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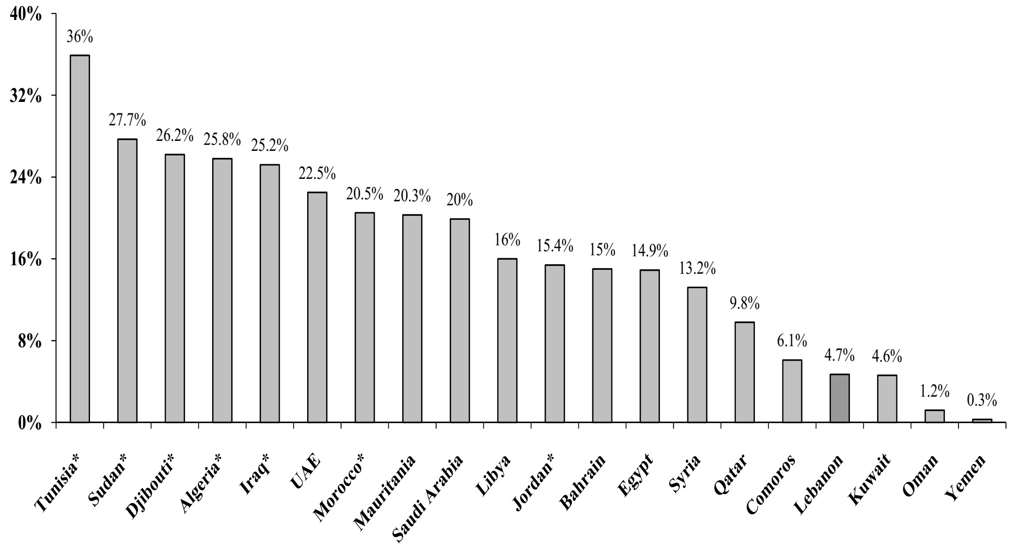
BYBLOS BANK SAL
Economic Research & Analysis Department

LEBANON THIS WEEK

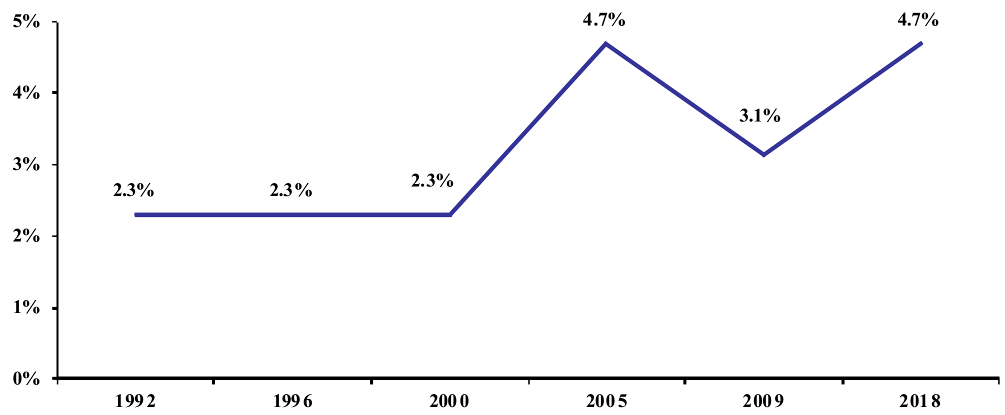
In This Issue

Charts of the Week

Percentage of Females in National Parliaments in Arab Countries



Percentage of Females in the Lebanese Parliament



**as of February 2019*
Source: Inter-Parliamentary Union, United Nations, Byblos Bank

Quote to Note

"This would be needed to support the disbursement of funding pledged at the CEDRE donor conference."

Bank of America Merrill Lynch, on the political urgency for Lebanese authorities to adopt fiscal reforms and a multi-year fiscal adjustment process

Number of the Week

87%: Percentage of Lebanese adults who used the Internet in 2018, according to a survey by the U.S.-based Pew Research Center

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
Byblos Common	1.23	1.65	451,759	8.18%
Solidere "A"	6.37	16.03	116,001	7.49%
Solidere "B"	6.22	15.83	54,314	4.75%
HOLCIM	13.50	(5.59)	1,500	3.10%
Audi GDR	3.90	(2.50)	1,000	5.50%
BLOM Listed	8.00	0.00	300	20.23%
Audi Listed	4.00	0.00	-	18.80%
BLOM GDR	7.70	0.00	-	6.69%
Byblos Pref. 08	69.00	0.00	-	1.62%
Byblos Pref. 09	72.00	0.00	-	1.69%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Mar 2020	6.38	98.12	9.14
Apr 2021	8.25	93.63	12.29
Oct 2022	6.10	85.75	11.43
Jun 2025	6.25	80.00	10.90
Nov 2026	6.60	79.00	10.78
Feb 2030	6.65	76.25	10.38
Apr 2031	7.00	76.50	10.52
May 2033	8.20	83.66	10.45
Nov 2035	7.05	76.00	10.07
Mar 2037	7.25	76.38	10.14

Source: Byblos Bank Capital Markets

	Jun 17-21	Jun 10-14	% Change	May 2019	May 2018	% Change
Total shares traded	635,630	481,022	32.1	2,118,259	3,629,854	(41.6)
Total value traded	$1,696,288	$2,513,656	(32.5)	$11,598,742	$28,779,512	(59.7)
Market capitalization	$8.50bn	$8.40bn	1.28	$8.51bn	$10.97bn	(22.4)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Jun 14, 2019	Jun 21, 2019	% Change**
CDS 1-year*	904.77	906.06	0.1
CDS 3-year*	946.12	921.76	(2.6)
CDS 5-year*	913.35	894.38	(2.1)

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

CDX EM 30*	Jun 14, 2019	Jun 21, 2019	% Change***
CDS 5-year**	96.06	96.91	0.9

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

Greenfield foreign direct investments at $147m in 2018, equivalent to 0.3% of GDP

Figures compiled by fDi Markets and released by the United Nations Conference on Trade and Development (UNCTAD) show that Lebanon attracted six Greenfield foreign direct investment projects for a total of $146.7m in 2018, compared to 11 projects worth $70.1m in 2017. The number of Greenfield FDI projects dropped by 45.5% year-on-year, while the amount of Greenfield FDI rose by 109.2% in 2018. In comparison, Lebanon attracted 10 projects at $90.4m in 2016, seven projects worth $80m in 2015, 10 projects for a total of $1.2bn in 2014, and 16 projects for $141.1m in 2013.

The FDI figures cover cross-border Greenfield projects that lead to the direct creation of jobs and capital investment. They include joint ventures when these transactions lead to a new physical Greenfield operation. The figures exclude mergers and acquisitions and other equity investments. fDi Markets is a database that tracks cross-border Greenfield investments across the world, and is owned by the Financial Times Group.

Globally, Lebanon was the 14th smallest recipient of Greenfield FDI in nominal terms among 140 economies with a GDP of $10bn or more, as well as the third smallest recipient of Greenfield FDI among 18 Arab countries. Lebanon was among 98 countries globally that registered an increase in the amount of inward Greenfield FDI in 2018. Also, the amount of inward Greenfield FDI to Arab economies decreased by 21.2% to $83.3bn in 2018, while Greenfield FDI to West Asian economies surged by 105.8% to $71.2bn last year.

Further, Lebanon ranked in 18th place globally and in sixth place regionally in number of Greenfield FDI projects last year, ahead of Libya, Palestine, Sudan and Syria (two projects each), and Djibouti (one project). Also, Lebanon was among 35 countries worldwide that registered a drop in the number of Greenfield FDI projects last year. Also, the number of Greenfield FDI projects to Arab economies increased by 6.5% to 873 projects last year, while Greenfield projects to West Asian economies rose by 8.5% year-on-year to 88 projects in 2018.

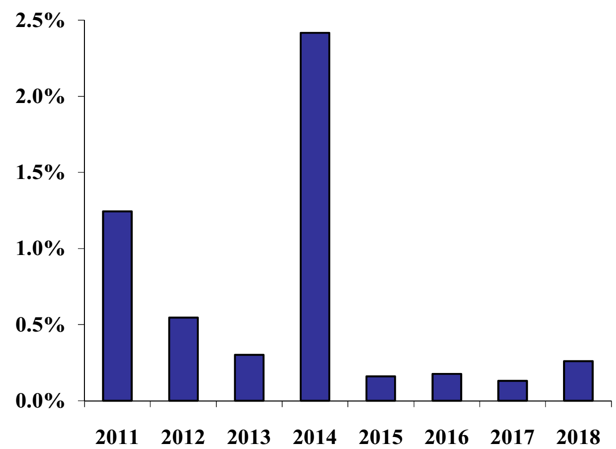
The amount of Greenfield FDI in Lebanon accounted for 0.18% of total Greenfield FDI in Arab countries last year relative to 0.1% in 2017. It also represented 0.21% of total flows to West Asian countries, nearly unchanged from 0.2% in 2017. Further, the amount of Greenfield FDI in Lebanon was equivalent to 0.3% of GDP in 2018, the third lowest such ratio in the Arab world, ahead of only Sudan (0.1% of GDP) and Kuwait (0.2% of GDP).

Greenfield FDI in Arab Countries (US$m)

	2018	2017	Change (%)
Oman	19,635	4,259	361.1%
Saudi Arabia	15,537	7,149	117.3%
UAE	14,130	8,623	63.9%
Egypt	12,453	37,508	-66.8%
Algeria	9,259	1,350	585.8%
Morocco	4,485	3,716	20.7%
Iraq	2,851	2,637	8.1%
Bahrain	1,426	1,192	19.6%
Libya	1,023	-	-
Tunisia	554	651	-14.9%
Qatar	533	489	9.1%
Jordan	387	702	-44.9%
Kuwait	341	302	12.9%
Djibouti	220	10	2218.9%
Syria	155	34	355.8%
Lebanon	**147**	**70**	**109.2%**
Palestine	128	-	-
Sudan	25	-	-
Mauritania	-	33	-
Total	**83,289**	**68,725**	**21.2%**

Source: fDi Markets,UNCTAD, Byblos Research

Greenfield FDI in Lebanon (% of GDP)



Source: fDi Markets,UNCTAD, National Accounts, Byblos Research

Value of cleared checks down 16%, returned checks down 3% in first five months of 2019

The value of cleared checks reached $23.4bn in the first five months of 2019, constituting a decline of 15.5% from $27.7bn in the same period of 2018. In comparison, the value of cleared checks decreased by 1.5% in the first five months of 2018 from the same period of 2017. The value of cleared checks in Lebanese pounds regressed by 2.5% year-on-year to the equivalent of $8.7bn in the first five months of 2019, while the value of cleared checks in US dollars declined by 21.7% to $14.7bn in the covered period. The dollarization rate of cleared checks regressed from 67.7% in the first five months of 2018 to 62.7% in the same period of 2019. There were 4.26 million cleared checks in the first five months of 2019, down by 14% from 4.95 million in the first five months of 2018.

In parallel, the amount of returned checks in domestic and foreign currencies was $607m in the first five months of 2019 compared to $629m in the same period of 2018 and to $593m in the first five months of 2017. This constituted a year-on-year decrease of 3.4% in the first five months of 2019 relative to a rise of 6.1% in the first five months of 2018 from the same period of 2017. Also, there were 111,032 returned checks in the first five months of 2019, up by 1% from 109,966 returned checks in the same period of 2018.

European Union urges government to start reforms process and benefit from donor support

The European Commission's Directorate-General for Economic and Financial Affairs (DGEFA) indicated that Lebanon has historically proven to be resilient to the elevated economic volatility and uncertain geopolitical environment in the Middle East & North Africa region. But it noted that the pressure has increased to address the country's wide fiscal and current account deficits, elevated public debt level and the economy's weak competitiveness.

It pointed out that much of the reform momentum that the CEDRE conference generated has faded. It said that international donors have been waiting for Lebanese authorities to proceed with the much-needed reforms and the Capital Investment Plan (CIP) that they submitted at the conference, in order for donors to start disbursing the pledged funds. It called for bold moves in several areas to demonstrate the new government's commitment to the reform plan and to reinvigorate the reform momentum. It said that taking concrete steps in structural reforms, notably by completing and implementing the electricity reform agenda and fighting corruption, will be instrumental to regain investor confidence, to channel financial inflows, and to improve Lebanon's long-term growth potential. It stated that the European Union (EU) stands ready to contribute to the CIP's funding and to assist the government in the drafting of sectoral policies, in the prioritizing of projects, and through technical assistance on project design and impact assessments. However, it noted that authorities have made little progress so far on the implementation of reforms.

Also, the DGEFA indicated that Lebanon's inadequate infrastructure requires significant investment, as public investments did not keep up with the country's economic activity during the high growth years, leading to a steeper decline in the public capital stock-to-GDP ratio than in regional peers. It noted that Lebanon's infrastructure lags its regional peers in almost all dimensions, such as in the quality of roads, ports and air transport. It added that electricity supply is unreliable and substantially worse than in regional peers, which is hampering the competitiveness of Lebanese companies and the economy's ability to attract foreign direct investment. It noted that important governance issues remain unresolved, as the current plan to reform the electricity sector does not provide for establishing an independent regulatory authority for the sector, nor for a central role for the High Council for Privatization and Public-Private Partnerships in tender procedures, which are both breaches of commitments at CEDRE.

Further, it said that enacting the 2019 budget and presenting a credible medium-term fiscal adjustment strategy are the first of many steps required towards fiscal sustainability. It added that fiscal consolidation, such as phasing out electricity subsidies, containing the public-sector wage bill and improving tax and fee collection, would support confidence and improve public finances. It noted that enforcing compliance of the value-added tax, for instance, could generate an estimated 3.3% of GDP in additional tax receipts.

It emphasized that a hypothetical devaluation of the Lebanese pound would be counterproductive and harmful to the economy and to public finances, as it would inflate the import bill and foreign currency liabilities in domestic-currency terms. It will also result in a sharp increase in prices, given the large import bill, and will push up inflation. In turn, this would induce a strong monetary policy response, which would drive lending rates to prohibitive levels and lead to a sharp recession. It added that Lebanese authorities can address the current account deficit and raise exports if they take advantage of trade agreements with the EU. It noted that the EU-Lebanon Association Agreement provides for preferential trade arrangements, and that Lebanon could raise its export potential to EU markets by improving compliance with technical requirements and quality standards.

Broad money supply down 1% in first four months of 2019

Figures released by Banque du Liban show that money supply M1, which includes currency in circulation and demand deposits in Lebanese pounds, reached LBP10,735bn at the end of April 2019, constituting a decline of 7.9% from LBP11,661bn at the end of 2018 and a decrease of 2.4% from LBP10,996bn at end-April 2018. Currency in circulation stood at LBP4,864bn at the end of April 2019, down by 2.9% from LBP5,008bn at end-2018 and up by 1.5% from LBP4,792bn at end-April 2018. Also, demand deposits in local currency stood at LBP5,871bn at the end of April 2019, down by 11.8% from end-2018 and by 5.4% from end-April 2018. Money Supply (M1) expanded by 1.8% in April from LBP10,547bn at end-March 2019, with currency in circulation growing by 3.2% and demand deposits in local currency increasing by 0.6% month-on-month.

In addition, money supply M2, which includes M1 and term deposits in Lebanese pounds, reached LBP75,296bn at the end of April 2019, constituting a decrease of 2% from LBP76,828bn at the end of 2018, and a decline of 6.7% from LBP80,700bn a year earlier. Term deposits in Lebanese pounds totaled LBP64,561bn at the end of April 2019, down by 0.9% from LBP65,167bn at end-2018, while they declined by 7.4% from LBP69,704bn at end-April 2018. Money Supply (M2) decreased by 0.9% in April from LBP75,983bn at end-March 2019, with term deposits in local currency declining by 1.3% month-on-month.

Further, broad money supply M3, which includes M2, deposits in foreign currency and debt securities issued by the banking sector, reached LBP211,318bn at the end of April 2019, constituting a decrease of 0.8% from LBP212,993bn at the end of 2018 and an increase of 0.2% from LBP210,927bn at end-April 2018. Deposits in foreign currency totaled LBP135,722bn at the end of April 2019, down by 0.1% from end-2018 and up by 4.4% from a year earlier. Also, debt securities issued by the banking sector amounted to LBP301bn at the end of April 2019, compared to LBP272bn at the end of 2018 and to LBP259bn at end-April 2018. Money supply (M3) was nearly unchanged in April from LBP211,351bn at the end of March 2019, with deposits in foreign currency expanding by 0.5% and debt securities issued by the banking sector declining by 6% month-on-month. In parallel, M3 regressed by LBP1,674bn in the first four months of 2019, due to a drop of LBP4,866bn in the net foreign assets of deposit-taking institutions and a decline of LBP3,412bn in claims on the private sector, which were partly offset by an increase of LBP2,267bn in net claims on the public sector and a surge of LBP4,337bn in other net items.

Consumer Price Index up 3.6% in first five months of 2019

The Central Administration of Statistics' Consumer Price Index increased by 3.6% in the first five months of 2019 from the same period of 2018, compared to a growth of 5.7% in the first five months of 2018. Also, the CPI rose by 3.5% in May 2019 from the same month of 2018. The prices of clothing & footwear grew by 18.4% in May 2019 from the same month of 2018, followed by recreation & entertainment costs (+6.7%), the prices of furnishings & household equipment (+5.6%), the cost of education (+5.1%), the prices of water, electricity, gas & other fuels (+4.8%), food & non-alcoholic beverages (+4.4%), actual rents (+2.6%), imputed rents (+2.5%), miscellaneous goods & services (+2.2%), prices at restaurants & hotels (+1.5%), prices of alcoholic beverages & tobacco (+0.8%), and transportation costs (+0.6%). In contrast, healthcare costs declined by 2.2% and communication costs regressed by 0.5% year-on-year in May 2019. Also, the distribution of actual rents shows that old rents grew by 3.7% and new rents increased by 1.8% annually in May 2019.

Further, the CPI increased by 0.12% in May 2019 from the preceding month, compared to a month-on-month increase of 0.5% in April 2019. The prices of furnishings & household equipment increased by 1.5% month-on-month in May 2019, followed by transportation costs (+1.4%), the prices of clothing & footwear (+0.3%), and the prices of water, electricity, gas & other fuels, miscellaneous goods & services, and recreation & entertainment costs (+0.2% each). In contrast, the prices of food & non-alcoholic beverages regressed by 0.8% month-on-month in May 2019, and healthcare costs declined by 0.2% in the covered month. The prices of the remaining components of the CPI basket were unchanged month-on-month in May 2019. The CPI increased by 0.5% month-on-month in May 2019 in the Nabatieh area, by 0.2% in each of Beirut, Mount Lebanon and the South, by 0.1% in the Bekaa region, while it regressed by 0.25% from April 2019 in the North. In parallel, the Fuel Price Index rose by 2.2% month-on-month in May 2019, while the Education Price Index was unchanged in the covered month.

Banque du Liban to launch digital currency

Banque du Liban's (BdL) Governor Riad Salamé indicated that BdL has made significant progress towards launching a digital currency in Lebanon, and is in the process of finalizing the currency's legal framework. He pointed out that banks or approved financial technology (fintech) companies will handle the customers' digital accounts.

The governor indicated that BdL has formed a committee to issue the required circulars to develop and regulate the fintech sector in the country, in accordance with the Law of Money and Credit and the recently-issued Law 81 about electronic transactions and personal data. He added that fintech companies will be required to obtain a license from BdL in order to carry out their activities in the country. However, he noted that all fintech-related activities, such as clearance and settlement, will be executed by the private sector, preferably by commercial banks.

Customs evasion is key contributor to fiscal deficit

The Ministry of Finance indicated that evading taxes and custom duties is among the main factors that contribute to public finance imbalances in Lebanon. It said that there are more than 124 illegal border crossing points that are used for smuggling goods to Lebanon. It noted that smuggling has reduced government revenues and has exacerbated the fiscal deficit. As such, the ministry called for increased cooperation between customs and security agencies in order to identify and combat smuggling practices.

In parallel, La Régie Libanaise Des Tabacs & Tombacs, which is a public company that manages the cultivation, manufacturing, distribution and sale of tobacco and tombac in Lebanon, indicated that smuggling represents a significant threat to its revenue base. It added that the black market for tobacco accounts for 30% to 35% of the total tobacco market in Lebanon. In this context, it indicated that the proposed increase in the retail price of tobacco could lead to higher government revenues and to a lower healthcare bill. However, it said that this cannot be achieved amid the prevailing smuggling practices and the current economic situation that would encourage consumers to resort to cheaper tobacco products in the black market. It estimated the direct losses from the tobacco black market at $100m per year, while it said that the effective losses amount to $300m when factoring in forgone revenues from the government's inability to increase the prices of tobacco products amid the existence of the black market. In addition, the Régie indicated that it adopted a commercial strategy to combat the illegal trade of tobacco products by producing cigarettes at competitive prices. The Régie added that it aims to legally introduce e-cigarettes to the Lebanese market, given that the smuggling rate of e-cigarettes is at 100%.

Revenues through Port of Beirut at $71m in first four months of 2019

Figures released by the Port of Beirut show that the port's overall revenues reached $70.7m in the first four months of 2019, constituting a decline of 15.5% from $83.6m in the same period of 2018. The Port of Beirut handled 2.4 million tons of freight in the covered period, down by 12.5% from 2.7 million tons in the first four months of 2018. Imported freight amounted to 2.1 million tons in the first four months of 2019 and accounted for 88.6% of the total, while the remaining 268,000 tons, or 11.4%, consisted of export cargo. A total of 563 vessels docked at the port in the first four months of 2019, down by 8.9% from 618 ships in the same period of 2018.

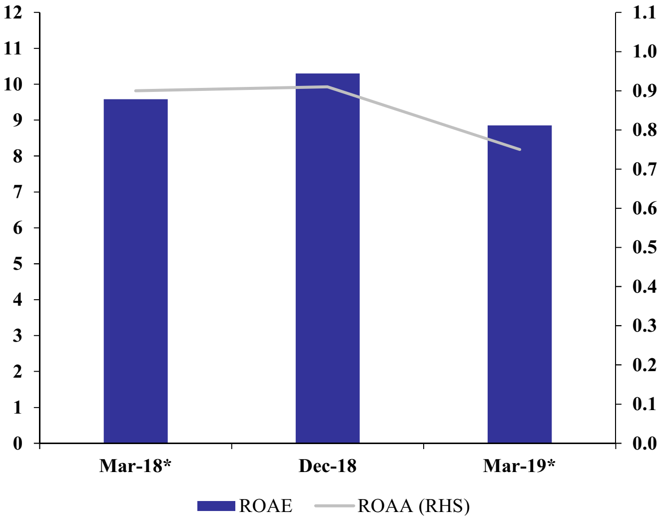
In parallel, revenues generated through the Port of Tripoli reached $5.8m in the first four months of 2019, constituting an increase of 5.7% from $5.5m in the same period of 2018. The Port of Tripoli handled 750,991 tons of freight in the covered period, constituting a growth of 32.4% from 567,122 tons in the first four months of 2018. Imported freight amounted to 565,117 tons and accounted for 75.2% of the total, while the remaining 185,874 tons, or 24.8%, were export cargo. A total of 206 vessels docked at the port in the first four months of 2019, down by 2.8% from 212 ships in the first four months of 2018.

Net income of top 16 banks down 8% to $484m in first quarter of 2019, ROAA at 0.75% and ROAE at 8.85%

The unaudited consolidated net profits of the Alpha Group of banks reached $483.9m in the first quarter of 2019, constituting a drop of 8.1% from net earnings of $526.5m in the same period of 2018. The Alpha Group consists of 16 banks with deposits in excess of $2bn each. Aggregate net operating income regressed by 5.9% to $1.27bn year-on-year in the first quarter of 2019. The banks' net interest income decreased by 5.2% year-on-year to $989.4m in the covered quarter, while their net fee income declined by 2.7% year-on-year to $218.4m.

In addition, net gains on financial assets at fair value rose by 25% annually to $106m in the first quarter of 2019, while net losses on financial investments stood at $9.8m in the first quarter of 2019 relative to gains of $2m in the same period of last year. Non-interest income accounted for 25% of total income in the covered quarter, up from 23% in the first quarter of 2018; with net fee income representing 64.8% of non-interest income in the covered quarter, down from 69.4% in the first quarter of last year. Also, the net interest spread was 1.57% in the first quarter of the year relative to 1.86% in the same period of 2018.

Profitability Metrics of Top 16 Banks (%)



**on an annualized basis*
Source: Bankdata Financial Services, Byblos Research

In parallel, total operating expenditures decreased by 4.2% year-on-year to $695.5m in the first quarter of 2019, with staff expenses regressing by 3.8% to $404m and administrative & other operating expenditures declining by 6.7% to $240.1m. Further, the cost-to-income ratio was 51.4% in the first quarter of 2019, unchanged from the same period last year. The banks' return on average assets was 0.75% on an annualized basis in March 2019 relative to 0.9% on an annualized basis in March 2018, while their return on average equity was 8.85% compared to 9.58% on an annualized basis in March 2018.

The banks' aggregate assets reached $259.3bn at the end of March 2019, nearly unchanged from end-2018, and constituting an increase of 9.6% from end-March 2018. Net loans & advances to customers totaled $60.2bn at end-March 2019, down by 3.9% from end-2018 and by 6.7% from the end of March 2018; while credit extended to related parties regressed by 9.8% from end-March 2018 and by 0.6% from end-2018 to $485.3m at the end of March 2019. Also, customer deposits stood at $181.8bn at the end of March 2019 and decreased by 0.8% from end-2018, but they increased by 1.6% from end-March 2018; while deposits from related parties totaled $2.64bn at end-March 2019 and declined by 10.4% from end-2018 and by 22.7% from a year earlier. The banks' shareholders equity reached $22bn at the end of March 2019 and regressed by 1.1% from end-March 2018.

In addition, the banks' loans-to-deposits ratio decreased from 35.7% at end-March 2018 to 32.9% at the end of March 2019. The loans-to-deposits ratio in local currency was 26.3% at end-March 2019, down from 27.8% at end-2018 and from 28.5% at end-March 2018, while the same ratio in foreign currency was 35.3% at the end of March 2019 relative to 36.2% at end-2018 and to 38.7% a year earlier. Also, the primary liquidity-to-assets ratio was 47.7% at the end of March 2019, up from 45.9% at end-2018 and from 41.7% at end-March 2018. In addition, the banks' credit-impaired loans-to-gross loans ratio increased from 8.19% at end-March 2018 to 9.36% at the end of March 2019. Further, loan-loss reserves covered 60.67% of credit-impaired loans at end-March 2019, down from a coverage of 62.24% at end-2018 and from 60.32% a year earlier. Gross credit-impaired loans, or Stage 3 loans, include loans that are classified as substandard, doubtful or loss loans.

Kafalat loan guarantees down 81% to $4.3m in first five months of 2019

Figures released by the Kafalat Corporation show that loans extended to small- and medium-sized enterprises (SMEs) under the guarantee of Kafalat reached $4.3m in the first five months of 2019, constituting a decrease of 81% from $22.5m in the same period of 2018. Kafalat provided 35 loan guarantees in the first five months of the year, down by 80% from 174 guarantees in the first five months of 2018. The average loan size was $122,066 in the first five months of 2019 compared to $129,213 in the same period of 2018. Mount Lebanon accounted for 51.4% of the total number of guarantees in the first five months of 2019, followed by the Bekaa region with 23%, Beirut with 11.4%, the North and the South with 5.7% each, and Nabatieh with 3%. Also, the industrial sector accounted for 37% of the total number of guarantees in the covered period, followed by the tourism sector with 28.6%, the agricultural sector with 25.7%, specialized technologies with 5.7% and the handicraft sector with 3%.

Kafalat is a state-sponsored organization that provides financial guarantees for loans earmarked for the setup and expansion of SMEs in productive sectors. It offers various financial products for SMEs in industry, agriculture, tourism, high technology, crafts and energy sectors. It guarantees up to 90% of the loan amount and a similar percentage of the accrued interest. The Ministry of Finance subsidizes interest rates and Banque du Liban administers the subsidies. The National Institute for the Guarantee of Deposits holds a 75% stake in Kafalat, while the remaining 25% is held by 50 Lebanese banks.

Corporate Highlights

Middle East Airlines orders four Airbus planes

National flag carrier Middle East Airlines (MEA) signed a firm order with Airbus to purchase four A321XLR planes, which are Airbus' newly-launched extra-long range airplanes. The new single-aisle A321XLR planes have a range of up to 4,700 nautical miles, or 8,700 kilometers, which is 15% longer than the range of the Airbus A321LR (long-range) planes. As such, MEA would be able to operate the aircraft on longer and less heavily travelled routes, which are currently served by larger and less efficient planes.

MEA indicated that it will use the A321XLR to strengthen its network in Africa and potentially expand to Asia. MEA had already ordered 11 A321neo family airplanes, which are expected to be delivered starting in 2020. Airbus intends to start delivering the A321XLR aircrafts in 2023. MEA is 99% owned by Banque du Liban and is part of the global airline alliance SkyTeam. Its current fleet includes 18 Airbus airplanes. The airline's network covers 32 routes across Europe, the Middle East and West Africa.

Banque BEMO approves distribution of dividends

The Extraordinary General Assembly of Banque BEMO that took place on May 6, 2019 approved the distribution of 15,500,000 shares as stock dividends for 2018 to holders of common shares. Specifically, the bank will distribute on June 24, 2019 one common share gratis for every four shares. Following the distribution, Banque BEMO's share capital will consist of 77,500,000 common shares and 350,000 Preferred Shares Class 2013.

Banque BEMO sal declared audited net profits of $18.9m in 2018, constituting an increase of 2.4% from net earnings of $18.4m in 2017. Also, the bank's aggregate assets reached $2bn at the end of 2018 and grew by 14.4% from $1.77bn at end-2017. Total loans, including those to related parties, stood at $728m at the end of 2018 and declined by 4.6% from end-2017. Also, total deposits, including those from related parties, amounted to $1.31bn at the end of 2018 and regressed by 5.3% from end-2017. Banque BEMO's listed share price closed at $1.5 on June 21, 2019, down by 4.5% from $1.57 at the end of 2018.

BankMed approves dividends for 2018

BankMed sal announced that its Ordinary General Assembly held on May 17, 2019 approved the distribution of $27.95m in dividends to holders of preferred shares for 2018. The bank will pay a gross dividend of $6.5 (LBP9,798.8) per share to holders of Preferred Shares Series 3 and $7 (LBP10,552.5) per share to holders of Preferred Shares Series 4. The bank will start paying the dividends on June 24, 2019 net of a 10% withholding tax. The bank did not disclose any details on the allocation of dividends to holders of common shares. BankMed currently has 65,250,000 common shares, as well as 1,500,000 Preferred Shares Series 3 and 2,600,000 Preferred Shares Series 4 outstanding.

BankMed posted unaudited consolidated net profits of $31.2m in 2018, constituting a drop of 70.1% from $104.4m in 2017. Total assets reached $19bn at the end of 2018, up by 14.5% from $16.6bn at end-2017. The bank's loans & advances to customers, excluding loans & advances to related parties, declined by 17.6% from $4.3bn at end-2017 to $3.56bn at the end of 2018. Also, customer deposits, excluding deposits from related parties, totaled $13.2bn at the end of 2018, and increased by 3.2% from $12.8bn a year earlier.

Net earnings of Fidus down 98% in 2018

Brokerage and advisory firm Fidus sal, an affiliate of Société Générale de Banque au Liban (SGBL), announced consolidated net profits of $5,970 in 2018 relative to net earnings of $323,051 in 2017. Net operating income declined by 8.2% to $7.6m in 2018. Also, the company's net interest income increased by 21.5% to $4.7m in 2018, while net commission receipts declined by 42.6% to $3m last year. Fidus allocated $335,655 for expected credit losses. Also, the company's total operating expenditures reached $7.6m in 2018, constituting a decline of 3.1% from 2017, with staff expenses rising by 9.7% to $4m and administrative & other operating expenditures regressing by 14.1% to $3.3m in 2018.

In parallel, the firm's total assets reached $210m at the end of 2018, constituting an increase of 30.3% from $161m at end-2017. Also, customer deposits, excluding those from related parties, totaled $30.5m at the end of 2018, down by 20.1% from $38.1m at end-2017. Further, the firm's shareholders' equity stood at $23.2m at end-2018, nearly unchanged from end-2017.

Holcim Liban approves dividends for 2018

The Ordinary General Assembly of Holcim (Liban) sal approved on June 19, 2019 the distribution of LBP7.611bn, or $5.05m, in gross dividends to holders of common shares for 2018. The dividend distribution is equivalent to a gross dividend of LBP390 ($0.259) per share, and represents a payout ratio of 18.5%. The firm, which has 19,516,040 shares listed on the Beirut Stock Exchange, will start paying the dividends on July 16, 2019 net of a 10% withholding tax.

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. The firm produces and sells cement and other related products. Holcim's share price closed at $13.5 on June 21, 2019, down by 12.9% from $15.5 at end-2018.

Capital Markets Authority selects firms for electronic trading platform

The Capital Markets Authority (CMA) granted the Athens Exchange Group (ATHEX Group) and the local Bank Audi Group a license to establish and operate an electronic trading platform (ETP) in Lebanon. Three Lebanese financial institutions applied for the tender that was launched in December 2018. The platform, which is expected to be operational by the end of 2019, will be regulated in accordance with Capital Markets Law 161. The license will be valid for 10 years, during which the CMA will not issue any additional licenses.

The ETP aims to develop capital markets in Lebanon and expand trading internationally. It will allow small- and medium-sized enterprises, as well as startups, to list their shares and improve their access to financing. Also, it will enable the trading of financial instruments, as well as currencies and precious metals, among others. In addition, the ETP will cooperate with stock markets outside Lebanon and aims to attract investments from the Lebanese Diaspora as it will provide expatriates with access to online trading of Lebanese equities. The ATHEX Group and Bank Audi are required to provide sufficient liquidity to ensure market sustainability and to execute transactions.

Further, the CMA considered that electronic trading would help reduce transaction costs, increase transparency, widen access to markets, improve liquidity, and promote competition. It noted that such benefits are relevant to Lebanon given the need to develop capital markets beyond the companies listed on the Beirut Stock Exchange, and to diversify sources of funding away from commercial banks.

MetLife Alico's net profits down 5% to $39m in 2018

MetLife Alico announced audited net profits of $39.3m in 2018 for its branch in Lebanon, constituting a decrease of 4.7% from net earnings of $41.3m in 2017. The company's audited balance sheet shows total assets of $547.1m at the end of 2018, down by 7.8% from $593.2m at end-2017. On the assets side, general company investments reached $123.5m at the end of 2018 and grew marginally by 0.5% from $122.8m a year earlier. They included $70.6m in fixed income investments, $9.2m in land and real estate, $7.2m in cash & cash equivalents, and $4.5m in policy loans. Also, the firm blocked $30.5m as bank deposits and deposits with a maturity of more than three months, of which $9m, or 29.5%, were blocked in favor of the Ministry of Economy & Trade as guarantees.

Unit-linked contracts investments totaled $409.2m at end-2018 and declined by 9.4% from $451.6m a year earlier. They included $179.5m in placements in mutual funds, $122.6m in cash & cash equivalents, and $107.1m in fixed income investments. Further, the reinsurance share in technical reserves for the non-life category rose by 47.7% to $2.6m in 2018, while that for the life category increased by 18.5% to $1.6m last year.

On the liabilities side, technical reserves for the life segment regressed by 7.8% to $49.5m in 2018, while technical reserves for the non-life category reached $25.1m at end-2018 and increased by 15.8% from a year earlier. Non-life technical reserves included outstanding claims reserves of $12.8m, unearned premium reserves of $10.9m, and $1m in reserves incurred but not reported. Provisions for risks and charges reached $1.6m at the end of 2018 and increased by 4.3% from a year earlier. Also, the firm's shareholders' equity totaled $39.3m at end-2018, down by 4.7% from a year earlier.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked MetLife Alico in first and 12th places in 2018 in terms of life and non-life premiums, respectively. The firm's life premiums in Lebanon reached $87.6m and its non-life premiums amounted to $37.2m last year, down by 0.6% and up by 7.5%, respectively, from 2017. It had a 16.2% share of the life market and a 3.2% share of the local non-life market in 2018. Overall, MetLife Alico had a 7.3% market share of the Lebanese insurance market in 2018, ranking it in second place in terms of life and non-life premiums.

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	Outlook
Moody's	Stable

Source: Moody's Investors Service

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