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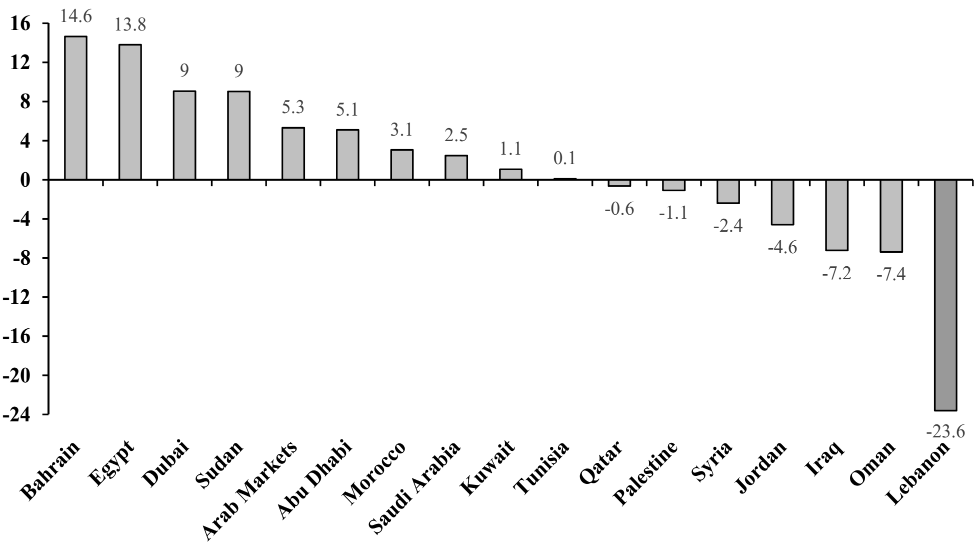
BYBLOS BANK SAL
Economic Research & Analysis Department

LEBANON THIS WEEK

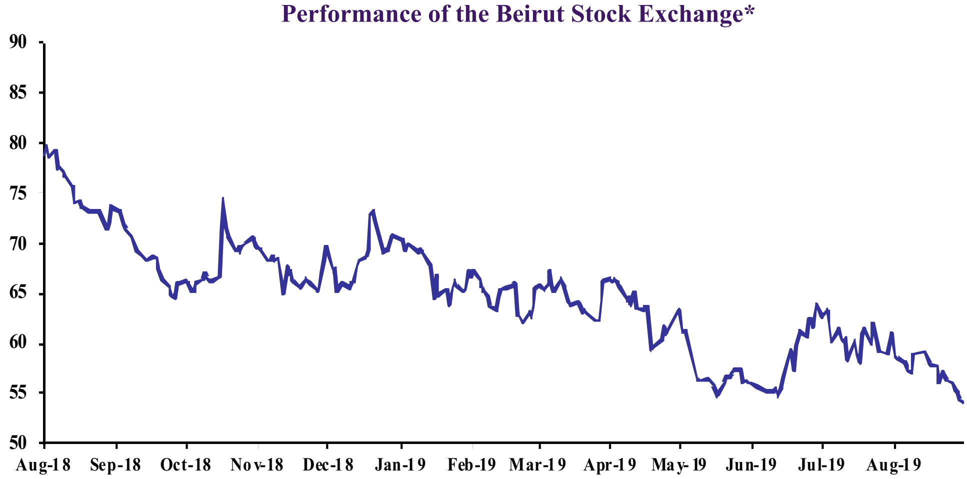
In This Issue

Charts of the Week

Performance of Arab Stock Markets in First Eight Months 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 loans will be released as soon as there are clear signs of the implementation of reforms."

The French Inter-ministerial Delegate in Charge of Mediterranean Affairs, Ambassador Pierre Duquesne, on the link between structural reforms and the disbursement of the funds pledged at the CEDRE conference

Number of the Week

0.64%: The spread between the weighted average interest rate for the last three months on new deposits and the weighted return on the uses of funds in Lebanese pounds at commercial banks in Lebanon as at June 2019, according to the Association of Banks in Lebanon

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)	(3,036)	(2,419)	(18.3)	(115)	(1,006)	(33)
Primary Balance	(636)	(155)	309	-	199	(60)	347
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 **includes arrivals, departures, transit ***year-on-year percentage change*
Note: bps i.e. basis points
Source: Association of Banks in Lebanon, Banque du Liban, Ministry of Finance, Central Administration of Statistics, Byblos Research

Capital Markets

Most Traded Stocks on BSE	Last Price ($)	% Change*	Total Volume	Weight in Market Capitalization
Audi Listed	3.64	(1.62)	251,000	18.55%
BLOM GDR	7.08	(0.14)	60,300	6.67%
BLOM Listed	7.28	(0.27)	47,114	19.95%
Solidere "A"	5.96	4.56	32,451	7.60%
Solidere "B"	5.71	(1.55)	25,078	4.73%
Byblos Common	1.12	(2.61)	9,794	8.07%
Audi GDR	3.70	0.27	1,620	5.66%
Byblos Pref. 09	65.00	0.00	-	1.66%
Byblos Pref. 08	65.00	0.00	-	1.66%
HOLCIM	9.66	0.00	-	2.40%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Mar 2020	6.38	96.00	14.98
Apr 2021	8.25	86.63	18.29
Oct 2022	6.10	76.25	16.22
Jun 2025	6.25	70.63	13.80
Nov 2026	6.60	68.75	13.51
Feb 2030	6.65	68.38	12.05
Apr 2031	7.00	69.00	12.02
May 2033	8.20	75.27	11.90
Nov 2035	7.05	68.63	11.32
Mar 2037	7.25	69.25	11.32

Source: Byblos Bank Capital Markets

	Sep 3-6	Aug 26-30	% Change	August 2019	August 2018	% Change
Total shares traded	427,357	200,136	113.5	1,085,556	1,547,114	(29.8)
Total value traded	$2,033,034	$1,804,669	12.7	$6,488,622	$12,657,664	(48.7)
Market capitalization	$7.84bn	$7.87bn	(0.31)	$7.87bn	$9.96bn	(21.0)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Aug 30, 2019	Sep 6, 2019	% Change**
CDS 1-year*	1313.79	1,331.05	1.3
CDS 3-year*	1317.52	1,344.14	2.0
CDS 5-year*	1,268.49	1,294.31	2.0

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

CDX EM 30*	Aug 30, 2019	Sep 6, 2019	% Change***
CDS 5-year**	95.60	96.27	0.7

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

Banque du Liban's assets in foreign currency up $1.4bn in second half of August 2019

Banque du Liban (BdL) Governor Riad Salamé indicated that BdL's assets in foreign currency increased by $1.4bn in the second half of August 2019 to reach $38.7bn at the end of August as a result of BdL's incentives for commercial banks to attract deposits from abroad. He added that BdL's financial operations with commercial banks since early July have attracted deposit inflows from the non-resident private sector. He said that the increase in BdL's assets in foreign currency would reassure the market about the stability of the Lebanese pound's peg to the US dollar, and would improve the balance of payments. He added that the supply of dollars in the Lebanese market is ample, in contrast to the circulating rumors.

In parallel, Governor Salamé pointed out that BdL's policy aims to preserve the solvency of the government because it bodes well for monetary stability in Lebanon. He said that BdL has already set aside the needed funds to repay the $1.5bn Eurobond that matures in November 2019. He added that BdL is working, in cooperation with the government, on unconventional methods to reduce debt-servicing costs. He indicated that BdL will continue its financial operations with commercial banks until Lebanon's fiscal and external imbalances improve. Further, he stated that the government is considering new Eurobond issuances in the future, which will improve foreign currency liquidity in the market. But he said that the timing of the issuance would depend on the political situation in the country and in the region, as well as on the fiscal situation and the government's finances. He considered that Lebanese Eurobonds are undervalued. In addition, he noted that the pledged financial support from Saudi Arabia and Qatar has not yet materialized. Further, Governor Salamé indicated that real GDP growth in Lebanon is projected at 0.5% in 2019, as regional uncertainties and domestic political tensions would partly offset the impact of the recovery in tourism activity.

BdL's foreign currency reserves sufficient to fund current account deficit and borrowing requirements

S&P Global Ratings considered that Banque du Liban's (BdL) foreign currency reserves are sufficient to fund the government's borrowing requirements and the country's current account deficit in the coming 12 months. The agency anticipated that Lebanon's usable foreign currency reserves would reach $19.2bn by the end of 2019 compared to $25.5bn at end-2018. It noted that usable reserves include BdL’s gold reserves but exclude BdL's holdings of $2.9bn in Lebanese Eurobonds, as well as the monetary base and legal reserve requirements on foreign currency resident deposits. However, it expected BdL's foreign currency reserves, along with other external inflows, to be sufficient in the near term to finance the current account deficit of about $13bn in 2019, as well as the $1.5bn Eurobond and $1bn coupon payments that will come due in November of this year. It estimated that BdL's usable foreign currency reserves would continue to cover about seven months of current account payments (CAPs) and about 42% of Lebanon's short-term debt that consists mostly of non-resident deposits. It considered that the coverage of Lebanon's usable reserves to its CAPs is relatively strong compared to 'CCC+'-rated sovereigns.

S&P indicated that BdL's financial operations with commercial banks, which aim to raise foreign currency reserves and improve the banks' capital position, have helped contain the decline in BdL's foreign currency reserves. It forecast BdL's net foreign currency reserves, which exclude BdL's liabilities that mature in 2019, at slightly above $13bn at the end of 2019.

In parallel, S&P considered that Lebanon can reverse the relative decline in its foreign currency buffers in case authorities implement concrete measures. It indicated that investor confidence and infrastructure investment would increase in case authorities implement the announced fiscal and economic reforms, and if external financial funding materializes, including a partial disbursement of the CEDRE-related funds and other financial support from GCC countries. First, it noted that a significant narrowing of the fiscal deficit in 2019 could encourage donors to disburse some of the funds pledged at the CEDRE conference. Second, it said that Parliament needs to enact the 2020 budget within the constitutional deadline. It added that authorities said that the 2020 budget will include major changes to the pension system and the public sector, as well as new customs, tax evasion, and procurements laws. Third, it highlighted the importance of implementing the energy sector reform plan that aims to improve electricity generation and address the financial position of Electricité du Liban.

Number of airport passengers up 3.7% in first eight months of 2019

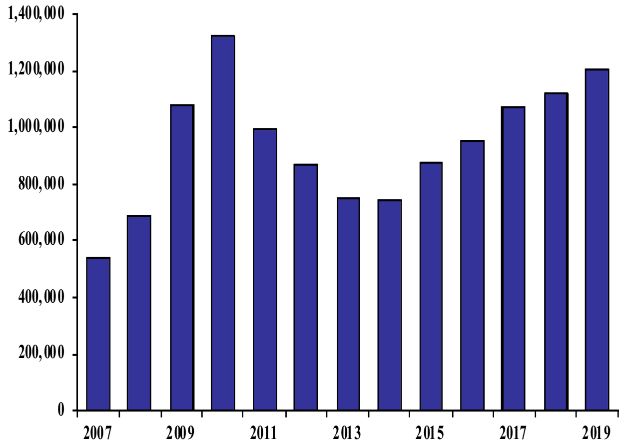
Figures released by the Beirut-Rafic Hariri International Airport (HIA) show that 6,222,002 passengers utilized the airport (arrivals, departures and transit) in the first eight months of 2019, constituting an increase of 3.7% from 6,002,476 passengers in the same period of 2018. The number of arriving passengers increased by 1.9% year-on-year to 3,114,102 in the first eight months of 2019, compared to a growth of 8.9% in the same period last year and to a rise of 9.5% in the first eight months of 2017. Also, the number of departing passengers grew by 4.4% year-on-year to 3,073,081 in the first eight months of 2019, relative to an increase of 7.9% in the same period last year and to a rise of 8.5% in the first eight months of 2017.

In parallel, the airport's aircraft activity expanded by 1.2% annually to 50,287 take-offs and landings in the first eight months of 2019, relative to an increase of 4.3% in the same period of 2018 and to a growth of 0.6% in the first eight months of 2017. In addition, the HIA processed 60,259 metric tons of freight in the covered period that consisted of 34,480 tons of import freight and 25,780 tons of export freight. Middle East Airlines had 18,644 flights in the covered period and accounted for 37.1% of HIA's total aircraft activity.

Tourist arrivals up 8% in first seven months of 2019

Figures compiled by the Central Administration of Statistics indicate that the number of incoming visitors to Lebanon totaled 1,206,052 in the first seven months of 2019, constituting an increase of 8.1% from 1,115,866 tourists in the same period of 2018 and a decline of 9% from 1,326,001 visitors in the first seven months of 2010, the record year for tourist arrivals in Lebanon. Also, the number of incoming visitors reached 282,232 in July 2019, increasing by 22.1% from 231,116 in June 2019 and by 7.4% from 262,779 in July 2018. Tourist arrivals in July 2019 were the third highest on record during that month, compared to a peak of 361,934 in July 2010. The figures exclude Lebanese, Syrian and Palestinian arrivals. Visitors from European countries accounted for 36.3% of the total in the first seven months of 2019, followed by those from Arab countries with 30.8%, the Americas with 19%, Asia with 7%, Oceania with 3.7%, and Africa with 3.2%. Further, tourists from Iraq accounted for 10.4% of total visitors in the first seven months of 2019, followed by visitors from the United States (10.2%), France (9.1%), Canada (5.9%), Germany (5.5%), Egypt (5%), Saudi Arabia (4.8%), Jordan (4.5%), the United Kingdom (3.7%), Kuwait and Sweden (2.5% each), Italy (1.9%), Turkey (1.8%), Brazil (1.4%), Venezuela (0.6%), and the UAE (0.1%).

Number of Tourist Arrivals to Lebanon*



**first seven months of each year*
Source: Central Administration of Statistics, Byblos Research

In parallel, the number of visitors from Arab countries increased by 20.3% in the first seven months of 2019 from the same period last year, followed by those from Europe (+9.6%), the Americas (+6.9%), and Asia (+3.3%); while the number of visitors from Africa contracted by 40.7% year-on-year, and those from Oceania regressed by 2.6%.

On a country basis, the number of tourists from Saudi Arabia grew by 86.8% in the covered period, followed by visitors from Kuwait (+41.1%), the UAE (+23%), Turkey (+19.4%), Egypt (+19.3%), Brazil (+14.2%), Sweden (+11%), Italy (+10%), Germany (+8.5%), the United Kingdom (+6.8%), the United States (+6.7%), France (+6.3%), Canada (+5%), Jordan (+4.4%), and Iraq (+4.1%). In contrast, the number of visitors from Venezuela declined by 1.3% in the covered period.

Banque du Liban takes additional measures to fight tax evasion

Banque du Liban (BdL) issued Basic Circular 147 dated September 3, 2019 about the opening of bank accounts in Lebanon. The circular required banks to request a certificate of registration from the Ministry of Finance for natural or legal persons residing in Lebanon that seek to open a bank account for their business, commercial or professional activities. Accordingly, it asked banks to update the files and documents of existing clients, whose accounts were opened prior to September 3, 2019. It noted that banks have until the end of 2020 to update their clients' files and to comply with the circular. The certificate of registration at the Ministry of Finance includes a tax identification number.

Basic Circular 147 is BdL's second circular that aims to fight tax evasion in the country. In July 2019, BdL issued Intermediate Circular 521, which prohibited banks and financial institutions from extending or renewing credit facilities to any institution or company whose annual turnover is equal to LBP1.5bn or more, unless the company discloses its audited financial statements that it had provided while filing for taxes. The circular indicated that banks and financial institutions have until September 30, 2020 to adjust the credit profile of their customers. It added that banks and financial institutions should request from their non-compliant customers to immediately pay the amount of the outstanding loans after the September 30, 2020 deadline. Otherwise, banks will be penalized by placing at BdL the equivalent of the amount of the loan in a blocked non-interest bearing account, denominated in the same currency as the loan, until the credit profile of the customer is settled.

Finance Ministry commits to fight tax evasion

The Ministry of Finance indicated that it will take the necessary legal actions to fight tax evasion, including requesting the lifting of bank secrecy when a tax evasion practice is confirmed, as well as imposing adequate penal sanctions.

It pointed out that Article 57 of the 2019 Budget Law provides a definition for tax evasion and enumerated a list of practices that fall under tax evasion. Article 57 indicated that tax evasion occurs when taxpayers deliberately refrain from declaring or paying their taxes and fees, or when they request tax refunds, or deduct, cancel or rebate taxes and fees by resorting to illegal ways and means. It said that the illegal actions that fall under the definition of tax evasion include hiding taxable income, carrying out activities or operations that are subject to taxes or fees without filing a commencement of activity form to declare those activities, creating accounts outside the accounting books, carrying out operations without recording them in the books, and registering fictitious expenses or financial commitments. In addition, it said that tax evasion practices consist of using forged documents, refraining from submitting income statements to the tax administration, failing to declare the real values of import or export operations, and refraining from declaring the exact number of employees, among other practices.

Structural reforms to boost confidence and raise growth to 2.5% in 2020

The Institute of International Finance considered that Lebanon's economy is at a turning point. It noted that authorities realize the severity of the situation and are making firm and unified efforts to implement the necessary fiscal and structural reforms to reduce the public debt level, rebuild confidence and preserve the currency peg to the US dollar. It indicated that fiscal and structural reforms are underway, which would help unlock the $11bn in concessional loans and grants that the international community pledged at the CEDRE conference in April 2018. Overall, it did not expect Lebanon to default on its debt, given its sizable foreign currency reserves, strong banking sector and the government's perfect track record of public debt repayment.

In parallel, the IIF projected Lebanon's real GDP to contract by 0.6% in 2019 due to the ongoing political bickering, delays in agreeing on the fiscal and structural reforms, the accumulation of government expenditure arrears, as well as to the elevated interest rates. However, it anticipated economic activity to grow by 2.5% in 2020, supported by political stability, as well as by higher investment and net exports in case of the implementation of reforms and of CEDRE-financed projects. It considered that the outlook is subject to downside risks, which include challenges in mobilizing political support for sustained fiscal and structural reforms, and an escalation of tensions between Hezbollah and Israel.

In addition, the IIF indicated that Banque du Liban's (BdL) financial operations with banks since early July 2019 have helped the banks to attract non-resident deposits. As such, it said that gross foreign currency reserves at BdL have increased by $2.6bn to $32.4bn by the end of August 2019. It considered that a successful fiscal adjustment would provide an opportunity to strengthen BdL's balance sheet and would lead to a gradual decline in interest rates starting in early 2020. It added that a credible fiscal adjustment would reduce the government's reliance on the domestic banking sector to cover its financing needs, and would send a positive signal to foreign investors, which would accelerate deposit growth.

In parallel, the IIF noted that the banking sector is well capitalized, liquid and profitable, but faces an increasingly challenging operational environment. It expected deposits to continue to increase in coming months, supported by the ongoing fiscal adjustment and the attractive spreads between dollar deposits and U.S. interest rates. It said that the banks' Tier One capital-to-assets ratio stood at 16% at end-June 2019, well above the regulatory minimum. It added that funding risks remain low, as Lebanese banks have one of the highest deposits-to-loans ratios among emerging economies. Further, it noted that Lebanese banks would benefit over the medium term from financing public-private partnership projects as part of the government's Capital Investment Program.

Select Economic Indicators for the Lebanese Economy

	2017	2018e	2019f	2020f
Nominal GDP ($bn)	53.4	55.8	57.5	61.1
Real GDP Growth (% change)	0.6	-0.2	-0.6	2.5
Private Consumption (% change)	4.1	0.2	-0.1	0.7
Public Consumption (% change)	6.3	8.1	-6.6	-0.5
Total Investment (% change)	0.4	-3.2	-9.4	7.3
Exports of Goods & Services (% change)	-3.3	-0.2	5.4	6.2
Imports of Goods & Services (% change)	6.3	-3.3	-1.5	2.3
CPI Inflation, Average (%)	4.5	6.2	2.8	3.0
Fiscal Balance, Cash Basis (% of GDP)	-7.0	-11.2	-7.8	-6.1
Government Debt (% of GDP)	148.9	152.5	151.6	148.2
Current Account Balance (% of GDP)	-22.7	-22.3	-19.7	-18.3
Foreign Currency Reserves ($bn)	35.8	32.5	27.8	27.1

Source: Institute of International Finance, September 2019

Goldman Sachs considers Lebanon's Eurobonds to be 'undervalued'

In its valuation of the sovereign credits of 54 emerging market countries, global investment bank Goldman Sachs indicated that Lebanon's Eurobonds that have a maturity of five years are "undervalued". The bank used a model that estimates which sovereign bonds are "undervalued", "fair" or "overvalued" by comparing the difference between the actual spreads and its model-implied spreads.

The difference between the actual spread of 1,339 basis points (bps) on Lebanon's Eurobonds and the Goldman Sachs' model-implied spread of 614 bps stood at 725 bps. The model-implied valuation metric is based on the current level of investor risk appetite, as well as on the current and expected path of macroeconomic fundamentals in emerging markets. The investment bank's valuations are as of September 4, 2019. In comparison, the difference between the spread on Lebanon's Eurobonds and the bank's model-implied spread stood at 657 bps as at August 15, 2019, which the investment bank also classified as 'undervalued'.

Lebanon's Eurobonds, along with the Eurobonds of Angola, Egypt, Ethiopia, Tunisia and Zambia, are the only "undervalued" bonds among 26 'B'-rated sovereigns included in Goldman Sachs' universe as of September 4, 2019. In addition, the investment bank considered as "undervalued" the Eurobonds of Namibia and Oman, which are among 'BB'-rated countries.

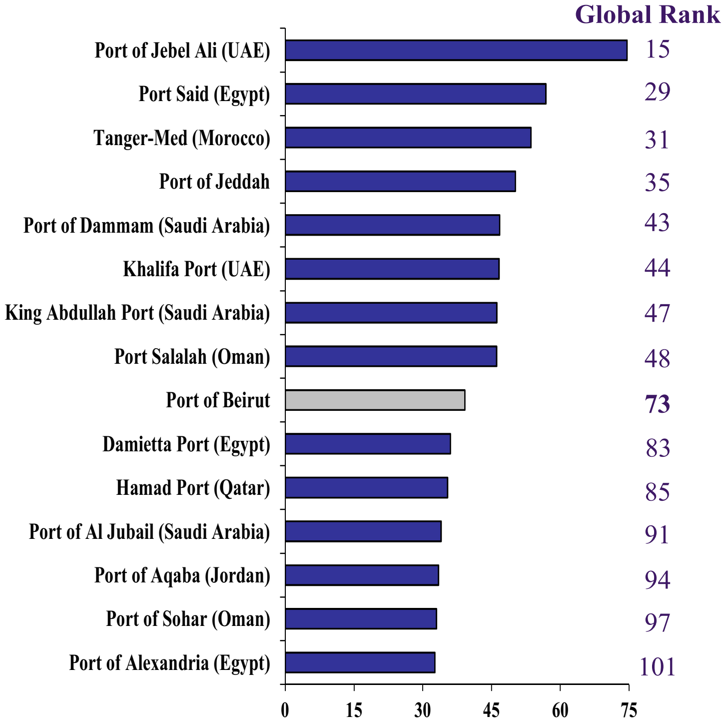
Port of Beirut ranks 73rd globally, ninth among Arab ports in terms of liner shipping connectivity

The 2019 United Nations Conference on Trade & Development's (UNCTAD) Port Liner Shipping Connectivity Index ranked the Port of Beirut in 73rd place among 960 ports around the world and in ninth place among 61 ports in Arab countries. The Port of Beirut also came in 18th place among 260 ports in upper middle-income countries (UMICs) included in the survey. In comparison, the Port of Beirut ranked in 62nd place among 959 ports globally and in seventh place among 60 ports in the Arab region on the 2018 index.

The index assesses the degree of connectivity of a port to global shipping networks. It is a composite of six components that capture the deployment of container ships by liner shipping firms to a port. The components are the number of scheduled ship calls per week in a port, the total deployed capacity offered by a port's fleet, the number of liner shipping firms that provide services from and to the port, the number of regular liner shipping services from and to a port, 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 port. A port's score is the average of the six components, with a higher score reflecting a better performance on the index.

Globally, the Port of Beirut has a higher connectivity to global shipping networks than the port of Ashdod in Israel, the port of Aliaga in Turkey and the port of Manzanillo in Panama, and a lower connectivity than the port of Lianyungang in China, the port of Houston in the United States and the port of Cartagena in Colombia. It also has a higher connectivity to global shipping networks than the port of Aliaga, and the port of Callao in Peru, and a lower connectivity than the ports of Lianyungang and Cartagena among UMICs.

Port Liner Shipping Connectivity Index for 2019
Top 15 Arab Ports' Scores & Rankings



Source: UNCTAD, Byblos Research

Further, the Port of Beirut received a score of 39.2 points, which is higher than the global average score of 12.4 points, the Arab average of 17.1 points, and the UMICs' average of 14.3 points. Also, it is lower than the Gulf Cooperation Council (GCC) ports' average score of 24.2 points, but is higher than the average score of non-GCC Arab ports of 13.7 points. In comparison, the port of Shanghai in China came in first place globally with a score of 134.3 points on the index, while the port of Jebel Ali in the UAE ranked first regionally with 74.6 points.

Banque du Liban increases subsidized mortgages by additional $60m to $310m

Banque du Liban (BdL) issued Intermediate Circular 524 on September 3, 2019 that amends Basic Circular 23 issued on March 7, 1996 about the facilities that BdL can provide to commercial banks and financial institutions.

The circular increased to LBP465bn, or $310m, the amount of new housing loans that will benefit from BdL's interest rate subsidies in its 2019 stimulus package. BdL had declared in January 2019 that LBP300bn in new mortgages will benefit from the subsidies, and announced in July 2019 that it raised the amount to LBP374bn. As such, BdL has increased subsidized mortgages by a total of LBP165bn, or $110m, since it launched its 2019 stimulus package.

BdL did not amend the mechanism through which banks get access to the subsidized loans. According to the circular, commercial banks that plan to extend subsidized mortgages have to exchange US dollars for Lebanese pounds from BdL and place the funds in Lebanese pounds in a special account at BdL. It added that banks will tap the funds from this special account to extend subsidized housing loans. It stipulated that BdL will exclude housing loans under this mechanism from the calculation of the 25% ceiling that it imposed in August 2018 on the banks' loans-to-deposits ratio in Lebanese pounds. Further, the circular indicated that Banque de l'Habitat can benefit until the end of 2019 from BdL's interest subsidies on the mortgages it extends.

In addition, the circular allowed banks to reschedule a subsidized non-housing loan if the loan is originally granted in Lebanese pounds and the client converted it to US dollars. Prior to the amendments, it allowed banks to reschedule subsidized housing and non-housing loans if the loan is originally granted in Lebanese pounds and the client converted it to US dollars.

Occupancy rate at Beirut hotels at 70%, room yields up 27% in first seven months of 2019

EY's benchmark survey of the hotel sector in the Middle East indicates that the average occupancy rate at four- and five-star hotels in Beirut was 70.2% in the first seven months of 2019 relative to 61% 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 seven months of the year, while it was the seventh highest in the same period of 2018.

The occupancy rate at hotels in Beirut rose by 9.2 percentage points in the first seven months of 2019, constituting the largest increase among the 14 Arab markets. In comparison, the average occupancy rate in Arab markets grew by three 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, 76.7% in June and 75.4% in July 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, 60.9% in June and 73% in July 2018. The occupancy rate at Beirut hotels was the fourth highest in the region in July this year, while it was the third highest in July 2018.

Hotel Sector Performance in First Seven Months of 2019

	Occupancy Rate (%)	RevPAR (US$)	RevPAR % change
Dubai	74.0	170	(16.5)
Jeddah	59.7	162	(8.8)
Beirut	**70.2**	**143**	**26.7**
Makkah	70.3	114	8.5
Ras Al Khaimah	73.9	109	(8.2)
Riyadh	61.7	97	0.4
Kuwait City	57.1	94	(11.1)
Madina	67.9	92	1.1
Amman	58.9	87	(0.9)
Manama	52.2	86	5.3
Cairo City	74.0	84	9.7
Abu Dhabi	76.6	78	9.0
Muscat	58.5	75	(6.6)
Doha	67.1	74	2.3

Source: EY, Byblos Research

The average rate per room at Beirut hotels was $203 in the first seven months of 2019, increasing by 10.1% from $184 in the same period of 2018 and constituting the third highest rate in the region after Jeddah ($272) and Dubai ($230). The average rate per room in Beirut was higher than the regional average of $159.7 that regressed by 5.1% from the first seven months of 2018.

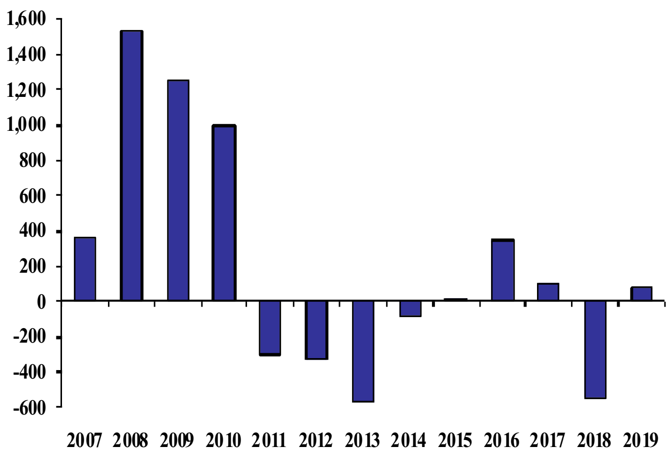
Further, revenues per available room (RevPAR) were $143 at Beirut hotels in the first seven months of 2019 compared to $113 in the same period of 2018, ranking the capital in third place regionally behind Dubai ($170) and Jeddah ($162). Beirut's RevPAR grew by 26.7% year-on-year and posted the largest increase regionally. Beirut posted RevPARs of $118 in January, $132 in February, $146 in March, $174 in April, $83 in May, $183 in June and $163 in July 2019, compared to $87 in January, $105 in February, $110 in March, $120 in April, $89 in May, $134 in June and $144 in July 2018. Abu Dhabi posted the highest occupancy rate in the region at 76.6% in the first seven months of 2019, while Jeddah registered the highest average rate per room at $272 and Dubai had the highest RevPAR at $170 in the covered period. EY attributed the improved performance of Beirut's hospitality market in the first seven months 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.

Net foreign assets of financial sector up by $73m in July 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 $5.3bn in the first seven months of 2019 compared to a decrease of $757.2m in the same period of 2018. The net foreign assets of the financial sector increased by $72.5m in July 2019, compared to a decline of $204.3m in June 2019 and a decrease of $548.9m in July 2018. The month-on-month increase in July 2019 was caused by a rise of $691m in the net foreign assets of BdL, which was partly offset by a decline of $618.6m in those of banks and financial institutions. Also, the cumulative deficit in the first seven months of 2019 was caused by a decline of $2.7bn in the net foreign assets of banks and financial institutions and by a decrease of $2.6bn in those of BdL.

BdL indicated that it paid $3.2bn on behalf of the government to cover the principal and coupons of maturing Eurobonds so far this year, 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.

Change in Net Foreign Assets of Financial Sector in July of Each Year (US$m)



Source: Banque du Liban

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.

Ratings on Byblos Bank affirmed on sound capital adequacy and liquidity metrics

Capital Intelligence Ratings (CI) affirmed at 'B' the long- and short-term foreign-currency ratings (FCRs) of Byblos Bank. In parallel, the agency withdrew the bank's financial strength rating due to a change in its methodology, and replaced it with the Bank Standalone Rating (BSR), which is based on the Core Financial Strength (CFS) rating and the Operating Environment Risk Anchor (OPERA). As such, it assigned to Byblos Bank a BSR of 'b', a CFS rating of 'bb-', an OPERA of 'b' and an Extraordinary Support Level of 'Uncertain'. It noted that the outlook on the bank's long-term FCR and BSR is 'negative', in line with the outlook on Lebanon's sovereign ratings.

The agency indicated that Byblos Bank's CFS is supported by its adequate capital adequacy, sound asset quality metrics, adequate liquidity and good franchise in Lebanon. It added that the ratings are correlated with the sovereign's creditworthiness and are constrained by the sovereign ratings.

Further, the agency pointed out that Byblos Bank's non-performing loans (NPLs), or Stage 3 loans, compare favorably with the banking sector's average NPLs, supported by significant write-offs and transfers of fully-provided NPLs off the bank's balance sheet. It added that the bank's loan-loss reserve coverage is adequate, underpinned by the adoption of international accounting standard IFRS 9 in early 2018. Further, it noted that the bank's capital adequacy is at a comfortable level, which provides a buffer against credit risks. In addition, it stated that funding and liquidity metrics continue to be adequate, as the deceleration in lending growth has offset the slowdown in deposit growth. In parallel, it indicated that Byblos Bank has good access to capital markets, which allows it to diversify its sources of funding by a wider scope than other domestic banks. But it considered that the bank's adequate liquidity ratios are subject to systemic liquidity and interest rate risks, as is the case with all other Lebanese banks.

In parallel, CI indicated that Byblos Bank's operating profitability has increased modestly in recent years, with its net interest income growing firmly amid an increase in the bank's interest-earning assets and a rise in its net interest margin due to higher yields on its placements at Banque du Liban. However, it noted that higher risk charges have affected the bank's return on average assets. It attributed the uncertain level of extraordinary support to the fact that the government would likely be willing to provide such support, but that its financial capacity to do so is limited, as indicated by Lebanon's sovereign ratings.

Bancassurance's net income at $21m in 2018

Bancassurance sal, a life-insurance company jointly owned by Banque Libano-Française, Fransabank and BLC Bank, announced audited net profits of $20.6m in 2018, constituting an increase of 5.5% from net earnings of $19.5m in 2017. Its audited balance sheet shows total assets of $442m at the end of 2018, up by 8% from $409.4m at end-2017. On the assets side, general company investments reached $436.7m and increased by 8.1% from a year earlier. They included $293.6m in fixed income investments, $11.4m in mutual funds, $10.3m in land and real estate assets, and $9.3m in variable income investments. They also included $103.6m in blocked bank deposits and deposits with maturity of more than three months, of which $995,025 were blocked in favor of the Ministry of Economy & Trade as guarantees. Also, unit-linked contract investments totaled $956,492 at end-2018, constituting a decrease of 13.7% from $1.1m a year earlier. These investments were allocated in full to mutual funds. Also, the reinsurance's share in technical reserves for the life category decreased by 25% to $0.93m at end-2018.

On the liabilities side, technical reserves for the life segment reached $368.6m at end-2018 and increased by 7.9% from a year earlier. They included unearned premium reserves of $31.5m that grew by 3.4% from a year earlier, outstanding claims reserves of $1.8m that decreased by 28.5%, and $0.6m in reserves incurred but not reported that increased by 21.2% from end-2017. Provisions for risks and charges reached $8m at end-2018 and increased by 14.6% from end-2017. Also, the firm's shareholders' equity totaled $61.9m at the end of 2018, up by 7.8% from $57.5m at end-2017.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked Bancassurance sal in second place in 2018 in terms of life premiums. The firm's life premiums amounted to $83.4m last year, up by 6.1% from $$78.6m in 2017. It had a 15.4% share of the life market in 2018. Bancassurance is not active in the non-life insurance category.

First National Bank redeems and cancels 125,000 preferred shares

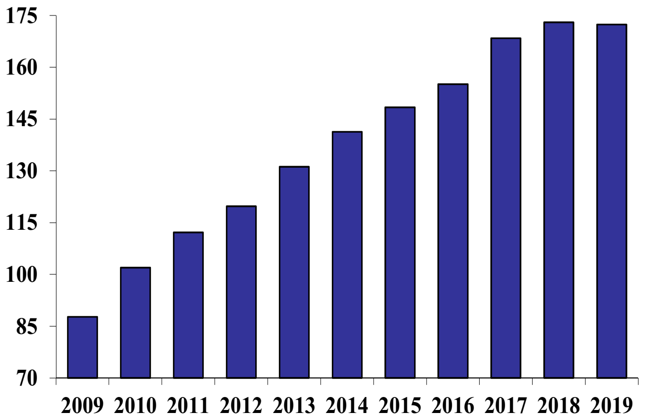
First National Bank redeemed and cancelled 125,000 Preferred Shares Series "2", or 50% of its total Preferred Shares Series "2", at a redemption price of $100. The bank's Board of Directors approved the redemption and cancellation of the preferred shares on June 14, 2019, while Banque du Liban ratified the transaction on August 8, 2019. The Preferred Shares Series "2", which were issued in November 2012, are redeemable, non-cumulative and perpetual, and have an issue price of $100 per share, of which LBP10,000 ($6.6) is par value and the remaining $93.4 is the issue premium.

First National Bank sal, one of Lebanon's top 16 banks in terms of deposits, announced consolidated net profits of $4.4m in the first quarter of 2019, constituting a decline of 22.6% from net earnings of $5.7m in the same period of 2018. The bank's total assets reached $5.1bn at the end of March 2019, down by 1.4% from end-2018, while loans & advances to customers, excluding those to related parties, dropped by 3.8% from end-2018 to $863.1m. Also, customer deposits, excluding those from related parties, totaled $3.7bn at end-March 2019 and decreased by 1.5% from the end of 2018.

Banking sector assets at $259bn at end-July 2019

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets stood at $259.2bn at the end of July 2019, constituting an increase of 4% from $249.5bn at the end of 2018 and an expansion of 9.7% from $236.3bn at end-July 2018. Loans extended to the private sector reached $55.3bn at the end of July 2019, regressing by 7% from end-2018 and by 6.6% from a year earlier. Loans to the resident private sector totaled $48.8bn, constituting decreases of 6.6% from the end of 2018 and of 7.4% from end-July 2018. Also, credit to the non-resident private sector reached $6.5bn at end-July 2019, declining by 8.8% from end-2018 and by a marginal 0.2% from a year earlier. In nominal terms, credit to the private sector regressed by $4.1bn in the first seven months of 2019 relative to a decrease of $469.7m in the same period of 2018, as lending to the resident private sector contracted by $3.46bn and credit to the non-resident private sector regressed by $625m in the covered period. The dollarization rate in private sector lending rose from 67.3% at end-July 2018 to 69.9% at end-July 2019.

Total Private Sector Deposits* (US$bn)



**at end-July of each year*
Source: Banque du Liban, Byblos Research

In addition, claims on non-resident financial institutions reached $9.4bn at the end of July 2019 and declined by $2.6bn, or 21.6%, from the end of 2018, and by $375m, or 3.8%, from the end of July 2018. Also, claims on the public sector stood at $32bn at end-July 2019, down by 4.7% from end-2018. The average lending rate in Lebanese pounds was 11.13% in July 2019 compared to 8.66% a year earlier, while the same rate in US dollars was 9.9% relative to 7.96% in July 2018. Further, the deposits of commercial banks at Banque du Liban totaled $147.8bn at the end of July 2019, constituting an increase of 23.1% from $120bn a year earlier.

In parallel, total private sector deposits reached $172.3bn at the end of July 2019. They decreased by 1.1% from the end of 2018 and by a marginal 0.4% from end-July 2018. Deposits in Lebanese pounds reached the equivalent of $48.7bn at end-July 2019, down by 5% from end-2018 and by 10.6% from a year earlier; while deposits in foreign currency totaled $123.6bn, as they rose by 0.5% from end-2018 and grew by $5.1bn, or 4.3%, from $118.5bn a year earlier. Resident deposits totaled $135.5bn at the end of July 2019, decreasing by a marginal 0.7% or $916m from end-July 2018. Also, non-resident deposits reached $36.9bn at end-July 2019, as they regressed by 2.3% or $852.7m from end-2018, and increased by 0.7% or $253m 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, by $186.4m in April, by $1.28bn in June and by $220.6m in July 2019. As such, aggregate private sector deposits regressed by $1.93bn in the first seven months of 2019 relative to an increase of $4.35bn in the same period of 2018, with deposits in Lebanese pounds dropping by $2.5bn and foreign-currency deposits growing by $560m. The dollarization rate of private sector deposits was 71.7% at the end of July 2019, up from 70.6% at the end of 2018, and compared to 68.5% a year earlier.

In parallel, deposits of non-resident financial institutions reached $9.5bn at the end of July 2019 and increased by 12.8% from end-July 2018. Further, the average deposit rate in Lebanese pounds was 8.81% in July 2019 compared to 6.94% a year earlier, while the same rate in US dollars was 6.01% relative to 4.14% in July 2018. The ratio of private sector loans to deposits in foreign currency stood at 31.3% at the end of July 2019 compared to 33.6% a year earlier, well below Banque du Liban's limit of 70%. The same ratio in Lebanese pounds reached 34.2% at end-July 2019, relative to 35.5% at the end of July 2018. As such, the total private sector loans-to-deposits ratio reached 32.1% compared to 34.2% at end-July 2018. The banks' aggregate capital base stood at $20.7bn at end-July 2019, up by 3.1% from $20.1bn a year earlier.

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	Aug 2017	Jul 2018	Aug 2018	Change**	Risk Level
Political Risk Rating	55.5	55.0	54.0	▲	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	57.75	▲	High

MENA Average*	Aug 2017	Jul 2018	Aug 2018	Change**	Risk Level
Political Risk Rating	57.8	58.0	57.9	▼	High
Financial Risk Rating	38.0	38.7	38.7	▼	Low
Economic Risk Rating	30.6	33.0	33.2	▼	Moderate
Composite Risk Rating	63.2	64.8	64.9	▼	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	CCC	C	-	CCC	C	-
S&P Global Ratings	B-	B	Negative	B-	B	Negative
Capital Intelligence Ratings	B	B	Negative	B	B	Negative

Source: Rating agencies

Banking Sector Ratings	Outlook
Moody's Investors Service	Stable

Source: Moody's Investors Service

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