

LEBANON THIS WEEK

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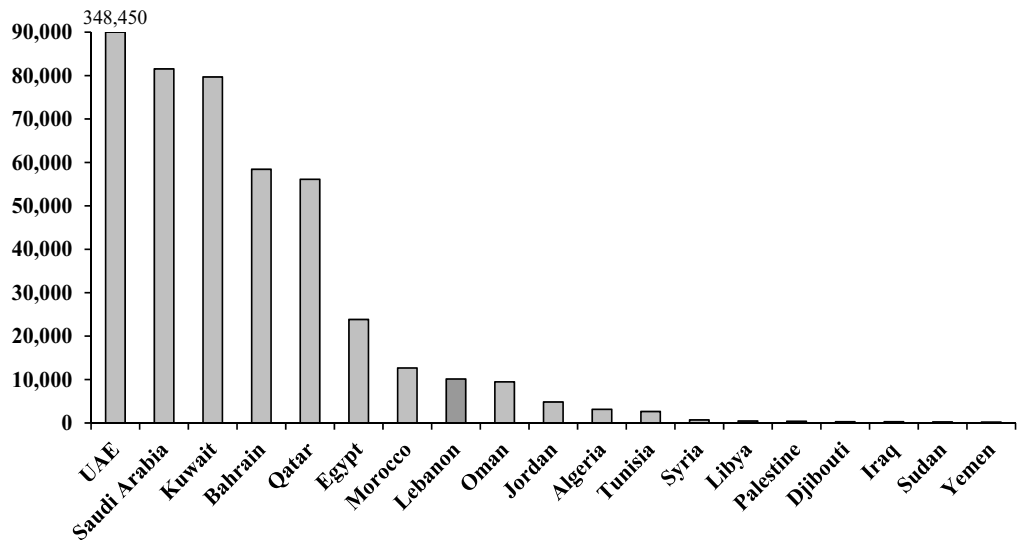
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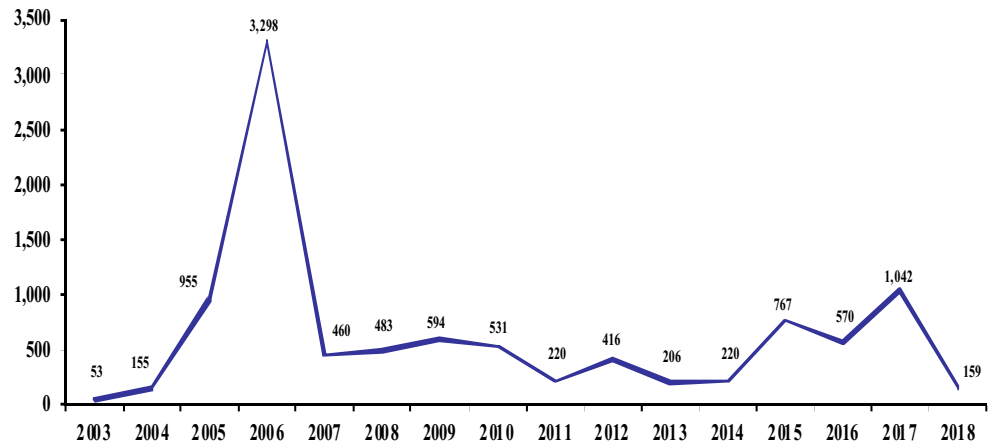
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Charts of the Week

Amount of Outbound Greenfield FDI from Arab Countries in the 2003-18 period (US\$m)



Amount of Outbound Greenfield FDI from Lebanon (US\$m)



Source: UNCTAD, Byblos Bank

Quote to Note

"The Rule of Law, Institutional & Regulatory Quality, and the Control of Corruption indicators are highly relevant to the rating and are a key rating driver with a high weight."

Fitch Ratings, on key factors in its assessment of Lebanon's sovereign ratings

Number of the Week

0.88%: The spread between the weighted average interest rate for the last three months on new deposits and the weighted return on the uses of funds in US dollars at commercial banks in Lebanon as at June 2019, according to the Association of Banks in Lebanon

Lebanon in the News

\$m (unless otherwise mentioned)	2018	Jan-Jun 2018	Jan-Jun 2019	% Change*	Jun-18	May-19	Jun-19
Exports	2,952	1,539	1,725	12.08	215	319	285
Imports	19,980	9,580	10,138	5.82	1,616	2,456	1,377
Trade Balance	(17,028)	(8,042)	(8,414)	4.63	(1,401)	(2,137)	(1,092)
Balance of Payments	(4,823)	(208)	(5,391)	2488.0	(639)	(1,882)	(204)
Checks Cleared in LBP	22,133	10,632	10,313	(3.0)	1,680	1,623	1,581
Checks Cleared in FC	44,429	22,213	17,182	(22.6)	3,471	2,531	2,502
Total Checks Cleared	66,562	32,845	27,495	(16.3)	5,151	4,154	4,083
Fiscal Deficit/Surplus	(6,246)	(3,036)	(2,419)	(18.3)	(115)	(1,006)	(33)
Primary Balance	(636)	(155)	309	-	199	(60)	347
Airport Passengers**	8,842,442	3,820,198	3,978,188	4.14	762,041	572,876	838,498
Consumer Price Index***	6.1	6.0	3.3	(270bps)	7.6	3.5	1.7

\$bn (unless otherwise mentioned)	Dec-17	Jun-18	Dec-18	Apr-19	May-19	Jun-19	% Change*
BdL FX Reserves	35.81	33.10	32.51	31.53	29.72	29.75	(10.12)
In months of Imports	18.57	20.48	20.72	23.24	12.10	21.60	5.49
Public Debt	79.53	82.95	85.14	85.85	85.38	85.73	3.35
Bank Assets	219.86	234.60	249.48	253.65	253.63	255.98	9.11
Bank Deposits (Private Sector)	168.66	173.32	174.28	172.71	170.85	172.13	(0.69)
Bank Loans to Private Sector	59.69	59.56	59.39	56.97	56.32	56.00	(5.97)
Money Supply M2	52.51	53.98	50.96	49.95	49.23	49.11	(9.02)
Money Supply M3	138.62	141.29	141.29	140.18	139.33	139.93	(0.97)
LBP Lending Rate (%)	8.09	8.82	9.97	10.74	10.75	10.94	212bps
LBP Deposit Rate (%)	6.41	6.72	8.30	8.60	8.72	8.80	208bps
USD Lending Rate (%)	7.67	7.93	8.57	9.34	9.54	9.49	156bps
USD Deposit Rate (%)	3.89	4.09	5.15	5.68	5.79	5.84	175bps

*year-on-year **includes arrivals, departures, transit ***year-on-year percentage change

Note: bps i.e. basis points

Source: Association of Banks in Lebanon, Banque du Liban, Ministry of Finance, Central Administration of Statistics, Byblos Research

Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
BLOM GDR	7.09	(0.14)	69,845	6.66%
BLOM Listed	7.30	0.00	59,100	19.94%
Solidere "A"	5.70	(4.36)	27,162	7.24%
Audi Listed	3.70	(1.07)	21,250	18.80%
Solidere "B"	5.80	(3.01)	14,239	4.79%
Byblos Pref. 09	65.00	0.00	2,655	1.65%
Byblos Pref. 08	65.00	(1.52)	1,955	1.65%
HOLCIM	9.66	(2.33)	50	2.40%
Byblos Common	1.15	0.00	-	8.26%
Audi GDR	3.69	0.00	-	5.62%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Mar 2020	6.38	92.88	21.67
Apr 2021	8.25	83.63	20.71
Oct 2022	6.10	74.38	17.13
Jun 2025	6.25	68.63	14.44
Nov 2026	6.60	66.75	14.07
Feb 2030	6.65	65.50	12.69
Apr 2031	7.00	66.00	12.66
May 2033	8.20	72.39	12.44
Nov 2035	7.05	65.50	11.90
Mar 2037	7.25	65.38	12.03

Source: Byblos Bank Capital Markets

	Aug 26-30	Aug 19-23	% Change	August 2019	August 2018	% Change
Total shares traded	200,136	335,985	(40.4)	1,085,556	1,547,114	(29.8)
Total value traded	\$1,804,669	\$2,150,302	(16.1)	\$6,488,624	\$12,657,664	(48.7)
Market capitalization	\$7.87bn	\$7.94bn	(0.94)	\$7.87bn	\$9.96bn	(21.0)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Aug 23, 2019	Aug 29, 2019	% Change**
CDS 1-year*	1,179.00	1,310.72	11.2
CDS 3-year*	1,183.95	1,314.53	11.0
CDS 5-year*	1,140.79	1,264.87	10.9

Source: ICE CMA; *mid-spread in bps **between August 23 and 29

CDX EM 30*	Aug 23, 2019	Aug 29, 2019	% Change**
CDS 5-year**	95.78	95.31	(0.5)

Source: ICE CMA; * CDX Emerging Market CDS Index-Series 30
**mid-spread in bps **between August 23 and 29

Average stay at hotels and furnished apartments in Lebanon at 3.18 nights per person in 2018

Figures compiled by the Ministry of Tourism show that 912,022 persons used hotels and furnished apartments in Lebanon and spent 2,895,843 nights in such facilities in 2018, leading to an average stay of 3.18 nights per person last year. It indicated that 797,823 persons used hotels in Lebanon and spent 2,577,426 nights in such facilities in 2018, while 114,199 persons used furnished apartments and spent 318,417 nights at such accommodations in 2018. The results show that Arab nationals, including Lebanese citizens, accounted for 55.3% of the total number of guests in 2018 and for 59.7% of aggregate nights spent at surveyed hotels and furnished apartments in the country. The ministry based its 2018 figures on data collected from 198 hotels and 58 furnished apartment facilities across Lebanon. It indicated that the 2018 figures are not comparable with those of previous years, given that the number of surveyed hotels and furnished apartments changes each year.

The distribution of guests by nationality indicates that there were 135,355 clients from Lebanon, representing 14.8% of the total number clients at hotels and furnished apartments in 2018. They were followed by 105,577 guests from Iraq (11.6%), 97,715 from Syria (10.7%), 56,165 from France (6.2%), 54,409 from Jordan (6%), 41,951 from the United States (4.6%), 41,473 from Germany (4.5%), 35,776 from the United Kingdom (3.9%), 35,265 from Egypt (3.9%), 31,529 clients from Saudi Arabia (3.5%), 29,520 from Canada (3.2%), and 20,745 from Australia (2.3%). Further, Lebanese citizens accounted for 15.2% of total nights spent at surveyed hotels and furnished apartments in Lebanon in 2018, followed by Iraqi citizens at 14.4% of the total, Syrians (12.5%), French (6.2%), Jordanians (6%), and U.S. citizens (4.6%).

In parallel, Libyan nationals stayed an average of 4.33 nights at surveyed hotels and furnished apartments in Lebanon last year, the highest usage per night among Arab nationalities. Clients from Iraq followed with 3.95 nights, then guests from Djibouti and Syria (3.7 nights each), the Comoro Islands (3.53 nights), Egypt and Lebanon (3.26 nights each), Jordan (3.17 nights), Saudi Arabia (3.15 nights), Yemen (3.13 nights), Morocco (2.95 nights), Algeria (2.81 nights), Kuwait (2.77 nights), Palestine (2.75 nights), Tunisia (2.74 nights), Qatar (2.72 nights), Mauritania (2.7 nights), Sudan (2.67 nights), Oman (2.53 nights), Bahrain (2.44 nights), Somalia (2.34 nights), and the UAE (2.1 nights). In addition, nationals from Romania stayed an average of 6.2 nights at surveyed hotels and furnished apartments in Lebanon, the longest stay among non-Arab nations. They were followed by clients from Belize with 5.1 nights, then Slovenia (4.9 nights), Bosnia & Herzegovina (4.7 nights), Uzbekistan (4.6 nights), Gabon (4.3 nights), the Philippines (4.13 nights), Moldova (4.12 nights), and Armenia (4.11 nights).

Number of real estate transactions down 24% in first seven months of 2019

Figures released by the Ministry of Finance indicate that 25,384 real estate transactions took place in the first seven months of 2019, constituting a decrease of 23.5% from 33,199 deals in the same period of 2018. In comparison, there were 39,910 real estate transactions in the first seven months of 2017 and 34,736 deals in the same period of 2016. There were 4,405 real estate transactions in the Baabda area in the first seven months of 2019, representing 17.4% of the total. The North followed with 4,245 deals (16.7%), then the Zahlé area with 3,521 transactions (13.9%), the South with 3,126 deals (12.3%), the Metn district with 2,905 transactions (11.4%), the Keserwan region with 2,443 deals (9.6%), the Nabatieh area with 2,163 transactions (8.5%), and Beirut with 1,762 deals (6.9%).

Also, the aggregate amount of real estate transactions reached \$3bn in the first seven months of 2019 and decreased by 33.6% from \$4.6bn in the same period of 2018. In comparison, the amount of real estate deals regressed by 15.4% in the first seven months of 2018 and grew by 15.3% in the same period of 2017. Further, the value of real estate transactions in Beirut totaled \$903m and accounted for 30% of the total in the first seven months of 2019. The Metn district followed with \$618.2m (20.4%), then the Baabda region with \$497.8m (16.5%), the Keserwan area with \$301.5m (10%), the South with \$243.2m (8%), the North with \$216.3m (7.2%), the Zahlé area with \$124.2m (4.1%), and the Nabatieh region with \$89.3m (3%).

In parallel, the average amount per real estate transaction was \$119,147 in the first seven months of 2019, down by 13.2% from an average of \$137,267 in the same period of 2018 and relative to \$134,988 in the first seven months of 2017. Further, there were 553 real estate transactions executed by foreigners in the first seven months of 2019, down by 17.3% from 669 deals in the same period of 2018 and compared to 707 transactions in the first seven months of 2017. The number of real estate deals executed by foreigners accounted for 2.2% of total real estate transactions in the first seven months of 2019, up from 2% in the same period of 2018 and 1.8% of deals in the first seven months of 2017. Further, 23.3% of the real estate transactions executed by foreigners in the first seven months of 2019 were in the Baabda district, followed by Beirut (16.8%), the South (15.7%), the Metn region (13.4%), the North (10.3%), the Keserwan region (10%), the Zahlé area (9%), and the Nabatieh region (1.4%). Also, Syrian nationals accounted for 10.4% of the total amount of real estate transactions executed by foreigners in July 2019, followed by Saudi citizens (8.8%), Kuwaiti nationals (5.6%), Germans (5.4%), and Qatari nationals (5.2%).

Length of Stay at Hotels & Furnished Apartments in 2018*

	Total Nights	Avg Night per Person
Lebanon	440,797	3.26
Iraq	416,766	3.95
Syria	361,500	3.70
France	180,803	3.22
Jordan	172,340	3.17
United States	133,868	3.19
Germany	129,466	3.12
Egypt	114,911	3.26
United Kingdom	99,750	2.79
Saudi Arabia	99,291	3.15

*Top 10 sources

Source: Ministry of Tourism, Byblos Research

Lebanon's banking sector indicators favorable compared to emerging markets

Bank of America Merrill Lynch estimated credit to the resident private sector in Lebanon to be equivalent to 96% of GDP at the end of June 2019, which is significantly higher than the Emerging Europe, the Middle East & Africa region's (EEMEA) ratio of 39.2% of GDP and Latin America's ratio of 36.7% of GDP, but is lower than the ratio of 101.7% of GDP in Asia. Lebanon has the fifth highest credit-to-GDP ratio among 72 emerging markets with available figures, as well as the highest such ratio among 54 economies in the EEMEA region and among 13 Arab countries included in the survey.

Further, it estimated money supply in Lebanon to be equivalent to 246.5% of GDP at end-June 2019, significantly higher than Asia's ratio of 128.7% of GDP, the EEMEA's ratio of 48.7% of GDP, and Latin America's ratio of 43.8% of GDP. Also, Lebanon has the highest level of money supply relative to its GDP among 71 emerging markets.

In parallel, it noted that foreign claims reported to the Bank for International Settlements (BIS) against Lebanese banks are equivalent to 5% of Lebanon's GDP, compared to a ratio of 3% of GDP for Asia, of 1.8% of GDP in Latin America, and of 0.9% of GDP for the EEMEA region. As such, the Lebanese banking sector has the eighth highest ratio of foreign claims of BIS-reporting banks among 69 banking sectors, the fifth highest ratio among 52 economies in the EEMEA region, and the fourth highest among 13 Arab countries.

Further, it estimated the annual private sector credit growth in Lebanon at 5.8% at end-June 2019 based on a year-on-year three-month moving average, which is lower than the EEMEA's growth rate of 7.7%, Asia's rate of 9% and Latin America's growth rate of 9.9%. As such, Lebanon had the 20th lowest growth rate of private sector credit among 70 emerging markets, the 17th lowest among 54 economies in the EEMEA region and the seventh highest rate among 13 Arab countries. In addition, it estimated the non-performing loans (NPLs) ratio in the Lebanese banking sector at 11%, compared to NPLs ratios of 5.4% for the EEMEA region, of 3.1% for Latin America and of 1.8% for Asia.

Revenues through Port of Beirut at \$108m in first half of 2019

Figures released by the Port of Beirut show that the port's overall revenues reached \$108.1m in the first half of 2019, constituting a decline of 12.8% from \$124m in the same period of 2018. The Port of Beirut handled 3.5 million tons of freight in the covered period, down by 10.4% from 3.9 million tons in the first half of 2018. Imported freight amounted to 3.1 million tons in the first half of 2019 and accounted for 88.7% of the total, while the remaining 396,000 tons, or 11.3%, consisted of export cargo. A total of 861 vessels docked at the port in the first half of 2019, down by 6.4% from 920 ships in the same period of 2018.

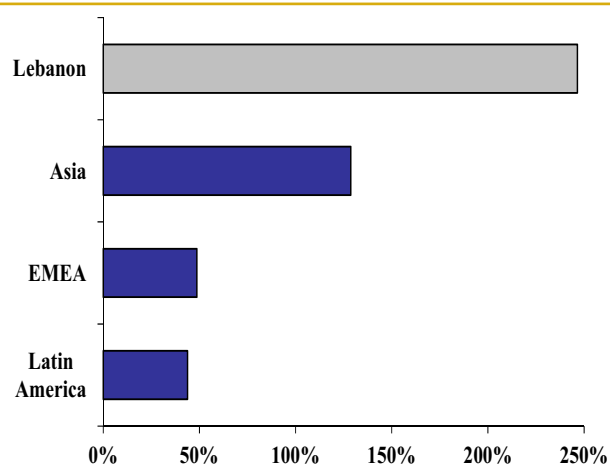
In parallel, revenues generated through the Port of Tripoli reached \$8.4m in the first half of 2019, and increased by 7.3% from \$7.8m in the same period of 2018. The Port of Tripoli handled 1,161,949 tons of freight in the covered period, constituting a growth of 35.4% from 858,318 tons in the first half of 2018. Imported freight amounted to 805,490 tons and accounted for 69.3% of the total, while the remaining 356,459 tons, or 30.7%, were export cargo. A total of 311 vessels docked at the port in the first half of 2019, nearly unchanged from 310 ships in the first half of 2018.

Ministry of Energy & Water to announce second round of bidding to build 500 MW in wind farms

The Lebanese Center for Energy Conservation (LCEC) indicated that the Ministry of Energy & Water will launch on September 27, 2019 the second round of bidding for the construction of wind farms in various sites across Lebanon, with an aggregate capacity of 500 megawatts.

The LCEC indicated that the ministry had called on the private sector to submit expressions of interest (EOIs) to build the new wind farms, and will share the bidding documents with interested companies on September 27, 2019. It also pointed out that the construction of the wind farms is part of the Lebanese authorities' plan to produce 30% of electricity and heating demand from renewable energy sources by 2030.

Money Supply at end-June 2019 (% of GDP)



Source: Bank of America Merrill Lynch, Byblos Research

Fiscal deficit narrows by 20% to \$2.4bn in first half of 2019

Figures released by the Ministry of Finance show that the fiscal deficit reached \$2.42bn in the first half of 2019 and narrowed by 20.3% from a deficit of \$3.04bn in the same period of 2018. The deficit was equivalent to 29.6% of total budget and Treasury expenditures relative to 33.8% of spending in the same period last year. Government expenditures reached \$8.17bn in the first half of 2019 and declined by 9% from the same period of 2018, while revenues regressed by 3.2% to \$5.75bn. As such, the narrowing of the deficit reflects an annual drop of \$805.5m in overall expenditures, which was partly offset by a decrease of \$188m in total revenues in the covered period. The decline in spending is due to a drop of \$418.1m in general expenditures, a decrease of \$167.8m in transfers to municipalities, and a contraction of \$153.3m in debt servicing outlays in the first half of 2019.

On the revenues side, tax receipts grew by 1.3% year-on-year to \$4.63bn in the first half of 2019, of which 24.3%, or \$1.12bn, were in VAT receipts that decreased by 9.5% annually. Tax receipts accounted for 83.8% of budgetary revenues and for 80.4% of Treasury and budgetary income in the covered period. The distribution of other tax revenues shows that receipts from taxes on income, profits & capital gains rose by 17.8% annually to \$2.16bn in the first half of 2019; revenues from customs regressed by 5.8% to \$625.6m; receipts from property taxes dropped by 23% to \$316m; while revenues from taxes on goods & services decreased by 1% to \$212.6m, and receipts from stamp fees declined by 8.3% to \$185.2m.

The distribution of income tax receipts shows that the tax on profits accounted for 39.4% of income tax revenues in the first half of 2019, followed by the tax on interest income with 37.2%, the tax on wages & salaries with 14.1%, and the capital gains tax with 8.6%. Receipts from the tax on interest income surged by 58.2% and revenues from the tax on profits rose by 5.2%, while revenues from the tax on capital gains declined by 2.4%, and receipts from the tax on wages & salaries regressed by a marginal 0.4% year-on-year in the covered period. Also, the distribution of property taxes indicates that revenues from real estate registration fees fell by 31.5% year-on-year to \$165m and receipts from the built property tax decreased by 15.3% to \$111.4m in the first half of 2019, while revenues from the inheritance tax increased by 5.6% to \$39.6m.

Further, non-tax budgetary receipts grew by 4.4% year-on-year to \$897.7m in the covered period. They mainly included \$540.3m in revenues generated from government properties that increased by 22.2% year-on-year, as well as \$265.3m in receipts from administrative fees and charges that dropped by 16.3% annually. Receipts from telecommunication services rose by 12.4% to \$357.8m, and accounted for 66.2% of income from government properties and for 40% of non-tax budgetary revenues.

On the expenditures side, total budgetary spending, which includes general expenditures and debt servicing, declined by 7.1% year-on-year to \$7.52bn in the first half of 2019. General spending decreased by 8% to \$4.8bn in the covered period, and included \$717.4m in transfers to Electricité du Liban (EdL) that regressed by 3% year-on-year, and \$1.14bn in outlays from previous years that grew by 13% annually, among other general spending items. Also, debt servicing totaled \$2.73bn in the first half of 2019 and declined by 5.3% from the same period of 2018. Interest payments on Lebanese pound-denominated debt dropped by 8.1% year-on-year to \$1.54bn in the first half of 2019, while debt servicing on foreign currency debt decreased by 1.5% to \$1.09bn. In addition, Treasury expenditures, excluding transfers to EdL, declined by 26.5% year-on-year to \$650.3m in the covered period, as transfers to municipalities dropped by 38% to \$275.4m in the first half of 2019. Further, the primary budget balance posted a surplus of \$730.7m in the first half of 2019, or 9.7% of budgetary expenditures, while the overall primary balance registered a surplus of \$309m, or 3.8% of spending.

Fiscal Results in First Half of Each Year			
	2018	2019	Change
	(US\$m)	(US\$m)	(%)
Budget Revenues	5,429	5,524	1.8%
Tax Revenues	4,569	4,627	1.3%
Non-Tax Revenues	860	898	4.4%
<i>of which Telecom revenues</i>	<i>318</i>	<i>358</i>	<i>12.4%</i>
Budget Expenditures	8,093	7,521	(7.1%)
Budget Surplus/Deficit	(2,663)	(1,997)	(25.0%)
<i>In % of budget expenditures</i>	<i>-32.9%</i>	<i>-26.5%</i>	
Budget Primary Surplus	217	731	236.1%
<i>In % of budget expenditures</i>	<i>2.7%</i>	<i>9.7%</i>	
Treasury Receipts	512	229	(55.3%)
Treasury Expenditures	884	650	(26.5%)
Total Revenues	5,941	5,753	(3.2%)
Total Expenditures	8,977	8,172	(9.0%)
Total Deficit	(3,036)	(2,419)	(20.3%)
<i>In % of total expenditures</i>	<i>-33.8%</i>	<i>-29.6%</i>	
Total Primary Surplus/Deficit	(155.4)	308.9	
<i>In % of total expenditures</i>	<i>-1.7%</i>	<i>3.8%</i>	

Source: Ministry of Finance, Byblos Research



Market liquidity conditions improve

In the monthly meeting between Banque du Liban (BdL), the Banking Control Commission of Lebanon (BCCL) and the Association of Banks in Lebanon (ABL), Governor Riad Salamé indicated that liquidity conditions in Lebanon have recently improved, which is in favor of the Lebanese pound. In addition, he said that BdL's financial operations with commercial banks in the second half of July have attracted non-resident deposit inflows, which would help improve the balance of payments in August. He noted that non-resident deposits grew by \$2bn from the end of July 2018, and that the balance of payments posted a surplus of \$90m in July 2019.

Further, Governor Salamé pointed out that BdL will settle the \$1.5bn Eurobond that will mature in November 2019. He also noted that BdL is ready to buy the November 2019 Eurobonds at market prices, in case Eurobond holders decide to sell their position before the maturity date. He reiterated that BdL will continue to maintain its policy of exchange rate stability amid limited local-currency liquidity in the market. He noted that the market liquidity in Lebanese pounds is about LBP6,400bn, of which LBP5,000bn belongs to the National Social Security Fund that allows BdL to better control the currency market.

In addition, Governor Salamé indicated that the average interest rates on deposits at commercial banks in Lebanon increased by two percentage points in the last 12 months, while the average lending rates rose by 2.5 percentage points in the same period. He said that BdL will not amend its current interest rates policy. He pointed out that the dollarization rate of deposits in Lebanon has exceeded 72%, which means that the local currency market is heading towards stabilization in favor of the Lebanese pound.

Further, Governor Salamé stated that the recent economic and monetary meeting that was held at the Baabda presidential palace was positive as it called for progress in the implementation of reforms. He considered that this initiative would positively impact the foreign exchange and interest rate markets. He added that the 2020 budget will include significant reforms and measures to narrow the fiscal deficit.

In addition, he indicated that BdL, in cooperation with the BCCL, has previously taken the necessary measures to help banks deal with the fallout from any downgrade of the sovereign ratings and will not issue any unexpected decisions about the risk-weighted assets that are used to compute the banks' capital ratios or the minimum capital adequacy ratio for banks. He added that the banks' net non-performing loans (NPLs) ratio is less than 5%, which is relatively low given the challenging operating conditions of the banks.

In parallel, Governor Salamé indicated that the European Investment Bank and the European Bank for Reconstruction and Development have pledged to provide Lebanese banks with concessional loans to finance small- and medium-sized enterprises (SMEs). He also noted that BdL will subsidize the interest rates on loans to SMEs, and will allow banks to finance the working capital of licensed industrial companies in Lebanon.

Finally, the ABL asked Governor Salamé to form a joint and specialized committee from BdL and the ABL to set the regulatory framework for the implementation of Law 81 about electronic transactions and personal data in the banking sector.

Industrial exports up 5% to \$1.1bn in first five months of 2019

Figures released by the Ministry of Industry show that industrial exports totaled \$1.14bn in the first five months of 2019, constituting an increase of 5.4% from \$1.08bn in the same period of 2018. Industrial exports reached \$267.3m in May 2019, increasing by 27% from \$210.5m in April 2019 and by 20% from \$222.8m in May 2018.

Exports of machinery & mechanical appliances amounted to \$222m and accounted for 19.5% of aggregate industrial exports in the first five months of 2019, followed by chemical products with \$202m (17.8%), prepared foodstuffs & tobacco with \$185.4m (16.3%), base metals with \$153.2m (13.5%), pearls or semi-precious stones with \$75.9m (6.7%), and plastics & rubber with \$74.1m (6.5%). Arab countries were the destination of 52.6% of Lebanese industrial exports in the first five months of 2019, followed by European economies with 22.1%, African countries with 10.4%, Asian economies with 8.7%, 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 10.1% of the total in the covered period, followed by Saudi Arabia with 8.5%, Syria with 7.6%, Iraq with 7.2%, Qatar with 4.8%, and France with 4.6%. In May 2019, 12 Arab states, 11 European economies, eight African countries, four Asian economies, three 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 \$88.7m in the first five months of 2019, constituting a decline of 30.3% from \$127.3m in the same period of 2018. Italy was the main source of such imports and accounted for 23.5% of the total in the first five months of 2019, followed by China with 18.8% and Germany with 11%. Further, imports of industrial equipment and machinery amounted to \$17.9m in May 2019, up by 12% from \$16m in April 2019 and down by 29% from \$25.2m in May 2018. China was the main source of such imports with \$3.8m and accounted for 21.5% of the total in the covered month, followed by Italy with \$3.2m (18%), and Germany with \$2.5m (14%).



Gross written premiums up 1% to \$874m in first half of 2019, claims up 13% to \$502m

Figures released by the Insurance Control Commission show that the gross written premiums of 50 licensed insurance companies in Lebanon reached \$873.8m in the first half of 2019, constituting an increase of 0.9% from \$866.3m in the same period of 2018. Premiums reached \$472.3.3m in the first quarter and \$401.3m in the second quarter of 2019. Medical insurance premiums totaled \$320.8m in the covered period and accounted for 36.7% of the sector's aggregate premiums. Life insurance premiums followed with \$238.7m (27.3%), then motor insurance premiums with \$171.2m (19.6%), and property & casualty insurance premiums with \$143.1m (16.4%).

Further, medical insurance premiums grew by 10% annually in the first half of 2019, while property & casualty insurance premiums increased by 1.7% year-on-year. In contrast, motor insurance premiums dropped by 10.3% and life insurance premiums regressed by 1.7 % year-on-year in the covered period.

Further, gross claims settled by insurance companies stood at \$502.1m in the first half of 2019, constituting an increase of 12.6% from \$446m in the same period of 2018. Claims reached \$249.7m in the first quarter and \$252.5m in the second quarter of 2019. Gross claims paid for the medical segment amounted to \$200.3m and accounted for 40% of total claims settled by insurers in the covered period. Claims disbursed for the life insurance category followed at \$145.4m (29%), then the motor segment at \$104.5m (20.8%), and the property & casualty segment at \$51.8m (10.3%). Also, life insurance claims rose by 16% annually in the first half of 2019, medical claims grew by 14.5%, property & casualty claims expanded by 14%, and motor insurance claims increased by 4.4% year-on-year in the covered period.

In parallel, the sector's acquisition and administration costs grew by 1.7% year-on-year to \$243.8m in the first half of 2019. Also, net investment income totaled \$97.4m in the covered period and rose by 38% from \$70.6m in the first half of 2018. In addition, the ratio of gross claims settled to gross written premiums stood at 57% in the first half of 2019, up from 51% in the same period of 2018. Further, the ratio of expenditures for acquisition and administration to gross written premiums reached 28% in the covered period, unchanged from the first half of 2018; and the ratio of net investment income to gross written premiums stood at 11% in the first half of 2019 compared to 8% in the same period of 2018.

Subscriptions in domestic investment funds at \$532m at end-2018

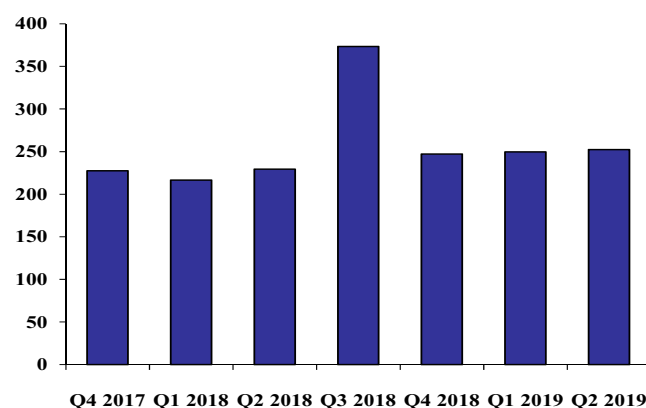
The Capital Markets Authority (CMA) indicated that there were 20 local collective investment schemes (CIS) licensed to operate in Lebanon in 2018, constituting a decrease of 13% from 23 CIS in 2017. According to the CMA, a CIS is "an arrangement including a mutual fund or investment company that enables a number of investors to pool their assets for professional management and diversification of risk."

The aggregate amount of subscriptions in domestic CIS totaled \$531.7m at the end of 2018, down by 32.8% from \$791m at end-2017. The breakdown of subscriptions shows that 78.3% of investments were in securities funds, 10.2% in money markets, 8.8% in fixed income funds, 1.3% in bonds & stocks, and 1% in mixed allocation funds.

The geographical distribution of investments by domestic CIS shows that 5.6% of the funds invested in Lebanon last year, 90.3% invested in the rest of the Middle East, 2.3% had global investments, and 1.8% invested in the United States. Also, the breakdown of CIS by type of investments indicates that eight funds invested in securities, six funds in fixed income, three funds in money markets, two funds in bonds & stocks, while one fund had a mixed allocation. There were 4,551 subscribers in CIS funds last year, down by 16.1% from 5,422 in 2017.

In parallel, the CMA indicated that the number of foreign CIS, which are marketed in Lebanon by financial institutions and financial intermediation firms, totaled 631 funds 2018, up by 25.2% from 504 funds in 2017. The aggregate amount of subscriptions in foreign funds amounted to \$788.4m at the end of 2018, down by 12.4% from \$900m at end-2017. The distribution of the amount of subscriptions indicates that 58.6% were in securities funds, 11.4% in fixed income funds, 8.5% in mixed allocation funds, 7.2% in equity funds, 6.2% in hedge funds, and 4.5% in private equity funds. Also, the distribution of foreign CIS by type of investments shows that 333 funds invested in equities, followed by 106 funds in fixed income, 68 funds in investment funds, 41 funds in mixed allocations, 24 funds in alternatives, 19 funds in hedge funds, 17 funds in private equity, nine funds in bonds, and eight funds in securities; while the remaining funds invested in commodities, real estate and in money markets, among others. There were 3,531 subscribers in CIS foreign funds last year, down by 6% from 3,757 in 2017.

Total Claims Paid (US\$m)



Source: Insurance Control Commission

Stock market index down 24% in first eight months of 2019

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 190,553,313 shares in the first eight months of 2019, constituting an increase of 3.1 times from 62,231,104 shares traded in the same period last year; while aggregate turnover amounted to \$818m, up by 77.3% from a turnover of \$461.3m in the first eight months of 2018. The surge in the trading volume and turnover is mostly due to a block trade of the common shares of a listed bank. The trade consisted of 119,924,761 shares exchanged for a total of \$557.7m in February 2019.

Market capitalization regressed by 21% from the end of August 2018 to \$7.9bn, with banking stocks accounting for 84.8% of the total, followed by real estate equities (12%), industrial shares (2.7%) and trading firms' equities (0.5%). The market liquidity ratio was 10.4% in the covered period compared to 4.6% in the first eight months of 2018.

Banking stocks accounted for 97.3% of the aggregate trading volume in the first eight months of 2019, followed by real estate equities with 2.6% and industrial shares with 0.05%. Also, banking stocks accounted for 96.2% of the aggregate value of shares traded, followed by real estate equities with 3.7% and industrial stocks with 0.1%. The average daily traded volume for the period was 1.22 million shares for an average daily value of \$5.24m. The figures reflect a year-on-year increase of 3.1 times in average volume, and an annual rise of 80.7% in the average value in the first eight months of the year. In parallel, the Capital Markets Authority's (CMA) Market Value-Weighted Index for stocks traded on the BSE declined by 23.6% in the first eight months of 2019, while the CMA's Banks Market Value-Weighted Index regressed by 22.1% in the covered period.

Banque du Liban amends AML/CFT regulations

Banque du Liban (BdL) issued Intermediate Circular 523 on August 7, 2019 that amends Basic Circular 83 dated May 18, 2001 about the Regulations on the Control of Financial and Banking Operations for Fighting Money Laundering and Terrorist Financing (AML/CFT). The circular requires banks to collect additional information about clients and about the parties involved in any banking transaction in order to minimize AML/CFT risks. Specifically, it asked banks to conduct due diligence before executing a transaction, to identify the beneficial owner, and to refrain from keeping anonymous bank accounts or accounts under fake client names.

Further, the circular asked banks to identify domestic and foreign politically-exposed persons (PEPs) in their assessment of customer risks, as well as to establish the required measures and procedures to monitor these risks. Prior to Circular 523, banks had to only identify and monitor risks related to foreign PEPs.

In parallel, the circular requires banks to identify and assess AML/CFT risks that could arise from the development of new products and practices. Also, the circular indicated that Lebanese banks, including their foreign branches and subsidiaries, must comply with BdL's AML/CFT procedures.

Balance sheet of investment banks up 3% in first half of 2019

Figures released by Banque du Liban show that the consolidated balance sheet of investment banks in Lebanon reached LBP8,230bn, or \$5.46bn at the end of June 2019, constituting an increase of 2.9% from LBP7,996bn, or \$5.3bn, at end-2018, and a growth of 7.4% from LBP7,665.5bn or \$5.08bn at the end of June 2018. On the assets side, claims on resident customers reached \$1.55bn at end-June 2019, down by 2.3% from the end of 2018 and by 2.4% from end-June 2018, while claims on non-resident customers totaled \$34.5m at the end of June 2019, and grew by 5.5% from end-2018.

In addition, claims on the resident financial sector reached \$644.4m at end-June 2019, down by 5% from the end of 2018 and by 14.4% from the end of June 2018; while claims on the non-resident financial sector totaled \$63m at the end of June 2019, decreasing by 24% from end-2018 and by 10.3% from a year earlier. Also, claims on the public sector totaled \$939,815 at end-June 2019, constituting an increase of 65% from end-2018; while the securities portfolio, which includes Lebanese Treasury bills and Eurobonds, reached \$932.1m at end-June 2019, down by 7% from end-2018, but up by 5.6% from end-June 2018. In parallel, currency and deposits at BdL and foreign central banks totaled \$1.83bn at the end of June 2019, increasing by 18% in the first half of 2019 and by 31.7% from end-June 2018.

On the liabilities side, deposits of resident customers totaled \$1.58bn at the end of June 2019, constituting a decrease of 1.1% in the first half of 2019; while deposits of non-resident customers reached \$284.5m at the end of June 2019, representing a decline of 5.8% from end-2018 and an increase of 1% from the end of June 2018. Liabilities to the resident financial sector amounted to \$138m at end-June 2019, down by 9.3% from end-2018; while those to the non-resident financial sector decreased by 7.6% from end-2018 to \$221m. Also, public sector deposits regressed by 12.2% in the first half of 2019 to \$95m, while debt securities issued totaled \$24.1m at end-June 2019 and were nearly unchanged from end-2018. Further, the aggregate capital account of investment banks amounted to \$1.74bn at the end of June 2019, constituting an increase of 4% from end-2018 and a rise of 3.5% from end-June 2018.

Allianz SNA's net profits at \$7.8m in 2018

Allianz SNA sal announced audited net profits of \$7.8m in 2018, constituting a decrease of 15.7% from net earnings of \$9.2m in 2017. Its audited balance sheet shows total assets of \$536.6m at the end of 2018, up by 3% from \$521m at end-2017. On the assets side, general company investments totaled \$420.6m at the end of 2018 and grew by 4.1% from a year earlier. They included \$308m in fixed income investments that expanded by 4% year-on-year, \$37.8m in policy loans that increased by 12.3%, \$20m in cash and cash equivalents that rose by 15.3%, and \$6.2m in mutual funds that declined by 1.4% from a year earlier. Also, \$43.7m were in blocked bank deposits and deposits with maturity of more than three months, of which \$2.1m were blocked in favor of the Ministry of Economy & Trade as guarantees.

Unit-linked contracts investments totaled \$35.4m at end-2018 and grew by 1.5% from \$34.9m a year earlier. Further, the reinsurance share in technical reserves for the non-life category regressed by 22.6% to \$8.9m at the end of 2018, while that for the life category decreased by 39.1% year-on-year to \$1.7m.

On the liabilities side, technical reserves for the life segment grew by 5.3% to \$357.2m at the end of 2018, while technical reserves for the non-life category reached \$50.8m at end-2018 and increased by 0.6% from a year earlier. Non-life technical reserves included outstanding claims reserves of \$22.4m that declined by 7.1% year-on-year, unearned premium reserves of \$20.3m that increased by 12.4%, and \$3.8m in reserves incurred but not reported that grew by 34% from a year earlier. Provisions for risks and charges reached \$2.2m at the end of 2018 and improved by 14.3% from the previous year. Also, the firm's shareholders' equity totaled \$60.5m at end-2018, down by 5.9% from a year earlier.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked Allianz SNA in third and fifth places in 2018 in terms of life and non-life premiums, respectively. The firm's non-life premiums totaled \$79.3m in 2018 and grew by 11.1% from the previous year; while life premiums decreased by 3.1% to \$67.9m last year. Allianz SNA had a 12.5% share of the life market and a 6.8% share of the local non-life market in 2018. Overall, it ranked in first place in terms of life and non-life premiums in 2018, with an 8.6% market share.

Insurance Control Commission suspends license of Liberty Insurance

The Insurance Control Commission announced on August 9, 2019 that it suspended the insurance license of Liberty Insurance sal. It attributed its decision to the firm's continued and significant breaches of insurance regulations in Lebanon. It added that the insurer is not allowed to issue or renew any policy contracts until further notice. But it pointed out that the firm will continue to service the in-force portfolio and to settle its obligations to policyholders. The in-force portfolio refers to the insurance policies that the company has issued and that policyholders have already paid for.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked Liberty in 35th in 2018 in terms of non-life premiums. The firm's non-life premiums amounted to \$5.6m, constituting a decrease of 59% year-on-year. It had a 0.5% share of the local non-life market in 2018. Liberty is not active in the life insurance segment.

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	Aug 2017	Jul 2018	Aug 2018	Change**	Risk Level
Political Risk Rating	55.5	55.0	54.0	▲	High
Financial Risk Rating	33.0	33.0	33.0	➔	Moderate
Economic Risk Rating	27.5	28.5	28.5	▼	High
Composite Risk Rating	58.0	58.25	57.75	▲	High

MENA Average*	Aug 2017	Jul 2018	Aug 2018	Change**	Risk Level
Political Risk Rating	57.8	58.0	57.9	▼	High
Financial Risk Rating	38.0	38.7	38.7	▼	Low
Economic Risk Rating	30.6	33.0	33.2	▼	Moderate
Composite Risk Rating	63.2	64.8	64.9	▼	Moderate

*excluding Lebanon

**year-on-year change in risk

Source: The PRS Group, Byblos Research

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

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

Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's Investors Service	Caa1	NP	Stable	Caa1		Stable
Fitch Ratings	CCC	C	-	CCC	C	-
S&P Global Ratings	B-	B	Negative	B-	B	Negative
Capital Intelligence Ratings	B	B	Negative	B	B	Negative

Source: Rating agencies

Banking Ratings

Banking Ratings	Outlook
Moody's Investors Service	Stable

Source: Moody's Investors Service



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