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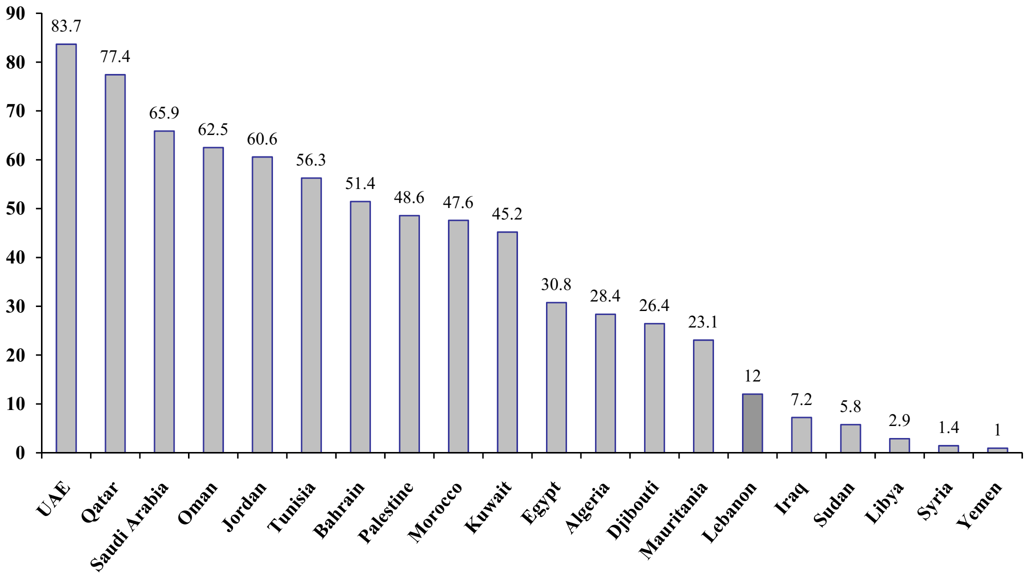
LEBANON THIS WEEK

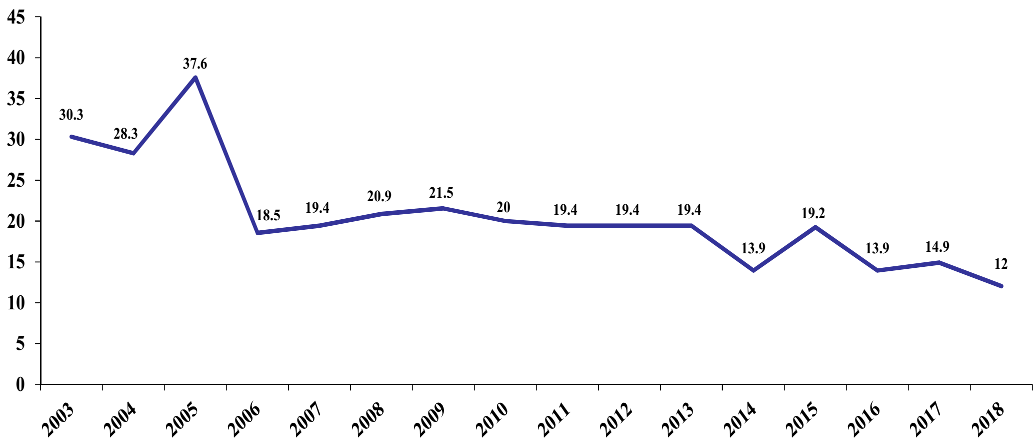
In This Issue

Charts of the Week

Percentile Rank of Arab Countries in terms of Control of Corruption in 2018 (%)



Percentile Rank of Lebanon in terms of Control of Corruption (%)



Source: World Bank Governance Indicators, Byblos Bank

Quote to Note

"It is essential that the authorities prioritize urgent measures to maintain the country's monetary, financial and economic stability as well as to put the necessary reforms, good governance, end to corruption and accountability without impunity on the right and fast track in a transparent manner."

Ján Kubiš, the United Nations' Special Coordinator for Lebanon, on the urgent need for Lebanese authorities to take measures in support of the Lebanese economy

Number of the Week

57: Lebanon's rank out of 129 countries in terms of physical property rights, according to the Property Rights Alliance's International Property Rights Index for 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"	5.25	4.17	39,000	7.01%
Solidere "B"	5.07	(8.48)	10,953	4.40%
HOLCIM	9.50	0.00	-	2.48%
Audi GDR	3.53	0.00	-	5.64%
BLOM GDR	6.07	0.00	-	5.99%
Audi Listed	3.50	0.00	-	18.69%
Byblos Common	1.09	0.00	-	8.23%
BLOM Listed	7.07	0.00	-	20.31%
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	83.00	73.03
Apr 2021	8.25	64.00	45.76
Oct 2022	6.10	53.50	32.02
Jun 2025	6.25	49.50	22.65
Nov 2026	6.60	49.50	20.46
Feb 2030	6.65	49.50	17.34
Apr 2031	7.00	49.50	17.26
May 2033	8.20	54.18	16.93
Nov 2035	7.05	49.50	15.80
Mar 2037	7.25	49.50	15.87

Source: Byblos Bank Capital Markets, Refinitiv

	Nov 11-15	Nov 4-8	% Change	October 2019	October 2018	% Change
Total shares traded	49,953	114,579	(56.4)	5,199,421	4,899,249	6.1
Total value traded	$259,043	$1,406,624	(81.6)	$34,989,893	$34,380,794	1.8
Market capitalization	$7.49bn	$7.50bn	(0.13)	$7.55bn	$9.75bn	(22.6)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Nov 8, 2019	Nov 15, 2019	% Change**
CDS 1-year*	3,760.6	5,087.6	35.3
CDS 3-year*	2,544.6	3,258.9	28.1
CDS 5-year*	1,968.3	2,494.6	26.7

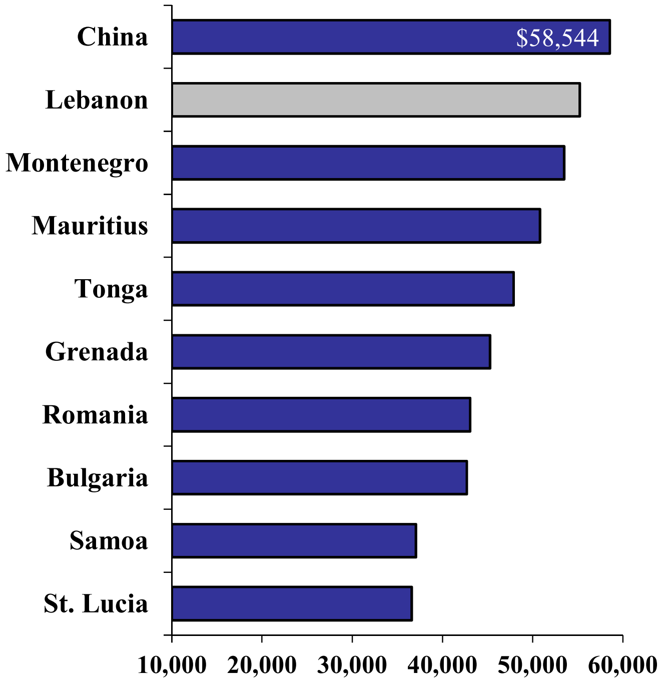
*Source: ICE CMA; *mid-spread in bps **week-on-week*

CDX EM 30*	Nov 8, 2019	Nov 15, 2019	% Change***
CDS 5-year**	97.01	96.79	(0.2)

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

Lebanon's net wealth per adult at $55,226 at end-June 2019

Net Wealth Per Adult in Top 10 UMICs (US$)



Source: Credit Suisse, Byblos Research

Global investment bank Credit Suisse estimated the net wealth per adult in Lebanon at $55,226 at the end of June 2019, the highest value on record and constituting an increase of 3.5% from $53,364 at end-June 2018. Lebanon's net wealth per adult is the 49th highest among 171 countries globally, the second highest among 50 upper middle-income countries (UMICs), and the sixth highest among 19 Arab countries at end-June 2019. Credit Suisse defines the net wealth per adult as the sum of a person's marketable value of financial and non-financial assets, less aggregate personal debt, with non-financial assets consisting mainly of real estate holdings. It provided annual data for the period between 2000 and 2017, and semi-annual figures for 2018 and 2019.

Globally, the net wealth per adult in Lebanon is higher than the wealth per adult in Montenegro ($53,484), Mauritius ($50,796) and Lithuania ($50,254), and lower than it is in Poland ($57,873), the Seychelles ($57,835), and Chile ($56,972). Regionally, the net wealth per adult in Lebanon is lower than the wealth per adult in Qatar ($147,745), Kuwait ($131,269), the UAE ($117,060), Bahrain ($87,108), and Saudi Arabia ($67,032).

The value of financial assets per adult in Lebanon stood at $12,984 at the end of June 2019, down by 1.9% from $13,238 a year earlier and compared to a peak of $13,338 at the end of 2017. Lebanon's financial wealth per adult was the 66th highest globally at end-June 2019, the 13th highest among UMICs, and the eighth highest among Arab countries. The value of financial assets per adult in Lebanon was higher than in Gabon ($12,032), Botswana ($10,756), and Russia ($10,569), and lower than in Costa Rica ($13,514), Brazil ($13,465), and Grenada ($13,367) worldwide and among UMICs. Regionally, it was lower than the financial wealth per adult in Kuwait ($110,409), Qatar ($104,852), the UAE ($77,393), Bahrain ($53,937), Saudi Arabia ($40,247), Oman ($19,994), and Jordan ($16,090).

Also, the value of non-financial assets per adult in Lebanon reached a peak of $49,764 at the end of June 2019, up by 6.1% from $46,921 a year earlier. Lebanon's non-financial assets per adult were the 39th highest globally, the highest among UMICs and the third highest among Arab countries at end-June 2019. Globally, they were higher than the non-financial assets per adult in Bahrain ($47,313), Tonga ($47,004), and Croatia ($46,996), and lower than in Estonia ($55,273), the Bahamas ($51,744), and Aruba ($51,708). Regionally, the value of non-financial assets per adult in Lebanon was lower than in the Qatar ($68,559) and the UAE ($60,925).

Further, the debt per adult in Lebanon reached a peak of $7,522 at the end of June 2019, up by 10.7% from $6,794 a year earlier. It was the 48th highest globally, the third highest among UMICs and the sixth highest among Arab countries at end-June 2019. Globally, it was higher than the debt per adult in Oman ($7,012), Poland ($6,812), and Trinidad & Tobago ($6,804), and lower than in the Seychelles ($8,802), Grenada ($8,777), and Panama ($7,722). Also, it was lower than the debt per adult in Mauritius ($11,187) and Grenada among UMICs. Regionally, it was lower than the debt per adult in Qatar ($25,667), Kuwait ($23,979), the UAE ($21,258), Bahrain ($14,142), and Saudi Arabia ($10,226).

In parallel, Credit Suisse indicated that 45.2% of Lebanese adults each had a net wealth below $10,000 as at the end of June 2019, 46% had a net wealth between $10,000 and $100,000 each, 8.2% of Lebanese adults had an aggregate net wealth between $100,000 and $1m each, and 0.5% of Lebanese adults each had a total net wealth that exceeds $1m. Further, the median wealth per adult in Lebanon stood at a peak of $12,198 at the end of June 2019 relative to $10,519 at end-June 2018.

Ministry of Energy & Water to hold tender for gasoline imports

The Ministry of Energy & Water indicated that it will hold a tender on December 2, 2019 for the import of 150,000 metric ton of gasoline 95 octane for local market use. It noted that the tender aims to address potential gasoline shortages in the Lebanese market. It noted that interested parties can retrieve the list of the tender's conditions from the ministry's Lebanon Oil Installations offices for a LBP500,000 fee, and can submit their application up to the day of the tender. This is the first time that the ministry takes such action in recent years, as about 10 private companies have been handling the import of refined petroleum products to Lebanon.

Lebanon imported 8.45 million tons of mineral and fuel oil in the first eight months of 2019 relative to 4.53 million tons in the first eight months of 2018. The amount of imported mineral and fuel oil reached $4.7bn in the year-to-August 2019 period, constituting a surge of 63.7% from $2.9bn in the same period last year, and accounting for 33.8% of total imports in the covered period. The amount of imported gasoline reached $920.7m in the first eight months of 2019 and represented 19.5% of total hydrocarbon imports to the country. Also, fuel imports on behalf Electricité du Liban (EdL) stood at $2.61bn, or 55.8% of total mineral and fuel oil imports, and expanded by 3.4 times year-on-year in the first eight months of 2019. Non-EdL-related fuel imports reached $2.07bn, or 44.2% of the total, and decreased by 1.2% year-on-year in the covered period.

Banque du Liban reiterates commitment to currency stability and banks' solvency

Banque du Liban (BdL) Governor Riad Salamé reiterated BdL's commitment to the stability of the Lebanese pound's peg to the US dollar during the exceptional period that Lebanon is going through. He said that market concerns have increased since September 2019 following a series of domestic and external events that negatively affected confidence in Lebanon, such as the repeated increases in taxes on interest rates on deposits and the citing of a local bank on the OFAC list of the U.S. Department of Treasury. He noted that depositors withdrew the equivalent of $3bn from the banking sector since early September to save money in their homes. He added that the withdrawn amount since September 2019 is equivalent to the aggregate withdrawals between 2017 and August 2019. He pointed out that higher demand for US dollars, especially at money dealers, led to a differential between the official exchange rate and the rate offered by money dealers.

Further, Governor Salamé indicated that deposits in the banking sector are secured and that banks are solvent, but that banks have to implement measures to manage liquidity in the sector. He pointed out that BdL will shield depositors from any potential losses. He assured that there will be no haircut on customers' deposits, as BdL does not have the authority to execute this operation and Parliament will not pass a law that would affect depositors. Also, he indicated that BdL has put in place a liquidity facility that shields depositors and protects banks from solvency and liquidity issues. He said that this facility would allow them to borrow funds in US dollars from BdL at a 20% interest rate, provided that the funds are not transferred abroad. He reiterated that BdL has sufficient assets in foreign currency of about $38bn, including $30bn in foreign currency reserves.

In addition, Governor Salamé stressed that there will be no capital controls given that the Lebanese economy is based on the free movement of capital. He pointed out that banks took restrictive measures amid the prevailing social turmoil and challenging economic conditions. As such, BdL asked banks to meet the needs of their customers, while taking into consideration the challenging environment. It also called on banks to reassess all the credit facilities that they have reduced rcently, to restore the initial limits for credit cards, as well as to accept monthly payments in Lebanese pounds for retail loans denominated in foreign currency.

In response to allegations that most of the banks' funds are deposited at BdL, Governor Salamé pointed out that banks have invested their funds abroad, and have financed both the public and the private sectors; with aggregate private-sector loans reaching 110% of GDP. Further, he reiterated that BdL has already set aside the needed funds to repay the upcoming $1.5bn Eurobond that will mature in November 2019. He called on authorities to implement a balanced budget and to proceed with structural reforms.

Broad money supply down 1.7% in first nine 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 LBP11,692bn at the end of September 2019, constituting a marginal decline of 0.3% from LBP11,661bn at the end of 2018, and a rise of 3.5% from LBP11,296bn at end-September 2018. Currency in circulation stood at LBP5,572bn at the end of September 2019, up by 11.2% from LBP5,008bn at end-2018 and by 17.1% from LBP4,757bn at end-September 2018. Also, demand deposits in local currency stood at LBP6,120bn at the end of September 2019, constituting a decline of 8% from end-2018 and a decrease of 6.4% from end-September 2018. Money Supply (M1) rose by 3.9% in September from LBP11,255bn at end-August 2019, with currency in circulation growing by 6.2% and demand deposits in local currency increasing by 1.9% month-on-month.

In addition, money supply M2, which includes M1 and term deposits in Lebanese pounds, reached LBP70,441bn at the end of September 2019, constituting a decrease of 8.3% from LBP76,828bn at the end of 2018, and a decline of 11.3% from LBP79,453bn a year earlier. Term deposits in Lebanese pounds totaled LBP58,748bn at the end of September 2019, down by 9.8% from LBP65,167bn at end-2018 and by 13.8% from LBP68,157bn at end-September 2018. Money Supply (M2) regressed by 3.7% in September from LBP73,143bn at end-August 2019, with term deposits in local currency declining by 5.1% month-on-month.

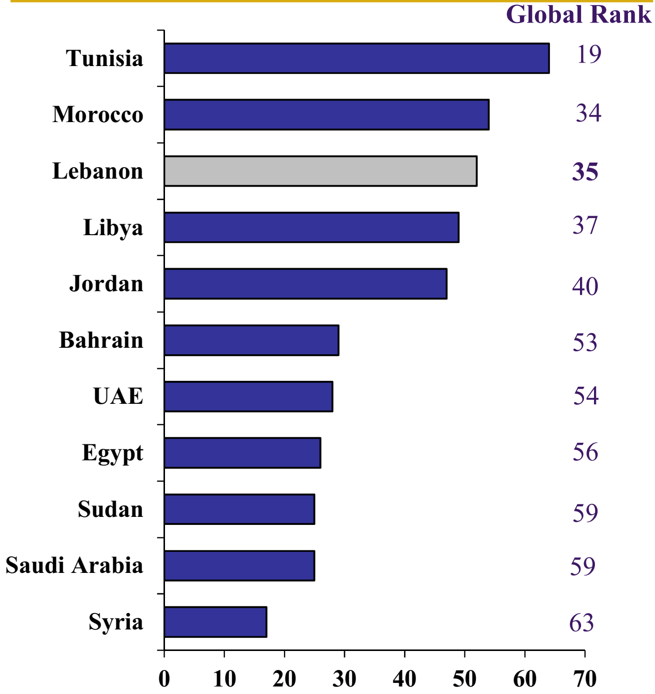
Further, broad money supply M3, which includes M2, deposits in foreign currency and debt securities issued by the banking sector, reached LBP209,290bn at the end of September 2019, constituting a decrease of 1.7% from LBP212,993bn at the end of 2018 and a decline of 1.8% from LBP213,088bn at end-September 2018. Deposits in foreign currency totaled LBP138,391bn at the end of September 2019, up by 1.8% from end-2018 and by 3.8% from a year earlier. Also, debt securities issued by the banking sector amounted to LBP458bn at the end of September 2019, compared to LBP272bn at the end of 2018 and to LBP269bn at end-September 2018. Money supply (M3) regressed by 1.1% from LBP211,648bn at the end of August 2019, with deposits in foreign currency growing by a marginal 0.2% and debt securities issued by the banking sector rising by 2.4% month-on-month. In parallel, M3 regressed by LBP3,703bn in the first nine months of 2019, due to a drop of LBP6,792bn in claims on the private sector, a decline of LBP3,716bn in the net foreign assets of deposit-taking institutions and a decrease of LBP459bn in net claims on the public sector, which were partly offset by a surge of LBP7,265bn in other net items.

Lebanon ranks 35th globally, third in Arab world in Internet freedom

Independent think tank Freedom House ranked Lebanon in 35th place among 65 countries globally and in third place among 11 Arab countries on its Freedom on the Net Index for 2019. Lebanon also came in 10th place among 23 upper middle-income countries (UMICs) included in the survey. Lebanon's global rank improved by one spot from 36th place in the 2018 survey, while its regional rank was unchanged year-on-year.

The survey measures the level of Internet and digital media freedoms across countries, as well as tracks any improvement or deterioration in Internet freedom conditions in each country. It focuses on the transmission and exchange of news and other politically relevant communications, as well as the protection of users' rights to privacy and freedom from legal and extralegal repercussions arising from their online activities. The survey covers the period from June 1, 2018 to May 31, 2019. A country's numerical rating is the sum of its rating on the Obstacles to Access category that varies between zero and 25 points, the Limit on Content category that ranges between zero and 35 points, and the Violations of Users' Rights category that varies between zero and 40 points. The survey provides a numerical rating for each country from zero to 100, with 100 being the highest level of freedom. It categorizes each country's level of Internet freedom as 'Free,' 'Partly Free,' or 'Not Free' based on its numerical rating.

Freedom on the Net Index for 2019
Scores & Rankings of Arab Countries



Source: Freedom House, Byblos Research

Globally, Lebanon's level of Internet freedom is higher than in Indonesia, Libya and Sri Lanka, and is lower than in Singapore, India and Morocco. Lebanon's score stood at 52 points in 2019 compared to a score of 53 in the 2018 survey. It was similar to the global average score of 51.9 points, and better than the UMICs' average of 47.3 points and the Arab average score of 37.8 points. It was also better than the Gulf Cooperation Council (GCC) countries' average score of 27.3 points and the non-GCC Arab countries' average of 41.8 points. Lebanon came in the 'Partly Free' category along with 28 countries globally and four countries regionally. In comparison, 15 countries worldwide were categorized as 'Free', while 21 economies globally that include six Arab countries were in the 'Not Free' category.

Freedom House noted that Lebanon continues to lack a legal framework to protect the rights of users, and has a weak telecommunications infrastructure, expensive telecommunications services, and a digital divide between urban and rural areas. However, it said that authorities do not engage in significant filtering of Internet content in the country. Further, it pointed out that civil society organizations and individuals have used the Internet in recent years as a tool to extend the reach of their national awareness-raising campaigns.

More than 50% of demonstrators want political accountability and improved public services

A survey conducted by the Lebanese Center for Policy Studies (LCPS) about the demands of demonstrators across Lebanon shows that 32% of them are seeking to hold accountable officials and politicians in the country, followed by improved public services (19% of respondents), better political representation (18% of participants), improved socio-economic conditions (15% of protestors), abolishing sectarianism (12% of respondents), and more civil rights (4% of demonstrators). The LCPS surveyed 213 protestors that participated in the demonstrations in the Riad al-Solh and Martyrs' Square areas of Beirut between October 23 and 26, 2019. Also, 51% of surveyed participants were women, while 59% of them were between 20 and 29 years old. The LCPS is a Beirut-based non-profit independent think tank.

In terms of public services, 24% of surveyed participants demanded better healthcare services, while another 24% asked for a better educational system. The protestors also asked for more sustainable environmental conditions (10% of participants), improved electricity and transportation services (7% of respondents each), and better water services (5% of protestors).

In terms of political representation, 38% of demonstrators demanded a new government, followed by a new electoral law (30% of surveyed participants), early parliamentary elections (14% of respondents), a new political class (12% of protestors), and institutional reforms (6% of respondents).

In terms of socio-economic demands, 41% of respondents asked for job opportunities, followed by improved social welfare (20% of participants), a better economy and a fairer taxation system (7% of respondents each), higher salaries and more subsidies (6% of participants each), and a lower cost of living and reduced poverty levels (3% of respondents each).

Compensation of public-sector personnel absorbs 41% of fiscal spending in first seven months of 2019

Figures issued by the Ministry of Finance show that the compensation of public-sector personnel totaled $3.85bn in the first seven months of 2019, constituting an increase of 3.1% from $3.73bn in the same period of 2018. Salaries, wages and related benefits accounted for 59.6% of the total in the covered period, followed by retirement benefits (26.3%), end-of-service indemnities (10.2%), and transfers to public institutions to cover salaries (4%). The rise in the compensation of public-sector personnel is due to an 18.3% increase in retirement benefits, as well as to a growth of 29.8% in end-of-service indemnities, which were partly offset by a decline of 3.8% in salaries, wages & related benefits and of 20.4% in transfers to public institutions to cover salaries. The Finance Ministry attributed the increase in end-of-service indemnities partly to the implementation of the new salary scale, which encouraged public employees to retire before reaching the legal retirement age. The compensation of public-sector personnel represented the largest component of current primary spending and accounted for 73.2% of such expenditures in the first seven months of 2019 compared to 66.2% in the same period last year. It accounted for 41% of fiscal spending in the covered period relative to 36.1% in the first seven months of 2018; while it absorbed 55.1% of public revenues in the first seven months of 2019 relative to 51.5% of government receipts in the same period of 2018.

In parallel, salaries, wages & related benefits paid to public-sector employees amounted to $2.3bn in the first seven months of 2019, relative to $2.4bn in the same period of 2018. This category includes basic salaries, employment benefits, allowances, contributions to civil servants' cooperatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly civil and religious judges, and employees at the Parliament.

Salaries and benefits of military personnel reached $1.5bn and accounted for 66% of salaries, wages & related benefits paid to the public sector in the first seven months of 2019. The salaries and benefits of personnel in public education followed with $435.8m (19% of the total), then civil staff with $232.8m (10.2%), the government's contribution to the employees' cooperative with $89.6m (3.9%), and the salaries and benefits of customs employees with $22.6m (1%).

Also, the Lebanese Army's salaries totaled $993.7m in the first seven months of 2019 and represented 65.8% of military personnel's salaries and benefits. The salaries of the Internal Security Forces followed with $386.7m (25.6%), those of the General Security Forces with $96.8m (6.4%), and the salaries of State Security Forces with $33.8m (2.2%).

The decline in salaries, wages & related benefits paid to public-sector employees in the seven months of 2019 is due to a decrease of $69m in allowances and a decline of $47.8m in benefits and other payments, such as bonuses, given to non-military bodies. In contrast, basic salaries increased by $27.9m. Overall, basic salaries grew by 1.6% to $1.8bn in the first seven months of 2019, allowances fell by 18.3% year-on-year to $307.1m, and benefits and other payments declined by 20% to $191m in the first seven months of 2019.

S&P takes rating action on the sovereign

S&P Global Ratings downgraded Lebanon's long- and short-term foreign and local currency sovereign ratings from 'B-/B' to 'CCC/C', with a 'negative' outlook. It also lowered the country's transfer and convertibility assessment from 'B-' to 'CCC'. In October 2019, S&P placed Lebanon's ratings on CreditWatch with negative implications, which it intended to resolve within the following three months.

The agency attributed its rating action to diminishing confidence in Lebanon's governance and economy, which has affected bank deposits and raised concerns about the government's funding model, given that deposits have historically financed Lebanon's wide fiscal and external deficits.

In addition, it pointed out that the protracted political vacuum is increasing policy uncertainty. It considered that the near-term formation of a new government composed largely of technocrats that would take immediate policy measures to address the fiscal deficit, energy shortages and corruption, would help reduce social tensions and support depositor confidence. However, it said that the fragmented and confessional-based political power-sharing system in Lebanon could delay a political solution. It considered that the government needs a significant domestic reforms package or international backing to support public finances.

In parallel, the agency indicated that the government will rely on BdL's gross foreign currency reserves, which reached $37.9bn at the end of October 2019, to cover a maturing Eurobond in November 2019. It expected that BdL will prioritize government debt repayments over other obligations.

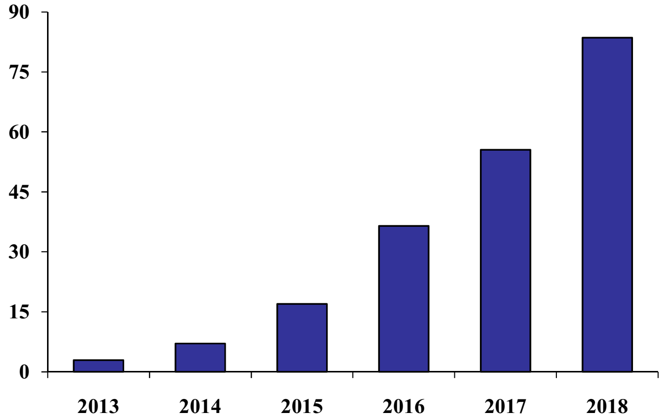
S&P indicated that its next rating action will incorporate its review of the policy response to the financial, economic and social pressures, and the effectiveness of this response in restoring depositor confidence. It said that it could affirm the ratings in case of a timely formation of a new government that is able to implement immediate reforms to ease social tensions and improve depositor confidence. 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.

Installed solar photovoltaic capacity in Lebanon up 51% in 2018

The Lebanese Center for Energy Conservation (LCEC) indicated that the aggregate capacity of installed solar photovoltaic (PV) systems in Lebanon reached 56.37 mega-watt-peak (MWp) at the end of 2018, constituting an increase of 51% from 37.37 MWp at end-2017. In comparison, it noted that the global solar PV capacity grew by 27% in 2018.

It attributed the increase in installed solar PV capacity in Lebanon to the implementation of several projects in 2018. They include the Beirut River Solar Snake Project and the Zahrani Oil Installations Project, which were implemented by the Ministry of Energy & Water; as well as 11 solar water-pumping sites in Baalbeck and the solar street lighting project in the Bekaa region, which were executed by the Council for Development and Reconstruction. It added that there were 322 new solar PV projects in Lebanon in 2018, compared to 386 projects in 2017 and 120 projects in 2013.

Decentralized Solar PV Electricity Generation (GWh)



Source: Lebanese Center for Energy Conservation

On a regional basis, it indicated that Mount Lebanon hosted 36% of the country's total solar PV capacity at the end of 2018, followed by the Bekaa area with 25%, South Lebanon with 13%, Beirut with 10%, North Lebanon, Nabatieh and Baalbeck-Hermel with 5% each, and Akkar with 1%. On a sectoral basis, it said that industry accounted for 32% of total installed solar PV capacity at the end of 2018, followed by the commercial (22%), residential (16%), public and agriculture (9% each), education (5%), medical (4%) and non-profit sectors (3%).

It noted that the National Renewable Energy Action Plan (NREAP) targets a solar PV capacity of 100 MWp by 2020, which would require an additional 43.63 MWp of installed capacity in 2019. As such, it considered that funding from the National Energy Efficiency and Renewable Energy Action (NEEREA), which is Banque du Liban's existing financing mechanism for energy efficiency and renewable energy investments, is crucial to reach the target. It added that the current appetite of international financial institutions, such as the European Bank for Reconstruction and Development, the European Investment Bank and the Agence Française de Développement, to provide lending through local banks for sustainable projects in Lebanon, would help achieve this target.

It pointed out that total investments in the solar PV sector stood at $104.8m in 2018, up by 22% from $82.1m in 2017, largely supported by the NEEREA loan program, which provided $13.2m in funding last year. On sectoral basis, it said that industry accounted for 23% of total investments in the solar PV sector in 2018, followed by the residential (22%), commercial (21%), public (15%), agricultural (8%), education (5%), and non-profit and medical sectors (3% each).

In parallel, it estimated that decentralized solar PV systems generated 83.59 gigawatt hours (GWh) in 2018 compared to 55.56 GWh in 2017. As such, it noted that electricity generated through solar PV systems represented 0.55% of Electricité du Liban's total generated electricity in 2018, compared to a share of 0.37% in 2017. It added that the NREAP targets a decentralized solar PV generation of 160 GWh per year by 2020, which would require the additional generation of 76.41 GWh in 2019.

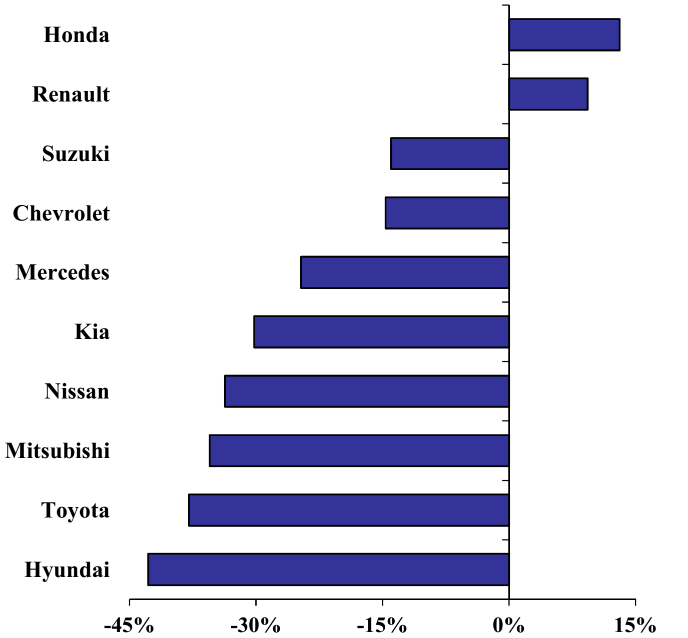
New car sales down 27% in first 10 months of 2019

Figures released by the Association of Automobile Importers (AAI) in Lebanon show that dealers sold 20,825 new passenger cars in the first 10 months of 2019, constituting a decline of 27.2% from 28,590 cars sold in the same period of 2018. Individuals and institutional clients purchased 1,838 new cars in January, 1,906 new vehicles in February, 2,190 new automobiles in March, 2,168 new cars in April, 2,458 new vehicles in May, 2,616 new automobiles in June, 2,948 new cars in July, 2,041 new vehicles in August, 1,700 new automobiles in September, and 960 new cars in October 2019.

Japanese cars accounted for 39.4% of total car sales in the first 10 months of 2019, followed by Korean vehicles with a 25.3% share, European automobiles (22.4%), American cars (9%), and Chinese vehicles (3.9%). Demand for Korean vehicles dropped by 36%, the sales of Japanese cars decreased by 29.5%, demand for new American automobiles declined by 20.1%, and the sales of European vehicles regressed by 16.2% annually in the first 10 months of 2019. In contrast, the number of Chinese cars sold grew by a marginal 0.4% in the covered period.

Further, Kia is the leading brand in the Lebanese market with 3,111 passenger vehicles sold in the first 10 months of 2019, followed by Toyota with 2,287 new cars sold, Nissan (2,265), Hyundai (2,139), and Renault (1,340).

Sales of Top 10 Car Brands in First 10 Months of 2019 (% change*)



**from the same period of 2018*
Source: AIA, Byblos Research

In parallel, Lebanon's top five car distributors sold 12,574 vehicles in the first 10 months of 2019 and accounted for 60.4% of new auto sales. NATCO sal sold 3,111 vehicles in the covered period, equivalent to 14.9% of the total, followed by Rasamny Younis Motor Co. sal with 3,045 automobiles (14.6%), Boustany United Machineries sal with 2,383 cars (11.4%), Century Motor Co. sal with 2,139 vehicles (10.3%), and Bassoul Heneiné sal with 1,896 cars (9.1%). The AAI stopped disclosing figures about the sales of commercial vehicles since June 2019.

Balance sheet of financial institutions down 5% in first nine months of 2019

Figures released by Banque du Liban show that the consolidated balance sheet of financial institutions in Lebanon totaled LBP2,211bn, or $1.47bn at the end of September 2019, constituting a decrease of 4.7% from LBP2,321bn, or $1.54bn at end-2018, and a decline of 6.5% from LBP2,365bn, or $1.57bn at end-September 2018.

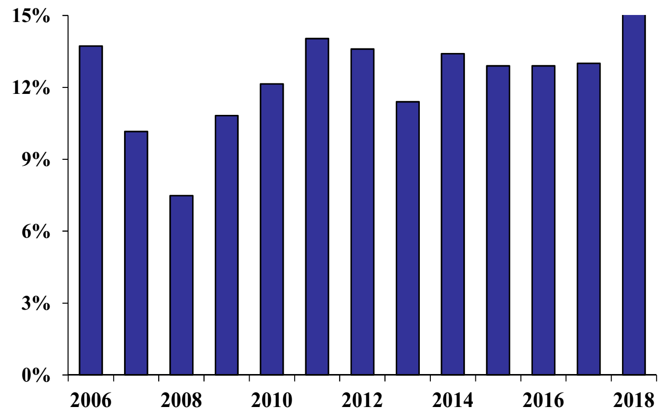
On the assets side, claims on resident customers reached $683.3m at the end of September 2019, up by 1.3% from the end of 2018, while claims on non-resident customers stood at $51.2m at end-September 2019 and decreased by 27% from end-2018. In addition, claims on the resident financial sector reached $331.3m at end-September 2019, nearly unchanged from end-2018; while claims on the non-resident financial sector totaled $47.8m at the end of September 2019 and dropped by 49.3% from end-2018. Also, claims on the public sector reached $5m at end-September 2019, constituting an increase of 3.6% from end-2018; while the securities portfolio, which includes Lebanese Treasury bills and Eurobonds, amounted to $99m at end-September 2019, down by 11.1% from end-2018. In parallel, currency and deposits with local and foreign central banks amounted to $46.1m at the end of September 2019 and increased by 3.4% from $44.6m at end-2018.

On the liabilities side, deposits of resident customers stood at $166.4m at the end of September 2019, constituting a rise of 5.5% from end-2018; while deposits of non-resident customers reached $18.7m at the end of September 2019 and decreased by 8.4% from end-2018. Liabilities to the resident financial sector amounted to $321.6m at end-September 2019, down by 13.7% from end-2018; while those to the non-resident financial sector declined by 15% from end-2018 to $122m. Also, public sector deposits decreased by 33% in the first nine months of 2019 to $3m, while issued debt securities totaled $105.2m at end-September 2019 and regressed by 29.5% from end-2018. Further, the aggregate capital account of financial institutions was $486.8m at the end of September 2019, constituting a rise of 4% from end-2018, and an increase of 2.1% from end-September 2018.

Insurers' return on investment at 5.9% and return on equity at 14.5% in 2018

Figures released by the Insurance Control Commission show that the aggregate assets of 50 licensed insurance companies operating in Lebanon reached $4.92bn at the end of 2018, compared to $4.82bn at end-2017. The insurance sector's aggregate investments reached $2.96bn in 2018 and accounted for 60.1% of total assets, followed by unit-linked contracts investments with $694.9m (14.1%), and receivables under the insurance business of $347m (7%). Also, blocked bank deposits and deposits with maturities of more than three months stood at $1.1bn and accounted for 37.1% of total investments, followed by fixed income investments at $920.6m (31.1%), cash & cash equivalents at $487.7m (16.5%), investments in land & real estate at $144.6m (4.9%), and investments in subsidiaries & associates at $107.2m (3.6%). The collective return on investments of the insurance sector reached 5.9% in 2018, up from 5.4% in 2017. Further, insurance companies posted a combined annualized return on assets of 3.5% in 2018 relative to 3.2% in 2017.

Return on Equity of Insurance Companies in Lebanon



Source: Insurance Control Commission

In parallel, the aggregate loss ratio of the 50 insurance companies, or the ratio of claims incurred to earned gross premiums, was 60.6% in 2018; the commission ratio, or the ratio of acquisition cost to earned gross premiums, reached 17.1%; the expense ratio, or the ratio of other general expenses to earned gross premiums, was 13.6%; and the reinsurance ratio, or the ratio of net reinsurance income to earned gross premiums, reached 5.1% in 2018. As such, the average technical combined loss ratio, which is the aggregate of the above four ratios, reached 96.3% in 2018 compared to 99.2% in 2017. In parallel, the total shareholders' equity of the insurance firms reached $1.2bn in 2018, constituting a rise of 3% from $1.17bn in 2017. As such, the return on equity of insurers was 14.5% in 2018 relative to 13% in 2017.

United Commercial Assurance's net income at $2m in 2018

United Commercial Assurance sal (UCA) declared net profits of $1.8m in 2018, constituting a decrease of 32.5% from net earnings of $2.7m in 2017. The firm's audited balance sheet shows aggregate assets of $54.5m at end-2018, up by 4.5% from $52.2m a year earlier. On the assets side, general company investments totaled $28.9m and increased by 3% from end-2017. They included $9.2m in cash & cash equivalents, $4m in each of land & real estate investments and variable income investments, as well as $2.2m in fixed income investments. Also, the firm blocked $9m as bank deposits and deposits with maturity of more than three months, of which $2.1m, or 22.9%, were blocked in favor of the Ministry of Economy & Trade as guarantees. Further, the reinsurance's share in technical reserves for the life category amounted to $148,570 at the end of 2018 and rose by 8.2% from a year earlier, while technical reserves for the non-life category stood at $5.1m and declined by 5.4% year-on-year from the end of 2017.

On the liabilities side, technical reserves for the life segment increased by 4.4% year-on-year to $740,217, while technical reserves for the non-life category reached $15.7m at end-2018 and grew by 3.9% from a year earlier. Non-life technical reserves included unearned premium reserves of $10.2m that rose by 7.2%, outstanding claims reserves of $4.3m that decreased by 2.2%, and $540,248 in reserves incurred but not reported that grew by 22.8% year-on-year. Provisions for risks and charges reached $627,392 at the end of 2018 and rose by 6.9% from the end of 2017. Also, the firm's shareholders' equity was $27.3m at end-2018, down by 3.3% from a year earlier.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked UCA in 21st and in 27th place in 2018 in terms of non-life and life premiums, respectively. The firm's non-life premiums reached $15.8m in 2018, up by 5.4% from the previous year; while its life premiums amounted to $0.8m, down by 12.1% from 2017. UCA had a 1.3% share of the local non-life market and a 0.1% share of the life market. Overall, it ranked in 24th place in terms of life and non-life premiums in 2018, with a 1% market share.

Creditbank's net earnings at $21m in first half of 2019

Creditbank sal, one of Lebanon's top 16 banks in terms of deposits, announced unaudited consolidated net profits of $20.7m in the first half of 2019, constituting an increase of 66% from net earnings of $12.4m in the first half of 2018. Net operating income grew by 27.6% year-on-year to $56.1m in the first half of 2019, despite net interest income decreasing by 14.4% to $30m and net fee income declining by 4.2% to $8.1m. The increase in the bank's net operating income is mainly due to the significant increase in the net profits on financial investments from $0.22m in the first half of 2018 to $69.4m in the first half of 2019. Non-interest income accounted for 73.2% of total income in the first half of 2019, up from 22.1% in the same period last year; with net fee income representing 9.93% of non-interest earnings relative to 85.45% in the first half of 2018. Further, the bank's interest margin was 1.45% in the first half of 2019 compared to 1.89% in the same period of 2018; while its spread reached 1.36% in the covered period relative to 1.78% in the first half of 2018. Total operating expenditures decreased by 6.5% year-on-year to $27.7m in the first half of 2019, with staff expenses declining by 2.8% to $16.8m, and administrative & other operating expenditures regressing by 13.7% to $9.3m in the covered period. Also, the bank's return on average assets was 0.93% in June 2019 on an annualized basis relative to 0.63% a year earlier, while its return on average equity reached 9.87% in June 2019 on an annualized basis compared to 6.15% in June 2018. The bank's cost-to-income ratio was 24.7% in the first half of 2019, down from 65.68% in the same period last year.

In parallel, total assets reached $4.6bn at end-June 2019 and increased by 8.6% from end-2018, while loans & advances to customers, excluding those to related parties, declined by 2.6% from end-2018 to $1.9bn. Also, customer deposits, excluding those from related parties, totaled $3.4bn at end-June 2019 and grew by 0.6% from end-2018. The loans-to-deposits ratio stood at 56.73% at end-June 2019 compared to 57.58% at end-2018. Further, the bank's shareholders' equity reached $425.2m at end-June 2019, up by 3.1% from end-2018.

S&P takes rating action on three banks

S&P Global Ratings downgraded from 'B-' to 'CCC' the long-term issuer credit ratings of Bank Audi sal, BLOM Bank sal, and BankMed sal, and from 'B' to 'C' the short-term issuer ratings of Bank Audi and BankMed. It maintained on CreditWatch with negative implications the three banks' ratings. The three financial institutions are the only Lebanese banks that S&P rates.

The agency attributed the downgrade to deposit outflows that have recently increased as a result of political developments and protracted social unrest. Also, it said that the large maturity mismatches on the banks' balance sheets constitutes another factor for its decision. It added that the banks have placed their customers' short-term deposits at Banque du Liban (BdL) in the form of term deposits and Certificate of Deposits that have medium- to long-term maturities.

In addition, S&P indicated that BdL has offered banks a liquidity facility in the form of short-term US dollar loans at a 20% interest rate. It noted that banks have had limited recourse to BdL's newly-introduced liquidity facility. It expected BdL to continue to offer liquidity support to banks when needed, even though its capacity to provide such support is constrained by its key role in financing the Lebanese government. Also, it expected the banks' profitability metrics to weaken due to a potential one-off tax on the banks' revenues as intended in the 2020 draft budget, rising interest rates on customer deposits, and the banks' ongoing efforts to lengthen deposit maturities.

The agency noted that it would affirm the banks' ratings in case the prevailing liquidity pressures recede, and if banks are able to meet their obligations in full and in a timely manner. It added that the latter scenario could materialize if positive political developments in the country boost customer and investor confidence, and in case of renewed external support and deposit inflows.

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	CCC	C	Negative	CCC	C	Negative
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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