500 ISSUES+
Issue 602 | September 30 - October 5, 2019

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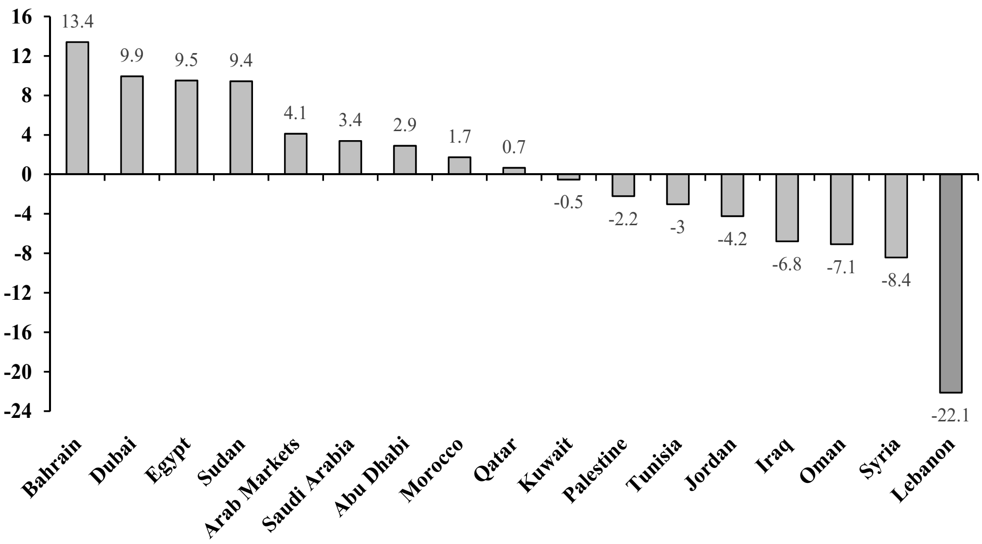
Economic Research & Analysis Department

LEBANON THIS WEEK

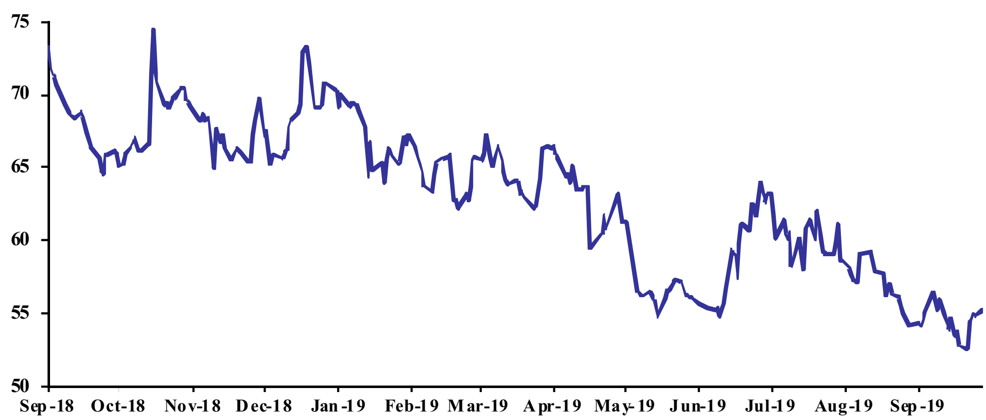
In This Issue

Charts of the Week

Performance of Arab Stock Markets in First Nine 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

"A clear focus on improving compliance could reduce tax evasion by at least 50% within two years."

The Institute of International Finance, on a major source of tax revenues for the Treasury, in case of serious and decisive action to fight tax evasion in Lebanon

Number of the Week

14,975: Number of stories published in 600 issues of the *Country Risk Weekly Bulletin*, the emerging markets publication of the Byblos Bank Group

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
BLOM Listed	7.29	(0.14)	4,314,000	20.29%
Byblos Common	1.10	(0.90)	92,120	8.05%
Solidere "A"	5.62	(2.94)	65,595	7.27%
BLOM GDR	6.80	(2.86)	30,449	6.50%
Solidere "B"	5.26	(9.15)	13,505	4.43%
Audi Listed	3.60	(2.70)	2,000	18.63%
Byblos Pref. 09	64.90	0.00	-	1.68%
Byblos Pref. 08	65.00	0.00	-	1.68%
HOLCIM	9.98	0.00	-	2.52%
Audi GDR	3.70	0.00	-	5.73%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Mar 2020	6.38	95.38	18.08
Apr 2021	8.25	84.75	20.46
Oct 2022	6.10	70.63	19.52
Jun 2025	6.25	66.50	15.27
Nov 2026	6.60	65.00	14.67
Feb 2030	6.65	64.88	12.87
Apr 2031	7.00	64.88	12.94
May 2033	8.20	72.13	12.51
Nov 2035	7.05	65.38	11.94
Mar 2037	7.25	65.50	12.02

Source: Byblos Bank Capital Markets

	Sep 30-Oct 4	Sep 23-27	% Change	September 2019	September 2018	% Change
Total shares traded	4,521,644	162,045	2,690.4	1,989,279	3,153,549	(36.9)
Total value traded	$32,311,745	$1,164,300	2,675,2	$20,464,132	$25,051,529	(18.3)
Market capitalization	$7.73bn	$7.84bn	(1.45)	$7.86bn	$9.68bn	(18.9)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Sep 27, 2019	Oct 4, 2019	% Change**
CDS 1-year*	1,268.45	1,399.06	10.3
CDS 3-year*	1,315.51	1,404.81	6.8
CDS 5-year*	1,229.47	1,301.46	5.9

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

CDX EM 30*	Sep 27, 2019	Oct 4, 2019	% Change***
CDS 5-year**	96.23	96.23	0.0

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

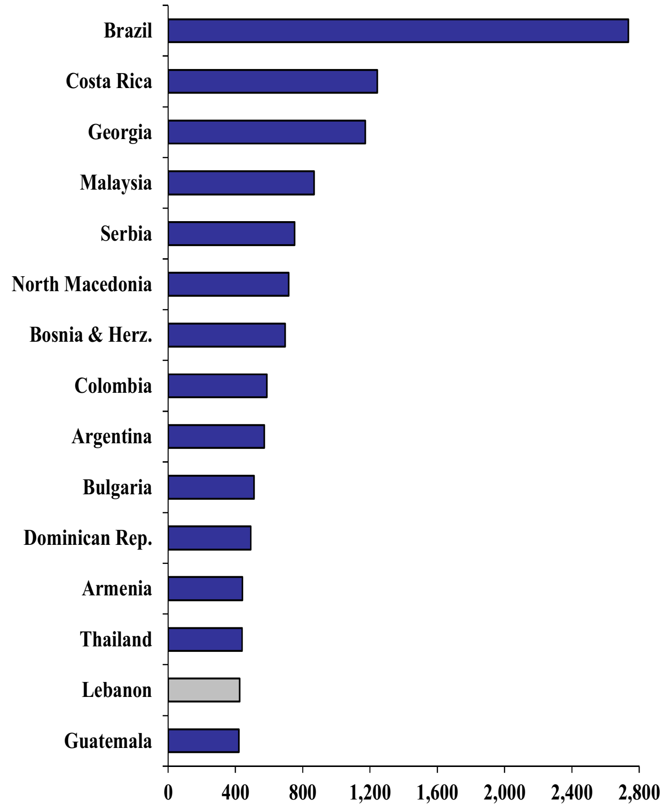
Lebanon has 36th highest loan penetration rate, 71st highest deposit penetration rate in the world at end-2018

Figures issued by the International Monetary Fund show that there were 215 borrowers per 1,000 adults at commercial banks in Lebanon at the end of 2018, constituting an increase of 1% from 213 borrowers per 1,000 adults at end-2017 and compared to 210 borrowers per 1,000 adults at the end of 2008. The borrowers' penetration rate ranked Lebanon in 38th place globally among 79 countries with available figures for end-2018, in 18th place among 28 upper middle-income countries (UMICs), and in fourth place among eight Arab countries with available data. Globally, Lebanon has a higher penetration rate than Ecuador, the Dominican Republic and Botswana, and a lower rate than Kenya, Romania and Kuwait among economies with a GDP of $10bn or more. It also has a higher penetration rate than Ecuador and a lower rate than Romania among UMICs, while it has a lower rate than only the UAE, Qatar and Kuwait among Arab countries.

Further, there were 425 loan accounts per 1,000 adults at Lebanese commercial banks at the end of 2018, up from 386 loan accounts per 1,000 adults at end-2017 and compared to 381 loan accounts per 1,000 adults at the end of 2008. The loan penetration rate ranked Lebanon in 36th place among 92 countries globally with available figures for end-2018, in 15th place among 33 UMICs, and in third place among seven Arab economies.

In parallel, there were 534 depositors per 1,000 adults at Lebanese commercial banks at the end of 2018, constituting a decline from 552 depositors per 1,000 adults at end-2017 and compared to 716 depositors per 1,000 adults at the end of 2008. As a result, Lebanon had the 56th highest depositors' penetration rate among 73 countries worldwide with available figures for end-2018, the 22nd highest among 24 UMICs and the seventh highest among eight Arab countries. Globally, Lebanon had a higher depositors' penetration rate than Paraguay, Egypt and Pakistan, and a lower rate than the West Bank & Gaza, the Philippines and Zimbabwe.

Top 15 UMICs in Terms of Loan Penetration Rates in 2018*
(Number of loan accounts per 1,000 adults)



**upper middle-income countries with GDP of $10bn or more*
Source: International Monetary Fund, Byblos Research

Also, there were 930 deposit accounts per 1,000 adults at commercial banks in Lebanon at the end of 2018, down from 941 deposit accounts per 1,000 adults at end-2017 and compared to 1,088 deposit accounts per 1,000 adults at the end of 2008. As such, Lebanon had the 71st highest deposit account penetration rate among 107 countries worldwide with available figures for end-2018, the 28th highest among 35 UMICs and the sixth highest among eight Arab countries.

In addition, there were 1.14 million borrowers and 2.25 million loan accounts at commercial banks in Lebanon at the end of 2018. Resident private sector loans were equivalent to 91.5% of GDP at the end of 2018, according to the IMF, the 23rd highest such ratio among 149 countries globally, the fourth largest among 47 UMICs and the third highest among 13 Arab countries. Also, there were 2.83 million depositors and 4.93 million deposit accounts at commercial banks in Lebanon at the end of 2018. Resident private sector deposits were equivalent to 239.2% of GDP at end-2018, the second highest ratio among 149 economies globally, as well as the largest among 47 UMICs and 13 Arab countries.

Ministry of Energy & Water launches second bidding round for new wind farms

The Ministry of Energy & Water launched on September 27, 2019 the second bidding round for the construction and operation of wind farms in various sites across Lebanon, with an aggregate capacity of 500 megawatts. The ministry sent the requests for proposal to 42 local and international companies that submitted expressions of interest to build the new wind farms. It pointed out that the construction of the wind farms is part of the Lebanese authorities' plan to produce 30% of electricity demand from renewable energy sources by 2030.

The construction of the wind farms falls under Law 288, which allows the Council of Ministers to grant licenses for electricity production to private companies, as long as a regulatory authority for the electricity sector has not been established. Law 288 stipulates that the licenses would be granted based on the recommendation of the Ministry of Energy & Water and the Ministry of Finance. The Parliament, which ratified Law 288 in April 2014, extended it in April 2019 for three years. All licenses that have been granted so far were for projects that produce renewable energy.

Banque du Liban clarifies recent rise in demand for US dollars

Banque du Liban (BdL) Governor Riad Salamé reiterated BdL's commitment to the stability of the Lebanese pound's peg to the US dollar. He said that the demand for US dollars has increased since June 2019 due to the significant rise of some imported products, some of which may not have been destined for local consumption. He added that some importers did not have the means to source the needed US dollars from banks and asked their clients, including gasoline stations, bakeries and pharmacies, to settle their bills in dollars. He pointed out that the rise in demand for US dollars has led to an increase of between 1% and 3% in the spread between the official exchange rate and the rate offered by money dealers. But he noted that this trend is not unusual and there has always been a difference between the two exchange rates, mostly because BdL does not deal with money dealers in the country nor interfere with their operations.

Further, Governor Salamé indicated that some parties took advantage of the spread between the official exchange rate offered by banks and the rate offered by money dealers. He said that these parties used automated teller machines (ATMs) to withdraw US dollars from their accounts in Lebanese pounds, and then sell the dollars to money dealers to generate gains. As a result, he noted that banks, in coordination with BdL, amended their ATM withdrawal policies by allowing clients to only withdraw cash in the same currency as their bank account. Also, he pointed out that BdL issued a circular to organize the financing of the imports of wheat, gasoline and medicine that are destined for local consumption.

In addition, Governor Salamé stressed that the 2020 budget must send a positive signal to the market by targeting a narrower fiscal deficit, which would support BdL's efforts to preserve monetary stability in Lebanon. He added that BdL set aside the needed funds to settle the government's upcoming external obligations.

In parallel, Governor Salamé indicated that BdL will continue to provide interest subsidies on housing loans until the government introduces a sustainable housing policy. He said that a total of $280m is still available for mortgages under BdL's stimulus package, in addition to $100m in subsidized loans for expatriates. He added that Kuwait's Arab Fund for Economic and Social Development provided $170m to Banque de l'Habitat to extend housing loans, but the funding is still pending the Cabinet's approval.

Banque du Liban has positive external liquidity position

Global investment bank Morgan Stanley considered that Banque du Liban's (BdL) external liquidity position remains positive, even though it has regressed. It noted that international rating agencies provide significantly different estimates of BdL's usable foreign currency reserves, given that BdL does not publish details about its net foreign currency reserves. However, it said that its assessment of BdL's external liquidity is in line with that of S&P Global Ratings, which estimates BdL's usable reserves at between $19bn and $25bn. Morgan Stanley's assessment is based on a "like-to-like" comparison with other sovereigns, whereby only the mandatory reserves of commercial banks at BdL of about $20bn and BdL's holdings of Lebanese Eurobonds of $3.3bn should be deducted from BdL's assets in foreign currency and gold reserves of $51.2bn.

Further, the investment bank considered that, in case of pressure on deposits, BdL and commercial banks should be viewed as one entity, given the complex linkages between the two sides. It indicated that BdL's foreign assets, excluding its holdings of Lebanese Eurobonds and including gold reserves, are at $48bn; while the foreign assets of commercial banks are at $21.6bn, of which $10bn are placed with correspondent banks. In comparison, it said that non-resident customer and financial sector deposits at commercial banks are at $46.7bn, which means that external liabilities stand lower than assets.

Cabinet approves financial mechanism for rent subsidies

The Council of Ministers approved on September 17, 2019 decree 5700 that defines the financial mechanism of the fund that will provide support for residential tenants who meet specific requirements, as per the amended Rental Law. The law, which liberalized old rental contracts in Lebanon, stipulated the formation of a fund that will cover in part or in full the difference between the old and the adjusted rent of tenants with limited income and who are unable to cover the increases in rent. Households who earn a monthly income of less than five-times the minimum wage, or less than LBP3,375,000 per month, are eligible to apply for the government's support. The fund will pay the full amount of the difference between the old and the adjusted rent if the tenant's monthly income does not exceed three times the minimum wage. However, if the tenant's monthly income exceeds three-times the minimum wage but is less than five-times the minimum wage, the fund would pay a portion of the difference.

The decree organizes the process through which the Ministry of Finance will pay tenants that have qualified for government support. It noted that the tenant should submit an application to the relevant committee as per the amended Rental Law. In case the committee approves the application, then the Ministry of Finance will transfer the funds through Banque du Liban to the bank account of the property owner. Tenants who benefit from government support have to renew their application every year. According to the amended Rental Law, the fund will be financed by the government as well as through grants and donations. The 2020 draft budget earmarked LBP30bn to the fund.

The Parliament initially enacted the Rental Law in April 2014 and amended it in January 2017. The law renewed for nine to 12 years, depending on existing tenants' income, all residential lease agreements signed prior to July 23, 1992, during which the annual rent increases gradually to reach fair value. The law indicated that the new annual rent should rise by 15% of the difference between the old and new rents during each of the first four years, and by 20% during each of the fifth and sixth years.

Lebanon in the News

Banque du Liban provides mechanism for access to US dollars for specific imports

Banque du Liban (BdL) issued Intermediate Circular 530 dated September 30, 2019 that modifies Basic Circular 52 dated October 25, 1998 about documentary credits. BdL issued the circular in order to regularize access to foreign currency to finance the imports of hydrocarbons, medicine and wheat.

The circular allows banks that open documentary credits for the imports of hydrocarbons, medicine and wheat to source the needed foreign currency from BdL, provided that they meet specific requirements. First, the bank must verify that the documentary credit is financing imports for local consumption. Second, the bank has to open special accounts at BdL for each documentary credit financed through this mechanism. Third, it must provide BdL with a copy of all documents related to the documentary credit, including the financing agreement signed between the bank and the importer. Fourth, the bank must deposit in the special accounts at BdL at least 15% of the amount of the operation in US dollars, and 100% of the equivalent amount in Lebanese pounds. According to the circular, the bank can ask BdL to convert the amount in Lebanese pounds to US dollars provided that the bank does not withdraw the converted amount before 30 days or until the maturity of the documentary credit, whichever is the longest. BdL will pay its regular interest rates on the amounts deposited in the special accounts in local and foreign currency. Also, BdL will receive a commission of 0.5% on each documentary credit financed through this mechanism.

The circular did not specify the party responsible for providing the amount in US dollars and Lebanese pounds that is needed to access the new mechanism. However, BdL indicated that the structure of the mechanism prevents importers from keeping their cash deposited at commercial banks at high interest rates, and using BdL's foreign currency reserves to finance their imports.

Surveyed economists expect Lebanon's real GDP growth rate at 1% in 2019

Bloomberg's quarterly survey of economists and analysts about the outlook on the Lebanese economy projected real GDP growth at 1% in 2019 compared to an earlier forecast of 1.5% in June 2019, and expected growth to accelerate to 1.6% in 2020. The individual forecasts of growth rates for 2019 ranged from -0.6% to 4.5%, while the consensus forecast among 89% of participants is that real GDP would grow by 1.5% or less this year. The results displayed a median real GDP growth figure of 0.4% for 2019. Bloomberg conducted the poll in September 2019, and the survey's results are based on the opinions of nine economists and analysts based in Lebanon and abroad.

Also, participants forecast Lebanon's average inflation rate at 3% in 2019 and at 2.6% in 2020. The opinions of polled economists differed on the direction of consumer prices in 2019 with expectations ranging from 2% to 4.5%, while 55.6% of participants predicted that the inflation rate would be between 2% and 3% this year. The poll's results revealed a median inflation rate of 2.8% for 2019.

In addition, surveyed analysts forecast Lebanon's fiscal deficit at 9.5% of GDP in 2019 and at 8.4% of GDP in 2020. The participants expected the fiscal deficit at between 8.2% of GDP and 11.7% of GDP this year, with a median of 9.1% of GDP. Further, polled economists projected the current account deficit at 22.2% of GDP in 2019 and at 21.8% of GDP in 2020. The surveyed analysts expected the current account deficit to range between 18.5% of GDP and 28.2% of GDP, with a median of 21.7% of GDP in 2019. According to the survey, the probability for Lebanon to enter into recession in the next 12 months is 25%.

Banque du Liban's foreign assets down 3% to $38.5bn in first nine months of 2019

Banque du Liban's (BdL) interim balance sheet totaled $135.4bn at the end of September 2019, constituting a decrease of 3.7% from $140.6bn at the end of 2018 and compared to $135.8bn at end-September 2018. The decline in the first nine months of the year is mainly due to the "netting" on the assets and liabilities' sides of BdL's balance sheet that took place in March 2019, as part of the implementation of the new international accounting standard IFRS 9. The "netting" affected loans to the financial sector on the assets side and financial sector deposits on the liabilities side.

Assets in foreign currency reached $38.5bn at the end of September 2019, down by 2.9% from $39.7bn at the end of 2018 and by 11.5% from $43.5bn at end-September 2018. Assets in foreign currency declined by $394.7m in January, by $391.3m in February, by $320.1m in March, by $589.3m in April, by $1.4bn in May, by $203m in June and by $164.2m in September 2019, while they increased by $690.5m in July and by $1.6bn in August. This resulted in an aggregate decline of $1.15bn in the first nine months of 2019, compared to an increase of $1.5bn in the first nine months of 2018, of $3.3bn in the same period of 2017 and of $3.5bn in the first nine months of 2016. BdL's new incentives to banks to attract fresh capital have increased its assets in foreign currency in July and August. In parallel, BdL's assets in foreign currency included $3.3bn worth of Lebanese Eurobonds at the end of September 2019. Further, BdL indicated that it has paid at least $3.2bn on behalf of the government so far this year to cover the principal and coupons of maturing Eurobonds.

In parallel, the value of BdL's gold reserves rose by 16.6% from the end of 2018 and by 25.7% year-on-year to reach $13.7bn at the end of September 2019. The value of gold reserves reached a peak of $16.7bn at the end of August 2011. Also, the securities portfolio of BdL grew by 15% year-on-year to $33.8bn at end-September 2019.

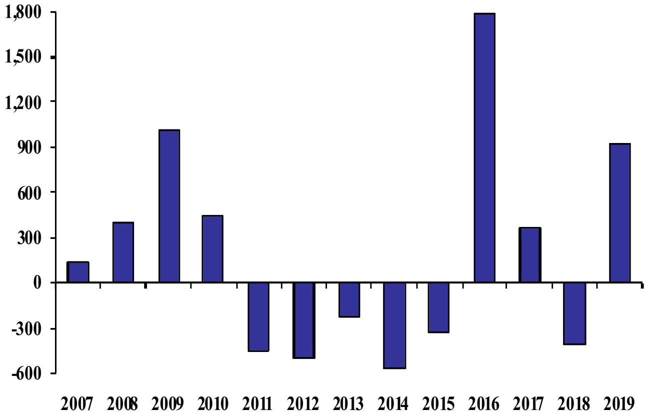
In addition, loans to the local financial sector decreased by $18.5bn, or 55%, from end-2018 to $15.1bn at end-September 2019, due to the "netting" procedure on the assets side. Further, deposits of the financial sector reached $110.4bn at the end of September 2019 and decreased by $9.4bn, or by 7.8%, from end-2018, due to the "netting" procedure on the liabilities side. Also, public sector deposits at BdL totaled $3.9bn at the end of September 2019 and decreased by $1.1bn, or 22.7%, from end-2018, and by $1.96bn, or 33.5%, from end-September 2018.

Net foreign assets of financial sector up by $922m in August 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, rose by $921.5m in August 2019, the highest increase since May 2018, and compared to a rise of $72.5m in July 2019 and to a decline of $408.1m in August 2018. The month-on-month expansion in August 2019 was caused by a rise of $1.6bn in the net foreign assets of BdL, which was partly offset by a decline of $664.8m in those of banks and financial institutions.

In parallel, the net foreign assets of the financial sector declined by $4.4bn in the first eight months of 2019 compared to a decrease of $1.2bn in the same period of 2018. The cumulative deficit in the first eight months of 2019 was caused by a decline of $3.4bn in the net foreign assets of banks and financial institutions and by a drop of $1bn in those of BdL. BdL paid at least $3.2bn on behalf of the government so far this year to cover the principal and coupons of maturing Eurobonds, including $1.25bn for maturing principal and coupons in May 2019 and $500m for a Eurobond that matured on April 23, 2019.

Change in Net Foreign Assets of Financial Sector in August 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. They 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.

Unemployment is top concern of Lebanese businesses

The World Economic Forum's (WEF) Regional Risks for Doing Business report identified unemployment or underemployment as the highest concern of executives for doing business in Lebanon. It noted that 41.4% of surveyed executives in Lebanon consider unemployment or underemployment to be the major risk that their business would face in Lebanon in the coming 10 years. It added that this risk is the most significant in 30 out the 133 covered countries, as well as the third most prevalent globally and in the Middle East & North Africa (MENA) region.

The findings of the report are based on data from the WEF's Executive Opinion Survey. The survey asked executives to identify the top five risks out of a list of 30 risks that they would face when doing business in their country during the next 10 years. The results of the survey, which was conducted between January and April 2019, are based on 12,879 responses from 133 countries.

Also, 35.7% of surveyed executives cited the risk of failure of national governance among the main concerns that they could face in Lebanon, followed by the risk of a fiscal crisis (34.3% of respondents), the risk of failure of critical infrastructure and the risk of a state collapse or crisis (30% of participants each), deflation risk (28.6% of executives), unmanageable inflation and the risk of failure of financial mechanism or institution (27.1% of respondents each), profound instability risk (25.7% of participants), and interstate conflict risk (22.9% of respondents).

Highest Concerns of Executives for Doing Business in Lebanon* (% of respondents)

*in coming 10 years
Source: World Economic Forum

The survey indicated that the risk of a fiscal crisis is among the top 10 risks that executives would face in 97 of the 133 economies, while it is the most significant risk globally and the second most prevalent risk in the MENA region. Among the 10 highest concerns for doing business in Lebanon, six fall under the economic risk category, three are geopolitical risks and one is a societal risk. In comparison, five out of the top 10 business risks of highest concern globally fall under the economic risk category, two are technological risks, two are geopolitical risks, and one is a societal risk. Further, four out of the top five risks that businesses in Lebanon face are common to Brazil, Ecuador, Gabon, Haiti, Uruguay and Zimbabwe.

In comparison, 28.9% of executives globally cited fiscal crises among their main concerns for doing business in the next 10 years, followed by cyberattacks and unemployment or underemployment (28.2% of respondents each), energy price shocks (27.1% of surveyed participants), failure of national governance (24.2% of executives), profound social instability (23.5% of respondents), data fraud or theft (22.4% of participants), interstate conflict (20.2% of respondents), failure of critical infrastructure (19.6% of executives), and asset bubble (18.8% of respondents).

Strict implementation of 2019 budget among main actions needed to meet fiscal target

Barclays Capital projected Lebanon's real GDP growth to expand from 0.2% in 2018 to 0.6% in 2019 and 1.5% in 2020, but to remain below the country's growth potential. It noted that delays in the formation of the government took a toll on the economy in the second half of 2018, before activity modestly improved. It considered that authorities have struggled to increase confidence despite the formation of the government in January and the Parliament's enactment of the 2019 budget, due to domestic political tensions, market concerns about the impact of a second sovereign rating downgrade and rising geopolitical risks. It indicated that authorities intend to accelerate the implementation of the recommendations that consulting firm McKinsey & Company made in its "Lebanon Economic Vision", in order to improve Lebanon's growth prospects, which is crucial for debt sustainability. Further, it considered that potential positive developments could materialize, such as the disbursement of financial support from Gulf Cooperation Council countries, which could boost investor confidence.

In parallel, Barclays considered that the fiscal adjustment of 3.5 percentage points in the 2019 budget is ambitious but not unprecedented. It noted that reaching the fiscal deficit of 7.6% of GDP in the 2019 budget is contingent on the strict implementation of the 2019 fiscal targets, on the possibility of extending payment arrears to contractors through 2020, as well as on measures to reduce debt servicing cost. However, it expected the government to miss the target deficit of 7.6% of GDP for 2019, given the significant delays in enacting the budget. Still, it projected the deficit to narrow to 9.8% of GDP this year. Further, it indicated that the government has accelerated its efforts to enact the 2020 budget by the end of 2019, while focusing on necessary reforms to boost confidence. It said that the government has reiterated its previous commitments to freeze public hiring, to accelerate electricity and pension reforms, and to fight tax evasion.

Moody's places Lebanon's rating under review for downgrade

Moody's Investors Service maintained Lebanon's long-term foreign-currency bond and deposit ceilings at 'B2' and 'Caa1', respectively, while it affirmed the long-term local-currency bond and deposit ceilings at 'Ba3'. However, it placed under review for downgrade Lebanon's 'Caa1' issuer rating and the country's '(P)Caa1' senior unsecured Medium-Term Note Program rating.

The agency attributed its decision to the recent tightening in Lebanon's external financing conditions due to domestic and regional political uncertainties, as well as to outflows of bank deposits, which affects a key funding source for the government's financing needs. It noted that these factors have exacerbated the deterioration in the balance of payments in the first seven months of 2019 and increased the reliance on Banque du Liban's foreign currency reserves to meet maturing Eurobonds and coupons. Also, it said that its decision takes into account the fact that the pledged external financial assistance from the international community at the CEDRE conference and from Gulf Cooperation Council (GCC) countries has not materialized yet.

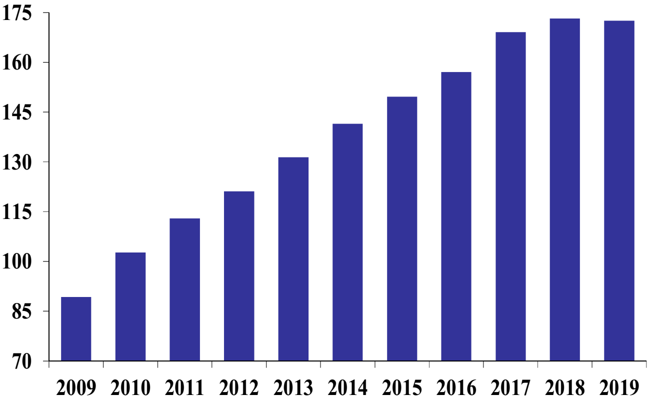
Further, it indicated that the review period, which could extend beyond the usual 90 days, will allow it to evaluate the government's progress in adopting the 2020 budget within the constitutional deadlines, as well as the implementation of the 2019 budget. It noted that the review will assess the government's ability to take actions that would help unlock some of funds pledged at the CEDRE conference, to secure financial support from GCC countries, and to tap international capital markets at sustainable rates.

In parallel, the agency pointed out that Lebanon has a track record of full and timely debt repayment, even in periods of severe economic and political turmoil. It noted that it could affirm Lebanon's issuer rating at 'Caa1' in case external financial assistance materializes and the government successfully unlocks some of the CEDRE-related funds, which would ease immediate external and liquidity risks and support the country's long-term growth outlook.

Banking sector assets at $262bn at end-August 2019

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets stood at $261.9bn at the end of August 2019, constituting an increase of 5% from $249.5bn at the end of 2018 and an expansion of 9.8% from $238.5bn at end-August 2018. Loans extended to the private sector reached $55.2bn at the end of August 2019, regressing by 7.1% from end-2018 and from a year earlier. Loans to the resident private sector totaled $48.6bn, constituting a decrease of 7.1% from the end of 2018 and of 8% from end-August 2018. Also, credit to the non-resident private sector reached $6.6bn at end-August 2019, declining by 7.3% from end-2018 and by 0.7% from a year earlier. In nominal terms, credit to the private sector regressed by $4.2bn in the first eight months of 2019 relative to a decrease of $281m in the same period of 2018, as lending to the resident private sector contracted by $3.7bn and credit to the non-resident private sector regressed by $519.5m in the covered period. The dollarization rate of private sector loans rose from 67.4% at end-August 2018 to 70% at end-August 2019.

Total Private Sector Deposits* (US$bn)



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

In addition, claims on non-resident financial institutions reached $9.1bn at the end of August 2019 and declined by $2.85bn, or 23.8%, from the end of 2018, and by $1.15bn, or 11.2%, from the end of August 2018. Also, claims on the public sector stood at $31.8bn at end-August 2019, down by 5.3% from end-2018. The average lending rate in Lebanese pounds was 11.24% in August 2019 compared to 8.81% a year earlier, while the same rate in US dollars was 10.03% relative to 8.12% in August 2018. Further, the deposits of commercial banks at Banque du Liban totaled $147.8bn at the end of August 2019, constituting an increase of 25.1% from $120.9bn a year earlier.

In parallel, total private sector deposits reached $172.5bn at the end of August 2019. They decreased by 1% from the end of 2018 and by a marginal 0.4% from end-August 2018. Deposits in Lebanese pounds reached the equivalent of $48.3bn at end-August 2019, down by 5.7% from end-2018 and by 10.6% from a year earlier; while deposits in foreign currency totaled $124.2bn, as they rose by $1.2bn, or 1%, from end-2018 and grew by $5.1bn, or 4.3%, from $119.2bn a year earlier. Resident deposits totaled $135.5bn at the end of August 2019, decreasing by $1bn, or a marginal 0.8% from end-August 2018. Also, non-resident deposits reached $37bn at end-August 2019, as they regressed by $702.6m or 1.9% from end-2018, and increased by 0.9% or $348.3m from a year earlier. In nominal terms, private sector deposits declined by $2.18bn in January, by $133m in February and by $1.86bn in May, while they increased by $550.6m in March, by $186.4m in April, by $1.28bn in June, by $220.6m in July and by $190m in August 2019. As such, aggregate private sector deposits regressed by $1.74bn in the first eight months of 2019 relative to an increase of $4.56bn in the same period of 2018, with deposits in Lebanese pounds dropping by $2.9bn and foreign-currency deposits growing by $1.17bn. The dollarization rate of private sector deposits was 72% at the end of August 2019, up from 70.6% at the end of 2018, and compared to 68.8% a year earlier.

In parallel, deposits of non-resident financial institutions reached $9.6bn at the end of August 2019 and increased by 12.8% from end-August 2018. Further, the average deposit rate in Lebanese pounds was 8.95% in August 2019 compared to 7.03% a year earlier, while the same rate in US dollars was 6.2% relative to 4.2% in August 2018. The ratio of private sector loans to deposits in foreign currency stood at 31.1% at the end of August 2019 compared to 33.6% a year earlier, well below Banque du Liban's limit of 70%. The same ratio in Lebanese pounds reached 34.3% at end-August 2019, relative to 35.8% at the end of August 2018. As such, the total private sector loans-to-deposits ratio reached 32% compared to 34.3% at end-August 2018. The banks' aggregate capital base stood at $20.7bn at end-August 2019, up by 3.3% from $20.1bn a year earlier.

Stock market index down 22% in first nine months of 2019

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 192,542,592 shares in the first nine months of 2019, constituting an increase of 194.5% from 65,384,653 shares traded in the same period last year; while aggregate turnover amounted to $838.4m, up by 72.4% from a turnover of $486.3m in the first nine months of 2018. The surge in the trading volume and turnover is mostly due to a block trade of the common shares of a listed bank. The trade consisted of 119,924,761 shares exchanged for a total of $557.7m in February 2019.

Market capitalization regressed by 19% from the end of September 2018 to $7.9bn, with banking stocks accounting for 84.5% of the total, followed by real estate equities (12.3%), industrial shares (2.8%), and trading firms' equities (0.5%). The market liquidity ratio was 10.7% in the covered period compared to 5% in the first nine months of 2018.

Banking stocks accounted for 97.2% of the aggregate trading volume in the first nine months of 2019, followed by real estate equities with 2.8% and industrial shares with 0.05%. Also, banking stocks accounted for 96.1% of the aggregate value of shares traded, followed by real estate equities with 3.8% and industrial stocks with 0.1%. The average daily traded volume for the period was 1.1 million shares for an average daily value of $4.8m. The figures reflect a year-on-year increase of three times in average volume, and an annual rise of 75.4% in the average value in the first nine months of the year. In parallel, the Capital Markets Authority's (CMA) Market Value-Weighted Index for stocks traded on the BSE declined by 22.1% in the first nine months of 2019, while the CMA's Banks Market Value-Weighted Index regressed by 21.2% in the covered period.

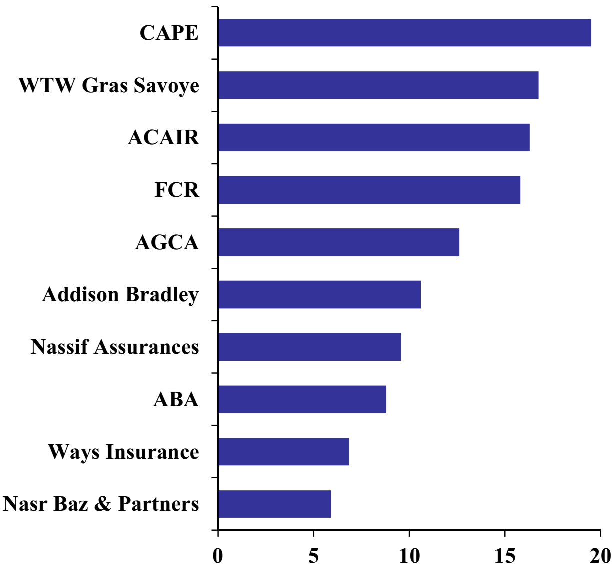
Premiums generated by independent insurance brokers at $234m in 2018

Al-Bayan magazine's annual survey of insurance brokers in Lebanon shows that the total premiums generated by independent brokers operating across the country reached $234.2m in 2018, constituting a marginal increase of 0.6% from $232.8m in 2017. The figures cover premiums generated by 96 active independent brokers with available figures. They exclude premiums generated by brokers affiliated with commercial banks and those that operate exclusively for a specific insurance company.

The brokers included in the survey generated 13.7% of total insurance premiums written in 2018 relative to 14.1% of the total in 2017. Cape Insurance Broker came in first place with $19.5m in premiums generated last year, equivalent to 8.3% of the total. WTW Gras Savoye followed with $16.6m (7.1%), then Insurance Consultancy & Risk Assessment (ACAIR) with $16.3m (7%), Fast Car Rescue (FCR) Insurance Group with $15.8m (6.7%), and Agence Générale de Courtage d'Assurances (AGCA) with $12.6m (5.4%).

The top 10 insurance brokers generated $122.5m in premiums in 2018 and accounted for 52.3% of the total, relative to premiums of $121.4m, or 52.1% of the total in 2017. Among the top 10 brokers, the premiums of FCR, Addison Bradley, Nassif Assurances, Agence Bathiche pour l'Assurance (ABA) and Ways Insurance increased in 2018, those of Cape Insurance Broker, WTW Gras Savoye and AGCA declined, while the premiums of ACAIR and Nasr Baz & Partners were unchanged year-on-year.

Top 10 Insurance Brokers by Premiums in 2018 (US$m)



Source: Al-Bayan, Byblos Research

Further, 43 brokers generated $1m or more in premiums, 23 brokers had premiums ranging from $0.5m to $1m, and 30 brokers posted premiums of less than $0.5m each. The premiums of FCR Insurance Group grew by 50.5% to $15.8m in 2018, the highest rise among brokers year-on-year. In parallel, the premiums of All Lines Consultants, which came in 56th place in 2018, decreased by 56.7% to $650,000 last year, the steepest decline among brokers.

Arabia Insurance's net income at $7m in 2018

Arabia Insurance sal declared net profits of $7m in 2018, constituting an increase of 72.7% from net earnings of $4m in 2017. The firm's audited balance sheet shows aggregate assets of $524m at end-2018, up by 2.2% from $512.8m at end-2017. On the assets side, general company investments totaled $253.2m and decreased by 1.8% from end-2017. They included $67.6m in variable income investments, $55.2m in cash & cash equivalents, $16.2m in fixed income investments, and $3.1m in land and real estate investments. Also, the firm blocked $109m as bank deposits and deposits with maturity of more than three months, of which $34.6m, or 31.8%, were blocked in favor of the Ministry of Economy & Trade as guarantees.

Unit-linked contracts investments totaled $38.5m at end-2018 and regressed by 6.8% from $41.2m a year earlier. They included $34.9m in mutual funds and $3.5m in fixed income investments. Unit-linked investments in mutual funds decreased by 7.8% year-on-year, while those in fixed income instruments grew by 4.5% from end-2017. Further, the reinsurance's share in technical reserves for the life and non-life categories amounted to $8.7m and $134.7m, respectively, constituting an increase of 3.2% and 15.7%, respectively, from the end of 2017.

On the liabilities side, unit-linked technical reserves reached $38.5m at the end of 2018 and declined by 6.8% from $41.2m a year earlier. Technical reserves for the life segment increased by 4.4% year-on-year to $40.2m, while technical reserves for the non-life category reached $219.7m at end-2018 and grew by 0.7% from a year earlier. Non-life technical reserves included outstanding claims reserves of $144.7m that increased by 14%, unearned premium reserves of $61m that decreased by 16.3%, and $10m in reserves incurred but not reported that regressed by 27.6% year-on-year. Provisions for risks and charges reached $4.9m at the end of 2018 and fell by 15.2% from the previous year. Also, shareholders' equity was $113.6m at end-2018, down by 2.2% from a year earlier.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked Arabia Insurance in 17th and in 21st place in 2018 in terms of non-life and life premiums, respectively. The firm's non-life premiums reached $22m and its life premiums amounted to $2m in 2018, down by 14.5% and 10.1%, respectively, from 2017. Arabia Insurance had a 1.9% share of the local non-life market and a 0.4% share of the life market. Overall, it ranked in 19th place in terms of life and non-life premiums in 2018, with a 1.4% market share.

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	Under Review*	Caa1		Under Review*
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

*for downgrade
Source: Rating agencies

Banking Sector Ratings	Outlook
Moody's Investors Service	Stable

Source: Moody's Investors Service

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