

LEBANON THIS WEEK

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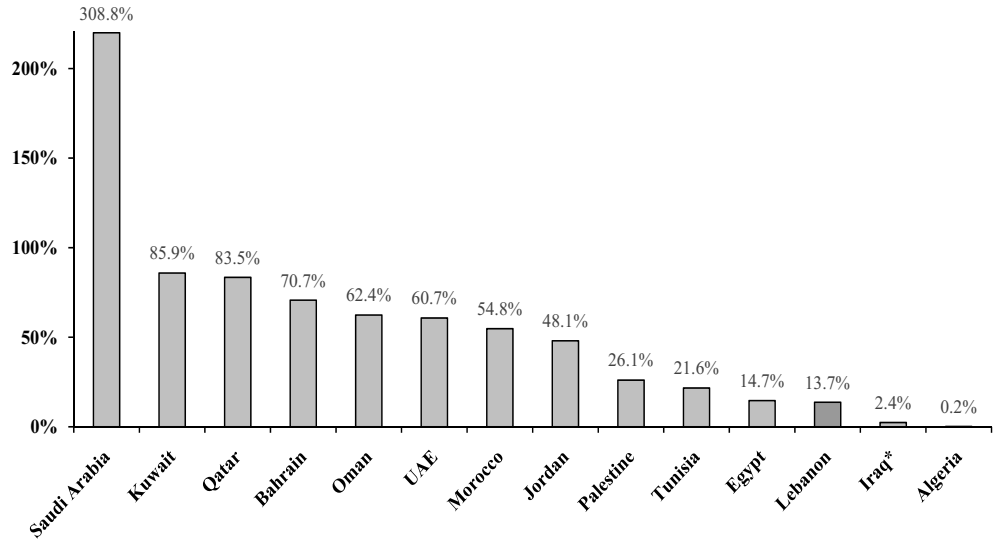
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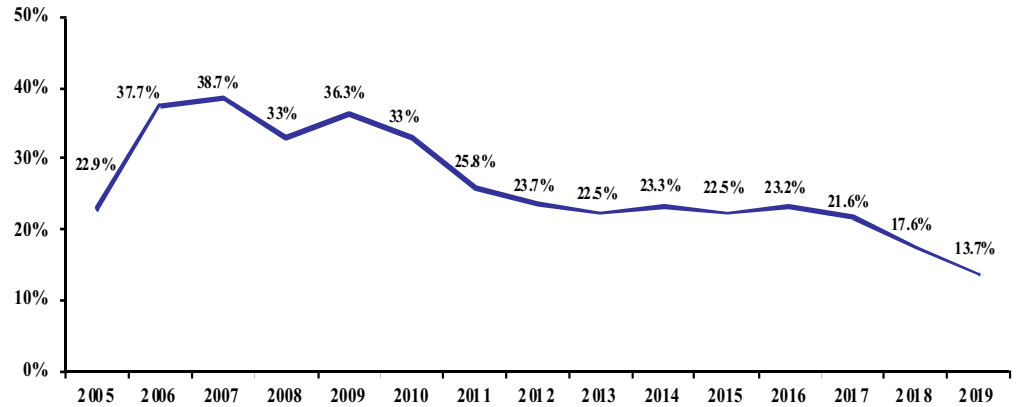
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Charts of the Week

Stock Market Capitalization in Select Arab Countries at end-2019 (% of GDP)



Stock Market Capitalization in Lebanon (% of GDP)



*latest available market capitalization figure

Source: Byblos Bank, Local Stock Exchanges, Institute of International Finance, International Monetary Fund

Quote to Note

"There is an urgent need for the adoption of a substantial, credible and comprehensive policy package of economic reforms to restore fiscal balance and financial stability and address long-lasting structural deficiencies in the Lebanese economy."

The International Support Group for Lebanon, on the necessity to have a functioning government in place as soon as possible

Number of the Week

59%: Percentage of Lebanese adults who have a formal account at a regulated financial institution, according to Banque du Liban's 2018 Financial Inclusion Survey

Lebanon in the News

\$m (unless otherwise mentioned)	2018	Jan-Oct 2018	Jan-Oct 2019	% Change*	Oct-18	Sep-19	Oct-19
Exports	2,952	2,464	3,098	25.76	265	342	292
Imports	19,980	16,874	16,612	(1.55)	1,718	1,466	1,308
Trade Balance	(17,028)	(14,410)	(13,514)	(6.22)	(1,454)	(1,124)	(1,016)
Balance of Payments	(4,823)	(3,122)	(4,653)	49.06	(1,810)	(59)	(198)
Checks Cleared in LBP	22,133	18,235	17,511	(3.97)	2,064	2,060	1,378
Checks Cleared in FC	44,436	37,500	27,982	(25.38)	4,017	2,940	1,717
Total Checks Cleared	66,569	55,735	45,493	(18.38)	6,081	5,000	3,095
Fiscal Deficit/Surplus	(6,246)	(4,734)	(4,024)	(14.99)	(226)	(640)	(432)
Primary Balance	(636)	(402)	217	-	189	(171)	21
Airport Passengers	8,842,442	7,536,392	7,701,296	2.19	684,617	818,339	659,737
Consumer Price Index**	6.1	6.3	2.5	(380bps)	6.3	1.1	1.3

\$bn (unless otherwise mentioned)	Dec-17	Oct-18	Dec-18	Aug-19	Sep-19	Oct-19	% Change*
BdL FX Reserves	35.81	34.62	32.51	30.60	29.30	30.98	(10.51)
In months of Imports	18.57	20.15	20.72	20.35	19.99	23.68	17.54
Public Debt	79.53	84.04	85.14	86.29	86.78	87.08	3.62
Bank Assets	219.86	242.61	249.48	261.90	262.20	262.80	8.32
Bank Deposits (Private Sector)	168.66	173.25	174.28	172.54	170.30	168.36	(2.82)
Bank Loans to Private Sector	59.69	59.15	59.39	55.16	54.50	54.17	(8.43)
Money Supply M2	52.51	52.06	50.96	48.52	46.73	45.77	(12.07)
Money Supply M3	138.62	140.24	141.29	140.40	138.83	138.37	(1.33)
LBP Lending Rate (%)	8.09	9.60	9.97	11.24	10.92	11.19	159bps
LBP Deposit Rate (%)	6.41	7.74	8.30	8.95	9.13	9.03	129bps
USD Lending Rate (%)	7.67	8.30	8.57	10.03	10.26	10.05	175bps
USD Deposit Rate (%)	3.89	4.63	5.15	6.20	6.57	6.61	198bps

*year-on-year **year-on-year percentage change; 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"	8.42	23.64	486,946	11.49%
Solidere "B"	8.40	24.44	227,000	7.45%
Byblos Common	1.00	0.00	7,000	7.72%
HOLCIM	10.00	2.56	2,000	2.66%
Audi GDR	2.30	(34.84)	1,000	3.76%
Byblos Pref. 08	60.00	0.00	500	1.64%
Audi Listed	2.30	(34.29)	215	12.55%
BLOM GDR	6.07	0.00	-	6.12%
BLOM Listed	7.07	0.00	-	20.75%
Byblos Pref. 09	63.00	0.00	-	1.72%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Mar 2020	6.38	87.13	101.47
Apr 2021	8.25	55.88	65.02
Oct 2022	6.10	47.50	39.08
Jun 2025	6.25	43.63	26.38
Nov 2026	6.60	43.63	23.53
Feb 2030	6.65	43.50	19.75
Apr 2031	7.00	43.38	19.65
May 2033	8.20	45.39	20.09
Nov 2035	7.05	43.50	17.86
Mar 2037	7.25	43.88	17.79

Source: Byblos Bank Capital Markets, Refinitiv

	Jan 6-10	Dec 30 - Jan 3	% Change	December 2019	December 2018	% Change
Total shares traded	745,941	167,139	346.3	1,527,358	5,407,192	(71.8)
Total value traded	\$5,715,028	\$2,125,346	168.9	\$24,640,092	\$27,863,342	(11.6)
Market capitalization	\$7.33bn	\$7.68bn	(4.54)	\$7.76bn	\$9.68bn	(19.8)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Jan 3, 2020	Jan 10, 2020	% Change**
CDS 1-year*	7,413	7,597	2.5
CDS 3-year*	4,756	4,867	2.3
CDS 5-year*	3,684	3,773	2.4

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

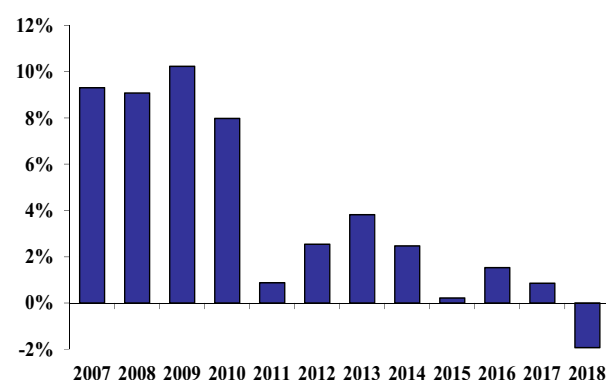
CDX EM 30*	Jan 3, 2020	Jan 10, 2020	% Change***
CDS 5-year**	172.5	169.6	(1.7)

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

Real GDP growth rate at 0.9% in 2017 and -1.9% in 2018 according to national accounts

The Central Administration for Statistics (CAS) released national economic data that covers official figures for gross domestic product (GDP) and its structure and components for 2018, and revised its previous figures for the 2004-17 period. The CAS indicated that its national accounts figures include the informal sector that it estimated at around 30% of recorded output, even though the precise level is uncertain. It noted that it could not produce a full set of sectoral accounts, especially for the households and non-financial corporate sectors, given the limited amount of data on incomes. Further, the CAS stated that its estimates are subject to a wide range of uncertainty. It added that the uncertainty derives from the lack of regular surveys and detailed data on the cost of production, consumer spending, employment, visitors' expenditures and other transactions. It cautioned that its figures are not as accurate as national accounts are supposed to be. The CAS estimated that Lebanon's real GDP growth contracted by 1.9% in 2018, while it raised the real GDP growth rate for 2017 to 0.9% from 0.6% previously.

Real GDP Growth in Lebanon (%)



Source: Central Administration of Statistics

Lebanon's nominal GDP stood at \$55bn in 2018 relative to \$53.1bn in 2017. Also, aggregate consumption spending reached \$58.2bn in 2018, up from \$54.8bn in 2017. It consisted of \$49.8bn in household expenditures and \$8.4bn in government spending. Further, the private sector's gross fixed capital formation reached \$10.1bn, while it totaled \$990.3m for the public sector in 2018. The results show that public consumption increased by 6.7% in real terms in 2018, while private consumption contracted by 1.3% year-on-year. Further, gross fixed capital formation by the private sector regressed by 3.9% in real terms in 2018, while it expanded by 25.7% for the public sector, leading to an overall contraction of 1.8% in gross fixed capital formation during the year. Also, household consumption contributed 1.2 percentage points to the economic contraction in 2018, followed by the exports of goods and services (-1 percentage point), the imports of goods and services (-0.5 percentage points), and gross capital formation (-0.1 percentage points); while government consumption had a positive contribution of 0.9 percentage points to economic activity in 2018.

In parallel, real estate services accounted for 15.2% of output in 2018, followed by commercial trade & motor vehicle repairs (12.9%), the public administration (11.4%), financial services (8.5%), manufacturing (7.6%), education (7.4%), professional services (4.1%), construction (3.8%), health & social care (3.7%), agriculture & livestock (3.2%), hotels & restaurants (3.1%), personal & community services and transport activity (2.9% each), mining & utilities (2.8%), administrative services (2.6%), and information & communication (2.1%). Further, the output of personal & community services grew by 4.6% in real terms in 2018, followed by output in the mining & utilities sector (+3.4%), the financial services sector (+3.3%), the public administration (+1.9%), the real estate sector (+1.2%), and professional services (+1.1%). In contrast, the output of the construction sector contracted by 10% in real terms in 2018, followed by activity in administrative services (-9%), commercial trade & motor vehicles repairs (-6.4%), education (-4.9%), transport activity (-4.2%), agriculture & livestock (-4%), the manufacturing sector (-3.8%), the information & communication sector (-2.7%), the hotels & restaurants sector (-1.4%), and the health & social care segment (-0.4%).

Gross Domestic Product (Expenditure Components in billions of LBP)

	2017*	2018*	% change in	
			price	real terms
Gross domestic product at market prices	80,110	82,854	5.5%	-1.9%
Total final consumption expenditures	82,652	87,758	6.5%	-0.3%
by households	72,090	75,068	5.5%	-1.3%
by government	10,562	12,690	12.6%	6.7%
Gross capital formation	17,123	17,227	0.9%	-0.3%
Gross fixed capital formation	16,809	16,643	0.9%	-1.8%
private	15,631	15,150	0.9%	-3.9%
public	1,178	1,493	0.9%	25.7%
Acquisition less disposal of valuables	315	584	-	-
Net exports	(19,666)	(22,131)	-	-
Export of goods and services	17,528	17,169	2.8%	-4.7%
Exports of goods (fob)	5,814	5,531	1.6%	-6.3%
Exports of services	11,714	11,638	3.3%	-3.8%
Import of goods and services	37,195	39,300	4.5%	1.1%
Imports of goods (fob)	27,761	29,837	5.7%	1.7%
Imports of services	9,433	9,463	0.8%	-0.5%

*at current prices

Source: Central Administration of Statistics

Association of banks reduces by 104 basis points reference rates on US dollar and Lebanese pound lending

The Association of Banks in Lebanon (ABL) recommended to its member banks to decrease the Beirut Reference Rate (BRR) in US dollars from 10.39% in October 2019 to 9.35% in January 2020. The rate, considered as the reference rate for lending in foreign currency, replaced the London Interbank Offered Rate (LIBOR) in 2009, as the ABL decided that the LIBOR does not reflect the cost of funding and lending in Lebanon. In addition, the ABL recommended to its member banks to decrease the BRR in Lebanese pounds from 13.49% in October 2019 to 12.45% in January 2020. The ABL indicated that the decline in the BRR follows Banque du Liban's (BdL) Intermediate Circular 536 issued on December 4, 2019, which capped the interest rates at 5% on bank deposits in foreign currency and at 8.5% on deposits in Lebanese pounds. The interest cap applies to all deposits placed at banks after December 5, 2019 or on blocked deposits that will mature after the date of the circular. The ABL added that the BRR will reflect the gradual decline in interest rates on deposits that will come to maturity in coming months.

The ABL adopted the BRR in US dollars and Lebanese pounds in March and May 2009, respectively. It considers that the BRR does not replace the Beirut Prime Lending Rate in each currency, but constitutes the basis for calculating the prime rate after adding the cost of liquidity and refinancing, credit risk and the profitability of banks.

Number of airport passengers down by 1.8% in 2019

Figures released by the Beirut-Rafic Hariri International Airport (HIA) show that 8,683,719 passengers utilized the airport (arrivals, departures and transit) in 2019, constituting a decline of 1.8% from 8,842,442 passengers in 2018. The number of arriving passengers decreased by 3.5% to 4,280,141 in 2019, compared to a growth of 8.1% in 2018 and to a rise of 8.6% in 2017. Also, the number of departing passengers decreased by 1.1% to 4,351,380 in 2019, relative to an increase of 6.6% in 2018 and to a rise of 8% in 2017.

In parallel, the airport's aircraft activity regressed by 1.8% to 72,279 take-offs and landings in 2019, relative to increases of 3.4% in 2018 and of 0.6% in 2017. In addition, the HIA processed 86,701 metric tons of freight in 2019 that consisted of 48,431 tons of import freight and 38,270 tons of export freight. Middle East Airlines had 27,294 flights in 2019 and accounted for 37.8% of HIA's total aircraft activity.

Finance Ministry takes measures related to ownership of bearer shares and "shares to order"

The Ministry of Finance (MoF) issued Decision 1001/1 on December 2, 2019, related to the transfer of ownership of bearer shares to the Lebanese Treasury. It stipulates that the ownership of bearer shares and "shares to order" that were not converted into registered shares, two years after Law 75 cancelled the two types of shares from the capital of all joint-stock companies in Lebanon, will be transferred to the Lebanese government. It noted that the relevant directorates at the Finance Ministry will prepare the list of companies that did not convert their bearer shares and "shares to order" to registered shares, along with the number and nominal value of the shares. Also, it indicated that these firms have to issue registered shares to the Treasury to replace the two types of shares, and have to adjust accordingly the information about them at the commercial register. It called on companies to inform the ministry about decisions related to the distribution of dividends for these shares within 15 days after the company decides to distribute dividends, and to settle the dividend payments through a check.

Broad money supply down 3.4% in first 11 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 LBP15,089bn at the end of November 2019, constituting an increase of 29.4% from LBP11,661bn at the end of 2018 and a rise of 34.3% from LBP11,232bn at end-November 2018. Currency in circulation stood at LBP8,151bn at the end of November 2019, up by 62.7% from LBP5,008bn at end-2018 and by 74.6% from LBP4,668bn at end-November 2018. Also, demand deposits in local currency stood at LBP6,938bn at the end of November 2019, constituting an increase of 4.3% from end-2018 and a rise of 5.7% from end-November 2018. Money Supply (M1) rose by 19.2% in November from LBP12,657bn at end-October 2019, with currency in circulation growing by 32.4% and demand deposits in local currency increasing by 6.7% month-on-month.

In addition, money supply M2, which includes M1 and term deposits in Lebanese pounds, reached LBP66,054bn at the end of November 2019, constituting a decrease of 14% from LBP76,828bn at the end of 2018 and a decline of 15% from LBP77,706bn a year earlier. Term deposits in Lebanese pounds totaled LBP50,965bn at the end of November 2019, down by 21.8% from LBP65,167bn at end-2018 and by 23.3% from LBP66,474bn at end-November 2018. Money Supply (M2) regressed by 4.3% in November from LBP69,005bn at end-October 2019, with term deposits in local currency declining by 9.6% month-on-month.

Further, broad money supply M3, which includes M2, deposits in foreign currency and debt securities issued by the banking sector, reached LBP205,681bn at the end of November 2019, constituting a decrease of 3.4% from LBP212,993bn at the end of 2018 and a decline of 2.8% from LBP211,525bn at end-November 2018. Deposits in foreign currency totaled LBP139,171bn at the end of November 2019, up by 2.4% from end-2018 and by 4.2% from a year earlier. Also, debt securities issued by the banking sector amounted to LBP456bn at the end of November 2019, compared to LBP272bn at the end of 2018 and to LBP284bn at end-November 2018. Money supply (M3) regressed by 1.4% from LBP208,590bn at the end of October 2019, with deposits in foreign currency nearly unchanged and debt securities issued by the banking sector rising by 3.9% month-on-month. In parallel, M3 regressed by LBP7,312bn in the first 11 months of 2019, due to a drop of LBP8,745bn in claims on the private sector and a decline of LBP2,701bn in the net foreign assets of deposit-taking institutions, which were partly offset by a surge of LBP3,392bn in other net items and an increase of LBP742bn in net claims on the public sector.

Management of mobile networks reverts to the State

The Lebanese Parliament's Information and Communications Committee unanimously asked in its December 31, 2019 extraordinary meeting the government to refrain from renewing the management contracts of the two state-owned mobile phone networks Mobile Interim Company 1 (MIC 1) and Mobile Interim Company 2 (MIC 2). Orascom Telecom has been managing MIC 1 since 2009 under the Alfa brand, while Zain has been managing MIC 2 since 2004 under the brand Touch. The committee also recommended that the Minister of Telecommunications in the caretaker government, in cooperation with the relevant authorities, take the necessary measures to restore the management of the two companies to the state within a period of 60 days. Consequently, Orascom Telecom and Zain ceased their management of the two networks at the start of 2020.

In March 2019, the Council of Ministers extended until the end of 2019 the management contracts of the two state-owned mobile phone networks. In 2015, the Ministry of Telecommunications announced a list of firms that applied to take part in the tender to award new contracts for the management of the MIC 1 and MIC 2. However, the Administration of Public Tenders rejected the tender offer citing inadequate competition, which led the government to repeatedly renew the management contracts of MIC 1 and MIC 2 with Orascom Telecom and Zain, respectively, since then. These management contracts have been renewed multiple times since 2008.

The Ministry of Telecommunications transferred \$797.5m to the Treasury in the first 10 months of 2019, nearly unchanged from the same period of 2018. Transfers accounted for 70.2% of income from government properties and for 45.6% of non-tax budgetary revenues in the covered period.

Number of real estate transactions down 17% in 2019

Figures released by the Ministry of Finance indicate that 50,352 real estate transactions took place in 2019, constituting a decrease of 17.1% from 60,714 deals in 2018. In comparison, there were 73,541 real estate transactions in 2017 and 64,248 deals in 2016. The number of real estate transactions declined by 14.6% year-on-year in the first nine months of 2019, while it regressed by 23% annually in the fourth quarter of the year. There were 9,728 real estate transactions in the Baabda area last year, representing 19.3% of the total. The North followed with 7,303 deals (14.5%), then the South with 6,594 transactions (13.1%), the Zahlé area with 6,230 deals (12.4%), the Metn district with 5,854 transactions (11.6%), the Keserwan region with 4,831 deals (9.6%), the Nabatieh area with 4,253 transactions (8.4%), and Beirut with 4,052 deals (8%).

Also, the aggregate amount of real estate transactions reached \$6.8bn in 2019 and decreased by 16% from \$8.1bn in 2018. In comparison, the amount of real estate deals regressed by 18.3% in 2018 and grew by 17.4% in 2017. The value of real estate transactions declined by 19% year-on-year to \$4.7bn in the first nine months of 2019, while it regressed by 8.4% annually in the fourth quarter of the year. Further, the value of real estate transactions in Beirut totaled \$2.3bn and accounted for 33.9% of the total in 2019. The Baabda region followed with \$1.24bn (18.1%), then the Metn district with \$1.2bn (17.4%), the Keserwan area with \$656.2m (9.6%), the South with \$563.7m (8.2%), the North with \$391.3m (5.7%), the Zahlé area with \$225.8m (3.3%), and the Nabatieh region with \$193.2m (2.8%).

In parallel, the average amount per real estate transaction was \$135,828 in 2019, up by 1.4% from an average of \$133,977 in 2018 and relative to \$135,356 in 2017. Further, there were 993 real estate transactions executed by foreigners last year, constituting a decline of 18.2% from 1,214 deals in 2018 and compared to 1,364 transactions in 2017. The number of real estate deals executed by foreigners accounted for 2% of total real estate transactions in 2019, unchanged from 2018 and relative to a share of 1.9% of deals in 2017.

Further, 25.8% of real estate transactions executed by foreigners in 2019 were in the Baabda district, followed by Beirut (18.5%), the South (16.1%), Metn (12.2%), the North (9.2%), the Keserwan region (9%), the Zahlé area (7.8%), and the Nabatieh region (1.6%). Also, Syrian citizens accounted for 46.7% of the total amount of real estate transactions executed by foreigners in December 2019, followed by Kuwaiti citizens (11.8%), Egyptian nationals (9.4%), Saudi citizens (7.6%), Jordanians (5.5%) and Iraqi nationals (2.3%).

Schools receive European Union grant to introduce energy efficiency

The Lebanese Center for Energy Conservation (LCEC) indicated that two Lebanese schools will benefit from grants from the European Union under the Energy Smart Mediterranean Schools Network (ESMES) project, in order to introduce energy efficiency measures in their facilities. It said that the ESMES project targets public schools in Lebanon, as well as in Italy, Jordan, Spain and Tunisia. It noted that the project will be implemented under the ENI CBC Med Program, which aims to address climate change, pollution, youth unemployment, and social inequality, among other challenges in the Mediterranean. The ENI CBC Med Program is the largest Cross-Border Cooperation (CBC) initiative implemented by the European Union under the European Neighborhood Instrument (ENI).

The LCEC pointed out that the grants will be used to conduct an energy audit for the two schools and to implement energy saving measures. It noted that a €60,000 grant will be allocated to the first public school and will be channeled through a qualified Energy Services Company (ESCO) operating in Lebanon. It said that the call for proposals will be launched soon and asked interested companies to apply to the LCEC ESCO qualification process. It added that a vocational school will benefit from another grant under the project to implement energy efficiency measures.

The ESMES project started in September 2019 and is expected to end in August 2022. It has a total budget of €3.3m, of which €2.9m are funded by the European Union and the rest by members countries. ESMES intends to contribute to increased awareness and better energy habits in schools, through practical trainings in renewable energy and energy efficiency delivered to 8,000 students. Also, the project should save 240 carbon dioxide tons per year, 270,000 kilowatt-hour (kWh) per year from renewable energy and 30,000 kWh per year through energy efficiency.

Lebanon ranks 68th globally, seventh among Arab countries in electronic commerce

The 2019 UNCTAD Business-to-Consumer (B2C) E-Commerce Index ranked Lebanon in 68th place among 152 countries worldwide, in 20th place among 42 economies in upper middle-income countries (UMICs), and in seventh place among 19 Arab countries included in the survey. In comparison, Lebanon ranked in 63rd place globally, in 17th place among UMICs and in fifth place regionally in the 2018 survey. Lebanon's global rank regressed by five spots based on the same set of countries included in the 2018 and 2019 surveys. The index measures the readiness of countries to engage in online commerce. It reflects the steps involved in a B2C transaction, and is composed of four indicators that consist of the Internet penetration rate, the number of secure Internet servers per one million inhabitants, the payment account penetration rate, and the reliability of postal services.

Globally, Lebanon's readiness for e-commerce is more developed than in Trinidad & Tobago, Hungary and Moldova, and is less developed than in North Macedonia, Kazakhstan and Poland. Also, Lebanon ranked ahead of Jamaica and Brazil, and came behind Colombia and the Dominican Republic among UMICs. Lebanon received a score of 59.4 points, higher than the global average score of 55.5 points, the UMICs' average score of 58.1 points, and the Arab average score of 46.9 points. Also, Lebanon's score is lower than the Gulf Cooperation Council (GCC) countries' average score of 71.6 points, but higher than the average score of non-GCC Arab countries of 35.6 points.

The index shows that Lebanon's Internet penetration rate in the 2019 survey was 78%, constituting the 46th highest rate globally, as well as the seventh highest rate among UMICs and among Arab countries included in the survey. Also, Lebanon's Internet penetration rate is higher than the global penetration rate of 57.1%, the UMICs' rate of 64.4% and the Arab rate of 62.7%.

Further, the survey indicates that the payment account penetration rate in Lebanon stood at 45%, which is the 97th highest rate globally, the 34th highest rate among UMICs and the eighth highest in the Arab world. The payment account penetration rate is the percentage of respondents who are 15 years of age or older and who have an account at a bank or at another type of financial institution. Lebanon's penetration rate is lower than the global payment account penetration rate of 60.2%, the UMICs' rate of 61%, and the Arab countries' rate of 45.2%.

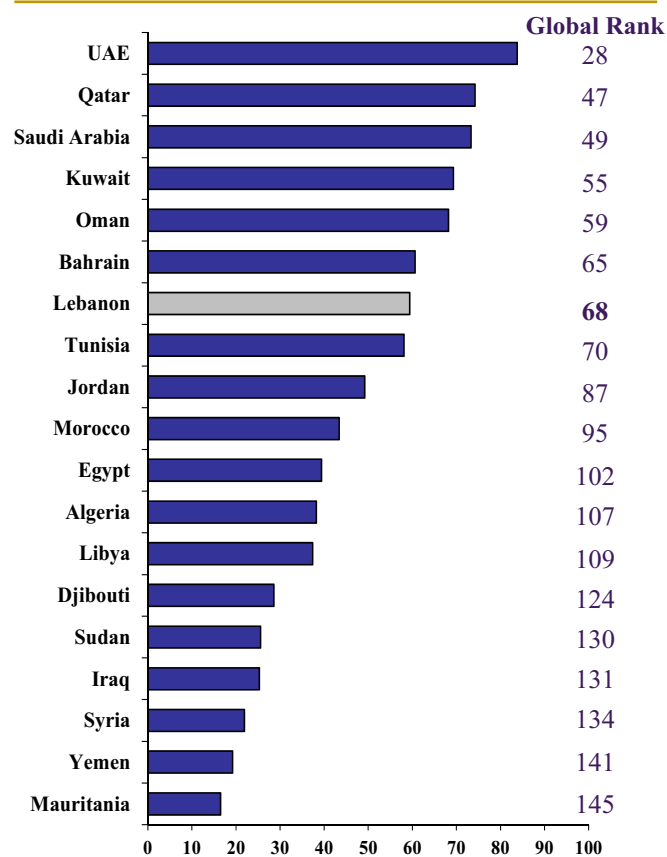
In addition, the index reveals that there were 48 secure Internet servers per one million inhabitants in Lebanon relative to 55.5 servers per one million inhabitants globally, 58.7 servers per one million inhabitants among UMICs, and 42.1 servers per one million inhabitants in the Arab region. The number of secure Internet servers per one million inhabitants in Lebanon is the 88th highest worldwide, the 33rd highest among UMICs and the eighth highest regionally.

Compensation of public-sector personnel at \$5.4bn in first 10 months of 2019, absorbs 58% of revenues

Figures issued by the Ministry of Finance show that the compensation of public-sector personnel totaled \$5.4bn in the first 10 months of 2019, constituting an increase of 0.4% from \$5.37bn in the same period of 2018. Salaries, wages and related benefits accounted for 60.6% of the total in the first 10 months of 2019, followed by retirement benefits (27.3%), end-of-service indemnities (7.7%), and transfers to public institutions to cover salaries (4.4%). The compensation of public-sector personnel represented the largest component of current primary spending and accounted for 71.5% of such expenditures in the covered period, compared to 66.1% in the first 10 months of 2018. Also, the compensation of public-sector personnel absorbed 57.5% of total fiscal receipts in the first 10 months of 2019 relative to 54% in the same period of 2018. It accounted for 40.3% of overall fiscal spending in the first 10 months of 2019 compared to 36.7% in the same period of 2018.

Salaries, wages & related benefits paid to public-sector employees reached \$3.27bn in the first 10 months of 2019, constituting a decline of 2.7% from \$3.36bn 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. In addition, retirement benefits grew by 15.4% to \$1.47bn in the first 10 months of 2019, while end-of-service indemnities declined by 8.5% to \$417.2m, and transfers to public institutions to cover salaries fell by 15.8% to \$235.5m in the covered period. As such, the increase in the compensation of public-sector personnel cost was entirely due to retirement benefits in the covered period.

**Business-to-Consumer E-Commerce Index for 2019
Scores & Rankings of Arab Countries**



Source: UNCTAD, Byblos Research

Lebanon ranks 87th globally, ninth among Arab countries in terms of well-being

The Boston Consulting Group's (BCG) 2019 Sustainable Economic Development Assessment (SEDA) ranked Lebanon in 87th place among 143 countries globally and in ninth place among 16 Arab countries in terms of well-being. It also ranked Lebanon in 34th place among 42 upper middle-income countries (UMICs) included in the survey. BCG updated the methodology of the SEDA in 2019 and, accordingly, revised the historical figures to allow the comparison of the scores in the last decade. Based on the revised figures, Lebanon's rank improved by five spots from 92nd place globally in 2018, and by two spots from 11th place regionally.

The SEDA measures a country's current level of overall well-being through 10 dimensions grouped into three fundamental elements that are Economics, Investments and Sustainability. The Economics element includes income, economic stability, and employment; while the Investments element covers the quality of education, healthcare and infrastructure. Also, the Sustainability element covers the income equality, civil society, governance, and environmental dimensions. The survey assigns a score to each country from zero to 100, with 100 reflecting the highest level of well-being.

Globally, Lebanon has a higher level of well-being than Algeria, El Salvador and Morocco, and a lower level than Iran, Paraguay, and Venezuela among economies with a GDP of \$10bn or more. Also, the level of well-being in Lebanon was higher than in Algeria, Botswana, Guatemala, Gabon, Namibia, South Africa and Iraq among UMICs. Lebanon received a score of 43.5 points, lower than the global median score of 48.5 points, the UMICs' median of 48.8 points and the Arab region's median score of 45 points. Also, Lebanon's score was lower than the Gulf Cooperation Council (GCC) countries' median of 64.4 points, while it was higher than the median score of 41.7 points for non-GCC Arab countries. In parallel, Lebanon's score decreased by 4.9 points between the 2008 and 2019 surveys, which shows a decline in the country's well-being. Globally, Yemen and Greece were the only countries to post a steeper deterioration than Lebanon in their well-being between 2008 and 2019.

Further, the BCG provided the wealth-to-well-being coefficient, which compares a country's SEDA score of well-being with the nation's potential score of well-being relative to its gross national income (GNI) per capita. As such, the coefficient provides an indicator of how well a country has converted its wealth into well-being for its population. Lebanon's coefficient came at 0.9 points, which means that Lebanon has delivered a lower level of well-being than what would be expected given its GNI per capita. Countries with a coefficient of one are generating well-being to their population in line with what would be expected given their income levels. Countries with a coefficient greater than one deliver higher levels of well-being to their society than would be expected relative to their GNI, while countries with a coefficient below one deliver a lower level of well-being to the population than would be expected given their wealth levels. Lebanon's coefficient is the 36th lowest globally, the fifth lowest among UMICs and the eighth lowest among Arab countries.

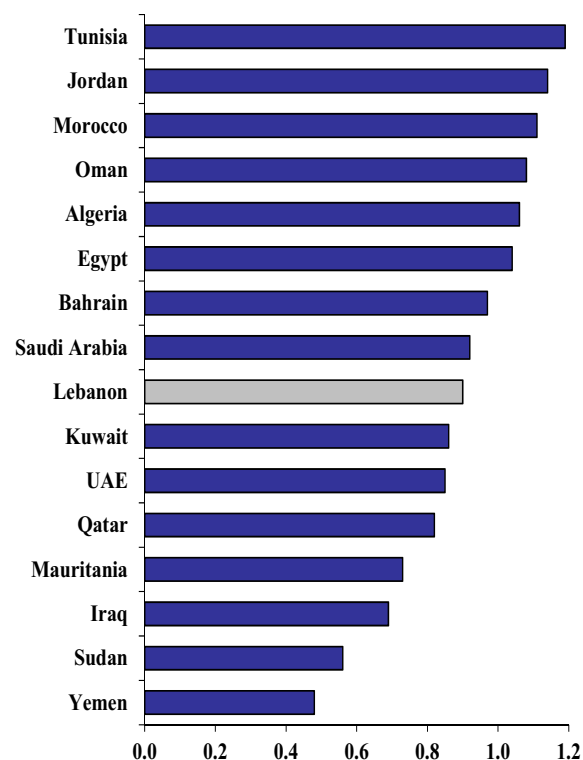
New industrial licenses down 57% in first half of 2019

The Ministry of Industry issued 143 new industrial licenses in the first half of 2019, constituting a decline of 57.1% from 333 licenses in the first half of 2018. Construction & investment licenses accounted for 50.3% of issued licenses in the covered period of 2019, followed by construction licenses with 37.1%, and investment licenses with 12.6%. In parallel, the ministry issued 89 requests for settlement and 14 licenses to modify industrial plants' owner or usage, while it renewed three licenses and refused or revoked 32 licenses. Overall, the ministry issued 3,058 new industrial licenses since the beginning of 2013 until end-June 2019, of which 45.7% were construction licenses, 29.2% represented both construction and investment licenses, and 25.1% were investment licenses.

The ministry issued 66 new licenses for Mount Lebanon in the first half of 2019, or 46.2% of the total; followed by Nabatieh with 25 licenses (17.5%); the South with 20 licenses (14%); the Bekaa with 19 licenses (13.3%); the North with nine licenses (6.3%) and Beirut with four licenses (2.8%).

Also, the ministry issued 39 licenses in the food processing sector in the first half of 2019, or 27.3% of the total; followed by 37 licenses for water extraction & distribution (25.9%); 13 licenses for rubber & plastics (9.1%); nine licenses for metal products & electrical appliances (6.3%); eight licenses for primary minerals (5.6%); seven licenses for the manufacturing of tools and equipment (4.9%); six licenses for mining & quarrying products (4.2%); five licenses for construction materials (3.5%); and three licenses for each of the furniture & wood sector and the chemicals industry (2.1% each).

**Wealth-to-Well-Being Coefficient
in Arab Countries**



Source: Boston Consulting Group, Byblos Research

Foreign investments of financial sector at \$3.3bn at end-March 2019

Figures issued by Banque du Liban show that the net investment portfolio of Lebanese banks and financial institutions in foreign debt and equity securities totaled \$3.32bn at the end of March 2019, constituting a decline of 6.7% from \$3.56bn at the end of 2018. Investments in long-term debt securities reached \$1.65bn at the end of March 2019 and accounted for 50% of the total, followed by placements in equities at \$1.6bn (49.7%), and investments in short-term debt securities at \$16m (0.5%). According to Banque du Liban, the figures cover the net assets of resident banks and financial institutions in foreign tradable debt and equity instruments. They help provide a clearer picture about the flow of funds from Lebanon and, therefore, about the balance of payments.

Commercial banks' net portfolio of long-term debt securities, including banks' investments for their own account, on behalf of their clients and on a custodial basis, totaled \$1.01bn and accounted for 61.2% of the financial sector's aggregate investments in such securities at end-March 2019. Medium- and long-term banks followed with \$387.2m (23.4%), then insurance companies with \$142m (8.6%), and financial institutions with \$112.3m (6.8%).

In parallel, commercial banks accounted for 81.7% of investments in short-term debt securities at the end of March 2019, followed by insurance firms with 15.8%, and medium- and long-term banks with 2.5%. Further, commercial banks' investments in equities reached \$698.8m and represented 42.4% of the financial sector's investments in such securities at end-March 2019. Medium- and long-term banks followed with \$549m (33.3%), then financial institutions with \$271.9m (16.5%), insurers with \$128.2m (7.8%), and financial intermediaries with \$0.3m.

The distribution of investments by destination shows that the United States was the main recipient of investments in long-term debt securities of banks and financial institutions operating in Lebanon with \$495.4m, or 30% of the total, at end-March 2019. The United Kingdom followed with investments in long-term debt securities worth \$296.8m (17.9%), then France with \$198m (12%), Switzerland with \$77m (4.7%), and the UAE with \$77m (4.6%), while other countries accounted for the remaining 30.8% of investments in long-term debt securities. In parallel, the United States received \$574.5m or 35% of equity investments, followed by Luxembourg with \$169.2m (10.3%), France with \$156.8m (9.5%), Bahrain with \$109.6m (6.6%) and Jordan with \$106.6m (6.5%), while other countries accounted for the remaining 32.3%. Further, Australia was the recipient of 47.7% of investments by Lebanese banks and financial institutions in short-term debt securities, followed by the U.S. (29.5%), Kuwait (6.2%), the European Union and the United Kingdom (5.4% each), while other countries represented the remaining 5.8% of investments in short-term debt securities.

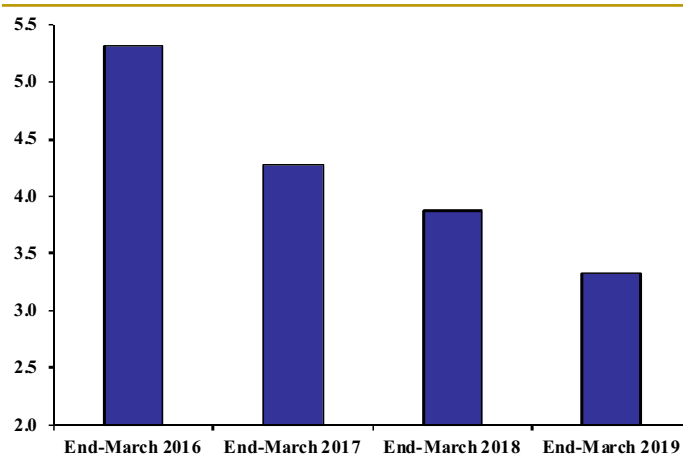
BLC Bank's net earnings at \$15.5m in first nine months of 2019

BLC Bank, one of six listed banks in Lebanon, announced unaudited consolidated net profits of \$15.5m in the first nine months of 2019, compared to net earnings of \$28.9m in the same period of 2018. The bank mainly attributed the decline in its net income to the prevailing economic crisis, as well as to the continued rise in the cost of funds and to decreasing margins. The bank's net operating income dropped by 26.7% year-on-year to \$63.2m in the first nine months of 2019, mainly due to an annual decline of 30% in net interest income to \$47.6m, and a year-on-year decrease of 5.7% in net fee and commission income to \$12.7m. Also, total operating expenditures were nearly unchanged annually at \$52.9m in the first nine months of 2019, with staff expenses totaling \$34m, administrative expenditures at \$15.3m, and depreciation and amortization costs at \$3.6m in the covered period.

In addition, total assets reached \$5bn at end-September 2019, nearly unchanged from end-2018, while loans & advances to customers declined by 7.7% from end-2018 to \$1.5bn. Also, customer deposits totaled \$3.7bn at end-September 2019 and dropped by 5% from end-2018. Further, the bank's total equity reached \$531.8m at end-September 2019, down by 7.6% from end-2018. The bank's capital adequacy ratio stood at 14.8%, which significantly exceeds Banque du Liban's requirement of 12% for September 2019.

In parallel, BLC Bank invited its shareholders to attend its Extraordinary General Assembly on January 30, 2020. The agenda of the meeting includes approving a capital increase through the issuance of cash contribution interests, in line with Banque du Liban's Intermediate Circular 532.

Foreign Investments of Financial Sector (US\$bn)



Source: Banque du Liban, Byblos Research

Bank of Beirut's net income at \$118m in first nine months of 2019

Bank of Beirut sal, one of six listed banks in Lebanon, announced unaudited consolidated net profits of \$118m in the first nine months of 2019, constituting a decrease of 5.3% from net earnings of \$124.6m in the same period of 2018. The bank's net operating income dropped by 4.1% year-on-year to \$307.1m in the first nine months of 2019, mainly due to an annual decline of 12.1% in net interest income to \$203.2m, which was partly offset by a year-on-year increase of 4% in net fee and commission income to \$80.4m. Also, total operating expenditures regressed by 1.8% annually to \$164.4m in the first nine months of 2019, with staff expenses dropping by 4.3% to \$90.7m, and administrative & other operating expenditures expanding by 0.6% to \$60.8m.

In parallel, the bank's total assets reached \$17.6bn at end-September 2019 and declined by a marginal 0.8% from end-2018, while loans & advances to customers, excluding those to related parties, decreased by 7% from end-2018 to \$5.3bn. Also, customer deposits, excluding those from related parties, totaled \$12.6bn at end-September 2019 and regressed by 3.5% from the end of 2018. Further, the bank's total equity reached \$1.8bn at end-September 2019 and increased by 1.3% from end-2018.

Banque BEMO's net earnings at \$13m in first nine months of 2019

Banque BEMO sal, one of six listed banks in Lebanon, announced unaudited consolidated net profits of \$13.2m in the first nine months of 2019, constituting a decrease of 0.7% from net earnings of \$13.3m in the same period of 2018. The bank's net operating income rose by 17.3% year-on-year to \$41.1m in the first nine months of 2019, mainly due to an annual increase of 28.2% in net interest income to \$33.7m, which was partly offset by a year-on-year decrease of 2.3% in net fee and commission income to \$4.6m. Also, total operating expenditures grew by 30.2% annually to \$25.9m in the first nine months of 2019, with staff expenses rising by 8.6% to \$12.9m, depreciation and amortization costs surging by 55.8% to \$1.7m, and other operating expenses increasing by 15.5% to \$8.4m; while provisions for risks and charges shifted from net gains of \$334,415 in the first nine months of 2018 to net losses of \$2.9m in the covered period.

In parallel, the bank's assets reached \$2.05bn at end-September 2019, and rose by 1.3% from end-2018, while loans & advances to customers, excluding those to related parties, decreased by 9.1% from end-2018 to \$660m. Also, customer deposits, excluding those from related parties, totaled \$1.2bn at end-September 2019 and regressed by 5% from the end of 2018. Further, the bank's total equity reached \$193.4m at end-September 2019, and increased by 1.8% from end-2018.

Banque BEMO sal invited its shareholders to attend its Extraordinary General Assembly on December 23, 2019, to review and approve a capital increase through the issuance of cash contribution interests, in line with Banque du Liban's Intermediate Circular 532.

Burgan Insurance's net income at \$0.3m in 2018

Burgan Insurance Co. sal declared net profits of \$299,641 in 2018 compared to net earnings of \$441,053 in 2017. The firm's audited balance sheet shows aggregate assets of \$16.4m at end-2018, up by 7.2% from \$15.3m a year earlier. On the assets side, general company investments totaled \$4.2m and increased by 12.8% from end-2017. They included \$1.8m in cash & cash equivalents and \$1m in fixed income investments. Also, the firm blocked \$1.4m as bank deposits and deposits with maturity of more than three months, of which \$1.3m, or 94.2%, 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 \$0.93m at the end of 2018 and rose by 72.7% from a year earlier, while the share of the non-life segment stood at \$0.97m and declined by 5.4% from end-2017.

On the liabilities side, technical reserves for the life segment increased by 85.1% year-on-year to \$1.2m, while technical reserves for the non-life category reached \$7m at end-2018 and grew by 12% from a year earlier. Non-life technical reserves included outstanding claims reserves of \$3m that rose by 6.6%, unearned premium reserves of \$2.8m that increased by 12.6%, and "incurred but not enough reported" reserves of \$0.55m that grew by 43.5% year-on-year. Provisions for risks and charges reached \$0.2m at the end of 2018, unchanged from the end of 2017. Also, the firm's shareholders' equity was \$4.4m at end-2018, up by 6.5% from a year earlier.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked Burgan Insurance in 17th and in 27th place in 2018 in terms of life and non-life premiums, respectively. The firm's non-life premiums reached \$10m in 2018, up by 8.2% from the previous year; while its life premiums amounted to \$2.7m, down by 1.8% from 2017. Burgan Insurance had a 0.9% share of the local non-life insurance market and a 0.5% share of the life insurance market. Overall, it ranked in 29th place in terms of life and non-life premiums in 2018, with a 0.7% market share.

Ratio Highlights

(in % unless specified)	2016	2017	2018	Change*
Nominal GDP (\$bn)	51.2	53.4	56.1	
Public Debt in Foreign Currency / GDP	54.9	56.9	59.7	2.82
Public Debt in Local Currency / GDP	91.3	92.0	92.1	0.10
Gross Public Debt / GDP	146.2	149.0	151.9	2.92
Total Gross External Debt / GDP**	182.0	183.1	184.7	0.88
Trade Balance / GDP	(31.5)	(31.3)	(30.4)	1.11
Exports / Imports	15.6	14.5	14.8	0.25
Fiscal Revenues / GDP	19.4	21.8	20.6	(1.2)
Fiscal Expenditures / GDP	29.0	28.8	31.7	2.9
Fiscal Balance / GDP	(9.6)	(7.0)	(11.1)	(4.1)
Primary Balance / GDP	0.04	2.7	(1.1)	-
Gross Foreign Currency Reserves / M2	62.2	68.2	63.8	(4.39)
M3 / GDP	259.2	259.6	252.1	(7.55)
Commercial Banks Assets / GDP	398.7	411.8	445.1	33.32
Private Sector Deposits / GDP	317.1	315.9	310.9	(4.97)
Private Sector Loans / GDP***	111.6	111.8	105.9	(5.84)
Private Sector Deposits Dollarization Rate	65.8	68.7	70.6	1.90
Private Sector Lending Dollarization Rate	72.6	68.6	69.2	0.57

*change in percentage points 18/17

includes portion of public debt owed to non-residents, liabilities to non-resident banks, non-resident deposits (estimated by the IMF), Bank for International Settlements' claims on Lebanese non-banks * in January 2018, Lebanese banks started reporting their financials based on international accounting standard IFRS 9, and revised the 2017 figures accordingly

Source: Association of Banks in Lebanon, Institute of International Finance, International Monetary Fund, World Bank, Byblos Research Estimates & Calculations

Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

Risk Metrics

Lebanon	Dec 2017	Nov 2018	Dec 2018	Change**	Risk Level
Political Risk Rating	55.0	54.0	54.0	▲	High
Financial Risk Rating	33.0	33.0	31.5	▲	Moderate
Economic Risk Rating	28.5	28.5	24.0	▲	Very High
Composite Risk Rating	58.25	57.75	54.75	▲	High

MENA Average*	Dec 2017	Nov 2018	Dec 2018	Change**	Risk Level
Political Risk Rating	58.2	58.0	58.1	▲	High
Financial Risk Rating	38.5	38.9	38.9	▼	Low
Economic Risk Rating	30.9	33.2	33.7	▼	Moderate
Composite Risk Rating	63.9	65.0	65.3	▼	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	CC	C	-	CC	C	-
S&P Global Ratings	CCC	C	Negative	CCC	C	Negative
Capital Intelligence Ratings	C+	C	Negative	C+	C	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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