

LEBANON THIS WEEK

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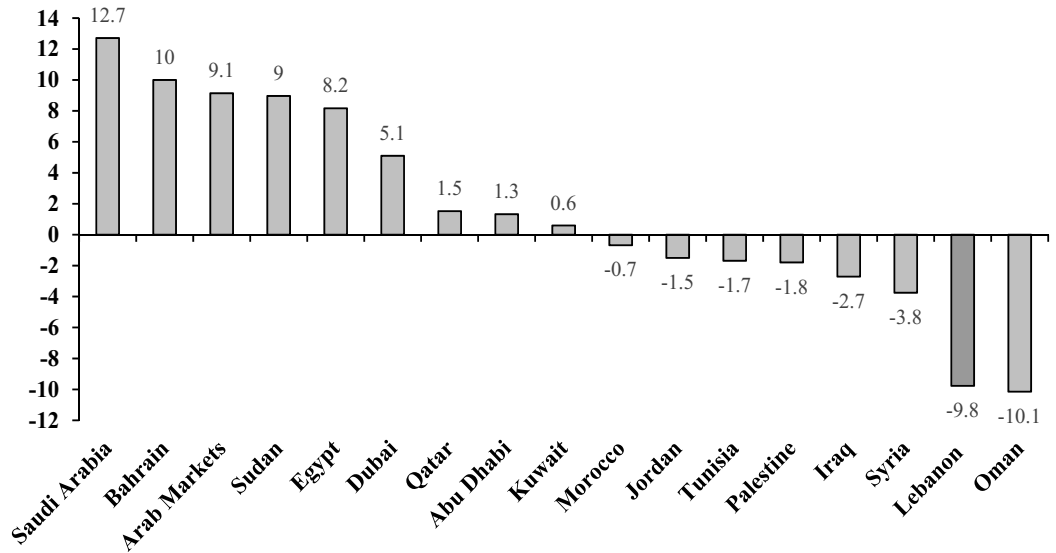
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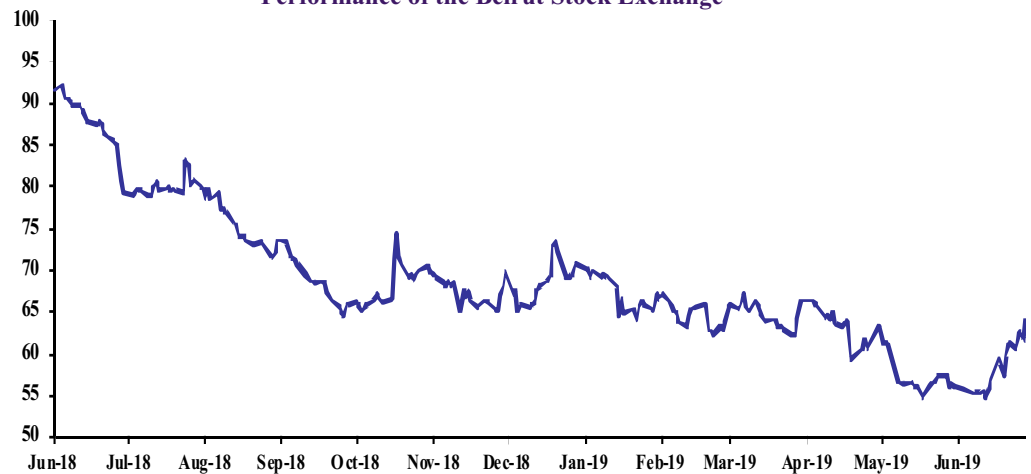
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Charts of the Week

Performance of Arab Stock Markets in First Half of 2019 (% change)*



Performance of the Beirut Stock Exchange*



*Capital Markets Authority Value Weighted Index

Source: Local Stock Markets, Capital Markets Authority, S&P Dow Jones Indices, Byblos Bank

Quote to Note

"The international investor community is closely watching the 2019 budget cycle as a prerequisite to unlocking the CEDRE investment funding package".

Moody's Investor Services, on the importance of enacting a credible budget for 2019

Number of the Week

44: Lebanon's global rank in 2018 in terms of insurance penetration, or premiums relative to the size of the economy, according to global reinsurer Swiss Re

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	(6,246)	(1,821)	-	-	(956)	-	-
Primary Balance	(636)	(715)	-	-	(386)	-	-
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 **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"	6.24	(6.73)	84,528	7.41%
Solidere "B"	6.27	(6.97)	37,390	4.84%
Audi GDR	3.90	(2.50)	7,850	5.55%
BLOM Listed	8.00	0.00	5,000	20.42%
Byblos Pref. 08	66.80	(3.19)	2,500	1.59%
HOLCIM	12.96	(4.00)	2,153	3.00%
Byblos Common	1.24	1.64	2,000	8.33%
Audi Listed	3.85	(3.75)	1,500	18.28%
BLOM GDR	7.70	0.00	-	6.76%
Byblos Pref. 09	72.00	0.00	-	1.71%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Mar 2020	6.38	98.00	9.50
Apr 2021	8.25	95.12	11.36
Oct 2022	6.10	86.38	11.23
Jun 2025	6.25	82.00	10.39
Nov 2026	6.60	81.25	10.28
Feb 2030	6.65	79.50	9.79
Apr 2031	7.00	78.75	10.13
May 2033	8.20	84.40	10.34
Nov 2035	7.05	78.00	9.77
Mar 2037	7.25	79.13	9.75

Source: Byblos Bank Capital Markets

	Jul 1-5	Jun 24-28	% Change	June 2019	June 2018	% Change
Total shares traded	166,153	465,022	(64.3)	1,693,147	5,778,738	(70.7)
Total value traded	\$1,605,803	\$2,657,396	(39.6)	\$7,832,924	\$39,079,303	(80.0)
Market capitalization	\$8.42bn	\$8.58bn	(0.96)	\$8.58bn	\$10.43bn	(17.8)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Jun 28, 2019	Jul 5, 2019	% Change**
CDS 1-year*	892.38	865.09	(3.1)
CDS 3-year*	914.00	889.23	(2.7)
CDS 5-year*	889.56	866.37	(2.6)

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

CDX EM 30*	Jun 28, 2019	Jul 5, 2019	% Change***
CDS 5-year**	97.16	97.36	0.2

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

mid-spread in bps *week-on-week

International Monetary Fund calls for fiscal and structural reforms

In the concluding statement of its Article IV Consultation with Lebanon, the International Monetary Fund indicated that the Lebanese government has an opportunity to implement fundamental reforms to improve the country's growth prospects despite the persistent challenges that include wide fiscal and external deficits, an elevated public debt level and subdued growth. It welcomed the authorities' ongoing efforts to reduce the fiscal deficit for 2019 and encouraged them to accelerate the implementation of a large and credible fiscal adjustment, as well as growth- and export-enhancing structural reforms, in order to increase confidence, reduce the public debt level, raise economic growth, and improve governance and the business environment. It added that the fiscal adjustment efforts and structural reforms would allow for the disbursement of \$11bn in pledged concessional funding that authorities secured at the CEDRE conference for the Capital Investment Program.

In parallel, the IMF noted that the fiscal deficit widened to 11% of GDP and the primary deficit stood at 1.4% of GDP in 2018, as a result of the public-sector salary scale in late 2017, massive hiring in the public sector, as well as lower-than-expected tax revenues, while the public debt level reached 151% of GDP at the end of 2018. The Fund considered that Lebanon's economic outlook depends on the progress in implementing the necessary reforms and on external developments. It noted that risks and vulnerabilities persist, and include the government's failure to achieve its targets and advance its reforms, or a worsening in political and social consensus that could erode confidence. However, it indicated that a resolution of the conflict in Syria would benefit Lebanon, while the anticipated start of exploration for offshore oil and gas by the end of 2019 could increase growth and improve the external balance.

Further, the Fund estimated that the measures included in the 2019 draft budget will narrow the fiscal deficit to about 9.8% of GDP, which would be wider than the authorities' targeted deficit of 7.6% of GDP. It anticipated that the proposed measures in the 2019 budget, along with the large projected savings from the electricity sector reform plan, if fully implemented, will narrow the primary deficit during the 2020-22 period. But it said that the primary deficit could remain above the level needed to stabilize the public debt level in the absence of additional measures. As such, it urged authorities to implement a medium-term fiscal plan that is based on credible and permanent measures, in order to achieve a significant primary fiscal surplus and improve debt sustainability in the medium term. It also recommended that authorities improve tax compliance and gradually eliminate the electricity subsidies, among other measures.

In addition, the IMF called on authorities to accelerate structural reforms to support growth and improve external competitiveness. It urged authorities to approve and legislate key growth-enhancing reforms identified in the government's reform plan submitted at the CEDRE conference. Also, it called on the government to strengthen the public investment management framework in order to ensure the successful implementation of the Capital Investment Program. Further, it said that authorities should implement the electricity sector plan without any delays, and should urgently take concrete measures to reduce corruption.

In parallel, the IMF indicated that Banque du Liban (BdL) has maintained financial stability in difficult economic conditions in recent years. It noted that BdL was forced to adopt a tight monetary stance in order to offset the loose fiscal policy. It said that BdL's financial operations have enabled banks to offer high deposit rates to retain and attract deposits, but have also resulted in higher lending rates. As such, it considered that these developments have contributed to a slowdown in lending to the private sector, and have raised the urgency of fiscal adjustment that will allow for lower interest rates. Further, it considered that the proposed sale to BdL of Treasury bills at low interest rates would worsen BdL's balance sheet and undermine its credibility, and that banks should not be under any pressure to purchase the low-yielding government debt. In addition, it called on banks to increase their capital buffers, and encouraged authorities to strengthen their anti-money laundering and combating the financing of terrorism framework.

Number of airport passengers up 4% in first half of 2019

Figures released by the Beirut-Rafic Hariri International Airport (HIA) show that 3,976,970 passengers utilized the airport (arrivals, departures and transit) in the first half of 2019, constituting an increase of 4.1% from 3,820,198 passengers in the same period of 2018. The number of arriving passengers increased by 2.3% year-on-year to 2,011,858 in the first half of 2019, compared to a growth of 9.7% in the same period last year and of 7.9% in the first half of 2017. Also, the number of departing passengers grew by 4.7% year-on-year to 1,939,437 in the first half of 2019, relative to an increase of 8.9% in the same period last year and to a rise of 6% in the first half of 2017.

In parallel, the airport's aircraft activity expanded by 0.7% annually to 33,546 take-offs and landings in the first half of 2019, relative to an increase of 3.1% in the same period of 2018, while it declined by 1.3% in the first half of 2017. In addition, the HIA processed 44,421 metric tons of freight in the covered period that consisted of 26,008 tons of import freight and 18,412 tons of export freight. Middle East Airlines had 12,879 flights in the first half of 2019 and accounted for 38.4% of HIA's total aircraft activity.

Arab Greenfield foreign direct investment in Lebanon at \$12bn between 2003 and 2018

Figures compiled by fDi Markets show that the cumulative amount of Arab Greenfield foreign direct investment (FDI) in Lebanon totaled \$12bn between 2003 and 2018. Lebanon was the 12th largest recipient of inter-Arab Greenfield FDI among 22 Arab countries during the covered period, ahead of Syria (\$10.54bn), Tunisia (\$7.65bn), Sudan (\$4.27bn), Kuwait (\$3.88bn), Yemen (\$3.82bn), Djibouti (\$3.51bn), Palestine (\$1.23bn), Somalia (\$529.5m), Comoros (\$104.1m), and Mauritania (\$88.8m). The amount of Arab Greenfield FDI in Lebanon accounted for 3.3% of total inter-Arab investments between 2003 and 2018. Also, the cumulative amount of Arab Greenfield FDI in Lebanon was equivalent to 2% of the country's aggregate GDP over the 2003-18 period. In comparison, Arab Greenfield FDI was equivalent to 5.6% of GDP in Jordan and 2.7% of GDP in Egypt in the covered period. Further, Lebanon was the destination of two projects worth \$25.2m in Arab Greenfield FDI in 2018, of which \$21.5m were from Qatar and \$3.7m from Bahrain.

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, but 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.

The real estate sector in Lebanon attracted \$7.58bn in Greenfield FDI, or 63.1% of the total, between 2003 and 2018. The hotels & tourism sector followed with \$3.33bn (27.7%), then the metals industry with \$300m and the financial services sector with \$299.7m (2.5% each), the entertainment industry with \$98.1m (0.8%), storage with \$63.5m, the textiles sector with \$59.1m and the transportation sector with \$58.8m (0.5% each); while other sectors attracted \$231.1m, or 1.9% of the total during the covered period.

The UAE was the main source of Arab Greenfield FDI in Lebanon between 2003 and 2018 with \$7.77bn or 64.6% of the total, followed by Kuwait with \$2.05bn (17.1%), Saudi Arabia with \$1.9bn (15.8%), Qatar with \$126m (1%), Bahrain with \$101.1m (0.8%), Oman with \$20.4m and Egypt with \$20m (0.2% each), and Iraq and Jordan with \$15.1m each (0.1% each).

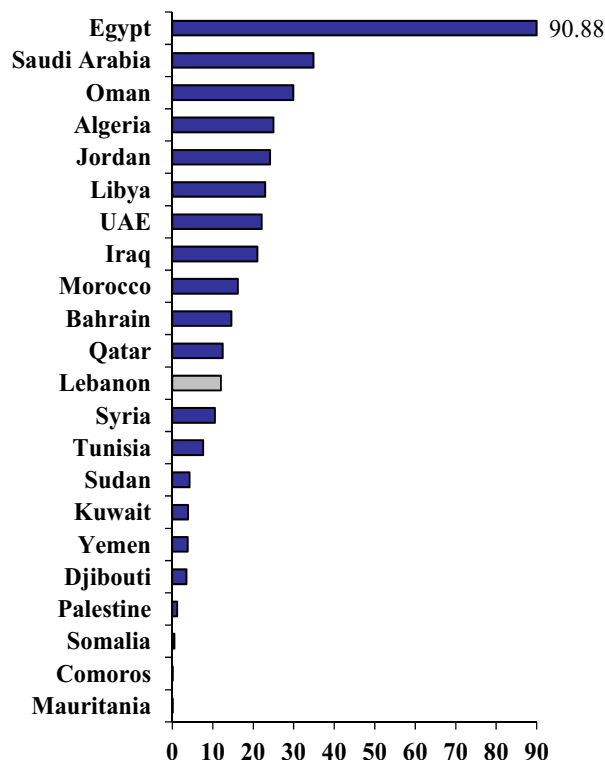
In parallel, Lebanon attracted 95 Greenfield FDI projects from Arab countries between 2003 and 2018, constituting the 11th lowest number of projects among 22 Arab countries. Lebanon attracted a larger number of projects than Syria (76 projects), Libya (55 projects), Sudan (51 projects), Tunisia (41 projects), Yemen (19 projects), Palestine (13 projects), Djibouti (11 projects), Somalia (eight projects), Mauritania (six projects), and Comoros (one project). Also, the UAE was the source of 53 Greenfield FDI projects to Lebanon, or 55.8% of the total, followed by Kuwait with 18 projects (18.9%), Saudi Arabia with nine projects (9.5%), Bahrain and Qatar with five projects each (5.3% each), Egypt with two projects (2.1%), and Iraq, Jordan and Oman with one project each (1.1% each). Further, the number of Arab Greenfield FDI projects in Lebanon accounted for 3.3% of such projects in Arab countries over the covered period. Overall, Kuwait, Saudi Arabia and the UAE accounted for 84.2% of the number of such projects in Lebanon and for 97.5% of their value.

Average size of apartments under construction in Beirut at 173 square meters in 2018

A study conducted by real estate advisory firm RAMCO shows that the average size per apartment under construction in Beirut was 173 square meters (sqm) in 2018, which constitutes a decrease of 5% from 182 sqm in 2017. In comparison, the average size of apartments under construction in the capital city stood at 252 sqm in 2013, 238 sqm in 2014, 216 sqm in 2015 and 198 sqm in 2016. Overall, the average size per apartment declined by 79 sqm between 2013 and 2018. The firm attributed the decline in the average size per apartment to the shrinking budget of buyers. As such, it said that developers are building smaller apartments in order to address the budget of clients.

In addition, RAMCO pointed out that the decrease in the average size of apartments has led to the increase in the number of apartments under construction in Beirut that are smaller than 100 sqm. It noted that 33 buildings, or 15.7% of projects under development in Municipal Beirut, were offering small apartments of between 50 sqm and 99 sqm in 2018. It added that apartments that are smaller than 100 sqm account for 36% of total residential units under development in Ashrafieh. It said that the average size of apartments reached 160 sqm in Ashrafieh and 176 sqm in Western Beirut, while the average size of apartments in the Beirut Central District was at 270 sqm. The study covered 210 buildings under construction across Beirut.

Inter-Arab Greenfield FDI Inflows between 2003 and 2018 (US\$bn)



Source: fDi Markets, Byblos Research

Net foreign assets of financial sector down by \$5.2bn in first five months of 2019

Figures issued by Banque du Liban (BdL) show that the net foreign assets of the financial sector, which are a proxy for Lebanon's balance of payments, declined by \$5.2bn in the first five months of 2019 compared to an increase of \$430.2m in the same period of 2018. The net foreign assets of the financial sector regressed by \$1.9bn in May 2019, compared to a decline of \$1.3bn in April 2019 and an increase of \$1.2bn in May 2018. The month-on-month decline in May 2019 was caused by a drop of \$1.4bn in the net foreign assets of BdL and by a decrease of \$508.2m in those of banks and financial institutions. Also, the cumulative deficit in the first five months of 2019 was caused by a decline of \$3.1bn in the net foreign assets of BdL and by a decrease of \$2.1bn in those of banks and financial institutions.

BdL indicated that it paid \$2.15bn to cover maturing principal and coupons on Lebanese Eurobonds in the first five months of 2019, including \$1.25bn for maturing principal and coupons in May 2019, \$500m for a Eurobond that matured on April 23, 2019, and \$402m for maturing coupons in the first four months of 2019.

The net foreign assets of the financial sector grew by \$1.2bn in 2016, while they decreased by \$155.7m in 2017 and by \$4.8bn in 2018. The net foreign assets of the financial sector declined by the equivalent of 8.6% of GDP in 2018, and 0.3% of GDP in 2017, relative to an increase equivalent to 2.4% of GDP in 2016.

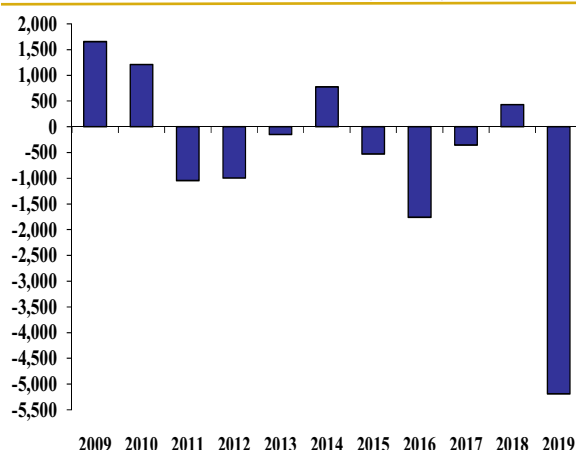
Number of real estate transactions down 20% in first half of 2019

Figures released by the Ministry of Finance indicate that 21,957 real estate transactions took place in the first half of 2019, constituting a decrease of 20.1% from 27,472 deals in the same period of 2018. In comparison, there were 33,584 real estate transactions in the first half of 2017 and 29,988 deals in the same period of 2016. There were 3,855 real estate transactions in the Baabda area in the first half of 2019, representing 17.6% of the total. The North followed with 3,650 deals (16.6%), then the Zahlé area with 2,939 transactions (13.4%), the South with 2,637 deals (12%), the Metn district with 2,567 transactions (11.7%), the Keserwan region with 2,148 deals (9.8%), the Nabatieh area with 1,828 transactions (8.3%), and Beirut with 1,579 deals (7.2%).

Also, the aggregate amount of real estate transactions reached \$2.7bn in the first half of 2019 and decreased by 29.6% from \$3.9bn in the same period of 2018. In comparison, the amount of real estate deals regressed by 14% in the first half of 2018 and grew by 10.1% in the same period of 2017. Further, the value of real estate transactions in Beirut totaled \$837m and accounted for 30.7% of the total in the first half of 2019. The Metn district followed with \$562m (20.6%), then the Baabda region with \$446.8m (16.4%), the Keserwan area with \$270.1m (9.9%), the South with \$215.5m (7.9%), the North with \$186m (6.8%), the Zahlé area with \$100.6m (3.7%), and the Nabatieh region with \$78.9m (2.9%).

In parallel, the average amount per real estate transaction was \$124,163 in the first half of 2019, down by 12% from an average of \$140,971 in the same period of 2018 and relative to \$134,105 in the first half of 2017. Further, there were 464 real estate transactions executed by foreigners in the first half of 2019, down by 17% from 559 deals in the same period of 2018 and compared to 599 transactions in the first half of 2017. The number of real estate deals executed by foreigners accounted for 2.1% of total real estate transactions in the first half of 2019, up from 2% in the same period of 2018 and relative to 1.8% of deals in the first half of 2017. Further, 23.3% of the real estate transactions executed by foreigners in the first half of 2019 were in the Baabda district, followed by Beirut (17.9%), the South (15.3%), the Metn region (13.8%), the Keserwan region (11%), the North (9.3%), the Zahlé area (8.6%), and the Nabatieh region (0.9%). Also, Saudi citizens accounted for 29.4% of the total amount of real estate transactions executed by foreigners in June 2019, followed by Syrian nationals (7%), Americans (2.3%), Kuwaiti nationals (1.7%), Canadians (1.6%), and Qatari nationals (1.5%).

Change in Net Foreign Assets of Financial Sector* (US\$m)



*in first five months of each year

Source: Banque du Liban

Lebanon ranks 86th globally, sixth in MENA region in terms of gender equality

The 2019 EM2030 SDG Gender Index ranked Lebanon in 86th place among 129 countries around the world and in sixth place among 11 countries in the Middle East & North Africa (MENA) region. Lebanon also came in 34th place among 36 upper middle-income countries (UMICs) included in the 2019 survey.

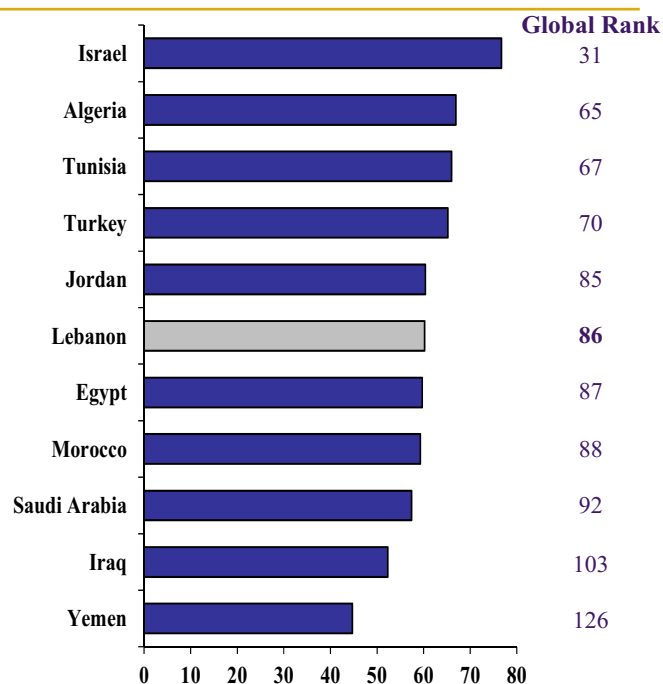
The index is published by Equal Measures 2030 (EM2030), an independent civil society and private sector-led partnership that aims to combine their resources towards achieving the Sustainable Development Goals (SDGs) of the United Nations' 2030 Agenda for Sustainable Development.

The 2019 EM2030 SDG Gender Index measures the state of gender equality in countries based on 14 out of the 17 SDGs. As such, it assesses the status of a country's gender equality vis-à-vis gender equality targets that are set forth by the 2030 UN Agenda.

The index is based on 51 indicators that cover poverty, healthcare, education, gender-based violence, climate change, and work & economic growth, among others. The individual SDG scores range from zero to 100, with a score of 100 reflecting the achievement of gender equality in relation to the target for that specific SDG. A score of 50 signifies that a country is about halfway to meeting that goal.

Globally, Lebanon ranked ahead of Egypt, Morocco and Guatemala in terms of gender equality on the 14 SDGs, while it trailed Botswana, Nicaragua and Jordan. It also ranked ahead of only Guatemala and Iraq among UMICs. Lebanon received a score of 60.2 points in 2019, which means that it still is about 40% away from achieving full gender equality. Lebanon's score is lower than the global average score of 65.7 points, the UMICs' average score of 67.3 points, and the MENA region's average score of 60.8 points. Lebanon, along with 32 other countries worldwide, came in the "poor" score category.

The 2019 EM2030 SDG Gender Index Scores & Rankings of MENA Countries



Source: Equal Measures 2030, Byblos Research

Components of the 2019 EM2030 SDG Gender Index for Lebanon

	Lebanon's Score	Global Average	MENA Average
Poverty	53.0	70.0	65.3
Hunger & Nutrition	73.7	80.0	73.0
Health	85.9	75.0	81.1
Education	84.4	75.0	70.4
Gender Equality	44.5	62.0	50.8
Water & Sanitation	78.9	77.0	80.8
Energy	n/a	74.0	86.6
Work & Economic Growth	49.7	69.0	53.6
Industry, Infrastructure & Innovation	48.0	55.0	46.2
Inequality	44.0	65.0	58.7
Cities & Communities	70.1	66.0	62.9
Climate	68.7	51.0	46.2
Peace & Institutions	53.8	63.0	54.8
Partnerships	40.7	44.0	43.0

Source: Equal Measures 2030, Byblos Research

Banque du Liban's foreign assets down 8% to \$36bn in first half of 2019

Banque du Liban's (BdL) interim balance sheet totaled \$128.5bn at the end of June 2019, constituting a decrease of 8.6% from \$140.6bn at the end of 2018 and a decline of 0.6% from \$129.2bn at end-June 2018. The decline in the first half of the year is mainly due to the "netting" on the assets and liabilities' sides of BdL's balance sheet that took place in March 2019 as part of the implementation of the new international accounting standard IFRS 9. The "netting" affected loans to the financial sector on the assets side and financial sector deposits on the liabilities side.

Assets in foreign currency reached \$36.4bn at the end of June 2019, down by 8.3% from \$39.7bn at end-2018 and by 17.6% from \$44.2bn at end-June 2018. Assets in foreign currency declined by \$394.7m in January, by \$391.3m in February, by \$320.1m in March, by \$589.3m in April, by \$1.4bn in May and by \$203m in June 2019. This resulted in an aggregate decline of \$3.3bn in the first half of 2019. BdL indicated that it paid \$2.15bn to cover maturing principal and coupons on Lebanese Eurobonds in the first five months of 2019, including \$1.25bn for maturing principal and coupons in May 2019, \$500m for a Eurobond that matured on April 23, 2019, and \$402m for maturing coupons in the first four months of 2019. In comparison, BdL's assets in foreign currency increased by \$2.2bn in the first six months of 2018 and by \$378.9m in the first half of 2017, while they declined by \$814.9m in the same period of 2016.

In parallel, the value of BdL's gold reserves rose by 11% from the end of 2018 and by 13.1% year-on-year to reach \$13.1bn at the end of June 2019. The value of gold reserves reached a peak of \$16.7bn at the end of August 2011. Also, the securities portfolio of BdL grew by 17.4% year-on-year to \$33.2bn at end-June 2019.

In addition, loans to the local financial sector decreased by \$18.5bn, or 55%, from end-2018 to \$15.2bn at end-June 2019, due to the "netting" procedure on the assets side. Further, deposits of the financial sector reached \$105.6bn at the end of June 2019 and decreased by \$14.2bn, or by 11.8%, from end-2018, due to the "netting" procedure on the liabilities side. Also, public sector deposits at BdL totaled \$4.3bn at the end of June 2019 and decreased by \$687.5m, or 13.7%, from end-2018, and by \$2.2bn, or 33.6%, from end-June 2018.

Lebanon ranks 84th globally, first in Arab world in press freedom

In its 2019 Freedom and the Media report on press freedoms in 195 countries and 14 territories, independent think tank Freedom House ranked Lebanon in 84th place globally and in first place among 20 Arab countries. Lebanon also came in 21st place among 55 upper middle-income countries (UMICs) included in the survey.

The survey assesses the actual press freedoms that individuals have in a country, rather than the government's performance in upholding press freedoms in that country. Freedom House indicated that the report's methodology is derived from the Universal Declaration of Human Rights that the United Nations General Assembly adopted in 1948. It added that the report is based on the premise that these standards apply to all countries and territories, irrespective of their geographical location, ethnic or religious composition, or level of economic development. The survey provides a numerical score from zero to four for each country or territory, with a score of four assigned to the country or territory with the highest level of press freedom. The 2019 report covers developments that occurred during 2018 in the countries and territories included in the survey.

Globally, the level of press freedoms in Lebanon, along with 53 other countries and territories including Colombia, Ecuador, Hungary, the Philippines, and Singapore, was higher than in Angola, Thailand and Venezuela, and lower than in Austria, Ghana and Peru among economies with a GDP of \$10bn or more. Also, Lebanon's level of press freedom was higher than in Cuba, Gabon and Turkey, and lower than in Brazil, Malaysia and South Africa among UMICs, while it tied in first place, with Mauritania and Tunisia, among Arab countries. Lebanon received a score of two points on this year's survey. Lebanon's score was slightly worse than the global average of 2.11 points but was better than the UMICs' average score of 1.98 points, while it was significantly better than the Arab average score of 0.85 points. Also, Lebanon's score was better than the Gulf Cooperation Council (GCC) countries' average score of 0.5 points and the non-GCC Arab countries' average score of one point.

Banking sector assets at \$254bn at end-May 2019

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets stood at \$253.6bn at the end of May 2019, constituting an increase of 1.7% from \$249.5bn at the end of 2018 and an expansion of 9.2% from \$232.3bn at end-May 2018. Loans extended to the private sector reached \$56.3bn at the end of May 2019, regressing by 5.2% from end-2018 and by 5.3% from a year earlier. Loans to the resident private sector totaled \$49.7bn, constituting decreases of 5% from the end of 2018 and of 6.3% from end-May 2018. Also, credit to the non-resident private sector reached \$6.6bn at end-May 2019, declining by 6.8% from end-2018 and growing by 3.5% from a year earlier. In nominal terms, credit to the private sector dropped by \$3.06bn in the first five months of 2019 relative to a decrease of \$231m in the same period of 2018, as lending to the resident private sector contracted by \$2.58bn and credit to the non-resident private sector regressed by \$481.6m in the covered period. The dollarization rate in private sector lending rose from 67.7% at end-May 2018 to 69.7% at end-May 2019.

In addition, claims on non-resident financial institutions reached \$9.3bn at the end of May 2019 and declined by \$2.7bn, or 22.4%, from the end of 2018. Also, claims on the public sector stood at \$32.6bn at end-May 2019, down by 3% from end-2018. The average lending rate in Lebanese pounds was 10.75% in May 2019 compared to 8.65% a year earlier, while the same rate in US dollars was 9.54% relative to 7.87% in May 2018. Further, the deposits of commercial banks at Banque du Liban totaled \$141bn at the end of May 2019, constituting an increase of 22.8% from a year earlier.

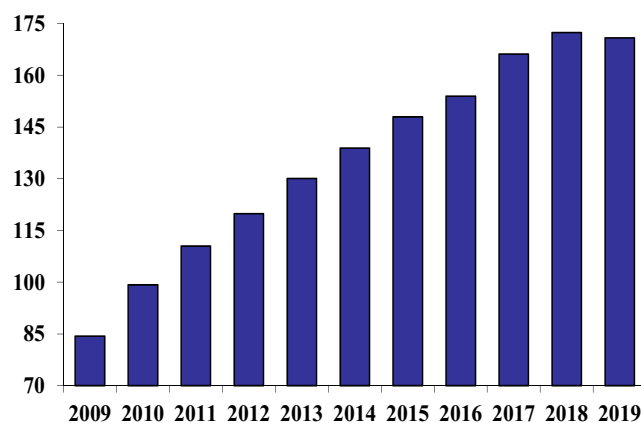
In parallel, total private sector deposits reached \$171bn at the end of May 2019. They decreased by 2% from the end of 2018 and by a marginal 0.9% from end-May 2018. Deposits in Lebanese pounds reached the equivalent of \$49.2bn at end-May 2019, down by 4% from end-2018 and by 10% from a year earlier; while deposits in foreign currency totaled \$121.7bn, as they regressed by 1.1% in the first five months of 2019 and grew by 3.3% from \$117.8bn a year earlier. Resident deposits totaled \$134.5bn at the end of May 2019, decreasing by 1.5% or \$2bn from the end of 2018 and regressing by 1% or \$1.3bn from end-May 2018. Also, non-resident deposits reached \$36.3bn at end-May 2019, as they dropped by 3.7% or \$1.4bn from end-2018, and regressed by a marginal 0.7% or \$248.3m from a year earlier. In nominal terms, private sector deposits declined by \$2.18bn in January, by \$133m in February and by \$1.86bn in May, while they increased by \$550.6m in March and by \$186.4m in April 2019. As such, aggregate private sector deposits dropped by \$3.43bn in the first five months of 2019 relative to an increase of \$3.72bn in the same period of 2018, with deposits in Lebanese pounds declining by \$2.04bn and foreign-currency deposits dropping by \$1.39bn. The dollarization rate of private sector deposits was 71.2% at the end of May 2019, up from 70.6% at the end of 2018, and compared to 68.3% a year earlier.

In parallel, deposits of non-resident financial institutions reached \$9.5bn at the end of May 2019 and increased by 12% from end-May 2018. Further, the average deposit rate in Lebanese pounds was 8.72% in May 2019 compared to 6.71% a year earlier, while the same rate in US dollars was 5.79% relative to 4.11% in May 2018. The ratio of private sector loans to deposits in foreign currency stood at 32.3% at the end of May 2019, compared to 34.2% a year earlier and well below Banque du Liban's limit of 70%. The same ratio in Lebanese pounds reached 34.7% at end-May 2019, relative to 35.2% at the end of May 2018. As such, the total private sector loans-to-deposits ratio reached 33% compared to 34.5% at end-May 2018. The banks' aggregate capital base stood at \$21.1bn at end-May 2019, up by 1.7% from \$20.7bn a year earlier.

Association of Banks elects board of directors

The General Assembly of the Association of Banks in Lebanon (ABL) unanimously elected on June 29, 2019 its 12-member Board of Directors for a two-year term. The board members are Mr. Semaan Bassil (Byblos Bank), Mr. Saad Azhari (BLOM Bank), Mr. Samir Hanna (Bank Audi), Mr. Nadim Kassar (Fransabank), Dr. Joseph Torbey (Crédit Libanais), Mr. Walid Raphaël (Banque Libano-Française), Mr. Mohammed Hariri (BankMed), Mr. Antoine Sehnaoui (SGBL), Dr. Tanal Sabbah (Lebanese Swiss Bank), Mr. Abdul Razzak Achour (Fencia Bank), Mr. Ghassan Assaf (BBAC), as well as Dr. Salim Sfeir (Bank of Beirut). In turn, the new Board elected Dr. Sfeir as its Chairman, Mr. Kassar as Vice Chairman, Mr. Raphaël as Secretary, and Dr. Sabbah as Treasurer. There were 49 commercial banks operating in Lebanon at the end of 2018, unchanged from end-2017, with 1,080 branches across Lebanon relative to 1,065 at end-2017.

Total Private Sector Deposits* (US\$bn)



*at end-May of each year

Source: Banque du Liban, Byblos Research

Seven Lebanese universities among 1000 ranked universities worldwide

The QS World University Rankings for 2020 included seven Lebanese universities among 1000 ranked universities worldwide. The list ranked the American University of Beirut (AUB) in 244th place globally and in third place among 38 Arab universities included in the survey. AUB's global rank fell by seven spots from the preceding year, while its regional rank was unchanged year-on-year. AUB came in 237th place in 2019, in 235th place in 2018, in 228th place in 2017 and in 268th place in 2016.

Also, the survey ranked Université Saint-Joseph (USJ) in the 561-570 range globally and in 14th place among Arab universities. USJ ranked in 500th place in the 2019 survey, and came in the 491-500 range globally in both the 2017 and 2018 surveys.

The Lebanese American University (LAU) and the University of Balamand followed in the 581-590 range globally each. LAU ranked in the 601-650 range on each of the 2018 and 2019 lists, while the University of Balamand ranked in the 591-600 range in the 2019 survey. Also, the Holy Spirit University of Kaslik came in the 601-650 range in the 2020 survey, while it ranked in the 651-700 range in the previous survey. Further, Notre Dame University ranked in the 801-1000 range globally, unchanged from the 2019 survey. Finally, the survey included for the first time the Beirut Arab University, which came in the 801-1000 range.

AUB received a score of 38.7 points, which is lower than the average score of 40 points for the top five universities in the region, while USJ received a score of 26.4 points. The top ranked Arab university is King Abdulaziz University that came in 186th place globally with a score of 45.2 points, while the Massachusetts Institute of Technology ranked first worldwide and received a score of 100 points.

The rankings are based on a weighted average of six factors that are academic reputation with a 40% weight, faculty-to-student ratio and citations per faculty (20% each), employer reputation (10%), and international faculty ratio and international student ratio (5% each). The QS World University Rankings are compiled by Quacquarelli Symonds Limited, a company specializing in education and study abroad.

Banque du Liban amends circular about financial operations with commercial banks

Banque du Liban (BdL) issued Intermediate Circular 519 on July 1, 2019 that amends Basic Circular 143 issued on November 7, 2017 about the implementation of International Financial Reporting Standard 9 (IFRS 9). The circular amended the second clause of Article 5 of the circular. The circular allowed banks and financial institutions in Lebanon to record immediately the profits they generate from their financial operations with BdL if they meet three conditions. The circular covers swap operations and the sale and purchase of financial instruments between the banks and BdL.

First, it noted that the banks' transactions with BdL must have been executed after January 1, 2019. Second, it pointed out that the funds that the banks utilize in these operations should be transferred from sources other than their placements at BdL, or should result from the banks' foreign exchange operations. Third, the circular said that banks should record the surplus that results from these operations in their income statement, and transfer the entire surplus at the end of the fiscal year to non-distributable general reserves. Prior to the amendments, banks had to record the profits over the life of the exchanged instruments.

North Assurance's net profits up 2% to \$1m in 2018

North Assurance announced audited net profits of \$0.95m in 2018, constituting an increase of 1.6% from net earnings of \$0.94m in 2017. Its audited balance sheet shows total assets of \$34.9m at the end of 2018, up by 6.8% from \$32.6m at end-2017. On the assets side, general company investments totaled \$22.1m and grew by 5% from a year earlier. They included \$10.1m in land and real estate investments, and \$9m in cash & cash equivalents. Also, the firm blocked \$2.3m as bank deposits and deposits with a maturity of more than three months, of which \$1.9m, or 82.6%, were blocked in favor of the Ministry of Economy & Trade as guarantees. Further, the reinsurance share in technical reserves for the non-life category increased by 61.4% to \$1.2m at end-2018, while that for the life category regressed by 42.8% to \$0.1m at the end of 2018.

On the liabilities side, technical reserves for the life segment declined by 29.7% to \$0.2m at the end of 2018, while technical reserves for the non-life category reached \$16.4m at end-2018 and increased by 14.5% from a year earlier. Non-life technical reserves included unearned premium reserves of \$11.5m, outstanding claims reserves of \$3.6m, and \$0.6m in incurred but not enough reported reserves. Provisions for risks and charges reached \$0.4m and decreased by 30.1% from the previous year. Also, the firm's shareholders' equity totaled \$13.6m at end-2018, nearly unchanged from a year earlier.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked North Assurance in 27th and 22nd places in 2018 in terms of life and non-life premiums, respectively. The firm's life premiums reached \$0.8m, up by 45.5% from 2017, while non-life premiums amounted to \$14.4m, up by 6.9% year-on-year. It had a 0.1% share of the life market and a 1.2% share of the local non-life market in 2018. Overall, North Assurance ranked in 26th place in terms of life and non-life premiums in 2018, and had a 0.9% market share.



Launch of new daily newspaper

Nida' Al Watan, a new Arabic-language daily political newspaper, published its first edition on July 1, 2019. The daily newspaper consists of 16 pages that cover local and international news, as well as news related to politics, economics, sports, art and culture, among other news.

The launch of the newspaper coincides with a downturn in Lebanon's print media. In this context, daily Lebanese newspaper *Al-Mustaqbal* suspended its printed edition at the start of February 2019, following 20 years of publishing, due to a continued decline in sales and advertising revenues in the domestic market. Further, *Al-Anwar* newspaper stopped publishing printed copies in September 2018 after around 60 years in the market, while pan-Arab newspaper *Al-Hayat* closed its Beirut offices in June 2018 and suspended its printed edition. Also, the daily *As-Safir* newspaper ended its operations in December 2016, and *Al-Balad* newspaper ceased its operations in June 2018. In addition, *Al-Ittihad* newspaper closed in December 2017 after only two months of operations.

According to figures issued by *ArabAd* magazine and research firm Ipsos on the advertising market in Lebanon, the share of advertising expenditures on printed media regressed from 29.5% of total advertising expenditures in 2009 to 11.3% in 2017. In contrast, the share of spending on online advertising increased from 2% in 2009 to nearly 11% in 2017.

Moody's changes ratings on Odea Bank

Moody's Investors Service downgraded from 'B3' to 'Caa1' the long-term foreign and local currency deposit ratings of Odea Bank, the subsidiary of the Bank Audi Group in Turkey, and kept the 'negative' outlook on the ratings. The rating action is part of Moody's downgrade of 18 Turkish banks and follows the agency's similar action on Turkey's sovereign rating. The agency indicated that its downgrade of Turkish banks mainly reflects a substantial rise in Turkey's external vulnerabilities, which exposes the banks to higher risks of negative shifts in investor sentiment and depositor behavior. It also said that the downgrade takes into account a higher risk of extreme government policy measures in Turkey, such as restricting access to foreign currency for depositors, amid policy uncertainty and the Central Bank of the Republic of Turkey's weakening net foreign currency reserves. In addition, it noted that the rating action reflects a more prolonged deterioration of Turkey's operating environment, which is putting pressure on the banks' solvency metrics. In this context, the agency lowered the bank's Macro Profile by one notch from 'Weak-' to 'Very Weak+'.

Further, Moody's downgraded Odea Bank's standalone baseline credit assessment (BCA) by one notch from 'b3' to 'caa1'. It attributed the rating action, which was part of the agency's downgrade of the BCAs of 18 Turkish banks, mainly to its expectation that the bank's problem loans will increase and that its core capital and profitability will decline. Also, it noted that the bank's core capital continues to be sensitive to an unexpected severe depreciation of the Turkish lira. It added that the ratings reflect the bank's moderate market funding that is partly mitigated by its stock of liquid assets.

Odea Bank posted unaudited net profits of TRY4m, or \$1m, in the first quarter of 2019, down by 94.7% from the same period of 2018 and constituting 0.7% of the Group's total net earnings in the first quarter of 2019. It represented 12.1% of the Group's total assets, 25.4% of its aggregate loans & advances to customers and 11.6% of its customer deposits at the end of March 2019.

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	20.6	(1.2)
Fiscal Expenditures / GDP	29.0	28.8	31.7	2.9
Fiscal Balance / GDP	(9.6)	(7.0)	(11.1)	(4.1)
Primary Balance / GDP	0.04	2.7	(1.1)	-
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



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