500 ISSUES+
Issue 604 | October 14-26, 2019

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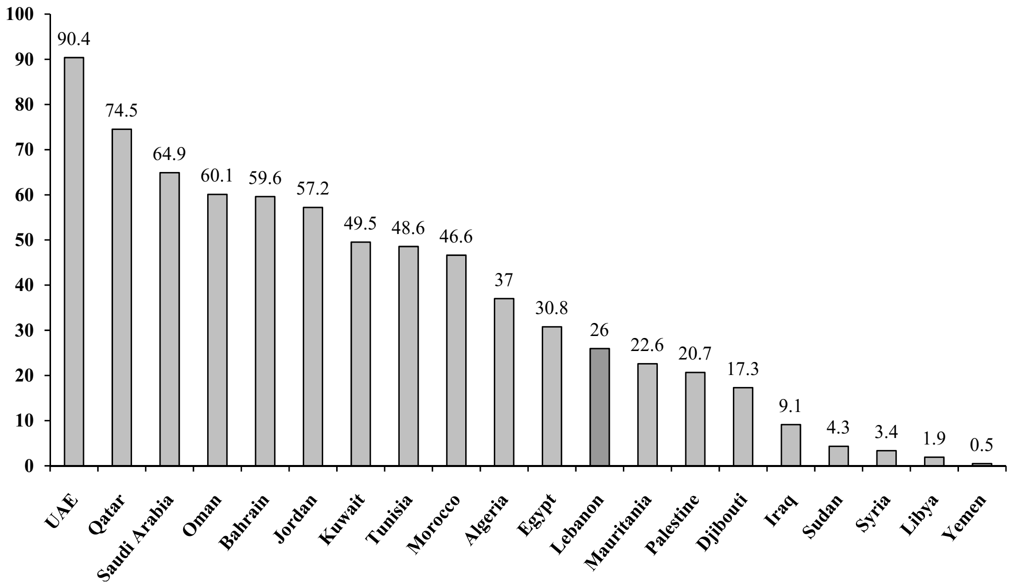
LEBANON THIS WEEK

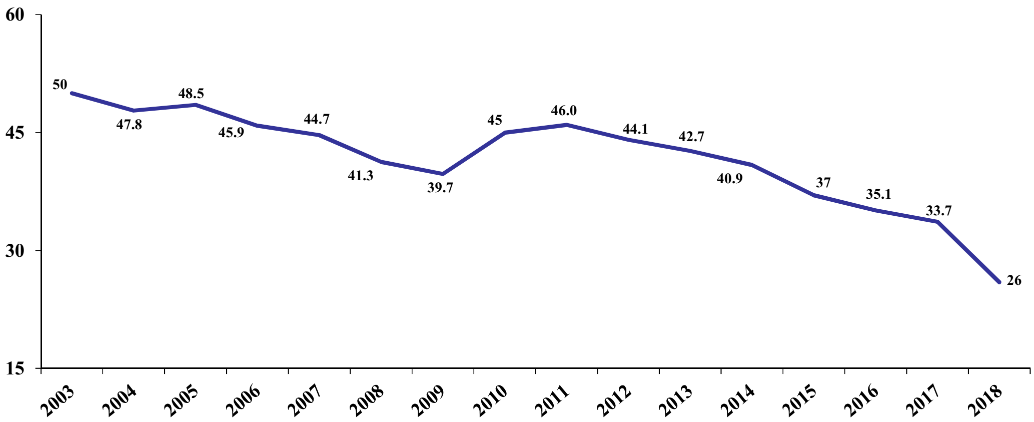
In This Issue

Charts of the Week

Percentile Rank of Arab Countries in terms of Government Effectiveness in 2018 (%)



Percentile Rank of Lebanon in terms of Government Effectiveness (%)



Source: World Bank Governance Indicators for 2018, Byblos Bank

Quote to Note

"The authorities should conduct a thorough public expenditures review to identify potential areas for savings."

The International Monetary Fund, on the way to reduce wasteful spending in the public sector

Number of the Week

$38.2bn: Banque du Liban's assets in foreign currency as at mid-October 2019

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)	(3,078)	(2,409)	(21.74)	(42)	(33)	10
Primary Balance	(636)	68	577	751.13	223	347	268
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 **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 GDR	3.53	(4.59)	464,279	5.60%
Solidere "A"	5.45	(1.98)	48,497	7.22%
BLOM GDR	6.07	(5.16)	44,000	5.94%
Solidere "B"	5.55	1.09%	25,708	4.78%
Audi Listed	3.50	(5.41)	12,000	18.54%
Byblos Common	1.09	(0.91)	6,013	8.17%
BLOM Listed	7.07	(3.02)	3,531	20.14%
Byblos Pref. 08	60.00	(7.69)	2,102	1.59%
Byblos Pref. 09	63.00	(2.93)	1,106	1.67%
HOLCIM	9.98	0.00	-	2.58%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Mar 2020	6.38	91.50	32.57
Apr 2021	8.25	78.88	26.75
Oct 2022	6.10	67.38	21.74
Jun 2025	6.25	62.25	16.92
Nov 2026	6.60	61.38	15.88
Feb 2030	6.65	61.50	13.73
Apr 2031	7.00	61.50	13.77
May 2033	8.20	67.24	13.54
Nov 2035	7.05	61.38	12.77
Mar 2037	7.25	62.00	12.72

Source: Byblos Bank Capital Markets

	Oct 14-17	Oct 7-11	% Change	September 2019	September 2018	% Change
Total shares traded	607,236	133,202	355.9	1,989,279	3,153,549	(36.9)
Total value traded	$2,570,048	$481,483	433.8	$20,464,132	$25,051,529	(18.3)
Market capitalization	$7.55bn	$7.74bn	(2.56)	$7.86bn	$9.68bn	(18.9)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Oct 18, 2019	Oct 25, 2019	% Change**
CDS 1-year*	1,460.99	2,100.00	43.7
CDS 3-year*	1,420.44	1,720.70	21.1
CDS 5-year*	1,298.93	1,456.05	12.1

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

CDX EM 30*	Oct 18, 2019	Oct 25, 2019	% Change***
CDS 5-year**	96.46	96.77	0.3

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

Expatriates' remittances to Lebanon to reach $7.3bn in 2019

The World Bank projected the inflows of expatriates' remittances to Lebanon at $7.3bn in 2019, which would constitute a rise of 3.1% from $7.1bn in 2018, following a marginal increase of 0.2% in 2018. In comparison, it forecast remittance inflows to developing countries to grow by 4.7%, those to upper middle-income countries (UMICs) to increase by 4.4% and inflows to Arab countries to rise by 3.2% in 2019.

Lebanon would be the 22nd largest recipient of remittances in the world and the 17th largest among 127 developing economies in 2019. Lebanon would receive more remittances than Morocco ($7.07bn), Thailand ($7.04bn) and Colombia ($7.01bn), and less remittances than Nepal ($8.64bn), Sri Lanka ($7.68bn) and the Dominican Republic ($7.36bn) among developing economies. Also, Lebanon would be the seventh largest recipient of remittances among 55 UMICs after China ($70.3bn), Mexico ($38.7bn), Guatemala ($10.7bn), Russia ($9.06bn), Sri Lanka and the Dominican Republic, and the second largest recipient among 17 Arab countries, behind only Egypt ($26.4bn).

Remittance inflows to Lebanon would account for 1.03% of the global flow of remittances in 2019, relative to 1.12% on 2017 and to 1.04% in 2018. They would also represent 1.33% of aggregate remittances to developing economies this year, compared to 1.35% last year and to 1.46% in 2017; while they would account for 12.27% of remittance inflows to Arab countries in 2019, relative to 12.47% in 2017 and 12.29% in 2018. In addition, remittance inflows to Lebanon would represent 3.38% of remittance inflows to UMICs in 2019, compared to 3.65% in 2017 and 3.42% in 2018.

Top 20 Recipients of Remittance Inflows in Developing Economies in 2019

Country	US$bn	Growth Rate	% of GDP
India	82.20	+4.6%	2.8%
China	70.27	+4.2%	0.5%
Mexico	38.66	+8.7%	3.1%
Philippines	35.07	+3.7%	9.8%
Egypt	26.35	+3.3%	8.8%
Nigeria	25.37	+4.2%	5.7%
Pakistan	21.90	+4.2%	7.9%
Bangladesh	17.54	+12.7%	5.5%
Vietnam	16.68	+4.2%	6.4%
Ukraine	15.90	+8.2%	11.8%
Indonesia	11.68	+4.2%	1.1%
Guatemala	10.70	+12.7%	13.0%
Russia	9.06	+5.3%	0.6%
Nepal	8.64	+3.9%	29.9%
Sri Lanka	7.68	+2.9%	9.1%
Dom. Republic	7.36	+8.0%	8.6%
Lebanon	**7.31**	**+3.1%**	**12.5%**
Morocco	7.07	+2.2%	5.8%
Thailand	7.04	-5.7%	1.4%
Colombia	7.01	+10.1%	2.1%

Source: World Bank, Byblos Research

Further, expatriates' remittances to Lebanon would be equivalent to 12.5% of GDP in 2019, constituting the 21st highest such ratio globally and among developing countries, the seventh highest ratio among UMICs, as well as the third highest ratio, behind only Palestine (17.6%) and Yemen (13.3%), among Arab countries. In comparison, remittance inflows to developing economies would be equivalent to 1.7% of the aggregate GDP of developing countries this year. Also, expatriates' remittances to Lebanon were equivalent to 13.3% of GDP in 2017 and 12.6% of GDP in 2018. The World Bank forecast remittance inflows to Arab countries, excluding Syria, at $58bn in 2019, up from $56.1bn in 2018, which would be equivalent to about 2.6% of the region's GDP this year.

Industrial exports up 3% to $1.3bn in first half of 2019

Figures released by the Ministry of Industry show that industrial exports totaled $1.3bn in the first half of 2019, constituting an increase of 2.7% from $1.27bn in the same period of 2018. Industrial exports reached $162.3m in June 2019, declining by 39.3% from $267.3m in May 2019 and by 13% from $186.3m in June 2018.

Exports of machinery & mechanical appliances amounted to $258.3m and accounted for 20% of aggregate industrial exports in the first half of 2019, followed by chemical products with $227.2m (17.5%), prepared foodstuffs & tobacco with $210m (16.2%), base metals with $174.8m (13.5%), plastics & rubber with $86.8m (6.7%), and pearls or semi-precious stones with $85m (6.5%). Arab countries were the destination of 53.6% of Lebanese industrial exports in the first half of 2019, followed by European economies with 21%, African countries with 10.4%, Asian economies with 8.8%, countries in the Americas with 4.8%, and markets in Oceania with 0.7%.

On a country basis, the UAE was the main destination of Lebanese industrial exports and accounted for 10.1% of the total in the covered period, followed by Saudi Arabia with 8.8%, Syria with 7.6%, Iraq with 7.4%, Qatar with 4.8%, and France with 4.3%. In June 2019, 12 Arab states, nine European economies, five African countries, three Asian economies and two countries in the Americas imported $1m or more each of Lebanese industrial products.

In parallel, imports of industrial equipment and machinery reached $103.7m in the first half of 2019, constituting a decline of 31.3% from $151m in the same period of 2018. Italy was the main source of such imports and accounted for 25.4% of the total in the first half of 2019, followed by China with 18.4% and Germany with 11.8%. Further, imports of industrial equipment and machinery amounted to $15m in June 2019, down by 16.2% from $18m in May 2019 and by 36.7% from $23.7m in June 2018. Italy was the main source of such imports with $5.5m and accounted for 36.8% of the total in the covered month, followed by Germany with $2.6m (17.2%), and China with $2.5m (16.5%).

Draft budget for 2020 projects deficit of 0.6% of GDP

The draft budget 2020 that the Council of Ministers endorsed on October 21, 2019 shows budget expenditures at LBP20,382bn or $13.5bn, and revenues at LBP19,816bn or $13.1bn, leading to a budget deficit of LBP566.4bn or $375.7m. As such, public spending would be equivalent to 22.8% of GDP and revenues would come at 22.2% of GDP in 2020, resulting in a deficit of 0.6% 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 significant narrowing of the deficit is due to two main factors. First, Banque du Liban (BdL) will reimburse the Treasury the interest payments it will receive on its holdings of Treasury bills and bonds for 2020, which would amount to LBP4,500bn, or 5% of GDP. Second, the government intends to impose a one-time tax of 2% on the banks' revenues in 2019, which would generate about LBP600bn, or 0.7% of GDP, in one-off revenues for the Treasury. Also, the government plans to pay the end of service indemnities to civil servants in 2020 over a period of three years, which would reduce this budget item by LBP300bn, or by 0.3% of GDP in 2020.

The breakdown of budgetary spending for 2020, excluding Treasury outlays, shows that current expenditures amount to LBP19,379bn ($12.9bn), equivalent to 95.1% of such spending. Also, capital spending, which includes investing in infrastructure, land expropriation and the purchase of equipment, reaches LBP1,003bn ($665.6m), or 4.9% 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 LBP9,918bn, or $6.6bn, and represents 48.7% of total budget spending in 2020. It is followed by debt servicing at LBP4,695bn, or $3.1bn (23% of total budget spending), and Transfers to Electricité du Liban (EdL) at LBP1,500bn, or $1bn (7.4% 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 LBP15,674bn ($10.4bn), compared to LBP14,570bn ($9.7bn) in the 2019 budget. The increase in tax receipts is due to a rise of LBP703.4bn, or 29%, in tax revenues generated from the tax on interest income, to a one-time tax on the banks' revenues that would generate LBP600bn in additional receipts, and to a LBP245.4bn or 19% growth in customs receipts following higher import tariffs that the government imposed in the 2019 budget. The government projects that the increase in these tax revenues would more than offset the anticipated decline in other tax receipts, including from the value-added tax and the excise tax on goods & services (-4%), as well as from the property tax (-7%). Receipts from the tax on income, profits & capital gain would generate 42.4% of total tax revenues, followed by revenues from the value-added tax and the excise tax on goods & services (38.4%), receipts from custom duties (8.3%), and income from property taxes (6.8%), while other taxes would generate the remaining 4.3%. The 2020 budget projects non-tax revenues at LBP4,142bn ($2.7bn) relative to LBP4,212bn ($2.8bn) in the 2019 budget, with $1.1bn in transfers from the Ministry of Telecommunications.

Projected Revenues & Expenditures in 2020 Draft Budget

	2020 Budget (US$m)	2019 Budget (US$m)	Change (%)
Budget Revenues	**13,145**	**12,460**	**5.5%**
Tax Revenues	10,397	9,665	7.6%
Non-Tax Revenues	2,747	2,794	(1.7%)
of which Telecom revenues	*1,128*	*1,253*	*(10%)*
Budget Expenditures	**13,521**	**16,985**	**(20.4%)**
Current Spending, of which	12,855	16,020	(19.7%)
Interest payments	*3,114*	*5,514*	*(43.5%)*
Wages, salaries & transfers to cover salaries	*3,398*	*3,781*	*(1.9%)*
Retirement salaries	*1,879*	*1,679*	*11.9%*
Transfers to EdL	*995*	*1,658*	*(40%)*
End of service indemnities	*100*	*299*	*(66.7%)*
Capital Spending	666	966	(31.1%)
Budget Deficit	**(358)**	**(4,526)**	**(91.7%)**
Treasury Receipts	747	737	1.3%
Treasury Expenditures	-	-	-
Budget & Treasury Revenues	**13,892**	**13,197**	**5.3%**
Budget & Treasury Expenditures	**-**	**-**	**-**

Source: Ministry of Finance, Byblos Research

Lebanon ranks 143rd globally, 13th among Arab countries in ease of doing business

The World Bank Group's Doing Business 2020 report ranked Lebanon in 143rd place among 190 countries and jurisdictions worldwide and in 13th place among 22 Arab countries and territories in terms of the ease of doing business. Lebanon also came in 45th place among 55 upper middle-income countries (UMICs) in the 2020 survey. Lebanon's global rank dropped six spots from 137th place in the 2019 survey, while its regional rank was unchanged year-on-year.

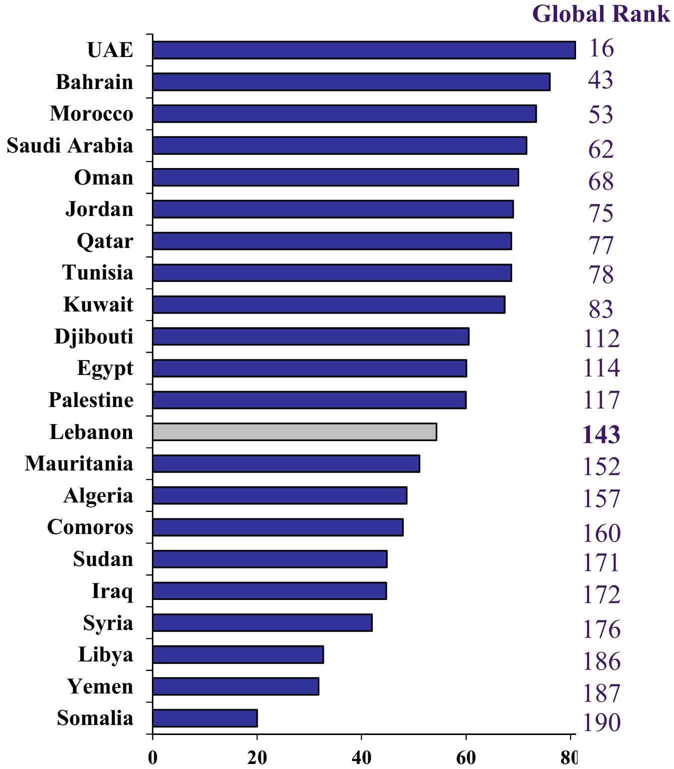
The index is a composite of 10 sub-indices of business regulations that track the time and cost to meet government requirements for business initiation, expansion, operations and insolvency. The ease of doing business rankings in the 2020 survey are based on the distance to frontier (DTF) score, which measures the gap between an economy's current performance and the best performer around the world on each sub-index. The DTF scores range from zero to 100, with a score of 100 representing the "frontier", or the best performer.

Lebanon's DTF score is 54.3 points, compared to 54.4 points in the previous survey. It came below the Arab average score of 56.5 points and significantly below the global average of 63 points. Lebanon was among 34 countries and territories that posted a decline in their DTF score in the 2020 survey. Further, the World Bank indicated that Lebanon enacted just one reform related to the business environment between May 2, 2018 and May 1, 2019. It noted that Lebanon made enforcing contracts easier by adopting a law that regulates all aspects of mediation as an alternative dispute resolution mechanism.

Globally, Lebanon had a better business environment than Cambodia, Mali and Benin, and a weaker business climate than Zimbabwe, Tanzania and Nicaragua among economies with a GDP of $10bn or more. It also ranked ahead of only Algeria, Gabon, Iraq, Equatorial Guinea, Libya and Venezuela among UMICs.

Lebanon came behind 13 Arab countries on the Starting a Business indicator. The survey noted that entrepreneurs need eight steps to start a business in Lebanon compared to an average of 6.6 procedures in Arab countries and 4.9 steps in OECD economies. Also, it takes 15 days to start a business in Lebanon compared to an average of 19.4 days in Arab countries and an average of 9.2 days in OECD states. Lebanon's DTF score reached 78.17 points on this indicator compared to 78.6 points in the 2019 survey, and came below the Arab countries' average of 82.5 points. The World Bank did not register any reform to the process of starting a business in Lebanon since 2011.

Ease of Doing Business in 2020
DTF Scores & Rankings of Arab Countries



Source: World Bank Group, Byblos Research

Components of the Ease of Doing Business in 2020

	Global Rank	Lebanon Score	Change in Score
Registering Property	110	59.41	-0.03
Protecting Investors	114	44.00	-
Paying Taxes	116	67.55	-0.38
Getting Electricity	127	62.72	-0.03
Getting Credit	132	40.00	-
Enforcing Contracts	131	50.77	+0.93
Starting a Business	151	78.18	-0.46
Trading Across Borders	153	57.90	-
Resolving Insolvency	151	29.08	-0.47
Dealing with Construction Permits	164	53.72	-0.48

Source: World Bank Group, Byblos Research

Also, Lebanon ranked behind 13 Arab countries on the Enforcing Contracts indicator. The survey noted that a firm in Lebanon requires 721 days to enforce commercial contracts, compared to an average of 622.3 days in the Arab world and 589.6 days in OECD economies. Further, enforcing a contract in Lebanon costs 30.8% of the claim compared to 27.5% in the region and to 21.5% of the claim in OECD states. Lebanon's DTF score on this category was 50.8 points in the 2020 survey, compared to 49.8 points in the 2019 survey, and came below the average of 54.4 points for Arab countries.

Further, Lebanon ranked behind 13 Arab countries on the Registering Property indicator. The survey noted that registering a property in Lebanon takes 37 days and costs 6% of the value of the property compared to an average of 35 days and 5.1% of the property value in Arab countries, and an average of 23.6 days and 4.2% of the property value in OECD economies. Entrepreneurs need eight steps to register a property in Lebanon compared to an average of 5.1 procedures in Arab countries, and to an average of 4.7 steps in OECD economies. Lebanon's DTF score was 59.4 points on this indicator, nearly unchanged from the 2019 survey, and came below the Arab average of 62.8 points. The World Bank noted that, in 2016, Lebanon made transferring property more complex by increasing the time required for property registration.

Sustained fiscal and structural reforms needed to support macroeconomic stability

The Institute of International Finance indicated that the Lebanese government announced on October 21, 2019 a set of fiscal and structural reforms in response to the recent nationwide protests that erupted across Lebanon amid worsening economic conditions and increased dissatisfaction with the political class. It noted that the announced measures aimed to ease domestic anger, regain international credibility and help unlock the $11bn pledged by the international community at the CEDRE conference. However, it said that the announced set of measures did not appease protesters who are insisting on the resignation of the Cabinet, and added that it remains unclear whether the current government will resign or share power with technocrats or experts.

Further, the IIF pointed out that the announced measures aim to narrow the fiscal deficit to 0.6% of GDP in 2020 through several ways, such as requiring Banque du Liban and commercial banks to contribute $3.4bn, or 5.4% of GDP, to help reduce the government's debt servicing cost in 2020, as well as imposing a new 2% tax on bank revenues that would raise about $400m in 2020, and cutting by 50% the salaries of former and current presidents, ministers and members of Parliament. It added that the measures include reforms to Electricité du Liban (EdL), the establishment of an anti-corruption committee, the drafting of a law that seeks to restore stolen public funds, the preparation of a plan to privatize the telecommunications sector, and the installation of scanners at the Port of Beirut to combat smuggling, among other measures. However, the IIF said that the current political leaders lack the credibility to carry out the reforms they have promised. As such, it projected the fiscal deficit to reach 1.9% of GDP in 2020 and to miss the government's targeted deficit, as it considered the authorities' revenue assumptions and tax compliance to be over-optimistic. It noted that the ongoing protests demonstrate that implementing fiscal consolidation through an ad-hoc set of one-off measures, without addressing the deficiencies in governance and economic mismanagement, would be insufficient to restore public confidence. Further, it indicated that most of the fiscal adjustment in the revised 2020 budget will be borne by the banking sector through new taxes, along with Banque du Liban reimbursing the government the interest paid on Lebanese pound-denominated debt in 2020.

In parallel, the IIF considered that authorities need to implement durable and sustained fiscal measures to put the public debt level on a downward path. In this context, it said that the government should adjust the personal income tax system to target higher tax rates for upper-income groups, which would shift the tax burden to wealthier households. It also noted that authorities should enforce penalties on illegally-built seaside properties, close all illegal border crossings and fight smuggling, strengthen the tax revenue administration, combat tax evasion and implement the long-delayed reforms to EdL. It added that the government must reduce the public-sector wage bill through an in-depth restructuring of the public administration, the closing of obsolete public institutions, as well as eliminating ghost employees across the public sector. The IIF considered that the strict and timely implementation of these lasting measures, in addition to some of the measures announced in the October 21 package, would help the authorities narrow the fiscal deficit on a sustained basis and improve confidence. It added that the implementation of such measures would help unlock the CEDRE-related funds, which would mitigate the contractionary effect of fiscal adjustment and high interest rates on real GDP growth.

Further, the IIF indicated that economic growth in Lebanon has been subdued since 2011, in part due to economic mismanagement and widespread corruption, as well as regional conflicts. It projected Lebanon's real GDP to contract by 1.6% in 2019 following a retreat of 0.2% in 2018, due to delays in agreeing on the needed fiscal and structural reforms, political uncertainties, as well as the stagnation in the real estate sector, government arrears and a tight monetary policy. In parallel, it noted that the banking sector remains well capitalized, liquid and profitable despite the stagnation in deposit growth and the elevated lending rates. It said that the banking sector's strengths should not be exploited by the government in order to avoid implementing deep fiscal and structural reforms.

Diaspora organization outlines structural reforms plan

The Lebanese International Finance Executives (LIFE), an expatriate organization of Lebanese professionals in banking and finance, most of whom work at global financial institutions, issued a white paper that proposes reform measures to address Lebanon's fiscal and economic challenges. It considered that the measures that the government proposed in response to popular demonstrations do not represent a realistic and sustainable fiscal consolidation plan, and that authorities need to introduce a broader set of reforms to restore confidence.

First, it considered that authorities need to implement front-loaded fiscal adjustment measures that would reduce Treasury transfers to Electricité du Liban (EdL), downsize the public sector, improve tax collection, reform the pension system and privatize state-owned assets. As such, it pointed out that the implementation of a credible electricity reform plan would reduce EdL subsidies and, in turn, government spending. Also, it said that the government needs to complete the comprehensive census of public-sector employees that it launched earlier this year in order to eliminate "ghost" and unproductive jobs. It added that a re-assessment of government agencies would help reduce spending, while the digitization of government services would help address corruption.

Second, it pointed out that the enforcement of the rule of law would help restore investor confidence. It noted that this would require authorities to introduce a mandatory asset disclosure for public officials and formal procedures to recover embezzled public funds, among other measures. Third, it said that Banque du Liban (BdL) and commercial banks should coordinate in order to reduce the cost of debt servicing. It suggested that a voluntary debt service or debt re-profiling plan, along with fiscal consolidation and the implementation of structural reforms, would help reduce the public debt level. Fourth, it considered that policy-makers need to communicate and be more transparent with the public about the reform plan and the progress in its implementation. It added that the introduction of a new governance framework would allow for faster decision-making and for maintaining checks and balances. Fifth, it said that the implementation of structural reforms and the introduction of a new economic model would support economic activity, help attract capital inflows and increase public revenues.

Occupancy rate at Beirut hotels at 71.5%, room yields up 26% in first eight 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 71.5% in the first eight months of 2019 relative to 62.6% in the same period of 2018, and compared to an average rate of 65.6% in 14 Arab markets included in the survey. The occupancy rate at Beirut hotels was the fifth highest in the region in the first eight 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 nine percentage points in the first eight months of 2019, constituting the largest increase among the 14 Arab markets. In comparison, the average occupancy rate in Arab markets grew by 2.6 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, 75.4% in July and 81% in August 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, 73% in July and 73.3% in August 2018. The occupancy rate at Beirut hotels was the highest in the region in August this year, while it was the fifth highest in August 2018.

Hotel Sector Performance in First Eight Months of 2019

	Occupancy Rate (%)	RevPAR (US$)	RevPAR % change
Jeddah	60.9	173	(9.0)
Dubai	72.7	159	(16.7)
Beirut	**71.5**	**149**	**26.3**
Makkah	71.2	136	1.4
Madina	69.4	109	3.0
Ras Al Khaimah	73.7	106	(8.7)
Riyadh	59.1	92	1.0
Kuwait City	54.6	89	(10.6)
Amman	59.6	88	0.0
Manama	52.5	87	3.3
Cairo City	73.9	83	7.1
Abu Dhabi	76.4	76	8.0
Doha	66.0	73	3.0
Muscat	56.3	70	(7.9)

Source: EY, Byblos Research

The average rate per room at Beirut hotels was $208 in the first eight months of 2019, increasing by 10.5% from $188 in the same period of 2018 and constituting the third highest rate in the region after Jeddah ($285) and Dubai ($219). The average rate per room in Beirut was higher than the regional average of $163.1 that regressed by 5% from the first eight months of 2018.

Further, revenues per available room (RevPAR) were $149 at Beirut hotels in the first eight months of 2019 compared to $118 in the same period of 2018, ranking the capital in third place regionally behind Jeddah ($173) and Dubai ($159). Beirut's RevPAR grew by 26.3% 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, $163 in July and $189 in August 2019, compared to $87 in January, $105 in February, $110 in March, $120 in April, $89 in May, $134 in June, $144 in July and $152 in August 2018. Abu Dhabi posted the highest occupancy rate in the region at 76.4% in the first eight months of 2019, while Jeddah registered the highest average rate per room at $285, as well as the highest RevPAR at $173 in the covered period.

EY attributed the improved performance of Beirut's hospitality market in the first eight 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 in mid-February 2019 of a 15-month old travel warning to Lebanon. 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. EY expected the performance of Beirut's hospitality market to continue be solid and to benefit from initiatives aiming to attract more Chinese tourists amid increased efforts to promote ties between Lebanon and China. It pointed out that the expansion works at the Beirut-Rafic Hariri International Airport were completed in August 2019, which increased the airport's annual capacity to 2 million passengers. It noted that the airport's expansion aims to address congestion issues and benefit the Lebanese tourism industry in the long term.

Netherlands extends €0.58m for feasibility study of solar power plant in Hermel

The Lebanese Center for Energy Conservation (LCEC) issued a Request for Proposal to procure consultancy services for the development of a concentrated solar power (CSP) plant in the Hermel region. It invited interested consulting companies or consortiums to submit their proposals by the November 26, 2019 deadline. It indicated that it will assign an evaluation committee, which would select a consultant based on four stages. These stages consist of an evaluation of the consultant's administrative & technical qualification, of its capability & technical scoring and of its financial offer, and negotiations between the LCEC and the consultant before signing the contract.

It pointed out that the selected consultant will assess, over a period of 14 months, the feasibility of installing and operating a CSP plant in the Hermel region. The consultant will identify the most suitable location for a CSP plant in the region. It will also evaluate if the plant would contribute to reducing the gap between electricity demand and supply, and would support the Lebanese authorities' plan to produce 30% of electricity demand from renewable energy sources by 2030. The Dutch Ministry of Foreign Affairs will provide a €580,000 grant for the study through its grant facility Develop2Build, while the Netherlands Enterprise Agency will implement the feasibility study in partnership with the LCEC.

The LCEC indicated that the study will be undertaken in two phases. The first phase stipulates that the consultant will conduct a Feasibility Study and Environmental & Social Impact Assessment (ESIA) to build the CSP plant. The Netherlands Enterprise Agency will make a decision to proceed with the project based on the outcome of the assessment. In case of a favorable outcome, the consultant will then conduct a full-fledged ESIA and prepare tender documents. If not, then a full-fledged ESIA and the development of tender documents will not be conducted, and the project will be terminated.

Lebanon ranks 87th globally, eighth among Arab countries in terms of social progress

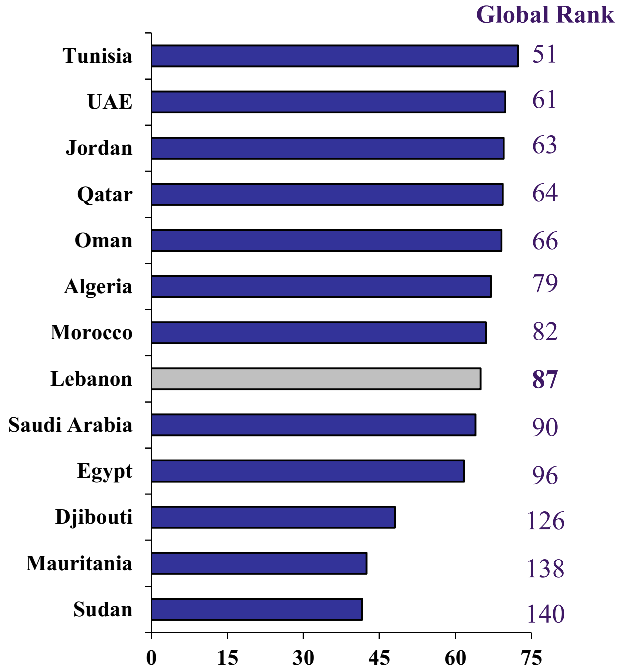
The 2019 Social Progress Index (SPI) ranked Lebanon in 87th place among 149 countries in the world and in eighth place among 13 Arab countries. Lebanon also came in 34th place among 39 upper middle-income countries (UMICs) included in the survey. Lebanon's global rank regressed by one spot year-on-year and by four spots from the 2014 survey. The index is produced by the U.S.-based non-profit organization Social Progress Imperative.

The SPI measures a country's social progress independently of its economic development. It evaluates a society's capacity to meet the basic human needs of its citizens, to establish the bases that would enhance their quality of living, and to create the conditions for all individuals to reach their full potential. The index is composed of three sub-indices that are the Basic Human Needs Sub-Index, the Foundations of Well-being Sub-Index, and the Opportunity Sub-Index. The SPI score is a simple average of the three sub-indices and ranges from zero to 100, with 100 reflecting the best performance on the index.

Globally, Lebanon's social progress is higher than that of El Salvador, China and Saudi Arabia, and trails the level of social progress in Botswana, Indonesia and Iran among economies with a GDP of $10bn or more. It ranked ahead of only China, Guatemala and Turkmenistan among UMICs. Norway came in first place globally on the SPI, while South Sudan ranked in last place.

The survey classified countries into six tiers from "Tier 1" to "Tier 6". Lebanon came, along with 42 countries, in the fourth tier, which includes countries ranked between 62nd and 104th place. Lebanon received a score of 65 points, compared to the global average of 64.5 points.

Social Progress Index for 2019



Source: Social Progress Imperative, Byblos Research

Globally, Lebanon came ahead of Sri Lanka and El Salvador, and ranked behind Paraguay and Peru on the Basic Human Needs Sub-Index. This category assesses a country's ability to provide basic needs for its people such as nutrition and basic medical care, water and sanitation, shelter, and personal safety. Also, Lebanon ranked ahead of only Sri Lanka, the Dominican Republic, South Africa, Botswana and Guatemala among UMICs; while it came ahead of Djibouti, Sudan and Mauritania among Arab countries.

Further, Lebanon preceded Cuba and Morocco, and trailed Guatemala and Ghana on the Foundations of Well-being Sub-Index. This category measures the population's access to basic knowledge, information and communication technology, health and wellness, and the quality of environment. Also, Lebanon ranked ahead of only Cuba, South Africa, and Turkmenistan among UMICs; while it came ahead of Morocco and behind Algeria in the Arab world.

Finally, Lebanon ranked ahead of El Salvador and Morocco, and came behind Cuba and Kazakhstan on the Opportunity Sub-Index, which assesses personal rights, the degree of personal freedom & choice, inclusiveness, and the access to advanced education. It ranked ahead of Thailand and behind Kazakhstan among UMICs; while it came behind Tunisia, Algeria, Jordan and the UAE in the region.

Components of the 2019 Social Progress Index for Lebanon

Sub-Index	Global Rank	Arab Rank	UMIC Rank	Lebanon Score	Global Avge Score
Basic Human Needs	86	10	33	79.94	74.4
Foundations of Well-being	88	8	33	66.17	67.5
Opportunity	88	5	31	48.82	51.5

Source: Social Progress Imperative, Byblos Research

S&P places Lebanon's sovereign ratings on CreditWatch negative

S&P Global Ratings placed Lebanon's 'B-' long-term and 'B' short-term foreign and local currency sovereign ratings on CreditWatch with negative implications. It attributed its action to the slowdown in capital inflows, which could exacerbate fiscal and monetary pressures and limit the government's response to pressing societal demands.

However, S&P considered that Banque du Liban's (BdL) usable reserves, which it projects at $19bn at the end of 2019, are sufficient to cover the government's debt servicing cost and current account deficit in the near term. It added that BdL has guaranteed the supply of US dollars for importers of wheat, oil derivatives and medicine. It noted that BdL has been absorbing the local currency liquidity of the banks since 2018 through the issuance of Certificates of Deposits and through financial operations with commercial banks, in order to prevent any speculation on the Lebanese pound. It considered that BdL's measures have bought fiscal authorities time to establish an economic and budgetary plan. It added that deposit inflows have provided reliable funding for the current account and fiscal deficits. However, it considered that the pattern has changed in 2019 due to weak investor confidence, despite higher interest rates on deposits.

In parallel, the agency considered that the policy environment in Lebanon is rapidly evolving, which makes any scenario analysis difficult to predict. Still, it pointed out that previous episodes of social unrest in the country and of external conflicts did not undermine the government's ability and willingness to meet its financial commitments. It said that the recent nationwide demonstrations suggest that the government's dual aim of maintaining social stability and implementing reforms to narrow the fiscal deficit could be difficult to reconcile. It noted that the government's measures, in response to the protests, target a fiscal deficit of 0.6% of GDP for 2020 through the reduction of 50% in the debt servicing costs that the government would pay to BdL, a one-time 2% tax on the banks' turnover, and a cut in the salaries of current and former ministers and members of Parliament, among other measures. It considered that the uncertainty of near-term policy outcomes could further test depositor confidence and weigh on BdL's foreign currency reserves. It indicated that the government faces the challenging task of improving the credibility of policy-making and of implementing the announced measures. It pointed out that the implementation of structural reforms could restore foreign currency inflows and support the disbursement of the funds that the international community pledged to Lebanon at the CEDRE conference in April 2018.

S&P indicated that it could affirm the ratings in case the government successfully implements reforms that would boost economic growth and reduce the public debt level over the medium term. It added that substantial external donor support, which would help ease fiscal pressure and improve confidence in the currency peg, would contribute to a positive rating action.

In parallel, Moody's Investors Service said that the government and BdL face significant challenges to simultaneously achieve fiscal consolidation, maintain financial sector stability, preserve the currency peg to the US dollar, as well as appease social demands. It considered that the suggested cut in the debt servicing cost would ease pressure on liquidity in the short term, but that fiscal and financial challenges would re-emerge over the medium term. In addition, it pointed out that imposing additional taxes on financial institutions would be credit negative for banks, as it would further weigh on their profitability, similar to previous incidents when the government increased taxes on banks. It added that higher taxes would undermine the banks' ability to absorb shocks, discourage shareholders from investing in Lebanon, and reduce the banks' incentives to attract deposits and subscribe to government securities.

Broad money supply down 0.6% in first eight months of 2019

Figures released by Banque du Liban show that money supply M1, which includes currency in circulation and demand deposits in Lebanese pounds, reached LBP11,255bn at the end of August 2019, constituting a decline of 3.5% from LBP11,661bn at the end of 2018, and was nearly unchanged from LBP11,242bn at end-August 2018. Currency in circulation stood at LBP5,246bn at the end of August 2019, up by 4.8% from LBP5,008bn at end-2018 and by 9% from LBP4,815bn at end-August 2018. Also, demand deposits in local currency stood at LBP6,009bn at the end of August 2019, constituting a decline of 9.7% from end-2018 and of 6.5% from end-August 2018. Money Supply (M1) grew by 4.2% in August from LBP10,800bn at end-July 2019, with currency in circulation growing by 1.7% and demand deposits in local currency increasing by 6.5% month-on-month.

In addition, money supply M2, which includes M1 and term deposits in Lebanese pounds, reached LBP73,143bn at the end of August 2019, constituting a decrease of 4.8% from LBP76,828bn at the end of 2018, and a decline of 8.8% from LBP80,216bn a year earlier. Term deposits in Lebanese pounds totaled LBP61,887bn at the end of August 2019, down by 5% from LBP65,167bn at end-2018 and by 10.3% from LBP68,974bn at end-August 2018. Money Supply (M2) regressed by 0.8% in August from LBP73,729bn at end-July 2019, with term deposits in local currency declining by 1.7% month-on-month.

Further, broad money supply M3, which includes M2, deposits in foreign currency and debt securities issued by the banking sector, reached LBP211,648bn at the end of August 2019, constituting a decrease of 0.6% from LBP212,993bn at the end of 2018 and a decline of 0.5% from LBP212,611bn at end-August 2018. Deposits in foreign currency totaled LBP138,059bn at the end of August 2019, up by 1.6% from end-2018 and by 4.5% from a year earlier. Also, debt securities issued by the banking sector amounted to LBP447bn at the end of August 2019, compared to LBP272bn at the end of 2018 and to LBP266bn at end-August 2018. Money supply (M3) was nearly unchanged in August from LBP211,565bn at the end of July 2019, with deposits in foreign currency expanding by 0.5% and debt securities issued by the banking sector rising by 3.8% month-on-month. In parallel, M3 regressed by LBP1,344bn in the first eight months of 2019, due to a drop of LBP5,656bn in claims on the private sector, a decline of LBP3,104bn in the net foreign assets of deposit-taking institutions and a decrease of LBP1,405bn in net claims on the public sector, which were partly offset by a surge of LBP8,822bn in other net items.

IMF calls for medium-term fiscal framework

In its 2019 Article IV Consultation with Lebanon, the International Monetary Fund indicated that Lebanon has shown a "unique" resilience in the face of long standing economic challenges. But it noted that the country's vulnerabilities have increased, and authorities have a narrow window to reverse the current trends. It urged authorities to take decisive actions in order to ensure macroeconomic stability amid the elevated public debt level, the wide fiscal and current account deficits, and the weak external position. It considered that the government's efforts to improve public finances during the 2019-20 period will not be enough to put the public debt level on a downward trend. It also noted that the planned structural reforms so far would not substantially narrow the current account deficit or improve growth to levels that would reduce unemployment. It added that several reforms that the government introduced are temporary, and that their impact would fade over the medium term. Consequently, it called on authorities to implement a strong reform program that would significantly reduce imbalances, improve the business environment and address corruption, which would boost investment, economic activity and exports.

First, the IMF encouraged authorities to introduce a medium-term fiscal plan that is based on credible and permanent measures in order to generate a substantial primary surplus over the medium term. It estimated that about 1% of GDP in revenue measures that the government introduced in 2019 are permanent. It added that the authorities' current electricity plan can reduce spending by about 2.7% of GDP over the medium. Still, it said that authorities need to identify and implement additional permanent fiscal measures that would help achieve a primary fiscal surplus of between 4% of GDP and 5% of GDP in order to reduce the public debt level over the medium term. It noted that revenues measures should include raising the value-added tax rate, increasing fuel excises and improving tax compliance. In addition, it pointed out that authorities need to conduct a thorough review of public spending in order to identify potential areas for savings, including reducing the public sector wage bill and reforming the pension system.

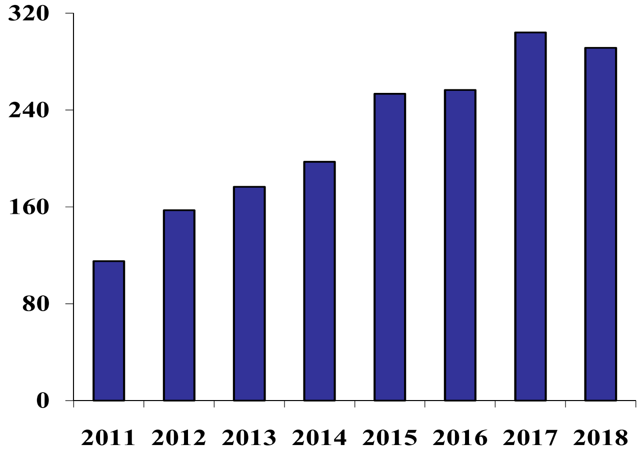
Second, the Fund called on the government to implement fundamental structural reforms to boost economic growth and improve external competitiveness. It identified two priority areas, which are improving the electricity supply and reducing corruption, which would help reduce the cost of doing business in the country. Also, it encouraged authorities to implement the specific reforms that they submitted at the CEDRE conference, including the enforcement of the approved laws such as the code of commerce and the law on judicial intermediation, as well as the enactment of the customs law, the regulation about closing a business, the bankruptcy law, the insolvency practitioner law and the law on secured lending.

In terms of monetary policy and financial stability, the IMF indicated that BdL has long protected the country's economy and maintained financial stability. But it noted that the long period during which BdL stepped in to ensure economic stability has left its mark on the BdL's balance sheet and has amplified the linkages between the sovereign and the banking sector. As such, it encouraged BdL to gradually reduce its quasi-fiscal operations and to strengthen its balance sheet. It commended BdL's decision for not subscribing to Treasury bills at an interest rate of 1%, which was a request from the government. It said that authorities have strengthened the framework for fighting money laundering and terrorist financing (AML/CFT) and should continue to make further improvements and focus on the effectiveness of the AML/CFT framework.

Net profits of life insurance segment up 7% to $118m in 2018, claims paid to beneficiaries up 18%

Figures released by the Insurance Control Commission show that the aggregate net profits of 33 companies operating in the life insurance segment in Lebanon reached $118.2m in 2018, constituting an increase of 7.4% from $110.1m in 2017. Also, net income from the life segment posted a compound annual growth rate (CAGR) of 9.4% between 2011 and 2018. The "term life protection" category posted profits of $95.2m in 2018, followed by the "life protection with savings" category with $20.7m and the "life protection with unit-linked savings" category with $2.4m. Metlife Alico led all life insurers with $27.9m in net profits in 2018 and accounted for 23.6% of the life segment's aggregate net earnings, followed by Sogecap with $23.5m (19.9%), Bancassurance with $20.6m (17.4%), CLA with $12m (10.1%), ADIR with $10.7m (9.1%), and Arope with $6.7m (5.7%).

Total Claims Paid for the Life Insurance Sector (US$m)



Source: Insurance Control Commission, Byblos Research

Gross written premiums from the life segment, which include new business and renewals, increased by 3.7% to $520.4m in 2018 relative to growth rates of 3.9% in 2017, 5.1% in 2016, 7.8% in 2015 and 4.3% in 2014. Also, gross premiums rose by a CAGR of 5.5% between 2011 and 2018. Gross written premiums from the "life protection with savings" category totaled $209.1m and accounted for 40.2% of aggregate life insurance premiums, followed by the "term life protection" category with $178.9m (34.4%), and the "life protection with unit-linked savings" category with $132.3m (25.4%). Further, net premiums stood at $490.6m, policy fees totaled $21m, and the cost of policies reached $14.5m in 2018.

In addition, the annualized premiums equivalent (APE) increased by 7.4% year-on-year to $461.2m in 2018 relative to a growth rate of 2% in 2017. The APE is a standard market indicator that is used for the comparison of life insurance revenues across insurers, and that insurance companies use in their disclosures to financial markets. The APE is calculated by normalizing policy premiums for different time periods into the equivalent of regular annual payments. In terms of APE, MetLife Alico captured a market share of 18.8% among providers of life insurance in 2018, followed by Bancassurance with 15.7%, Allianz SNA (11.9%), ADIR (10.7%) and LIA (8.2%).

In parallel, claims paid to beneficiaries totaled $291.5m in 2018, down by 4.2% from $304.2m in 2017. Also, paid claims increased by a CAGR of 17.6% during the 2011-18 period. In addition, insurance liabilities, which represent the amount that insurers set aside to cover future claims and related expenditures, increased by 1.9% in 2018 to $2.14bn. The growth in insurance liabilities is mainly driven by savings plans and, consequently, is an indicator of the level of long-term savings generated in the life insurance sector in Lebanon.

Further, the aggregate loss ratio of the life insurance segment, or the ratio of claims incurred to earned gross premiums, was 60.9% in 2018; the commission ratio, or the ratio of acquisition cost to earned gross premiums, reached 12%; the expense ratio, or the ratio of other general expenses to earned gross premiums, was 12.7%; and the reinsurance ratio, or the ratio of net reinsurance income to earned gross premiums, reached 7.2% in 2018. As such, the average technical combined loss ratio, which is the aggregate of the above four ratios, reached 92.7% in 2018 compared to 107.4% in 2017.

Kafalat loan guarantees down 85% to $5.6m in first nine 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 $5.6m in the first nine months of 2019, constituting a decrease of 84.6% from $36.2m in the same period of 2018. Kafalat provided 51 loan guarantees in the first nine months of the year, down by 82% from 282 guarantees in the same period of 2018. The average loan size was $109,186 in the first nine months of 2019 compared to $128,210 in the same period of 2018. Mount Lebanon accounted for 49% of the total number of guarantees in the first nine months of 2019, followed by the Bekaa region with 29.4%, Beirut with 7.8%, the North with 5.9%, and Nabatieh and the South with 3.9% each. Also, the agricultural sector accounted for 39.2% of the total number of guarantees in the covered period, followed by the industrial sector with 35.3%, the tourism sector with 19.6%, specialized technologies with 3.9% and the handicraft sector with 2%.

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.

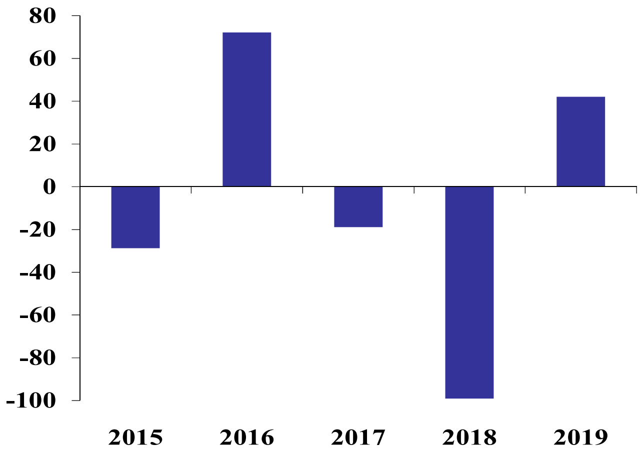
Solidere's consolidated net profits at $42m in first half of 2019

Solidere, the Lebanese Company for the Development and Reconstruction of Beirut Central District sal, announced consolidated audited net profits of $42.1m in the first half of 2019, compared to net losses of $99.1m in the same period of 2018.

The consolidated results include Solidere's standalone financials and those of its subsidiaries (the Group), which mainly include Solidere International Limited, and other subsidiaries such as Solidere Management Services sal, BCD Cinemas sal, Beirut Waterfront Development sal, and Beirut Hospitality Company Holding sal.

The Group posted consolidated revenues of $151m from land sales in the first half of 2019, while it did not generate revenues from land sales in the same period of 2018. Also, consolidated revenues from rented properties regressed by 7.8% annually to $27.2m, while receipts from services rendered declined by 1.9% year-on-year to $3.9m. Further, the Group did not generate any revenues from hospitality services in the first half of 2019, while it posted receipts of $1,302 from hospitality services in the same period of last year.

Earnings of Solidere Group* (US$m)



**first half of each year*
Source: Solidere, Byblos Research

In parallel, the Group's cost of revenues rose by 4.9 times to $80.8m in the first half of 2019, while its net operating income reached $101.5m in the covered period, compared to $17.1m in the first half of 2018. Also, general and administrative expenses of the Solidere Group dropped by 11.2% annually to $12.5m in the first six months of 2019. In addition, provisions for contingencies were unchanged year-on-year at $500,000 in the first half of 2019.

Further, Solidere stated that its consolidated assets reached $2.33bn at the end of June 2019 and decreased by 6.3% from $2.48bn at end-2018, with the inventory of land and projects in progress totaling $1.16bn. The firm's consolidated liabilities, including bank overdrafts, term bank loans and accounts payable, regressed by 28.2% from end-2018 to $501.5m at the end of June 2019. The Group's consolidated shareholders' equity was $1.83bn at the end of June 2019, up by 2.4% from $1.78bn at end-2018.

Solidere is Lebanon's fourth largest listed firm on the Beirut Stock Exchange in terms of market capitalization as at October 17, 2019. The prices of Solidere A closed at $5.45 per share as at October 17, 2019, down by 20.7% from $7 per share at end-2018, while Solidere B shares closed at $5.55 per share, down by 22.8% from $7.19 per share at the end of 2018.

S&P places three banks on CreditWatch negative

S&P Global Ratings placed the 'B-' long-term issuer credit ratings of Bank Audi sal, BLOM Bank sal and BankMed sal on CreditWatch with negative implications. Also, the agency placed the 'B' short-term issuer ratings of Bank Audi and BankMed on CreditWatch negative. The three financial institutions are the only Lebanese banks rated by S&P. The agency indicated that the rating action follows its earlier similar action on the Lebanese sovereign. It pointed out that the banks are exposed to domestic operating conditions despite their geographic diversification, given their elevated holdings of sovereign debt instruments.

In addition, S&P did not expect the measures included in the government's recent policy package to affect the bank's creditworthiness, as it considered that the immediate risks these measures could pose to the banks' profitability and capital position would be manageable at the current rating level. Further, it said that the pressure on the financial risk profiles of Lebanese banks is rising, mainly due to the tight liquidity in the local market and the potential for increased volatility in the banks' funding profile over the coming weeks. It noted that Lebanese banks benefit from a high surplus of liquidity from a wide resident and non-resident deposit base. But it pointed out that a part of these deposits is confidence-sensitive and that a share of the deposits has been utilized to finance the government's fiscal deficit. It added that deposit outflows during the first five months of 2019 were partly offset by Banque du Liban's financial operations in the summer to help banks attract non-resident funds. It said that the stability of deposits will depend on the customers' perception of sovereign creditworthiness and its impact on the banking sector.

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	CWN**	B-	B	CWN**
Capital Intelligence Ratings	B	B	Negative	B	B	Negative

*for downgrade

**CreditWatch negative

Source: Rating agencies

Banking Sector Ratings	Outlook
Moody's Investors Service	Stable

Source: Moody's Investors Service

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