

## LEBANON THIS WEEK

### In This Issue

**Economic Indicators**.....1  
**Capital Markets**.....1  
**Lebanon in the News**.....2

Cost of sending remittances from most sources decreases in third quarter of 2018

Lebanese banking sector has low level of potential vulnerability, similar to sectors in the U.S. and Germany

CEDRE conference is concrete opportunity to support Lebanese economy

Banque du Liban's foreign assets up 3.7% to \$43.5bn in first nine months of 2018

Trademark registrations up 4% in 2017, patents down 8%

Lebanon's tourism receipts up 8% to \$7.6bn in 2017

PMI results show weak operating conditions for the private sector

Balance of payments posts deficit of \$1.2bn in first eight months of 2018

Airport passengers up 7% in first nine months of 2018

EdL launches tender to expand Beirut River Solar Snake project

### Corporate Highlights .....7

Banking sector assets at \$239bn at end-August 2018

BBAC's net earnings at \$25m in first half of 2018

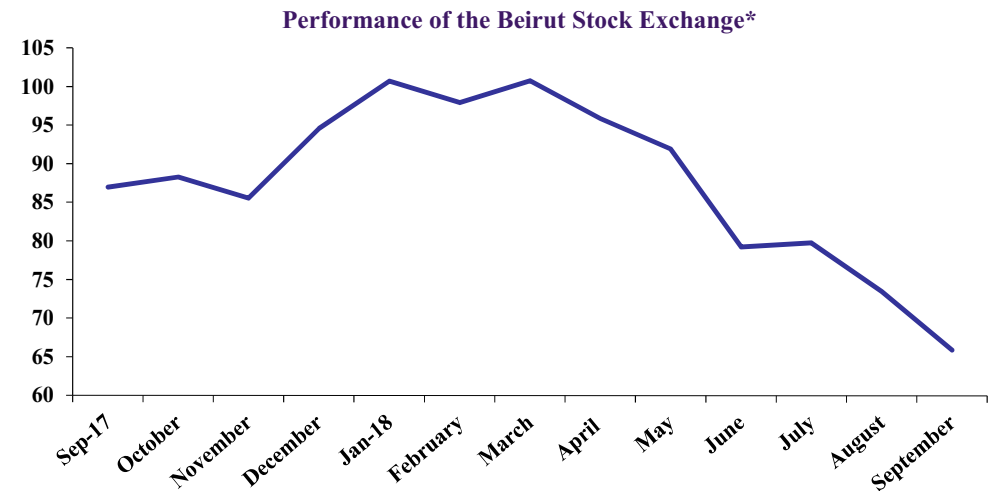
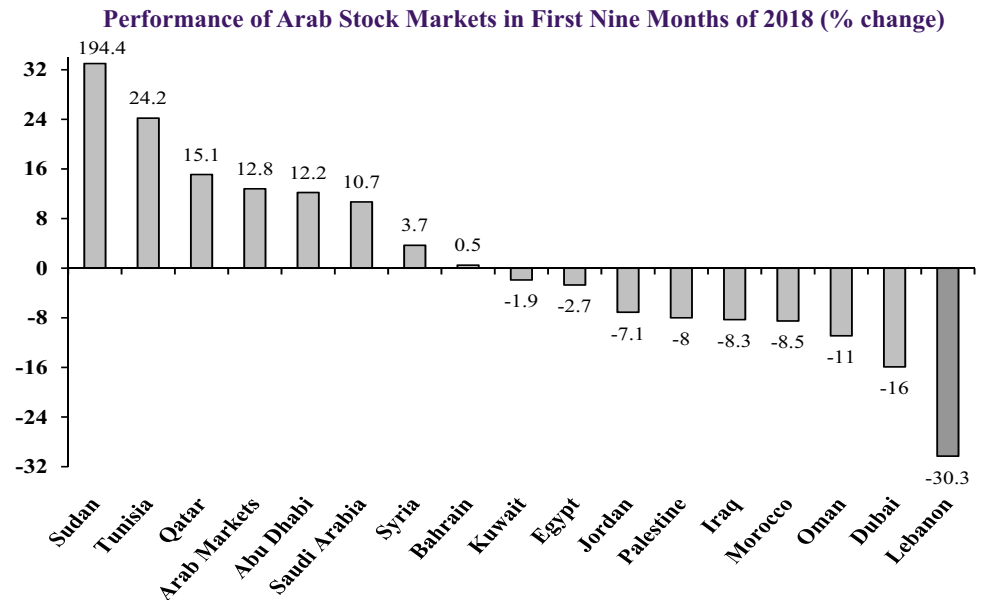
Arabia Insurance's net income at \$4m in 2017

### Ratio Highlights.....9

### Risk Outlook .....9

### Ratings & Outlook.....9

### Charts of the Week



\*Capital Markets Authority Value Weighted Index end of month values

Source: Local Stock Markets, Capital Markets Authority, S&P Dow Jones Indices, Arab Federation of Exchanges, Byblos Bank

### Quote to Note

“Official foreign currency reserves now cover a comfortable share of short-term debt, and are large enough to weather shock scenarios.”

*The Institute of International Finance, on the significant buffers at the disposal of Banque du Liban*

### Number of the Week

**62.8%:** Percentage of Lebanese who believe that using barges to generate electricity is not the solution to Lebanon’s electricity production gap, according to an opinion poll conducted by Sofres Liban

## Lebanon in the News

\$m (unless otherwise mentioned)	2017	Apr 2017	Jan 2018	Feb 2018	Mar 2018	Apr 2018	% Change*
Exports	2,844	235	283	248	283	256	8.94
Imports	23,130	1,467	1,705	1,436	1,669	1,564	6.61
Trade Balance	(20,286)	(1,232)	(1,422)	(1,188)	(1,386)	(1,308)	6.17
Balance of Payments	(156)	(321)	237	(80)	(355)	(557)	73.52
Checks Cleared in LBP	21,677	1,644	1,733	1,686	1,876	1,698	3.27
Checks Cleared in FC	46,578	3,693	3,973	3,480	3,866	3,606	(2.36)
Total Checks Cleared	68,255	5,337	5,706	5,166	5,742	5,304	(0.62)
Budget Deficit/Surplus	(3,300.82)	(131.85)	(318.96)	(407.93)	(934.62)	(35.21)	(73.30)
Budget Primary Balance	1,882.86	309.55	(46.38)	(145.03)	(364.17)	407.15	31.53
Airport Passengers***	8,235,845	720,843	597,768	504,974	626,074	730,739	1.37

\$bn (unless otherwise mentioned)	2017	Apr 2017	Jan 2018	Feb 2018	Mar 2018	Apr 2018	% Change*
BdL FX Reserves	35.80	33.53	35.25	34.39	34.28	34.74	3.62
In months of Imports	18.57	22.85	20.67	23.95	20.54	22.21	(2.81)
Public Debt	79.52	76.94	80.39	81.54	81.87	81.75	6.25
Bank Assets	219.86	206.13	219.86	223.07	224.57	226.30	9.79
Bank Deposits (Private Sector)	168.66	165.49	169.14	170.45	171.18	171.41	3.58
Bank Loans to Private Sector	59.69	57.05	59.02	59.03	59.03	59.02	3.45
Money Supply M2	52.48	54.86	52.88	53.44	53.65	53.53	(2.43)
Money Supply M3	138.38	135.74	138.62	139.34	139.74	140.04	3.16
LBP Lending Rate (%)**	8.09	8.33	8.56	8.67	8.95	8.99	66bps
LBP Deposit Rate (%)	6.41	5.54	6.53	6.51	6.64	6.64	110bps
USD Lending Rate (%)	7.67	7.22	7.74	7.90	7.89	7.82	60bps
USD Deposit Rate (%)	3.89	3.62	3.91	3.96	4.04	4.10	48bps
Consumer Price Index**	4.4	4.4	5.6	5.2	5.4	5.8	135.7bps

\* Year-on-Year \*\* Year-on-Year percentage change \*\*\* includes arrivals, departures, transit

\*\*\*\* Starting January 2016, lending rates in Lebanese pounds are reported before any subsidy or facility from reserve requirements according to Intermediate Circular No 389, and as such they are not comparable year-on-year

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"	5.92	0.17	613,633	6.05%
BLOM GDR	10.00	8.58	150,768	7.56%
Audi Listed	5.00	(0.99)	46,000	20.44%
Audi GDR	5.15	3.00	33,088	6.32%
Solidere "B"	6.03	0.84	11,083	4.01%
Byblos Pref. 08	70.20	0.29	7,930	1.44%
BLOM Listed	9.40	2.17	1,745	20.67%
HOLCIM	16.60	0.00	250	3.31%
Byblos Common	1.40	0.00	-	8.10%
Byblos Pref. 09	84.90	0.00	-	1.74%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Nov 2018	5.15	99.5	10.44
May 2019	6.00	97.63	10.06
Mar 2020	6.38	95.13	10.15
Oct 2022	6.10	86.00	10.49
Jun 2025	6.25	80.13	10.46
Nov 2026	6.60	79.25	10.45
Feb 2030	6.65	76.63	10.16
Apr 2031	7.00	76.63	10.37
Nov 2035	7.05	76.25	9.97
Mar 2037	7.25	77.00	10.01

Source: Byblos Bank Capital Markets

	Oct 1-5	Sep 24-28	% Change	September 2018	September 2017	% Change
Total shares traded	903,843	737,551	22.5	3,153,549	7,527,126	(58.1)
Total value traded	\$7,558,121	\$4,745,879	59.3	\$25,051,528	\$49,770,271	(49.7)
Market capitalization	\$9.78bn	\$9.68bn	0.96	\$9.68bn	\$11.36bn	(14.7)

Source: Beirut Stock Exchange (BSE)



### Cost of sending remittances from most sources decreases in third quarter of 2018

Figures issued by the World Bank show that the cost of sending \$500 in remittances from the United States to Lebanon reached 5.62% in the third quarter of 2018 relative to 5.77% in the second quarter of 2018 and to 6.06% in the third quarter of 2017. The cost includes the transaction fee and exchange rate margin, and represents the average cost of transferring money through commercial banks and money transfer operators (MTOs). In nominal terms, the cost of sending \$500 from the U.S. to Lebanon was \$28.1 in the third quarter of 2018 compared to \$28.87 in the preceding quarter and to \$30.29 in the third quarter of 2017. Lebanon is the sixth most expensive destination for sending \$500 from the U.S. among 42 countries with available data.

Further, the cost of sending remittances from Canada to Lebanon was 7.39% in the third quarter of 2018 for a transfer of CAD500, down from 7.5% in the second quarter of 2018 and relative to 6.51% in the third quarter of 2017. In nominal terms, the cost of sending CAD500 from Canada to Lebanon was CAD36.94 in the third quarter of 2018 relative to CAD37.52 in the previous quarter and to CAD32.54 in the third quarter of 2017. Lebanon is the third most expensive destination for sending CAD500 from Canada among 15 countries with available data.

Also, the cost of sending remittances from Australia to Lebanon reached 6.82% in the third quarter of 2018 for a transfer of AUD500, down from 7.07% in the second quarter of 2018 and relative to 7.39% in the third quarter of 2017. The cost of sending AUD500 from Australia to Lebanon was AUD34.08 in the third quarter of 2018 relative to AUD35.34 in the preceding quarter and to AUD36.97 in the third quarter of 2017. Lebanon is the fourth most expensive destination for sending AUD500 from Australia among 16 countries with available data.

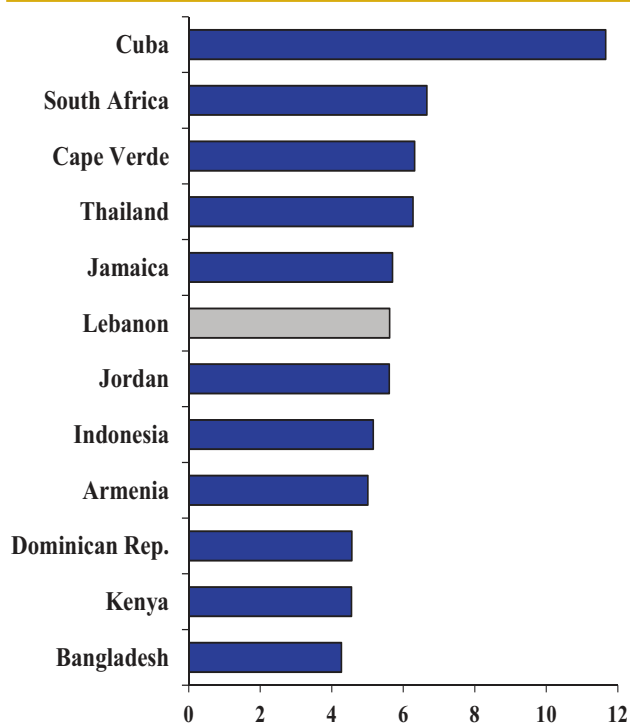
In addition, the cost of sending remittances from France to Lebanon was 7.4% in the third quarter of 2018 for a transfer of EUR345, up from 6.63% in the second quarter of 2018 and from 7.23% in the third quarter of 2017. In nominal terms, the cost of sending EUR345 from France to Lebanon was EUR25.53 in the third quarter of 2018 relative to EUR22.88 in the previous quarter and to EUR24.95 in the third quarter of 2017. Lebanon is the second most expensive destination for sending EUR345 from France among 16 countries with available data.

Further, the cost of sending remittances from the United Kingdom to Lebanon reached 8.77% in the third quarter of 2018 for a transfer of GBP300, down from 8.86% in the second quarter of 2018 and from 9.96% in the third quarter of 2017. In nominal terms, the cost of sending GBP300 from the UK to Lebanon was GBP26.31 in the third quarter of 2018 relative to GBP26.58 in the preceding quarter and to GBP29.88 in the third quarter of 2017. Lebanon is the second most expensive destination for sending GBP300 from the UK among 33 countries with available data.

Also, the cost of sending remittances from Germany to Lebanon was 7.41% in the third quarter of 2018 for a transfer of EUR345, up from 7.12% in the second quarter of 2018 and relative to 8.1% in the third quarter of 2017. In nominal terms, the cost of sending EUR345 from Germany to Lebanon was EUR25.57 in the third quarter of 2018 relative to EUR24.57 in the previous quarter and to EUR27.95 in the third quarter of 2017. Lebanon is the second most expensive destination for sending EUR345 from Germany among 24 countries with available data.

Finally, the cost of sending remittances from Saudi Arabia to Lebanon reached 1.97% in the third quarter of 2018 for a transfer of SAR1,870, equivalent to \$500, down from 2.22% in the second quarter of 2018 and from 3.29% in the third quarter of 2017. In nominal terms, the cost of sending SAR1,870 from Saudi Arabia to Lebanon was SAR36.84 in the third quarter of 2018 relative to SAR41.51 in the preceding quarter and to SAR61.45 in the third quarter of 2017. Lebanon is the second least expensive destination for sending SAR1,870 from Saudi Arabia among 17 countries with available data.

**Costliest Destinations of Remittances from the United States\* (%)**



\*Cost of sending \$500 from the U.S.

Source: World Bank, Byblos Research

### **Lebanese banking sector has low level of potential vulnerability, similar to sectors in the U.S. and Germany**

In its semi-annual risk assessment of 115 banking systems in advanced and emerging economies, Fitch Ratings placed Lebanon's banking sector among 91 banking systems with a "low vulnerability to potential systemic stress", the highest category on Fitch's Macro-Prudential Indicator (MPI). The MPI identifies the build-up of potential stress in banking systems due to a specific set of circumstances. It aims to highlight potential systemic stress that could materialize up to three years after an early warning is first detected. As such, it identifies instances of rapid real credit growth over successive two-year periods, along with growth in real property prices, an appreciation in the real exchange rate or a rise in real equity prices. Its assessment is based on three years of annual data, with a trigger in any of the three years determining a country's MPI score. It said that an MPI score of '1' denotes low potential vulnerability, a score of '2' reflects moderate vulnerability, while a score of '2\*' denotes moderate vulnerability accompanied by data limitations, and a score of '3' reflects a high level of vulnerability to potential systemic stress.

Lebanon's MPI score has been unchanged since October 2013, when Fitch upgraded Lebanon's score to '1' from a previous score of '2'. As such, Lebanon, along with Angola, Bahrain, Cameroon, Cape Verde, Gabon, Iraq, Kenya, Kuwait, Lesotho, Morocco, Namibia, Nigeria, Rwanda, Saudi Arabia, the Seychelles, South Africa, Tunisia, the UAE, Uganda and Zambia have an MPI score of '1' in the Middle East & Africa region. Other countries in this category include Australia, Canada, Denmark, Finland, France, Germany and the United States.

In parallel, the agency indicated that Lebanon's banking sector was among 16 banking systems that have a Banking System Indicator (BSI) of 'b'. The BSI is a measure of intrinsic banking system quality or strength, derived from Fitch's Viability Ratings for banks. It deliberately excludes potential support from shareholders or governments since the objective is to highlight systemic weaknesses that might trigger the need for such support. The BSI is an asset-weighted average of bank Viability Ratings for at least two-thirds of banks in any banking system, including systemically important unrated banks.

Lebanon came in the 'b' category, along with Egypt and Nigeria in the Middle East & Africa region, as well as Armenia, Azerbaijan, the Dominican Republic, Ecuador, Kazakhstan, Sri Lanka and Vietnam, among others. Fitch said that 62% of banking systems in developed countries have BSIs of 'a' or higher. It added that only four banking sectors in developed economies have a BSI of 'aa' and only one sector has a BSI of 'ccc' or lower. Also, it indicated that the typical level of banking strength in emerging markets is weaker and is distributed evenly across the 'bbb', 'bb' and 'b' categories, with only one banking sector in the 'a' category and one sector in the 'ccc' or lower categories. Lebanon is one of 12 countries with an MPI score of '1' and a BSI strength of 'b'.

### **CEDRE conference is concrete opportunity to support Lebanese economy**

The World Bank reduced its projection for Lebanon's real GDP growth to 1% in 2018 from an earlier forecast of 2%, compared to a growth rate of 1.5% in 2017. It noted that high frequency indicators point to a slowdown in economic activity so far in 2018 across all sectors, except for external trade. As such, it anticipated net exports in 2018 to constitute the main driver of growth for the second consecutive year, and to replace private consumption as a key engine of growth. It added that the suspension of subsidies on mortgages have removed one of the drivers of economic activity in the country since 2012. Further, it said that inflationary pressure persists amid a rise in commodity prices and due to base effects following two years of deflation. The World Bank considered that macro-financial risks have increased, after they receded in the aftermath of the CEDRE conference that took place in April 2018, due to the slowdown in economic activity, the delay in the formation of a government and tighter global monetary conditions.

The World Bank forecast real GDP growth at 1.3% in 2019 and 1.5% in 2020. It noted that its baseline scenario does not incorporate the fiscal reforms that Lebanon pledged at the CEDRE conference. It also expected the fiscal deficit to widen from 6.6% of GDP in 2017 to 8.3% of GDP in 2018, due to higher current spending following the increase in the public-sector's wages and salaries. It noted that the tax measures that authorities imposed last year to finance the increase in the public-sector wage bill will replace the exceptional tax receipts that banks paid on the revenues they generated from the swap operations that they conducted with Banque du Liban (BdL) in 2016, but that these taxes will not cover the entire cost of the salary scale. In addition, it forecast the public debt level to rise from 148.5% of GDP in 2017 to 154.6% of GDP in 2018, amid subdued economic activity. It projected the debt level to gradually rise over the medium term and to reach 166% of GDP by 2020. Further, it projected the current account deficit to gradually narrow from 23.1% of GDP in 2017 to 21.4% of GDP in 2018 and 19.2% of GDP in 2020.

Further, the World Bank considered that the CEDRE conference, which yielded over \$11bn in pledges from the international community to support the country's infrastructure program, presents a unique opportunity for Lebanon to boost the economy, attract capital inflows and create jobs. It added that this requires the implementation of the reforms program that Lebanon pledged at the conference, including reducing the public debt towards more sustainable levels.

In parallel, it pointed out that the spreads on Credit Default Swaps (CDS) on Lebanon's sovereign Eurobonds have exceeded the levels they reached following the political crisis of November 2017. It attributed the wider spreads to delays in forming a new Cabinet and to increased geopolitical tensions, mostly related to Iran and Syria. Also, it said that Lebanon's increased dependence on foreign portfolio investors to attract foreign currency over the last two years, has increased the financial sector's exposure to global markets. As such, it noted that the recent normalization of global interest rates has also contributed to wider CDS spreads on Lebanon's external debt. It indicated that BdL's assets in foreign currency reached nearly \$44bn at the end of June 2018, equivalent to about 15 months of imports of goods and services.

### Banque du Liban's foreign assets up 3.7% to \$43.5bn in first nine months of 2018

Banque du Liban's (BdL) interim balance sheet totaled \$135.8bn at the end of September 2018, constituting an increase of 14.8% from \$118.3bn at end-2017 and a rise of 16% from \$117bn at the end of September 2017. Assets in foreign currency reached \$43.5bn at the end of September 2018, an expansion of 3.7% from \$42bn at end-2017 and a decline of 1.1% from \$44bn at the end of September 2017. Assets in foreign currency rose by \$958.8m in January, by \$412.9m in February, by \$29.9m in March, by \$2.2bn in May and by \$253.8m in July 2018, while they declined by \$268.5m in April, by \$1.1bn in June, by \$858.8m in August and by \$34.4m in September 2018. This resulted in an aggregate increase of \$1.5bn in the first nine months of 2018. In comparison, BdL's assets in foreign currency increased by \$386.1m in the first nine months of 2015, by \$3.5bn in the same period of 2016, and by \$3.3bn in the first nine months of 2017.

In parallel, the value of BdL's gold reserves regressed by 8.8% from the end of 2017 and by 8.1% year-on-year to \$10.9bn at end-September 2018. 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 2.6% year-on-year to \$29.4bn at end-September 2018. Further, deposits of the financial sector reached \$113.6bn at the end of September 2018 and increased by \$16bn, or by 16.5%, from the end of 2017, while they grew by \$18.1bn, or 19%, year-on-year. In addition, public sector deposits at BdL totaled \$5.8bn at the end of September 2018 and decreased by \$53.5m, or 0.9%, from end-2017 and by \$334m, or 5.4%, from end-September 2017.

### Trademark registrations up 4% in 2017, patents down 8%

The Office of Intellectual Property at the Ministry of Economy & Trade issued 233 patents in 2017, which constitutes a decline of 7.9% from 253 patents issued in 2016. The Patent Law, or Law No. 240 of 2000, provides patent protection for inventions, plant varieties and layout designs of integrated circuits. The law is compatible with the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), which is an international legal agreement between the member nations of the World Trade Organization.

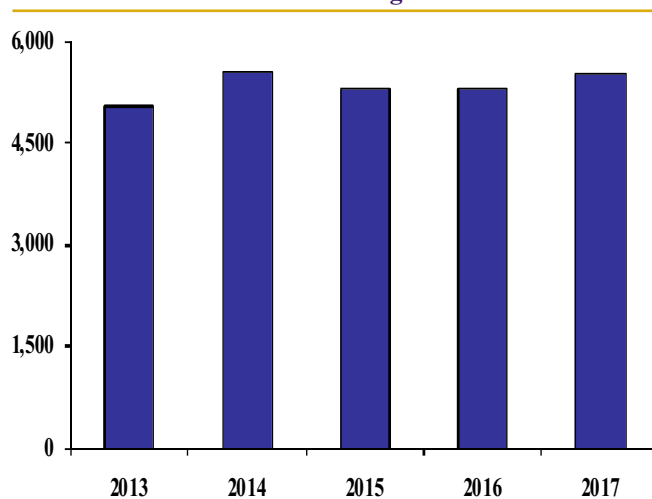
Further, there were 245 copyright registrations in 2017 compared to 270 registrations in 2016, which are protected under Law No. 75 of 1999. The law protects literary and artistic works, as well as computer software and videos, among other products.

Also, a total of 110 industrial design rights were registered at the ministry's Office of Intellectual Property in 2017, nearly unchanged from 108 industrial design rights in 2016. Industrial designs rights protect the design of a variety of products in different industries, including technical and medical instruments, watches, jewelry, other luxury items, electrical appliances and vehicles, among other designs.

In addition, the ministry registered 5,509 new trademarks in Lebanon in 2017, constituting an increase of 3.6% from 5,318 in 2016, while it renewed 1,288 trademarks last year compared to 1,311 renewals in 2016. Trademarks in Lebanon are protected by Resolution No. 2385 of 1924 that was amended by the law of December 1946 related to Commercial and Industrial Property Rights. They are also protected by the Paris Convention for the Protection of Industrial Property, the Madrid Agreement Concerning the International Registration of Marks, as well as by customs regulations, the Law on Fraud Control and the Criminal Law.

In its annual 'Special 301' review for 2018 of the state of intellectual property rights (IPR) protection and enforcement in U.S. trading partners around the world, the Office of the United States Trade Representative (USTR) kept Lebanon on the Watch List for the ineffective and inadequate protection of intellectual property rights and for severe copyright violations, along with 23 other countries and jurisdictions. The USTR considered that Lebanese authorities need to implement additional measures in order for Lebanon to be removed from the Watch List. It encouraged authorities to make progress on pending IPR legislative reforms, including amendments to the patent and copyright laws, as well as the ratification of draft laws about trademark and industrial designs. It also called on Lebanese authorities to ratify and implement the latest acts of international IPR treaties. Further, it urged authorities to commit additional resources for intellectual property protection and enforcement.

Number of New Trademark Registrations in Lebanon



Source: Ministry of Economy & Trade, Byblos Research

### Lebanon's tourism receipts up 8% to \$7.6bn in 2017

Figures issued by the United Nations World Tourism Organization indicate that tourism receipts in Lebanon totaled \$7.6bn in 2017, constituting an increase of 8% from \$7bn in 2016 and a decline of 4.8% from \$8bn in 2010. As such, Lebanon ranked in 38th place among 143 countries globally in terms of tourism receipts in 2017, ahead of Denmark and Morocco (\$7.4bn each), and the Dominican Republic (\$7.2bn), and behind Vietnam (\$8.9bn), South Africa (\$8.8bn) and Egypt (\$7.8bn); while it ranked in fourth place among Arab countries behind the UAE (\$21bn), Saudi Arabia (\$12.1bn), and Egypt. Further, Lebanon posted the sixth highest increase in tourism receipts among Arab countries, behind Egypt (+194.4%), Jordan (+14.7%), Morocco (+13.3%), Qatar (+10.3%), and Saudi Arabia (+8.7%).

In parallel, the WTO said that Lebanon posted the 62nd highest increase in tourist arrivals among 151 countries in 2017, as the number of visitors increased by 10% from 2016. In comparison, tourist arrivals grew by 6.8% globally, by 5.9% in advanced economies and by 7.8% in emerging markets. Also, they increased by 4.6% in the Middle East and rose by 14.9% in North Africa. Globally, Lebanon's increase in tourist arrivals was higher than increases in Lithuania and Macao (+9.9% each) and Morocco (+9.8%), and lower than in Reunion Island (+10.8%), Bermuda (+10.4%) and Cook Islands (+10.2%).

Regionally, Lebanon posted the fifth highest increase in tourist arrivals among 11 Arab countries in 2017. It ranked ahead of Morocco (+9.8%), Bahrain (+9.6%), Jordan (+7.7%), the UAE (+6.2%), Saudi Arabia (-10.7%) and Qatar (-23.2%).

Figures issued by the Ministry of Tourism show that the number of incoming tourists to Lebanon totaled 1.86 million in 2017, compared to 1.69 million tourists in 2016. The number of tourists from Europe increased by 13.3% year-on-year in 2017, followed by those from the Americas (+10.3%), Oceania (+9.2%), Asia (+8.9%), the Arab region (+7.3%) and African countries (+5.9%).

### PMI results show weak operating conditions for the private sector

The BLOM Lebanon Purchasing Managers' Index (PMI), an indicator of operating conditions in Lebanon's private sector, stood at 45.8 in September 2018, the highest value since June 2018. The September value came below the PMI's average of 47.08 since inception in May 2013. The index has remained below the 50 mark since June 2013, which reflects the deterioration in the overall domestic operating environment. Further, the PMI averaged 45.6 in the third quarter of 2018, the fourth lowest quarterly value since inception. It averaged 46.3 in the first nine months of 2018, down from 46.8 in the same period last year. A score that exceeds 50 signals improvement in the index compared to the preceding month, while a score that falls below 50 shows a month-on-month deterioration.

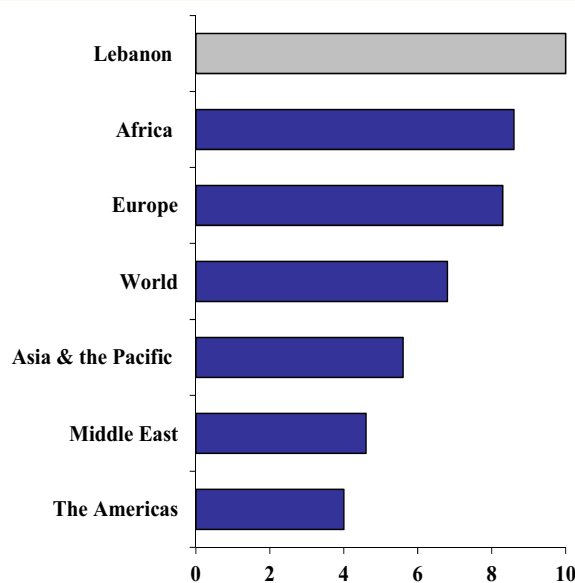
The survey's results show that the New Orders Index increased from 41.9 in August 2018 to 42.1 in September, but remained significantly below the 50-mark, which means that demand continued to contract but at a slower pace. Businesses attributed the sustained contraction in new orders to political uncertainties, cash flow problems and difficult economic conditions. Also, the New Export Orders Index stood at 48.1 in September 2018 relative to 47.3 in August, constituting its highest value since May 2018. Still, export sales continued to fall, mostly due to regional instability, but at a slower pace. The rate of decline in new export orders was less pronounced than the contraction in total order books.

Further, the survey indicated that the level of business activity in Lebanon's private sector continued to contract month-on-month, but at a slower pace, as the Output Index was at 42.5 in September 2018 compared to 41.8 in August this year. The drop in output is due to the lack of new orders. The survey noted that the lack of incoming new orders led businesses to scale back employment and purchasing levels. In fact, the Employment Index reached 49.6 in September, down from 49.9 in August. It has been below the 50-mark for seven consecutive months, reflecting net job losses.

The results showed a slight increase in the average costs faced by private sector businesses in Lebanon. But it noted that the average prices charged by companies further decreased due to strong competition among firms.

The PMI is a weighted average of five individual sub-components that are New Orders with a weight of 30%, Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). The calculation of the PMI is based on data compiled from replies to questionnaires sent to purchasing executives at about 400 private sector companies in Lebanon across the manufacturing, services, construction and retail sectors. The sample selection is based on each sector's contribution to GDP. The survey is compiled monthly by information provider IHS Markit.

### Change in the Number of Tourist Arrivals in 2017\*



\*year-on-year

Source: UNWTO, Byblos Research

### Balance of payments posts deficit of \$1.2bn in first eight months of 2018

Figures issued by Banque du Liban (BdL) show that Lebanon's balance of payments posted a deficit of \$1.17bn in the first eight months of 2018 compared to a deficit of \$647.1m in the same period of 2017. The balance of payments posted a deficit of \$408.1m in August 2018 compared to a deficit of \$548.9m in July 2018 and a surplus of \$368.3m in August 2017. The August 2018 deficit was caused by a decrease of \$869.3m in the net foreign assets of BdL, which was partly offset by an increase of \$461.2m in those of banks and financial institutions. The cumulative deficit in the first eight months of 2018 was caused by a decrease of \$2.8bn in the net foreign assets of banks and financial institutions, which was partly offset by an increase of \$1.6bn in those of BdL.

The balance of payments posted surpluses of \$7.9bn in 2009, \$3.3bn in 2010 and \$1.2bn in 2016, and deficits of \$2bn in 2011, \$1.5bn in 2012, \$1.1bn in 2013, \$1.4bn in 2014, \$3.4bn in 2015 and \$155.7m in 2017. The balance of payments posted a deficit equivalent to 0.3% of GDP in 2017, relative to a surplus equivalent to 2.5% of GDP in 2016 and deficits of 6.8% of GDP in 2015 and 2.9% of GDP in 2014.

### Airport passengers up 7% in first nine months of 2018

Figures released by the Beirut-Rafic Hariri International Airport (HIA) show that 6,851,775 passengers utilized the airport (arrivals, departures and transit) in the first nine months of 2018, constituting an increase of 7.1% from 6,399,347 passengers in the same period of 2017. The number of arriving passengers grew by 7.8% year-on-year to 3,435,366 in the first nine months of 2018, compared to an increase of 8.6% in the same period last year and to a rise of 8.3% in the first nine months of 2016. Also, the number of departing passengers grew by 6.4% year-on-year to 3,412,900 in the first nine months of 2018, relative to an increase of 8.4% in the same period last year and to an increase of 5% in the first nine months of 2016. In addition, the number of arriving passengers totaled nearly 1.5 million passengers in the third quarter of 2018, up by 5.3% from the same period last year, while the number of departing passengers reached about 1.6 million passengers in the same quarter of 2018, up by 3.5% year-on-year.

In parallel, the airport's aircraft activity expanded by 3.5% annually to 56,527 take-offs and landings in the first nine months of 2018, compared to an increase of 0.6% in the same period of 2017 and to a growth of 5.1% in the first nine months of 2016. In addition, the HIA processed 72,255 metric tons of freight in the covered period that consisted of 42,335 tons of import freight and 29,919 tons of export freight. Middle East Airlines had 19,562 flights in the first nine months of 2018 and accounted for 34.6% of HIA's total aircraft activity.

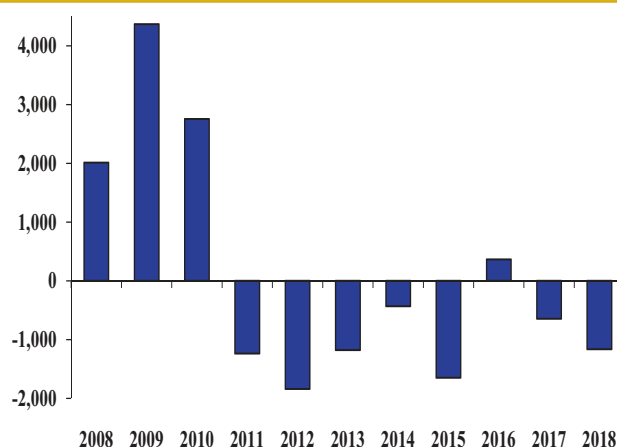
### EdL launches tender to expand Beirut River Solar Snake project

Electricité du Liban (EdL) launched a tender for the second phase of the Beirut River Solar Snake (BRSS) project, which consist of installing a solar photovoltaic (PV) system with a capacity of seven megawatts (MW). The first phase of the BRSS project, which was completed in 2015, consisted of the installation of a PV farm with a capacity of 1.08 megawatt-peak (MWp) across 30 meters of the Beirut River. The deadline for interested companied to submit their offers directly to EdL is December 21, 2018.

The BRSS project, which is part of the government's National Energy Efficiency Action Plan for 2016-20, consists of the installation in 10 phases of solar farms that have an aggregate capacity of 10 MW across 6.5 kilometers of the Beirut River. The solar farms will generate and supply EdL with clean energy from solar radiations to meet the energy needs of around 10,000 households.

In 2014, the joint venture that consists of Lebanese-based companies Phoenix Energy, ASACO General Trade & Contracting, Dalal Steel Industries and Derviche Haddad PPB Structures, as well as the Chinese-based Yingli Solar, won the tender to execute the 1.08 Megawatt solar farm. Out of the 32 companies that were initially interested in the project, 25 companies were invited to bid, 12 firms submitted their offers, and five companies were short-listed based on the technical evaluation of their proposals. The joint venture was selected based on its final score, which consisted of 70% of the technical score and 30% of the financial score.

Balance of Payments\* (US\$m)



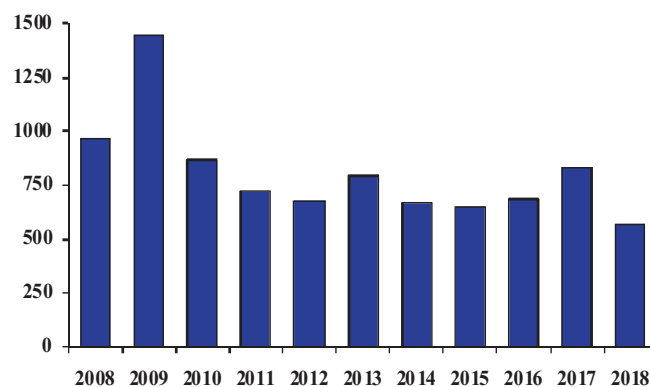
\*in the first eight months of each year

Source: Banque du Liban

### Banking sector assets at \$239bn at end-August 2018

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets stood at \$238.5bn at the end of August 2018, constituting an increase of 8.5% from the end of 2017 and an expansion of 13.9% from end-August 2017. Loans extended to the private sector reached \$59.4bn at the end of August 2018, declining by 0.5% from end-2017 and growing by 2.1% from a year earlier. Loans to the resident private sector totaled \$52.8bn, constituting a decrease of 1.6% from the end of 2017 and an increase of 0.6% year-on-year; while credit to the non-resident private sector reached \$6.6bn at end-August 2018 and grew by 9.5% from end-2017 and by 16.1% from a year earlier. In nominal terms, credit to the private sector regressed by \$280.9m in the first eight months of 2018, as lending to the resident private sector contracted by \$855.2m and credit to the non-resident private sector grew by \$574.2m in the covered period. The dollarization rate in private sector lending regressed from 69.1% at end-August 2017 to 67.4% at end-August 2018.

### Average Monthly Growth of Private Sector Deposits\* (US\$m)



\*in the first eight months of each year

Source: Banque du Liban, Byblos Research

In addition, claims on non-resident banks reached \$10.3bn at the end of August 2018 and declined by \$1bn, or 9%, from the end of 2017, while they increased by \$60.4m, or 0.6%, from a year earlier. Also, claims on the public sector stood at \$33.7bn at end-August 2018, up by 5.6% from end-2017, mainly due to Banque du Liban's sale to banks of about \$3bn in Eurobonds from its portfolio. The average lending rate in Lebanese pounds was 8.81% in August 2018 compared to 8.10% a year earlier, while the same rate in US dollars was 8.12% relative to 7.29% in August 2017. Further, the deposits of commercial banks at Banque du Liban totaled \$120.9bn at the end of August 2018, constituting an increase of 27.9% from a year earlier.

In parallel, total private sector deposits reached \$173.2bn at the end of August 2018, increasing by 2.7% from the end of 2017 and by 2.4% from a year earlier. Deposits in Lebanese pounds reached the equivalent of \$54bn at end-August 2018, up by 2.4% from end-2017 but down by 3.4% from end-August 2017; while deposits in foreign currency totaled \$119.2bn, and grew by 2.8% from end-2017 and by 5.3% from \$113.2bn a year earlier. Resident deposits totaled \$136.5bn at the end of August 2018, increasing by 2.3% from the end of 2017 and by 1.8% from end-August 2017. Also, non-resident deposits reached \$36.7bn at end-August 2018, up by 4.3% from end-2017 and by 4.8% from \$35bn a year earlier. In nominal terms, private sector deposits grew by \$475.4m in January, by \$1.31bn in February, by \$727.3m in March, by \$229.2m in April, by \$975.8m in May, by \$934.5m in June and by \$210m in August while they regressed by \$305m in July 2018. As such, aggregate private sector deposits expanded by \$4.56bn in the first eight months of 2018 relative to an increase of \$6.66bn in the same period of 2017, with deposits in Lebanese pounds increasing by \$1.29bn and foreign-currency deposits growing by \$3.27bn. The dollarization rate of private sector deposits was 68.8% at the end of August 2018, relative to 68.7% at end-2017, and compared to 66.9% a year earlier.

In parallel, deposits of non-resident banks reached \$8.6bn at the end of August 2018 and increased by 14.4% from end-2017 and by 25.7% from a year earlier; while public sector deposits stood at \$4.3bn at the end of August 2018, nearly unchanged from the end of 2017 and up by 6.7% from end-August 2017. Further, the average deposit rate in Lebanese pounds was 7.03% in August 2018 compared to 5.55% a year earlier, while the same rate in US dollars was 4.20% relative to 3.63% in August 2017. The ratio of private sector loans-to-deposits in foreign currency stood at 33.6% at the end of August 2018, well below Banque du Liban's limit of 70% and compared to 35.5% a year earlier. The same ratio in Lebanese pounds was 35.8% at end-August 2018 relative to 32.1% at the end of August 2017. As such, the total private sector loans-to-deposits ratio reached 34.3% at end-August 2018, nearly unchanged from 34.4% a year earlier. The banks' aggregate capital base stood at \$20.1bn at end-August 2018, up by 7.7% from \$18.6bn at end-August 2017.



### **BBAC's net earnings at \$25m in first half of 2018**

BBAC sal, one of Lebanon's top 15 banks in terms of deposits, announced unaudited consolidated net profits of \$24.9m in the first half of 2018, constituting a decrease of 5.3% from net earnings of \$26.3m in same period of 2017. Net operating income grew by 8.6% year-on-year to \$77.4m in the covered period, with net interest income increasing by 9.3% to \$55.4m and net fees & commissions receipts decreasing by 2.1% to \$15.3m. Non-interest income accounted for 27.9% of total income in the first half of 2018, down from 31.2% in the same period last year; with net fees & commissions representing 71.2% of non-interest earnings relative to 67.8% in the first half of 2017. Further, the bank's interest margin was 1.57% in the first half of 2018 relative to 1.58% in the same period last year; while its spread reached 1.52% in the covered period compared to 1.53% in the first half of 2017. Total operating expenditures grew by 25.4% to \$50.4m year-on-year in first half of 2018, with staff expenses increasing by 1.3% to \$22.9m and administrative & other operating expenditures increasing by 67% to \$25.1m. Also, the bank's return on average assets was 0.68% in June 2018 on an annualized basis relative to 0.79% in June 2017, while its return on average equity reached 8.18% on an annualized basis compared to 9.15% in June 2017. The bank's cost-to-income ratio increased from 54.58% in the first half of 2017 to 65.65% in the same period of 2018.

In parallel, total assets reached \$7.6bn at the end of June 2018, up by 10.1% from end-2017, while loans & advances to customers, excluding those to related parties, increased by 2.1% from end-2017 to \$1.8bn. Also, customer deposits, excluding those from related parties, totaled \$6.1bn at end-June 2018 and increased by 3.7% from the end of 2017. The loans-to-deposits ratio stood at 28.95% at the end of June 2018, compared to 29.23% at end-June 2017. Further, the bank's shareholders' equity reached \$613.8m at end-June 2018, up by 1.7% from end-2017.

### **Arabia Insurance's net income at \$4m in 2017**

Arabia Insurance sal declared net profits of \$4m in 2017 compared to net losses of \$1.3m in 2016. The firm's audited balance sheet shows aggregate assets of \$511.6m at end-2017, up by 32.3% from \$386.5m at end-2016. On the assets side, general company investments totaled \$253.1m and increased by 22.9% from end-2016. They included \$59m in variable income investments, \$55.9m in cash & cash equivalents, \$18.8m in fixed income investments, and \$3.8m in land and real estate investments. Also, the firm blocked \$111m as bank deposits and deposits with maturity of more than three months, of which \$6.2m, or 5.6%, were blocked in favor of the Economy Ministry as guarantees. Also, the reinsurance's share in technical reserves for the life and non-life categories amounted to \$8.4m and \$116.5m, respectively, constituting increases of 94.3% and 98.6%, respectively.

On the liabilities side, technical reserves for the life segment grew by 56.4% year-on-year to \$38.5m, while technical reserves for the non-life category reached \$218.1m at end-2017 and rose by 31% from a year earlier. Non-life technical reserves included outstanding claims reserves of \$127m that increased by 48.9%, unearned premium reserves of \$72.9m that grew by 14.3%, and \$13.8m in reserves incurred but not reported that rose by 11.7% year-on-year. Provisions for risks and charges reached \$5.7m at the end of 2017 and fell by 2.8% from the previous year. Also, shareholders' equity was \$115.4m at end-2017, up by 28% from a year earlier.

*Al-Bayan* magazine's annual survey of the insurance sector in Lebanon ranked Arabia Insurance sal in 16th and in 20th place in 2017 in terms of non-life and life premiums, respectively. The firm's non-life premiums reached \$25.8m and life premiums amounted to \$2.2m in 2017, constituting year-on-year increases of 13.6% and 3.3%, respectively. It had a 2.3% share of the local non-life market and a 0.4% share of the life market.

## Ratio Highlights

(in % unless specified)	2015	2016	2017e	Change*
Nominal GDP (\$bn)	49.5	49.7	52.5	
Public Debt in Foreign Currency / GDP	54.7	56.6	57.9	1.30
Public Debt in Local Currency / GDP	87.4	94.1	93.6	(0.54)
Gross Public Debt / GDP	142.1	150.7	151.5	0.76
Total Gross External Debt / GDP	175.8	183.9	185.6	1.70
Trade Balance / GDP	(31.6)	(32.5)	(31.9)	0.60
Exports / Imports	15.9	15.6	14.5	(1.04)
Fiscal Revenues / GDP	19.3	20.0	22.1	2.17
Fiscal Expenditures / GDP	27.3	29.9	29.3	(0.62)
Fiscal Balance / GDP	(8.0)	(9.9)	(7.2)	2.79
Primary Balance / GDP	1.5	0.0	2.7	2.68
Gross Foreign Currency Reserves / M2	58.7	62.2	68.2	5.98
M3 / GDP	249.7	267.2	263.6	(3.61)
Commercial Banks Assets / GDP	375.7	411.1	418.8	7.69
Private Sector Deposits / GDP	306.2	327.0	321.3	(5.69)
Private Sector Loans / GDP	109.5	115.0	114.9	(0.16)
Private Sector Deposits Dollarization Rate	64.9	65.8	68.7	2.88
Private Sector Lending Dollarization Rate	74.8	72.6	71.0	(1.61)

\*Change in percentage points 16/17

\*\*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

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 2016	Nov 2017	Dec 2017	Change**	Risk Level
Political Risk Rating	55	54.5	55	↔	High
Financial Risk Rating	36.5	33.0	33.0	▲	Moderate
Economic Risk Rating	30.5	27.5	28.5	▲	High
Composite Risk Rating	61.0	57.5	58.25	▲	High

MENA Average*	Dec 2016	Nov 2017	Dec 2017	Change**	Risk Level
Political Risk Rating	57.6	58.0	58.2	▼	High
Financial Risk Rating	38.3	38.5	38.5	▼	Low
Economic Risk Rating	29.6	31.0	30.9	▼	Moderate
Composite Risk Rating	62.8	63.8	63.9	▼	Moderate

\*excluding Lebanon

\*\*year-on-year change in risk

Source: The PRS Group, Byblos Research

Note: Political & Composite Risk Ratings range from 0 to 100 (where 100 indicates the lowest risk)

Financial & Economic Risk ratings range from 0 to 50 (where 50 indicates the lowest risk)

## Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's	B3	NP	Stable	B3		Stable
Fitch Ratings	B-	B	Stable	B-		Stable
Standard & Poor's	B-	B	Stable	B-	B	Stable
Capital Intelligence Ratings	B	B	Stable	B	B	Stable

Source: Rating agencies

## Banking Ratings

Banking Ratings	Outlook
Moody's	Stable

Source: Moody's Investor Services



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