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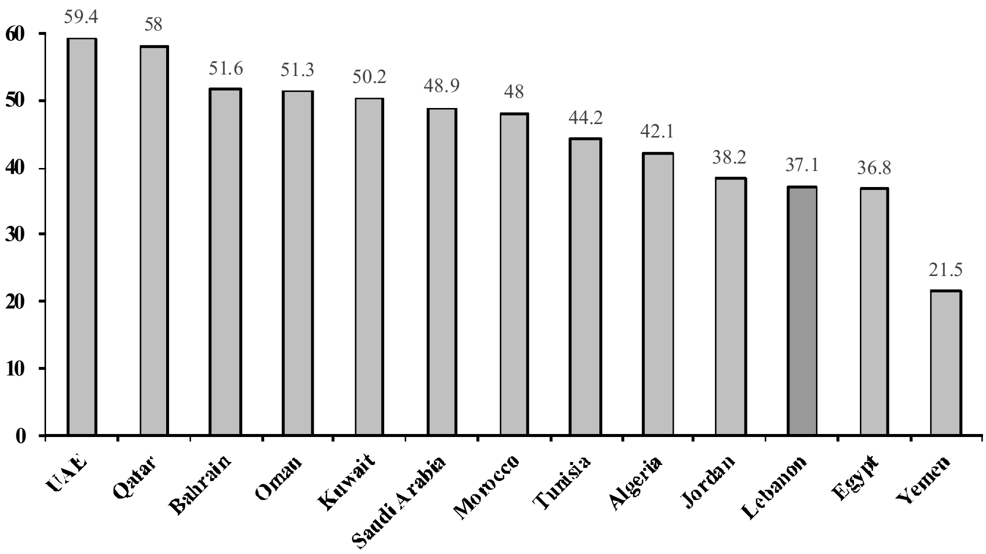
BYBLOS BANK SAL
Economic Research & Analysis Department

LEBANON THIS WEEK

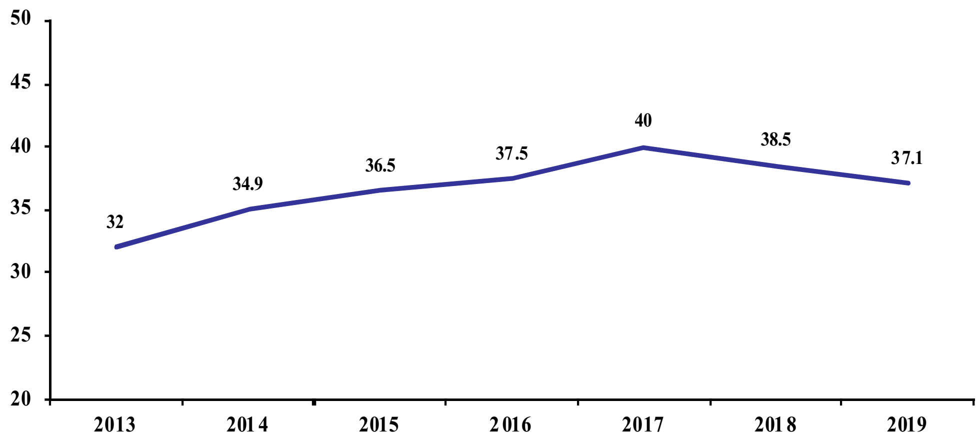
In This Issue

Charts of the Week

Performance of Select Arab Countries on Infrastructure Pillar*



Performance of Lebanon on Infrastructure Pillar*



**measures general infrastructure, information & communication technologies, and ecological sustainability; Higher score reflects better infrastructure conditions*
Source: 2019 Global Innovation Index, INSEAD, Cornell University, WIPO, Byblos Bank

Quote to Note

"It encourages the government to establish an independent regulatory authority and other good governance mechanisms for enhancing efficiency, transparency and accountability."

The International Support Group for Lebanon, on the importance of establishing a regulatory authority for the electricity sector in Lebanon as a sign of good governance and transparency

Number of the Week

US$111: Average per capita monthly expenditures of Syrian refugees in Lebanon in 2018, according to the United Nations Higher Commissioner for Refugees

Lebanon in the News

$m (unless otherwise mentioned)	2018	Jan-Jun 2018	Jan-Jun 2019	% Change*	Jun-18	May-19	Jun-19
Exports	2,952	1,539	1,725	12.08	215	319	285
Imports	19,980	9,580	10,138	5.82	1,616	2,456	1,377
Trade Balance	(17,028)	(8,042)	(8,414)	4.63	(1,401)	(2,137)	(1,092)
Balance of Payments	(4,823)	(208)	(5,391)	2488.0	(639)	(1,882)	(204)
Checks Cleared in LBP	22,133	10,632	10,313	(3.0)	1,680	1,623	1,581
Checks Cleared in FC	44,429	22,213	17,182	(22.6)	3,471	2,531	2,502
Total Checks Cleared	66,562	32,845	27,495	(16.3)	5,151	4,154	4,083
Fiscal Deficit/Surplus**	(6,246)	(2,921)	(2,386)	(18.3)	(115)	(1,006)	-
Primary Balance**	(636)	(354)	(38)	(89.4)	199	(60)	-
Airport Passengers***	8,842,442	3,820,198	3,978,188	4.14	762,041	572,876	838,498
Consumer Price Index****	6.1	6.0	3.3	(270bps)	7.6	3.5	1.7

$bn (unless otherwise mentioned)	Dec-17	Jun-18	Dec-18	Apr-19	May-19	Jun-19	% Change*
BdL FX Reserves	35.81	33.10	32.51	31.53	29.72	29.75	(10.12)
In months of Imports	18.57	20.48	20.72	23.24	12.10	21.60	5.49
Public Debt	79.53	82.95	85.14	85.85	85.38	85.73	3.35
Bank Assets	219.86	234.60	249.48	253.65	253.63	255.98	9.11
Bank Deposits (Private Sector)	168.66	173.32	174.28	172.71	170.85	172.13	(0.69)
Bank Loans to Private Sector	59.69	59.56	59.39	56.97	56.32	56.00	(5.97)
Money Supply M2	52.51	53.98	50.96	49.95	49.23	49.11	(9.02)
Money Supply M3	138.62	141.29	141.29	140.18	139.33	139.93	(0.97)
LBP Lending Rate (%)	8.09	8.82	9.97	10.74	10.75	10.94	212bps
LBP Deposit Rate (%)	6.41	6.72	8.30	8.60	8.72	8.80	208bps
USD Lending Rate (%)	7.67	7.93	8.57	9.34	9.54	9.49	156bps
USD Deposit Rate (%)	3.89	4.09	5.15	5.68	5.79	5.84	175bps

**year-on-year **year-to-date figures reflect results for first five months of each 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
BLOM Listed	7.30	(0.27)	42,700	19.51%
BLOM GDR	7.20	0.00	35,000	6.61%
Solidere "A"	6.26	(1.57)	12,850	7.78%
Audi Listed	3.80	0.26	1,000	18.88%
Solidere "B"	5.93	(4.82)	139	4.79%
Byblos Common	1.14	0.00	-	8.01%
Audi GDR	3.75	0.00	-	5.59%
HOLCIM	9.75	0.00	-	2.37%
Byblos Pref. 09	68.60	0.00	-	1.71%
Byblos Pref. 08	66.00	0.00	-	1.64%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Mar 2020	6.38	95.00	16.12
Apr 2021	8.25	88.75	16.29
Oct 2022	6.10	79.75	14.36
Jun 2025	6.25	74.13	12.67
Nov 2026	6.60	72.75	12.39
Feb 2030	6.65	69.75	11.73
Apr 2031	7.00	70.38	11.72
May 2033	8.20	79.18	11.20
Nov 2035	7.05	70.88	10.92
Mar 2037	7.25	71.25	10.97

Source: Byblos Bank Capital Markets

	Aug 14-16	Aug 5-9	% Change	July 2019	July 2018	% Change
Total shares traded	91,689	234,595	(60.9)	1,969,484	2,161,984	(8.9)
Total value traded	$649,994	$1,234,558	(47.4)	$9,821,149	$22,895,761	(57.1)
Market capitalization	$8.04bn	$8.07bn	(0.37)	$8.21bn	$10.35bn	(20.6)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Aug 9, 2019	Aug 16, 2019	% Change**
CDS 1-year*	1,114.63	1,151.49	3.3
CDS 3-year*	1,115.86	1,158.80	3.8
CDS 5-year*	1,075.60	1,113.01	3.5

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

CDX EM 30*	Aug 9, 2019	Aug 16, 2019	% Change***
CDS 5-year**	96.67	95.88	(0.8)

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

Housing demand regresses in second quarter of 2019 amid lack of government measures

Demand for residential real estate in Lebanon regressed in the second quarter of 2019, as reflected by the results of the Byblos Bank Real Estate Demand Index. The Index posted a monthly average of 46.5 points in the second quarter of 2019, constituting a decrease of 17% from 56.1 points in the first quarter of the year and compared to an average of 43.7 in the second quarter of 2018. The second quarter results constitute their 18th lowest level in 48 quarters.

Real estate demand regressed in the second quarter of 2019, given the vague measures in the 2019 budget and the inconsistent statements by opportunistic politicians about mortgage subsidies, which led potential buyers to remain hesitant and follow a wait-and-see approach. In fact, Banque du Liban's economic stimulus package for 2019 covered part of the demand by subsidizing LBP 374 billion, or $248 million, in housing loans. However, it remains the responsibility of the executive branch to provide interest subsidies on housing loans for limited-income citizens, as the banking sector has been filling this gap since 2009.

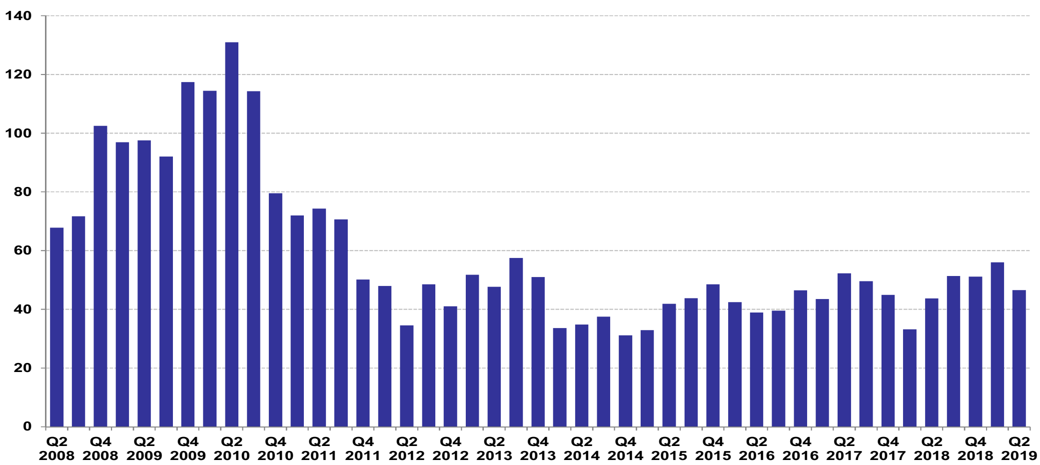
The Index's average monthly score in the second quarter of 2019 came 64.5% lower than the peak of 131 points registered in the second quarter of 2010, and remained 57.6% below the annual peak of 109.8 points posted in 2010. Also, it was 21.4% lower than the Index's monthly trend average score of 59.2 points since the Index's inception in July 2007.

The second-quarter results show that the housing market requires additional measures to stimulate demand, as any delay or uncertainty in implementing such measures will continue to dent the expectations of potential buyers and, in turn, further limit demand for housing. For instance, the government's recent decision to reduce registration fees on purchased but unregistered residential units aims to generate revenues to the Treasury. But the government needs to reduce registration fees on future purchases as well, in order to translate potential housing demand into actual sales and transactions.

The results of the Index show that demand for housing was the highest in the South in the second quarter of 2019, as 11% of its residents had plans to build or buy a house in the coming six months, nearly unchanged from the first quarter of 2019. The Bekaa followed with 6.9% of its residents planning to build or buy a residential unit in the coming six months, down from 8.5% in the preceding quarter; while 5% of residents in the North had plans to buy or build a house, relative to 5.7% in the previous quarter. In addition, 3.3% of residents in Mount Lebanon intend to buy or build a house, down from 4.9% in the preceding quarter, while 3.2% of residents in Beirut had plans to build or buy a residential unit, compared to 3.8% in the first quarter of 2019. In parallel, real estate demand decreased across all income brackets in the second quarter of the year.

The Byblos Bank Real Estate Demand Index is a measure of local demand for residential units and houses in Lebanon. The Index is compiled, implemented and analyzed in line with international best practices and according to criteria from leading indices worldwide. The Index is based on a face-to-face monthly survey of a nationally representative sample of 1,200 males and females living throughout Lebanon, whereby residents are asked about their plans to buy or build a house in the coming six months. The data segregates the Index based on age, gender, income, profession, geographic region and religious affiliation. The Byblos Bank Economic Research & Analysis Department has been calculating the Index on a monthly basis since July 2007, with November 2009 as its base month. The survey has a margin of error of ±2.83%, a confidence level of 95% and a response distribution of 50%. The monthly field survey is conducted by Statistics Lebanon Ltd, a market research and opinion-polling firm.

Byblos Bank Real Estate Demand Index



Source: Byblos Bank Economic Research & Analysis Department, based on surveys conducted by Statistics Lebanon

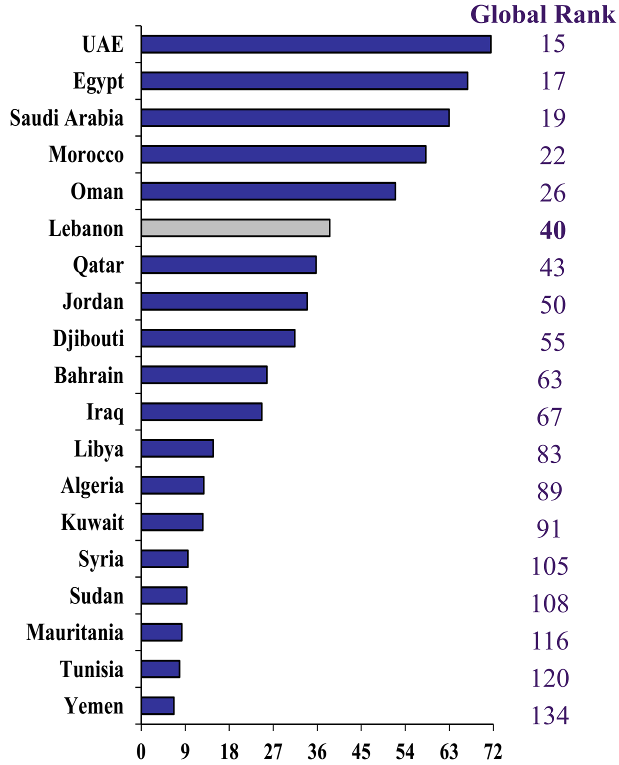
Lebanon ranks 40th globally, sixth among Arab countries in terms of liner shipping connectivity

The 2019 United Nations Conference on Trade & Development's (UNCTAD) Liner Shipping Connectivity Index (LSCI) ranked Lebanon in 40th place among 171 countries around the world and in sixth place among 19 Arab countries. Lebanon also came in 10th place among 50 upper middle-income countries (UMICs) included in the survey. Lebanon's global rank regressed by two spots from the 2018 survey, while its rank among Arab countries was unchanged year-on-year.

The LSCI assesses the degree of connectivity of a country to global shipping networks. The index is a composite of six components that capture the deployment of container ships by liner shipping firms to a country's ports. The components are the number of scheduled ship calls per week in a country, the total deployed capacity offered by a country's fleet, the number of liner shipping firms that provide services from and to the country, the number of regular liner shipping services from and to a country, as well as the largest average vessel size of the ships deployed by the scheduled service, and the number of direct shipping routes to and from a given country. A country's score is the average of the six components, with a higher score reflecting a better performance on the index.

Globally, Lebanon has a higher connectivity to global shipping networks than Russia, Slovenia and Qatar, and a lower connectivity than Canada, Peru and the Dominican Republic. It also has a higher connectivity to global shipping networks than Russia, South Africa and Brazil, and a lower connectivity than Colombia, Peru and the Dominican Republic among UMICs.

Liner Shipping Connectivity Index for 2019
Arab Countries' Scores & Rankings



Source: UNCTAD, Byblos Research

Further, Lebanon received a score of 38.54 points, down by 5.2% from a score of 40.65 on the 2018 index. Lebanon's score is higher than the global average score of 25.82 points, the Arab average of 30.69 points, and the UMICs' average score of 24.53 points. Also, it is lower than the Gulf Cooperation Council (GCC) countries' average score of 43.41 points, but higher than that of non-GCC Arab countries of 24.82 points.

Number of airport passengers up 4% in first seven months of 2019

Figures released by the Beirut-Rafic Hariri International Airport (HIA) show that 5,036,237 passengers utilized the airport (arrivals, departures and transit) in the first seven months of 2019, constituting an increase of 4% from 4,842,665 passengers in the same period of 2018. The number of arriving passengers increased by 2.2% year-on-year to 2,586,794 in the first seven months of 2019, compared to a growth of 9.4% in the same period last year and to a rise of 7.3% in the first seven months of 2017. Also, the number of departing passengers grew by 4.8% year-on-year to 2,419,639 in the first seven months of 2019, relative to an increase of 7.2% in the same period last year and to a rise of 7.6% in the first seven months of 2017.

In parallel, the airport's aircraft activity expanded by 1.1% annually to 41,556 take-offs and landings in the first seven months of 2019, relative to an increase of 3.5% in the same period of 2018, while it declined by 0.9% in the first seven months of 2017. In addition, the HIA processed 52,695 metric tons of freight in the covered period that consisted of 30,561 tons of import freight and 22,134 tons of export freight. Middle East Airlines had 15,528 flights in the first seven months of 2019 and accounted for 37.4% of HIA's total aircraft activity.

Association of banks amends reference rate on US dollar lending

The Association of Banks in Lebanon (ABL) recommended to its member banks to increase the Beirut Reference Rate (BRR) in US dollars from 9.81% in July 2019 to 9.89% in August 2019. The rate, considered as the reference rate for lending in foreign currency, replaced the London Interbank Offered Rate (LIBOR) in 2009, as the ABL decided that the LIBOR does not reflect the cost of funding and lending in Lebanon. In addition, the ABL recommended to its member banks to maintain the BRR in Lebanese pounds at 13.49% in August 2019, unchanged from July 2019. The BRR in US dollars and Lebanese pounds were adopted in March and May 2009, respectively. The ABL considers that the BRR does not replace the Beirut Prime Lending Rate in each currency, but constitutes the basis for calculating the prime rate after adding the cost of liquidity and refinancing, credit risk and the profitability of banks.

Governor Salamé is among best central bank governors in the world

Global Finance magazine's Central Banker Report Cards for 2019 indicated that Banque du Liban's Governor Riad Salamé received an 'A' rating based on his success in areas such as currency stability, inflation control, interest rate management and economic growth goals. Also, Governor Salamé received an 'A' rating in 2016, 2017 and 2018. Other central bank governors who received the same rating in 2019 are the central bank governors of Australia, Honduras, Iceland, Kuwait, Mexico, Morocco, Russia, South Korea and Taiwan. The Central Banker Report Cards rates 94 central bank governors worldwide on a scale of 'A' to 'F', with a grade of 'A' representing an excellent performance in achieving economic stability. It also rates the governors of the European Central Bank, the Eastern Caribbean Central Bank, the Bank of Central African States, and the Central Bank of West African States.

The magazine pointed out that Governor Salamé outperformed 10 of the 12 other central bank governors in the Arab region who were included in this year's report. Governor Salamé received a similar rating to the governors of the Central Bank of Kuwait and of Bank Al-Maghrib. Further, he outperformed the governors of the Saudi Arabian Monetary Authority, of the Central Bank of Qatar, and of the Central Bank of Egypt who earned an 'A-' rating each. He also outperformed the governor of the Central Bank of Iraq who earned a 'B+' rating, the governors of the central banks of Oman and the UAE who each earned a 'B' rating, the governors of Banque Centrale de Mauritanie and the Central Bank of Bahrain who received a 'B-' grade, as well as the central bank governors of Jordan and Tunisia who earned a 'C' rating each.

Occupancy rate at Beirut hotels at 69%, room yields up 30% in first half 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 69.2% in the first half of 2019 relative to 58.9% in the same period of 2018, compared to an average rate of 65.9% in 14 Arab markets included in the survey. The occupancy rate at Beirut hotels was the sixth highest in the region in the first half of the year, while it was the sixth lowest in the same period of 2018.

The occupancy rate at hotels in Beirut rose by 10.3 percentage points in the first half of 2019, constituting the largest increase among the 14 Arab markets. In comparison, the average occupancy rate in Arab markets grew by 2.7 percentage points in the covered period. Occupancy rates at Beirut hotels were 59.8% in January, 70.7% in February, 79% in March, 85.4% in April, 44.8% in May and 76.7% in June 2019. In comparison, they were 49.1% in January, 61.3% in February, 63.5% in March, 68.5% in April, 50.9% in May and 60.9% in June 2018. The occupancy rate at Beirut hotels was the highest in the region in June this year, while it was the fourth highest in June 2018.

Hotel Sector Performance in First Half of 2019

	Occupancy Rate (%)	RevPAR (US$)	RevPAR % change
Dubai	76.5	187	(16.3)
Jeddah	56.8	144	(9.2)
Beirut	**69.2**	**139**	**29.8**
Makkah	72.5	122	6.8
Ras Al Khaimah	73.7	115	(8.1)
Kuwait City	58.6	98	(11.3)
Riyadh	61.5	98	0.0
Madina	66.4	89	(6.9)
Manama	52.0	86	4.5
Abu Dhabi	77.5	82	9.7
Cairo City	72.2	81	10.8
Amman	57.5	80	(2.7)
Muscat	60.5	79	(5.8)
Doha	67.7	75	2.6

Source: EY, Byblos Research

The average rate per room at Beirut hotels was $201 in the first half of 2019, increasing by 10.5% from $182 in the same period of 2018 and constituting the third highest rate in the region after Jeddah ($253) and Dubai ($245). The average rate per room in Beirut was higher than the regional average of $160.6 that regressed by 5.4% from the first half of 2018.

Further, revenues per available room (RevPAR) were $139 at Beirut hotels in the first half of 2019 compared to $107 in the same period of 2018, ranking the capital in third place regionally behind Dubai ($187) and Jeddah ($144). Beirut's RevPAR grew by 29.8% year-on-year and posted the largest increase regionally. Beirut posted RevPARs of $118 in January, $132 in February, $146 in March, $174 in April, $83 in May and $183 in June 2019, compared to $87 in January, $105 in February, $110 in March, $120 in April, $89 in May and $134 in June 2018. Abu Dhabi posted the highest occupancy rate in the region at 77.5% in the first half of 2019, while Jeddah registered the highest average rate per room at $253 and Dubai had the highest RevPAR at $187 in the covered period. EY attributed the improved performance of Beirut's hospitality market in the first half of the year largely to the increase in tourist arrivals, notably from the Gulf region, 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 noted that the success of several festivals also contributed to higher tourist flows to Lebanon in the covered period. 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.

Fiscal and structural reforms necessary to reduce interest rates

Banque du Liban (BdL) Governor Riad Salamé reiterated that the exchange rate in Lebanon is stable and that conditions in the Lebanese markets are normalizing, with limited conversions of deposits to foreign currency and with demand for foreign currency mostly for commercial purposes. He indicated that BdL is committed to preserving the soundness of the banking sector that has a capital adequacy ratio of about 16% and a liquidity ratio that exceeds 10%. He considered that the banking sector will not be affected in case international rating agencies downgrade Lebanon's sovereign ratings, as he expected the sector's capital adequacy ratio to regress to 12% in the event of a downgrade, which would still be higher than the minimum required ratio of 10.5% worldwide. Also, he noted that Lebanon is compliant with international regulations about fighting money laundering and tax evasion, and has the ability to adjust to any new international rules related to these matters, a factor that maintains the country's integration in the global financial system. In parallel, the governor indicated that Lebanon continues to face negative rumors about a sovereign default that are not based on facts and numbers. He noted that BdL took preemptive measures to preserve the stability of the banks' deposit base and of the banking sector's foreign assets

Further, Governor Salamé projected Lebanon's economic growth at zero percent in 2019, compared to an expected growth rate of 1% for the Middle East region. He noted that BdL is using its assets in foreign currency to compensate for the drop in the country's foreign currency receipts. He pointed out that the balance of payments posted a deficit of about $5.3bn so far this year, as BdL paid $3.2bn on behalf of the government to cover the principal and coupons of maturing Eurobonds. He added that BdL will recuperate the payments it made on behalf of the government through a sovereign Eurobond issuance in the fall of 2019. He indicated that the balance of payments has improved since June and posted net inflows in July, as banks attracted placements from the Lebanese Diaspora through new financial products.

In addition, Governor Salamé said that the challenging conditions worldwide and in the region have reduced liquidity in the Lebanese market, which led to the increase of local interest rates. He added that interest rates in Lebanon have started to rise following the unexpected resignation of Prime Minister Hariri in November 2017, while liquidity in the market tightened. He expected interest rates to remain elevated, and considered that a decline in rates will only be possible through fiscal and structural reforms that improve confidence. He indicated that the size of the public sector has significantly increased beyond the economy's capacity, and that the public sector should provide incentives to support the development of the private sector. He pointed out that the Parliament's enactment of the 2019 budget law, the Cabinet's endorsement of the electricity sector reform plan, and the CEDRE conference are initiatives that could help implement reforms, narrow the fiscal deficit and revive economic activity.

In parallel, Governor Salamé pointed out that BdL's subsidized loans have contained the increase in the interest rates on loans. He noted that BdL is subsidizing the interest rates on $250m in housing loans in 2019. He added that the Public Housing Corporation and Banque de l'Habitat are expected to benefit from a $167m loan from the Arab Fund for Economic and Social Development, which would help meet the demand for mortgages in the country. In addition, he said that BdL is subsidizing $150m in loans to productive sectors in 2019, of which only $100m have been utilized so far this year, mostly to finance energy-related projects. He noted that utilized credits by the private sector reached about $67bn, which is relatively high compared to the size of the economy that is estimated at $56bn in 2018. But he indicated that the tight liquidity conditions in the market are affecting lending activity, while subdued economic activity is reducing demand for credit. Further, he said that the banking sector's non-performing loans ratio is relatively low at 6%, which reflects the soundness of the banking sector. He noted that BdL is taking initiatives to support economic activity given the challenging economic environment. He pointed out that BdL will approve the rescheduling of corporate debt on a case by case basis, provided that the loans are denominated in US dollars.

Opened letters of credit at $3.2bn for imports and $1.6bn for exports in first half of 2019

Figures released by Banque du Liban indicate that the amount of letters of credit (LCs) opened to finance imports to Lebanon totaled $3.2bn in the first half of 2019, constituting an increase of 0.8% from $3.18bn in the same period of 2018. Further, utilized credits for imports reached $2.9bn in the first half of 2019, up by 6.6% from $2.7bn in the same period of 2018, and accounted for 91% of opened LCs for imports in the covered period. Also, outstanding import credits stood at $1bn at the end of June 2019 compared to $1.15bn a year earlier. In addition, the aggregate amount of inward bills for collection reached $481.4m in the first half of 2019, down by 5.2% from $508m in the same period of 2018. The outstanding amount of inward bills for collection reached $49.4m at the end of June 2019 relative to $59.6m at end-June 2018.

In parallel, the amount of documentary letters of credit opened to finance exports from Lebanon totaled $1.63bn in the first half of 2019, constituting an increase of 3.6% from $1.58bn in the first six months of 2018. Further, utilized credits for exports reached $1.44bn in the first half of 2019, up by 4.6% from $1.38bn of used credits in the first half of 2018, and accounted for 88.3% of opened LCs for exports in the covered period. Also, outstanding export credits stood at $885.7m at the end of June 2019 compared to $813.3m a year earlier. In addition, the aggregate amount of outward bills for collection amounted to $534.1m in the first half of 2019, constituting a decline of 26.3% from $724.2m in the same period of 2018. The outstanding amount of outward bills for collection reached $402.1m at the end of June 2019 relative to $416.5m at end-June 2018.

Lebanon "Largely Compliant" with exchange of information standards

The Global Forum on Transparency and Exchange of Information for Tax Purposes rated Lebanon as "Largely Compliant" with the international standard on the exchange of information on request. The rating is based on the Global Forum's second round peer review about the exchange of information on request in Lebanon, which assessed the legal and regulatory framework in Lebanon as at May 6, 2019, as well as the practical implementation of this framework between 2015 and 2017. The 2019 peer review covers 10 elements grouped into three categories, which are Availability of Information, Access to Information, and Exchanging Information. A country's overall rating can be "Compliant", "Largely Compliant", "Partially Compliant" or "Non-Compliant".

The Global Forum indicated that Lebanon has made encouraging progress since the 2016 peer review, as it amended many laws to make them compliant with the international standard on the exchange of information on request. It noted that Lebanon has introduced several changes to its legal framework, especially to legislations related to the Availability of Information and Access to Information. It added that the changes have largely contributed to ensuring that banking information is available with treaty partners and that ownership information is available about holders of bearer shares and foreign trusts administered by Lebanese trustees. However, it considered that the very recent enactment of the beneficial ownership legislation in June 2018 prevents an assessment of its effective implementation. As a result, it recommended that Lebanese authorities monitor the effective implementation of all recent measures related to beneficial ownership.

Overall, the Global Forum rated Lebanon as "Partly Compliant" on the availability of ownership and identification information, as well as "Largely Compliant" in terms of the availability of accounting and banking information. Also, it rated Lebanon as "Largely Compliant" on the access to information and the rights and safeguards elements. Further, the Global Forum rated Lebanon as "Compliant" on four out of the five elements related to Exchanging Information, as the fifth element, which assesses the quality and timeliness of response to information requests was rated "Largely Compliant" due to delays in responding to requests. It attributed the majority of the delays to the lack of experience in handling such requests.

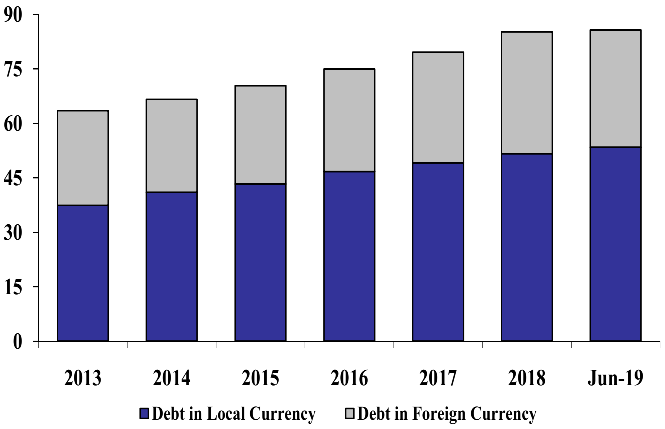
Gross public debt at $86bn at end-June 2019, foreign currency debt down 8% year-on-year

Lebanon's gross public debt reached $85.7bn at the end of June 2019, constituting an increase of 0.7% from $85.1bn at the end of 2018 and a rise of 3.3% from $83bn at end-June 2018. In nominal terms, the gross public debt grew by $593m in the first half of 2019 relative to an increase of $3.4bn in the same period of 2018.

Debt denominated in Lebanese pounds totaled $53.5bn at end-June 2019, up by 3.5% from the end of 2018 and by 11.7% from end-June 2018; while debt denominated in foreign currency stood at $32.3bn, constituting a decrease of 3.6% from end-2018 and a decline of 8.1% from end-June 2018.

Local currency debt accounted for 62.4% of the gross public debt at the end of June 2019 compared to 57.7% a year earlier, while foreign currency-denominated debt represented the balance of 37.6% relative to 42.3% at end-June 2018. The weighted interest rate on outstanding Treasury bills was 6.38% and the rate on Eurobonds was 6.84% in June 2019. Further, the weighted life on Eurobonds was 7.62 years, while it was 1,629 days on Treasury bills and bonds.

Lebanon's Gross Public Debt (US$bn)



Source: Ministry of Finance, Byblos Research

Commercial banks held 37.8% of the public debt at end-June 2019 relative to 40% of the total at end-June 2018. BdL held 53.3% of the Lebanese pound-denominated public debt at the end of June 2019 compared to 48% a year earlier, while commercial banks held 33% of the local debt compared to 36.6% at end-June 2018. Also, public agencies, financial institutions and the public held 13.7% of the local debt at end-June 2019 relative to 15.4% at end-June 2018. Further, holders of Eurobonds and special T-bills in foreign currencies accounted for 93.6% of foreign currency-denominated debt holders at the end of June 2019, followed by multilateral institutions with 4.2% and foreign governments with 2.1%. In addition, the net public debt, which excludes public sector deposits at BdL and at commercial banks from overall debt figures, grew by 5.9% annually to $76.5bn at end-June 2019. Further, the gross market debt accounted for about 58.6% of the public debt. The gross market debt is the total public debt less the portfolios of BdL, the National Social Security Fund, as well as bilateral and multilateral loans.

Trade deficit widens by 5% to $8.4bn in first half of 2019

Total imports reached $10.14bn in the first half of 2019, constituting an increase of 5.8% from $9.58bn in the same period of 2018; while aggregate exports grew by 12.1% year-on-year to $1.72bn in the covered period. As such, the trade deficit widened by 4.6% to $8.4bn in the first half of 2019 due to a rise of $558m in imports that was partly offset by an increase of $186m in exports in the covered period.

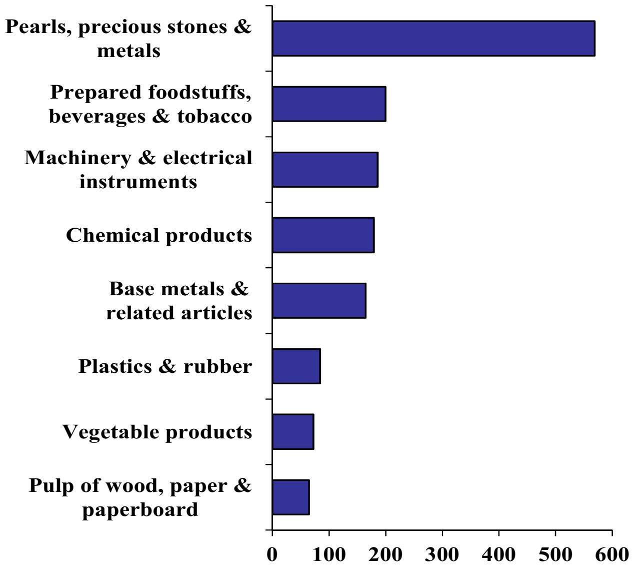
The rise in imports during the first half of 2019 was mainly due to an increase of $1.73bn, or 2.1 times, in the imports of mineral products, which was partly offset by a drop of $1.17bn, or 14.7%, in imported non-hydrocarbon products. Imported oil & mineral fuels reached $3.37bn and accounted for 33.2% of total imports in the covered period.

Also, the growth in exports in the covered period was mainly due to a rise of $173.5m, or 44%, in the exports of jewelry; an expansion of $34.7m, or 23%, in the exports of machinery & mechanical appliances; a growth of $32m, or 239.5%, in exported mineral products; and an increase of $7.5m, or 31.1%, in the exports of animal or vegetables fats and oils. They were partly offset by a drop of $49.8m, or 23.2%, in exported base metals; a decline of $8.3m, or 4%, in the exports of prepared foodstuff; and a decrease of $3.8m, or 5%, in the exports of vegetable products.

Further, exported goods to Switzerland jumped by 3.2 times year-on-year in the first half of 2019, those to Greece surged by 78.5%, exports to Syria expanded by 37%, those to Saudi Arabia grew by 12.5%, exports to the UAE rose by 9%, those to Iraq increased by 3.2%, exports to Jordan expanded by 2.8%, and those to Qatar increased by 0.9%. In contrast, exported goods to South Africa dropped by 53.8% year-on-year in the covered period. Re-exports totaled $267.3m in the first half of 2019 compared to $185m in the same period of 2018. The Hariri International Airport was the exit point for 42.2% of Lebanon's exports in the first half of the year, followed by the Port of Beirut (40.6%), the Port of Tripoli (6.8%), and the Masnaa crossing point (6.5%).

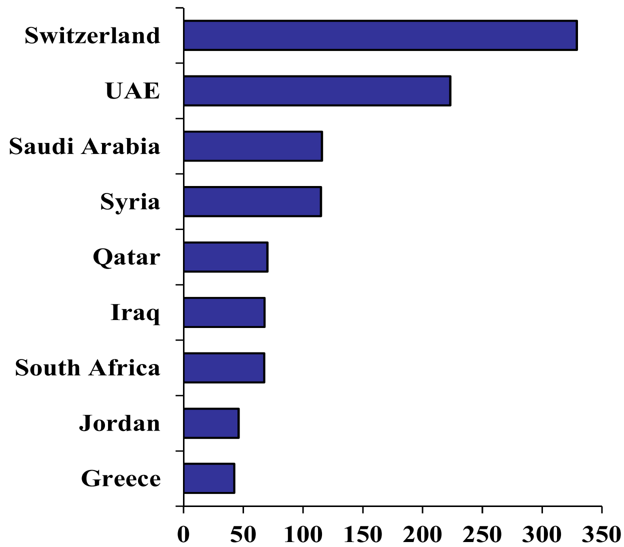
Lebanon's main non-hydrocarbon imports were chemical products that reached $1.03bn in the first half of 2019 and declined by 9.5% from the same period of 2018. Imported machinery & mechanical appliances followed at $911.3m (-15%), then vehicles, aircraft & vessels at $657.8m (-21.8%), prepared foodstuff at $641.4m (-6.6%), vegetable products at $557.2m (+6.9%), base metals at $466.6m (-25.6%), jewelry, mostly gold bars, at $440.4m (-32.4%), animal products at $435.5m (-17.3%), plastics & rubber at $348.3m (-5.3%), and textiles at $320.1m (-15.8%). The Port of Beirut was the entry point for 75% of Lebanon's merchandise imports in the first half of 2019, followed by the Hariri International Airport (17.5%), and the Port of Tripoli (5.3%).

Main Lebanese Exports in First Half of 2019 (US$m)



Source: Lebanese Customs Administration, Byblos Research

Main Destinations of Lebanese Exports in First Half of 2019 (US$m)



Source: Lebanese Customs Administration, Byblos Research

The U.S. was the main source of imports with $920.4m, or 9.1% of the total, in the first half of 2019, followed by China with $872m (8.6%), Russia with $701.5m (7%), Greece with $670.8m (6.6%), Italy with $633m (6.2%), Germany with $505.2m (5%), France with $451.8m (4.5%), and Turkey with $413.8m (4.1%). Imported goods from Russia surged by 2.5 times, those from the U.S. expanded by 63.7%, imports from France rose by 28.2%, and those from Turkey increased by 22.4% year-on-year in the first half of 2019. In contrast, imported goods from Italy dropped by 22.5%, those from China fell by 15.5%, imports from Germany contracted by 14.2%, and those from Greece declined by 13.2% in the covered period.

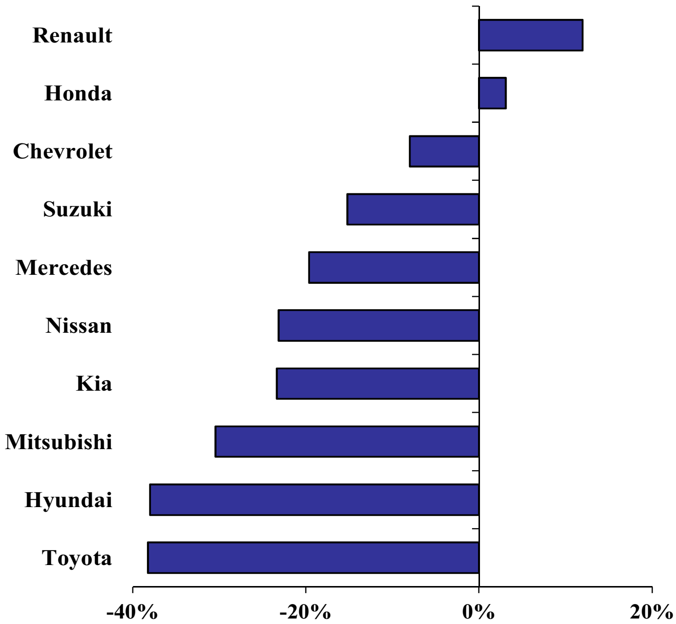
New car sales down 23% in first seven months of 2019

Figures released by the Association of Automobile Importers (AAI) in Lebanon show that dealers sold 16,124 new passenger cars in the first seven months of 2019, constituting a decline of 22.8% from 20,873 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, 2,458 new vehicles in May, 2,616 new automobiles in June and 2,948 new cars in July 2019.

Japanese cars accounted for 38.6% of total car sales in the first seven months of 2019, followed by Korean vehicles with a 26.6% share, European automobiles (22.1%), American cars (9%) and Chinese vehicles (3.8%). Demand for Korean vehicles dropped by 30.1%, the sales of Japanese cars decreased by 26%, demand for new American automobiles declined by 15.5%, and the sales of European vehicles regressed by 12.5% annually in the first seven months of 2019. In contrast, the number of Chinese cars sold grew by 8.8% in the covered period.

Further, Kia is the leading brand in the Lebanese market with 2,532 passenger vehicles sold in the first seven months of 2019, followed by Nissan with 1,851 new cars sold, Toyota (1,742), Hyundai (1,689) and Renault (1,076).

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



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

In parallel, Lebanon's top five car distributors sold 9,989 vehicles in the first seven months of 2019 and accounted for 62% of new auto sales. NATCO sal sold 2,532 vehicles in the covered period, equivalent to 15.7% of the total, followed by Rasamny Younis Motor Co. sal with 2,441 automobiles (15.1%), Boustany United Machineries sal with 1,764 cars (11%), Century Motor Co. sal with 1,742 vehicles (10.8%) and Bassoul Heneiné sal with 1,510 cars (9.4%). The AAI stopped disclosing figures about the sales of commercial vehicles since June 2019.

Holcim posts net losses at $1m in first half of 2019

Cement producer Holcim (Liban) sal posted unaudited net losses of $1m in the first half of 2019 compared to net profits of $13.1m in the same period of 2018. The losses are mainly due to lower net sales and a higher cost of goods sold. The firm's sales totaled $49.8m in the first half of 2019, down by 31.6% from $72.8m in the same period of 2018; while its gross profit margin reached 24.6% in the first half of 2019 relative to 41.8% in the same period of 2018. Holcim's assets reached $244.6m at the end of June 2019, constituting a decrease of 7.1% from $263.4m at end-2018. The firm's current ratio, which is a measure of the company's ability to meet its short-term obligations, was 3.2x at the end of June 2019, up from 1.1x at end-2018 and from 2.12x at end-June 2018.

Further, Holcim's shareholders' equity was $146.9m at end-June 2019, down by 0.7% from $147.9m at the end of 2018. The company's debt-to-equity ratio was 66.5% at end-June 2019 relative to 78% at the end of 2018 and 30.9% at end-June 2018. The firm produces and sells cement and other related products. Holcim's share price closed at $9.75 on August 16, 2019, down by 37.1% from $15.5 at end-2018.

Ciments Blancs' net income down 55% to $1m in first half of 2019

Société Libanaise des Ciments Blancs sal, an affiliate of Holcim (Liban) sal, declared net profits of $993,054 in the first half of 2019, constituting a decrease of 55.2% from net earnings of $2.2m in the same period last year. The company generated total sales of $5m in the first half of 2019 compared to $6.2m in the same period of 2018. The cost of goods sold increased by 19% year-on-year to $3.7m, resulting in a gross profit margin of 26% in the first half of 2019 relative to 49% in the same period of 2018. In addition, the firm’s gross financial income grew by 23.3% year-on-year to $418,710 in the first half of 2019.

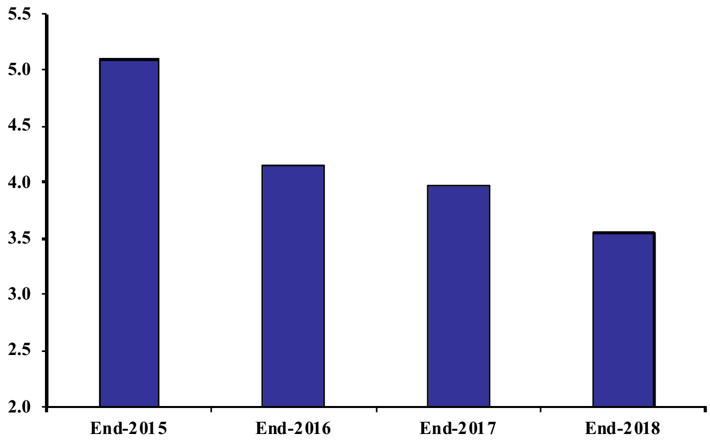
Further, Ciments Blancs' assets totaled $25.6m at the end of June 2019, up by 1.1% from $25.3m at end-2018. The firm's current ratio, which is a measure of the company's ability to meet its short-term obligations, was 3.6x at the end of June 2019, compared to 2.8x at the end of 2018 and to 4.2x at end-June 2018.

The company's total equity reached $21.6m at end-June 2019, up by 4.8% from $20.6m at the end of 2018. The firm's debt-to-equity ratio was 18.8% at end-June 2019 relative to 23.1% at the end of 2018 and to 24.6% at end-June 2018. The price of Ciments Blancs' nominal shares closed at $2.6 on August 16, 2019, up by 2% from $2.55 at end-2018.

Foreign investments of financial sector at $3.6bn at end-2018

Figures issued by Banque du Liban show that the net investment portfolio of Lebanese banks and financial institutions in foreign debt and equity securities totaled $3.56bn at the end of 2018, constituting a decline of 10.2% from $3.96bn at the end of 2017. Investments in long-term debt securities reached $1.92bn at the end of 2018 and accounted for 54% of the total, followed by placements in equities at $1.6bn (45.4%), and investments in short-term debt securities at $21.1m (0.6%). According to Banque du Liban, the figures cover the net assets of resident banks and financial institutions in foreign tradable debt and equity instruments. They help provide a clearer picture about the flow of funds from Lebanon and, therefore, about the balance of payments.

Foreign Investments of Financial Sector (US$bn)



Source: Banque du Liban, Byblos Research

Commercial banks' net portfolio of long-term debt securities, including banks' investments for their own account, on behalf of their clients and on a custodial basis, totaled $1.34bn and accounted for 69.6% of the financial sector's aggregate investments in such securities at end-2018. Medium- and long-term banks followed with $346.2m (18%), then insurance companies with $139m (7.2%), and financial institutions with $98.7m (5.1%).

In parallel, commercial banks accounted for 85.5% of investments in short-term debt securities at the end of 2018, followed by insurance firms with 11.9%, and medium- and long-term banks with 2.2%. Further, commercial banks' investments in equities reached $713.4m and represented 44.2% of the financial sector's investments in such securities at end-2018. Medium- and long-term banks followed with $513.8m (31.8%), then financial institutions with $266m (16.5%), insurers with $121.5m (7.5%), and financial intermediaries with $0.1m.

The distribution of investments by destination shows that the United States was the main recipient of investments in long-term debt securities of banks and financial institutions operating in Lebanon with $630.8m, or 32.8% of the total, at end- 2018. The United Kingdom followed with investments in long-term debt securities worth $290.5m (15.1%), then France with $187.3m (9.7%), South Africa with $181.5m (9.4%), and the UAE with $75.2m (3.9%), while other countries accounted for the remaining 29% of investments in long-term debt securities. In parallel, the United States received $536.3m or 33.2% of equity investments, followed by Luxembourg with $154.2m (9.6%), France with $148.5m (9.2%), Jordan with $129.5m (8%), and Bahrain with $123.4m (7.6%), while other countries accounted for the remaining 32.4%. Further, Qatar was the recipient of 47.5% of investments by Lebanese banks and financial institutions in short-term debt securities, followed by the U.S. (17.6%), Australia (11%), Egypt (5.3%) and Kuwait (4.4%), while other countries represented the remaining 14.2% of investments in short-term debt securities.

Solidere skips dividend distribution for 2018

Solidere, the Lebanese Company for the Development and Reconstruction of the Beirut Central District sal, decided not to distribute dividends for fiscal year 2018, in line with its decisions not to pay dividends for fiscal years 2016 and 2017. The firm distributed both cash and stock dividends for fiscal years 2014 and 2015. It paid $0.1 per share for Class A and Class B shares, as well as distributed one share for every 50 shares held by stakeholders for 2014; while it paid $0.1 per share for Class A and Class B shares and distributed one share for every 80 shares for 2015.

Established in 1994, Solidere has distributed dividends in 13 out of its 25 years of operations, bringing the firm's cumulative dividend distribution to $1.2bn. It currently has 165,000,000 common shares listed on the Beirut Stock Exchange that consist of 100,000,000 Class A and 65,000,000 Class B stocks. Solidere is Lebanon's third largest listed firm in terms of market capitalization as at August 16, 2019.

Solidere announced consolidated audited net losses of $115.7m in 2018 compared to losses of $116.4m in 2017. The consolidated results cover Solidere's stand-alone financials and those of its subsidiaries, which mainly include Solidere International Limited, and other subsidiaries such as Solidere Management Services sal, BCD Cinemas sal, Beirut Waterfront Development sal and Beirut Hospitality Company Holding sal. In parallel, Solidere's non-consolidated financials, which include the company's stand-alone financial statements excluding those of its local and foreign subsidiaries, showed net losses of $112m last year compared to net losses of $118.5m in 2017.

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	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