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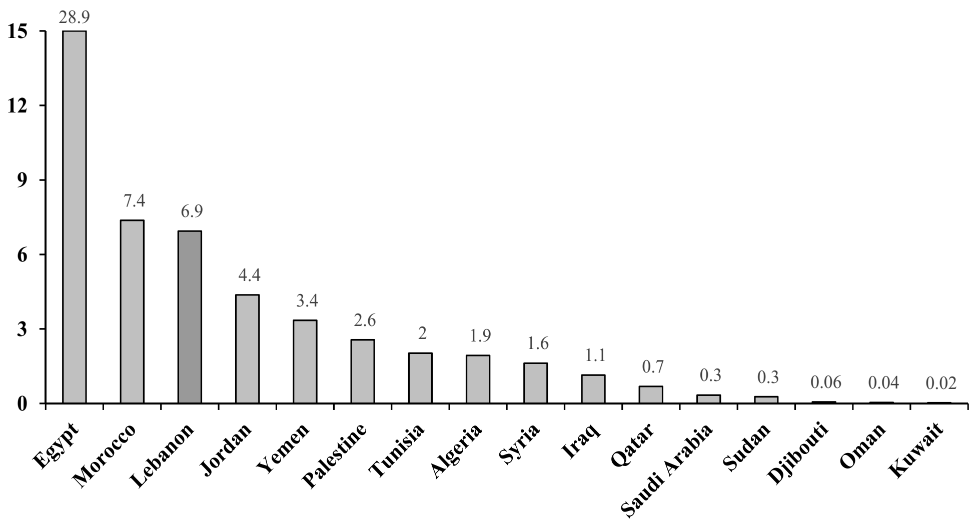
LEBANON THIS WEEK

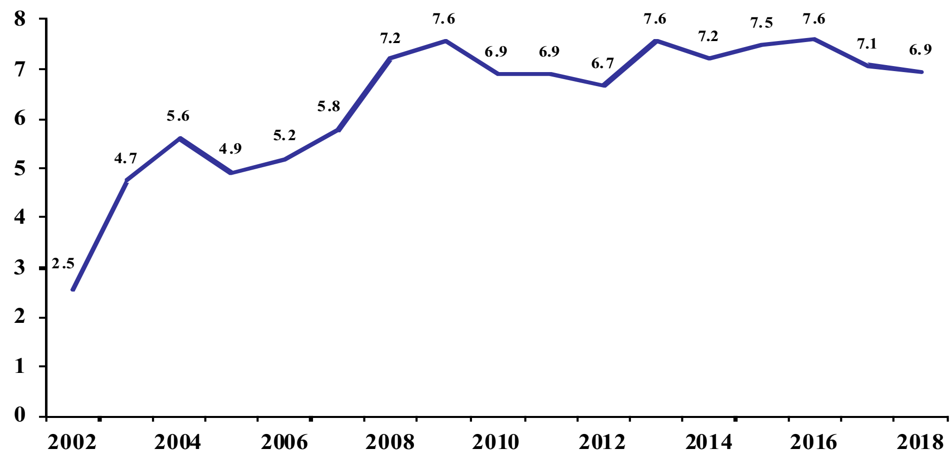
In This Issue

Charts of the Week

Remittance Inflows to Arab Countries in 2018 (US$bn)



Remittance Inflows to Lebanon (US$bn)



Source: World Bank, Banque du Liban, Byblos Bank

Quote to Note

"It is crucial that Lebanon implements governance reforms on anti-corruption and transparency measures, which it has identified as essential for its economic recovery and growth, and in line with its commitments at CEDRE."

The International Support Group for Lebanon, on what the international community expects from Lebanese authorities

Number of the Week

8,857: Number of stories published in 600 issues of *Lebanon This Week*

Lebanon in the News

$m (unless otherwise mentioned)	2018	Jan-Jul 2018	Jan-Jul 2019	% Change*	Jul-18	Jun-19	Jul-19
Exports	2,952	1,757	2,089	18.94	218	285	365
Imports	19,980	11,898	12,335	3.67	2,318	1,377	2,196
Trade Balance	(17,028)	(10,142)	(10,245)	1.02	(2,100)	(1,092)	(1,831)
Balance of Payments	(4,823)	(757)	(5,318)	602.37	(549)	(204)	72
Checks Cleared in LBP	22,133	12,509	12,214	(2.36)	1,878	1,581	1,900
Checks Cleared in FC	44,436	26,166	20,352	(22.220)	3,953	2,502	3,170
Total Checks Cleared	66,569	38,675	32,566	(15.80)	5,831	4,083	5,070
Fiscal Deficit/Surplus**	(6,246)	(3,036)	(2,419)	(20.32)	(42)	(33)	-
Primary Balance**	(636)	(155)	309	-	223	347	-
Airport Passengers***	8,842,442	4,842,665	5,037,455	4.02	1,022,467	838,498	1,059,267
Consumer Price Index****	6.1	6.2	3.0	(323bps)	7.6	1.7	1.4

$bn (unless otherwise mentioned)	Dec-17	Jul-18	Dec-18	May-19	Jun-19	Jul-19	% Change*
BdL FX Reserves	35.81	34.21	32.51	29.72	29.75	31.06	(9.23)
In months of Imports	18.57	14.76	20.72	12.10	21.61	14.15	(4.18)
Public Debt	79.53	82.90	85.14	85.38	85.73	86.01	3.74
Bank Assets	219.86	236.31	249.48	253.63	255.98	259.18	9.68
Bank Deposits (Private Sector)	168.66	173.01	174.28	170.85	172.13	172.35	(0.38)
Bank Loans to Private Sector	59.69	59.22	59.39	56.32	56.00	55.30	(6.62)
Money Supply M2	52.51	53.58	50.96	49.23	49.11	48.91	(8.72)
Money Supply M3	138.62	140.85	141.29	139.33	139.93	140.34	(0.36)
LBP Lending Rate (%)	8.09	8.66	9.97	10.75	10.94	11.13	247bps
LBP Deposit Rate (%)	6.41	6.94	8.30	8.72	8.80	8.81	187bps
USD Lending Rate (%)	7.67	7.96	8.57	9.54	9.49	9.90	194bps
USD Deposit Rate (%)	3.89	4.14	5.15	5.79	5.84	6.01	187bps

year-on-year **year-to-date figures reflect results for first half 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
Byblos Common	1.10	(0.90)	173,137	7.98%
BLOM GDR	7.07	(0.14)	36,000	6.70%
Solidere "A"	5.47	(4.37)	25,498	7.01%
Solidere "B"	5.34	(10.85)	13,420	4.45%
Audi Listed	3.70	1.37	3,000	18.96%
Byblos Pref. 08	65.00	0.00	2,438	1.67%
HOLCIM	9.98	5.05	568	2.50%
Byblos Pref. 09	65.00	0.00	208	1.67%
Audi GDR	3.70	0.00	-	5.69%
BLOM Listed	7.30	0.00	-	20.12%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Mar 2020	6.38	96.00	15.64
Apr 2021	8.25	86.50	18.65
Oct 2022	6.10	72.63	18.25
Jun 2025	6.25	65.13	15.70
Nov 2026	6.60	66.50	14.18
Feb 2030	6.65	66.88	12.39
Apr 2031	7.00	67.00	12.45
May 2033	8.20	73.09	12.32
Nov 2035	7.05	67.50	11.53
Mar 2037	7.25	67.50	11.64

Source: Byblos Bank Capital Markets

	Sep 16-20	Sep 9-13	% Change	August 2019	August 2018	% Change
Total shares traded	1,011,800	325,416	210.9	1,085,556	1,547,114	(29.8)
Total value traded	$15,655,385	$1,238,030	1,164.5	$6,488,622	$12,657,664	(48.7)
Market capitalization	$7.80bn	$7.84bn	(0.50)	$7.87bn	$9.96bn	(21.0)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Sep 13, 2019	Sep 20, 2019	% Change**
CDS 1-year*	1,417.45	1,338.72	(5.6)
CDS 3-year*	1,471.87	1,301.41	(11.6)
CDS 5-year*	1,391.10	1,215.91	(12.9)

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

CDX EM 30*	Sep 13, 2019	Sep 20, 2019	% Change***
CDS 5-year**	96.28	96.37	0.1

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

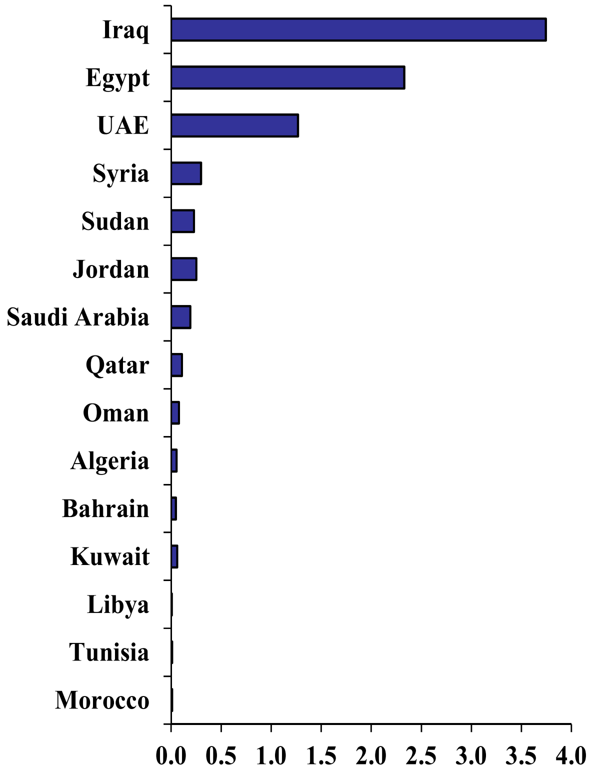
Lebanese Greenfield FDI in Arab countries at $9bn in 2003-18 period, Iraq attracts 43% of total

Figures compiled by fDi Markets show that the cumulative amount of Lebanese Greenfield foreign direct investments (FDI) in Arab countries totaled $8.7bn between 2003 and 2018. Lebanon was the seventh largest source of inter-Arab Greenfield FDI among 18 Arab countries during the covered period, behind the UAE ($183.6bn), Kuwait ($43bn), Bahrain ($38.7bn), Qatar ($32.3bn), Saudi Arabia ($30.7bn), and Egypt ($13.9bn). The amount of outward Greenfield FDI from Lebanon to Arab countries accounted for 2.4% of total inter-Arab Greenfield FDI during the 2003-18 period. Further, Lebanon was the source of $115.2m in Greenfield FDI to other Arab countries in 2018, of which $33m were to the UAE, $24m were to Jordan, $17.8m to Kuwait, $13.7m to Egypt, and $8.9m to each of Bahrain, Saudi Arabia and Qatar.

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

Iraq was the main destination of Lebanese Greenfield FDI with $3.74bn or 43.1% of the total during the 2003-18 period, followed by Egypt with $2.33bn (26.8%), the UAE with $1.27bn (14.6%), Syria with $298.2m (3.4%), Jordan with $253m (2.9%), Sudan with $228.1m (2.6%), Saudi Arabia with $190.7m (2.2%), Qatar with $107.2m (1.2%), Oman with $78.5m (0.9%), Kuwait with $60.5m (0.7%), Algeria with $55m (0.6%), Bahrain with $47.8m (0.5%), as well as Tunisia with $11m, Morocco with $10.8m and Libya with $9.5m (0.1% each).

Lebanese Greenfield FDI in Arab countries (US$bn)



Source: fDi Markets, Byblos Research

The hydrocarbon sector in Arab countries attracted $3bn in Greenfield FDI from Lebanon, or 34.5% of the total, between 2003 and 2018. The food and tobacco industries followed with $2.55bn (29.3%), then the real estate sector with $1.22bn (14.1%), the financial services industry with $1.2bn (13.7%), the textiles sector with $289.2m (3.3%), the information technology sector with $166.2m (1.9%), and the telecommunications industry with $150m (1.7%), while other sectors attracted $119.2m, or 1.4% of the total.

In parallel, there were 157 Lebanese Greenfield FDI projects in Arab countries between 2003 and 2018. The UAE was the destination of 34 Greenfield FDI projects from Lebanon, or 21.7% of the total, followed by Egypt with 21 projects (13.4%), Iraq and Jordan with 18 projects each (11.5% each), Syria with 17 projects (10.8%), Saudi Arabia with 11 projects (7%), Qatar with eight projects (5.1%), Kuwait with seven projects (4.5%), Algeria with six projects (3.8%), Bahrain and Sudan with five projects each (3.2% each), Oman with four projects (2.5%), as well as Libya and Tunisia with one project each (0.6% each). In addition, the number of Lebanese Greenfield FDI projects in Arab countries accounted for 5.4% of inter-Arab Greenfield FDI projects during the covered period. Egypt, Iraq, Jordan and the UAE were the recipients of 58% of the number of Lebanese FDI projects in Arab countries and of 87.4% of their value during the 2003-18 period. Further, Lebanon was the source of 13 Greenfield FDI projects to other Arab countries in 2018, of which four projects were in the UAE, two projects were in each of Egypt, Jordan and Kuwait, as well as one project was in each of Bahrain, Saudi Arabia and Qatar.

Merger & acquisition deals at $5m in first eight months of 2019

Figures issued by financial information provider Bureau Van Dijk show that there were three merger and acquisition (M&A) deals targeting companies in Lebanon in the first eight months of 2019, compared to six deals in the same period of 2018. The aggregate disclosed value of M&A deals in Lebanon stood at $5m in the covered period, compared to $215m in the first eight months of 2018. The figures show declines of 98% in the value of deals and 50% in their volume in the first eight months of 2019.

In comparison, the value of M&A transactions in Saudi Arabia reached $71.8bn in the first eight months of 2019, followed by the UAE ($18.1bn), Bahrain ($7.1bn), Iran ($5.5bn), Kuwait ($3.1bn), Egypt ($1.2bn), Qatar ($381m), Oman ($249m), Jordan ($171m), Morocco ($162m) and Tunisia ($10m).

In parallel, the number of M&A deals targeting companies in Lebanon in the first eight months of 2019 was similar to the number of deals in Qatar, and was higher than the number of deals in Palestine and Tunisia (one deal each). In comparison, there were 93 M&A deals in Egypt, 65 transactions in the UAE, 50 deals in Saudi Arabia, 46 transactions in Kuwait, 36 deals in Jordan, 26 transactions in Oman, 12 deals in Bahrain, 10 transactions in Iran, and eight deals in Morocco.

Draft budget for 2020 projects deficit of 7.4% of GDP

The draft budget 2020 that the Ministry of Finance submitted to the Council of Ministers shows budget expenditures at LBP25,600bn or $17bn, and revenues at LBP19,010bn or $12.6bn, leading to a budget deficit of LBP6,590bn or $4.4bn. The figures are based on a real GDP growth rate of 1.2%, a nominal GDP of LBP89,298bn, or $59.2bn, and an inflation rate of 2.8% in 2020. As such, public spending would be equivalent to 28.7% of GDP and revenues would come at 21.3% of GDP in 2020, resulting in a deficit of 7.4% of GDP. In comparison, fiscal expenditures totaled $17bn (28.5% of GDP) in the 2019 budget, while revenues amounted to $12.5bn (20.9% of GDP), resulting in a target deficit of $4.5bn (7.6% of GDP).

The breakdown of budgetary spending for 2020, excluding Treasury outlays, shows that current expenditures amount to LBP24,197bn ($16.1bn), equivalent to 94.5% of such spending. Also, capital spending, which includes investing in infrastructure, land expropriation and the purchase of equipment, reaches LBP1,403bn ($931m), or 5.5% of total expenditures in 2020. The compensation of public-sector personnel, which covers salaries, wages & related benefits, as well as retirement & end-of-service indemnities, and transfers to public institutions to cover salaries, amounts to LBP10,246bn, or $6.8bn, and represents 40% of total budget spending in 2020. It is followed by debt servicing at LBP9,195bn, or $6.1bn (36% of total budget spending) and Transfers to Electricité du Liban (EdL) at LBP1,500bn, or $1bn (6% of total budget spending) next year. In comparison, the compensation of public-sector personnel stood at $6.7bn or 39.3% of total spending in the 2019 budget, while interest payments reached $5.5bn (32.5%), and transfers to EdL amounted to $1.7bn (9.8%). Also, the 2019 budget targeted capital spending of $966m, equivalent to 5.7% of total expenditures in 2019.

On the revenues side, the 2020 draft budget forecast tax receipts at LBP15,018bn ($10bn), compared to LBP14,570bn ($9.7bn) in the 2019 budget. Receipts from the tax on income, profits & capital gain would generate 40.3% of total tax revenues, followed by revenues from the value-added tax and the excise tax on goods & services (40%), receipts from custom duties (8.3%), and income from property taxes (7.1%), while other taxes would generate the remaining 4.3%. The 2020 budget projects non-tax revenues at LBP3,992bn ($2.6bn) relative to LBP4,212bn ($2.8bn) in the 2019 budget, with $1bn in transfers from the Ministry of Telecommunications next year.

The Ministry of Finance indicated that its forecast for public revenues in 2020 incorporates incremental receipts from the increases in taxes and fees that were included in the 2019 budget. In addition, the 2020 draft budget imposes a minimum tax payment on individuals and enterprises, excluding corporations and limited partnerships. Specifically, it imposes a minimum tax of LBP2m on joint stock companies and partnerships limited by shares, a tax of LBP1m on limited liability companies, LBP750,000 on partnerships, LBP500,000 on sole proprietorships taxed on the basis of real profits, LBP250,000 on individual tax payers who are subject to a lump-sum tax on profits, and LBP75,000 on taxpayers who are subject to a tax on deemed profits.

Projected Revenues & Expenditures in 2020 Draft Budget

	2020 Budget (US$m)	2019 Budget (US$m)	Change (%)
Budget Revenues	**12,610**	**12,460**	**1.2%**
Tax Revenues	9,962	9,665	3.1%
Non-Tax Revenues	2,648	2,794	(5.2%)
of which Telecom revenues	*1,028*	*1,253*	*(17.9%)*
Budget Expenditures	**16,982**	**16,985**	**(0.02%)**
Current Spending, of which	16,051	16,020	0.2%
Interest payments	*6,099*	*5,514*	*10.6%*
Wages, salaries & transfers to cover salaries	*3,728*	*3,781*	*(1.4%)*
Retirement salaries	*1,879*	*1,679*	*11.9%*
Transfers to EdL	*995*	*1,658*	*(40%)*
End of service indemnities	*299*	*299*	-
Capital Spending	931	966	(3.7%)
Budget Deficit	**(4,372)**	**(4,526)**	**(3.4%)**
Treasury Receipts	747	737	1.3%
Treasury Expenditures	-	-	-
Budget & Treasury Revenues	**13,357**	**13,197**	**1.2%**
Budget & Treasury Expenditures	**-**	**-**	**-**

Source: Ministry of Finance, Byblos Research

Potential Saudi financial support is not substitute for reforms

Global investment bank Goldman Sachs indicated that the materialization of financial support from Saudi Arabia would improve the country's foreign currency liquidity position and ease external financing risks over the medium term. It noted that Lebanon's foreign currency liquidity has gradually deteriorated over the past few years, as a result of the wide current account deficit and unfavorable external financing conditions. As such, it considered that the Saudi financial support would finance the country's balance-of-payments deficit and support gross foreign currency reserves at Banque du Liban (BdL).

Goldman Sachs estimated Lebanon's external financing gap at $6.8bn in 2019 and $6.65bn in 2020 under current financing conditions. It said that the government would normally finance this gap by drawing down foreign currency reserves at BdL, or through additional financial operations between commercial banks and BdL. However, it considered that the materialization of the Saudi support has the potential to narrow Lebanon's external financing gap, support BdL's foreign currency reserves and reduce the overall reliance on BdL to finance the external gap. In addition, it indicated that financial support from Saudi Arabia would improve depositor and investor sentiment towards Lebanon, which would translate into a pickup in capital inflows and an increase in rollover financing of Eurobonds.

However, it said that the Saudi financial support would be insufficient on its own to address Lebanon's underlying imbalances, as it considered that the improvement of the country's fiscal and external imbalances depends on the implementation of significant structural reforms. It added that Lebanese authorities have made efforts to implement such reforms, including the Cabinet's approval of the energy sector reform plan and the Parliament's enactment of the 2019 budget. It expected these efforts to continue but to remain subject to domestic political uncertainties.

In parallel, global investment bank Morgan Stanley noted that the prices of Lebanese Eurobonds increased by up to four percentage points following the announcement of potential Saudi financial support to Lebanon. It estimated Lebanon's total external funding requirements at $8bn to $9bn per year, which it expects to narrow to about $3bn per year in case deposits at commercial banks increased by $2bn to $3bn and the government issues Eurobonds of $2.5bn to $3bn. As such, it considered that a financial support package of $5bn to $6bn over the next 18 to 24 months would help cover Lebanon's external financing gap and improve market sentiment.

However, it indicated that the Saudi financial aid would not be an alternative to fiscal reforms, even if the support package amounts to $6bn and comes at no cost for the government. As such, it noted that authorities need to implement revenue-led fiscal consolidation or increase Electricité du Liban's tariffs, along with the Saudi financial support, in order to reduce investors' risk perception about Lebanon. Also, it considered that the Lebanese government needs to accelerate structural reforms, which along with the easing of geopolitical tensions in the MENA region and a stabilization of oil prices at low levels, would improve the performance of Lebanese Eurobonds.

More than 75% of Treasury securities in Lebanese pounds have five-year maturities or longer

Figures released by the Association of Banks in Lebanon (ABL) show that the face value of outstanding Treasury securities denominated in Lebanese pounds reached LBP79,413bn, or the equivalent of $52.7bn, at the end of July 2019, compared to LBP70,605bn, or $46.8bn, at the end of July 2018. The weighted interest rate on Lebanese Treasury securities denominated in Lebanese pounds was 6.4% in July 2019 compared to 6.42% in July 2018.

The distribution of outstanding Treasury securities denominated in Lebanese pounds at end-July 2019 shows that 15-year Treasury bonds accounted for 1.8%, or LBP1,417bn, of total securities in Lebanese pounds; 12-year Treasury securities represented 3.9% of the total (LBP3,076bn), and 10-year Treasury bonds had a share of 30.1% (LBP23,929bn). Also, the share of eight-year Treasury securities was 2.3% (LBP1,832bn), seven-year Treasury bonds represented 16.7% (LBP13,235bn), five-year Treasury securities accounted for 23.5% (LBP18,652bn), the share of three-year Treasury bonds was 12.4% (LBP9,822bn), two-year Treasury bills represented 7.4% (LBP5,858bn), one-year T-bills accounted for 1.9% (LBP1,466bn), the share of six-month T-bills was 0.1% (LBP92bn) and three-month T-bills represented 0.04% (LBP34bn). As such, 54.8% of outstanding Treasury securities have seven-year maturities or longer and 78.3% have five-year maturities or more.

In parallel, the face value of outstanding Treasury securities denominated in Lebanese pounds that matured in July 2019 was LBP858bn ($569.2m), of which 47.4% were three-year Treasury bonds, 23.5% were two-year Treasury securities, 14% were five-year Treasury bonds, 12.2% were one-year Treasury bills, 2% were six-month securities and 0.9% were three-month T-bills.

According to the ABL, LBP5,970bn or the equivalent to $4bn of outstanding Treasury bonds in Lebanese pounds will mature in the remainder of 2019, while LBP11,357bn ($7.5bn) will come due in 2020 and LBP8,537bn ($5.7bn) will mature in 2021.

Lebanon ranks 100th globally, 11th in Arab region in travel & tourism competitiveness

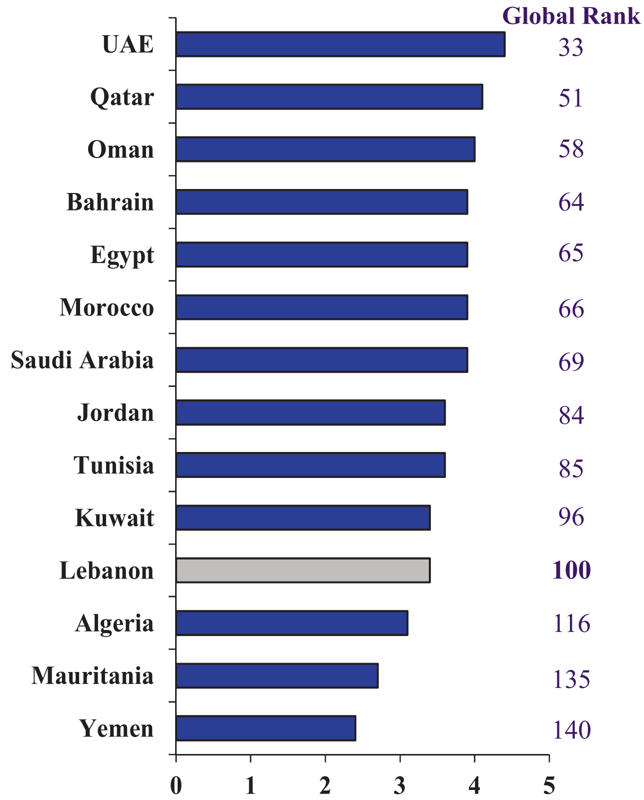
The World Economic Forum ranked Lebanon in 100th place among 140 countries globally and in 11th place among 14 Arab countries on its Travel & Tourism Competitiveness Index (TTCI) for 2019. Also, Lebanon came in 32nd place among 37 upper middle-income countries (UMICs) included in the survey.

The TTCI measures the set of factors and policies that enable the sustainable development of the Travel & Tourism (T&T) sector, which contribute to the development and competitiveness of a country. The index is the simple average of four sub-indices that are the Enabling Environment Sub-Index, the T&T Policy and Enabling Conditions Sub-Index, the Infrastructure Sub-Index and the Natural & Cultural Resources Sub-Index.

Globally, Lebanon's T&T sector is considered to be more competitive than the T&T sectors of North Macedonia, Nepal and Moldova, and less competitive than the T&T sector in Laos, Cambodia and Guatemala. It also ranked ahead of only North Macedonia, Bosnia & Herzegovina, Paraguay, Algeria and Venezuela among UMICs. Lebanon received a score of 3.4 points, lower than the global average score of 3.8 points, the UMICs' average score of 3.9 points, and the Arab average score of 3.6 points. Lebanon's score was also lower than the Gulf Cooperation Council (GCC) average score of four points, but it was higher than the average score of non-GCC Arab countries of 3.3 points.

Lebanon ranked ahead of Laos and the Philippines, and came behind Brazil and Peru on the Enabling Environment Sub-Index. This indicator captures the general settings that are necessary for companies to operate in a country, such as the business environment, safety & security, health & hygiene, and human resources & the labor market. Lebanon ranked ahead of only the Dominican Republic, Paraguay, Colombia, Botswana, Namibia, South Africa, Guatemala and Venezuela among UMICs; while it came ahead of only Mauritania and Yemen regionally.

Travel & Tourism Competitiveness Index for 2019
Arab countries' Scores & Rankings



Source: World Economic Forum, Byblos Research

Also, Lebanon ranked ahead of Moldova and Albania, and came behind Serbia and Trinidad & Tobago on the T&T Policy & Enabling Conditions Sub-Index, which assesses specific policies or strategic aspects that have a direct impact on the T&T industry. It preceded Saudi Arabia, Kuwait, Mauritania, Algeria and Yemen in the Arab region.

Further, Lebanon preceded Vietnam and Albania, and trailed Tunisia and Colombia on the Infrastructure Sub-Index, which evaluates the availability and quality of physical infrastructure in a country. It came ahead of only Algeria, Mauritania and Yemen among Arab countries.

Finally, Lebanon came ahead of Bosnia & Herzegovina and Qatar, and ranked behind Brunei Darussalam and Angola on the Natural & Cultural Resources Sub-Index, which assesses a country's natural and cultural resources, as well as facilities for business travel. It ranked ahead of Qatar, Yemen, Mauritania, Kuwait and Bahrain in the Arab region.

Components of the 2019 Travel & Tourism Competitiveness Index

Sub-Index	Global Rank	Arab Rank	UMIC Rank	Lebanon Score	Global Average Score	Arab Average Score	UMIC Average Score
Enabling Environment	91	12	29	4.5	4.79	4.84	4.79
T&T Policy and Enabling Conditions	93	9	25	4.3	4.37	4.18	4.38
Infrastructure	86	11	27	3.1	3.55	3.44	3.43
Natural & Cultural Resources	125	9	36	1.7	2.67	1.95	2.84

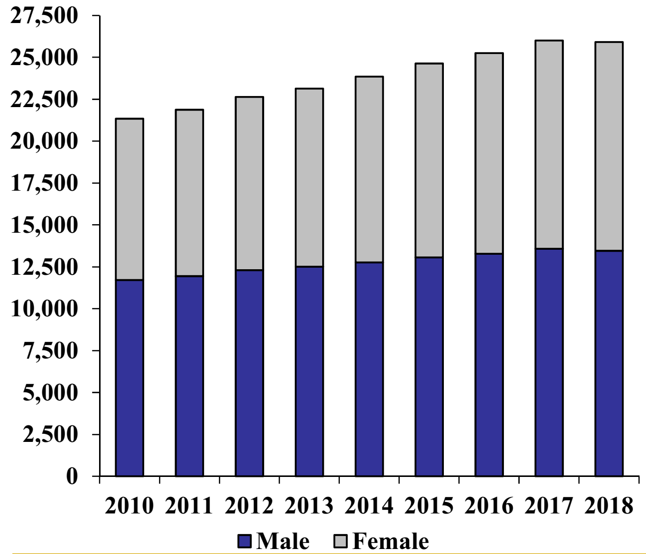
Source: World Economic Forum, Byblos Research

Number of employees in banking sector up 21.4% between 2010 and 2018

Figures issued by the Association of Banks in Lebanon (ABL) show that there were 25,908 individuals employed at banks operating in Lebanon at the end of 2018, constituting a decrease of 97 individuals, or 0.4% from 26,005 persons at end-2017 and a rise of 21.4% from 21,337 employees at the end of 2010. The ABL noted that the number of bank employees decreased for the first since 2004. It attributed the decline in employment to the banks' efforts to decrease operating costs, as well as to technological advances in the banking sector.

Also, there were 23,515 employees at Lebanese majority-owned commercial banks, or 90.8% of the total, followed by 1,042 workers at majority Arab-owned banks (4%), 838 persons employed at investments banks (3.2%), 408 individuals working at branches of Arab banks operating in Lebanon (1.6%), and 105 employees at branches of non-Arab banks operating in the country (0.4%). In addition, there were 12,457 females employed at banks operating in Lebanon at end-2018, or 48.1% of the total number of employees, up from 45.1% at end-2010. Employees that are younger than 40 years old constituted 59.8% of the total workforce in the sector and employees in the 40 to 60 year-old bracket accounted for 34.4% of the total at end-2018, while employees who exceed the age of 60 constituted 5.7% of the sector's staff at end-2018.

Number of Employees in the Banking Sector



Source: Association of Banks in Lebanon, Byblos Research

Further, there were 20,702 university graduates working in the Lebanese banking sector at the end of 2018, equivalent to 80% of the total workforce, up from 78.8% at end-2017 and from 69.6% at end-2010. Also, there were 3,150 employees at banks who have a high-school baccalaureate, or 12.2% of the total, at the end of 2018; while 2,056 bank employees, or 7.9% of the total, did not have a baccalaureate or a university degree.

In parallel, salaries and benefits of employees at banks operating in Lebanon reached LBP2,110bn, or $1.4bn, in 2018, constituting an increase of 5.7% from LBP1,997bn, or $1.32bn, in 2017, and compared to LBP1,210bn, or $802.4m, in 2010. Salaries of employees accounted for 62.2% of total salaries and benefits in 2018, followed by end-of-service indemnities (12.8%), maternity & sickness allowances (5.2%), education allowances (3.6%), transportation allowances (2.8%) and family allowances (1.9%), while other benefits accounted for the remaining 11.5%.

Banque du Liban modifies risk weights for banks' capital adequacy ratios

Banque du Liban (BdL) issued Intermediate Circular 527 dated September 18, 2019 that modifies Basic Circular 44 dated March 25, 1998 about the capital adequacy regulatory framework for banks operating in Lebanon. The circular modified the risk weights and the regulatory Expected Credit Loss (ECL) on the assets of Lebanese banks, which the latter use to compute their capital adequacy ratios and minimum ECL provisions. BdL modified the risk weights after Fitch Ratings downgraded Lebanon's sovereign ratings to 'CCC' in August 2019, making Fitch the second rating agency to rate Lebanon in the 'CCC' category. Moody's Investors Service downgraded in January 2019 Lebanon's issuer rating from 'B3' to 'Caa1', while S&P Global Ratings affirmed in August 2019 Lebanon's long- and short-term foreign- and local- currency sovereign credit ratings at 'B-/B'.

The circular increased from 100% to 150% the risk weight on the banks' holdings of Lebanese sovereign Eurobonds, on their claims in foreign currency on resident banks, as well as on their exposure in all currencies to the corporate sector. It maintained at 50% the risk weight on the banks' deposits at BdL in foreign currency and on their holdings of Certificates of Deposits that BdL issues in foreign currency. The circular also increased from 0.72% to 1.89% the regulatory ECL that is applied on the banks' holdings of Lebanese sovereign Eurobonds, on their claims on resident banks in all currencies, as well as on their corporate loan portfolios.

Further, the circular indicated that, following the incorporation of the new risk weights and regulatory ECL, banks that have a conservation buffer of less than 4.5% of their risk-weighted assets will be able to rebuild their capital conservation buffer within three years, provided that they receive BdL's approval. In addition, it noted that banks with a conservation buffer of below 4.5% need BdL's approval to distribute dividends, provided that their Common Equity Tier One Capital Ratio remains above 7%, their Tier One Capital Ratio continues to exceed 10%, and their Capital Adequacy Ratio (CAR) does not fall below 12%.

In the monthly meeting between BdL, the Banking Control Commission of Lebanon and the Association of Banks in Lebanon, Governor Riad Salamé indicated that the banking sector's CAR would regress to between 12% and 12.5% following the adjustment of the risk weights. But he said that the sector's CAR would remain higher than the minimum required ratio of 10.5% under Basel III. He pointed out that BdL's decision to allow banks to include in their capital the profits that they generated from their financial operations with BdL has helped strengthen the banks' capital position.

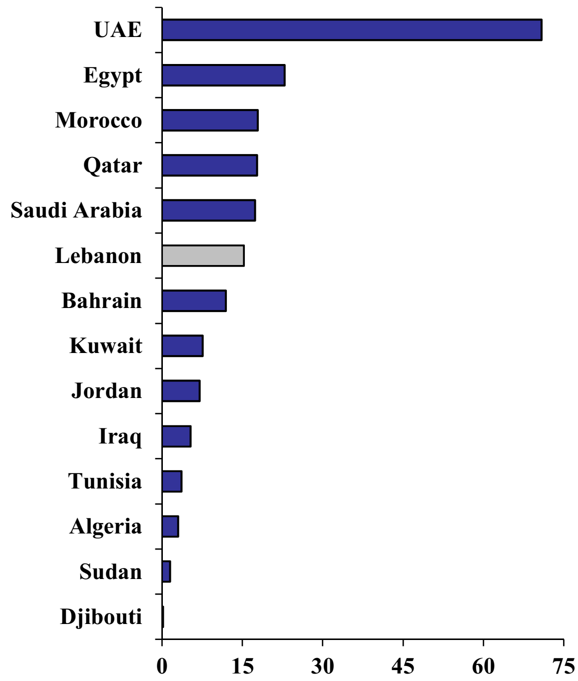
Lebanon is 51st largest exporter of commercial services in 2018

Figures issued by the World Trade Organization (WTO) show that Lebanon's exports of commercial services totaled $15.3bn in 2018, constituting an increase of 1.1% from $15.1bn in 2017, and relative to a peak of $18.5bn in 2011. Also, Lebanese exports of commercial services posted a compound annual growth rate (CAGR) of -2.3% between 2011 and 2018, compared to a CAGR of 6.7% during the 2005-10 period. Lebanon accounted for 0.3% of global exports of commercial services, for 2% of the exports of upper middle-income countries (UMICs) and for 7.6% of aggregate Arab exports in 2018.

Lebanon ranked in 51st place among 168 countries worldwide with available figures and in sixth place among 14 Arab countries in terms of exports of commercial services in 2018. Lebanon also came in 10th place among 48 UMICs included in the survey. Lebanon's global rank regressed by two spots from 49th place in 2017, while its rank among Arab countries was unchanged year-on-year. According to the WTO, commercial services are non-governmental services that include transport, travel, communication, construction, insurance and financial services, among others.

Globally, Lebanon's exports of commercial services were higher than the exports of Malta ($15bn), Vietnam ($14.9bn) and Argentina ($13.9bn), while they were lower than the exports of Croatia ($16.6bn), South Africa ($15.6bn) and Ukraine ($15.5bn). They were also higher than the exports of Argentina and Cuba ($10.7bn), and lower than the exports of Romania ($26.6bn) and South Africa among UMICs. Further, Lebanon's exported commercial services were lower than the exports of the UAE ($70.9bn), Egypt ($22.9bn), Morocco ($17.9bn), Qatar ($17.8bn), and Saudi Arabia ($17.4bn) among Arab countries.

Exports of Commercial Services from Arab Countries in 2018 (US$bn)



Source: World Trade Organization, Byblos Research

In parallel, Lebanon's imports of commercial services totaled $14.3bn in 2018, their highest level in the 2005-18 period, and constituting an increase of 3.8% from $13.8bn in 2017. Also, Lebanese imports of commercial services grew by a CAGR of 2.1% between 2011 and 2018, compared to a CAGR of 8.9% during the 2005-10 period. Lebanon accounted for 0.3% of global imports of commercial services, for 1.4% of total UMICs' imports and for 5.2% of aggregate Arab imports in 2018.

Lebanon ranked in 51st place among 168 countries worldwide with available figures and in seventh place among 14 Arab countries on the imports of commercial services in 2018. Lebanon also came in 12th place among 48 UMICs included in the survey. Lebanon's global and Arab ranks were unchanged year-on-year.

Globally, Lebanon's imports of commercial services were higher than the imports of Chile ($13.9bn), Ukraine ($13.7bn) and New Zealand ($13.6bn), while they were lower than the imports of Iraq ($17.8bn), Romania ($16.8bn) and South Africa ($16.1bn). They were also higher than the imports of Colombia ($13.2bn) and Kazakhstan ($11.7bn) and lower than the imports of Romania and South Africa among UMICs. Further, Lebanon's imported commercial services were lower than the imports of the UAE ($71bn), Saudi Arabia ($55.5bn), Kuwait ($33.6bn), Qatar ($30.7bn), Egypt ($17.83bn) and Iraq ($17.8bn) among Arab countries.

Byblos Bank signs $75m trade finance agreement with EBRD

Byblos Bank signed a $75m trade finance agreement with the European Bank for Reconstruction and Development (EBRD) under the latter's Trade Facilitation Program (TFP). The facility will improve Byblos Bank's capacity to provide trade finance products to both importing and exporting clients at competitive rates, and will help the Bank diversify its trade finance business, increase its available limits, and offer longer-term credit facilities to its customers. The trade finance agreement falls within Byblos Bank's overall strategy to support growth and development in Lebanon. The facility signed with the EBRD follows other similar agreements that Byblos Bank has recently reached with international institutions such as the European Investment Bank, SANAD and the Green for Growth Fund.

In January 2018, Byblos Bank was the first Lebanese bank to receive a $25m long-term senior loan from the Green for Growth Fund in order to finance private-sector investments in energy efficiency projects in Lebanon. In August 2017, the Sanad Fund for micro-, small- and medium-sized enterprises (SANAD) extended a $20m loan to Byblos Bank to finance small- and medium-sized enterprises (SMEs) that operate in various sectors in Lebanon, such as the trade, industry and services sectors, among others. In July 2017, Byblos Bank signed a EUR200m loan agreement with the European Investment Bank to finance SMEs and mid-cap companies in Lebanon.

The EBRD started its operations in Lebanon in September 2017, and has since invested about €500m in the country, with a focus on supporting private sector competitiveness, promoting sustainable energy supply and enhancing the quality and efficiency of public service delivery. The EBRD launched the TFP in 1999 and the program currently includes over 100 partner banks in 28 countries. It aims to promote and facilitate international trade to, from and among EBRD member countries, by providing guarantees and short-term loans to selected banks and companies for on-lending to local importers, exporters and distributors.

Kafalat loan guarantees down 86% to $5m in first eight months of 2019

Figures released by the Kafalat Corporation show that loans extended to small- and medium-sized enterprises (SMEs) under the guarantee of Kafalat reached $5m in the first eight months of 2019, constituting a decrease of 85.7% from $35m in the same period of 2018. Kafalat provided 44 loan guarantees in the first eight months of the year, down by 83.8% from 271 guarantees in the same period of 2018. The average loan size was $113,688 in the first eight months of 2019 compared to $129,084 in the same period of 2018. Mount Lebanon accounted for 47.7% of the total number of guarantees in the first eight months of 2019, followed by the Bekaa region with 29.6%, Beirut with 9.1%, and Nabatieh, the North and the South with 4.6% each. Also, the agricultural sector accounted for 38.6% of the total number of guarantees in the covered period, followed by the industrial sector with 31.8%, the tourism sector with 22.7%, specialized technologies with 4.6% and the handicraft sector with 2.3%.

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

UFA Assurances posts net profits of $0.9m in 2018

UFA Assurances sal announced audited net profits of $0.9m in 2018, relative to net losses of $0.8m in 2017. Its audited balance sheet shows total assets of $46.9m at the end of 2018, up by 5.2% from $44.6m at end-2017. On the assets side, general company investments reached $23.9m and increased by 10.7% from a year earlier. They included $3.4m in variable income investments, $3.2m in cash & cash equivalents, $3.1m in investments in subsidiaries and associates, as well as $1.5m in land and real estate investments. Also, the firm blocked $11.7m as bank deposits and deposits with maturity of more than three months, of which $5.8m, or 49.3%, were blocked in favor of the Ministry of Economy & Trade as guarantees. Also, the reinsurance's share in technical reserves for the life category increased by 46% to $0.4m at end-2018, while the share of the non-life segment decreased by 12.5% to $1.8m last year.

On the liabilities side, technical reserves for the life segment rose by 21.6% to $0.9m at end-2018, while technical reserves for the non-life segment reached $24.7m at end-2018 and grew by 1.2% from a year earlier. Non-life technical reserves included unearned premium reserves of $18.1m that increased by 1.6%, outstanding claims reserves of $2.5m that regressed by 11.6%, and $1.6m in "incurred but not enough reported" reserves that rose by 39.8% year-on-year. Provisions for risks and charges reached $0.6m at end-2018 and decreased by 38.4% from a year earlier. Further, the firm's shareholders' equity totaled $15.4m at end-2018 and increased by 6.3% from end-2017.

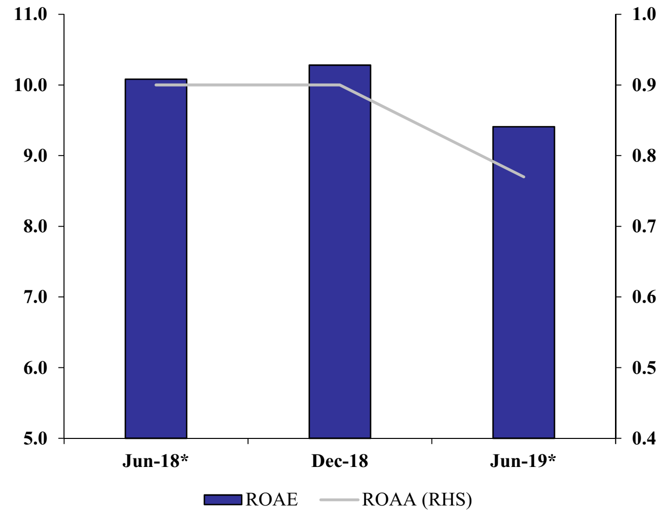
Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked UFA in 14th and 29th place in 2018 in terms of non-life and life premiums, respectively. The firm's non-life premiums grew by 1.1% to $28.3m in 2018, while its life premiums amounted to $0.64m and dropped by 17% from 2017. It had a 2.4% share of the local non-life market and a 0.1% share of the life market in 2018. Overall, UFA Assurances had a 1.7% market share of the Lebanese insurance market in 2018, ranking it in 17th place in terms of life and non-life premiums.

Net income of top 16 banks down 7% to $1bn in first half of 2019, ROAA at 0.77% and ROAE at 9.41%

The unaudited consolidated net profits of the Alpha Group of banks reached $1bn in the first half of 2019, constituting a drop of 6.6% from net earnings of $1.1bn in the same period of 2018. The Alpha Group consists of 16 banks with deposits in excess of $2bn each. Aggregate net operating income regressed by 5.7% to $1.6bn year-on-year in the first half of 2019. The banks' net interest income decreased by 11.3% year-on-year to $1.9bn in the covered period, while their net fee income declined by 4.3% year-on-year to $435.8m.

In addition, net gains on financial assets at fair value rose by 34.7% annually to $165.2m in the first half of 2019, while net gains on financial investments surged by 5.3 times to $97.3m in the covered period relative to gains of $18.2m in the first half of last year. Non-interest income accounted for 28.3% of total income in the covered period, up from 23% in the first half of 2018; with net fee income representing 56.5% of non-interest income in the covered period, down from 69.5% in the first half of last year. Also, the net interest spread was 1.49% in the first half of 2019 relative to 1.84% in the same period of 2018.

Profitability Metrics of Top 16 Banks (%)



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

In parallel, total operating expenditures decreased by 3.3% year-on-year to $1.4bn in the first half of 2019, with staff expenses regressing by 1.7% to $823.1m and administrative & other operating expenditures declining by 9.4% to $463.3m. Further, the cost-to-income ratio was 51.3% in the first half of 2019 relative to 50.5% in the same period last year. The banks' return on average assets was 0.77% on an annualized basis in June 2019 compared to 0.9% on an annualized basis in June 2018, while their return on average equity was 9.41% relative to 10.08% on an annualized basis in June 2018.

The banks' aggregate assets reached $264bn at the end of June 2019, constituting an increase of 1.6% from $259.8bn at end-2018 and of 7.8% from $245bn at end-June 2018. Net loans & advances to customers totaled $59.3bn at end-June 2019, down by 6.4% from end-2018 and by 7.3% from the end of June 2018; while credit extended to related parties grew by 5.8% from the end of 2018 and declined by 5.6% from end-June 2018 to $724m at the end of June 2019. Also, customer deposits stood at $184bn at the end of June 2019 and regressed by 0.7% from end-2018, but they increased by 1.4% from end-June 2018; while deposits from related parties totaled $2.8bn at end-June 2019 and declined by 6.1% from end-2018 and by 16.4% from a year earlier. The banks' shareholders' equity reached $21.2bn at the end of June 2019 and grew by 2.5% from end-June 2018.

In addition, the banks' loans-to-deposits ratio decreased from 35% at end-June 2018 to 32.1% at the end of June 2019. The loans-to-deposits ratio in local currency was 26% at end-June 2019, down from 28.2% at the end of June 2018, while the same ratio in foreign currency stood at 34.3% at the end of June 2019 relative to 36.1% at end-2018 and to 37.7% a year earlier. Also, the primary liquidity-to-assets ratio was 49.3% at the end of June 2019, up from 46.1% at end-2018 and from 42.1% at end-June 2018. In addition, the banks' gross impaired loans-to-gross loans ratio increased from 8.36% at end-June 2018 to 9.92% at the end of June 2019. Further, loan-loss reserves covered 60.5% of credit-impaired loans at end-June 2019, down from a coverage of 61.7% at end-2018 and from 62.55% a year earlier. Gross impaired loans, or Stage 3 loans, include loans that are classified as substandard, doubtful or loss loans.

Tell Group reaches first close of its Lebanon Infrastructure Fund

The Private equity firm Tell Group announced that it reached the first close of its Tell Lebanon Infrastructure Fund, securing capital commitments from over 25 family offices, individuals and institutions in Lebanon, Europe and Gulf Cooperation Council countries. The group did not disclose the amount of the first close. It indicated that it aims to raise around $100m for the Tell Lebanon Infrastructure Fund, as part of its plan to secure $1bn in capital commitments for a series of infrastructure funds to invest in Lebanon's waste management, energy and telecommunications sectors, among other industries.

Established in 2015, the Tell Group provides private equity, infrastructure, asset management, and corporate advisory services in Europe and the Middle East & North Africa region. Based in Luxembourg, the group is regulated by the Dubai Financial Services Authority, the Swiss Financial Market Supervisory Authority, and Algeria's Commission d'Organisation et des Surveillance des Opérations de Bourse.

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

MENA Average*	Sep 2017	Aug 2018	Sep 2018	Change**	Risk Level
Political Risk Rating	57.8	57.9	57.9	▼	High
Financial Risk Rating	38.1	38.7	38.8	▼	Low
Economic Risk Rating	30.4	33.2	33.1	▼	Moderate
Composite Risk Rating	63.1	64.9	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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