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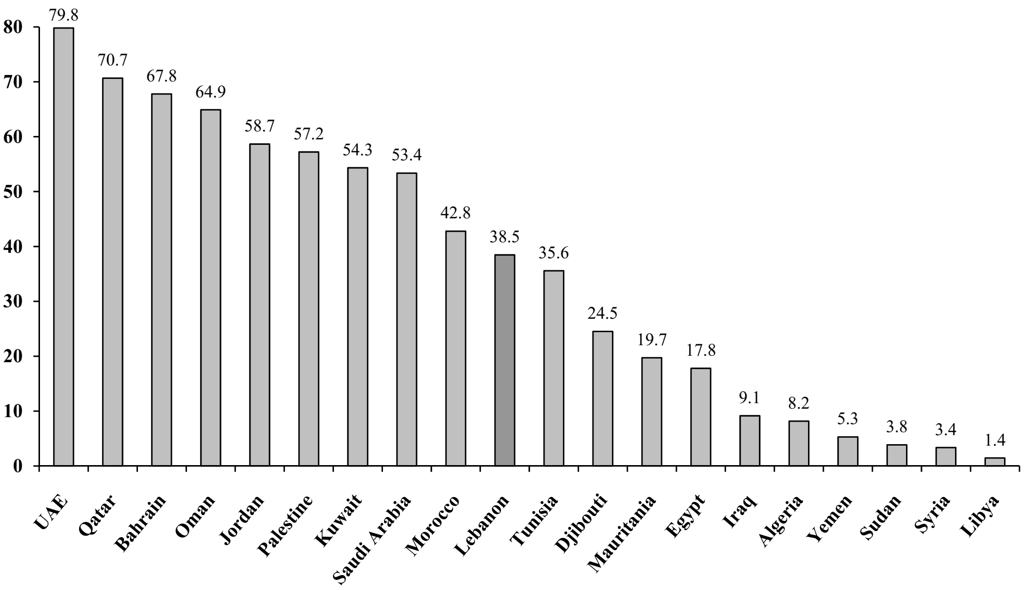
BYBLOS BANK SAL
Economic Research & Analysis Department

LEBANON THIS WEEK

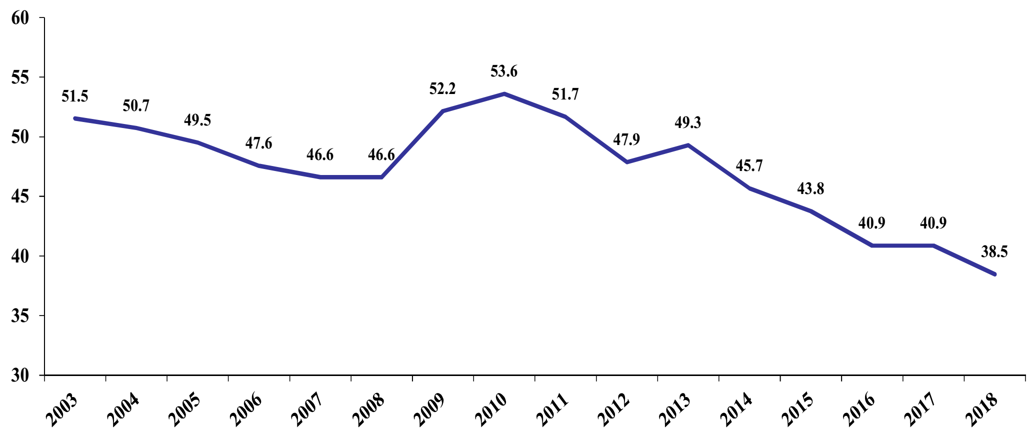
In This Issue

Charts of the Week

Percentile Rank of Arab Countries in terms of Regulatory Quality in 2018 (%)



Percentile Rank of Lebanon in terms of Regulatory Quality (%)



Source: World Bank Governance Indicators, Byblos Bank

Quote to Note

"It is extremely important that we have a credible government in office, which can launch ambitious bold reforms for economic stability, for more growth in the economy, for more jobs to be created, and to restore confidence."

Saroj Kumar Jha, Regional Director of the Mashreq Department at the World Bank, on the urgent need to form an effective Lebanese government

Number of the Week

90.3%: Percentage of Lebanese who believe that the increase in interest rates in Lebanon is due to the state's mismanagement of the public sector, according to an opinion poll conducted by the daily *An Nahar* in September 2019

Lebanon in the News

$m (unless otherwise mentioned)	2018	Jan-Aug 2018	Jan-Aug 2019	% Change*	Aug-18	Jul-19	Aug-19
Exports	2,952	1,986	2,464	24.11	229	365	375
Imports	19,980	13,718	13,839	0.88	1,820	2,196	1,504
Trade Balance	(17,028)	(11,733)	(11,374)	(3.05)	(1,591)	(1,831)	(1,129)
Balance of Payments	(4,823)	(1,165)	(4,397)	277.31	(408)	72	921
Checks Cleared in LBP	22,133	14,287	14,072	(1.50)	1,777	1,900	1,859
Checks Cleared in FC	44,436	29,828	23,332	(21.78)	3,662	3,170	2,980
Total Checks Cleared	66,569	44,115	37,404	(15.21)	5,439	5,070	4,839
Fiscal Deficit/Surplus**	(6,246)	(3,077)	(2,409)	(21.71)	(305)	10	-
Primary Balance**	(636)	68	577	748.53	6	268	-
Airport Passengers***	8,842,442	6,002,476	6,223,220	3.68	1,159,811	1,059,267	1,185,765
Consumer Price Index****	6.1	6.3	2.8	(350bps)	6.7	1.4	1.2

$bn (unless otherwise mentioned)	Dec-17	Aug-18	Dec-18	Jun-19	Jul-19	Aug-19	% Change*
BdL FX Reserves	35.81	33.92	32.51	29.75	31.06	30.60	(9.77)
In months of Imports	18.57	18.64	20.72	21.61	14.15	20.35	9.18
Public Debt	79.53	83.70	85.14	85.73	86.01	86.29	3.10
Bank Assets	219.86	238.46	249.48	255.98	259.18	261.90	9.83
Bank Deposits (Private Sector)	168.66	173.22	174.28	172.13	172.35	172.54	(0.39)
Bank Loans to Private Sector	59.69	59.40	59.39	56.00	55.30	55.16	(7.14)
Money Supply M2	52.51	53.21	50.96	49.11	48.91	48.52	(8.82)
Money Supply M3	138.62	141.04	141.29	139.93	140.34	140.40	(0.45)
LBP Lending Rate (%)	8.09	8.81	9.97	10.94	11.13	11.24	243bps
LBP Deposit Rate (%)	6.41	7.03	8.30	8.80	8.81	8.95	192bps
USD Lending Rate (%)	7.67	8.12	8.57	9.49	9.90	10.03	191bps
USD Deposit Rate (%)	3.89	4.20	5.15	5.84	6.01	6.20	200bps

**year-on-year **year-to-date figures reflect results for first seven months of each year ***includes arrivals, departures, transit ****year-on-year percentage change*
Note: bps i.e. basis points
Source: Association of Banks in Lebanon, Banque du Liban, Ministry of Finance, Central Administration of Statistics, Byblos Research

Capital Markets

Most Traded Stocks on BSE	Last Price ($)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "A"	5.04	6.11	61,409	6.72%
Solidere "B"	5.54	16.63	6,646	4.80%
HOLCIM	9.50	(4.81)	3,580	2.47%
Audi GDR	3.53	0.00	-	5.63%
BLOM GDR	6.07	0.00	-	5.98%
Audi Listed	3.50	0.00	-	18.67%
Byblos Common	1.09	0.00	-	8.22%
BLOM Listed	7.07	0.00	-	20.28%
Byblos Pref. 08	60.00	0.00	-	1.60%
Byblos Pref. 09	63.00	0.00	-	1.68%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Mar 2020	6.38	85.25	59.93
Apr 2021	8.25	71.25	35.81
Oct 2022	6.10	60.63	26.41
Jun 2025	6.25	56.38	19.37
Nov 2026	6.60	56.13	17.76
Feb 2030	6.65	56.05	15.24
Apr 2031	7.00	56.05	15.22
May 2033	8.20	61.03	15.01
Nov 2035	7.05	56.00	14.02
Mar 2037	7.25	56.88	13.88

Source: Byblos Bank Capital Markets

	Nov 4-8	Oct 28-Nov 1	% Change	October 2019	October 2018	% Change
Total shares traded	114,579	14,906	668.7	5,199,421	4,899,249	6.1
Total value traded	$1,406,624	$72,623	1,836.9	$34,989,893	$34,380,794	1.8
Market capitalization	$7.50bn	$7.42bn	0.96	$7.55bn	$9.75bn	(22.6)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Nov 1, 2019	Nov 8, 2019	% Change**
CDS 1-year*	3,075.30	3,760.6	22.3
CDS 3-year*	2,322.70	2,544.6	9.6
CDS 5-year*	1,793.10	1,968.3	9.8

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

CDX EM 30*	Nov 1, 2019	Nov 8, 2019	% Change***
CDS 5-year**	96.93	97.01	0.1

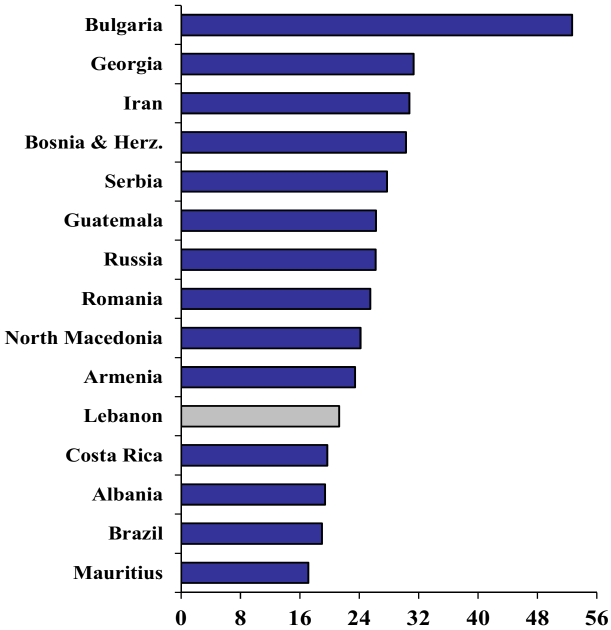
*Source: ICE CMA; * CDX Emerging Market CDS Index-Series 30 **mid-spread in bps ***week-on-week*

Lebanon has eighth highest branch penetration rate worldwide, 13th highest ATM penetration rate at end-2018

Figures issued by the International Monetary Fund show that there were 110.4 branches of commercial banks per 1,000 square kilometers in Lebanon at the end of 2018, compared to 109 branches per 1,000 square kilometers at end-2017, and to 89.3 branches per 1,000 square kilometers at end-2008. As such, Lebanon had the eighth highest branch penetration rate among 153 countries and jurisdictions worldwide for end-2018, the second highest penetration rate among 45 upper middle-income countries (UMICs) and the highest rate among 13 Arab countries. Globally, Lebanon had a lower penetration rate than only Macao, Hong Kong, Singapore, Malta and Luxembourg among economies with a GDP of $10bn or more; while it had the highest rate among UMICs with a GDP of $10bn or more. Lebanon's branch penetration rate at end-2018 was higher than the global rate of 85.6 branches per 1,000 square kilometers, and significantly higher than the UMICs' rate of 20.8 branches per 1,000 square kilometers, and the Arab countries' rate of 20.1 branches per 1,000 square kilometers.

Further, there were 21.3 bank branches per 100,000 adults in Lebanon at the end of 2018, nearly unchanged from end-2017, and compared to 25.7 branches per 100,000 adults at end-2008. As such, Lebanon had the 46th highest branch penetration rate globally, the 15th highest among UMICs and the third highest among Arab countries. Lebanon's branch penetration rate was higher than the global rate of 18.2 branches per 100,000 adults, the UMICs' penetration rate of 18 branches per 100,000 adults, and the Arab rate of 12 branches per 100,000 adults.

Branch Penetration Rate at end-2018*
(Number of branches per 100,000 adults)



**Top 15 upper middle-income countries, excluding economies with a GDP of less than $10bn*
Source: International Monetary Fund, Byblos Research

In parallel, there were 195.3 automated teller machines (ATMs) per 1,000 square kilometers in Lebanon at the end of 2018, constituting an increase of 5% from 186 ATMs per 1,000 square kilometers at end-2017, and compared to 111.4 ATMs per 1,000 square kilometers at end-2008. The ATM penetration rate in Lebanon ranks the country in 13th place among 152 countries and jurisdictions worldwide, in third place among 46 UMICs and in first place among 13 Arab countries. Globally, Lebanon had a higher ATM penetration rate than Switzerland, the Netherlands and Italy, and a lower rate than the United Kingdom, Luxembourg and Mauritius among economies with a GDP of $10bn or more. It also had a lower penetration rate than only Mauritius among UMICs with a GDP of $10bn or more. Lebanon's ATM penetration rate was lower than the global average penetration rate of 498.1 ATMs per 1,000 square kilometers, but was significantly higher than the UMICs' rate of 52.4 ATMs per 1,000 square kilometers and the Arab region's rate of 57 ATMs per 1,000 square kilometers.

Further, there were 37.7 ATMs per 100,000 adults in Lebanon at the end of 2018, up by 3.8% from 36.3 ATMs per 100,000 adults at end-2017, and compared to 32 ATMs per 100,000 adults at end-2008. The ATM penetration rate ranks Lebanon in 88th place globally, in 32nd place among UMICs and in fifth place among Arab countries. Lebanon had a lower penetration rate in this category than the global rate of 54.5 ATMs per 100,000 adults and the UMICs' average rate of 55.4 ATMs per 100,000 adults, while it had a higher rate than the Arab penetration rate of 36.2 ATMs per 100,000 adults.

Banque du Liban asks banks to strengthen core capital

Banque du Liban issued Intermediate Circular 532 dated November 4, 2019 that modifies Basic Circular 44 dated March 25, 1998 about the capital adequacy regulatory framework for commercial banks operating in Lebanon.

First, the circular asked banks to refrain from distributing dividends for financial year 2019. Second, the circular requested from banks to increase by 20% their Common Equity Tier One (CET1) as at the end of 2018. It specified that banks should meet the new requirements through cash contributions in US dollars. It noted that banks should raise their CET1 by 10% by the end of 2019 and by another 10% by the end of June 2020. The circular's two instructions aim to strengthen the banks' capital amid the challenging conditions in Lebanon.

The banks' aggregate CET1 stood at $18.7bn at the end of 2018, which means that banks should increase their capital by an aggregate of $3.7bn by the end of June 2020. Specifically, banks need to raise their CET1 by $1.9bn by the end of 2019 and by another $1.9bn by end-June 2020.

Term deposits account for 90% of customer deposits at end-September 2019

Figures issued by Banque du Liban about the distribution of bank deposits at commercial banks in Lebanon show that term deposits were the preferred type of account for resident and non-resident depositors in Lebanese pounds and in foreign currency at the end of September 2019.

Term deposits in all currencies reached $166.5bn at end-September 2019, constituting a marginal decrease of 0.5% from $167.3bn at end-2018 and an increase of 0.8% from $165.2bn at the end of September 2018. They accounted for 90.1% of total deposits in Lebanese pounds and in foreign currency at end-September 2019 relative to a share of 89.1% at end-2018.

Term deposits of the resident private sector denominated in foreign currency amounted to $82.5bn and accounted for 44.7% of total deposits at the end of September 2019. Term deposits in Lebanese pounds of the resident private sector followed with $38.2bn (20.7%), then term deposits of non-residents with $34.2bn (18.5%), term deposits of the non-resident financial sector with $7.4bn (4%), term deposits of the public sector in Lebanese pounds with $4bn (2.2%), and term deposits of the public sector in foreign currency with $241.4m (0.1%).

In parallel, demand deposits of the resident private sector in foreign currency amounted to $8.8bn and represented 4.7% of total deposits at the end of September 2019. Demand deposits of the resident private sector in Lebanese pounds followed with $4.2bn (2.3%), then demand deposits of non-residents with $2.5bn (1.3%), demand deposits of the non-resident financial sector with $2.3bn (1.2%), demand deposits in Lebanese pounds of the public sector with $334.4m (0.2%), and demand deposits in foreign currency of the public sector with $145.5m (0.1%).

Beirut and its suburbs accounted for 67.1% of private-sector deposits and for 46.9% of the number of depositors at the end of March 2019, the latest available figures. Mount Lebanon followed with 14.8% of deposits and 18.6% of beneficiaries, then South Lebanon with 7.1% of deposits and 13% of depositors, North Lebanon with 6.1% of deposits and 12.4% of beneficiaries, and the Bekaa with 4.9% of deposits and 9.1% of depositors.

Number of real estate transactions down 18% in first 10 months of 2019

Figures released by the Ministry of Finance indicate that 40,863 real estate transactions took place in the first 10 months of 2019, constituting a decrease of 17.7% from 49,652 deals in the same period of 2018. In comparison, there were 60,276 real estate transactions in the first 10 months of 2017 and 51,707 deals in the same period of 2016.

There were 7,602 real estate transactions in the Baabda area in the first 10 months of 2019, representing 18.6% of the total. The North followed with 6,402 deals (15.7%), then the South with 5,315 transactions and the Zahlé area with 5,282 deals (13% each), the Metn district with 4,545 transactions (11.1%), the Keserwan region with 3,849 deals (9.4%), the Nabatieh area with 3,547 transactions (8.7%), and Beirut with 3,048 deals (7.5%).

Also, the aggregate amount of real estate transactions reached $5.2bn in the first 10 months of 2019 and decreased by 20.7% from $6.6bn in the same period of 2018. In comparison, the amount of real estate deals regressed by 19% in the first 10 months of 2018 and grew by 21.2% in the same period of 2017. Further, the value of real estate transactions in Beirut totaled $1.7bn and accounted for 31.7% of the total in the first 10 months of 2019. The Baabda region followed with $952.5m (18.2%), then the Metn district with $944.6m (18%), the Keserwan area with $507.2m (9.7%), the South with $445m (8.5%), the North with $340.2m (6.5%), the Zahlé area with $187.2m (3.6%), and the Nabatieh region with $157.5m (3%).

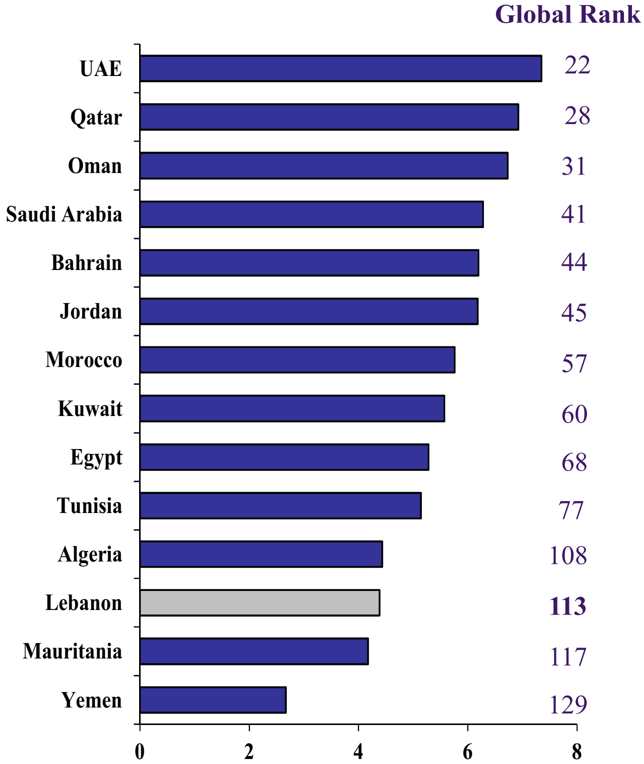
In parallel, the average amount per real estate transaction was $128,310 in the first 10 months of 2019, down by 3.6% from an average of $133,108 in the same period of 2018 and relative to an average of $135,289 in the first 10 months of 2017. Further, there were 836 real estate transactions executed by foreigners in the first 10 months of 2019, constituting a decline of 12.2% from 952 deals in the same period of 2018 and compared to 1,087 transactions in the first 10 months of 2017. The number of real estate deals executed by foreigners accounted for 2% of total real estate transactions in the first 10 months of 2019, relative to 1.9% in the same period of 2018 and to 1.8% of deals in the first 10 months of 2017.

Further, 25.2% of real estate transactions executed by foreigners in the covered period were in the Baabda district, followed by Beirut (17.8%), the South (16.7%), the Metn region (12.3%), the North (9.8%), the Keserwan region (8.5%), the Zahlé area (8.1%), and the Nabatieh region (1.4%). Also, Syrian citizens accounted for 18.7% of the total amount of real estate transactions executed by foreigners in October 2019, followed by Saudi nationals (7.4%), Kuwaiti citizens (7.1%), as well as French nationals and UAE citizens (2.3% each).

Lebanon ranks 113th globally, 12th among Arab countries in terms of property rights

The Property Rights Alliance ranked Lebanon in 113th place among 129 countries around the world and in 12th place among 14 Arab countries on its 2019 International Property Rights Index. Lebanon also came in 35th place among 36 upper middle-income countries (UMICs) included in the survey. Based on the same set of countries in the 2018 and 2019 surveys, Lebanon's rank regressed by two spots from 108th place in 2018 to 110th place in 2019, constituting the 27th steepest deterioration globally.

International Property Rights Index 2019
Arab Countries Scores & Rankings



Source: Property Rights Alliance, Byblos Research

The index measures the strength and protection of physical and intellectual property rights in a given country. It is a composite of 10 factors grouped into three equally weighted sub-indices that are the Legal & Political Environment Sub-Index, the Physical Property Rights Sub-Index and the Intellectual Property Rights Sub-Index. The index rates the property rights level of each country on a scale from zero to 10, with a score of 10 reflecting the highest level of property rights.

Globally, Lebanon has a stronger level of property rights than Nicaragua, Cameroon and Moldova, while it has a weaker level of property rights than Bosnia & Herzegovina, Ethiopia and Mozambique among economies with a GDP of $10bn or more. Lebanon received a score of 4.4 points, up by 1% from the 2018 Index. Lebanon's score in 2019 came below the global average of 5.7 points, the Arab average of 5.5 points and the UMICs' average of 5.2 points. Finland has the highest property rights level worldwide, while Yemen has the lowest level globally.

In parallel, Lebanon ranked ahead of Nepal, North Macedonia and the Philippines, while it came behind Turkey, Spain and India globally on the Physical Property Rights Sub-Index. This component examines the quality of the judicial protection of private property, the complexity of registering a property, and the ease of access to loans. Lebanon ranked ahead of North Macedonia and behind Turkey among UMICs.

Also, Lebanon came ahead of Zimbabwe, Albania and Armenia, and behind Ethiopia, Bosnia & Herzegovina and North Macedonia globally on the Intellectual Property Rights Sub-Index. This category examines the level of protection of intellectual property, the strength of a country's patent laws, and the prevailing piracy rates. Lebanon came ahead of only Albania, Armenia, Georgia and Venezuela among UMICs, and ahead of only Yemen regionally.

Further, Lebanon ranked ahead of Zimbabwe, Ukraine and Nigeria, and behind Mali, Mozambique and Cameroon globally on the Legal & Political Environment Sub-Index. This category examines the judiciary's independence from the influence of political and business groups, the extent that residents have confidence in and abide by the rules of society, the stability of the political system, and the control of corruption.

Components of the 2019 International Property Rights Index for Lebanon

	Global Rank	Arab Rank	UMICs Rank	Lebanon Score	Global Average	Arab Average	UMICs Average
Physical Property Rights	57	9	13	6.6	6.5	6.7	6.4
Intellectual Property Rights	120	13	32	3.5	5.6	5.1	4.8
Legal and Political Environment	118	13	35	3.1	5.2	4.8	4.4

Source: Property Rights Alliance, Byblos Research

Number of new construction permits down 14% in first nine months of 2019

The Orders of Engineers & Architects of Beirut and of Tripoli issued 8,927 new construction permits in the first nine months of 2019, constituting a decline of 13.8% from 10,354 permits issued in the same period of 2018. In comparison, new construction permits decreased by 13.3% year-on-year in the first nine months of 2018. Mount Lebanon accounted for 34.4% of newly-issued construction permits in the covered period, followed by the South with 21.4%, the North with 14%, the Nabatieh area with 13%, the Bekaa region with 9.7%, and Beirut with 6%. The remaining 1.6% were permits issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon.

Further, the surface area of granted construction permits reached 5,072,442 square meters (sqm) in the first nine months of 2019, constituting a decrease of 27.4% from 6,987,681 sqm in the same period of 2018. In comparison, the surface area of granted construction permits regressed by 23% annually in the first nine months of 2018. Mount Lebanon accounted for 1,763,815 sqm, or 34.8% of the total, in the covered period. The South followed with 958,513 sqm (19%), then the North with 922,394 sqm (18.2%), the Bekaa region with 494,931 sqm (9.4%), the Nabatieh area with 428,232 sqm (8.4%), and Beirut with 352,640 sqm (7%). The remaining 151,917 sqm, or 3% of the total, represent the surface area of permits that were issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon.

The surface area of new construction permits issued for the Mount Lebanon region dropped by 36.5% year-on-year in the first nine months of 2019, followed by surface areas in the Nabatieh region (-31.2%), the Bekaa (-28.2%), the North (-21.5%), and the South (-16%); while surface areas in regions located outside northern Lebanon decreased by 49.3%. In contrast, the surface area of granted construction permits in Beirut increased by 23.8% year-on-year in the first nine months of the year. In parallel, cement deliveries totaled 2.24 million tons in the first eight months of 2019, constituting a decline of 29.8% from 3.2 million tons in the same period of 2018, and relative to a decrease of 4.7% in the first eight months of 2018.

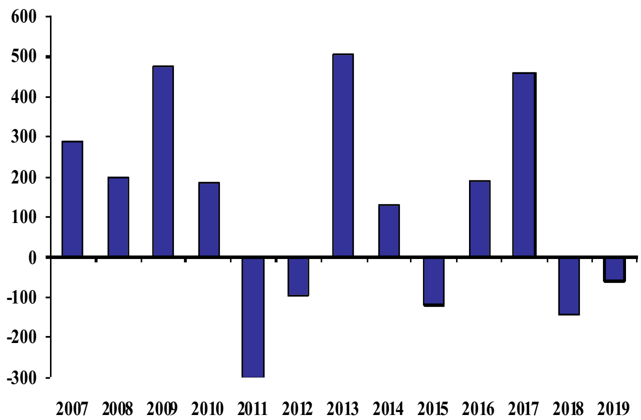
Net foreign assets of financial sector down by $59m in September 2019

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, regressed by $58.5m in September 2019, compared to a rise of $921.5m in August 2019 and to a decrease of $146.1m in September 2018.

The month-on-month decline in September 2019 was caused by a decrease of $160m in the net foreign assets of BdL, which was partly offset by an increase of $101.6m in those of banks and financial institutions.

In parallel, the net foreign assets of the financial sector declined by $4.46bn in the first nine months of 2019 compared to a decrease of $1.3bn in the same period of 2018. The cumulative deficit in the first nine months of 2019 was caused by a drop of $1.16bn in the net foreign assets of BdL and by a decline of $3.3bn in those of banks and financial institutions.

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



Source: Banque du Liban

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.

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.

Industrial exports up 4% to $1.5bn in first seven months of 2019

Figures released by the Ministry of Industry show that industrial exports totaled $1.53bn in the first seven months of 2019, constituting an increase of 4.3% from $1.46bn in the same period of 2018. Industrial exports reached $227.6m in July 2019, growing by 40.2% from $162.3m in June 2019 and by 14.6% from $198.5m in July 2018. Exports of machinery & mechanical appliances amounted to $297.5m and accounted for 19.5% of aggregate industrial exports in the first seven months of 2019, followed by chemical products with $281m (18.4%), prepared foodstuffs & tobacco with $238.3m (15.6%), base metals with $201.5m (13.2%), plastics & rubber with $103.4m (6.8%), and pearls or semi-precious stones with $95.3m (6.2%). Arab countries were the destination of 53.5% of Lebanese industrial exports in the first seven months of 2019, followed by European economies with 19.8%, African countries with 10.5%, Asian economies with 10.1%, countries in the Americas with 4.7%, 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% of the total in the covered period, followed by Saudi Arabia with 9%, Iraq with 7.8%, Syria with 7.5%, Qatar with 4.6%, and France with 4%. In July 2019, 13 Arab states, nine European economies, six African countries, five Asian economies, two countries in the Americas, and one economy in Oceania imported $1m or more each of Lebanese industrial products.

In parallel, imports of industrial equipment and machinery reached $123.2m in the first seven months of 2019, constituting a decline of 27.2% from $169.3m in the same period of 2018. Italy was the main source of such imports and accounted for 24% of the total in the first seven months of 2019, followed by China with 19% and Germany with 12.2%. Further, imports of industrial equipment and machinery amounted to $19.5m in July 2019, up by 30.7% from $15m in June 2019 and by 6.8% from $18.3m in July 2018. China was the main source of such imports with $4.3m and accounted for 22% of the total in the covered month, followed by Italy with $3.1m (15.7%), and Austria with $2.9m (14.9%).

Agencies take rating actions on the sovereign

Moody's Investors Service downgraded Lebanon's issuer ratings from 'Caa1' to 'Caa2', and kept the ratings on review for downgrade. Also, it lowered the country's long-term foreign currency bond ceiling from 'B2' to 'Caa1', its long-term foreign currency deposit ceiling from 'Caa1' to 'Caa3', and the country's long-term local currency bond and deposit ceilings from 'Ba3' to 'B2'. Further, the agency downgraded Lebanon's senior unsecured Medium-Term Note Program rating from (P)Caa1 to (P)Caa2.

The agency indicated that social considerations, such as sectarian fragmentation that leads to regular protracted negotiations between political parties as well as to government stalemates, are one of the key credit drivers for the sovereign downgrade. It added that sectarian fragmentation negatively impacts governance, which is partially alleviated by Banque du Liban's (BdL) non-partisan policy focus, including on behalf of the government, which provides key credit support for Lebanon's institutional strength. It considered that widespread social protests, the resignation of the government and the decline in investor confidence have affected Lebanon's traditional funding model that is based on capital inflows and growth in bank deposits. It noted that BdL's holdings of government securities imply that Lebanon has options for debt management in the near-term.

It expected economic growth to stagnate or to shift to a contraction this year in the absence of a rapid and significant policy change, amid a deteriorating balance of payments. It pointed out that the recent resignation of the government has reduced the likelihood of the passage of the 2020 budget within the constitutional deadline and the implementation of the agreed reforms, which are necessary to unlock CEDRE-related funds and/or secure financial support from Gulf Cooperation Council countries. It added that bilateral or multilateral external funding is essential to ease immediate liquidity risks and allow the economy to recover over the long term.

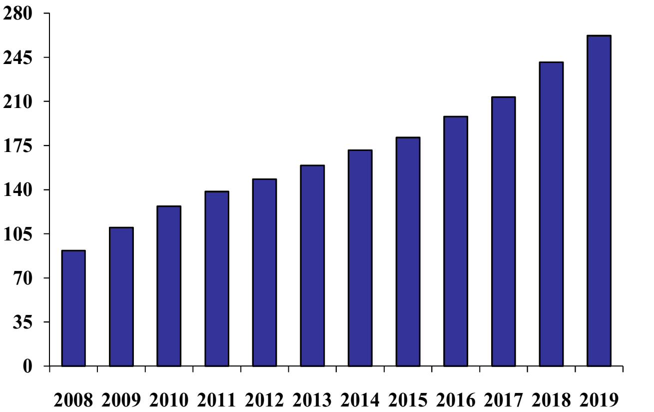
The agency indicated that the review period will allow it to assess Lebanon's capacity to manage Eurobond maturities this year and early next year. It estimated that BdL has usable foreign currency buffers that it could use to service the government's forthcoming external debt payments, even in the absence of new net inflows. It said that it will also review the authorities' progress in restoring the stability that is necessary to implement the needed reforms that would unlock external financial support and stabilize deposit inflows, which would ease liquidity pressures and potentially restore confidence.

In parallel, Capital Intelligence Ratings affirmed Lebanon's short-term foreign currency rating and short-term local currency rating at 'B', while it lowered the sovereign's long-term foreign currency rating and long-term local currency rating from 'B' to 'B-'. It kept the outlook for the ratings at 'negative'.

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

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets stood at $262.2bn at the end of September 2019, constituting an increase of 5.1% from $249.5bn at the end of 2018 and an expansion of 8.7% from $241.1bn at end-September 2018. Loans extended to the private sector reached $54.5bn at the end of September 2019, regressing by 8.2% from end-2018 and by 8.3% from a year earlier. Loans to the resident private sector totaled $47.8bn, constituting a decrease of 8.5% from the end of 2018 and of 9.2% from end-September 2018. Also, credit to the non-resident private sector reached $6.7bn at end-September 2019, declining by 6.3% from end-2018 and by 1.4% from a year earlier. In nominal terms, credit to the private sector regressed by $4.9bn in the first nine months of 2019 relative to a decrease of $263.3m in the same period of 2018, as lending to the resident private sector contracted by $4.4bn and credit to the non-resident private sector regressed by $451.2m in the covered period. The dollarization rate of private sector loans rose from 67.7% at end-September 2018 to 70.3% at end-September 2019.

Total Assets of Banking Sector* (US$bn)



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

In addition, claims on non-resident financial institutions reached $9bn at the end of September 2019 and declined by $3bn, or 25.1%, from the end of 2018, and by $1.36bn, or 13.1%, from the end of September 2018. Also, claims on the public sector stood at $31.7bn at end-September 2019, down by 5.8% from end-2018. The average lending rate in Lebanese pounds was 10.92% in September 2019 compared to 9.31% a year earlier, while the same rate in US dollars was 10.26% relative to 8.11% in September 2018. Further, the deposits of commercial banks at Banque du Liban totaled $152.7bn at the end of September 2019, constituting an increase of 23.2% from $123.9bn a year earlier.

In parallel, total private sector deposits reached $170.3bn at the end of September 2019. They decreased by 2.3% from the end of 2018 and by 2.1% from end-September 2018. Deposits in Lebanese pounds reached the equivalent of $46.2bn at end-September 2019, down by 9.9% from end-2018 and by 14% from a year earlier; while deposits in foreign currency totaled $124.1bn, as they rose by $1.1bn, or 0.9%, from end-2018 and grew by $3.9bn, or 3.2%, from $120.3bn a year earlier. Resident deposits totaled $133.7bn at the end of September 2019, decreasing by $3.2bn, or 2.4% from end-September 2018. Also, non-resident deposits reached $36.6bn at end-September 2019, as they regressed by $1.1bn or 2.9% from end-2018, and by $403.7m or 1.1% from a year earlier. In nominal terms, private sector deposits declined by $2.18bn in January, by $133m in February, by $1.86bn in May and by $2.24bn in September, 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 $4bn in the first nine months of 2019 relative to an increase of $5.27bn in the same period of 2018, with deposits in Lebanese pounds dropping by $5.04bn and foreign-currency deposits growing by $1.06bn. The dollarization rate of private sector deposits was 72.9% at end-September 2019, up from 70.6% at the end of 2018, and compared to 69.1% a year earlier.

In parallel, deposits of non-resident financial institutions reached $9.7bn at the end of September 2019 and increased by 14.2% from end-September 2018. Further, the average deposit rate in Lebanese pounds was 9.13% in September 2019 compared to 7.39% a year earlier, while the same rate in US dollars was 6.57% relative to 4.36% in September 2018. The ratio of private sector loans to deposits in foreign currency stood at 30.8% at the end of September 2019 compared to 33.4% a year earlier, well below Banque du Liban's limit of 70%. The same ratio in Lebanese pounds reached 35.1% at end-September 2019, relative to 35.8% at the end of September 2018. As such, the total private sector loans-to-deposits ratio reached 32% compared to 34.2% at end-September 2018. The banks' aggregate capital base stood at $20.6bn at end-September 2019, up by 2.7% from $20.1bn a year earlier.

ALIG Insurance's net income at $3m in 2018

ALIG Insurance sal declared net profits of $3.2m in 2018 compared to net losses of $3m in 2017. The firm's audited balance sheet shows aggregate assets of $45m at end-2018, down by 10.2% from $50.1m at end-2017. On the assets side, general company investments totaled $13.6m and increased by 8% from end-2017. They included $5.7m in cash & cash equivalents and $2.6m in variable income investments. Also, the firm blocked $5.1m as bank deposits and deposits with maturity of more than three months, of which $5m, or 98%, were blocked in favor of the Ministry of Economy & Trade as guarantees. Further, the reinsurance's share in technical reserves for non-life categories amounted to $10.5m, constituting a decrease of 24.7% from $14m at the end of 2017.

On the liabilities side, technical reserves for the non-life category reached $27.2m at end-2018 and regressed by 26% from $36.7m a year earlier. Non-life technical reserves included reserves outstanding claims of $13.5m that decreased by 29.2%, reserves on unearned premiums of $10m that decreased by 22.1%, and $2.1m in reserves incurred but not reported that regressed by 18.2% year-on-year. Provisions for risks and charges reached $645,830 at the end of 2018 and increased by 5.2% from a year earlier. Also, shareholders' equity was $7.4m at end-2018, up by 91.4% from the end of 2017.

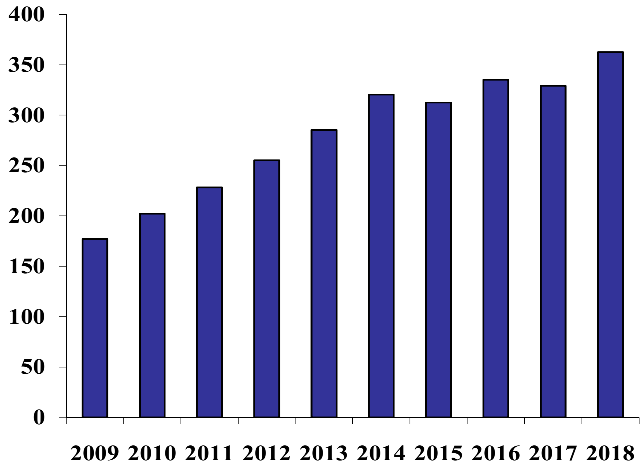
Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked ALIG Insurance in 16th place in 2018 in terms of non-life premiums. The firm's non-life premiums reached $22.3m in 2018, down by 22.6% from 2017. The firm had a 1.9% share of the local non-life market, and is not active in the life insurance branch.

Net profits of health insurance segment down 46% to $13m in 2018, claims up 10% to $363m

Figures released by the Insurance Control Commission show that the aggregate net profits of the health insurance branch in Lebanon reached $12.7m in 2018, constituting a decline of 46% from $23.5m in 2017. The medical insurance segment posted a net profit margin of 1.7% in 2018 compared to 3.3% in 2017, and relative to a profit margin of 11% for the insurance sector. A total of 36 insurers covered 929,299 persons through various medical plans in 2018.

Also, gross written premiums from the health insurance branch increased by 5.3% to $504m in 2018, and accounted for 30.8% of the insurance sector's aggregate premiums and for 45.2% of non-life premiums. The "group" health segment's written premiums reached $280.2m and accounted for 55.6% of the medical branch's aggregate premiums, while those of the "individual" health segment totaled $223.6m and accounted for 44.4% of the total. The medical insurance market is heavily concentrated, as the top five companies in the "group" health segment underwrote 60.7% of premiums for groups, while the top five insurers in the "individual" health segment underwrote 54.1% of health premiums for individuals in 2018. MEDGULF led all insurers with $58m in medical premiums in 2018 and accounted for 11.5% of the branch's aggregate premiums, followed by Bankers Assurance with $57m (11.3%), GroupMed with $49.3m (9.8%), Allianz SNA with $47.4m and AXA Middle East with $47.1m (9.4% each).

Paid Health Insurance Claims (US$m)



Source: Insurance Control Commission, Byblos Research

Further, the claims paid by the providers of health insurance totaled $362.6m in 2018, constituting a rise of 10.2% from $329.1m in 2017. Gross claims paid from the "group" segment reached $235.3m and accounted for 65% of aggregate health claims in 2018, while those of the "individual" line amounted to $127.3m and represented 35% of the total last year. The sector paid 1.16 million claims in 2018, constituting a decline of 22% from 1.48 million claims in 2017.

In parallel, the loss ratio, or the ratio of claims incurred to earned gross premiums, of the "individual" health segment was 62.3% in 2018, and the commission ratio, or the ratio of acquisition cost to earned gross premiums, reached 18.2%. The expense ratio, or the ratio of other general expenses to earned gross premiums, was 14%, and the reinsurance ratio, or the ratio of net reinsurance income to earned gross premiums, reached 1.8% in 2018. As such, the average technical combined loss ratio, which is the aggregate of the above four ratios, reached 96.1% in 2018 relative to 91.4% in 2017. Further, the loss ratio of the "group" medical insurance segment was 88.8% in 2018, the commission ratio reached 5.7%, the expense ratio was 11.6%, and the reinsurance ratio reached -2.2% in 2018. As such, the average combined loss ratio of the "group" medical insurance segment reached 104% in 2018 compared to 103.8% in 2017.

Total installed surface area of Solar Water Heaters exceeds 608,000 square meters

The Lebanese Center for Energy Conservation (LCEC) indicated that the total installed surface area of Solar Water Heaters (SWHs) in Lebanon exceeded 608,000 square meters (sqm) at the end of 2017. It added that 434,541 sqm were installed between 2010 and 2017, representing 85,060 systems and an overall investment of $153.7m. It noted that more than 390,000 sqm were installed following Banque du Liban's (BdL) launch of the national financing mechanism for solar water heaters in 2010. It said that the mechanism consists of low interest rates on loans for all SWH systems and a $200 subsidy for specific systems included on the LCEC list of companies with qualified SWH systems. It indicated that 16% of the installed SWHs systems were financed through the SWHs mechanism, while 84% of systems were finances from private sources. In addition, it noted that Mount Lebanon had a share of 33.2% of the market for qualified SWH companies, followed by the North with 26.2%, Nabatieh with 15%, the Bekaa with 10%, Beirut with 8% and the South with 7.7%.

Further, the LCEC indicated that the number of loans for SWHs declined in 2016 and 2017, as this technology proved to be profitable even without financial incentives. Also, it attributed the decline in 2017 to the changes made by BdL to the subsidy scheme for all types of loans during this year. It noted that the installed SWHs' capacity has surpassed the annual targeted capacity until 2016, while the installed capacity was 4,500 sqm lower than the targeted capacity for 2017. It expected the surface area of installed capacity to continue to miss the government's target for the 2018-20 period, mainly due to market saturation and as real estate developers lack the incentive to install SWHs in new projects.

Further, it said that 25% of components in SWH systems are manufactured in Lebanon, while 44% are imported from China, 17% come from Germany, and 9% are sourced from Turkey. It added that Vacuum Tubes (VT) and flat plates are the prevailing SWH technologies used in Lebanon, with VTs representing 65% of the market, as they use less space and can heat a larger quantity of water in the same surface area.

The LCEC pointed out that the government's target for the installed surface of SWHs is 1,054,000 sqm by 2020. It said that the SWHs financing mechanism supports the government's plan to increase the share of renewable energy to 12% of the projected total electricity and heating demand in Lebanon by 2020.

Lebanon & Gulf Bank's net earnings at $23m in first half of 2019

Lebanon & Gulf Bank (LGB) sal, one of Lebanon's top 16 banks in terms of deposits, announced unaudited consolidated net profits of $22.8m in the first half of 2019, constituting an increase of 69.7% from net earnings of $13.5m in the first half of 2018. Net operating income grew by 37% year-on-year to $45.3m in the first half of 2019, despite net interest income decreasing by 19% to $21.2m and net fee income declining by 4.8% to $4.3m. The increase in the bank's net operating income is mainly due to a shift from net losses of $1m on financial investments in the first half of 2018 to net gains of $18.7m in the first half of 2019. Non-interest income accounted for 55% of total income in the first half of 2019, up from 19.8% in the same period last year; with net fee income representing 16.6% of non-interest earnings relative to 70.3% in the first half of 2018. Further, the bank's interest margin was 0.73% in the first half of 2019 compared to 1.07% in the same period of 2018; while its spread reached 0.71% in the covered period relative to 1.05% in the first half of 2018. Total operating expenditures grew by 5% year-on-year to $19m in the first half of 2019, with staff expenses increasing by 2.3% to $11m, and administrative & other operating expenditures rising by 6% to $6.4m in the covered period. Also, the bank's return on average assets was 0.76% in June 2019 on an annualized basis relative to 0.54% a year earlier, while its return on average equity reached 10.4% in June 2019 on an annualized basis compared to 6.98% in June 2018. The bank's cost-to-income ratio was 40.3% in the first half of 2019, down from 55.5% in the same period last year.

In parallel, total assets reached $6.4bn at end-June 2019 and increased by 15% from end-2018, while loans & advances to customers, excluding those to related parties, declined by 3.6% from end-2018 to $1.3bn. Also, customer deposits, excluding those from related parties, totaled $4.5bn at end-June 2019 and grew by 5.5% from end-2018. The loans-to-deposits ratio stood at 28% at end-June 2019 compared to 30.7% at end-2018. Further, the bank's shareholders' equity reached $449.5m at end-June 2019, up by 4.4% from end-2018.

Agencies take rating actions on banks

Moody's Investors Service downgraded the long-term local currency deposit ratings of Bank Audi, BLOM Bank and Byblos Bank from 'Caa1' to 'Caa2'. It also downgraded the three banks' long-term foreign currency deposit ratings from 'Caa1' to 'Caa3', their baseline credit assessments (BCA) and adjusted BCAs from 'caa1' to 'caa2', the banks' long-term Counterparty Risk Ratings (CRR) from 'B3' to 'Caa1', their Counterparty Risk Assessments from 'B3(cr)' to 'Caa1(cr)', the banks' National Scale Deposit Ratings from 'Baa3.lb/LB-3' to 'B1.lb/LB-4', and their national scale CRR from 'A3.lb/LB-2' to 'Baa3.lb/LB-3'. In addition, it downgraded BLOM Bank's long-term foreign currency deposit certificates from 'Caa1' to 'Caa2'. It maintained all the banks' ratings on review for further downgrade.

The agency attributed its downgrade of the banks' ratings to its earlier downgrade of the Lebanese sovereign. It noted that the banks have high exposure to the sovereign through holdings of government securities and placements at Banque du Liban. It said that the banks' holdings of sovereign instruments expose them to liquidity and interest rate risks, given that their long-term maturities create a mismatch with the shorter maturities of customer deposits. In addition, it noted that the downgrade reflects strained systemic funding and liquidity conditions amid increased political uncertainty, as well as a deterioration in the operating environment. It pointed out that the prevailing uncertainties increase the risk of deposit outflows or deposit conversions to US dollars. It added that the current political situation and protests could result in a period of limited new deposit inflows and higher rates. Moody's indicated that it could affirm the banks' ratings at current levels if the sovereign's risk profile improves, and in case of renewed deposit inflows and an improvement in confidence.

In parallel, Capital Intelligence Ratings affirmed at 'B' the short-term foreign currency rating of BLOM Bank, Byblos Bank, Bank Audi, Crédit Libanais and Fransabank; while it lowered the banks' long-term foreign currency Rating from 'B' to 'B-'. It attributed the downgrade to its similar action of the sovereign ratings.

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	Caa2	NP	Under Review*	Caa2		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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