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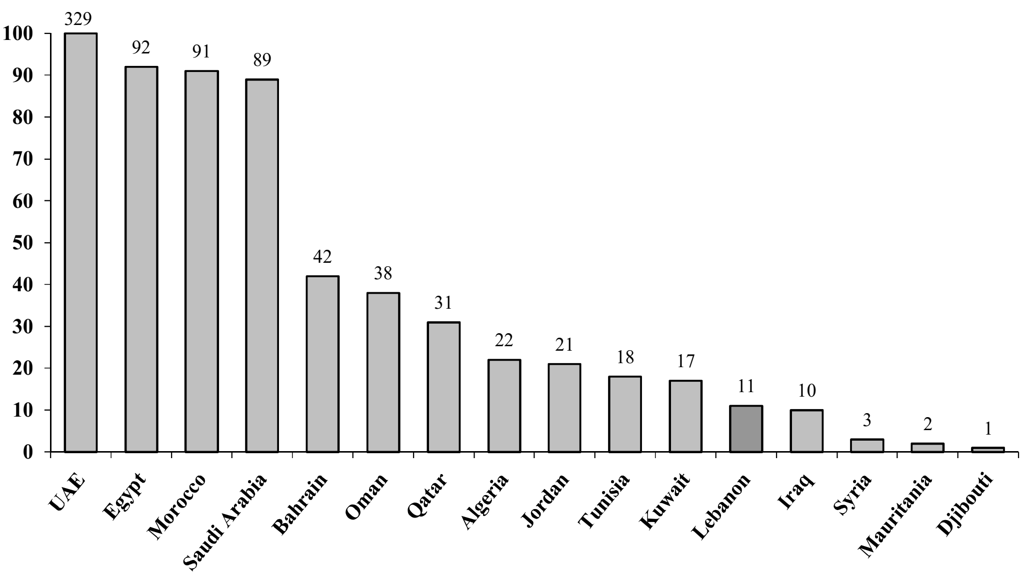
LEBANON THIS WEEK

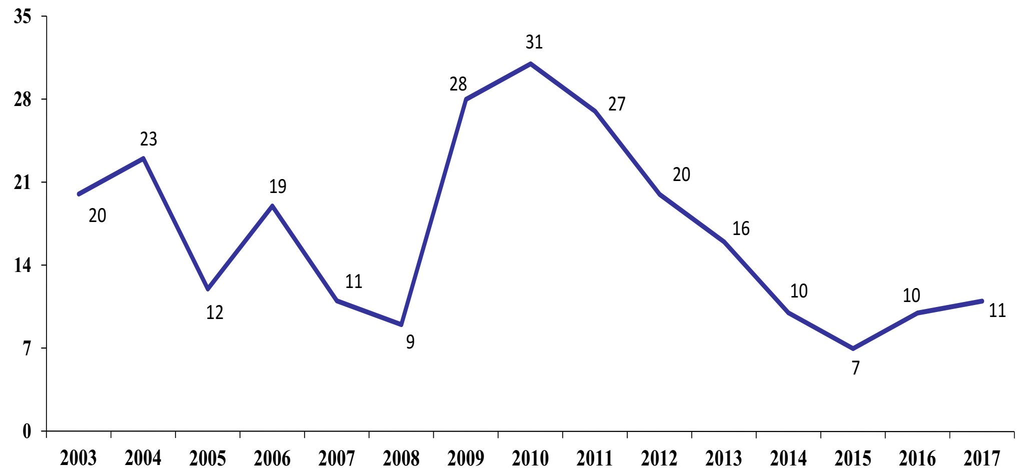
In This Issue

Charts of the Week

Number of Greenfield Foreign Direct Investment Projects in Arab Countries in 2017



Number of Greenfield Foreign Direct Investment Projects in Lebanon



Source: United Nations Conference on Trade and Development, fDi Markets, Byblos Research

Quote to Note

"Lebanese banks will continue to attract steady inflows of customer deposits, mostly from the Lebanese Diaspora, enabling the banks to finance the fiscal and current account deficits, and preserve economic and financial stability in the country."

Moody's Investors Service, on the confidence of depositors in the Lebanese banking system

Number of the Week

44: Lebanon's global rank in 2017 in terms of insurance penetration, or premiums relative to the size of the economy, according to global reinsurer Swiss Re

Lebanon in the News

$m *(unless otherwise mentioned)*	2017	Feb 2017	Nov 2017	Dec 2017	Jan 2018	Feb 2018	% Change*
Exports	2,844	226	229	251	283	248	9.73
Imports	23,130	1,648	1,726	2,278	1,705	1,436	-12.86
Trade Balance	(20,286)	(1,422)	(1,497)	(2,027)	(1,422)	(1,188)	-16.46
Balance of Payments	(156)	342	68	854	237	(80)	-123.32
Checks Cleared in LBP	21,677	1,676	1,880	2,131	1,733	1,686	0.59
Checks Cleared in FC	46,578	3,547	3,687	4,127	3,973	3,480	-1.89
Total Checks Cleared	68,255	5,223	5,567	6,258	5,706	5,166	-1.09
Budget Deficit/Surplus	(3,300.82)	(453.93)	(865.19)	(350.41)	(318.96)	(407.93)	-10.13
Budget Primary Balance	1,882.86	(189.09)	(119.74)	15.77	(46.38)	(145.03)	-23.30
Airport Passengers***	8,235,845	462,605	592,890	626,866	597,768	504,974	9.16

$bn *(unless otherwise mentioned)*	2017	Dec 2016	Sep 2017	Oct 2017	Nov 2017	Dec 2017	% Change*
BdL FX Reserves	35.80	35.44	35.69	35.80	35.25	34.39	-2.97
In months of Imports	18.57	21.50	20.68	15.72	20.67	23.95	11.36
Public Debt	79.52	76.15	79.37	79.52	80.39	81.54	7.08
Bank Assets	219.86	204.93	216.21	219.86	219.86	223.07	8.85
Bank Deposits (Private Sector)	168.67	163.86	166.81	168.67	168.66	170.45	4.02
Bank Loans to Private Sector	60.32	56.49	59.55	60.32	59.69	59.03	4.49
Money Supply M2	52.48	54.96	51.96	52.48	52.88	53.44	-2.75
Money Supply M3	138.38	133.83	136.99	138.38	138.62	139.34	4.11
LBP Lending Rate (%)****	8.09	8.37	7.98	8.09	8.56	8.67	30bps
LBP Deposit Rate (%)	6.41	5.56	5.88	6.41	6.53	6.51	95bps
USD Lending Rate (%)	7.67	7.14	7.32	7.67	7.74	7.90	76bps
USD Deposit Rate (%)	3.89	3.57	3.80	3.89	3.91	3.96	39bps
Consumer Price Index**	4.40	4.90	4.80	5.00	5.60	5.20	30bps

** 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
BLOM Listed	10.20	(2.39)	299,343	21.22%
BLOM GDR	10.40	(0.95)	255,209	7.44%
Solidere "A"	7.22	(0.41)	82,180	6.99%
Audi Listed	5.01	0.20	33,000	19.38%
Byblos Common	1.44	(2.70)	27,229	7.88%
Solidere "B"	7.12	(2.06)	14,182	4.48%
Audi GDR	5.50	5.77	12,720	6.38%
Byblos Pref. 08	91.00	0.00	1,329	1.76%
HOLCIM	16.03	0.00	-	3.03%
Byblos Pref. 09	90.90	0.00	-	1.76%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Nov 2018	5.15	99.88	5.49
May 2019	6.00	99.75	6.30
Mar 2020	6.38	98.25	7.52
Oct 2022	6.10	90.38	8.88
Jun 2025	6.25	85.50	9.12
Nov 2026	6.60	85.25	9.16
Feb 2030	6.65	82.00	9.20
Apr 2031	7.00	83.00	9.30
Nov 2035	7.05	81.75	9.17
Mar 2037	7.25	83.50	9.10

Source: Byblos Bank Capital Markets

	Jul 9-13	Jul 2-6	% Change	June 2018	June 2017	% Change
Total shares traded	747,459	458,709	62.9	5,778,738	4,057,384	42.4
Total value traded	$8,762,489	$3,317,306	164.1	$39,079,304	$45,447,025	(14.0)
Market capitalization	$10.33bn	$10.38bn	(0.42)	$10.43bn	$11.57bn	(9.8)

Source: Beirut Stock Exchange (BSE)

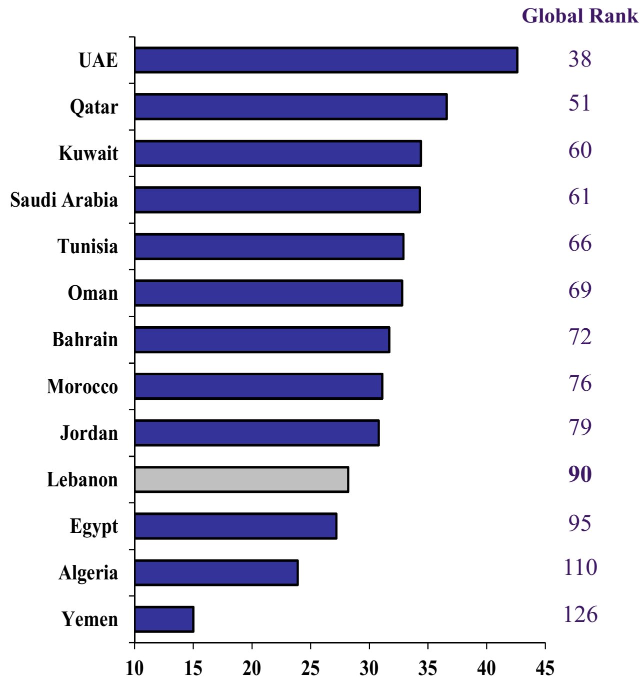
Lebanon ranks 90th globally, 10th among Arab countries in terms of innovation

The 2018 Global Innovation Index ranked Lebanon in 90th place among 126 countries around the world and in 10th place among 13 Arab countries. Lebanon also came in 30th place among 34 upper middle-income countries (UMICs) included in the survey. In comparison, Lebanon ranked in 81st place among 127 countries worldwide and in ninth place in the Arab world in the 2017 survey.

The index measures innovation in a broad sense and includes scientific, social and business innovation. It aims to provide the tools that can assist stakeholders in tailoring policies to promote long-term economic growth, improved productivity and job creation. The index is a composite of 80 variables that are grouped in two sub-indices, the Innovation Input Sub-Index and the Innovation Output Sub-Index. The Global Innovation Index score is the simple average of the Input and Output Sub-Index scores. The survey rates the innovation level of each country on a scale from zero to 100, with a score of 100 reflecting the most innovative economy. The countries included in the index represent 90.8% of the world's population and 96.3% of global GDP. The index is co-published by the INSEAD Business School, Cornell University and the World Intellectual Property Organization.

Globally, Lebanon has a higher innovation level than Botswana, Tanzania and Namibia, and is less innovative than the Dominican Republic, Sri Lanka and Paraguay. Also, it is more innovative than only Botswana, Namibia, Ecuador and Algeria among UMICs. Lebanon received a score of 28.2 points, which is below the global average of 36.7 points, the UMIC's average of 33.6 points and the Arab average of 30.9 points. Also, its score came below the Gulf Cooperation Council (GCC) countries' average of 35.4 points, but it was above the average of non-GCC Arab countries of 27 points. Switzerland has the highest innovation level worldwide, while Yemen is the least innovative country globally.

Global Innovation Index for 2018
Arab Countries Scores & Rankings



Source: INSEAD, Cornell University, WIPO, Byblos Research

In parallel, Lebanon ranked ahead of Jordan, Paraguay and Indonesia, and came behind Morocco, Kyrgyzstan and Trinidad & Tobago globally on the Innovation Input Sub-Index. This category covers the elements of the national economy that enable innovative activities, such as institutions, human capital & research, infrastructure, market sophistication, and business sophistication. Lebanon also ranked ahead of Jordan, Algeria, Egypt and Yemen among Arab countries.

Further, Lebanon came ahead of Albania, Guatemala and Ecuador, while it ranked behind Kazakhstan, Pakistan and Macedonia globally on the Innovation Output Sub-Index. This category reflects the results of innovative activities within the economy such as technology, knowledge and creativity. Also, Lebanon came ahead of Algeria and Yemen in the Arab region.

Components of the 2018 Global Innovation Index for Lebanon

	Global Rank	Arab Rank	UMIC Rank	Lebanon Score	Global Avge Score	Arab Avge Score	UMIC Avge Score
Innovation Input	**87**	**9**	**29**	**37.7**	**44.8**	**39.7**	**42.5**
Institutions	104	11	32	49.4	64.1	54.6	60.6
Human Capital & Research	79	8	25	26.6	33.0	31.7	30.9
Infrastructure	86	11	29	38.5	45.2	45.2	44.3
Market Sophistication	76	6	21	44.5	48.1	42.4	46.4
Business Sophistication	67	3	18	29.7	33.9	24.8	30.5
Innovation Output	**94**	**11**	**28**	**18.7**	**28.5**	**22.0**	**24.6**
Knowledge & Technology Outputs	107	11	28	14.3	26.6	19.5	21.8
Creative Outputs	85	10	25	23.1	30.4	24.5	27.4

Source: INSEAD, Cornell University, WIPO, Byblos Research

Monetary stability supports public finance reforms

In the monthly meeting between Banque du Liban (BdL), the Banking Control Commission of Lebanon (BCCL) and the Association of Banks in Lebanon (ABL), Governor Riad Salamé reiterated BdL's commitment to its policy of exchange rate stability, as well as to its interest rate policy that takes into account local and external developments. He pointed out that rumors that are being spread in the media, and especially on social media, have no impact on monetary policy or on monetary stability. He noted that the stability of the exchange rate and the defense of the currency peg to the US dollar are pillars of BdL's monetary policy and that they will not be changed or revised. Also, he said that the CEDRE conference highlighted the importance of monetary stability and that addressing imbalances in Lebanon requires gradual fiscal reforms on one hand, and a long-term investment program in infrastructure on the other hand. In addition, he indicated that the spreads on Credit Default Swaps (CDS) on Lebanon's sovereign Eurobonds narrowed from more than 7% to 6% currently, and that demand for Lebanese Eurobonds persists even though some investors have exited the Lebanese Eurobond market. He added that international rating agencies have affirmed the 'stable' outlook on Lebanon's sovereign ratings.

Further, Governor Salamé projected Lebanon's real GDP growth at 2% in 2018. He considered that improving the productivity of the Lebanese economy is related to the implementation of structural reforms that were pledged at the CEDRE conference, including reducing the fiscal deficit by 1% of GDP annually over a period of five years.

In parallel, the ABL and BdL indicated that the voluntary financial contribution of the Lebanese banking sector at the Paris II conference that was held in November 2002 was part of a comprehensive international package of grants and loans. BdL provided at the Paris II conference a special financial scheme of $4.1bn that included $1.8bn in public debt cancellation, $1.9bn in debt exchange and $0.4bn in debt rollover. Also, commercial banks purchased $3.6bn in two-year Treasury bills at zero percent interest rate. The ABL and BdL noted that the current circumstances are different from those that prevailed prior to the Paris II conference, and called on the government to implement fiscal reforms. They added that monetary stability in the country supports public finance reforms and preserves the purchasing power of Lebanese households.

In parallel, Governor Salamé pointed out that BdL has not received any request from banks to restructure loans to contractors under Basic Circular 135. Also, the discussions between Governor Salamé, the ABL and the BCCL regarding Basic Circular 135 revealed that the core of the circular requires banks to be flexible with clients that are going through temporary financial difficulties and that remain commercially viable. They concluded that banks under Basic Circular 135 would continue to finance clients, unlike under Basic Circular 73 where the banks can repossess the property that the client provided as a collateral for its loans. In this context, Governor Salamé considered that it would be best for banks to incorporate Basic Circular 135 in Basic Circular 73.

Association of Banks increases 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 to 7.55% in August 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 maintain the BRR in Lebanese pounds at 10.7% in August 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.

Value of cleared checks down 2.5%, returned checks up 6% in first half of 2018

The value of cleared checks reached $32.8bn in the first half of 2018, constituting a decline of 2.5% from $33.7bn in the same period of 2017. In comparison, the value of cleared checks regressed by a marginal 0.4% in the first half of 2017 and by 2.7% annually in the same period of 2016. The value of cleared checks in Lebanese pounds grew by 1.4% year-on-year to the equivalent of $10.6bn in the first half of 2018, while the value of cleared checks in US dollars declined by 4.2% to $22.2bn in the covered period. The dollarization rate of cleared checks regressed from 68.9% in the first half of 2017 to 67.7% in the same period of 2018. Further, there were 5.88 million cleared checks in the first half of 2018, down by 2.9% from 6.1 million in the same period of 2017.

In parallel, the value of returned checks in domestic and foreign currency was $749m in the first half of 2018 compared to $709m in the same period of 2017 and $736m in the first half of 2016. This constituted an increase of 5.7% year-on-year in the first half of 2018 relative to decreases of 3.7% in the same period of 2017 and of 7.3% in the first half of 2016. Also, there were 130,046 returned checks in the covered period, up by 15.6% from 112,500 returned checks in the first half of 2017.

Coincident Indicator up 2.5% year-on-year in first five months of 2018

Banque du Liban's Coincident Indicator, an index of economic activity in Lebanon, reached 303.1 points in May 2018 compared to 325.7 in April 2018 and 308.6 in May 2017. The Coincident Indicator, an average of 8 weighted economic indicators, decreased by 6.9% month-on-month and by 1.8% year-on-year in May 2018. The indicator averaged 314.5 in the first five months of 2018, up by 2.5% from 307 in the same period of 2017. Also, the indicator averaged 309 in the 12 months ending May 2018, compared to 309.5 in the 12-month period ending April 2018 and 295.2 in the 12 months ending May 2017. As a result, the 12-month average coincident indicator was nearly unchanged month-on-month, while it grew by 4.7% year-on-year. In parallel, the indicator improved nine times and regressed 17 times on a monthly basis in the month of May since 1993. It averaged 249.5 points in 2010, 255.7 points in 2011, 256.8 points in 2012, 264.7 points in 2013, 273.2 points in 2014, 278.6 points in 2015, 289.5 points in 2016 and 305.9 points in 2017.

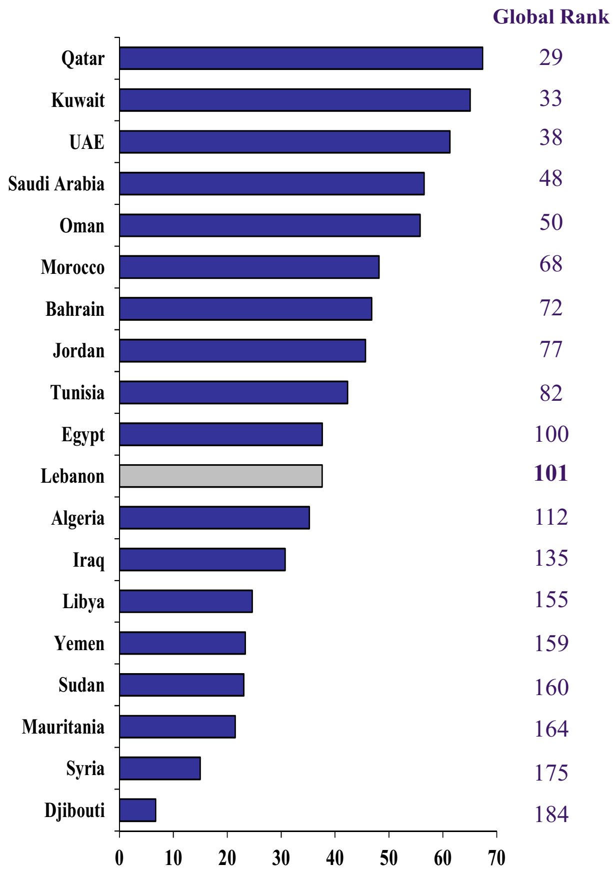
Lebanon ranks 101st globally, 11th in Arab region in country risk in second quarter of 2018

In its quarterly survey of the country risk level in 186 countries, the Euromoney Group ranked Lebanon in 101st place worldwide and in 11th place among 19 Arab countries in the second quarter of 2018. Also, Lebanon came in 29th place among 53 upper middle-income countries (UMICs) included in the survey. Lebanon's global rank regressed by four spots from the first quarter of 2018, while it regressed by one spot quarter-on-quarter regionally. The survey evaluates individual country risk by assigning a weighting to six categories that cover Political Risks, Economic Performance, Access to Bank Finance & Capital Markets, Debt Indicators, Credit Ratings, and Structural Assessment. A higher score reflects a lower country risk level.

Globally, Lebanon had a lower country risk level than Kenya, Tanzania and Ethiopia, and a higher risk level than Gabon, the Dominican Republic and Egypt among economies with a GDP of $10bn or more. It also ranked ahead of Ecuador and Algeria, and came behind Gabon and the Dominican Republic among UMICs. Lebanon's global rank regressed by two spots on the Credit Ratings category in the second quarter of 2018 from the preceding quarter, and by one notch on each of the Political Risks and Structural Assessment categories, while it was unchanged on each of the Economic Performance, Debt Indicators and the Access to Bank Finance & Capital Markets factors.

Lebanon received a score of 37.6 points in the second quarter of 2018, nearly unchanged from 37.8 points in the preceding quarter. Lebanon's score came below the global average score of 43.2 points and the average score of 38.9 points for UMICs and of 39.2 for Arab countries. Also, its score was lower than the Gulf Cooperation Council (GCC) countries' average score of 58.8 points, but it came above the average score of non-GCC Arab countries of 30.1 points.

Country Risk in Arab World in Second Quarter of 2018
Scores & Rankings of Arab Countries



Source: Euromoney Group, Byblos Research

Lebanon's score on the Credit Ratings category regressed by 24% in the second quarter of 2018. In parallel, Lebanon's score was nearly unchanged on the Political Risks, Economic Performance, Structural Assessment, Debt Indicators and the Access to Bank Finance & Capital Market categories in the second quarter of 2018.

In parallel, Lebanon ranked ahead of Mongolia and behind Nigeria worldwide, and came ahead of Egypt and behind Iraq regionally in terms of Economic Performance. Also, it came ahead of Vietnam and behind Argentina globally, and ranked ahead of Jordan and behind Morocco in the Arab region on the Structural Assessment category. Further, Lebanon ranked ahead of Oman and Turkey and behind Kuwait and Saudi Arabia globally on the Access to Bank Finance & Capital Markets category. Finally, it ranked ahead of Mongolia and behind Venezuela globally, and came ahead of Iraq and behind Mauritania regionally on the Debt Indicators category.

Country Risk Indicators for Lebanon - Second Quarter of 2018

	Weighting (%)	Score	Arab Rank	Global Rank	Arab Avge Score	Global Avge Score
Political Risk	30	10.17	12	132	11.64	13.74
Economic Performance	30	12.42	12	115	12.74	13.42
Structural Assessments	10	4.90	8	73	4.13	4.08
Debt Indicators	10	2.50	16	171	3.79	4.67
Credit Rating	10	0.63	11	120	2.48	3.06
Access to Bank Finance & Capital Market	10	7.00	3	33	4.41	4.25

Source: Euromoney Group, Byblos Research

Occupancy rate at Beirut hotels at 58.6%, room yields down 10% in first five months of 2018

EY's benchmark survey of the hotel sector in the Middle East indicated that the average occupancy rate at hotels in Beirut was 58.6% in the first five months of 2018, down from 65.5% in the same period of 2017 and compared to an average rate of 67.3% in 14 Arab markets included in the survey. The occupancy rate at Beirut hotels was the fourth lowest in the region in the first five months of 2018, while it was the seventh lowest in the same period of 2017. The occupancy rate at hotels in Beirut regressed by seven percentage points year-on-year in the covered period, constituting the second steepest decrease among the 14 Arab markets, behind only Doha (-9.6 percentage points). In comparison, the average occupancy rate in Arab markets was nearly unchanged year-on-year in the first five months of 2018. Occupancy rates at Beirut hotels were 49.1% in January, 61.3% in February, 63.5% in March, 68.5% in April and 50.9% in May 2018, compared to 56.3% in January, 68.3% in February, 63.1% in March, 70.6% in April and 69.5% in May 2017.

Hotel Sector Performance in First Five Months of 2018

	Occupancy Rate (%)	RevPAR (US$)	RevPAR % change
Dubai	81.4	247	(5.7)
Ras Al Khaimah	78.8	136	6.4
Muscat	78.6	133	1.1
Jeddah	54.8	131	(2.5)
Kuwait City	64.4	127	3.6
Madina	70.4	121	(0.8)
Manama	56.9	109	0.5
Riyadh	58.9	107	(4.4)
Beirut	**58.6**	**102**	**(10.3)**
Doha	63.2	92	(20)
Abu Dhabi	85.1	90	(3.5)
Makkah	63.8	86	(1.1)
Amman	56.4	79	(4.4)
Cairo City	71.0	71	12.6

Source: EY, Byblos Research

The average rate per room at Beirut hotels was $174 in the first five months of 2018, the sixth highest rate in the region relative to Dubai ($303), Jeddah ($239), Kuwait ($198), Manama ($192) and Riyadh ($182). The average rate per room at Beirut hotels was nearly unchanged year-on-year in the covered period. The average rate per room in Beirut was higher than the regional average of $173.4 that regressed by 1.6% from the first five months of 2017.

Further, revenues per available room (RevPAR) were $102 in Beirut in the first five months of 2018, down from $113 in the same period of 2017. They were the sixth lowest in the region relative to Cairo ($71), Amman ($79), Makkah ($86), Abu Dhabi ($90) and Doha ($92). Beirut's RevPAR decreased by 10.3% year-on-year and posted the second steepest decline behind Doha (-20%). Beirut posted RevPARs of $74 in January, $88 in February, $110 in March, $120 in April and $89 in May 2018, compared to $87 in January, $99 in February, $106 in March, $127 in April and $121 in May 2017. Abu Dhabi posted the highest occupancy rate at 85.1%, while Dubai had the highest average rate per room in the region at $303 and the highest RevPAR at $247 in the first five months of 2018.

Number of real estate transactions down 18% in first half of 2018

Figures released by the Ministry of Finance indicate that there were 27,472 real estate transactions in the first half of 2018, constituting a decrease of 18.2% from 33,584 deals in the same period of 2017. In comparison, the number of real estate transactions grew by 12% year-on-year in the first half of 2017 and increased by 4.4% in the same period of 2016. There were 5,353 real estate transactions in the Baabda area in the first half of 2018, representing 19.5% of the total. The North followed with 4,308 deals (15.7%), then the Zahlé region with 3,539 transactions (12.9%), the South with 3,179 deals (11.6%), the Metn district with 3,100 transactions (11.3%), the Keserwan area with 2,675 deals (9.7%), the Nabatieh region with 2,492 transactions (9.1%) and Beirut with 2,062 deals (7.5%).

Also, the aggregate value of real estate transactions reached $3.9bn in the first half of 2018 and decreased by 14% from $4.5bn in the same period of 2017. In comparison, the value of real estate deals increased by 10.1% in the first half of 2017 from the same period of 2016, and grew by 14% year-on-year in the first half of 2016. Further, the value of real estate transactions in Beirut reached $1.1bn and accounted for 28.5% of the total in the first half of 2018. The Baabda district followed with $725m (18.7%), then the Metn region with $698.3m (18%), the Keserwan area with $489.1m (12.6%), the South with $283.6m (7.3%), the North with $248.4m (6.4%), the Zahlé area with $163.8m (4.2%) and the Nabatieh region with $108.6m (2.8%).

In parallel, the average value per real estate transaction was $140,971 in the first half of 2018, up by 5.1% from an average of $134,105 in the same period of 2017 and relative to $136,358 in the first half of 2016. Further, there were 559 real estate transactions executed by foreigners in the first half of 2018, down by 6.7% from 599 deals in the same period of 2017, and compared to 477 deals in the first half of 2016 and to 669 transactions in the same period of 2015. The number of real estate deals executed by foreigners accounted for 2% of total real estate transactions in the covered period compared to 1.8% of deals in the same period of 2017 and to 1.6% of deals in the first half of 2016. Further, 22.5% of the real estate transactions executed by foreigners were in the Baabda district in the first half of 2018, followed by Beirut (20.6%), the South (13.1%), the Metn region (12.3%), the Zahlé region (10.6%), the North (10.4%), the Keserwan area (9.1%) and the Nabatieh region (1.4%).

Fiscal deficit at $865m in first two months of 2018, equivalent to 31% of expenditures

Figures released by the Finance Ministry show that the fiscal deficit reached $865m in the first two months of 2018 and widened by 5.4 times from $161.6m in the same period of 2017. The deficit was equivalent to 30.7% of total budget and Treasury expenditures compared to 8.1% of spending in the same period last year. Government expenditures reached $2.8bn and surged by 40.4% from the first two months of 2017, while revenues grew by 5.8% year-on-year to $2bn. As such, the widening of the deficit reflects a rise of $811m in overall expenditures that was partly offset by an increase of $107.6m in total revenues in the covered period. The growth in spending is mainly due to an increase of $485.6m in general budgetary expenditures as well as a rise of $335.8m in transfers to municipalities in the covered period.

On the revenues side, tax receipts grew by 11.1% year-on-year to $1.4bn in the first two months of 2018, of which 35%, or $451m, were in VAT receipts that increased by 8.9% year-on-year. Tax receipts accounted for 84.8% of budgetary revenues and for 72% of total Treasury and budgetary receipts. The distribution of other tax revenues shows that receipts from taxes on income, profits & capital gains grew by 23.4% to $448.8m in the first two months of 2018; revenues from customs regressed by 1.3% to $209.3m; receipts from property taxes grew by 2.1% to $132m; while receipts from stamp fees expanded by 24.4% to $76.5m and revenues from taxes on goods & services increased by 1.1% to $48.1m.

The distribution of income tax receipts shows that the tax on interest deposits accounted for 36.6% of income tax revenues in the first two months of 2018, followed by taxes on wages & salaries with 33.7%, the tax on profits with 21.7% and the capital gains tax with 5.6%. Receipts from the tax on interest deposits surged by 63%, those from taxes on wages & salaries rose by 15.8%, revenues from taxes on profits grew by 2%, and receipts from taxes on capital gains increased by a marginal 0.4% in the covered period. Also, the distribution of property taxes shows that revenues from real estate registration fees regressed by 3.7% to $82.8m in the first two months of 2018, receipts from the built property tax rose by 22.5% to $33.4m, and revenues from the inheritance tax decreased by 1.3% to $15.9m. Further, non-tax budgetary receipts regressed by 46.1% year-on-year to $252m. They mainly included $117.4m in receipts generated from administrative fees and charges that decreased by 12.3% year-on-year, as well as $100.5m in revenues generated from government properties that fell by 67.6% year-on-year. Receipts from telecommunication services dropped by 73% to $72m. They accounted for 71.6% of income from government properties and for 28.6% of non-tax budgetary revenues in the covered period. The Finance Ministry did not disclose the reason for the decline in telecom receipts.

On the expenditures side, budgetary spending, which includes general expenditures and debt servicing, increased by 28.5% to $2.4bn in the first two months of 2018. General budgetary spending grew by 35.6% year-on-year to $1.8bn. It included $619.6m in outlays from previous years that rose by 28.7% year-on-year and $212.1m in transfers to Electricité du Liban that increased by 3.4% annually, among other general spending items. Also, debt servicing totaled $535.5m in the first two months of 2018 and grew by 8.7% from the same period of 2017. Debt servicing accounted for 19% of total expenditures and for 22.5% of budgetary spending, while it absorbed 27.4% of overall revenues and 32.3% of budgetary receipts. Interest payments on Lebanese pound-denominated debt grew by 12.5% to $397.8m in the first two months of 2018, while debt servicing on foreign currency debt decreased by 1.4% to $113.6m. Further, Treasury transfers surged by 2.9 times to $433.3m in the covered period, as transfers to municipalities grew from $5.58m in the first two months of 2017 to $341.7m in the same period of this year. The primary budget balance posted a deficit of $191.4m in the first two months of 2018, or 8% of budgetary expenditures, while the overall primary balance posted a deficit of $329.6m, or 11.7% of spending.

Fiscal Results in First Two Months of each Year

	2017 (US$m)	2018 (US$m)	Change (%)
Budget Revenues	1,732	1,658	(4.3%)
Tax Revenues	1,265	1,406	11.1%
Non-Tax Revenues	468	252	(46.1%)
of which Telecom revenues	*265*	*72*	*(72.9%)*
Budget Expenditures	1,856	2,384	28.5%
Budget Surplus/Deficit	**(124)**	**(727)**	**488.6%**
In % of budget expenditures	*(6.7%)*	*(30.5%)*	
Budget Primary Surplus	**369**	**(191)**	**(151.9%)**
In % of budget expenditures	*19.9%*	*(8.0%)*	
Treasury Receipts	113	295	161.8%
Treasury Expenditures	151	433	187.3%
Total Revenues	1,845	1,953	5.8%
Total Expenditures	2,007	2,818	40.4%
Total Deficit	**(162)**	**(865)**	**435.4%**
In % of total expenditures	*(8.1%)*	*(30.7%)*	
Total Primary Surplus/Deficit	**330.9**	**(329.6)**	**(199.6%)**
In % of total expenditures	*16.5%*	*(11.7%)*	

Source: Ministry of Finance, Byblos Research

World Food Program assistance at $21m in April 2018

The World Food Program (WFP) indicated that it provided through its electronic card (e-card) system food and basic needs assistance to 640,507 vulnerable displaced Syrians in Lebanon in April 2018, relative to 636,134 Syrian individuals in January 2018. The WFP noted that it is implementing three modalities of food and basic needs assistance through its e-card system. It said that the food e-card provides $27 in food assistance each month to vulnerable individuals to buy food in any of the WFP-contracted outlets across Lebanon. It added that it introduced in September 2017 the "cash-for-food" e-card which gives e-card holders the choice of redeeming the monthly $27 in food assistance at any WFP-contracted outlet or withdrawing the amount from any automated teller machine (ATM) in the country. Further, it indicated that it introduced in October 2017 a "multipurpose cash for essential needs" (MPC) e-card, which provides a household an allowance of $175 per month to spend on additional food expenses and other non-food essentials, in addition to the monthly $27 in food assistance per person, and which can only be withdrawn from ATMs.

The WFP provided a total of $21.2m through its three e-card systems in April 2018, constituting a marginal decrease of 0.6% from $21.4m in January 2018. Food e-cards accounted for $9.2m or 43.5% of total assistance in the covered month, up slightly from $9.1m in January 2018, followed by MPC e-cards with $7.5m (35.5%), down from $7.9m in January, and cash-for-food e-cards with $4.5m (21%) relative to $5.9m in January. The WFP said that food and basic needs assistance reached 111,681 Syrian households in April 2018, of which 21% were headed by a female, 66% were households with five year-old or younger children, 11% were households with disabled members and 35% were households that had a member with a medical condition. It indicated that it provided assistance to 59,166 Syrian households, or 53% of assisted households, through its food e-card, followed by 29,748 households (26.6%) that benefited from the cash-for-food e-card, and 22,767 Syrian households (20.4%) that received the MPC e-card.

The WFP noted that households that received cash for food e-cards reported an average debt level of $1,190 in April 2018, up from $1,016 in January 2018. Also, households that received food e-cards had an average debt level of $1,047 in April 2018, up from $1,004 in January 2018; while those that received MPC e-cards reported an average debt level of $958 in the covered month, up from $884 in January 2018.

Lebanon joins Asian Infrastructure Investment Bank

The Board of Governors of the Asian Infrastructure Investment Bank (AIIB) approved Lebanon's membership application, which makes Lebanon a prospective member of the bank. Lebanon will become an official member of the AIIB once it completes the required processes, and when it deposits the first installment fee for its membership. AIIB's Board of Governors will determine the number of shares that Lebanon may subscribe to from the bank's pool of unallocated shares.

Lebanon joins 86 other official and prospective members worldwide. The bank’s official members include Jordan, Oman, Qatar, Saudi Arabia and the UAE from the Arab world, as well as Canada, Germany, Norway and the United Kingdom, among other countries globally. In addition, the bank's prospective members include Bahrain and Kuwait from the Arab region, as well as Argentina, Belgium, Greece, South Africa and Venezuela, among other countries worldwide.

Headquartered in Beijing, the Asian Infrastructure Investment Bank is a multilateral development bank that aims to improve social and economic conditions worldwide through investing in infrastructure and other productive sectors. The bank started its operations in January 2016 with 57 members. It approved the membership of 27 countries in 2017 and of two sovereigns in May 2018.

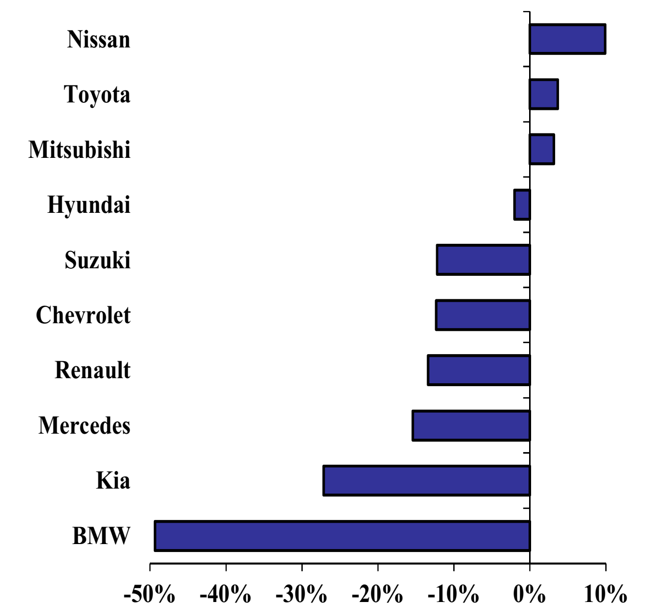
New car sales down 5% in first half of 2018

Figures released by the Association of Automobile Importers in Lebanon show that dealers sold 17,208 new passenger cars in the first half of 2018, constituting a decrease of 5.4% from 18,198 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 and 4,162 new automobiles in June 2018.

Japanese cars accounted for 40% of total car sales in the first half of 2018, followed by Korean vehicles with a 30% share, European automobiles (19.7%), American cars (7.8%) and Chinese vehicles (2.7%). The sales of new Chinese cars jumped by 2.5 times in the covered period and demand for Japanese automobiles grew by 5.2% year-on-year. In contrast, demand for Korean vehicles regressed by 17.7%, the sales of European automobiles decreased by 11.3% and the number of American cars sold declined by 5.3% year-on-year in the covered period.

Kia is the leading brand in the Lebanese market with 2,813 passenger vehicles sold in the first half of 2018, followed by Hyundai with 2,322 new cars sold, Toyota (2,287), Nissan (1,864) and Renault (789). In parallel, car dealers sold 1,065 new commercial vehicles in the covered period, down by 26.6% from 1,450 commercial vehicles purchased in the first half of 2017. Overall, car dealers sold 18,273 new passenger cars and commercial vehicles in the first half of 2018, down by 7% from 19,648 cars sold in the same period of 2017.

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



** year-on-year*
Source: AIA, Byblos Research

In parallel, Lebanon's top five distributors sold 11,523 vehicles in the first half of 2018 and accounted for 63.1% of new car sales. NATCO sal sold 2,826 vehicles, equivalent to 15.5% of the total, followed by Rasamny Younis Motor Co. sal with 2,621 automobiles (14.3%), Boustany United Machineries sal with 2,470 cars (13.5%), Century Motor Co. sal with 2,368 vehicles (13%), and Bassoul Heneiné sal with 1,238 cars (6.8%).

Moody's assigns counterparty risk ratings to Byblos Bank, BLOM Bank and Bank

Moody's Investors Service assigned a 'B2/Not Prime' long- and short-term foreign- and local-currency Counterparty Risk Ratings (CRRs) to Byblos Bank, Bank Audi and BLOM Bank. Moody's indicated that the CRRs reflect the banks' ability to honor the uncollateralized portion of non-debt counterparty financial liabilities, or CRR liabilities, and the expected financial losses in case such liabilities are not honored. It noted that the CRR liabilities are associated to transactions with unrelated parties, and include the uncollateralized portion of payables arising from derivative transactions and the uncollateralized portion of liabilities under sale and repurchase agreements. But it said that the CRRs are not applicable to funding commitments or obligations associated with covered bonds, letters of credit, guarantees, servicer and trustee obligations, or obligations that arise from a bank performing its essential operating functions.

Further, Moody's pointed out that it assigned the ratings based on the banks' adjusted Baseline Credit Assessment (BCA) and the agency's basic Loss-Given-Failure (LGF) approach, taking into consideration the likelihood of government support for CRR liabilities. It said that the CRR liabilities have a lower probability of default than deposits and senior unsecured debt, as they will be preserved in order to minimize banking system contagion, minimize losses and avoid disruption of critical functions. When calculating the CRR, Moody's automatically adjusts the BCA one notch up in countries that do not have operational resolution regimes, such as Lebanon. It then incorporates potential government support if applicable. It added that the one-notch uplift does not apply to banks with an adjusted BCA that is already two notches above the government rating or to banks in jurisdictions that have operational resolution regimes. In this context, it indicated that the 'B2' long-term CRRs assigned to the three Lebanese banks are one notch above the banks' 'b3' adjusted BCAs, reflecting the banks' strong position compared with other domestic issuers.

Ciments Blancs approves dividends for 2017

The Ordinary General Assembly of Société Libanaise des Ciments Blancs sal (SLCB), which was held on July 10, 2018, approved the distribution of LBP6.67bn, or $4.4m, in dividends to holders of nominal shares for 2017, which is equivalent to LBP740 ($0.49) per share. The dividends will be paid starting on July 23, 2018 net of a 10% withholding tax. The company produces and sells white cement. Ciments Blancs currently has 9 million nominal shares listed on the Beirut Stock Exchange. The price of Ciments Blancs' nominal shares closed at $2.84 per share on July 13, up by 26.2% from $2.25 at end-2017.

Société Libanaise des Ciments Blancs sal, an affiliate of Holcim Liban sal, declared audited net profits of $4.44m in 2017, constituting an increase of 1.3% from net earnings of $4.39m in 2016. The company generated total sales of $13.5m last year compared to $12.2m in 2016. Also, the firm's assets totaled $26.3m at the end of 2017 and increased by 5.2% from $25m at end-2016, while its equity was $19m at the end of 2017, nearly unchanged from end-2016.

Corporate Highlights

First National Bank's net earnings at $5.7m in first quarter of 2018

First National Bank sal, one of Lebanon's top 15 banks in terms of deposits, announced unaudited consolidated net profits of $5.7m in the first quarter of 2018, constituting a drop of 20.2% from net earnings of $7.1m in same quarter of 2017. Net operating income regressed by 0.9% year-on-year to $23.4m in the covered quarter, with net interest income increasing by 38% to $17.6m and net fees & commissions receipts decreasing by 8.2% to $1.7m. Non-interest income accounted for 17.8% of total income in the first quarter of 2018, up from 16.7% in the same quarter last year; with net fees & commissions representing 41.3% of non-interest earnings relative to 47.4% in the first quarter of 2017. Further, the bank's interest margin was 1.63% in the first quarter of 2018 relative to 1.84% in the same quarter last year; while its spread reached 1.55% in the covered quarter of 2018 compared to 1.75% in the first quarter of 2017. Total operating expenditures grew by 10.5% to $16.3m year-on-year in first quarter of 2018, with staff expenses increasing by 10.3% to $9.9m and administrative & other operating expenditures growing by 12.3% to $5.5m. Also, the bank's return on average assets was 0.46% in March 2018 on an annualized basis relative to 0.63% in March 2017, while its return on average equity reached 5.14% on an annualized basis compared to 6.61% in March 2017. The bank's cost-to-income ratio increased from 62.4% in the first quarter of 2017 to 69.8% in the same quarter of 2018.

In parallel, total assets reached $5bn at the end of March 2018, up by 2.9% from end-2017, while loans & advances to customers, excluding those to related parties, decreased by 4% from end-2017 to $982m. Also, customer deposits, excluding those from related parties, totaled $3.8bn at end-March 2018 and increased by 1.6% from the end of 2017. The loans-to-deposits ratio stood at 25.9% at the end of March 2018, compared to 28.8% at end-March 2017. Further, the bank's shareholders' equity reached $434.8m at end-March 2018, down by 2.9% from end-2017.

Cigna Middle East Insurance posts net losses of $6m in 2017

Cigna Middle East Insurance, an affiliate of U.S.-based global healthcare services provider Cigna Corporation, announced net losses of $5.6m in 2017 compared to losses of $1.3m in 2016. Its audited balance sheet shows total assets of $151m at the end of 2017, constituting a growth of 50.7% from $100.2m a year earlier. On the assets side, general company investments reached $89.5m at end-2017 and increased by 78% from $50.3m at the end of 2016. They included $45.4m in cash & cash equivalents, $37.3m in blocked bank deposits and deposits with maturity of more than three months, of which $2.7m in bank deposits blocked in favor of the Economy Ministry as guarantees, and $6.3m in fixed income investment. Reinsurance share in technical reserves for the non-life category amounted to $22.1m, constituting a decline of 34% year-on-year.

On the liabilities side, technical reserves for the non-life category reached $59.1m at end-2017, up by 12.8% from $52.4m at end-2016. Non-life technical reserves included $25.1m in reserves incurred but not reported that rose by 2.5 times year-on-year, outstanding claims reserves of $19.3m that dropped by 40%, and unearned premium reserves of $13.4m that increased by 41.2% year-on-year. Also, provisions for risks and charges reached $557,974.1 and grew by 9.5 times from a year earlier. In parallel, the firm's shareholders' equity totaled $52.1m at the end of 2017 and rose by 74.2% from $29.9m a year earlier.

In July 2017, the Cigna Corporation acquired Zurich Insurance Middle East sal, a subsidiary of the Swiss-based Zurich Insurance Company Ltd. The newly acquired entity was first named “Zurich Insurance Middle East, a Cigna-owned company”, until it was renamed under the Cigna brand following the completion of the needed official procedures. Established in 1982, the Cigna Corporation operates in 30 countries and jurisdictions. It generated total revenues of $41.6bn in 2017, while its total assets reached $61.8bn at end-2017.

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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