

LEBANON THIS WEEK

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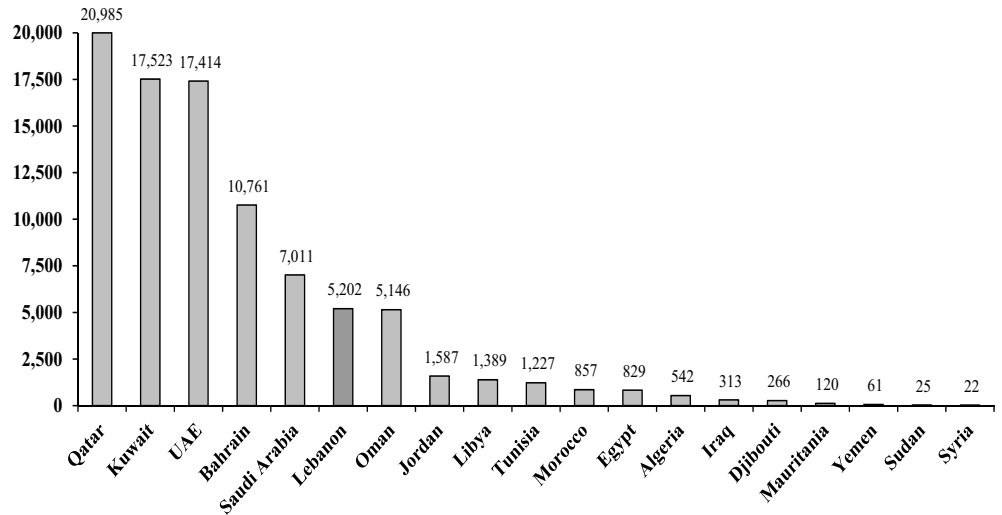
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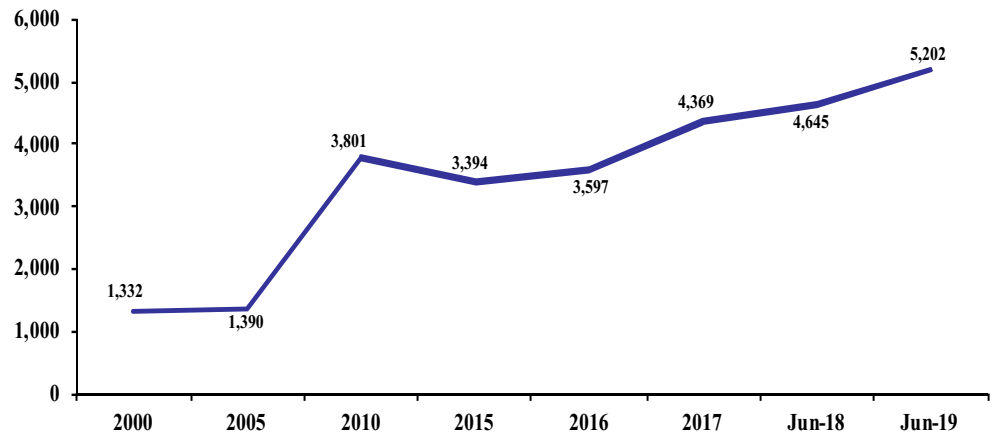
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Charts of the Week

Debt per Capita in Arab Countries at end-June 2019 (US\$)



Debt per Capita in Lebanon (US\$)



Source: Credit Suisse, Byblos Bank

Quote to Note

"Staff is available to provide further technical advice to the government as it formulates its economic reform plans."

The International Monetary Fund, following the visit of a small team to Lebanon at the request of the local authorities

Number of the Week

6: Number of measures that Lebanese authorities have implemented in the past 10 years to improve the business environment in the country, according to the World Bank's Ease of Doing Business Survey

Lebanon in the News

\$m (unless otherwise mentioned)	2018	2019	% Change*	Dec-18	Oct-19	Nov-19	Dec-19
Exports	2,952	3,731	26.41	246	292	309	324
Imports	19,980	19,239	(3.70)	1,569	1,308	1,281	1,346
Trade Balance	(17,028)	(15,508)	(8.92)	(1,323)	(1,016)	(972)	(1,022)
Balance of Payments	(4,823)	(4,351)	(9.79)	(748)	(198)	1,143	(841)
Checks Cleared in LBP	22,133	22,146	0.06	2,024	1,378	2,232	2,403
Checks Cleared in FC	44,436	34,827	(21.62)	3,455	1,717	2,946	3,898
Total Checks Cleared	66,569	56,973	(14.42)	5,479	3,095	5,178	6,301
Fiscal Deficit/Surplus***	(4,734)	(4,024)	(15.00)	(437)	(432)	-	-
Primary Balance***	(402)	217	-	(145)	21	-	-
Airport Passengers	8,842,442	8,684,937	(1.78)	677,845	659,737	438,674	544,967
Consumer Price Index****	6.1	2.9	(317bps)	4.0	1.3	3.2	7.0

\$bn (unless otherwise mentioned)	Dec-17	Dec-18	Sep-19	Oct-19	Nov-19	Dec-19	% Change*
BdL FX Reserves	35.81	32.51	29.30	30.98	30.15	29.55	(9.1)
In months of Imports	18.57	20.72	19.99	23.68	23.54	21.95	5.9
Public Debt	79.53	85.14	86.78	87.08	89.48	91.64	7.6
Bank Assets	219.86	249.48	262.20	262.80	259.69	216.78**	(13.1)
Bank Deposits (Private Sector)	168.66	174.28	170.30	168.36	162.60	158.86	(8.8)
Bank Loans to Private Sector	59.69	59.39	54.50	54.17	52.48	49.77	(16.2)
Money Supply M2	52.51	50.96	46.73	45.77	43.82	42.11	(17.4)
Money Supply M3	138.62	141.29	138.83	138.37	136.44	134.55	(4.8)
LBP Lending Rate (%)	8.09	9.97	10.92	11.19	9.69	9.09	(88bps)
LBP Deposit Rate (%)	6.41	8.30	9.13	9.03	9.40	7.36	(94bps)
USD Lending Rate (%)	7.67	8.57	10.26	10.05	10.64	10.84	227bps
USD Deposit Rate (%)	3.89	5.15	6.57	6.61	6.31	4.62	(53bps)

*year-on-year **The decline in assets in December 2019 is mainly due to the "netting" on the assets and liabilities' sides of the consolidated balance sheet of commercial banks as part of the implementation of international accounting standard IFRS 7 ***year-to-date figures reflect results for first 10 months of each 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"	8.59	0.12	369,291	13.78%
Solidere "B"	8.51	(0.70)	74,176	8.87%
Byblos Common	1.00	0.00	65,000	9.07%
Audi Listed	1.90	14.46	13,993	12.18%
BLOM Listed	4.00	4.44	3,042	13.79%
HOLCIM	9.71	1.04	1,000	3.04%
BLOM GDR	3.00	0.00	2	3.56%
Byblos Pref. 08	60.00	0.00	-	1.92%
Audi GDR	2.39	0.00	-	4.59%
Byblos Pref. 09	59.90	0.00	-	1.92%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Mar 2020	6.38	49.00	5887.68
Apr 2021	8.25	27.25	180.62
Oct 2022	6.10	27.25	71.52
Jun 2025	6.25	26.00	42.25
Nov 2026	6.60	25.75	37.41
Feb 2030	6.65	26.00	30.87
Apr 2031	7.00	25.13	31.54
May 2033	8.20	23.00	36.94
Nov 2035	7.05	26.00	28.35
Mar 2037	7.25	25.88	28.84

Source: Byblos Bank Capital Markets, Refinitiv

	Feb 24-28	Feb 17-21	% Change	February 2020	February 2019	% Change
Total shares traded	561,264	438,025	28.1	1,729,973	121,955,414	(98.6)
Total value traded	\$4,015,357	\$2,024,906	98.3	\$11,322,149	\$569,916,249	(98.0)
Market capitalization	\$6.24bn	\$6.10bn	2.2	\$6.24bn	\$9.34bn	(33.2)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Feb 21, 2020	Feb 28, 2020	% Change**
CDS 1-year*	28,666	45,547	58.9
CDS 3-year*	24,368	28,925	18.7
CDS 5-year*	23,164	23,525	1.6

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

CDX EM 30*	Feb 21, 2020	Feb 28, 2020	% Change***
CDS 5-year**	196.86	249.24	26.6

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

Lebanon appoints financial and legal advisors for debt-related matters

The Council of Ministers announced that Lebanon appointed financial advisory firm Lazard and law firm Cleary Gottlieb Steen & Hamilton to provide advisory services related to the government's upcoming decisions about the public debt. Lebanon has a \$1.2bn Eurombond due on March 9, a \$700m Eurobond due in April and \$600m maturing in June 2020, but authorities have not announced a decision on the payment of the bonds.

The Ministry of Finance reportedly issued requests for proposals to 12 firms to provide financial advice on a potential debt restructuring. The 12 firms are Lazard, Rothschild & Co, Guggenheim Partners, Houlihan Lokey, Citibank, JPMorgan, PJT Partners, Newstate Partners, Standard Chartered, Global Sovereign Advisory, Deutsche Bank, and White Oak. Law firms that expressed interest to provide legal advice to Lebanon included Cleary Gottlieb Steen & Hamilton, Dechert, and White & Case.

Lazard is a financial advisory and asset management firm that operates in 43 cities across 27 countries. The company's areas of expertise include debt management, issuance and consolidation, among other practices. It has assisted several governments and public entities worldwide. In parallel, Cleary Gottlieb is a legal advisory firm that operates in 16 offices worldwide and provided legal counsel to more than 50 sovereigns.

S&P Global Ratings and Moody's Investors Service downgraded Lebanon's sovereign ratings on February 21, 2020 due to the rising likelihood of debt restructuring in the near term. Lebanon's gross public debt reached \$91.6bn at the end of 2019, constituting an increase of 7.6% from \$85.1bn at the end of 2018. In nominal terms, the gross public debt grew by \$6.5bn in 2019, relative to increases of \$5.6bn in 2018, \$4.6bn in 2017 and \$4.56bn in 2016. Debt denominated in Lebanese pounds reached \$57.9bn, or 63.2% of the total, at end-2019, and is entirely held by local investors and institutions; while foreign currency denominated-debt was at \$33.7bn, or 36.8% of the total. Banque du Liban held nearly 43% of the total public debt at the end of 2019, followed by commercial banks (33.4%), and non-bank resident financial institutions (8.1%), while other investors, including foreign investors, held 13.3% of the debt, and multilateral institutions and foreign governments held 2.2%. Lebanon's gross public debt grew by a compound annual growth rate (CAGR) of 13% between 1993 and 2019, while debt in foreign currency expanded by a CAGR of 19.5% over the same period.

Lebanon announces start of offshore oil & gas exploration

Lebanon announced that the drilling for oil & gas in the country's first exploratory well started on February 27, 2020 in Block 4 in the center of Lebanon's offshore Exclusive Economic Zone. France's Total S.A., one of the three companies of the consortium that was awarded the exploration and production agreements for Block 4 and Block 9, selected Tungsten Explorer in an international tender to explore the first well in Lebanon's territorial waters. Total S.A. indicated that Tungsten Explorer will start drilling at 1.5 kilometers below sea level, and would explore targets located more than 2.5 kilometers below the sea bed. It added that the drilling work will last around two months. The drilling of Block 4 was supposed to start towards the end of 2019. Tungsten Explorer is managed by the U.S.-based offshore drilling contractor Vantage Drilling Company.

Italy's Eni International BV and Russian firm JSC Novatek are the two other members of the consortium that won the bids for Block 4 in the center of Lebanon's territorial waters and for Block 9 in the south of the territorial waters. In December 2017, the Council of Ministers approved the bid submitted by the consortium for offshore oil & gas exploration and production in Lebanon.

In parallel, the Council of Ministers approved in April 2019 the launch of the second licensing round for offshore oil & gas exploration and production in Lebanon's territorial waters. The Ministry of Energy & Water extended from the end of January 2020 to the end of April 2020 the deadline for interested companies to participate in the second licensing round in response to requests from international oil companies to allow them to complete their administrative, technical and financial preparations. Five blocks are open for bidding for the second licensing round, including Block 1 and Block 2, which are located in the north of Lebanon's offshore Exclusive Economic Zone, Block 5 in the center, and Block 8 and Block 10 in the south of Lebanon's territorial waters.

The United States Geological Survey (USGS) estimated in 2010 that the Levant Basin Province has a mean of 1.7 billion barrels of recoverable oil and a mean of 122 trillion cubic feet of recoverable gas. The Levant Basin Province encompasses approximately 83,000 square kilometers of the eastern Mediterranean area off the coasts of Lebanon, Syria, Cyprus and Israel. The USGS stressed that the estimates represent technically-recoverable oil and gas resources, and are not estimates of economically-recoverable resources.

Economy Ministry prohibits insurance companies from distributing dividends for 2019

The Ministry of Economy & Trade issued Circular 452 on February 20, 2020 that prohibits insurance companies in Lebanon from distributing dividends to shareholders for financial year 2019, or any dividends accumulated in previous years. It also asked insurers to refrain from settling any payments to related parties without the approval of the Insurance Control Commission (ICC), regardless of the nature and type of the payment, or whether or not the payment is justifiable. The ministry issued the decisions based on a proposal from the ICC in order to preserve the solvency of insurers amid the prevailing challenges facing the country. The circular is based on Decree No. 9812 dated May 4, 1968 and its amendments, about the organization of insurance companies in Lebanon.

According to the latest figures published by the ICC, the net profits of 50 licensed insurance companies in Lebanon reached \$174.1m in 2018, constituting an increase of 14.1% from \$152.6m in 2017. The sector's return on assets increased from 3.2% in 2017 to 3.5% in 2018, while its return on equity rose from 13% in 2017 to 14.5% in 2018.

Banque du Liban reduces interest rates on mortgages

Banque du Liban (BdL) issued Intermediate Circular 545 on February 25, 2020, that amends Basic Circular 23 about the facilities that BdL can provide to commercial banks and financial institutions, as well as Basic Circular 84 about the reserve requirements of commercial banks. The circular reduced the interest rates and fees on several types of loans, but mostly on mortgages. It noted that banks have until the end of March 2020 to adjust the interest rates on the loans covered by the circular.

The circular capped at 3% the interest rates and fees on outstanding housing loans in Lebanese pounds that banks extended under the protocol signed with the Public Corporation for Housing. Prior to the amendments, the interest rates and fees on this type of loans that were extended after February 7, 2017 were 3.4%, while the rates and fees on loans extended before February 8, 2017 were 4.9%.

The circular set a ceiling on the interest rates and fees for housing loans in Lebanese pounds that are subsidized by BdL, based on the date when the loan was extended and the amount of the mortgage. Specifically, it limited the fees and interest rates on housing loans of up to LBP800m that banks extended prior to February 8, 2017 to 4.6%, compared to 5.6% prior to the amendment. It also capped at 3.1% the interest and fees for housing loans of up to LBP800m that banks extended after February 7, 2017, relative to 4.1% prior to the amendment. Further, the circular capped at 5% the interest and fees on non-housing loans that BdL subsidizes.

In addition, the circular indicated that the interest rates and fees on BdL-subsidized housing loans in US dollars must not exceed the cost of funds plus 1%, compared to a previous cap based on the cost of funds plus 2%. It also noted that the interest rates and fees on subsidized non-housing loans in US dollars must not exceed the cost of funds plus 1.4% annually.

The circular stipulated that the interest rates and fees on outstanding mortgages from Banque de l'Habitat should not exceed 20% of the yield on the one-year Lebanese Treasury bond, plus 3.45% annually. The yield on the one-year Treasury bond is currently 6.5%, which means that the interest and fees on such loans should not exceed 4.75%.

More than 84% of Treasury securities in Lebanese pounds have five-year maturities or longer

Figures released by the Association of Banks in Lebanon (ABL) show that the face value of outstanding Treasury securities denominated in Lebanese pounds reached LBP86,036bn, or the equivalent of \$57.1bn, at the end of January 2020, compared to LBP76,681bn, or \$50.9bn, at end-January 2019. The weighted interest rate on Lebanese Treasury securities denominated in Lebanese pounds was 6.46% in January 2020 compared to 6.15% in January 2019.

The distribution of outstanding Treasury securities denominated in Lebanese pounds at end-January 2020 shows that 15-year Treasury bonds accounted for 1.6%, or LBP1,417bn, of total securities in Lebanese pounds; 12-year Treasury securities represented 3.6% of the total (LBP3,076bn), and 10-year Treasury bonds had a share of 35.6% (LBP30,622bn). Also, the share of eight-year Treasury securities was 2.1% (LBP1,832bn), seven-year Treasury bonds represented 18.3% (LBP15,716bn), five-year Treasury securities accounted for 23.3% (LBP20,069bn), the share of three-year Treasury bonds was 10.4% (LBP8,950bn), two-year Treasury bills represented 3.7% (LBP3,198bn), one-year T-bills accounted for 1.2% (LBP1,040bn), the share of six-month T-bills was 0.1% (LBP66bn), and three-month T-bills represented 0.06% (LBP50bn). As such, 61.2% of outstanding Treasury securities have seven-year maturities or longer and 84.5% have five-year maturities or more.

In parallel, the face value of outstanding Treasury securities denominated in Lebanese pounds that matured in January 2020 was LBP972bn (\$644.8m), of which 31.8% were three-year Treasury bonds, 27.3% were two-year Treasury securities, 23.7% were five-year Treasury bonds, 13.9% were one-year Treasury bills, 2.7% were six-month T-bills, and 0.7% were three-month T-bills. According to the ABL, LBP10,405bn or the equivalent to \$6.9bn of outstanding Treasury bonds in Lebanese pounds will mature in the remainder of 2020, while LBP9,148bn (\$6.1bn) will come due in 2021 and LBP9,446bn (\$6.3bn) will mature in 2022.

Revenues through Port of Beirut down 13% to \$208m in 2019

Figures released by the Port of Beirut show that the port's revenues reached \$208m in 2019, constituting a decline of 13% from \$239m in 2018. The Port of Beirut handled 6.5 million tons of freight in 2019, down by 18.3% from 8 million tons in 2018. Imported freight amounted to 5.7 million tons last year, down by 19.2% from 7.1 million tons in 2018, and accounted for 87.3% of the total. In parallel, export cargo amounted to 827,000 tons, or 12.7% of the total in 2019, and decreased by 11.1% from 930,000 tons in 2018. A total of 1,746 vessels docked at the port in 2019, down by 6.7% from 1,872 ships in 2018. On a monthly basis, revenues generated through the Port of Beirut stood at \$14.7m in December 2019, down by 20.7% from \$18.5m in November. In addition, the total weight of freight handled by the port declined by 21.8% month-on-month to 341,000 tons in December 2019, as imported freight decreased by 25.1% to 268,000 tons in the covered month and export cargo fell by 6.4% from November 2019 to 73,000 tons.

In parallel, revenues generated through the Port of Tripoli reached \$15m in 2019, down by 8.6% from \$16.5m in 2018. The Port of Tripoli handled 2,052,616 tons of freight last year, constituting an increase of 11.1% from 1,846,878 tons in 2018. Imported freight amounted to 1,531,905 tons in 2019, up by 1.8% from 1,504,691 tons in 2018, and accounted for 74.6% of the total last year. In parallel, export cargo totaled 520,711 tons, or 25.4%, and increased by 52.2% from 342,187 tons in 2018. A total of 608 vessels docked at the port in 2019, down by 8.6% from 665 ships in 2018. On a monthly basis, revenues generated through the Port of Tripoli reached \$1.24m in December 2019, up by 3.2% from \$1.2m in November. In addition, the total weight of freight handled by the port declined by 32.7% month-on-month to 105,959 tons, as imported freight decreased by 43.6% to 74,396 tons in the covered month, while export cargo grew by 24% from November 2019 to 31,563 tons.

Industrial exports down 2% to \$2.5bn in 2019

Figures released by the Ministry of Industry show that industrial exports totaled \$2.5bn in 2019, constituting a decline of 2% from \$2.55bn in 2018. Industrial exports reached \$203.9m in December 2019, increasing by 2.5% from \$198.9m in November 2019 and falling by 4.6% from \$213.8m in December 2018.

Exports of machinery & mechanical appliances amounted to \$491.8m and accounted for 19.7% of aggregate industrial exports in 2019, followed by chemical products with \$475.3m (19%), prepared foodstuffs & tobacco with \$389.8m (15.6%), base metals with \$310.4m (12.4%), plastics & rubber with \$159.1m (6.4%), and pearls or semi-precious stones with \$149.5m (6%). Arab countries were the destination of 53.2% of Lebanese industrial exports in 2019, followed by European economies with 18.6%, African countries with 11%, Asian economies with 10.8%, countries in the Americas with 4.8%, and markets in Oceania with 0.7%.

On a country basis, the UAE was the main destination of Lebanese industrial exports and accounted for 9.2% of the total in 2019, followed by Saudi Arabia with 8.4%, Iraq with 7.5%, Syria with 6.3%, Qatar with 4.2%, Jordan with 3.3%, and Turkey with 3.2%. In December 2019, 14 Arab states, 11 European economies, seven African countries, four Asian countries, two countries in the Americas, and one country in Oceania imported \$1m or more each of Lebanese industrial products.

In parallel, imports of industrial equipment and machinery reached \$189.6m in 2019, constituting a decline of 29% from \$266.4m in 2018. Italy was the main source of such imports and accounted for 26% of the total in 2019, followed by China with 18.3% and Germany with 13.9%. Further, imports of industrial equipment and machinery amounted to \$8.2m in December 2019, down by 56.6% from \$18.9m in November 2019 and by 49.6% from \$16.3m in December 2018. Germany was the main source of such imports with \$1.8m and accounted for 22.1% of the total in the covered month, followed by Italy with \$1.5m (18.1%), and China with \$1.4m (16.6%).

Construction activity remains subdued in third quarter of 2019

Banque du Liban's quarterly business survey about the opinions of business managers shows that general construction activity was subdued in the third quarter of 2019, with the balance of opinions standing at -46, relative to -48 in the second quarter of 2019 and to -52 in the third quarter of 2018. The business survey reflects the opinions of enterprise managers about the evolution of their businesses, in order to depict the trend of a number of key economic variables. The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an increase in a particular indicator and the proportion of those who reported a decline in the same indicator.

The balance of opinions about construction activity was -47 in the third quarter of 2019 compared to -50 in the preceding quarter and to -51 in the third quarter of 2018. The balance of opinions about construction activity was the lowest in the Bekaa at -95, followed by the South (-50), Beirut & Mount Lebanon (-39), and the North (-13). Also, the balance of opinions about public works stood at -51 in the third quarter of 2019 compared to -36 in the second quarter of 2019 and to -42 in the third quarter of 2018. Opinions about the level of public works were the lowest in the Bekaa at -96, followed by the South (-80), Beirut & Mount Lebanon (-37), and the North (-23).

In parallel, the balance of opinions about the portfolio of projects was -61 in the third quarter of 2019 relative to -49 in the second quarter of 2019 and to -59 in the third quarter of 2018. The balance of opinions about the portfolio of projects was the lowest in the Bekaa at -89, followed by the South (-87), the North (-57) and Beirut & Mount Lebanon (-44). Further, the balance of opinions about construction costs reached +11 in the third quarter of 2019, compared to -5 in the second quarter of 2019 and +4 in the third quarter of 2018.

Construction and Public Work Activity: Evolution of Opinions				
Aggregate results	Q3-16	Q3-17	Q3-18	Q3-19
General activity	-10	-21	-52	-46
Construction	-13	-21	-51	-47
Public works	-14	-4	-42	-51
Portfolio of projects	-27	-39	-59	-61
Construction costs	7	13	4	11
Investments (% of yes)	35%	29%	20%	17%

Source: Banque du Liban Business Survey for Third Quarter of 2019



Occupancy rate at Beirut hotels at 62%, room yields up 1% in 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 61.7% in 2019 relative to 65.1% in 2018, and compared to an average rate of 66.1% in 14 Arab markets included in the survey. The occupancy rate at Beirut hotels was the fourth lowest in the region in 2019, while it was the fifth highest in 2018. The occupancy rate at hotels in Beirut regressed by 3.4 percentage points in 2019, constituting the steepest decline in the region. In comparison, the average occupancy rate in Arab markets improved by 2.5 percentage points in 2019.

The occupancy rate at Beirut hotels stood at 24.2% in December 2019, constituting a decline of 45.6 percentage points from 69.7% in December 2018 and compared to 18% in November 2019 and 54.7% in October 2019. It was the lowest rate in the region in the covered month. 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, 72.3% in September, 69.6% in October, and 68.5% in November 2018.

The average rate per room at Beirut hotels was \$201 in 2019, increasing by 6.8% from \$188 in 2018 and constituting the third highest rate in the region after Jeddah (\$265) and Dubai (\$227). The average rate per room in Beirut was higher than the regional average of \$160.1 that regressed by 5% from 2018. The average rate per room at Beirut hotels was \$157 in December 2019, down by 25.3% from \$211 in December 2018.

Further, revenues per available room (RevPAR) were \$124 at Beirut hotels in 2019 compared to \$122 in 2018, ranking the capital in third place regionally behind Dubai (\$170) and Jeddah (\$154). Beirut's RevPAR grew by 1.3% year-on-year and posted the seventh 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, \$141 September, \$99 in October, \$23 in November, and \$38 in December 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, \$133 in September, \$123 in October, \$125 in November, and \$147 in December 2018. As such, Beirut's RevPAR in December 2019 regressed by 74.1% from December 2018. Abu Dhabi posted the highest occupancy rate in the region at 79.3% in 2019, while Jeddah registered the highest average rate per room at \$265, and Dubai had the highest RevPAR at \$170 last year.

The occupancy rate at Beirut hotels averaged 71.6% in the first nine months of 2019, up by eight percentage points from 63.6% in the same period of 2018, while it averaged 32.3% in the fourth quarter of 2019, down by 37 percentage points from 69.3% in the same quarter of 2018. Developments in the fourth quarter of 2019 offset the improvement in the activity of the hospitality sector in the first three quarters of 2019. EY indicated that the ongoing socio-political instability and economic crisis in Lebanon weighed on the performance of Beirut's hospitality market in the last quarter of the year. It added that many countries in Europe and the Middle East issued travel warnings to Lebanon, due to security concerns. Further, it projected the performance of the hospitality sector in Beirut to remain subdued in the short to medium term.

Hotel Sector Performance in 2019

	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Dubai	75.0	170	(14.7)
Jeddah	58.3	154	(6.6)
Beirut	61.7	124	1.3
Makkah	66.6	113	2.5
Ras Al Khaimah	74.9	111	(6.7)
Riyadh	64.5	105	8.1
Madina	64.8	94	2.6
Kuwait City	57.2	91	(7.7)
Amman	61.9	89	1.3
Manama	53.3	86	3.9
Cairo	75.6	85	1.2
Muscat	62.7	83	(6.0)
Abu Dhabi	79.3	81	5.4
Doha	69.9	78	10.1

Source: EY, Byblos Research

Non-life premiums down 3% to \$1.1bn in 2019

The annual survey by *Al-Bayan* magazine of the insurance sector in Lebanon shows that total non-life premiums generated by 44 insurance companies reached \$1.13bn in 2019, down by 3% from \$1.17bn in 2018, constituting the first annual decline on record. In comparison, non-life premiums grew by 3.4% in 2018, by 2.3% in 2017 and by 3.1% in 2016. The decline in non-life premiums last year reflects the reduced ability of policyholders to settle their premiums, and the difficulties facing insurers to transfer premiums to international reinsurance companies. MAINS Insurance, Trust Insurance and Liberty Insurance suspended their operations last year.

Bankers Assurance ranked in first place with \$110m in non-life premiums in 2019, followed by Fidelity Assurance & Reinsurance with \$94m, Allianz SNA with \$82.6m, MedGulf with \$82.4m, and AXA Middle East with \$81.3m. Byblos Bank's insurance affiliate Adonis Insurance and Reinsurance Co. (ADIR) ranked in 16th place with non-life premiums of \$23.4m in 2019. Also, the rankings of Lebanese Credit Insurer (LCI) and Cigna Middle East Insurance registered the highest jump among the 44 providers of non-life insurance in 2019, with their ranks improving by four spots each to 32nd and 38th place, respectively. In contrast, the ranks of AXA Middle East, Arope Insurance, North Insurance and Mearco Assurance regressed by two spots each last year.

The composition of the top 10 insurers was unchanged from 2018. But the ranking of GroupMed Insurance improved by three spots to sixth place and of Allianz SNA increased by two notches to third place in 2019. In contrast, the ranks of AXA Middle East and Arope Insurance regressed by two spots each to fifth and ninth place, respectively, and the rank of Libano-Suisse declined by one notch to seventh place, while the remaining five insurers maintained their rankings in 2019. In addition, six out of the top 10 insurers posted declines in their non-life premiums last year, while the premiums of the remaining four insurers increased in 2019. Also, there were seven declines and five advances in the rankings of the top 20 insurers in Lebanon, while the rankings of eight insurers were unchanged.

The top 10 insurers accounted for 64.7% of the non-life insurance market in 2019 relative to 63.8% in 2018 and 64% in 2017; while the top 20 insurers represented 87% premiums in 2019 compared to 85.7% in 2018 and 86.4% in 2017. The aggregate non-life premiums were equivalent to 2% of GDP in 2019, down from 2.1% of GDP in each of 2018 and 2017.

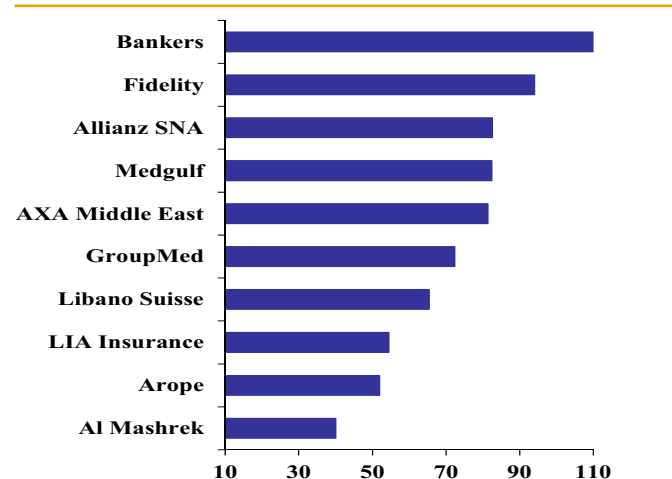
Stock market activity retreats in first two months of 2020

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 3,778,114 shares in the first two months of 2020, constituting a decline of 97.8% from 172,918,701 shares traded in the same period last year; while aggregate turnover amounted to \$27.6m, down by 96.2% from a turnover of \$722m in the first two months of 2019. The sharp decline in trading volume and turnover in the first two months of 2020 was from a high base in the same period last year, which saw four trades of the shares of three listed companies.

The market capitalization of the BSE regressed by 33.2% from \$9.3bn at the end of February 2019 to \$6.2bn at end-February 2020, with banking stocks accounting for 73.3% of the total, followed by real estate equities (22.6%), industrial shares (3.5%) and trading firms' equities (0.6%). The market liquidity ratio was 0.4% in the covered period compared to 7.7% in the first two months of 2019.

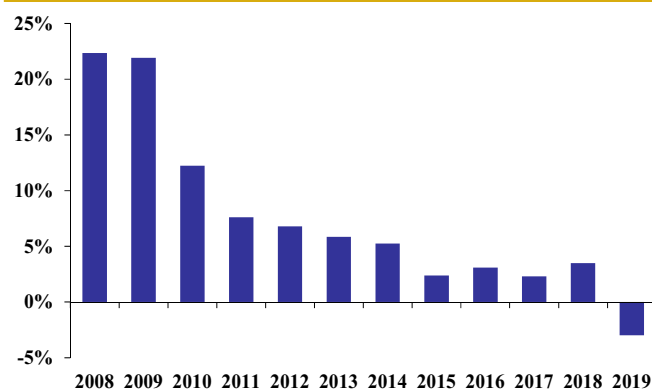
Real estate equities accounted for 76.4% of the aggregate trading volume in the first two months of 2020, followed by banking stocks with 22.1%, trading firms' equities with 0.9% and industrial shares with 0.7%. Also, real estate equities accounted for 86.9% of the aggregate value of shares traded, followed by banking stocks with 12.3%, and trading firms' equities and industrial stocks with 0.4% each. The average daily traded volume for the period was 96,875 shares for an average daily value of \$708,465. The figures reflect a year-on-year decrease of 97.8% in average daily traded volume, and an annual drop of 96.2% in the average value in the first two months of the year. In parallel, the Capital Markets Authority's (CMA) Market Value-Weighted Index for stocks traded on the BSE rose by 13.1% in the first two months of 2020, while the CMA's Banks Market Value-Weighted Index regressed by 10.3% in the covered period.

Non-Life Premiums of the Top 10 Insurers in 2019 (\$USm)



Source: *Al-Bayan*, *Byblos Research*

Growth in Non-Life Premiums (%)



Source: *Al-Bayan*, *Byblos Research*

Import activity of top five shippers and freight forwarders down 15% in 2019

Figures released by the Port of Beirut show that overall import shipping operations by the top five shipping companies and freight forwarders through the port reached 265,772 20-foot equivalent units (TEUs) in 2019, constituting a decrease of 15.2% from 313,504 TEUs in 2018. The five shipping and freight-forwarding firms accounted for 77.6% of imports to the Lebanese market for local use and for 45.5% of the total import freight market, which includes transshipments to other ports, in 2019. Mediterranean Shipping Company (MSC) handled 107,726 TEUs in imports last year, or 18.4% of the total import freight market. Merit Shipping followed with 56,474 TEUs (9.7%), then MAERSK with 42,119 TEUs (7.2%), Metz Group with 30,972 TEUs (5.3%), and Tourism & Shipping Transport with 28,481 TEUs (5%). MAERSK registered a rise of 10.4% in import shipping in 2019, the only firm to report an increase among the top five shipping and freight forwarding companies, while Metz Group posted a decrease of 31.7%, the steepest decline last year.

In parallel, export shipping operations by the top five shipping and freight-forwarding firms through the Port of Beirut reached 66,046 TEUs in 2019, nearly unchanged from 66,129 TEUs in 2018. The five shipping companies and freight forwarders accounted for 86.6% of exported Lebanese cargo and for 11.2% of the total export freight market that includes transshipments through Lebanese ports, in 2019. Merit Shipping handled 33,321 TEUs of freight in 2019, equivalent to 43.7% of the Lebanese cargo export market. MAERSK followed with 12,263 TEUs (16.1%), then Metz group with 7,801 TEUs (10.2%), Sealine Group with 6,424 TEUs (8.4%), and Tourism & Shipping with 6,237 TEUs (8.2%). MAERSK registered a rise of 34.6% in export shipping in 2019, the highest growth rate among the top five shipping and freight forwarding companies, while Metz group posted a decline of 30.5%, the steepest decrease last year.

Balance sheet of investment banks down 3% in 2019

Figures released by Banque du Liban (BdL) show that the consolidated balance sheet of investment banks in Lebanon reached LBP7,745bn, or \$5.1bn at the end of 2019, constituting a decrease of 3.1% from LBP7,996bn, or \$5.3bn, at end-2018. On the assets side, claims on resident customers reached \$1.5bn at end-2019, down by 5.1% from the end of 2018, while claims on non-resident customers totaled \$32.1m at the end of 2019, and regressed by 1.8% from end-2018. In addition, claims on the resident financial sector reached \$627.6m at end-2019, down by 7.4% from the end of 2018; while claims on the non-resident financial sector totaled \$62.4m at the end of 2019 and decreased by 24.7% from end-2018. Also, claims on the public sector totaled \$1.2m at end-2019, constituting an increase of 115.8% from end-2018; while the securities portfolio, which includes Lebanese Treasury bills and Eurobonds, reached \$910.1m at end-2019, down by 9.2% from end-2018. In parallel, currency and deposits at BdL and foreign central banks totaled \$1.6bn at the end of 2019 and increased by 2.5% from a year earlier.

On the liabilities side, deposits of resident customers totaled \$1.5bn at the end of 2019, constituting a decline of 6.8% from a year earlier; while deposits of non-resident customers reached \$255.1m at the end of 2019, and dropped by 15.5% from end-2018. Liabilities to the resident financial sector amounted to \$153m at end-2019, up by 0.6% from end-2018; while those to the non-resident financial sector decreased by 10.8% from end-2018 to \$213.4m. Also, public sector deposits regressed by 41.8% in 2019 to \$63m, while debt securities issued totaled \$18m at end-2019 and declined by 25% from a year earlier. Further, the aggregate capital account of investment banks amounted to \$1.73bn at the end of 2019, constituting an increase of 3.4% from end-2018.

Agency takes rating actions on three banks

Moody's Investors Service downgraded the long-term local currency deposit ratings of Bank Audi, BLOM Bank and Byblos Bank from 'Caa2' to 'Caa3', and the banks' long-term foreign currency deposit ratings from 'Caa3' to 'Ca'. It revised the outlook on the local currency deposit ratings to 'negative', while it changed the outlook on the long-term foreign currency deposit ratings to 'stable'. It noted that the rating actions conclude the review for downgrade that the agency initiated as part of its rating action on November 7, 2019. The agency indicated that it does not currently differentiate between the ratings of the three rated banks, due to the systemic nature of the challenges they face and their very large sovereign exposure, and given that any additional measures by authorities on deposits may be applied across all banks.

It attributed the rating downgrades to increased risks to bank creditors amid the high likelihood of a sovereign debt restructuring, and to the deteriorating financial and economic conditions in Lebanon. It indicated that a debt restructuring, which has become the agency's central scenario, would likely have material ongoing negative implications for the banks, given their linkage to the sovereign through their large holdings of public debt and long-term placements at Banque du Liban. In addition, Moody's noted that banks are proceeding with mandated capital increases, with some delay. It anticipated that the capital injections, once concluded, will support the banks' solvency and liquidity.

Extraordinary General Assembly of Bank Audi approves capital increase

The Extraordinary General Assembly of Bank Audi, which took place on February 20, 2020, agreed to the receipt of \$209.6m in US dollar-denominated cash contributions from the bank's shareholders, and decided to convert them to common shares at a conversion rate of \$1.11 per share. As such, the bank agreed to increase its capital by LBP315.3bn (\$209.6m) to LBP992.9bn (\$658.6m), through the issuance of 188,789,011 common shares with a nominal value of LBP1,670, or \$1.11, per share. Following the capital increase, the bank's share capital will consist of 588,538,215 common shares, 750,000 Category 'H' preferred shares, 2,500,000 Category 'I' preferred shares and 2,750,000 Category 'J' preferred shares. The cash contributions and their conversion to common shares are subject to Banque du Liban's (BdL) approval. BdL's Intermediate Circular 532 dated November 4, 2019 requested banks to raise their capital base by the equivalent of 20% of their end-2018 Common Equity Tier One Capital by the end of June 2020 in two stages.

Foreign investments of financial sector at \$3.1bn at end-June 2019

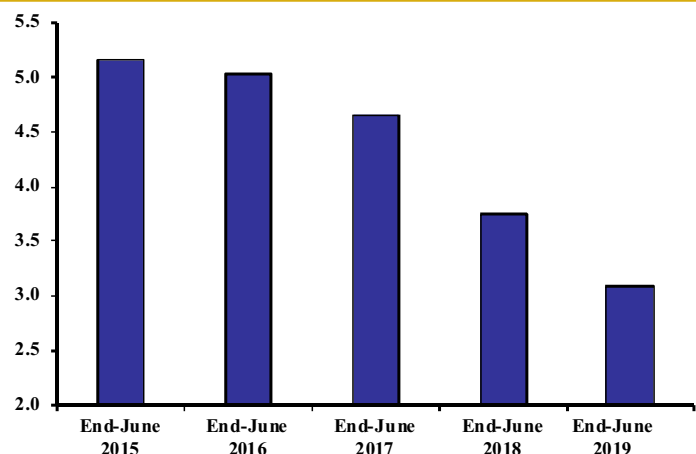
Figures issued by Banque du Liban (BdL) show that the net investment portfolio of Lebanese banks and financial institutions in foreign debt and equity securities totaled \$3.08bn at the end of June 2019, constituting a decrease of 13.5% from \$3.56bn at the end of 2018. Placements in equities reached \$1.58bn at the end of June 2019 and accounted for 51.3% of the total, followed by investments in long-term debt securities at \$1.48bn (48.1%), and investments in short-term debt securities at \$17.1m (0.6%). According to BdL, 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 \$938.7m and accounted for 63.4% of the financial sector's aggregate investments in such securities at end-June 2019. Medium- and long-term banks followed with \$294.5m (19.9%), then insurance companies with \$137.5m (9.3%), and financial institutions with \$111m (7.5%).

In parallel, commercial banks accounted for 83.7% of investments in short-term debt securities at the end of June 2019, followed by insurance firms with 15.1%, and medium- and long-term banks with 1.2%. Further, commercial banks' investments in equities reached \$671m and represented 42.5% of the financial sector's investments in such securities at end-June 2019. Medium- and long-term banks followed with \$511.7m (32.4%), then financial institutions with \$265.2m (16.8%), insurers with \$132m (8.3%), and financial intermediaries with \$0.3m.

The distribution of investments by destination shows that the United States was the main recipient of equity investments of banks and financial institutions operating in Lebanon with \$549.5m, or 34.8% of the total, at end-June 2019. Luxembourg followed with equity investments worth \$164m (10.4%), then France with \$148.1m (9.4%), Jordan with \$101.8m (6.4%), and Bahrain with \$99.5m (6.3%), while other countries accounted for the remaining 32.7% of equity investments of banks and financial institutions. In parallel, the United States received \$534.7m or 36.1% of investments in long-term debt securities, followed by the United Kingdom with \$233m (15.7%), France with \$170.1m (11.5%), the UAE with \$53.7m (3.6%), and Switzerland with \$40m (2.7%), while other countries accounted for the remaining 30.4% of investments in long-term debt securities. Further, Australia was the recipient of 68.6% of investments by Lebanese banks and financial institutions in short-term debt securities, followed by the United States (12.8%), the United Kingdom and the European Union (5% each), and Kuwait (4.7%), while other countries represented the remaining 3.9% of investments in short-term debt securities.

Foreign Investments of Financial Sector (US\$bn)



Source: Banque du Liban, Byblos Research

Ratio Highlights

(in % unless specified)	2017	2018	2019	Change*
Nominal GDP (\$bn)	53.1	55.0	56.1	
Public Debt in Foreign Currency / GDP	57.2	60.9	60.0	(0.89)
Public Debt in Local Currency / GDP	92.5	94.0	103.2	9.20
Gross Public Debt / GDP	149.7	154.9	163.2	8.31
Total Gross External Debt / GDP**	189.4	191.1	195.7	4.60
Trade Balance / GDP	(31.5)	(31.0)	(27.6)	3.36
Exports / Imports	14.5	14.8	19.4	4.62
Fiscal Revenues / GDP	21.9	21.0	18.4	(2.61)
Fiscal Expenditures / GDP	28.9	32.4	30.2	(2.17)
Fiscal Balance / GDP	(7.1)	(11.4)	(11.8)	(0.44)
Primary Balance / GDP	2.7	(1.2)	(2.0)	(0.84)
Gross Foreign Currency Reserves / M2	68.2	63.8	70.2	6.38
M3 / GDP	260.8	257.1	239.6	(17.43)
Commercial Banks Assets / GDP	413.7	453.9	386.2	(67.68)***
Private Sector Deposits / GDP	317.4	317.1	283.1	(34.05)
Private Sector Loans / GDP****	112.3	108.1	88.7	(19.38)
Private Sector Deposits Dollarization Rate	68.7	70.6	76.0	5.40
Private Sector Lending Dollarization Rate	68.6	69.2	68.7	(0.51)

*change in percentage points 19/18; **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; ***The decline in assets in 2019 is mainly due to the "netting" on the assets and liabilities' sides of the consolidated balance sheet of commercial banks as part of the implementation of international accounting standard IFRS 7; **** 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	Feb 2018	Jan 2019	Feb 2019	Change**	Risk Level
Political Risk Rating	55.0	54.0	54.0	▲	High
Financial Risk Rating	33.0	31.5	31.5	▲	Moderate
Economic Risk Rating	28.5	24.0	24.0	▲	Very High
Composite Risk Rating	58.25	54.75	54.75	▲	High

MENA Average*	Feb 2018	Jan 2019	Feb 2019	Change**	Risk Level
Political Risk Rating	58.2	58.1	58.2	↔	High
Financial Risk Rating	37.9	39.1	39.2	▼	Low
Economic Risk Rating	31.4	33.8	33.8	▼	Moderate
Composite Risk Rating	63.8	65.5	65.6	▼	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	Ca	NP	Stable	Ca		Stable
Fitch Ratings	CC	C	-	CC	C	-
S&P Global Ratings	CC	C	Negative	CC	C	Negative
Capital Intelligence Ratings	C+	C	Negative	C+	C	Negative

*for downgrade

**CreditWatch negative

Source: Rating agencies

Banking Sector Ratings

Banking Sector Ratings	Outlook
Moody's Investors Service	Stable

Source: Moody's Investors Service



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