600 ISSUES+
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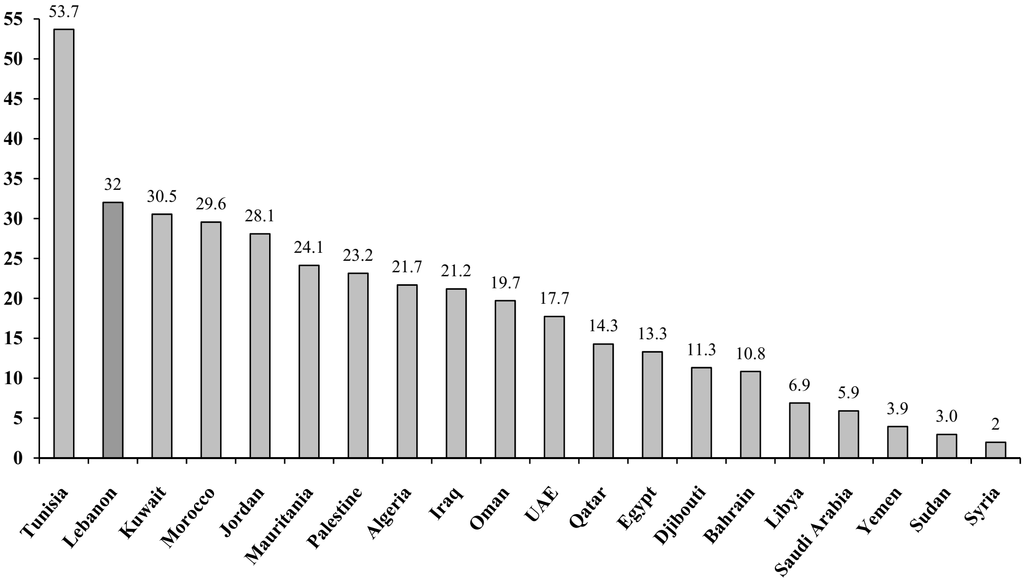
BYBLOS BANK SAL
Economic Research & Analysis Department

LEBANON THIS WEEK

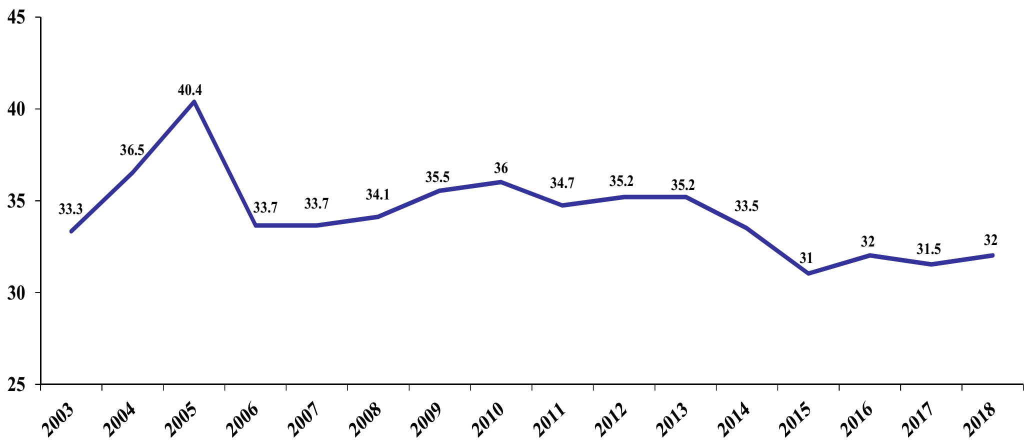
In This Issue

Charts of the Week

Percentile Rank of Arab Countries in terms of Voice & Accountability in 2018 (%)



Percentile Rank of Lebanon in terms of Voice & Accountability (%)



Source: World Bank Governance Indicators, Byblos Bank

Quote to Note

"The electricity sector is highly inefficient in Lebanon and is imposing a significant economic and social cost."

The International Monetary Fund, on one of the main reasons for social discontent in Lebanon

Number of the Week

127: Lebanon's rank out of 190 economies in terms of the procedures, time and cost to get connected to the electrical grid, as well as the reliability of electricity supply and the transparency of tariffs, according to the World Bank's Ease of Doing Business 2020 survey

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"	5.16	(1.71)	11,000	6.89%
Byblos Common	1.09	0.00	3,900	8.23%
Solidere "B"	5.24	3.35	1,023	4.55%
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%
BLOM Listed	7.07	0.00	-	20.30%
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	80.50	91.04
Apr 2021	8.25	58.50	54.88
Oct 2022	6.10	47.88	37.28
Jun 2025	6.25	47.25	23.90
Nov 2026	6.60	47.25	21.51
Feb 2030	6.65	46.50	18.44
Apr 2031	7.00	46.50	18.34
May 2033	8.20	51.49	17.80
Nov 2035	7.05	47.50	16.43
Mar 2037	7.25	47.50	16.50

Source: Byblos Bank Capital Markets, Refinitiv

	Nov 18-21	Nov 11-15	% Change	October 2019	October 2018	% Change
Total shares traded	30,423	49,953	(39.1)	5,199,421	4,899,249	6.1
Total value traded	$1,086,217	$259,043	319.3	$34,989,893	$34,380,794	1.8
Market capitalization	$7.49bn	$7.49bn	(0.03)	$7.55bn	$9.75bn	(22.6)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Nov 15, 2019	Nov 22, 2019	% Change**
CDS 1-year*	5,088	5,986	17.7
CDS 3-year*	3,259	3,923	20.4
CDS 5-year*	2,495	2,991	20.0

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

CDX EM 30*	Nov 15, 2019	Nov 22, 2019	% Change***
CDS 5-year**	96.79	192.3	98.7

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

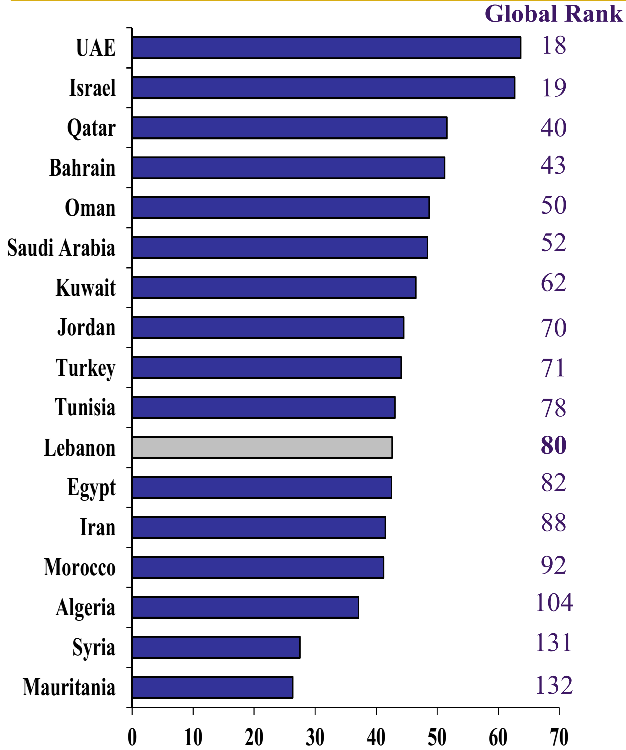
Lebanon ranks 80th globally, 11th in MENA region on Knowledge Index

The 2019 Global Knowledge Index (GKI) ranked Lebanon in 80th place among 136 countries around the world and in 11th place among 17 countries in the Middle East & North Africa (MENA) region. Lebanon also came in 23rd place among 36 upper middle-income countries (UMICs) included in the survey. Based on the same set of countries included in the 2018 and 2019 surveys, Lebanon's global rank regressed by six spots from 74th place in the 2018 survey, while its regional rank declined by two notches.

The GKI is a joint initiative between the United Nations Development Program and the Mohammed Bin Rashid Al Maktoum Knowledge Foundation. The index measures the multidimensional concept of knowledge, and aims to introduce a comprehensive approach to "knowledge-based development". It is composed of seven sub-indices that are Pre-University Education (15%); Technical Vocational Education & Training (15%); Higher Education (15%); Research, Development & Innovation (15%); Information & Communications Technology (15%); the Economy (15%); and the General Enabling Environment (10%). The index aims to guide policymakers and the private sector in fostering a development process that seeks to equip individuals with the necessary skills for the labor market of the future. It rates the knowledge level in each country on a scale from zero to 100, with a score of 100 reflecting the most knowledgeable economy.

Globally, the knowledge level in Lebanon is similar to Namibia, while it is better than the knowledge level in Egypt, Botswana and Peru, and lower than the level of knowledge in Panama, Tunisia and Armenia. Lebanon received a score of 42.6 points in 2019 compared to 45.2 points in the 2018 survey. Lebanon's score was lower than the global average score of 46.5 points, the UMICs' average score of 44.4 points, and the MENA region's average score of 44.9 points.

Global Knowledge Index for 2019
Scores & Rankings of MENA Countries



Source: Knowledge4all, Byblos Research

Lebanon ranked ahead of Georgia and Senegal, and came behind Azerbaijan and Moldova on the Higher Education Sub-Index. This category, which is based on higher education inputs, as well as higher education outputs and quality, measures the level of education among the youth, as well as the development of their qualifications, knowledge and skills, in order to improve a country's productivity and competitiveness in global markets. Lebanon ranked ahead of Georgia and Peru, while it trailed China and Azerbaijan among UMICs. Regionally, it came ahead of Iran, Morocco, Turkey, Syria and Mauritania.

Also, Lebanon preceded Panama and Namibia, and trailed Costa Rica and Jordan on the Research, Development & Innovation (RDI) Sub-Index. This category assesses how RDI contributes to increasing knowledge at the national and regional levels based on research and development, innovation in production, as well as on social innovation. Lebanon ranked ahead of Namibia and North Macedonia, and trailed Costa Rica and Jordan among UMICs; while it came ahead of Morocco, Kuwait, Egypt, Bahrain, Algeria, Syria and Mauritania in the MENA region.

Further, Lebanon ranked ahead of Algeria and Botswana, and came behind Bangladesh and Guinea on the Information & Communications Technology (ICT) Sub-Index. This category assesses how ICT supports the advancement of knowledge across all sectors based on ICT inputs and outputs. Lebanon ranked ahead of Algeria, Botswana, Venezuela and Belize among UMICs; while it came ahead of Algeria, Syria and Mauritania in the MENA region.

Components of the 2019 Global Knowledge Index for Lebanon

	Global Rank	MENA Rank	UMICs Rank	Lebanon Score	Global Avge Score	MENA Avge Score	UMICs Avge Score
Pre-University Education	81	8	23	53.0	54.8	51.7	56.2
The Economy	68	12	16	42.4	44.9	46.7	42.6
General Enabling Environment	104	13	33	47.7	59.1	53.8	57.5
Higher Education	72	12	20	39.3	41.0	41.0	39.2
Technical & Vocational Education and Training	20	2	2	62.6	50.8	48.2	47.4
Research, Development & Innovation	75	10	22	19.5	25.5	23.3	21.0
ICT	106	14	32	33.8	49.5	49.5	47.2

Source: Knowledge4all, Byblos Research

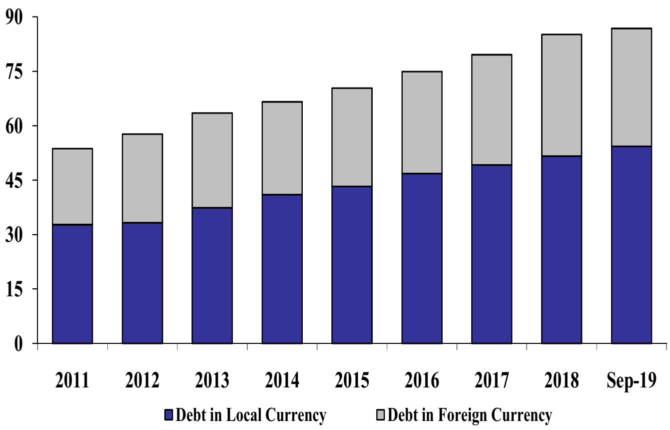
Gross public debt at $86.8bn at end-September 2019, foreign currency debt down 8% year-on-year

Lebanon's gross public debt reached $86.8bn at the end of September 2019, constituting an increase of 1.9% from $85.1bn at the end of 2018 and a rise of 3.5% from $83.9bn at end-September 2018. In nominal terms, the gross public debt grew by $1.6bn in the first nine months of 2019 relative to an increase of $4.3bn in the same period of 2018.

Debt denominated in Lebanese pounds totaled $54.3bn at end-September 2019, up by 5.1% from the end of 2018 and by 12.1% from end-September 2018; while debt denominated in foreign currency stood at $32.5bn, constituting a decrease of 3% from end-2018 and a decline of 8.3% from end-September 2018.

Local currency debt accounted for 62.6% of the gross public debt at the end of September 2019 compared to 57.8% a year earlier, while foreign currency-denominated debt represented the balance of 37.4% relative to 42.2% at end-September 2018. The weighted interest rate on outstanding Treasury bills was 6.5% and the rate on Eurobonds was 6.84% in September 2019. Further, the weighted life on Eurobonds was 7.37 years, while it was 1,630 days on Treasury bills and bonds.

Lebanon's Gross Public Debt (US$bn)



Source: Ministry of Finance, Byblos Research

Commercial banks held 36.5% of the public debt at end-September 2019 relative to 39.6% of the total at end-September 2018. BdL held 53.9% of the Lebanese pound-denominated public debt at the end of September 2019 compared to 50.1% a year earlier, while commercial banks held 32% of the local debt compared to 35.1% at end-September 2018. Also, public agencies, financial institutions and the public held 14% of the local debt at end-September 2019 relative to 14.8% at end-September 2018. Further, holders of Eurobonds and special T-bills in foreign currencies accounted for 93.8% of foreign currency-denominated debt holders at the end of September 2019, followed by multilateral institutions with 4.2% and foreign governments with 2.1%. In addition, the net public debt, which excludes public sector deposits at BdL and at commercial banks from overall debt figures, grew by 6% annually to $78.2bn at end-September 2019. Further, the gross market debt accounted for about 57% of the public debt. The gross market debt is the total public debt less the portfolios of BdL, the National Social Security Fund, as well as bilateral and multilateral loans.

Lebanon receives 11% of IMF regional technical assistance in May-October period

The International Monetary Fund's Middle East Technical Assistance Center (METAC) indicated that Lebanon received 11% of the center's overall allocation of technical assistance delivery to member countries between May and October 2019. The center provided four technical assistance projects to Lebanon during the covered period, of which two projects in public financial management between May and July 2019, as well as another two projects between August and October 2019. In comparison, it provided six technical assistance projects to Jordan between May and October 2019, five projects to Iraq, four technical assistance projects to each of Egypt and Tunisia, three projects to Afghanistan, and one project to each of Algeria, Djibouti, Libya, Morocco and Sudan. It indicated that there are 10 technical assistance projects planned for Lebanon in the fiscal year that ends in April 2020, the second highest number of such projects among member countries, behind Egypt (11 projects).

In terms of revenue administration, METAC indicated that, between August and October 2019, Lebanon nearly completed the draft of a compliance improvement plan, which would allow the country's tax administration to gather information from third parties in order to better identify unregistered taxpayers and hidden transactions by registered taxpayers. Further, METAC provided additional practical guidance to authorities to identify, assess and rank compliance risks, and to develop an initial register of high risks, which covers compliance to the value-added tax, corporate income tax and wage tax.

In terms of statistics, METAC said that, between August and October 2019, it assisted the Central Administration of Statistics in revising the national accounts' compilation system. Specifically, it updated the method used to estimate Financial Intermediation Services Indirectly Measured (FISIM) to bring it more in line with the recommendations of the System of National Accounts 2008, an international statistical standard for national accounts. The FISIM is an indirect measure of the value of financial intermediation services provided. METAC said that it also updated the method to compile accounts for commercial banks. In addition, it noted that planned activities in the third quarter of FY2019/20, which extends from November 2019 to end-January 2020, consist of fiscal risk management and budget preparation.

The IMF established METAC in Beirut in October 2004 to serve Afghanistan, Algeria, Djibouti, Egypt, Iraq, Jordan, Lebanon, Libya, Morocco, Palestine, Sudan, Syria, Tunisia, and Yemen. The center's mandate is to assist in capacity-building, facilitate the reform process in member countries, and support the region's integration in the world economy.

Occupancy rate at Beirut hotels at 71.6%, room yields up 24% in first nine months of 2019

EY's benchmark survey of the hotel sector in the Middle East indicates that the average occupancy rate at four- and five-star hotels in Beirut was 71.6% in the first nine months of 2019 relative to 63.6% in the same period of 2018, and compared to an average rate of 65.5% in 14 Arab markets included in the survey. The occupancy rate at Beirut hotels was the fifth highest in the region in the first nine months of the year, while it was the sixth highest in the same period of 2018. The occupancy rate at hotels in Beirut rose by eight percentage points in the first nine months of 2019, constituting the second largest increase among the 14 Arab markets after Doha (+8.5 percentage points). In comparison, the average occupancy rate in Arab markets grew by 2.8 percentage points in the covered period. Occupancy rates at Beirut hotels were 59.8% in January, 70.7% in February, 79% in March, 85.4% in April, 44.8% in May, 76.7% in June, 75.4% in July, 81% in August, and 71.7% in September 2019. In comparison, they were 49.1% in January, 61.3% in February, 63.5% in March, 68.5% in April, 50.9% in May, 60.9% in June, 73% in July, 73.3% in August, and 72.3% in September 2018. The occupancy rate at Beirut hotels was the fifth highest in the region in September this year, while it was the third highest in September 2018.

Hotel Sector Performance in First Nine Months of 2019

	Occupancy Rate (%)	RevPAR (US$)	RevPAR % change
Jeddah	61.9	182	(6.3)
Dubai	72.7	152	(16.5)
Beirut	**71.6**	**148**	**23.8**
Makkah	68.0	127	1.6
Madina	67.7	104	0.6
Ras Al Khaimah	72.7	101	(9.1)
Riyadh	59.7	93	2.1
Kuwait City	54.8	89	(9.3)
Amman	60.6	89	1.4
Manama	52.3	87	4.9
Cairo City	74.5	85	7.0
Doha	66.9	74	5.5
Abu Dhabi	75.9	73	6.5
Muscat	57.6	70	(6.2)

Source: EY, Byblos Research

The average rate per room at Beirut hotels was $206 in the first nine months of 2019, increasing by 10.1% from $187 in the same period of 2018 and constituting the third highest rate in the region after Jeddah ($295) and Dubai ($209). The average rate per room in Beirut was higher than the regional average of $161.6 that regressed by 4.8% from the first nine months of 2018.

Further, revenues per available room (RevPAR) were $148 at Beirut hotels in the first nine months of 2019 compared to $119 in the same period of 2018, ranking the capital in third place regionally behind Jeddah ($182) and Dubai ($152). Beirut's RevPAR grew by 23.8% year-on-year and posted the largest increase regionally. Beirut posted RevPARs of $118 in January, $132 in February, $146 in March, $174 in April, $83 in May, $183 in June, $163 in July, $189 in August, and $141 September 2019, compared to $87 in January, $105 in February, $110 in March, $120 in April, $89 in May, $134 in June, $144 in July, $152 in August, and $133 in September 2018. Abu Dhabi posted the highest occupancy rate in the region at 75.9% in the first nine months of 2019, while Jeddah registered the highest average rate per room at $295, as well as the highest RevPAR at $182 in the covered period.

EY attributed the improved performance of Beirut's hospitality market in the first nine months of the year largely to the increase in tourist arrivals, notably from the Gulf region, amid greater political stability in the country, as well as to Saudi Arabia's lifting in mid-February 2019 of a 15-month old travel warning to Lebanon. It noted that the success of several festivals also contributed to higher tourist flows to Lebanon in the covered period. It added that the government has taken initiatives to promote tourism such as organizing "Visit Lebanon", an international business-to-business forum that aims to further support the long-term growth of the hospitality sector by promoting leisure tourism and the meetings & incentive (MICE) industry. It pointed out that the expansion works at the Beirut-Rafic Hariri International Airport were completed in August 2019, which increased the airport's annual capacity to two million passengers. It noted that the airport's expansion aims to address congestion issues and benefit the Lebanese tourism industry in the long term.

Number of airport passengers up 2% in first 10 months of 2019

Figures released by the Beirut-Rafic Hariri International Airport (HIA) show that 7,701,296 passengers utilized the airport (arrivals, departures and transit) in the first 10 months of 2019, constituting an increase of 2.2% from 7,536,392 passengers in the same period of 2018. The number of arriving passengers increased by 0.7% year-on-year to 3,789,031 in the first 10 months of 2019, compared to a growth of 8% in the same period last year and to a rise of 9.1% in the first 10 months of 2017. Also, the number of departing passengers grew by 2.7% year-on-year to 3,872,588 in the first 10 months of 2019, relative to an increase of 7% in the same period last year and to a rise of 8.4% in the first 10 months of 2017.

In parallel, the airport's aircraft activity expanded by 0.7% annually to 62,860 take-offs and landings in the first 10 months of 2019, relative to an increase of 4% in the same period of 2018 and to a growth of 0.6% in the first 10 months of 2017. In addition, the HIA processed 74,473 metric tons of freight in the covered period that consisted of 42,384 tons of import freight and 32,089 tons of export freight. Middle East Airlines had 23,225 flights in the covered period and accounted for 37% of HIA's total aircraft activity.

Banque du Liban extends deadline for banks to comply with limit on loans-to-deposits ratio in Lebanese pounds

Banque du Liban (BdL) issued Intermediate Circular 534 on November 19, 2019 that amends Basic Circular 81 dated February 21, 2001 about the operations of financial institutions that are related to credit, investment, shareholding and participation.

The circular extended from the end of 2019 to end-2020 the deadline that banks have in order to comply with the ceiling of 25% on their loans-to-deposits ratio in Lebanese pounds. It added that banks that are unable to meet the new deadline have to inform BdL before the end of 2020. It also removed the clause that imposes a fine on non-compliant banks.

In August 2018, BdL issued Intermediate Circular 503 that first introduced the ceiling on the loans-to-deposits ratio in local currency, and gave banks until the end of 2019 to comply with the new measure. At the time, the circular imposed a fine on non-compliant banks. Specifically, it noted that banks that exceed the 25% limit should deposit at BdL at a zero percent interest rate the equivalent of the amount that breaches the ceiling until they settle their position.

Number of new construction permits down 18% in first 10 months of 2019

The Orders of Engineers & Architects of Beirut and of Tripoli issued 9,635 new construction permits in the first 10 months of 2019, constituting a decline of 17.7% from 11,705 permits issued in the same period of 2018. In comparison, new construction permits decreased by 12.2% year-on-year in the first 10 months of 2018. Mount Lebanon accounted for 34.1% of newly-issued construction permits in the covered period, followed by the South with 21.5%, the North with 13.9%, the Nabatieh area with 13.3%, the Bekaa region with 9.7%, and Beirut with 5.8%. 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 5,400,517 square meters (sqm) in the first 10 months of 2019, constituting a decrease of 30.4% from 7,764,046 sqm in the same period of 2018. In comparison, the surface area of granted construction permits regressed by 23.2% annually in the first 10 months of 2018. Mount Lebanon accounted for 1,881,690 sqm, or 34.8% of the total, in the covered period. The South followed with 1,022,789 sqm (18.9%), then the North with 978,892 sqm (18.1%), the Bekaa region with 527,586 sqm (9.8%), the Nabatieh area with 468,216 sqm (8.7%), and Beirut with 359,380 sqm (6.7%). The remaining 161,964 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 37.4% year-on-year in the first 10 months of 2019, followed by surface areas in the Nabatieh region (-35.6%), the Bekaa (-31.2%), the North (-27.3%), and the South (-20.9%); while surface areas in regions located outside northern Lebanon decreased by 50.8%. In contrast, the surface area of granted construction permits in Beirut increased by 21.1% year-on-year in the first 10 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.

Banque du Liban's foreign assets at $37bn, gold reserves at $13.5bn at mid-November 2019

Banque du Liban's (BdL) interim balance sheet totaled $137.6bn at mid-November 2019, constituting an increase of 0.7% from $136.7bn at the end of October 2019 and a decrease of 2.1% from $140.6bn at the end of 2018. The decline so far this year is mainly due to the "netting" on the assets and liabilities' sides of BdL's balance sheet that took place in March 2019, as part of the implementation of the new international accounting standard IFRS 9. The "netting" affected loans to the financial sector on the assets side and financial sector deposits on the liabilities side.

Assets in foreign currency reached $37.1bn at mid-November 2019, down by 2.1% from $37.9bn at the end of October 2019, and by 6.4% from $39.7bn at end-2018. Assets in foreign currency increased by $690.5m in July and by $1.6bn in August, while they declined by $394.7m in January, by $391.3m in February, by $320.1m in March, by $589.3m in April, by $1.4bn in May, by $203m in June, by $164.2m in September, by $583.1m in October and by $799m in the first two weeks of November 2019. This resulted in an aggregate decline of $2.5bn in the year to November 15, compared to a decrease of $503m in the same period of 2018. The decline is partly due to BdL's payment of at least $3.2bn on behalf of the government so far this year to cover the principal and coupons of maturing Eurobonds. In addition, BdL's assets in foreign currency included $3.5bn worth of Lebanese Eurobonds at mid-November 2019.

In parallel, the value of BdL's gold reserves rose by 14.7% from the end of 2018 to reach $13.5bn at mid-November 2019. The value of gold reserves reached a peak of $16.7bn at the end of August 2011. Also, the securities portfolio of BdL grew by 14% year-on-year and by 2.5% from $34.3bn at end-October 2019 to $35.1bn at mid-November.

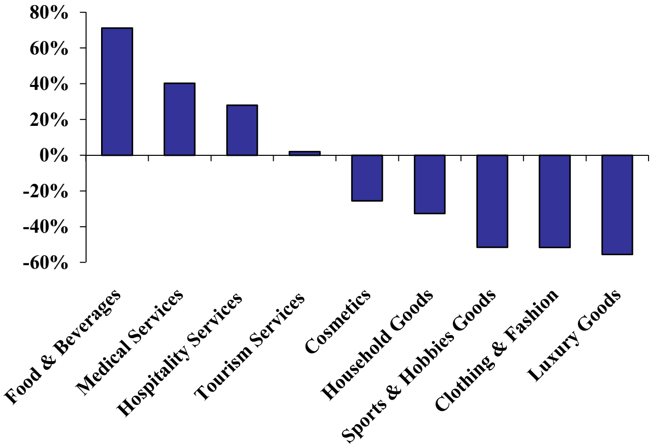
In addition, loans to the local financial sector decreased by $18.6bn, or 55.4%, from end-2018 to $15bn at mid-November 2019, due to the "netting" procedure on the assets side. Further, deposits of the financial sector reached $111bn at mid-November 2019, and down by $8.7bn, or by 7.3%, from end-2018, due to the "netting" on the liabilities side. Also, public sector deposits at BdL totaled $3.8bn at mid-November 2019 and increased by $365.3m from end-October, while they decreased by $1.25bn, or 24.8%, from end-2018.

Retail activity indicator down 2.6% in first half of 2019

Figures released by the Lebanese Franchise Association (LFA) show that the LFA's Retail Sales Indicator of consumer goods & services in Lebanon declined by 2.6% in the first half of 2019 from the second half of 2018, while it increased by 5.5% from the first half of 2018. Also, the index regressed by 8.4% from 2012, which is the base year that the LFA uses to calculate the index. The consumer goods covered by the indicator are clothing & fashion, cosmetics, household goods, sports & hobbies, luxury items, and food & beverages.

The retail sales indicator for the food & beverages category rose by 41.2% annually in the first half of 2019, followed by household goods (+4.8%) and luxury items (+2.9%). In contrast, the sales indicator for cosmetics regressed by 35.7% from the first half of 2018, followed by clothing & fashion (-13.2%), and sports & hobbies goods (-3.9%). In addition, the retail sales indicator for food & beverages increased by 11.1% in the first half of 2019 from the second half of 2018. In contrast, the sales indicator for cosmetics regressed by 27.2% from the second half of last year, followed by sports & hobbies products (-23.6%), household goods (-13.1%), luxury items (-10.8%), and clothing & fashion (-7.1%).

Performance of the Retail Sales Indicator Categories in First Half of 2019*



**% change compared to base year 2012*
Source: Lebanese Franchise Association, QuantAnalysts

In parallel, the consumer services segment consists of hospitality, tourism, and medical services. The retail sales indicator for hospitality services increased by 45.4% in the first half of 2019 from the same period of 2018. It rose by 2.9% for tourism services, while it regressed by 2.4% for medical services in the covered period. In addition, the retail sales indicator for hospitality services increased by 28.6% in the first half of 2019 from the second half of 2018, and the indicator for tourism services rose by 11.5%, while the retail sales indicator for medical services declined by 10.4% from the second half of 2018. Further, the retail sales indicators for food & beverages and hospitality services reached their highest level since 2012, while the indicator for clothing & fashion declined to its lowest level on record. Overall, the retail sales indicators for five out of nine categories of consumer goods and services were lower than their base year level by a margin of between 25.6% and 55.6%.

The Lebanese Franchise Association and the Chamber of Commerce, Industry & Agriculture of Beirut and Mount Lebanon launched the Retail Activity Indicators in 2015. The indicators are based on data collected from shopping malls in the Beirut and Mount Lebanon areas, on a retail enterprise survey, and on data from payment system operators. QuantAnalysts sarl, a research and consulting firm, compiled the data and developed the indicators. The firm said that the 78-month time series of retail sales indicators for the nine categories of consumer goods and services were seasonally adjusted.

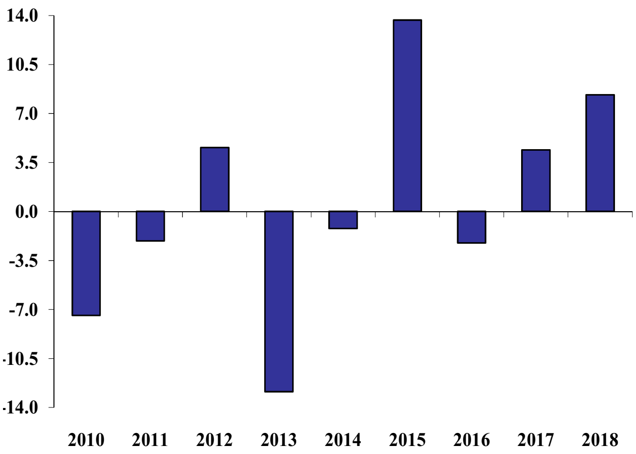
Value of cleared checks down 18%, returned checks down 14% in first 10 months of 2019

The value of cleared checks reached $45.5bn in the first 10 months of 2019, constituting a decline of 18.4% from $55.7bn in the same period of 2018. In comparison, the value of cleared checks decreased by 1.2% in the first 10 months of 2018 from the same period of 2017. The value of cleared checks in Lebanese pounds declined by 4% from the equivalent of $18.2bn in the first 10 months of 2018 to $17.5bn in the same period of 2019, and the value of cleared checks in foreign currencies decreased by 25.4% to $28bn in the covered period. The dollarization rate of cleared checks regressed from 67.3% in the first 10 months of 2018 to 61.5% in the same period of 2019. There were 8.3 million cleared checks in the first 10 months of 2019, down by 16.1% from 9.9 million in the first 10 months of 2018.

In parallel, the amount of returned checks in domestic and foreign currencies was $1.14bn in the first 10 months of 2019 compared to $1.33bn in the same period of 2018, and to $1.17bn in the first 10 months of 2017. This constituted a decrease of 14.1% in the first 10 months of 2019 relative to a rise of 13.6% in the first 10 months of 2018 from the same period of 2017. Also, there were 212,580 returned checks in the first 10 months of 2019, down by 7% from 228,661 returned checks in the same period of 2018.

Net profits of motor insurance segment at $8.3m in 2018

Net Profits of Motor Insurance Segment (US$m)



Source: Insurance Control Commission, Byblos Research

Figures released by the Insurance Control Commission show that the motor insurance segment sector posted net profits of $8.3m in 2018, constituting a surge of 89.4% from net earnings of $4.4m in 2017, due to higher premium deficiency reserves that help cover insurers' future claims and expenses in case unearned premiums are not sufficient. The "Non-Compulsory Motor" line posted net gains of $7.9m in 2018, up from $4.8m in profits in 2017; while the "Compulsory Motor" line accrued profits of $446,434 in 2018 relative to losses of $371,476 in 2017.

Total gross written premiums in the motor insurance segment reached $351.5m in 2018 and regressed by 7.2% from the previous year. The "Non-Compulsory Motor" line accounted for 81.2% of the segment's aggregate premiums and the "Compulsory Motor" line represented the balance of 18.8%. The written premiums in the "Non-Compulsory Motor" line dropped by 8% to $285.4m in 2018, with the top five companies generating 39.5% of the line's total premiums. Also, the written premiums in the "Compulsory Motor" line declined by 3.9% to $66.1m in 2018, with the top five companies generating 49.8% of the line's total premiums. The motor insurance segment was the second-largest segment in the non-life insurance category in 2018, behind the health insurance segment, with a 31.5% share of total non-life premiums.

Further, aggregate paid claims totaled $194.8m in 2018, constituting a rise of 10.2% from $176.7m in 2017. Paid claims in the "Non-Compulsory Motor" line grew by 10.3% to $179.6m in 2018 and the number of claims declined by 13% to 419,767 in 2018. Also, paid claims in the "Compulsory Motor" section grew by 9.8% to $15.2m in 2018, with the number of claims up by 31% to 6,968 in 2018.

In parallel, the loss ratio of the "Third Party Liability" segment of the "Non-Compulsory Motor" line, or the ratio of claims incurred to earned gross premiums, was 62.1% in 2018; the commission ratio, or the ratio of acquisition cost to earned gross premiums, reached 24%; the expense ratio, or the ratio of other general expenses to earned gross premiums, was 15.3%; and the reinsurance ratio, or the ratio of net reinsurance income to earned gross premiums, reached 2.8% in 2018. As such, the average technical combined loss ratio, which is the aggregate of the above four ratios, reached 104.3% in 2018 relative to 109.7% in 2017. In addition, the loss ratio of the "Own Damage and Other Complementary Risks" segment of the "Non-Compulsory Motor" line was 58.7%, the commission ratio reached 27.3%, the expense ratio was 14.6% and the reinsurance ratio reached 1.3% in 2018. As such, the average combined loss ratio for the section was 101.9% in 2018 compared to 100.7% in 2017. Further, the loss ratio of the "Compulsory Motor" line was 41.6%, the commission ratio reached 42.6%, the expense ratio was 16.4% and the reinsurance ratio reached -0.8% in 2018. As such, the average combined loss ratio for the line reached 99.8% in 2018 relative to 101.9% in 2017.

Balance sheet of investment banks up 3.5% in first nine months of 2019

Figures released by Banque du Liban (BdL) show that the consolidated balance sheet of investment banks in Lebanon reached LBP8,272bn, or $5.5bn at the end of September 2019, constituting an increase of 3.5% from LBP7,996bn, or $5.3bn, at end-2018, and a growth of 6% from LBP7,803.4bn or $5.18bn at the end of September 2018. On the assets side, claims on resident customers reached $1.51bn at end-September 2019, down by 4.3% from the end of 2018 and by 3.7% from end-September 2018, while claims on non-resident customers totaled $33.9m at the end of September 2019, and grew by 3.7% from end-2018.

In addition, claims on the resident financial sector reached $717.3m at end-September 2019, down by 5.8% from the end of 2018 and by 2.8% from the end of September 2018; while claims on the non-resident financial sector totaled $56.5m at the end of September 2019, decreasing by 31.8% from end-2018 and by 11% from a year earlier. Also, claims on the public sector totaled $1.1m at end-September 2019, constituting an increase of 84.7% from end-2018; while the securities portfolio, which includes Lebanese Treasury bills and Eurobonds, reached $932.5m at end-September 2019, down by 6.9% from end-2018, but up by a marginal 0.3% from end-September 2018. In parallel, currency and deposits at BdL and foreign central banks totaled $1.82bn at the end of September 2019, increasing by 17.3% in the first nine months of 2019 and by 23.2% from end-September 2018.

On the liabilities side, deposits of resident customers totaled $1.5bn at the end of September 2019, constituting a decline of 4% in the first nine months of 2019 and a decrease of 1.9% from a year earlier; while deposits of non-resident customers reached $277.8m at the end of September 2019, representing a drop of 8% from end-2018 and a decline of 3.4% from the end of September 2018. Liabilities to the resident financial sector amounted to $155.8m at end-September 2019, up by 2.5% from end-2018; while those to the non-resident financial sector decreased by 10.3% from end-2018 to $214.5m. Also, public sector deposits regressed by 32.8 % in the first nine months of 2019 to $72.8m, while debt securities issued totaled $24m at end-September 2019 and were nearly unchanged from end-2018. Further, the aggregate capital account of investment banks amounted to $1.73bn at the end of September 2019, constituting an increase of 3.4% from end-2018 and a rise of 3.7% from end-September 2018.

Corporate Highlights

Net profits of Syrian affiliates of seven Lebanese banks at $21m in first nine months of 2019

Financial results issued by the affiliates of seven Lebanese banks operating in Syria show that their aggregate net profits reached SYP9.3bn in the first nine months of 2019, constituting a rise of 53.3% from net earnings of SYP6.07bn in the same period of 2018. The improvement in the banks' net earnings is due to the stability of the official exchange rate at SYP436 against the US dollar since November 27, 2017. In US dollar terms, the seven banks generated net profits of $21.3m in the covered period relative to net earnings of $13.9m in the first nine months of 2018. The banks use the official exchange rate in their income statements and balance sheets, which means that fluctuations in the black market exchange rate do not affect their reporting.

Banque BEMO Saudi Fransi posted profits of SYP3.6bn in the first nine months of 2019 relative to earnings of SYP2.7bn in the same period of 2018, while Bank Al-Sharq, the affiliate of Banque Libano-Française, registered profits of SYP2.03bn in the covered period compared to earnings of SYP290.1m in the first nine months of 2018. Also, Byblos Bank Syria posted profits of SYP1.77bn in the first nine months of 2019 relative to losses of SYP50.68m in the same period last year, while Bank Audi Syria registered profits of SYP1.38bn in the covered period compared to earnings of SYP900.46m in the first nine months of 2018. In addition, Fransabank Syria posted profits of SYP1bn in the first nine months of 2019 relative to earnings of SYP109m in the same period of 2018, while Bank of Syria & Overseas registered profits of SYP231.8m in the covered period compared to earnings of SYP2.58bn in the first nine months of 2018. In contrast, Syria Gulf Bank, the affiliate of First National Bank sal, incurred losses of SYP743.5m in the first nine months of 2019 relative to losses of SYP472.2m in the same period of 2018.

The net interest income of the seven banks totaled SYP18.7bn, or $42.8m in the first nine months of 2019, up by 71.5% from SYP10.9bn, or $24.9m in the same period of 2018; while their net fees & commission income rose by 2.2 times year-on-year to SYP6.6bn, or $15.1m in the first nine months of 2019. In addition, the seven banks' operating income surged by 80.6% annually to SYP29.4bn, or $67.4m in the covered period, while their total operating expenses doubled year-on-year to SYP17.6bn, or $40.3m in the first nine months of 2019.

In parallel, the banks' aggregate assets reached SYP937.9bn, or $2.15bn at the end of September 2019, up by 3% from SYP910.6bn, or $2.09bn at end-2018. Also, the banks' total loans reached SYP239.3bn, or $548.8m at end-September 2019, reflecting a rise of 32.8% from SYP180.2bn, or $413.3m at the end of 2018. Further, the banks' customer deposits totaled SYP643.4bn, or $1.48bn at the end of September 2019, constituting an increase of 2.6% from SYP627.1bn, or $1.44bn at end-2018. The ratio of the banks' loans-to-customer deposits stood at 37.2% at the end of September 2019 relative to 28.7% at the end of 2018. Also, the aggregate shareholders' equity of the banks reached SYP152.5bn, or $349.7m, at the end of September 2019, relative to SYP137.8bn, or $316m, at end-2018.

Results of Affiliates of Lebanese Banks in Syria in First Nine Months of 2019 (US$m)

	Banque BEMO Saudi Fransi	Bank of Syria & Overseas	Fransabank Bank	Bank Audi Syria	Byblos Bank Syria	Bank Al-Sharq	Syria Gulf Bank
Net Profits	8.30	0.53	2.33	3.17	4.06	4.65	-1.71
Total Assets	736.53	321.49	284.77	271.27	213.61	194.81	128.61
*% Change***	*5.6%*	*-17.4%*	*4.6%*	*-2.0%*	*12.3%*	*27.1%*	*18.1%*
Loans	216.94	31.91	86.78	56.84	72.35	66.60	17.39
*% Change***	*24.5%*	*43.2%*	*39.1%*	*110.3%*	*24.7%*	*24.5%*	*10.0%*
Customer Deposits	600.92	210.49	153.63	142.36	134.41	143.02	90.85
*% Change***	*5.0%*	*-14.9%*	*3.0%*	*-6.4%*	*7.0%*	*30.1%*	*11.1%*

**Change from end-2018*
Source: Banks' financial statements

Banque Libano-Française's net earnings at $56m in first half of 2019

Banque Libano-Française (BLF) sal, one of Lebanon's top 16 banks in terms of deposits, announced unaudited consolidated net profits of $56.1m in the first half of 2019, constituting a decrease of 1.8% from net earnings of $57.1m in the first half of 2018. Net operating income regressed by 2.5% year-on-year to $128.2m in the first half of 2019, with net interest income decreasing by 10.5% to $101m and net fee income increasing by 1.8% to $20m. Non-interest income accounted for 22.7% of total income in the first half of 2019, up from 15.2% in the same period last year; with net fee income representing 65.2% of non-interest earnings relative to 93.8% in the first half of 2018. Further, the bank's interest margin was 1.47% in the first half of 2019 compared to 1.73% in the same period of 2018; while its spread reached 1.39% in the covered period relative to 1.66% in the first half of 2018. Total operating expenditures grew by 2% year-on-year to $66.4m in the first half of 2019, with staff expenses increasing by 1.4% to $42.9m, and administrative & other operating expenditures rising by 1.8% to $18.8m in the covered period. Also, the bank's return on average assets was 0.75% in June 2019 on an annualized basis relative to 0.82% a year earlier, while its return on average equity reached 8.51% in June 2019 on an annualized basis compared to 9.06% in June 2018. The bank's cost-to-income ratio was 49.4% in the first half of 2019, up from 47.5% in the same period last year.

In parallel, total assets reached $14.8bn at end-June 2019 and decreased by 1.8% from end-2018, while loans & advances to customers, excluding those to related parties, declined by 12% from end-2018 to $3.8bn. Also, customer deposits, excluding those from related parties, totaled $10.6bn at end-June 2019 and regressed by 5.4% from end-2018. The loans-to-deposits ratio stood at 35.4% at end-June 2019 compared to 37.7% at end-2018. Further, shareholders' equity reached $1.3bn at end-June 2019, nearly unchanged from end-2018.

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	Oct 2017	Sep 2018	Oct 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*	Oct 2017	Sep 2018	Oct 2018	Change**	Risk Level
Political Risk Rating	57.9	57.9	57.9	⧓	High
Financial Risk Rating	38.6	38.8	38.9	▼	Low
Economic Risk Rating	30.9	33.1	33.5	▼	Moderate
Composite Risk Rating	63.7	64.9	65.2	▼	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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