

# LEBANON THIS WEEK

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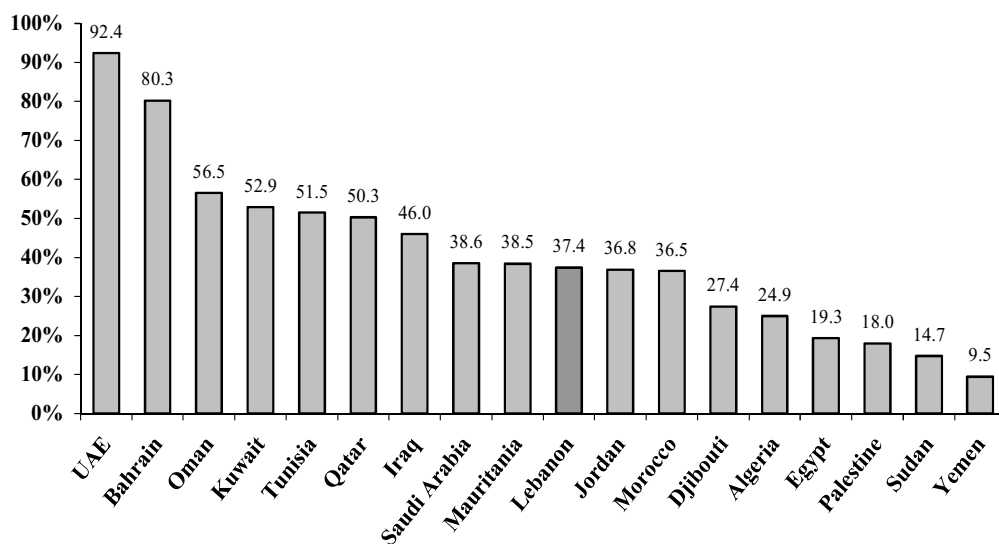
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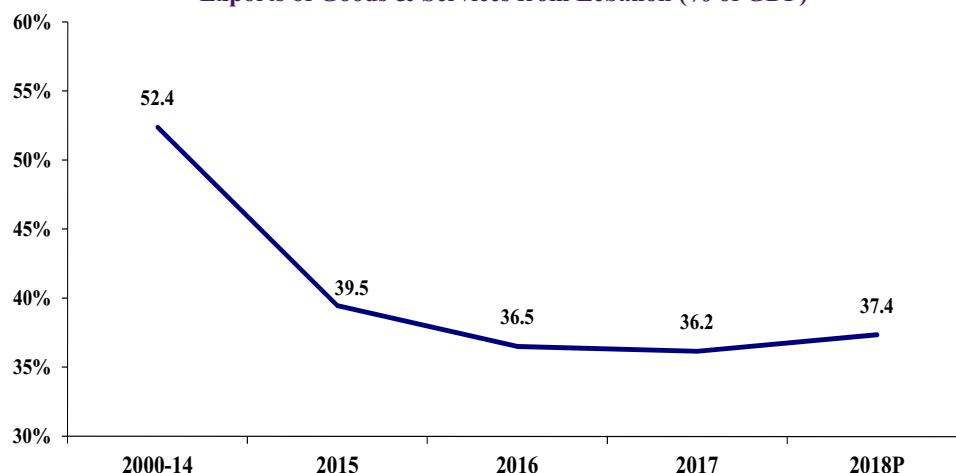
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## Charts of the Week

Projected Exports of Goods & Services from Arab Countries in 2018 (% of GDP)



Exports of Goods & Services from Lebanon (% of GDP)



Source: International Monetary Fund - November 2018, Institute of International Finance, Byblos Bank

## Quote to Note

"The State needs to be an enabler, not a doer."

*The World Bank, on the need for the Lebanese government to improve the investment climate and the business environment in Lebanon, instead of monopolizing and managing economic sectors*

## Number of the Week

**0.8%:** The spread between the weighted average cost of funds and the weighted return on the uses of funds in Lebanese pounds at commercial banks in Lebanon as at August 2018, according to the Association of Banks in Lebanon

## Lebanon in the News

\$m (unless otherwise mentioned)	2017	Aug 2017	May 2018	Jun 2018	Jul 2018	Aug 2018	% Change*
Exports	2,844	251	254	215	218	229	(8.86)
Imports	19,582	1,685	1,591	1,616	2,318	1,820	7.98
Trade Balance	(16,738)	(1,435)	(1,337)	(1,401)	(2,100)	(1,591)	10.93
Balance of Payments	(156)	368	1,204	(639)	(549)	(408)	-
Checks Cleared in LBP	21,677	1,869	1,725	1,680	1,878	1,777	(4.90)
Checks Cleared in FC	46,578	4,100	3,841	3,471	3,953	3,662	(10.68)
Total Checks Cleared	68,255	5,969	5,566	5,151	5,831	5,439	(8.87)
Budget Deficit/Surplus	(3,301)	(513.5)	(930.6)	(36.1)	-	-	-
Budget Primary Balance	1,883	(192.8)	88.3	277.6	-	-	-
Airport Passengers***	8,235,845	1,067,441	598,602	762,041	1,022,467	1,159,811	8.65

\$bn (unless otherwise mentioned)	2017	Aug 2017	May 2018	Jun 2018	Jul 2018	Aug 2018	% Change*
BdL FX Reserves	35.80	34.03	34.64	33.14	34.21	33.92	(0.31)
In months of Imports	18.57	20.19	21.77	20.51	14.76	18.64	(7.68)
Public Debt	79.53	77.29	82.51	82.95	82.90	83.69	8.30
Bank Assets	219.86	209.39	232.29	234.60	236.31	238.46	13.88
Bank Deposits (Private Sector)	168.66	169.15	172.38	173.32	173.01	173.22	2.41
Bank Loans to Private Sector	59.69	58.19	59.45	59.56	59.22	59.40	2.09
Money Supply M2	52.51	55.52	53.77	53.98	53.58	53.21	(4.16)
Money Supply M3	138.60	139.20	140.49	141.29	140.85	141.04	1.32
LBP Lending Rate (%)****	8.09	8.10	8.65	8.82	8.66	8.81	71bps
LBP Deposit Rate (%)	6.41	5.55	6.71	6.72	6.94	7.03	148bps
USD Lending Rate (%)	7.67	7.29	7.87	7.93	7.96	8.12	83bps
USD Deposit Rate (%)	3.89	3.63	4.11	4.09	4.14	4.20	57bps
Consumer Price Index**	4.4	5.1	6.5	7.6	7.6	6.7	160bps

\* 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	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Byblos Common	1.41	0.71	140,696	8.27%	May 2019	6.00	98.13	9.91
Solidere "A"	6.33	(4.95)	108,411	6.56%	Mar 2020	6.38	95.25	10.34
BLOM GDR	9.85	(1.50)	40,508	7.55%	Apr 2021	8.25	94.50	10.91
Audi Listed	4.77	(2.65)	28,500	19.77%	Oct 2022	6.10	85.13	10.91
Solidere "B"	6.28	(3.98)	27,566	4.23%	Jun 2025	6.25	78.63	10.89
BLOM Listed	9.30	0.54	13,225	20.74%	Nov 2026	6.60	77.38	10.90
Byblos Pref. 09	72.00	0.00	122	1.49%	Feb 2030	6.65	74.25	10.62
HOLCIM	16.60	0.00	-	3.36%	Apr 2031	7.00	74.25	10.81
Audi GDR	5.25	0.00	-	6.53%	Nov 2035	7.05	73.75	10.37
Byblos Pref. 08	71.00	0.00	-	1.47%	Mar 2037	7.25	74.25	10.42

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

Source: Byblos Bank Capital Markets

	Nov 12-16	Nov 5-9	% Change	October 2018	October 2017	% Change
Total shares traded	367,028	951,407	(61.4)	4,899,249	8,915,465	(45.0)
Total value traded	\$1,930,322	\$11,534,623	(83.3)	\$34,380,794	\$78,667,175	(56.3)
Market capitalization	\$9.64bn	\$9.74bn	(0.99)	\$9.75bn	\$11.27bn	(13.5)

Source: Beirut Stock Exchange (BSE)



### Housing demand improves in third quarter of 2018 after Parliament allocates LBP100bn for mortgage subsidies

Demand for residential real estate in Lebanon improved in the third quarter of 2018, as reflected by the results of the Byblos Bank Real Estate Demand Index. The Index posted a monthly average of 51.4 points in the third quarter of 2018, constituting an increase of 17.4% from 43.7 points in the second quarter of 2018 and a growth of 3.7% from 49.6 points in the third quarter of 2017. The Index decreased by 19.3% in July and by 14.2% in August, but increased by 26.3% in September.

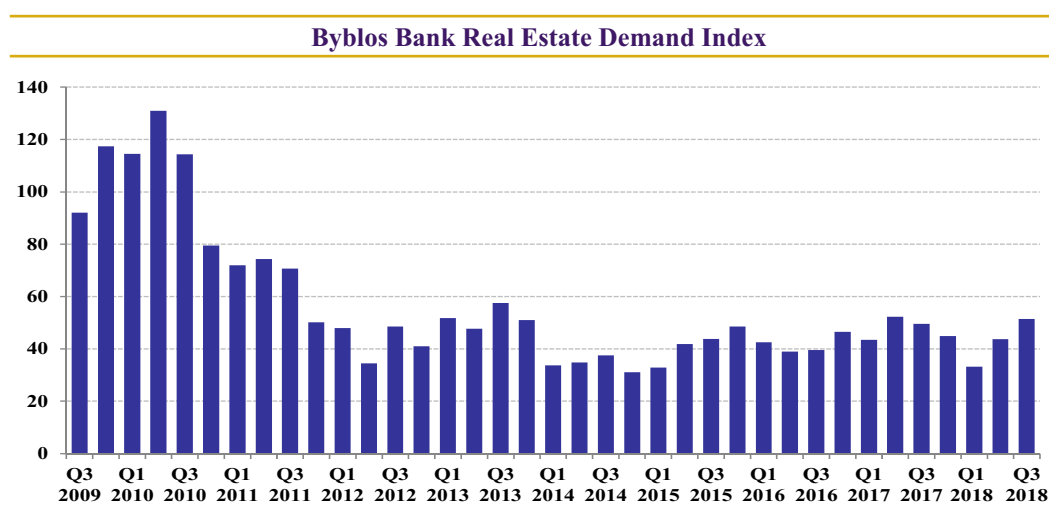
Demand for housing in Lebanon improved in the third quarter of the year following the Lebanese Parliament's vote in September to allocate LBP100bn, or \$66m, to subsidize interest rates on housing loans, given the suspension of subsidies since the beginning of the year. As a result, the new law raised the expectations of citizens that subsidized mortgages will resume, which triggered the jump of the Index in September.

However, the increase of the Index in the third quarter does not reflect a change in the current dynamics of the housing market, as the improvement comes from a low base following the first and second-quarter results, and is only based on the expectations of citizens. Further, the Index's average monthly score in the third quarter of 2018 is 61% lower from the peak of 131 points registered in the second quarter of 2010, and remained 53.2% below the annual peak of 109.8 points posted in 2010. Also, it was 14% lower than the Index's monthly trend average score of 59.8 points since the Index's inception in July 2007.

The answers of respondents to the Index's survey questions in the third quarter of 2018 show that 5.8% of Lebanese residents had plans to either buy or build a residential property in the coming six months compared to 4.9% in the second quarter of the year and to 5.6% in the third quarter of 2017. In comparison, 6.7% of residents in Lebanon, on average, had plans to buy or build a residential unit in the country between July 2007 and September 2018, with this share peaking at nearly 15% in the second quarter of 2010.

Demand for housing in the third quarter of 2018 was the highest in the South, as 9.1% of its residents had plans to build or buy a house in the coming six months, compared to 7.8% in the second quarter of 2018. The Bekaa followed with 6.3% of its residents planning to build or buy a residential unit in the coming six months, up from 6% in the previous quarter; while 5.5% of residents in Mount Lebanon had plans to buy or build a house, relative to 4.6% in the preceding quarter. In addition, 4.7% of residents in the North intend to buy or build a residential unit, up from 4% in the second quarter of 2018, while 4% of residents in Beirut plan to build or buy a house, up from 3% in the previous quarter. Also, real estate demand increased among all income brackets in the third quarter of 2018.

The Byblos Bank Real Estate Demand Index is a measure of local demand for residential units and houses in Lebanon. The Index is compiled, implemented and analyzed in line with international best practices and according to criteria from leading indices worldwide. The Index is based on a face-to-face monthly survey of a nationally representative sample of 1,200 males and females living throughout Lebanon, whereby residents are asked about their plans to buy or build a house in the coming six months. The data segregates the Index based on age, gender, income, profession, geographic region and religious affiliation. The Byblos Bank Economic Research & Analysis Department has been calculating the Index on a monthly basis since July 2007, with November 2009 as its base month. The survey has a margin of error of  $\pm 2.83\%$ , a confidence level of 95% and a response distribution of 50%. The monthly field survey is conducted by Statistics Lebanon Ltd, a market research and opinion-polling firm.



Source: Byblos Bank Economic Research & Analysis Department, based on surveys conducted by Statistics Lebanon

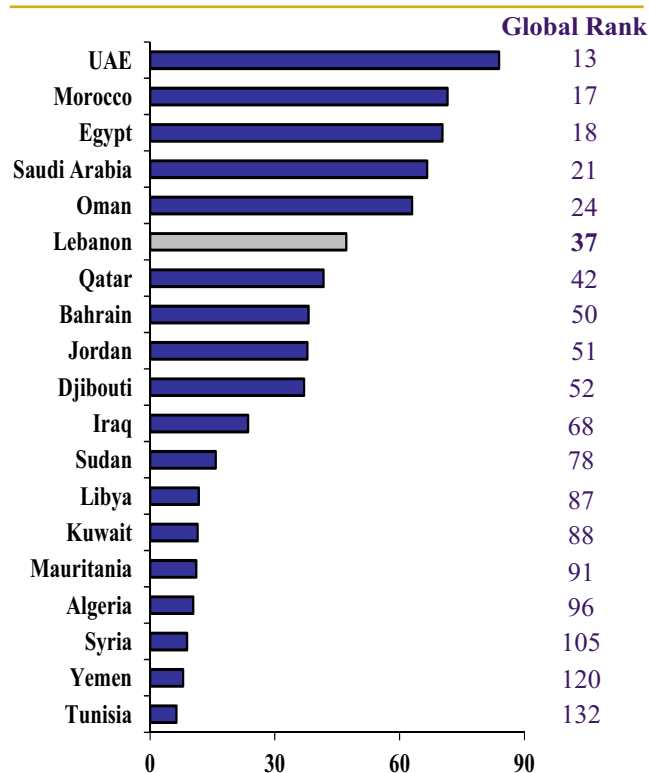
### Lebanon ranks 37th globally, sixth among Arab countries in terms of liner shipping connectivity

The 2018 United Nations Conference on Trade & Development's Liner Shipping Connectivity Index (LSCI) ranked Lebanon in 37th place among 178 countries around the world and in sixth place among 19 Arab countries. Lebanon also came in seventh place among 47 upper middle-income countries (UMICs) included in the survey. Lebanon's global rank regressed by two spots from the 2017 survey, while its rank among Arab countries regressed by one spot year-on-year. Also, Lebanon's score has been improving since 2015, increasing from 41.8 points in 2015 to 42.8 points in 2016, 45.2 points in 2017 and to 47.2 points in 2018.

The LSCI reflects how well countries are connected to global shipping networks. The index is a composite of five components that capture the deployment of container ships by liner shipping firms to a country's ports. They include the number of ships, the ships' container-carrying capacity, the number of companies providing services with their own operated ships, the number of services provided, and maximum vessel size. A country's score on the index is the average of the five components, with a higher score reflecting a better performance on the index.

Globally, Lebanon has a higher connectivity to global shipping networks than Israel, Peru and Chile, and a lower connectivity than Mexico, Thailand and Indonesia. It also has a higher connectivity to global shipping networks than Peru, Iran and Russia, and a lower connectivity than Colombia, Mexico and Thailand among UMICs. Further, Lebanon has a lower connectivity than only the UAE, Morocco, Egypt, Saudi Arabia and Oman among Arab countries. Lebanon received a score of 47.2 points, up by 4.5% from the 2017 survey. Lebanon's score was higher than the global average score of 27 points, the Arab average of 35 points, and the UMICs' average score of 25.3 points. Also, it was lower than the Gulf Cooperation Council (GCC) countries' average score of 50.8 points, but higher than that of non-GCC Arab countries of 27.6 points.

**Liner Shipping Connectivity Index for 2018  
Arab Countries' Scores & Ratings**



Source: UNCTAD, Byblos Research

### Number of real estate transactions down 18% in first 10 months of 2018

Figures released by the Ministry of Finance indicate that there were 49,652 real estate transactions in the first 10 months of 2018, constituting a decrease of 17.6% from 60,276 deals in the same period of 2017. In comparison, the number of real estate transactions grew by 16.6% year-on-year in the first 10 months of 2017 and increased by 1.2% annually in the same period of 2016. There were 9,757 real estate transactions in the Baabda area in the first 10 months of 2018, representing 19.7% of the total. The North followed with 7,770 deals (15.6%), then the Zahlé region with 6,255 transactions (12.6%), the South with 5,814 deals (11.7%), the Metn district with 5,579 transactions (11.2%), the Keserwan area with 4,825 deals (9.7%), the Nabatieh region with 4,443 transactions (8.9%), and Beirut with 3,719 deals (7.5%).

Also, the aggregate value of real estate transactions reached \$6.6bn in the first 10 months of 2018 and decreased by 19% from \$8.2bn in the same period of 2017. In comparison, the value of real estate deals grew by 21.2% annually in the first 10 months of 2017 and increased by 4.1% year-on-year in the same period of 2016. Further, the value of real estate transactions in Beirut reached \$1.9bn and accounted for 29.1% of the total in the first 10 months of 2018. The Baabda district followed with \$1.3bn (19.7%), then the Metn region with \$1.1bn (17.2%), the Keserwan area with \$766.2m (11.6%), the South with \$482.2m (7.3%), the North with \$446.6m (6.8%), the Zahlé area with \$271.3m (4.1%) and the Nabatieh region with \$193.5m (2.9%).

In parallel, the average value per real estate transaction was \$133,108 in the first 10 months of 2018, down by 1.6% from an average of \$135,289 in the same period of 2017 and relative to \$130,131 in the first 10 months of 2016. Further, there were 952 real estate transactions executed by foreigners in the first 10 months of 2018, down by 12.4% from 1,087 deals in the same period of 2017 and compared to 859 deals in the first 10 months of 2016. The number of real estate deals executed by foreigners accounted for 1.9% of total real estate transactions in the covered period compared to 1.8% of deals in the first 10 months of 2017 and to 1.7% of deals in the same period of 2016. Further, 23.5% of the real estate transactions executed by foreigners were in the Baabda district, followed by Beirut (21.4%), the South (12.7%), the Metn region (11.3%), the North (10.1%), the Keserwan area (9.3%), the Zahlé area (9.1%), and the Nabatieh region (2.4%).



### Gross public debt at \$84bn at end-September 2018

Lebanon's gross public debt reached \$83.8bn at the end of September 2018, constituting an increase of 5.4% from \$79.5bn at the end of 2017 and a rise of 7.3% from \$78.2bn at end-September 2017. In nominal terms, the gross public debt grew by \$4.3bn in the first nine months of 2018 relative to an increase of \$3.3bn in the same period of 2017. Debt denominated in Lebanese pounds totaled \$48.4bn at end-September 2018, down by 1.4% from the end of 2017 and up by 0.2% from end-September 2017; while debt denominated in foreign currency stood at \$35.4bn, constituting a growth of 16.5% from end-2017 and an increase of 18.7% from end-September 2017. In May 2018, the Finance Ministry issued \$5.5bn in Lebanese Eurobonds and exchanged them with LBP8,250bn worth of Lebanese pound-denominated Treasury bills from Banque du Liban's (BdL) portfolio in order to reduce the cost of debt servicing, which explains the growth in foreign-currency debt. Local currency debt accounted for 57.8% of the gross public debt at the end of September 2018 compared to 61.8% a year earlier, while foreign currency-denominated debt represented the balance of 42.2% relative to 38.2% at end-September 2017. The weighted interest rate on outstanding Treasury bills was 6.12% and that on Eurobonds was 6.73% in September 2018. Further, the weighted life on Eurobonds was 7.7 years, while it was 1,516 days on Treasury bills.

Commercial banks held 39.6% of the public debt as at end-September 2018 relative to 42.4% of the total at end-September 2017. BdL held 50.1% of the Lebanese pound-denominated public debt at the end of September 2018 relative to 47.3% a year earlier, while commercial banks held 35.1% of the local debt compared to 37.2% at end-September 2017. Also, public agencies, financial institutions and the public held 14.8% of the local debt at end-September 2018 relative to 15.5% a year earlier. Further, holders of Eurobonds and special T-bills in foreign currencies accounted for 93.9% of foreign currency-denominated debt holders at the end of September 2018, followed by multilateral institutions with 3.8% and foreign governments with 2.2%. In addition, the net public debt, which excludes public sector deposits at BdL and at commercial banks from overall debt figures, grew by 8.3% annually to \$73.6bn at end-September 2018. Further, the gross market debt accounted for about 62.2% of the total public debt. Gross market debt is the total public debt less the portfolios of the BdL, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II related debt.

### Association of Banks amends reference rate on US dollar and Lebanese pound lending

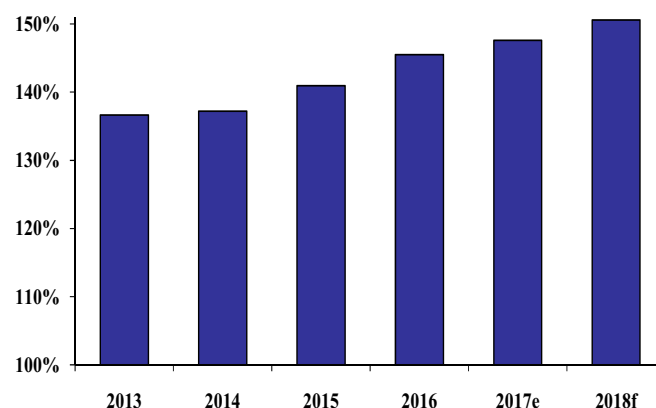
The Association of Banks in Lebanon (ABL) recommended to its member banks to increase the Beirut Reference Rate (BRR) in US dollars to 8.2% in December 2018 from 7.9% in November 2018. The rate, considered as the reference rate for lending in foreign currency, replaced the London Interbank Offered Rate (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 raise the BRR in Lebanese pounds to 11.5% in December 2018 from 10.7% in November 2018. 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 to calculate the prime rate after adding the cost of liquidity and refinancing, credit risk and the profitability of banks.

### USAID-funded initiative to provide clean water in West Bekaa

The U.S. Agency for International Development (USAID) provided \$800,000 in funding for the construction of a solar-powered pump station and a 300 cubic meter reservoir in Ghazze in the West Bekaa region. The initiative aims to provide clean water to 21,000 residents of Ghazze. The Lebanon Water Project will implement the project in partnership with the Bekaa Water Establishment and the Ghazze Municipality. The pump and reservoir are expected to save over \$60,000 in fuel costs annually. The U.S. government, through USAID, has invested over \$180m in the Lebanese water sector since 2000.

In May 2016, the U.S. government, through USAID, launched the \$65m Lebanon Water Project to support the water sector in Lebanon in partnership with the Ministry of Energy & Water. The five-year project, in collaboration with the four regional potable water and wastewater authorities of Beirut & Mount Lebanon, Bekaa, the North, the South, as well as the Litani River Authority, aims to increase access to clean and sustainable drinking water for Lebanese citizens. It also seeks to develop the efficiency and sustainability of water utilities, and improve Lebanon's capacity in managing its water resources.

Lebanon's Gross Public Debt (% of GDP)



Source: Institute of International Finance



### Lebanese Parliament enacts 16 draft laws

The Lebanese Parliament enacted 16 draft laws on November 12, 2018. It approved \$430m in extra-budgetary spending for Eléctricité du Liban (EdL) for the purchase of fuel for the country's power plants. Also, it allowed EdL to sign a two-year operating contract with Eléctricité de Zahlé (EDZ), which enables EDZ to continue to supply electricity to residents in Zahlé after its concession agreement with the Lebanese government expires at the end of 2018.

Further, Parliament approved \$50m for the Ministry of Public Health to cover the shortages of medicine for cancer patients and patients with chronic diseases. It also ratified an agreement between the Lebanese government and the Islamic Development Bank (IDB) to expand the Port of Tripoli, as well as a \$30m loan from the IDB for the healthcare sector. In addition, it suspended for three years Article 29 of law 173/2000, which enforces a lump sum tax on the number of branches, including the headquarter of joint-stock companies and limited partnerships, as well as on the place of business for individual establishments (sole proprietorship), and for individuals engaged in commercial and industrial and/or freelance activities. Also, it amended several articles of the Tax Procedures Law (Law 44), while it changed Article 38 of the rental law to extend non-residential rental contracts signed before July 23, 1993 from the end of 2018 until the end of 2019. In parallel, it allowed the government to join the 2015 International Agreement on Olive Oil and Table Olives, while it approved two protocols related to the International Civil Aviation Organization. Further, Parliament enacted a law that addresses the fate of Lebanese citizens who disappeared during the civil war.

### New industrial licenses up 56% in first half of 2018

The Ministry of Industry issued 333 new industrial licenses in the first half of 2018, constituting an increase of 56.3% from 213 licenses in the first half of 2017. Construction licenses accounted for 41.7% of issued licenses in the covered period of 2018, followed by construction & investment licenses with 31.8%, and investment licenses with 26.4%. In parallel, the ministry issued 59 requests for settlement, 44 licenses to modify industrial plants' owner or usage, and 13 renewed licenses, while it refused or revoked 27 licenses. Overall, the ministry issued 2,536 new industrial licenses since the beginning of 2013 until end-June 2018, of which 48.1% were construction licenses, 27.1% represented both construction and investment licenses, and 24.8% were investment licenses.

The ministry issued 132 new licenses for Mount Lebanon in the first half of 2018, or 39.6% of the total; followed by the Bekaa with 102 licenses (30.6%); the North with 45 licenses (13.5%); the South with 32 licenses (9.6%); Nabatieh with 17 licenses (5.1%) and Beirut with five licenses (1.5%). Also, the ministry issued 104 licenses in the food processing sector in the first half of 2018, or 31.2% of the total; followed by 41 licenses for construction materials (12.3%); 28 licenses for chemicals industry (8.4%); 24 mining & quarrying products (7.2%); 17 licenses for the furniture & wood sector (5.1%); 16 licenses for mining materials (4.8%); 15 licenses for each of metal products & electrical appliances and the manufacturing of tools and equipment (4.5% each); and 14 licenses for rubber & plastics (4.2%).

### Government issues details of law on electronic transactions and personal data

Lebanese government published the official text of Law 81 about electronic transactions and personal data, which Parliament enacted during its sessions of September 24 and 25, 2018. The law provides the legal framework for the electronic signature and e-commerce, as well as for the protection of personal data on electronic platforms. It is divided into eight sections.

The first section provides the legal provisions related to writing on electronic platforms and verifying the digital content. It recognizes electronic writing and signature, as long as the digital content is verified. It also requires the electronic data to be protected and accessible when needed. It provides the legal basis related to electronic fraud, the verification of electronic content, the protection of electronic data, and the role of electronic certification service providers, among others.

The second part of the law regulates e-commerce transactions and contracts, as it specifies the duties and rights of all related parties. It also regulates electronic banking and financial services, including electronic payment orders, electronic transfers, as well as banking cards, electronic money and electronic checks. The third section of the law regulates the way data hosts transmit information to the public, while the fourth part of the law provides the legal framework for the Lebanese domain name '.lb'.

The fifth part covers the protection and the processing of personal data, and gives individuals legal rights when processing their data, such as the right to object or to question the processing of their data, as well as to rectify, update or delete their data. The sixth section deals with data-related crimes, along with adjustments to the penal code. The seventh part of the law includes amendments to the consumer protection law, so that the latter becomes aligned with the e-commerce regulations. The last part of the law ensures the consistency of Law 81 with the Banking Secrecy Law, among other laws.

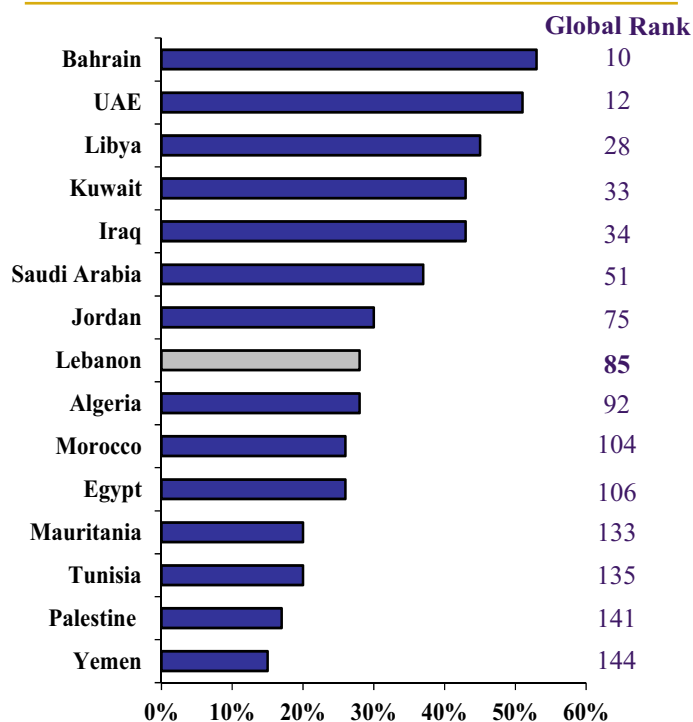
### Lebanon ranks 85th globally, eighth among Arab countries in terms of charitable activity

The Charities Aid Foundation's (CAF) World Giving Index for 2018 ranked Lebanon in 85th place among 146 countries around the world and in eighth place among 15 Arab countries. Lebanon also came in 16th place among 38 upper middle-income countries (UMICs) included in the survey. Based on the same set of countries included in each of the 2017 and 2018 surveys, Lebanon's global rank regressed by five spots from the 2017 survey, while its regional rank was unchanged year-on-year.

The CAF World Giving Index reflects the level of charitable activities and giving behavior within a country. The Index's score is calculated as the simple average of the percentage of people in each country who were involved in three giving behaviors that consist of helping a stranger, donating money to a charity and volunteering one's time to an organization. The Index includes data collected during 2017 from 146 countries that represent 5.45 billion adults, or 95% of the world's adult population.

Globally, charitable contributions in Lebanon are higher than in Bolivia, Senegal, and Slovakia, but lower than in Burkina Faso, Portugal and Tanzania. Lebanon was also more benevolent than Bosnia & Herzegovina, Algeria and Kazakhstan, but less giving than Namibia, Jordan and Colombia among UMICs. Further, it was more philanthropic than Algeria, Morocco, Egypt, Mauritania, Tunisia, Palestine, and Yemen among Arab countries.

### 2018 Charities Aid Foundation World Giving Index Arab Countries Scores & Rankings



Source: Charities Aid Foundation, Byblos Research

Lebanon received a score of 28%, down from 31% in the 2017 survey. Lebanon's score was lower than the global average score of 33.7%, the UMIC's average score of 29.3% and the Arab average score of 32.1%. Also, it was lower than the Gulf Cooperation Council (GCC) countries' average score of 46%, but higher than that of non-GCC Arab countries of 27.1%.

Further, Lebanon ranked ahead of Bolivia, Panama and Turkmenistan, but behind Chad, Uruguay and Taiwan in terms of the proportion of people who are engaged in helping a stranger. Also, Lebanon ranked ahead of Serbia, Moldova and Poland, but behind Croatia, Uruguay and Montenegro in terms of money donations. In addition, Lebanon ranked ahead of Russia, Afghanistan and Kuwait, but behind Azerbaijan, Hungary and Saudi Arabia in terms of time spent volunteering.

### Components of the 2018 World Giving Index for Lebanon

	Global Rank	Arab Rank	UMICs Rank	Lebanon Score	Global Avge Score	Arab Avge Score	UMICs Avge Score
Helping a Stranger	85	11	19	49%	51.1%	60.5%	49.9%
Donating Money	75	7	14	24%	29.0%	22.0%	21.8%
Volunteering Time	117	8	25	12%	21.1%	14.1%	16.3%

Source: Charities Aid Foundation, Byblos Research

### Value of cleared checks down 1.2%, returned checks up 14% in first 10 months of 2018

The value of cleared checks reached \$55.7bn in the first 10 months of 2018, constituting a decline of 1.2% from \$56.4bn in the same period of 2017. In comparison, the value of cleared checks regressed by 0.4% in the first 10 months of 2017 and decreased by 2.5% year-on-year in the same period of 2016. The value of cleared checks in Lebanese pounds increased by 3.2% year-on-year to the equivalent of \$18.2bn in the first 10 months of 2018, while the value of cleared checks in US dollars declined by 3.3% to \$37.5bn in the covered period. The dollarization rate of cleared checks regressed from 68.7% in the first 10 months of 2017 to 67.3% in the same period of 2018. There were 9.9 million cleared checks in the first 10 months of 2018, down by 2% from 10.1 million in the same period of 2017.

In parallel, the value of returned checks in domestic and foreign currency was \$1.33bn in the first 10 months of 2018 compared to \$1.17bn in the same period of 2017 and to \$1.23bn in the first 10 months of 2016. This constituted a year-on-year increase of 13.7% in the first 10 months of 2018 relative to decreases of 5.5% in the same period of 2017 and of 4.1% in the first 10 months of 2016. Also, there were 228,661 returned checks in the first 10 months of 2018, up by 20.1% from 190,465 returned checks in the same period of 2017.

### **EBRD signs MoU with the Association of Lebanese Industrialists**

The European Bank for Reconstruction and Development (EBRD) signed a memorandum of understanding (MoU) with the Association of Lebanese Industrialists to provide services and support to small- and medium-sized enterprises (SMEs) in the industrial sector. The MoU would allow Lebanese SMEs to gain access to EBRD's expertise in the field.

In October 2018, the EBRD launched the Advice for Small Businesses (ASB) program in Lebanon, which aims to support SMEs in the country, increase their access to funding, create jobs, as well as promote competitiveness and innovation in Lebanon. The ASB program will be funded by the European Union. The advisory program seeks to link SMEs with local and international consultants that would provide them with business advice on decision-making, cost-cutting, marketing, quality management, energy efficiency and financial management, among other services. In turn, the EBRD would carry out training programs for the local consultants to strengthen their capacity and improve the range and quality of their advisory services. SMEs will have to meet specific criteria set by the EBRD in order to be eligible for the ASB program and to access to up to EUR65,000 per company.

The EBRD has currently four active projects in Lebanon with a cumulative investment, including undisbursed commitments, of EUR59m as at the end of August 2018. It invests and operates in over 36 countries in South-Eastern Europe, Central Europe & Baltic States, Eastern Europe & the Caucasus, Central Asia, and the Southern & Eastern Mediterranean. Lebanon became a shareholder in the EBRD in July 2017.

Established in 1991, the EBRD aims to support economies and promote the private sector globally. The bank currently has 68 shareholders that include 66 countries as well as the European Union and the European Investment Bank. The EBRD has invested over EUR8bn in 195 projects since 2012 in the southern and eastern Mediterranean region.

### **Compensation of public-sector personnel up 23% in first two months of 2018, absorbs 33% of fiscal spending**

Figures issued by the Ministry of Finance show that the compensation of public-sector personnel totaled \$940m in the first two months of 2018, constituting an increase of 22.7% from \$766.2m in the same period of 2017. The double-digit increase is due to the new public-sector salary scale that was enacted by the Lebanese Parliament in July 2017. Salaries, wages and related benefits accounted for 67.9% of the total in the first two months of 2018, followed by retirement benefits (25.3%), transfers to public institutions to cover salaries (5.2%), and end-of-service indemnities (1.6%). The compensation of public-sector personnel represented the largest component of current primary spending and accounted for 46.2% of such expenditures in the covered period compared to 44.1% in the first two months of 2017. It absorbed 33.4% of fiscal spending in the first two months of 2018 relative to 38.2% in the first two months of 2017.

Salaries, wages & related benefits paid to public-sector employees amounted to \$638.1m in the first two months of 2018, constituting an increase of 27.5% from \$500.8m in the same period of 2017. 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 16.4% to \$238.1m in the first two months and transfers to public institutions to cover salaries expanded by 15.7% to \$48.4m in the covered period. In contrast, end-of-service indemnities regressed by 21.2% to \$15.3m in the first two months of 2018.



### New car sales down 9% in first 10 months of 2018

Figures released by the Association of Automobile Importers in Lebanon show that dealers sold 28,590 new passenger cars in the first 10 months of 2018, constituting a decrease of 8.7% from 31,324 cars sold in the same period of 2017. Individuals and institutional clients purchased 2,489 new cars in January, 2,256 new vehicles in February, 2,900 automobiles in March, 2,539 new cars in April, 2,862 vehicles in May, 4,162 new automobiles in June, 3,665 new cars in July, 2,772 vehicles in August, 2,436 new cars in September and 2,509 vehicles in October 2018.

Japanese cars accounted for 40.8% of total car sales in the first 10 months of 2018, followed by Korean vehicles with a 28.8% share, European automobiles (19.5%), American cars (8.2%) and Chinese vehicles (2.8%). The sales of new Chinese cars jumped by 93.3% year-on-year in the covered period. In contrast, demand for Korean vehicles dropped by 22.1%, the sales of European automobiles decreased by 10.1%, the number of American cars sold declined by 5.7% and demand for Japanese automobiles regressed by 0.2 % year-on-year in the first 10 months of 2018.

Kia is the leading brand in the Lebanese market with 4,458 passenger vehicles sold in the first 10 months of 2018, followed by Hyundai with 3,740 new cars sold, Toyota (3,687), Nissan (3,415) and Suzuki (1,335). In parallel, car dealers sold 1,955 new commercial vehicles in the covered period, down by 14% from 2,272 commercial vehicles purchased in the first 10 months of 2017. Overall, car dealers sold 30,545 new passenger cars and commercial vehicles in the first 10 months of 2018, down by 9.1% from 33,596 cars sold in the same period of 2017.

Further, Lebanon's top five distributors sold 19,091 vehicles in the first 10 months of 2018 and accounted for 62.5% of new car sales. Rasamny Younis Motor Co. sal sold 4,671 vehicles, equivalent to 15.3% of the total, followed by NATCO sal with 4,474 automobiles (14.6%), Boustany United Machineries sal with 4,031 cars (13.2%), Century Motor Co. sal with 3,829 vehicles (12.5%), and Bassoul Heneiné sal with 2,086 cars (6.8%).

### Top 100 banks in Arab world include 11 Lebanese banks

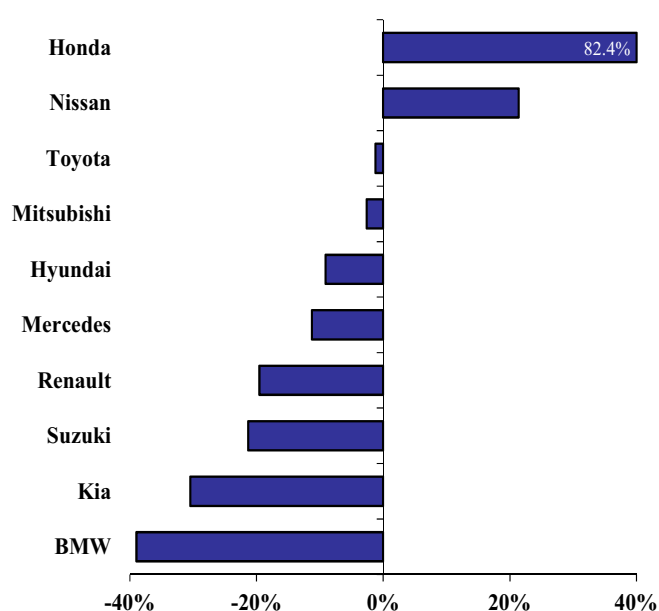
In its 2018 survey of the Top 100 banks in the Arab world, *The Banker* magazine included 11 Lebanese commercial banks on its list. In comparison, there were 21 banks from the UAE, 12 banks from Saudi Arabia, 10 from each of Bahrain and Qatar, nine from Kuwait, seven from each of Morocco and Oman, six from Egypt, five from Jordan, and one bank from each of Algeria and Tunisia.

*The Banker* indicated that the aggregate Tier One capital of the 11 Lebanese banks reached \$17.1bn at the end of 2017, constituting an increase of 6.6% from \$16bn at end-2016, and representing 5.1% of the aggregate Tier One capital of the Top 100 Arab banks that stood at \$334bn at end-2017. Banks in Saudi Arabia accounted for 28.5% of the aggregate Tier One capital of the Top 100 Arab banks at end-2017, followed by those in the UAE (25.6%), Qatar (13.4%), Kuwait (8%), Bahrain (5.6%), Morocco (3.9%), Egypt (3.7%), Oman (3.1%), Jordan (2.4%), Algeria (0.6%) and Tunisia (0.1%).

Also, the aggregate assets of the 11 Lebanese banks reached \$216.8bn at the end of 2017, up by 6.1% from a year earlier, and representing 7.7% of the Top 100 Arab banks' aggregate assets that reached \$2,809bn at end-2017. In parallel, banks in the UAE accounted for 24.4% of the Top 100 Arab banks' aggregate assets at end-2017, followed by banks in Saudi Arabia (21.1%), Qatar (14.9%), Kuwait (8.5%), Egypt (6.1%), Morocco (5.6%), Bahrain (5.3%), Oman and Jordan (2.6% each), Algeria (0.9%) and Tunisia (0.2%). As such, the 11 Lebanese banks' Tier One capital-to-assets ratio stood at 7.9% at the end of 2017, compared to the Top 100 Arab banks' ratio of 11.9% and relative to the Top 1000 global banks' ratio of 6.7%.

In addition, the cumulative pre-tax profits of the 11 Lebanese banks reached \$2.8bn in 2017, down by 2.9% from the preceding year, and represented 6% of the Arab banks' aggregate pre-tax profits. In comparison, the aggregate pre-tax profits of banks in Saudi Arabia represented 26% of the Top 100 Arab banks' total, followed by those of UAE banks (24.3%), Qatar (13.9%), Egypt (7.7%), Kuwait (6.6%), Morocco (5.1%), Bahrain (4.2%), Jordan (2.8%), Oman (2.4%), Algeria (0.8%) and Tunisia (0.2%). Further, the 11 Lebanese banks' return on assets reached 1.29% in 2017 compared to 1.65% for Top 100 Arab banks, while their aggregate return on capital stood at 16.36% relative to 13.89% regionally.

**Sales of Top 10 Car Brands in First 10 Months of 2018**  
(% change\*)



\* year-on-year

Source: AIA, Byblos Research

### Stock market activity posts third lowest performance in Arab world in third quarter of 2018

Figures released by the Arab Federation of Exchanges indicate that market activity on the Beirut Stock Exchange (BSE) regressed by 7.4% in the third quarter of 2018 from the previous quarter, constituting the third lowest performance among 16 Arab equity markets. Also, the BSE underperformed the global equity markets (+3.77%), the Arab equity markets (3.18%), as well as the emerging equity markets (-2.02%) in the covered quarter. In parallel, the BSE dropped by 15.3% from the third quarter of 2017, constituting the second steepest decline year-on-year in the region.

The BSE posted higher returns than only the Iraq Stock Exchange (-8.11%) and the Egyptian Exchange (-10.6%) in the third quarter of 2018. In contrast, the BSE underperformed the Khartoum Stock Exchange (+167.74%), the Damascus Securities Exchange (+9.36%), the Qatar Stock Exchange (+8.75%), the Abu Dhabi Securities Exchange (+8.23%), the Boursa Kuwait (+4.86%), the Bahrain Bourse (+2.1%), the Dubai Financial Market (+0.49%), the Muscat Securities Market (-0.61%), the Palestine Exchange (-2.19%), the Tunis Bourse (-3.19%), the Saudi Stock Exchange (-3.78%), the Casablanca Stock Exchange (-4.57%), and the Amman Stock Exchange (-4.58%) in the covered quarter.

In parallel, the market capitalization of the BSE reached \$9.68bn at the end of September 2018 and accounted for 0.79% of the aggregate market capitalization of Arab stock markets. It was higher than the market capitalization of the Iraq Stock Exchange (\$9.52bn), the Tunis Bourse (\$9.24bn), the Palestine Exchange (\$3.72bn), the Khartoum Stock Exchange (\$2.49bn) and the Damascus Securities Exchange (\$1.53bn).

Further, the value of shares traded on the BSE totaled \$60.6m in the third quarter of 2018 and accounted for 0.09% of the total value of shares traded on Arab equity markets. It was higher than the turnover on the Khartoum Stock Exchange (\$52.4m) and the Damascus Securities Exchange (\$11.3m).

### EFG Hermes sells additional 0.65% stake in local bank in first nine months of 2018

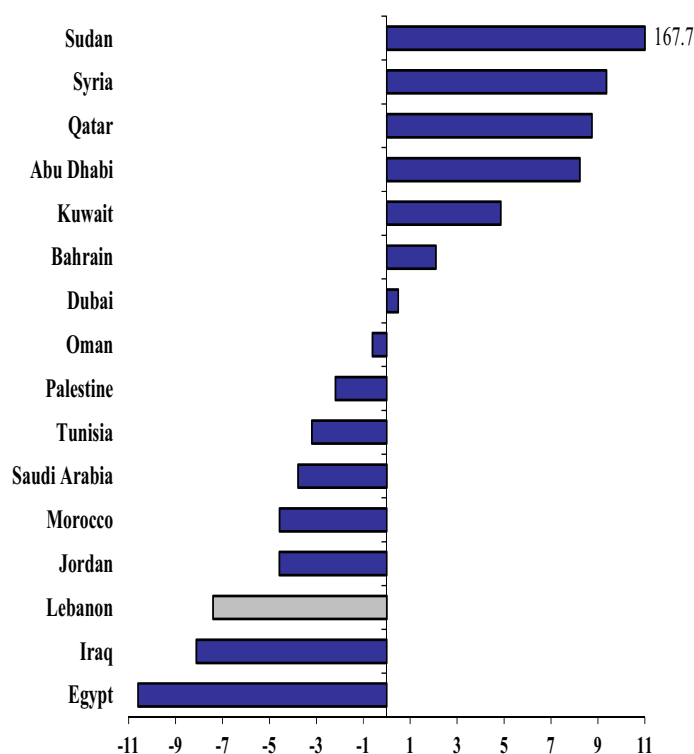
Regional investment bank EFG Hermes indicated that it has continued to divest its remaining stake in Crédit Libanais sal (CL) in the first nine months of 2018. It announced that it divested 0.13% of CL's shares in the second quarter of 2018 and another 0.52% of the total in the third quarter of the year, which resulted in the offloading of 151,474 shares in CL, or 0.65% of CL's total shares, in the first nine months of 2018 at a price of \$33 per share. The recent sale is part of the second phase of an agreement signed in 2016 between EFG Hermes and Crédit Libanais Investment Bank sal (CLIB), a wholly-owned subsidiary of the bank, to sell the investment bank's remaining holdings of 5,506,134 shares in CL on a best effort basis at a gross price of \$33 per share. EFG Hermes indicated that it had sold during 2016 an 8.5% stake in CL and a 5.6% stake in 2017 as part of the second phase of the deal.

As such, EFG Hermes' stake in the bank stood at 2,062,242 shares at the end of September 2018, equivalent to 8.813% of the bank's shares. EFG pointed out that its remaining stake in the bank is classified as "assets held for sale" on its consolidated balance sheet at end-September 2018 at a value of EGP1.22bn, or the equivalent of \$68.1m based on the prevailing market exchange rate. In the first phase of the agreement, EFG Hermes sold 9,408,749 shares, or a 40.2% stake in the bank, to a consortium of Lebanese and Arab investors.

In 2010, EFG Hermes purchased a 63.74% controlling stake in CL, or 14,914,883 shares for a total of \$577.8m. After the completion of the two-part deal, the company would have sold its entire stake in CL for about \$492m.

Crédit Libanais sal posted unaudited net profits of \$36.2m in the first half of 2018. The bank's return on average assets was 0.65% and its return on average equity was 8.97% in June 2018 on an annualized basis. Also, the bank's cost-to-income ratio was 57.92% in the first half of 2018. Its total assets reached \$11.85bn, while net loans and advances to customers stood at \$3.4bn at end-June 2018. The bank's deposits, including those from related parties, totaled \$9.1bn at end-June 2018.

**Performance of Arab Stock Markets in Third Quarter of 2018 (% change\*)**



\*from the second quarter of 2018

Source: Arab Federation of Exchanges

## 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	Outlook
Moody's	Stable

Source: Moody's Investor Services



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