

LEBANON THIS WEEK

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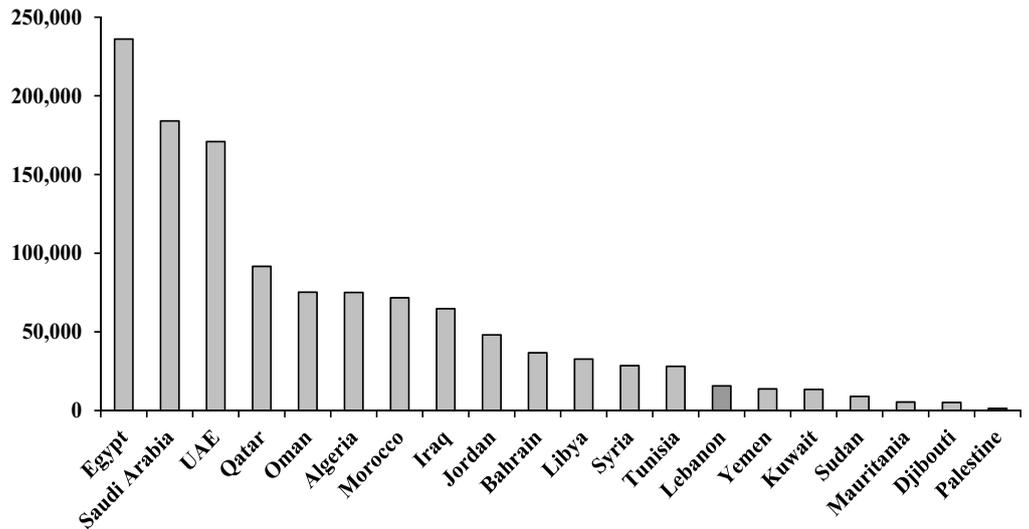
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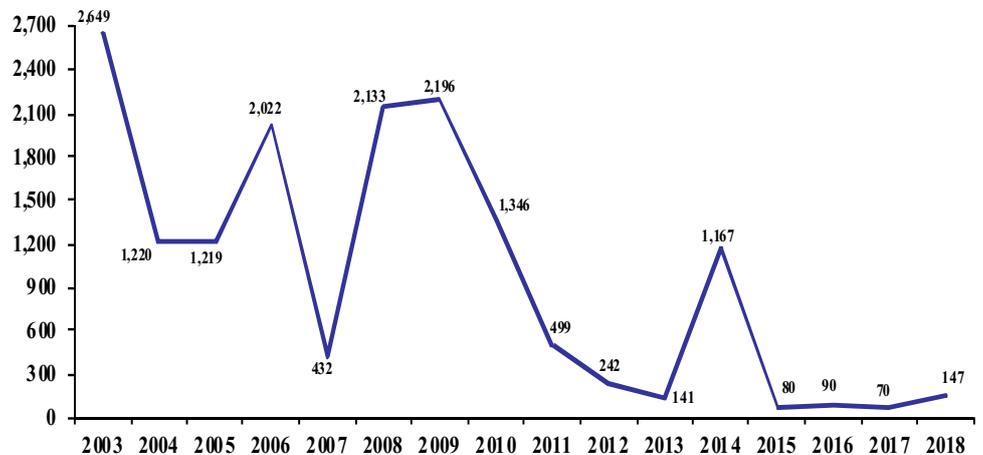
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Charts of the Week

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



Amount of Greenfield Foreign Direct Investment in Lebanon (US\$m)



Source: United Nations Conference on Trade & Development, Byblos Bank

Quote to Note

"The government's short-term implementation of announced fiscal and economic reforms could support non-resident depositor and foreign investor confidence."

S&P Global Ratings, on the opportunity cost of delaying the implementation of structural reforms

Number of the Week

24,557: Number of employees at Lebanese commercial banks at the end of 2018, according to the Association of Banks in Lebanon

Lebanon in the News

\$m (unless otherwise mentioned)	2018	Jan-Jul 2018	Jan-Jul 2019	% Change*	Jul-18	Jun-19	Jul-19
Exports	2,952	1,757	2,089	18.94	218	285	365
Imports	19,980	11,898	12,335	3.67	2,318	1,377	2,196
Trade Balance	(17,028)	(10,142)	(10,245)	1.02	(2,100)	(1,092)	(1,831)
Balance of Payments	(4,823)	(757)	(5,318)	602.37	(549)	(204)	72
Checks Cleared in LBP	22,133	12,509	12,214	(2.36)	1,878	1,581	1,900
Checks Cleared in FC	44,436	26,166	20,352	(22.220)	3,953	2,502	3,170
Total Checks Cleared	66,569	38,675	32,566	(15.80)	5,831	4,083	5,070
Fiscal Deficit/Surplus**	(6,246)	(3,036)	(2,419)	(20.32)	(42)	(33)	-
Primary Balance**	(636)	(155)	309	-	223	347	-
Airport Passengers***	8,842,442	4,842,665	5,037,455	4.02	1,022,467	838,498	1,059,267
Consumer Price Index****	6.1	6.2	3.0	(323bps)	7.6	1.7	1.4

\$bn (unless otherwise mentioned)	Dec-17	Jul-18	Dec-18	May-19	Jun-19	Jul-19	% Change*
BdL FX Reserves	35.81	34.21	32.51	29.72	29.75	31.06	(9.23)
In months of Imports	18.57	14.76	20.72	12.10	21.61	14.15	(4.18)
Public Debt	79.53	82.90	85.14	85.38	85.73	86.01	3.74
Bank Assets	219.86	236.31	249.48	253.63	255.98	259.18	9.68
Bank Deposits (Private Sector)	168.66	173.01	174.28	170.85	172.13	172.35	(0.38)
Bank Loans to Private Sector	59.69	59.22	59.39	56.32	56.00	55.30	(6.62)
Money Supply M2	52.51	53.58	50.96	49.23	49.11	48.91	(8.72)
Money Supply M3	138.62	140.85	141.29	139.33	139.93	140.34	(0.36)
LBP Lending Rate (%)	8.09	8.66	9.97	10.75	10.94	11.13	247bps
LBP Deposit Rate (%)	6.41	6.94	8.30	8.72	8.80	8.81	187bps
USD Lending Rate (%)	7.67	7.96	8.57	9.54	9.49	9.90	194bps
USD Deposit Rate (%)	3.89	4.14	5.15	5.79	5.84	6.01	187bps

*year-on-year **year-to-date figures reflect results for first half each year***includes arrivals, departures, transit ****year-on-year percentage change

Note: bps i.e. basis points

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

Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
Byblos Common	1.11	(0.89)	164,361	8.01%
Solidere "A"	5.72	(4.03)	86,712	7.30%
Audi GDR	3.70	0.00	30,000	5.66%
Solidere "B"	5.99	4.90	25,841	4.97%
BLOM Listed	7.30	0.27	10,000	20.02%
Byblos Pref. 09	65.00	0.00	1,080	1.66%
Audi Listed	3.65	0.27	553	18.62%
HOLCIM	9.50	(1.66)	42	2.37%
BLOM GDR	7.08	0.00	-	6.67%
Byblos Pref. 08	65.00	0.00	-	1.66%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Mar 2020	6.38	95.12	17.35
Apr 2021	8.25	83.88	20.77
Oct 2022	6.10	71.75	18.65
Jun 2025	6.25	66.88	15.07
Nov 2026	6.60	64.88	14.65
Feb 2030	6.65	64.88	12.85
Apr 2031	7.00	64.75	12.95
May 2033	8.20	71.98	12.53
Nov 2035	7.05	65.00	12.01
Mar 2037	7.25	65.00	12.11

Source: Byblos Bank Capital Markets

	Sep 9-13	Sep 3-6	% Change	August 2019	August 2018	% Change
Total shares traded	325,416	427,357	(23.9)	1,085,556	1,547,114	(29.8)
Total value traded	\$1,238,030	\$2,033,034	(39.1)	\$6,488,622	\$12,657,664	(48.7)
Market capitalization	\$7.84bn	\$7.84bn	(0.08)	\$7.87bn	\$9.96bn	(21.0)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Sep 6, 2019	Sep 13, 2019	% Change**
CDS 1-year*	1,331.05	1,417.45	6.5
CDS 3-year*	1,344.14	1,471.87	9.5
CDS 5-year*	1,294.31	1,391.10	7.5

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

CDX EM 30*	Sep 6, 2019	Sep 13, 2019	% Change***
CDS 5-year**	96.27	96.28	0.01

Source: ICE CMA; * CDX Emerging Market CDS Index-Series 30

mid-spread in bps *week-on-week

Lebanon ranks 75th globally, fifth among Arab countries in terms of economic freedom

The Fraser Institute's 2019 Index of Economic Freedom ranked Lebanon in 75th place among 162 countries globally and in fifth place among 18 Arab economies. It also ranked Lebanon in 17th place among 45 upper middle-income countries (UMICs) included in the survey. Based on the same set of countries, Lebanon's global rank regressed by four spots from the 2018 survey, while its regional rank was unchanged year-on-year.

The index measures the extent that a country's policies and institutions support economic freedom. It includes 43 variables distributed into five broad factors of economic freedom that are the Size of Government, the Legal System & Property Rights, Access to Sound Money, Freedom to Trade Internationally, and the Regulation of Credit, Labor & Business. A country's overall score ranges between zero to 10, with a higher score reflecting a higher level of economic freedom.

Lebanon received a score of 6.97 points, down by 1.3% from 7.06 points in the 2018 survey. Lebanon's score was higher than the global average of 6.8 points and the UMICs' average of 6.67 points in the 2019 survey. It also came above the Arab average score of 6.10 points, the average of Gulf Cooperation Council (GCC) countries of 6.88 points and the average of non-GCC economies of 5.7 points.

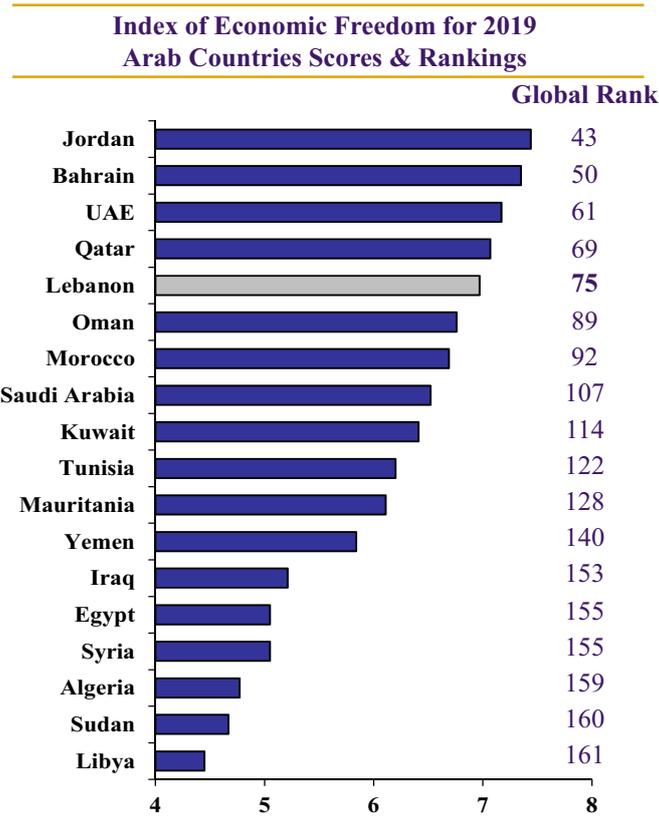
Lebanon's score on the Legal System & Property Rights indicator dropped by 2.8% from the 2018 survey, its score on the Access to Sound Money indicator decreased by 1.4% year-on-year, and its score on the Size of Government indicator regressed by 1.1% from the 2018 survey. Also, Lebanon's score on the Freedom to Trade Internationally indicator declined by 0.9% year-on-year, while its score on the Regulation of Credit, Labor & Business indicator regressed by a marginal 0.4% from the 2018 survey.

Globally, Lebanon had a higher level of economic freedom than Mexico, the Dominican Republic and Kyrgyzstan, and a lower level than Paraguay, North Macedonia and Nicaragua. Also, it ranked ahead of Mexico and behind North Macedonia among UMICs.

Further, Lebanon ranked ahead of Croatia and Norway, and came behind Hong Kong and South Korea on the Access to Sound Money category, which reflects the consistency of monetary policy with long-term price stability, as well as the ease of using other currencies via domestic and foreign bank accounts. Lebanon came in fourth place, behind Costa Rica, Peru and Albania among UMICs, and in first place among Arab countries on this category.

In addition, Lebanon ranked ahead of Niger and Mauritania, and came behind Sierra Leone and Paraguay on the Legal System & Property Rights category. This category assesses the judicial independence, the protection of property rights, the integrity of the legal system and the legal enforcement of contracts, among other factors. Also, Lebanon ranked ahead of only Libya, Iraq and Venezuela among UMICs, while it came ahead of only Mauritania, Libya, Syria, Yemen, Sudan and Iraq in the Arab world on this category. The survey noted that this indicator is the most important function of government, and that countries with major deficiencies in this category are unlikely to economically prosper, regardless of their performance in the other four categories.

The Fraser Institute is a Canada-based independent research organization whose mission is to study and measure the impact of competitive markets and government intervention on the welfare of individuals.



Source: Fraser Institute, Byblos Research

Components of the 2019 Economic Freedom Index for Lebanon

	Global Rank	Arab Rank	UMIC Rank	Lebanon Score	Global Avg Score	Arab Avg Score	UMIC Avg Score
Size of Government	7	1	2	8.36	6.45	5.81	6.50
Access to Sound Money	17	1	4	9.56	8.28	7.74	8.19
Regulation of Credit, Labor & Business	130	11	35	6.36	7.02	6.43	6.93
Freedom to Trade Internationally	104	9	30	6.75	7.02	5.98	6.92
Legal System & Property Rights	134	12	42	3.84	5.22	4.51	4.82

Source: Fraser Institute, Byblos Research



International Support Group reiterates calls to implement structural reforms

The International Support Group for Lebanon (ISG) considered the economic meeting that was held on September 2 at the request of the President of the Republic to be a catalyst for political leaders to address the economic challenges that the country is facing. The meeting was attended by the heads of the main political parties and parliamentary blocs in Lebanon. The ISG consists of China, France, Germany, Italy, Russia, the United Kingdom, the United States, as well as the United Nations, the European Union and the Arab League.

In addition, the ISG welcomed Lebanon's political commitment to complete the annual accounting of the government's fiscal expenditures and to adopt the 2020 budget, within the constitutional deadlines. In this context, it commended the Ministry of Finance's submission of the 2020 draft budget and critical reform legislation to the Council of Ministers on September 12.

Further, the ISG urged Lebanon's political leaders to issue a transparent reform plan and to rapidly implement fiscal, structural and sectoral reforms, in order to improve public finances, enhance the business environment, and help develop productive sectors, infrastructure and basic services, including through privatization. It also called on authorities to implement governance reforms in order to address corruption and improve transparency in the public sector, which it considered crucial for Lebanon's economic recovery and growth. It noted that the implementation of governance reforms is in line with Lebanon's commitments at the CEDRE conference and within the decisions of the September 2 economic meeting.

In parallel, the ISG welcomed the progress between Lebanon and the international community on the follow-up mechanism for the implementation of CEDRE-related projects and reforms. It urged authorities to move forward with the implementation of the electricity sector reform plan, as well as to establish an independent regulatory authority for the sector, to appoint an effective and technically qualified Board of Directors for Electricité du Liban, and to introduce other good governance mechanisms to improve the sector's efficiency, transparency and accountability.

The United Nations launched the ISG in September 2013 to help mobilize support and assistance for Lebanon's stability, sovereignty and state institutions. It aims to specifically encourage assistance for the Lebanese Army, Syrian refugees in Lebanon and host communities, as well as for government programs and public services impacted by the Syrian crisis.

Government orders count of public sector workers

The Lebanese government issued Decree 30 dated September 4, 2019 about conducting a comprehensive survey to determine the number of workers in the public sector. Specifically, it called on all directorates and divisions of the public administration, as well as public institutions, funds, independent authorities, councils, and all other public entities that are funded by the government to gather the related information about their own civil servants, contractual workers and employees. It noted that these entities need to submit the collected data to the Civil Service Council within 15 days from the date of the decree. It added that the information has to include the employees' names, positions and grades, among other details. The government indicated that it issued Decree 30 to comply with Article 80 of the 2019 Budget Law, which stipulated the freezing of recruitment in the public sector until the government conducts a comprehensive survey about the number of public sector employees and job positions.

Law 46 that Parliament enacted in 2017 and that increased the salaries and wages of public-sector employees, included a clause about this subject. Specifically, Article 21 of Law 46, which came into effect in August 2017, stipulated the freezing of employment in the public education sector, in the military and in projects that are being implemented in cooperation with international organizations, unless the Council of Ministers approves the recruitment. In addition, the article stipulated that the government should conduct a comprehensive count to determine the number of existing workers and employees in the public sector and their positions within a period of six months and submit it to the Council of Ministers. The government implemented the part of the Law 46 that stipulates the increase in the public sector's wages and salaries, but it did not implement Article 21 of the law.

Value of cleared checks down 15%, returned checks down 9% in first eight months of 2019

The value of cleared checks reached \$37.4bn in the first eight months of 2019, constituting a decline of 15.2% from \$44.1bn in the same period of 2018. In comparison, the value of cleared checks decreased by 3.7% in the first eight months of 2018 from the same period of 2017. The value of cleared checks in Lebanese pounds regressed by 1.5% year-on-year to the equivalent of \$14.1bn in the first eight months of 2019, while the value of cleared checks in US dollars declined by 21.8% to \$23.3bn in the covered period. The dollarization rate of cleared checks regressed from 67.6% in the first eight months of 2018 to 62.4% in the same period of 2019. There were 6.9 million cleared checks in the first eight months of 2019, down by 12.5% from 7.9 million in the first eight months of 2018.

In parallel, the amount of returned checks in domestic and foreign currencies was \$927m in the first eight months of 2019 compared to \$1bn in the same period of 2018 and to \$964m in the first eight months of 2017. This constituted a decrease of 8.8% in the first eight months of 2019 relative to a rise of 5.4% in the first eight months of 2018 from the same period of 2017. Also, there were 173,409 returned checks in the first eight months of 2019, down by 2% from 177,002 returned checks in the same period of 2018.



International contributions to Lebanon Crisis Response Plan at \$1.4bn in 2018

The United Nations indicated that international contributions to the Lebanon Crisis Response Plan (LCRP) reached \$1.38bn in 2018 and represented 52% of the appealed funds. It noted that Lebanon had requested \$2.68bn under the LCRP for 2018. It said that international financial contributions amounted to \$5bn since the launch of the LCRP in 2015 and \$7.4bn since the start of the Syrian crisis in 2011. The Lebanon Crisis Response Plan 2017-2020 is a joint initiative between the Lebanese government and international and national partners that aims to address challenges posed by the large presence of Syrian refugees in the country.

The United Nations pointed out that financial disbursements to food security reached \$299m in 2018, or 21.7% of total contributions to the plan, followed by support to the education sector with \$272.5m (19.7%), basic assistance with \$247.5m (17.9%), social protection with \$162m (11.7%), healthcare with \$134m (9.7%), the water sector \$102m (7.4%), livelihoods with \$67m (4.9%), social stability with \$62m (4.5%), shelter with \$34m (2.5%), and the energy sector with \$0.9m (0.1%). It indicated that humanitarian aid to Lebanon in 2018 provided support to 1.6 million individuals in need out of 2.8 million targeted persons, including 1.1 million displaced Syrians, 372,302 vulnerable Lebanese and 139,370 Palestinian refugees.

Further, the United Nations said that it delivered \$473m out of the \$1.38bn through direct cash assistance, of which \$236m in cash-based food assistance through vouchers, ATM cards and e-cards, and \$210.4m in regular and seasonal disbursements to the most vulnerable households. It added that it supported 986 Lebanese businesses through cash & in-kind grants and technology transfer, and provided assistance to 763 job seekers to start their own business. In addition, it noted that it channeled \$240m to public institutions to enhance the latter's service delivery, policy development and capacity for crisis management.

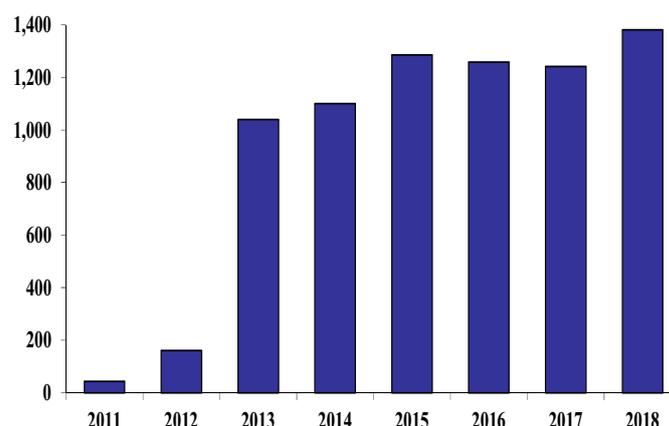
Number of real estate transactions down 18% in first eight months of 2019

Figures released by the Ministry of Finance indicate that 31,131 real estate transactions took place in the first eight months of 2019, constituting a decrease of 18.3% from 38,102 deals in the same period of 2018. In comparison, there were 47,723 real estate transactions in the first eight months of 2017 and 40,587 deals in the same period of 2016. There were 5,594 real estate transactions in the Baabda area in the first eight months of 2019, representing 18% of the total. The North followed with 5,049 deals (16.2%), then the Zahlé area with 4,201 transactions (13.5%), the South with 3,867 deals (12.4%), the Metn district with 3,537 transactions (11.4%), the Keserwan region with 2,938 deals (9.4%), the Nabatieh area with 2,663 transactions (8.6%), and Beirut with 2,298 deals (7.4%).

Also, the aggregate amount of real estate transactions reached \$3.9bn in the first eight months of 2019 and decreased by 23.5% from \$5.1bn in the same period of 2018. In comparison, the amount of real estate deals regressed by 20.6% in the first eight months of 2018 and grew by 20.2% in the same period of 2017. Further, the value of real estate transactions in Beirut totaled \$1.27bn and accounted for 32.2% of the total in the first eight months of 2019. The Metn district followed with \$760.6m (19.3%), then the Baabda region with \$653.2m (16.6%), the Keserwan area with \$388.1m (9.9%), the South with \$307.4m (7.8%), the North with \$265.2m (6.7%), the Zahlé area with \$150.1m (3.8%), and the Nabatieh region with \$111.2m (2.8%).

In parallel, the average amount per real estate transaction was \$126,478 in the first eight months of 2019, down by 6.4% from an average of \$135,074 in the same period of 2018 and relative to \$135,779 in the first eight months of 2017. Further, there were 646 real estate transactions executed by foreigners in the first eight months of 2019, down by 13% from 742 deals in the same period of 2018 and compared to 843 transactions in the first eight months of 2017. The number of real estate deals executed by foreigners accounted for 2.1% of total real estate transactions in the first eight months of 2019, up from 1.9% in the same period of 2018 and from 1.8% of deals in the first eight months of 2017. Further, 23.5% of real estate transactions executed by foreigners in the covered period were in the Baabda district, followed by Beirut (17.3%), the South (15.8%), the Metn region (13.2%), the North (10.8%), the Keserwan region (9.1%), the Zahlé area (9%), and the Nabatieh region (1.2%). Also, Saudi nationals accounted for 23.6% of the total amount of real estate transactions executed by foreigners in August 2019, followed by Syrian citizens (16%), Iraq nationals (8%), Kuwaiti citizens (7.1%), and American nationals (4.6%).

Humanitarian Aid Flows to Lebanon (US\$m)



Source: United Nations, Byblos Research

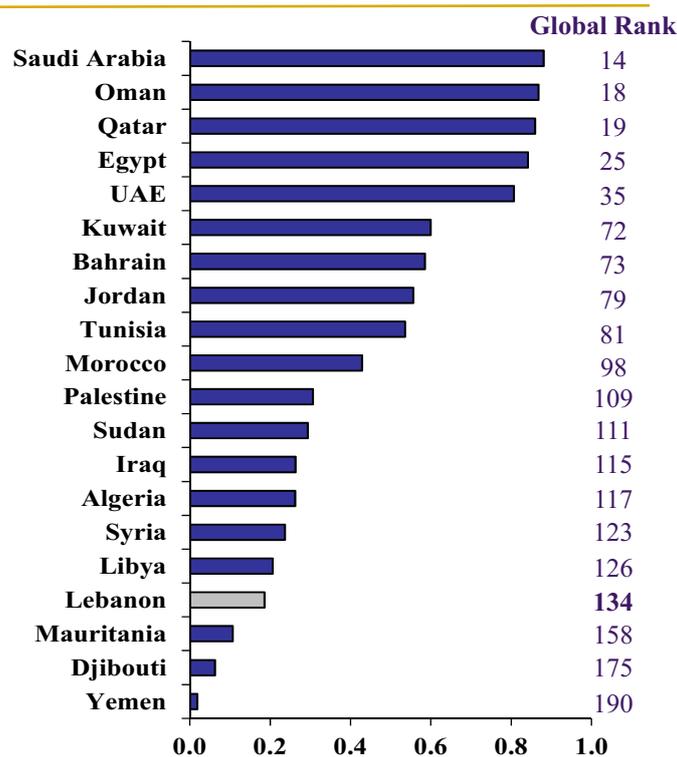
Cabinet approves cybersecurity strategy

The Council of Ministers approved on August 29, 2019 the National Strategy for Cybersecurity, which aims to protect ministries, government entities and the wider public sector, as well as telecommunication networks, against cybersecurity threats. The Cabinet indicated that a committee in charge of cybersecurity will take all necessary measures to put the strategy into effect. According to the International Telecommunication Union (ITU), cybersecurity consists of the set of technologies, processes, and practices designed to protect networks, devices, programs, and electronic data from attacks, damages, or unauthorized access.

The ITU indicated that 11 Arab countries already have a national cybersecurity strategy, which are Bahrain, Egypt, Iraq, Jordan, Morocco, Oman, Qatar, Saudi Arabia, Sudan, Syria and the UAE, while Tunisia is in the process of drafting its national cybersecurity strategy.

The ITU's 2018 Global Cybersecurity Index ranked Lebanon in 134th place among 194 countries around the world and in 17th place among 20 Arab countries. Lebanon also came in 44th place among 58 upper middle-income countries (UMICs) included in the survey. The index assesses a country's commitment to cybersecurity in order to help it identify areas that need improvement. Globally, Lebanon has the same level of commitment to cybersecurity as Zimbabwe, and has a higher level of commitment than Afghanistan, Myanmar and the Republic of Congo; while it is less committed to cybersecurity than Laos, Guinea and Trinidad & Tobago among countries with a nominal GDP of \$10bn or more.

**Global Cybersecurity Index for 2018
Arab Countries Scores & Rankings**



Source: International Telecommunication Union, Byblos Research

Broad money supply down 0.7% in first seven months of 2019

Figures released by Banque du Liban show that money supply M1, which includes currency in circulation and demand deposits in Lebanese pounds, reached LBP10,800bn at the end of July 2019, constituting a decline of 7.4% from LBP11,661bn at the end of 2018 and a decrease of 5.7% from LBP11,455bn at end-July 2018. Currency in circulation stood at LBP5,159bn at the end of July 2019, up by 3% from LBP5,008bn at end-2018 and by 6.2% from LBP4,857bn at end-July 2018. Also, demand deposits in local currency stood at LBP5,641bn at the end of July 2019, constituting a decline of 15.2% from end-2018 and of 14.5% from end-July 2018. Money Supply (M1) was nearly unchanged from LBP10,788bn at end-June 2019, with currency in circulation growing by 2.2% and demand deposits in local currency declining by 1.7% month-on-month.

In addition, money supply M2, which includes M1 and term deposits in Lebanese pounds, reached LBP73,729bn at the end of July 2019, constituting a decrease of 4% from LBP76,828bn at the end of 2018, and a decline of 8.7% from LBP80,768bn a year earlier. Term deposits in Lebanese pounds totaled LBP62,929bn at the end of July 2019, down by 3.4% from LBP65,167bn at end-2018 and by 9.2% from LBP69,313bn at end-July 2018. Money Supply (M2) regressed by a marginal 0.4% in July from LBP74,039bn at end-June 2019, with term deposits in local currency declining by 0.5% month-on-month.

Further, broad money supply M3, which includes M2, deposits in foreign currency and debt securities issued by the banking sector, reached LBP211,565bn at the end of July 2019, constituting a decrease of 0.7% from LBP212,993bn at the end of 2018 and a decline of 0.4% from LBP212,335bn at end-July 2018. Deposits in foreign currency totaled LBP137,405bn at the end of July 2019, up by 1.1% from end-2018 and by 4.6% from a year earlier. Also, debt securities issued by the banking sector amounted to LBP431bn at the end of July 2019, compared to LBP272bn at the end of 2018 and to LBP251bn at end-July 2018. Money supply (M3) grew by a marginal 0.3% in July from LBP210,938bn at the end of June 2019, with deposits in foreign currency expanding by 0.6% and debt securities issued by the banking sector rising by 40.2% month-on-month. In parallel, M3 regressed by LBP1,428bn in the first seven months of 2019, due to a drop of LBP5,791bn in the net foreign assets of deposit-taking institutions, a decline of LBP5,310bn in claims on the private sector and a decrease of LBP205bn in net claims on the public sector, which were partly offset by a surge of LBP9,878bn in other net items.

Association of banks amends reference rate on US dollar lending

The Association of Banks in Lebanon (ABL) recommended to its member banks to increase the Beirut Reference Rate (BRR) in US dollars from 9.89% in August 2019 to 10.14% in September 2019. The rate, considered as the reference rate for lending in foreign currency, replaced the London Interbank Offered Rate (LIBOR) in 2009, as the ABL decided that the LIBOR does not reflect the cost of funding and lending in Lebanon. In addition, the ABL recommended to its member banks to maintain the BRR in Lebanese pounds at 13.49% in September 2019, unchanged from August 2019. The BRR in US dollars and Lebanese pounds were adopted in March and May 2009, respectively. The ABL considers that the BRR does not replace the Beirut Prime Lending Rate in each currency, but constitutes the basis for calculating the prime rate after adding the cost of liquidity and refinancing, credit risk and the profitability of banks.

Gross public debt at \$86bn at end-July 2019, foreign currency debt down 8% year-on-year

Lebanon's gross public debt reached \$86bn at the end of July 2019, constituting an increase of 1% from \$85.1bn at the end of 2018 and a rise of 3.7% from \$82.9bn at end-July 2018. In nominal terms, the gross public debt grew by \$865.7m in the first seven months of 2019 relative to an increase of \$3.4bn in the same period of 2018.

Debt denominated in Lebanese pounds totaled \$53.6bn at end-July 2019, up by 3.8% from the end of 2018 and by 12.5% from end-July 2018; while debt denominated in foreign currency stood at \$32.4bn, constituting a decrease of 3.3% from end-2018 and a decline of 8.1% from end-July 2018.

Local currency debt accounted for 62.3% of the gross public debt at the end of July 2019 compared to 57.5% a year earlier, while foreign currency-denominated debt represented the balance of 37.7% relative to 42.5% at end-July 2018. The weighted interest rate on outstanding Treasury bills was 6.4% and the rate on Eurobonds was 6.84% in July 2019. Further, the weighted life on Eurobonds was 7.54 years, while it was 1,621 days on Treasury bills and bonds.

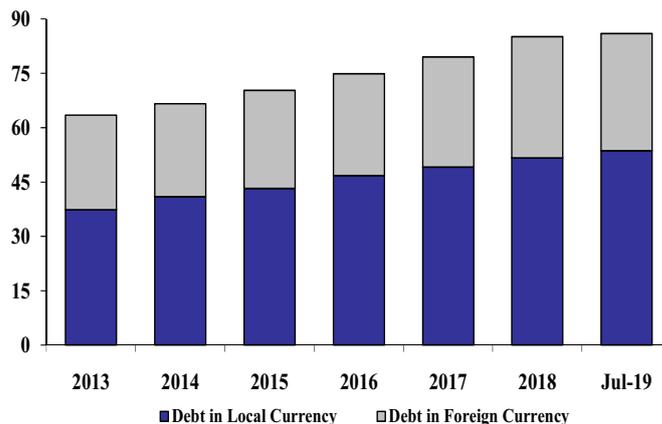
Commercial banks held 37.2% of the public debt at end-July 2019 relative to 40.1% of the total at end-July 2018. BdL held 53.4% of the Lebanese pound-denominated public debt at the end of July 2019 compared to 47.5% a year earlier, while commercial banks held 32.7% of the local debt compared to 36.9% at end-July 2018. Also, public agencies, financial institutions and the public held 13.9% of the local debt at end-July 2019 relative to 15.6% at end-July 2018. Further, holders of Eurobonds and special T-bills in foreign currencies accounted for 93.7% of foreign currency-denominated debt holders at the end of July 2019, followed by multilateral institutions with 4.2% and foreign governments with 2.1%. In addition, the net public debt, which excludes public sector deposits at BdL and at commercial banks from overall debt figures, grew by 6.4% annually to \$77.1bn at end-July 2019. Further, the gross market debt accounted for about 57% of the public debt. The gross market debt is the total public debt less the portfolios of BdL, the National Social Security Fund, as well as bilateral and multilateral loans.

Compensation of public-sector personnel up 5% in first five months of 2019, absorbs 62% of revenues

Figures issued by the Ministry of Finance show that the compensation of public-sector personnel totaled \$2.77bn in the first five months of 2019, constituting an increase of 4.9% from \$2.64bn in the same period of 2018. Salaries, wages and related benefits accounted for 57.5% of the total in the first five months of 2019, followed by retirement benefits (26%), end-of-service indemnities (12.5%), and transfers to public institutions to cover salaries (4%). The compensation of public-sector personnel represented the largest component of current primary spending and accounted for 75% of such expenditures in the covered period, compared to 67.8% in the first five months of 2018. Also, the compensation of public-sector personnel was equivalent to 62% of total fiscal receipts in the first five months of 2019 relative to 55% in the same period of 2018. It accounted for 40.4% of overall fiscal spending in the first five months of 2019 compared to 34.2% in the same period of 2018.

Salaries, wages & related benefits paid to public-sector employees reached \$1.59bn in the first five months of 2019, constituting a decline of 8% from \$1.73bn in the same period of 2018. This category includes basic salaries, employment benefits, allowances, contributions to civil servants' cooperatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly civil and religious judges, and employees at the Parliament. In addition, retirement benefits grew by 19.3% to \$718.4m in the first five months of 2019, and end-of-service indemnities rose by 83.3% to \$345.6m, while transfers to public institutions to cover salaries fell by 5% to \$113.4m in the covered period. As such, the increase in the compensation of public-sector personnel cost was entirely due to retirement benefits and end-of-service indemnities, which increased by 34.5% or by \$273.3m to \$1.06bn in the covered period. The two components accounted for 38.4% of the compensation of public-sector personnel in the covered period, up from a share of 30% in the first five months of 2018.

Lebanon's Gross Public Debt (US\$bn)



Source: Ministry of Finance, Byblos Research

Trade deficit up by 1% to \$10bn in first seven months of 2019

Total imports reached \$12.3bn in the first seven months of 2019, constituting an increase of 3.7% from \$11.9bn in the same period of 2018; while aggregate exports grew by 19% year-on-year to \$2.1bn in the covered period. As such, the trade deficit widened by 1% to \$10.2bn in the first seven months of 2019 due to a rise of \$436.5m in imports that was partly offset by an increase of \$332.7m in exports in the covered period.

The rise in imports during the first seven months of 2019 was mainly due to an increase of \$1.68bn, or 1.6 times, in the imports of oil & mineral products, which was partly offset by a drop of \$1.24bn, or 13.3%, in imported non-hydrocarbon products. Imported oil & mineral fuels reached \$4.27bn and accounted for 34.6% of total imports in the covered period. The surge in the imports of oil & mineral products is due to the inclusion of fuel imported for Electricité du Liban in 2018 within the 2019 figures.

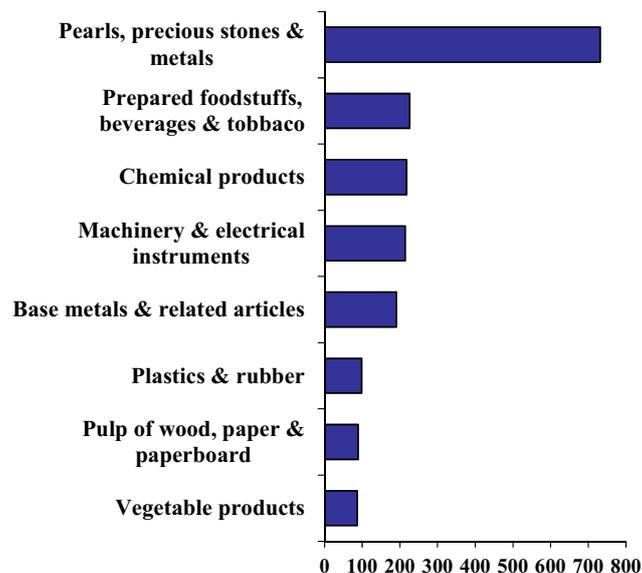
Also, the growth in exports in the covered period was mainly due to a rise of \$303.1m, or 71%, in the exports of jewelry; an expansion of \$39.3m (+22.5%) in the exports of machinery & mechanical appliances; a growth of \$32m (+201.7%) in exported mineral products; and an increase of \$17.2m (+8.6%) in the exports of chemical products. They were partly offset by a drop of \$58.7m, or 23.6%, in exported base metals; a decline of \$13.4m (-5.6%) in the exports of prepared foodstuff; and a decrease of \$4.8m (-5.3%) in the exports of vegetable products.

Further, exported goods to Switzerland jumped by 4.5 times year-on-year in the first seven months of 2019, those to Greece surged by 80%, exports to Egypt expanded by 35%, those to Syria grew by 25.5%, exports to Saudi Arabia rose by 16%, those to Iraq increased by 10.2%, exports to the UAE expanded by 7.7%, and those to Jordan increased by 4.2%. In contrast, exported goods to South Africa dropped by 56.2% year-on-year in the covered period, while those to Qatar were nearly unchanged. Re-exports totaled \$309.2m in the first seven months of 2019 compared to \$204.8m in the same period of 2018. The Hariri International Airport was the exit point for 44% of Lebanon's exports in the first seven months of 2019, followed by the Port of Beirut (39.5%), the Port of Tripoli (6.8%), and the Masnaa crossing point (6.5%).

Lebanon's main non-hydrocarbon imports were chemical products that reached \$1.25bn in the first seven months of 2019 and declined by 6.3% from the same period of 2018. Imported machinery & mechanical appliances followed at \$1.1bn (-12.2%), then vehicles, aircraft & vessels at \$797.3m (-20.3%), prepared foodstuff at \$755m (-5.8%), vegetable products at \$623m (+7.3%), base metals at \$549.5m (-27%), jewelry, mostly gold bars, at \$538.5m (-31.6%), animal products at \$522.5m (-13.1%), plastics & rubber at \$419.4m (-4.8%), and textiles at \$375.2m (-14.3%). The Port of Beirut was the entry point for 75.5% of Lebanon's merchandise imports in the first seven months of 2019, followed by the Hariri International Airport (17.4%), and the Port of Tripoli (5.1%).

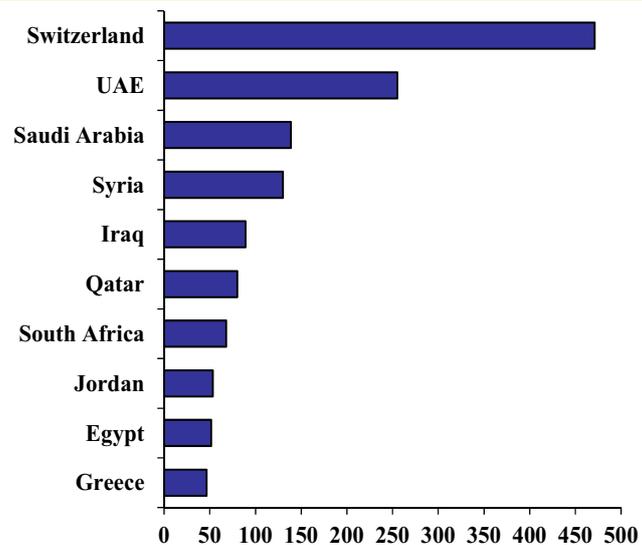
The U.S. was the main source of imports with \$1.15bn, or 9.3% of the total, in the first seven months of 2019, followed by China with \$1.04bn (8.5%), Russia with \$949.5m (7.7%), Greece with \$794.1m and Italy with \$783.6m (6.4% each), Germany with \$620.6m (5%), France with \$536.5m (4.3%), and Turkey with \$488.9m (4%). Imported goods from Russia surged by 103%, those from France expanded by 29.6%, imports from the U.S. rose by 23%, and those from Turkey increased by 21% year-on-year in the first seven months of 2019. In contrast, imported goods from Italy dropped by 16.7%, those from Greece fell by 16.3%, imports from China contracted by 14.3%, and those from Germany declined by 9.6% in the covered period.

Main Lebanese Exports in First Seven Months of 2019 (US\$m)



Source: Lebanese Customs Administration, Byblos Research

Main Destinations of Lebanese Exports in First Seven Months of 2019 (US\$m)



Source: Lebanese Customs Administration, Byblos Research

New car sales down 23% in first eight months of 2019

Figures released by the Association of Automobile Importers (AAI) in Lebanon show that dealers sold 18,165 new passenger cars in the first eight months of 2019, constituting a decline of 23.2% from 23,645 cars sold in the same period of 2018. Individuals and institutional clients purchased 1,838 new cars in January, 1,906 new vehicles in February, 2,190 new automobiles in March, 2,168 new cars in April, 2,458 new vehicles in May, 2,616 new automobiles in June, 2,948 new cars in July and 2,041 new vehicles in August 2019.

Japanese cars accounted for 39% of total car sales in the first eight months of 2019, followed by Korean vehicles with a 26% share, European automobiles (22.1%), American cars (9%), and Chinese vehicles (3.9%). Demand for Korean vehicles dropped by 31.4%, the sales of Japanese cars decreased by 26%, demand for new American automobiles declined by 15%, and the sales of European vehicles regressed by 12.6% annually in the first eight months of 2019. In contrast, the number of Chinese cars sold grew by 4.6% in the covered period.

Further, Kia is the leading brand in the Lebanese market with 2,775 passenger vehicles sold in the first eight months of 2019, followed by Nissan with 2,034 new cars sold, Toyota (1,957), Hyundai (1,931), and Renault (1,194).

In parallel, Lebanon's top five car distributors sold 11,115 vehicles in the first eight months of 2019 and accounted for 61.2% of new auto sales. NATCO sal sold 2,775 vehicles in the covered period, equivalent to 15.3% of the total, followed by Rasamny Younis Motor Co. sal with 2,688 automobiles (14.8%), Boustany United Machineries sal with 2,041 cars (11.2%), Century Motor Co. sal with 1,931 vehicles (10.6%), and Bassoul Heneiné sal with 1,680 cars (9.2%). The AAI stopped disclosing figures about the sales of commercial vehicles since June 2019.

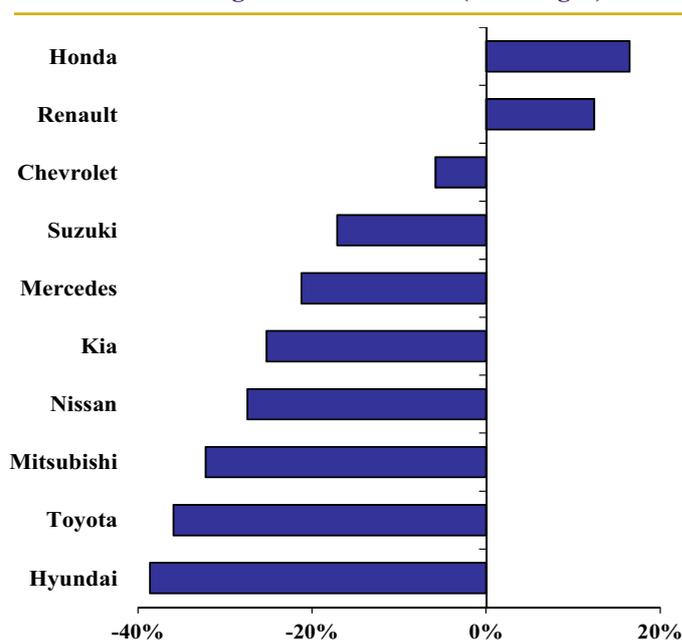
Ratings on three Lebanese banks affirmed

Capital Intelligence Ratings (CI) affirmed at 'B' the long- and short-term foreign-currency ratings (FCRs) of BLOM Bank, Bank Audi and Crédit Libanais. In parallel, the agency withdrew the banks' financial strength ratings due to a change in its methodology, and replaced it with the Bank Standalone Rating (BSR), which is based on the Core Financial Strength (CFS) rating and the Operating Environment Risk Anchor (OPERA). As such, it assigned a BSR of 'b', an OPERA of 'b' and an Extraordinary Support Level of 'Uncertain' to the three banks, while it assigned a CFS rating of 'bb' to BLOM Bank, a rating of 'bb-' to Bank Audi, and a CFS rating of 'b+' to Crédit Libanais. It noted that the outlook on the banks' long-term FCRs and BSRs is 'negative', in line with the outlook on Lebanon's sovereign ratings. CI already affirmed Byblos Bank's FCRs at 'B', and said that Byblos Bank's CFS rating of 'bb-' is supported by its adequate capital adequacy, sound asset quality metrics, adequate liquidity and good franchise in Lebanon.

The agency noted that the ratings of BLOM Bank, Bank Audi and Crédit Libanais are highly correlated with the sovereign's creditworthiness and are constrained by the sovereign ratings, which means that any improvement or deterioration of Lebanon's creditworthiness will have a corresponding impact on the banks' ratings or outlook. In parallel, it attributed the 'uncertain' level of extraordinary support to the fact that the government would likely be willing to provide such support, but that its capacity to do so is limited.

Further, it indicated that BLOM Bank's and Bank Audi's CFS ratings are supported by their significant franchise and international presence, solid and strengthened capital adequacy, and sound profitability. It added that the CFS rating of Crédit Libanais is supported by its strong retail franchise in Lebanon, satisfactory internal capital generation, as well as by an increase in its capital ratios. It noted that the three banks' funding and liquidity metrics continue to be adequate, mainly due to a slowdown in lending growth. But it said that the banks' liquidity ratios are subject to systemic liquidity and interest rate risks. It pointed out that the banks' ratings are constrained by their large holdings of Lebanese sovereign debt, as well as by interest rate and maturity mismatches, increased non-performing loans ratio, the challenging domestic and regional political environment, and subdued economic growth in Lebanon.

Sales of Top 10 Car Brands
in First Eight Months of 2019 (% change*)



*from the same period of 2018

Source: AIA, Byblos Research

CMA CGM posts net losses of \$154m in first half of 2019

The Lebanese-owned and France-based container-shipping firm CMA CGM declared consolidated net losses of \$153.7m in the first half of 2019 relative to net losses of \$34.4m in the same period of 2018. The firm attributed its results for the first half of 2019 to the impact of the implementation of international accounting standard IFRS 16 and to the acquisition of supply chain management company CEVA logistics AG.

The firm's core earnings before interest and taxes (EBIT), excluding disposals & equipment and subsidiaries, reached \$433.8m in the first half of 2019, and grew by 2.7 times from \$159m in the same period of 2018. Further, the company's revenues grew by 36% annually to \$15.1bn in the covered period, mainly due to a rise in the income of the firm's logistics and container shipping segments. In parallel, operating expenditures rose by 25.2% year-on-year to \$13.4bn in the first half of 2019 due to the increase in the price of bunkers and consumables and in employee benefits, as well as to higher operating costs such as handling, logistics and transportation expenses.

Further, the firm's consolidated assets reached \$32.9bn at the end of June 2019, up by 61.7% from \$20.3bn at end-2018. The value of the company's property and equipment increased by 80.4% from end-2018 to \$18.5bn at the end of June 2019, with vessels accounting for \$12.9bn or 69.7% of the total, followed by containers at \$3bn (16.2%) and land & buildings at \$1.8bn (9.6%), while other properties & equipment reached \$823.5m (4.5%). Also, its return on invested capital, which measures how well the company is using its money to generate returns, increased from 2.9% in the second quarter of 2018 to 4% in the same quarter of 2019.

CMA CGM is one of the largest container shipping companies in the world and operates a fleet of 509 vessels, with a capacity of 2.71 million TEUs that serves over 420 commercial ports. In April 2019, S&P Global Ratings affirmed CMA CGM's long-term issuer rating at 'B+' with a 'positive' outlook.

Fitch takes action on banks following sovereign downgrade

Fitch Ratings downgraded from 'B-' to 'CCC' the long-term Issuer Default Ratings (IDRs) of Bank Audi and Byblos Bank. It also downgraded the two banks' Viability Ratings (VRs) from 'b-' to 'ccc', while it maintained their Support Rating at '5'. It noted that the downgrade follows the agency's earlier downgrade of Lebanon's sovereign ratings. The agency indicated that the banks' long-term IDRs are driven by their intrinsic strengths. However, it noted that the two banks' ratings are capped by the sovereign's creditworthiness due to their substantial holdings of government debt and of Certificates of Deposits issued by Banque du Liban (BdL), as well as by a lack of domestic lending opportunities and weak economic activity.

Further, the agency pointed out that the VRs of Byblos Bank and Bank Audi reflect their strong domestic franchise and competent management, as well as their resilient asset quality and solid deposit base, despite some pricing pressures to attract deposits, mainly in US dollars. In addition, it said that Bank Audi's international operations have been expanding, but that the Lebanese market remains the bank's main source of risk.

In parallel, Fitch indicated that Lebanese authorities would have a high willingness to support Byblos Bank and Bank Audi in case of need, given their systemic importance to the banking sector and to the economy as a whole. But it noted that the authorities' ability to provide such support cannot be relied upon. The agency said that it would upgrade the two banks' ratings in case of a sovereign upgrade or a substantial reduction in their exposure to the government or to BdL relative to their capital.



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 Sector Ratings

	Outlook
Moody's Investors Service	Stable

Source: Moody's Investors Service



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