6% of the total at end-April 2018. BdL held 51.7% of the Lebanese pound-denominated public debt at the end of April 2019 compared to 51.9% a year earlier, while commercial banks held 33.9% of the local debt compared to 33.7% at end-April 2018. Also, public agencies, financial institutions and the public held 14.5% of the local debt at end-April 2019 relative to 14.4% at end-April 2018. Further, holders of Eurobonds and special T-bills in foreign currencies accounted for 93.7% of foreign currency-denominated debt holders at the end of April 2019, followed by multilateral institutions with 4.1% and foreign governments with 2.2%. In addition, the net public debt, which excludes public sector deposits at BdL and at commercial banks from overall debt figures, grew by 8.4% annually to \$77.4bn at end-April 2019. Further, the gross market debt accounted for about 58.6% of the public debt. Gross market debt is the total public debt less the portfolios of the BdL, the National Social Security Fund, as well as bilateral and multilateral loans.

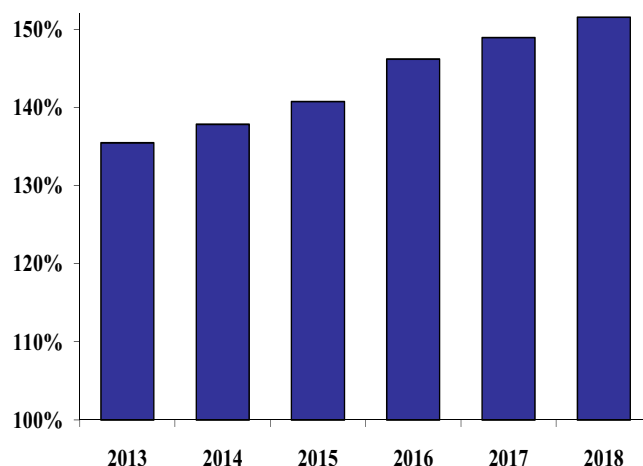
Number of real estate transactions down 16% in first five months of 2019

Figures released by the Ministry of Finance indicate that there were 19,024 real estate transactions in the first five months of 2019, constituting a decrease of 16.2% from 22,707 deals in the same period of 2018. In comparison, there were 28,768 real estate transactions in the first five months of 2017 and 25,079 real estate deals in the same period of 2016. There were 3,401 real estate transactions in the Baabda area in the first five months of 2019, representing 18% of the total. The North followed with 3,138 deals (16.5%), then the Zahlé area with 2,524 transactions (13.3%), the South region with 2,247 deals (11.8%), the Metn district with 2,212 transactions (11.6%), the Keserwan region with 1,858 deals (9.8%), the Nabatieh area with 1,568 transactions (8.2%), and Beirut with 1,419 deals (7.5%).

Also, the aggregate amount of real estate transactions reached \$2.4bn in the first five months of 2019 and decreased by 24.4% from \$3.2bn in the same period of 2018. In comparison, the amount of real estate deals regressed by 15.6% in the first five months of 2018 and grew by 11.4% in the same period of 2017. Further, the value of real estate transactions in Beirut totaled \$762.6m and accounted for 31.3% of the total in the first five months of 2019. The Metn district followed with \$507.2m (20.8%), then the Baabda region with \$390m (16%), the Keserwan area with \$241.4m (9.9%), the South with \$188.6m (7.7%), the North with \$163.9m (6.7%), the Zahlé area with \$86.9m (3.6%), and the Nabatieh region with \$70m (2.9%).

In parallel, the average amount per real estate transaction was \$128,145 in the first five months of 2019, down by 9.8% from an average of \$142,039 in the same period of 2018 and relative to \$132,757 in the first five months of 2017. Further, there were 403 real estate transactions executed by foreigners in the first five months of 2019, down by 15.5% from 477 deals in the same period of 2018 and compared to 500 transactions in the first five months of 2017. The number of real estate deals executed by foreigners accounted for 2.1% of total real estate transactions in the first five months of 2019, unchanged from the same period of 2018 and relative to 1.7% of deals in the first five months of 2017. Further, 22.6% of the real estate transactions executed by foreigners were in the Baabda district, followed by Beirut (19.1%), the South (14.4%), the Metn region (14.6%), the Keserwan region (11.2%), the North (8.9%), the Zahlé area (8.4%), and the Nabatieh region (0.7%). Also, Syrian nationals accounted for 19.1% of the total amount of real estate transactions executed by foreigners in May 2019, followed by Jordanians (9.6%), Saudi Arabian citizens (8.1%), Kuwaiti nationals (8%), British nationals (2.7%) and Swedish nationals (2.2%).

Lebanon's Gross Public Debt (% of GDP)



Source: Ministry of Finance, Central Administration of Statistics, Institute of International Finance

Market accessibility of Beirut Stock Exchange needs improvement in several areas

In its annual assessment of the market accessibility of 85 developed, emerging and frontier equity markets, global portfolio analytics and indices provider MSCI, Inc. maintained Lebanon in its Frontier Markets category. It evaluated the country's stock market based on five accessibility criteria that are openness to foreign ownership, ease of capital inflows and outflows, efficiency of the operational framework, the availability of investment instruments, and the stability of the institutional framework. It said that the five criteria reflect the views of international institutional investors, which generally put a strong emphasis on the equal treatment of investors, the free flow of capital, the cost of investment, unrestrictive use of stock market data, and country-specific risks.

In terms of openness to foreign ownership, MSCI said that there are no constraints on foreign ownership of stocks listed on the Beirut Stock Exchange, except for Israeli nationals who are formally prohibited from investing in Lebanese companies. It noted that Lebanon could improve equal rights to foreign investors, as company-related information is not always readily available in English. As such, Lebanon is, along with Sri Lanka, the only frontier markets with a "no major issues" rating in terms of investor qualification requirements, as the remaining countries have a "no issues" rating. Also, it is one of 12 frontier markets with a "no major issues" rating in terms of equal economic and voting rights to foreign investors. Further, Lebanon is one of 22 frontier markets with a "no issues" rating in terms of foreign room level, which is mainly the proportion of shares still available to foreign investors. It is also one of 21 markets with a "no issues" rating in terms of foreign ownership limit.

Regarding capital inflows and outflows, MSCI said that there are no restrictions on capital flows to and from Lebanon and placed Lebanon among 18 frontier markets with a "no issues" rating in terms of capital flow restrictions. But it noted that there is no offshore currency market and that there are constraints on the onshore currency market, as foreign investors are not allowed to hold Lebanese pound balances. As such, it placed Lebanon among eight markets with an "improvements needed" rating in this area.

Regarding the efficiency of the operational framework, MSCI considered that the market entry process needs to improve, as registration is mandatory and may take up to five days. Further, it said that not all market regulations are available in English, and that the flow of information can be improved, as detailed stock market information is not always disclosed in English. Lebanon is among 11 frontier markets that received a "no major issues" rating in terms of market regulations, and one of six markets to get the same rating in terms of information flow. In addition, MSCI said that almost all market infrastructure indicators need improvement, except for trading where Lebanon has a "no issues" ratings. In terms of clearing and settlement procedures, the review noted that there is no functioning nominee status as well as no omnibus structures, while overdraft facilities are prohibited. In terms of custody, it indicated that there is no formal segregation between custody and trading accounts for transactions on the Beirut bourse. It added that there is an absence of global custodians accessible to foreign investors. In terms of registry and depository, it stated that not all listed shares are dematerialized, and that there is an absence of a central registry, with some securities registered at the issuer level. In terms of transferability, it said that in-kind transfers and off-exchange transactions are prohibited.

Finally, MSCI modified the rating of Lebanon on the stability of the institutional framework category from the "no major issues" category to the "improvements needed" category due to the political situation in the country. Lebanon's rating on this category is similar to the ratings of five other frontier markets. But it did not rate Lebanon on the availability of investment instruments category. Lebanon is one of 23 countries worldwide that fall under MSCI's definition of Frontier Markets. The other Arab markets in the same category are Bahrain, Jordan, Morocco, Oman and Tunisia. In November 2007, MSCI included Lebanon in its MSCI Frontier Markets Index, a fully investable index for frontier equity markets. The index contains stocks from 27 developing markets in Asia Pacific, Emerging Europe, the Middle East & Africa, and the Americas.

Number of airport passengers up by 2.7% in first five months of 2019

Figures released by the Beirut-Rafic Hariri International Airport (HIA) show that 3,139,690 passengers utilized the airport (arrivals, departures and transit) in the first five months of 2019, constituting an increase of 2.7% from 3,058,157 passengers in the same period of 2018. The number of arriving passengers increased by 1.7% year-on-year to 1,550,593 in the first five months of 2019, compared to a growth of 9% in the same period last year and to a growth of 5.1% in the first five months of 2017. Also, the number of departing passengers increased by 2.3% year-on-year to 1,566,819 in the first five months of 2019, relative to a rise of 6.2% in the same period last year and to a growth of 5.8% in the first five months of 2017.

In parallel, the airport's aircraft activity expanded by 0.5% annually to 26,817 take-offs and landings in the first five months of 2019, relative to an increase of 1.9% in the same period of 2018, while it declined by 3.1% in the first five months of 2017. In addition, the HIA processed 37,503 metric tons of freight in the covered period that consisted of 22,425 tons of import freight and 15,078 tons of export freight. Middle East Airlines had 10,361 flights in the first five months of 2019 and accounted for 38.6% of HIA's total aircraft activity.

Ministry of Public Health launches anti-smoking strategy

The Ministry of Public Health launched on May 31, 2019 its national strategy to combat smoking in Lebanon, coinciding with the World No Tobacco Day. The strategy calls for the implementation of Article 13 of the World Health Organization Framework Convention on Tobacco Control, which prohibits tobacco advertising, promotion and sponsorship.

It also stipulates the enforcement of several Lebanese laws issued in 1995, 2007, 2011 and 2012, all of which warn about the dangers of smoking, control the manufacturing and import processes of tobacco products, as well as impose elevated penalties on non-compliant parties. Specifically, it calls for the implementation of Law 174, which was enacted in 2012, that aims to combat smoking and regulate the production, packaging and advertising of tobacco products in Lebanon.

In addition, the strategy calls on the Council of Ministers and Parliament to draft and approve the necessary legislation that would increase the rates on tobacco products. It noted that the average price of a carton of cigarettes, which consists of 200 cigarettes or 10 packs, is about \$20 in Lebanon compared to about \$70 per carton of cigarettes in Europe and to £110 (about \$140) per carton of cigarettes in the United Kingdom. Also, it stressed the need to stop the smuggling of cigarettes across the Lebanese borders and the sale of such products in the country.

The strategy also bans the distribution of free samples of tobacco products, and prohibits supplying minors who are under 18 years old with any tobacco product. It stipulates imposing strict fines on any restaurant that serves shisha to minors, ranging from paying large penalties to closing the facility. The strategy encourages authorities to step up efforts to face potential obstacles created by commercial stakeholders that may be affected by the ban on smoking. It also suggests signing a protocol that prohibits actors from smoking in scenes of locally-produced television series.

The ministry emphasized the need to enforce the strategy, as well as to increase oversight, which can be achieved through the effective cooperation between the Ministry of Public Health, the Ministry of Economy & Trade, the Ministry of Interior & Municipalities, the Ministry of Tourism, the Ministry of Information, and security agencies. It indicated that anti-smoking laws are not implemented due to concerns about their impact on the hospitality sector, while the ministry has been spending more than \$200m per year to treat smoking-related diseases.

The World Health Organization indicated that about 38% of Lebanese adults are current smokers. It noted that 40% of students in public and private schools, who are between 13 and 15 years old, are exposed to smoking at their homes and at public spaces. In parallel, a study issued by the AUB Tobacco Control Research Group estimated the direct cost of smoking in Lebanon at \$262.1m, which includes the cost of smoking-related diseases at \$146.7m, productivity-related costs at \$102.2m, and environmental degradation costs at \$13.6m. Further, it estimated the indirect costs of smoking due to tobacco-related deaths at \$64.6m. As a result, it estimated the annual net losses of smoking to the Lebanese economy at \$55.4m.



Corporate Highlights

Gross written premiums down 1% to \$472m in first quarter of 2019, claims up 15% to \$250m

Figures released by the Insurance Control Commission show that the gross written premiums of 50 licensed insurance companies in Lebanon reached \$472.3m in the first quarter of 2019, constituting a decrease of 1% from \$477m in the same quarter of 2018. Medical insurance premiums totaled \$193.1m in the covered quarter and accounted for 41% of the sector's aggregate premiums. Life insurance premiums followed with \$114.7m (24.3%), then motor insurance premiums with \$86m (18.2%), and property & casualty insurance premiums with \$78.6m (16.6%).

Further, medical insurance premiums grew by 4.1% annually in the first quarter of 2019, while property & casualty insurance premiums increased by 1.1% year-on-year. In contrast, motor insurance premiums dropped by 10.2% and life insurance premiums regressed by 2.8% year-on-year in the covered quarter.

Further, gross claims settled by insurance companies stood at \$249.7m in the first quarter of 2019, constituting an increase of 15.3% from \$216.7m in the same quarter of 2018. Gross claims paid for the medical segment amounted to \$98.4m and accounted for 39.4% of total claims settled by the insurance sector in the covered quarter. Claims disbursed for the life insurance category followed at \$68m (27.2%), then the motor segment at \$52.3m (21%), and the property & casualty segment at \$31.2m (12.5%). Also, property & casualty claims surged by 66.3% annually in the first quarter of 2019, life claims rose by 18.7%, medical claims grew by 8.7%, and motor insurance claims increased by 4.2% year-on-year in the covered quarter.

In parallel, the sector's acquisition and administration costs was nearly unchanged year-on-year at \$121.1m in the first quarter of 2019. Also, net investment income totaled \$47.6m in the covered quarter and grew by 34.2% from \$35.5m in the first quarter of 2018. In addition, the ratio of gross claims settled to gross written premiums stood at 53% in the first quarter of 2019, up from 45% in the same quarter of 2018. Also, the ratio of expenditures for acquisition and administration to gross written premiums reached 26% in the covered quarter relative to 25% in the first quarter of 2018, and the ratio of net investment income to gross written premiums stood at 10% in the first quarter of 2019 compared to 7% in the same quarter of 2018.

BLC Bank distributes dividends for 2018

BLC Bank sal, one of Lebanon's listed banks, announced that its Ordinary General Assembly held on June 12, 2019 approved the distribution of \$5.8m in gross dividends for Series "D" Preferred Shares and Series "E" Preferred Shares for 2018, representing a payout ratio of 14.1%. The bank allocated \$6.75 per share, equivalent to LBP10,176 per share, to the holders of Series "D" Preferred Shares, and \$2.72 per share, or LBP4,100, to the holders of Series "E" Preferred Shares. It noted that the dividend per share distributed to the holders of Series "E" Preferred Shares was adjusted on a pro rata basis for 2018 in order to reflect the period from the issue date in August 2018 until the end of the year. BLC will start paying the dividends on June 18, 2019 net of a 10% withholding tax.

On June 20, 2018, the bank approved the redemption and cancellation of 350,000 Series "C" Preferred Shares, which have not yet been de-listed from the BSE. Excluding those shares, the bank's share capital consists of 213,650,000 common shares, as well as 750,000 Series "D" Preferred Shares and 263,510 Series "E" Preferred Shares.

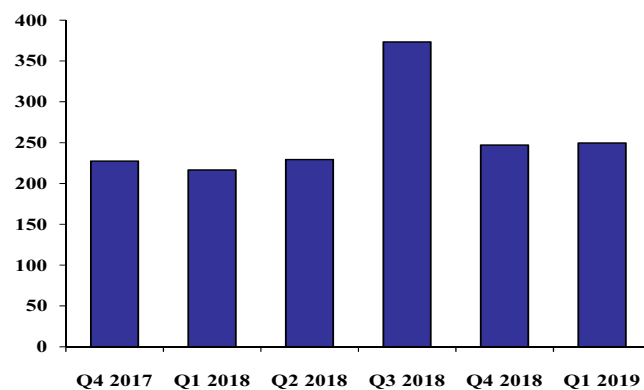
BLC Bank declared consolidated net profits of \$41m in 2018, down by 11.8% from net earnings of \$46.5m in 2017. Its aggregate assets reached \$5.8bn at the end of 2018 and were nearly unchanged from a year earlier. The bank's loans & advances to customers stood at \$1.6bn at end-2018, nearly unchanged from end-2017; while net loans & advances to related parties reached \$1.8m and dropped by 22% from end-2017. Further, customer deposits totaled \$3.9bn at the end of 2018, nearly unchanged from end-2017, while deposits from related parties stood at \$98.9m and increased by 2.2 times from end-2017. BLC Bank's share price closed at \$0.93 on June 14, 2019, unchanged from end-2018.

Holcim's net profits down 37% to \$27m in 2018

Cement producer Holcim (Liban) sal posted net profits of \$27.4m in 2018, constituting a decrease of 36.8% from net earnings of \$43.3m in 2017. The decrease in profits is mainly due to lower net sales and a higher cost of goods sold. The firm's sales totaled \$148.6m in 2018, down by 7% from \$159.8m in the previous year; and its gross profit margin reached 44% last year relative to 50.9% in 2017. Holcim's assets reached \$263.4m at the end of 2018, constituting a marginal decrease of 0.4% from \$264.3m at end-2017. The firm's current ratio, a measure of the company's ability to meet its short-term obligations, was 1.1x at the end of 2018, down from 1.4x at end-2017.

In parallel, Holcim's shareholders' equity was \$147.9m at the end of 2018, down by 16% from \$176.1m at end-2017. The company's debt-to-equity ratio was 78% at end-2018 relative to 50.1% at the end of 2017. The firm produces and sells cement and other related products. Holcim's share price closed at \$14.3 on June 14, 2019, down by 7.7% from \$15.5 at end-2018.

Total Claims Paid (US\$m)



Source: Insurance Control Commission

New car sales down 19% in first five months of 2019

Figures released by the Association of Automobile Importers in Lebanon show that dealers sold 10,560 new passenger cars in the first five months of 2019, constituting a decline of 19.1% from 13,046 cars sold in the same period of 2018. Individuals and institutional clients purchased 1,838 new cars in January, 1,906 new vehicles in February, 2,190 new automobiles in March, 2,168 new cars in April and 2,458 new vehicles in May 2019.

Japanese cars accounted for 38.3% of total car sales in the first five months of 2019, followed by Korean vehicles with a 25.7% share, European automobiles (23.7%), American cars (8.6%) and Chinese vehicles (3.9%). The number of Chinese cars sold grew by 12.4% year-on-year in the covered period. In contrast, demand for Korean vehicles dropped by 32.4%, the sales of Japanese cars decreased by 20.4%, demand for new American automobiles declined by 9.3%, and the sales of European vehicles regressed by 3.8% year-on-year in the first five months of 2019.

Kia is the leading brand in the Lebanese market with 1,622 passenger vehicles sold in the first five months of 2019, followed by Nissan with 1,223 new cars sold, Toyota (1,096), Hyundai (1,086) and Renault (773). In parallel, car dealers sold 602 new commercial vehicles in the first five months of 2019, down by 32% from 884 commercial vehicles purchased in the same period of 2018. Overall, car dealers sold 11,162 new passenger cars and commercial vehicles in the covered period, down by 20% from 13,930 cars sold in the first five months of 2018.

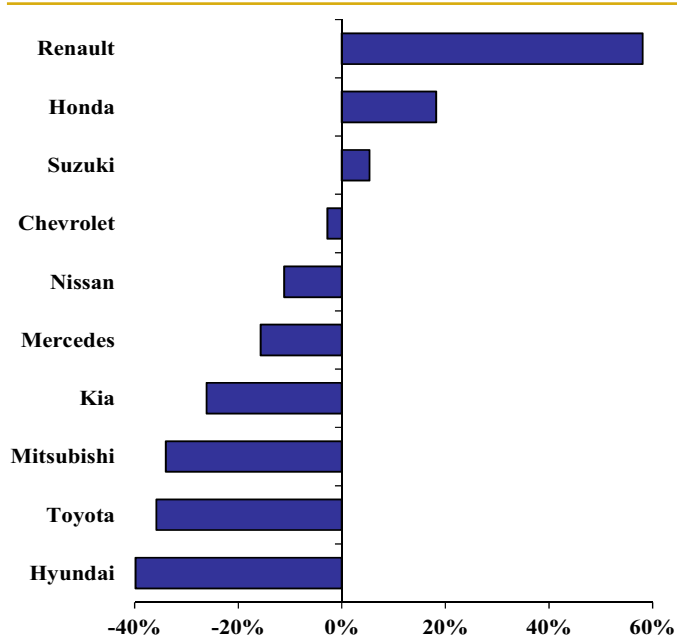
Further, Lebanon's top five car distributors sold 6,756 vehicles in the first five months of 2019 and accounted for 60.5% of new auto sales. In comparison, they sold 8,740 cars in the same period of 2018 that represented 62.7% of total car sales. Rasamny Younis Motor Co. sal sold 1,635 vehicles in the first five months of 2019, equivalent to 14.6% of the total, followed by NATCO sal with 1,623 automobiles (14.5%), Boustany United Machineries sal with 1,245 cars (11.2%), Bassoul Heneiné sal with 1,155 vehicles (10.3%) and Century Motor Co. sal with 1,098 cars (9.8%).

Ciments Blancs' net income up 30% to \$5.8m in 2018

Société Libanaise des Ciments Blancs sal, an affiliate of Holcim (Liban) sal, declared net profits of \$5.8m in 2018, constituting an increase of 30.2% from net earnings of \$4.4m in 2017. The company generated total sales of \$13.1m last year compared to \$13.5m in 2017. The cost of goods sold declined by 6.7% to \$6.8m, resulting in a gross profit margin of 48.6% in 2018 relative to 46.2% in 2017. In addition, the firm's gross financial income grew by 56% to \$641,571 in 2018.

Further, Ciments Blancs' assets totaled \$25.4m at the end of 2018, down by 3.5% from \$26.3m at end-2017. The firm's current ratio, which is a measure of the company's ability to meet its short-term obligations, was 2.8x at the end of 2018, compared to 2.4x at the end of 2017. The company's total equity reached \$20.6m at end-2018, up by 8% from \$19m at the end of 2017. The firm's debt-to-equity ratio was 23.3% at end-2018 relative to 38% at the end of 2017. The price of Ciments Blancs' nominal shares closed at \$2.7 on June 14, 2019, up by 5.9% from \$2.55 at end-2018.

Sales of Top 10 Car Brands
in First Five Months of 2019 (% change*)



*from the same period of 2018
Source: AIA, Byblos Research

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**	182.0	183.1	184.7	0.88
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	Jul 2017	Jun 2018	Jul 2018	Change**	Risk Level
Political Risk Rating	55.5	55.0	55.0	▲	High
Financial Risk Rating	33.0	33.0	33.0	✂	Moderate
Economic Risk Rating	27.5	28.5	28.5	▼	High
Composite Risk Rating	58.0	58.25	58.25	▼	High

MENA Average*	Jul 2017	Jun 2018	Jul 2018	Change**	Risk Level
Political Risk Rating	57.9	57.9	58.0	▼	High
Financial Risk Rating	37.9	38.8	38.7	▼	Low
Economic Risk Rating	30.7	32.8	33.0	▼	Moderate
Composite Risk Rating	63.2	64.7	64.8	▼	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

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

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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