Issue 552 | September 10-15, 2018

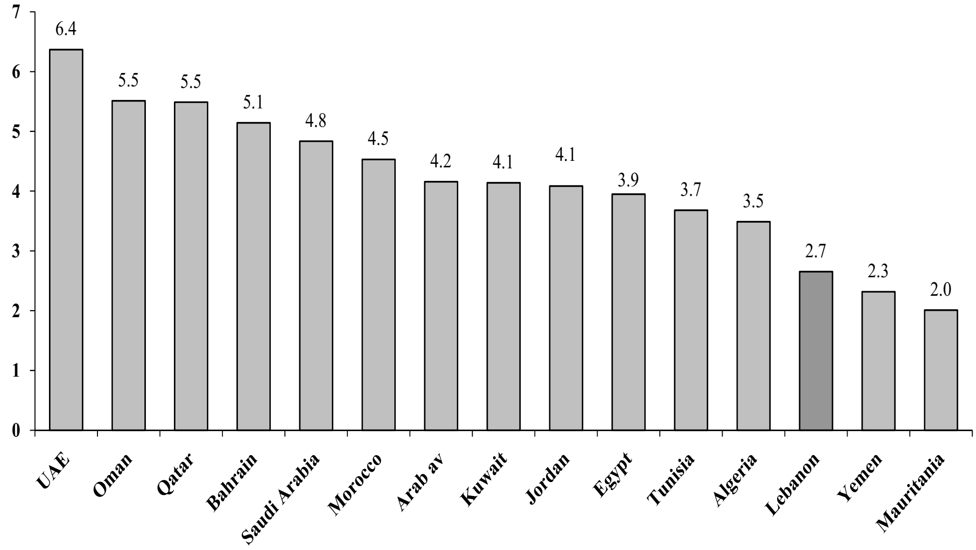
BYBLOS BANK SAL
Economic Research & Analysis Department

LEBANON THIS WEEK

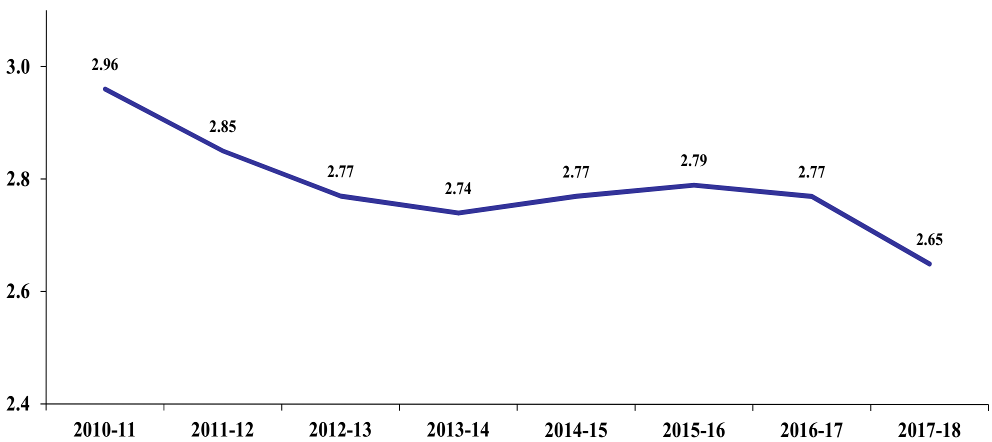
In This Issue

Charts of the Week

Quality of Roads in Arab Countries in 2017-18



Evolution of the Quality of Roads in Lebanon



**Scores range from 1 (extremely poor) to 7 (extremely good)*
Source: World Economic Forum's Global Competitiveness Index, Quality of Roads Subpillar, Byblos Bank

Quote to Note

"Significantly low levels of teacher workloads, accompanied by high teacher salary per student, put tremendous pressure on the expenditure levels of the government."

The World Bank, on the burden that the imbalances in public education put on the budget of the Lebanese government

Number of the Week

LBP47,906bn: Outstanding amount of Lebanese pound-denominated certificates of deposits issued by Banque du Liban as at end-June 2018, according to the Association of Banks in Lebanon

Lebanon in the News

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

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

** Year-on-Year ** Year-on-Year percentage change ***includes arrivals, departures, transit*
***** Starting January 2016, lending rates in Lebanese pounds are reported before any subsidy or facility from reserve requirements according to Intermediate Circular No 389, and as such they are not comparable year-on-year*
Note: bps i.e. basis points
Source: Association of Banks in Lebanon, Banque du Liban, Ministry of Finance, Central Administration of Statistics, Byblos Research

Capital Markets

Most Traded Stocks on BSE	Last Price ($)	% Change*	Total Volume	Weight in Market Capitalization
Audi Listed	5.05	0.00	436,990	20.69%
BLOM Listed	9.20	0.00	297,360	20.27%
BLOM GDR	9.00	(0.66)	57,608	6.82%
Solidere "A"	6.25	(4.29)	46,014	6.41%
Audi GDR	5.15	0.00	4,457	6.33%
Solidere "B"	6.25	(3.10)	3,298	4.16%
Byblos Common	1.40	0.00	1,621	8.11%
HOLCIM	16.60	(2.30)	356	3.32%
Byblos Pref. 08	70.00	(10.94)	248	1.43%
Byblos Pref. 09	86.00	0.00	-	1.76%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Nov 2018	5.15	99.50	8.32
May 2019	6.00	97.13	10.50
Mar 2020	6.38	94.13	10.78
Oct 2022	6.10	84.75	10.85
Jun 2025	6.25	77.75	11.01
Nov 2026	6.60	76.25	11.08
Feb 2030	6.65	72.38	10.94
Apr 2031	7.00	73.25	10.97
Nov 2035	7.05	72.13	10.61
Mar 2037	7.25	72.38	10.71

Source: Byblos Bank Capital Markets

	Sep 10-14	Sep 3-7	% Change	August 2018	August 2017	% Change
Total shares traded	887,340	838,452	5.8	1,642,595	8,062,990	(79.6)
Total value traded	$6,766,024	$7,849,188	(13.8)	$13,996,770	$68,311,180	(79.5)
Market capitalization	$9.76bn	$9.83bn	(0.72)	$9.96bn	$11.74bn	(13.2)

Source: Beirut Stock Exchange (BSE)

Growth projected at 1.3% in 2018, structural reforms essential to improve economic outlook

The Institute of International Finance indicated that the Lebanese economy is stagnating, as the lack of reforms and the delays in the formation of a new Cabinet have dampened private consumption and investment. It added that delays in forming a new Cabinet are hindering the country's access to the $11.2bn in concessional loans and grants that the international community pledged at the CEDRE conference in April 2018. As such, it forecast real GDP growth to decelerate from 1.8% in 2017 to 1.3% in 2018, amid the ongoing political deadlock and absence of reforms. It anticipated that Lebanon's potential economic growth could increase from 2.7% in 2017 to 5% by 2023, in case authorities successfully implement the infrastructure projects under the Capital Investment Program that aims to upgrade the country's infrastructure. It added that achieving higher growth rates and increasing the economy's growth potential depend on the implementation of reforms that would improve the business environment, address infrastructure bottlenecks and increase competitiveness.

Further, the IIF indicated that inflationary pressure has increased due to the sharp increase in public-sector wages, the rise in global oil prices, last year's tax increases on consumption, income and profits, as well as the growth in global food prices. However, it expected this pressure to moderate, with the average inflation rate declining from 5.7% in 2018 to 3.8% in 2019. In addition, it considered that monetary policy in Lebanon should continue to be tight in order to reduce inflationary pressure, support the currency peg to the US dollar and ensure adequate inflows of non-resident deposits. It noted that the current spreads between the interest rates in the country and the LIBOR are sufficiently wide to continue attracting deposits from Lebanese expatriates. But it added that authorities may need to raise interest rates, in line with the expected increases in U.S. interest rates. Further, it expected confidence in the peg of the Lebanese pound to the US dollar to remain strong, supported by Banque du Liban's elevated assets in foreign currency of $43.6bn and gold reserves of about $11.1bn at end-August 2018.

In parallel, the IIF pointed out that Lebanon continues to face wide fiscal and current account deficits. It forecast the fiscal deficit to widen from 7% of GDP in 2017 to 9.7% of GDP in 2018, as the higher public-sector wage bill and significant increase in other current spending, due to the Parliamentary elections in May 2018, will more than offset additional revenues that may be raised from the tax increases that the government imposed last year. As such, it projected the public debt level to grow from 147.7% of GDP at the end of 2017 to 150.7% of GDP at end-2018 and 151.4% of GDP at end-2019. But it noted that the macroeconomic risks from the elevated debt level are partially offset by support from the highly liquid banking system, which continues to attract adequate deposits from the Lebanese Diaspora. In parallel, it projected the current account deficit to narrow from 23% of GDP in 2017 to 21.5% of GDP in 2018, due to a modest increase in exports and a decline in imports amid weak domestic demand.

The IIF considered that the government needs to proceed with serious fiscal adjustments and structural reforms in order to narrow the fiscal deficit, decrease the public debt level, and reduce the reliance on foreign inflows to cover the fiscal financing needs. In this context, it encouraged authorities to implement measures that would increase public revenues and reduce the pressure on spending, such as restraining the public-sector wage bill, reforming the public pension system, restructuring the electricity sector to reduce Treasury transfers to Electricité du Liban, fighting tax evasion, and selling non-performing real estate assets. In addition, the IIF estimated that a primary surplus of more than 2.7% of GDP and a real GDP growth of at least 3% annually would help put the public debt level on a firm downward trajectory.

Select Economic Indicators for the Lebanese Economy

	2015	2016	2017e	2018f	2019f	2020f
Nominal GDP ($bn)	49.9	51.5	53.9	57.2	61.4	66.2
Real GDP growth (% change)	0.2	1.7	1.8	1.3	2.1	3.0
Private consumption (% change)	2.4	6.3	1.8	-1.3	1.5	2.7
Public consumption (% change)	5.8	1.3	0.1	7.5	2.9	1.0
Gross fixed capital (% change)	-4.3	6.9	-2.0	-4.3	4.1	4.5
Exports of goods & services (% change)	6.7	-3.6	1.5	3.2	4.8	5.8
Imports of goods & services (% change)	-6.5	9.8	-3.2	-2.6	3.0	4.0
Gross domestic investment (% of GDP)	22.3	23.4	22.5	21.3	21.7	22.0
Gross national saving (% of GDP)	4.9	2.9	-0.5	-0.2	1.3	2.5
Foreign currency reserves ex. gold ($bn)	38.8	43.3	43.4	44.0	44.2	44.4

Source: Institute of International Finance, September 2018

Lebanon has 80th highest level of human development globally, seventh highest among Arab countries

The United Nations ranked Lebanon in 80th place among 189 countries worldwide and in seventh place among 19 Arab countries on its Human Development Index (HDI) for 2017. Also, Lebanon ranked in 21st place among 53 upper middle-income countries (UMICs) included in the index. Lebanon's global rank improved by two spots from 82nd place in the 2016 index. However, Lebanon's global rank regressed by four spots from 76th place in the 2012 survey and by 14 spots from the 2010 index. The 14 notches decline in Lebanon's rank between 2010 and 2017 is the fifth steepest globally.

The HDI uses three basic dimensions of human development, which are longevity, education and income, to assess countries. The United Nations considered that Lebanon has a "high-level" of human development, unchanged from the preceding survey. Further, Lebanon was one of 53 countries worldwide that have a "high-level" of human development. Norway has the highest level of human development globally, while Niger has the lowest level.

Lebanon received a score of 0.757 points on the HDI in 2017, up from 0.753 in 2016 and compared to 0.751 in 2012 and 0.758 in 2010. Lebanon's score was similar to the average score of countries that have a "high-level" of human development, while it came above the global average of 0.728 points and the Arab states' average of 0.699 points. On a global basis and among UMICs, Lebanon had a similar human development level to Azerbaijan and Macedonia, while it had a higher development level than Armenia, Thailand and Algeria, and a lower level of human development than Bosnia & Herzegovina, Venezuela and Brazil. Figures on individual components of the index show that Lebanon's results on the life expectancy and the mean years of schooling categories continue to be higher than the corresponding global averages, as well as higher than the averages of Arab countries and of countries with "high-level" of human development.

Human Development Index 2017

	Arab Rank	Global Rank	Category*
UAE	1	34	Very High
Qatar	2	37	Very High
Saudi Arabia	3	39	Very High
Bahrain	4	43	Very High
Oman	5	48	Very High
Kuwait	6	56	Very High
Lebanon	**7**	**80**	**High**
Algeria	8	85	High
Jordan	9	95	High
Tunisia	9	95	High
Libya	11	108	High
Egypt	12	115	Medium
Palestine	13	119	Medium
Iraq	14	120	Medium
Morocco	15	123	Medium
Syria	16	155	Low
Sudan	17	167	Low
Djibouti	18	172	Low
Yemen	19	178	Low

**Level of human development*
Source: UNDP, Byblos Research

In parallel, Lebanon ranked in 85th place among 160 countries globally and in ninth place among 17 Arab countries on the Gender Inequality Index (GII), which measures gender-based disadvantages in reproductive health, empowerment and the labor market. Lebanon also ranked in 26th place among 47 UMICs included in the index. The GII's scores range from zero to one, with smaller scores indicating lower levels of inequalities. Lebanon received a score of 0.381 points on the GII, better than the global and Arab averages of 0.441 points and 0.531 points, respectively, but worse than the average score of 0.289 points in countries that have a "high-level" of human development.

In terms of demographic trends, the United Nations estimated Lebanon's young-age dependency ratio at 33.8% in 2017, which is the ratio of Lebanese aged 14 years or younger to those in the 15 to 64 year-old bracket. In comparison, it said that the young age dependency ratio was 39.6% worldwide, 52.8% in Arab countries and 28.7% in countries that have a "high-level" of human development in 2017. Further, it estimated Lebanon's old-age dependency ratio at 12.4% in 2017, which is the ratio of Lebanese who are 65 years or older to those in the 15 to 64 year-old bracket. In comparison, it noted that the old age dependency ratio was 13.3% globally, 7.2% in Arab countries and 13.8% in countries that have a "high-level" of human development in 2017.

Components of the 2017 Human Development Index

	Life expectancy at birth (years)	Mean years of schooling (years)	Expected years of schooling (years)	GNI per capita* (US$)
Lebanon	79.8	8.7	12.5	13,378
Arab States	71.5	7.0	11.9	15,837
World	72.2	8.4	12.7	15,295

**At 2011 Purchasing Power Parity*
Source: UNDP, Byblos Research

Governor Salamé is among best central bank governors in the world

Global Finance magazine's Central Banker Report Cards for 2018 indicated that Banque du Liban's Governor Riad Salamé received an 'A' rating based on his success in areas such as inflation control, currency stability and interest rate management and economic growth goals. Other central bank governors who received the same rating include the central bank governors of Australia, Chile, the European Union, Kuwait, Morocco, Paraguay, Russia, and South Korea.

The Central Banker Report Cards rate 85 central bank governors worldwide on a scale of 'A' to 'F', with a grade of 'A' representing an excellent performance in achieving economic stability. It also ranks the governors of the European Union, the Eastern Caribbean Central Bank, the Bank of Central African States and the Central Bank of West African States. The magazine pointed out that Governor Salamé outperformed 9 of the 12 other central bank governors in the Arab region who were included in this year's report. Governor Salamé's rank was similar to that of the governors of Bank Al-Maghrib and the Central Bank of Kuwait, but was higher than those of the governors of the Central Bank of Egypt and the Saudi Arabian Monetary Authority who earned a 'B+' rating, the central bank governors of Iraq, Qatar and the UAE who each earned a 'B' rating, the governors of Banque d'Algérie and the Central Bank of Oman who received a 'B-' grade, and the central bank governors of Bahrain and Jordan who earned a 'C' rating.

Lebanon's external debt posts 16th highest return in Middle East & Africa in August 2018

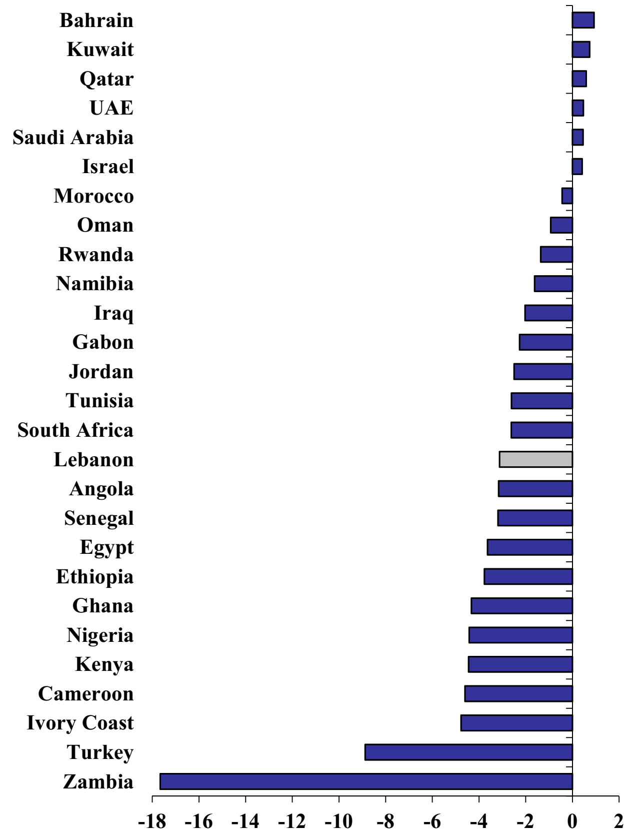
Figures issued by Intercontinental Exchange, Inc. (ICE) indicate that Lebanon's external debt posted a return of -3.12% in August 2018, constituting the 16th highest return among 27 countries in the Middle East & Africa region, the 13th lowest return among 44 markets in the Central & Eastern Europe and the Middle East & Africa (CEEMEA) region, and the 17th lowest return among 76 emerging markets included in ICE's External Debt EM Sovereign Index. Lebanon underperformed the emerging markets' return of -1.93%, while it outperformed the 'B'-rated sovereigns' return of -5.63% in August 2018.

Further, Lebanon's external debt posted a return of -7.36% in the first eight months of 2018, constituting the 21st highest return in the Middle East & Africa region, the seventh lowest return in the CEEMEA region, as well as the 10th lowest in emerging markets during the covered period. Lebanon underperformed the overall emerging markets' return of -4.61% during the covered period.

In parallel, ICE indicated that the option-adjusted spread on Lebanese Eurobonds was 723 basis points at the end of August 2018 compared to 451 basis points at end-August 2017. The spread on Lebanese Eurobonds was the second widest in the CEEMEA region and the fifth widest among emerging markets. It was wider than the emerging markets' overall spread of 293 basis points at the end of August 2018.

Lebanon has a weight of 2.43% on ICE's External Debt EM Sovereign Index, the seventh largest weight in the CEEMEA universe and the 13th largest among emerging economies. Lebanon accounted for 4.4% of allocations in the CEEMEA region.

External Debt Performance in Middle East & Africa in August 2018 (%)



Source: ICE, Byblos Research

USAID-funded program finances construction of electricity transmission stations

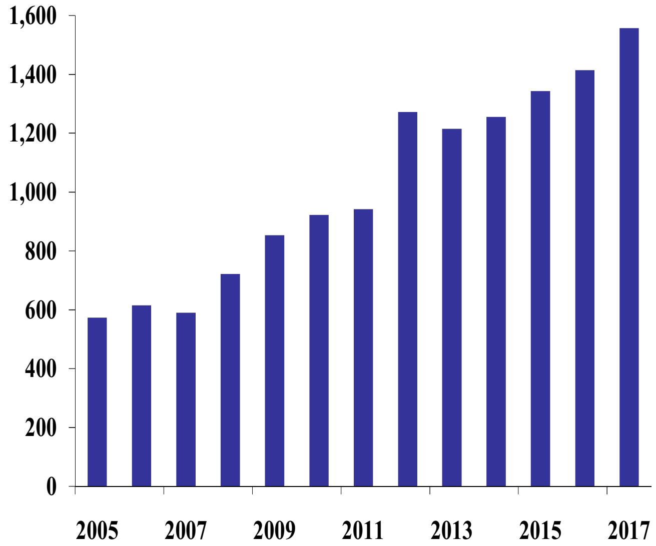
The U.S. Agency for International Development (USAID) provided $100,000 in funding through the Building Alliances for Local Advancement, Development and Investment (BALADI) program for the construction of five 250 Kilo-volt-ampere (kVa) electricity transmission stations in the Arsal town located in the Baalbek-Hermel governorate. The municipality of Arsal provided an additional $20,000 in funding for the construction of the stations, and carried out community awareness sessions on energy saving. The project will be executed by the René Moawad Foundation (RMF). The five new stations aim to provide electricity to 16,000 Lebanese citizens and to more than 10,000 Syrian refugees across 2,300 homes, 480 businesses and four schools in Arsal.

Launched in September 2012, the BALADI program, which is funded by the USAID and implemented by the RMF, works with municipalities and local non-governmental organizations, civil society organizations, and community members to implement projects in the healthcare, electricity transmission and education sectors in the country. Established in 1991, the Rene Moawad Foundation is a Lebanese non-profit and non-governmental organization that aims to implement various projects in the education, agricultural, economic development, healthcare and social care sectors. It collaborates with international donors such as USAID and the United Nations High Commissioner for Refugees for the implementation of these projects.

Compensation of public-sector personnel up 12% in 2017, absorbs 35% of fiscal spending

Figures issued by the Ministry of Finance show that the compensation of public-sector personnel totaled $5.45bn in 2017, constituting an increase of 12% from $4.9bn in 2016. Salaries, wages and related benefits accounted for 66% of the total in 2017, followed by retirement benefits (24.4%), transfers to public institutions to cover salaries (5.4%), and end-of-service indemnities (4.1%). The rise in the compensation of public-sector personnel is due to a 14.1% increase in salaries, wages & related benefits, as well as to a growth of 11% in retirement benefits and of 4.6% in end-of-service indemnities. The compensation of public-sector personnel represented the largest component of current primary spending and accounted for 66.2% of such expenditures last year compared to 65.8% in 2016. It absorbed 35.4% of fiscal spending in 2017 relative to 32.7% in the previous year. The compensation of public-sector personnel was equivalent to 9.9% of GDP in 2017 compared to 9% of GDP in 2016.

Retirement Benefits and End-of-Service Indemnities (US$m)



Source: Ministry of Finance, Byblos Research

In parallel, salaries, wages & related benefits paid to public-sector employees amounted to $3.6bn in 2017, constituting an increase of 14.1% from $3.2bn in 2016, due to the new public-sector salary scale that was enacted by the Lebanese Parliament in July 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.

Salaries and benefits of military personnel reached $2.3bn and accounted for 63.1% of salaries, wages & related benefits paid to the public sector last year. The salaries and benefits of personnel in public education followed with $738.3m (20.5% of the total), then civil staff with $348.9m (9.7%), the government's contribution to the employees' cooperative with $208.3m (5.8%) and customs employees with $33.8m (0.9%).

Also, the Lebanese Army's salaries totaled $1.4bn in 2017 and represented 63.5% of military personnel's salaries and benefits. The salaries of the Internal Security Forces followed with $629.5m (27.7%), those of the General Security Forces with $153.9m (6.7%) and the salaries of State Security Forces with $45.8m (2%).

The overall increase in salaries, wages & related benefits paid to public-sector employees last year reflects an annual growth of $331.7m in basic salaries, an increase of $81m in allowances and a rise of $25.2m in benefits and other payments, such as bonuses, given to non-military bodies. Overall, basic salaries increased by 14.1% to $2.7bn in 2017, allowances rose by 21.1% year-on-year to $464.3m, and employment benefits and other payments such as bonuses disbursed to non-military bodies grew by 6.4% to $418m last year.

Ministry of Finance postpones lump-sum tax on corporates and individuals

The Ministry of Finance declared that it will postpone until 2020 the implementation of a new tax imposed 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. It attributed the postponement of the tax collection, which was supposed to start this month, to the already challenging economic environment. The new tax is based on a flat annual payment that is determined irrespective of the taxpayer's financial results. Joint-stock companies and "partnerships limited by share" would have to pay LBP2m or $1,327 per branch, followed by limited liability companies and financial institutions with LBP750,000 or $497.5 per branch, and limited partnerships or individual establishments with LBP550,000 or $364.8 per branch. Also, individual taxpayers who pay a lump-sum income tax would be subject to a tax of LBP250,000 or $165.8 per place of business, and individual taxpayers who settle their income tax based on estimated net profits will have to pay LBP50,000 or $33.2 per place of business. The ministry's decision is based on Article 29 of law 173/2000, which was amended by Parliament in February 2017. The flat annual tax was part of the 2000 Budget Law but has not been implemented since then.

In parallel, the Finance Ministry approved to extend from October 2018 till the end of 2018 the deadline for taxpayers to settle their unpaid taxes and to continue to benefit from exceptional reductions on tax penalties. Further, the ministry indicated that it will review the articles of the 2018 Budget Law that the Constitutional Council invalidated in May 2018 and that are related to incentives for taxpayers to settle any unpaid taxes incurred over the past few years.

Number of real estate transactions down 20% in first eight months of 2018

Figures released by the Ministry of Finance indicate that there were 38,102 real estate transactions in the first eight months of 2018, constituting a decrease of 20.2% from 47,723 deals in the same period of 2017. In comparison, the number of real estate transactions grew by 17.6% year-on-year in the first eight months of 2017 and increased by 2% annually in the same period of 2016. There were 7,479 real estate transactions in the Baabda area in the first eight months of 2018, representing 19.6% of the total. The North followed with 6,009 deals (15.8%), then the Zahlé region with 4,792 transactions (12.6%), the South with 4,394 deals (11.5%), the Metn district with 4,304 transactions (11.3%), the Keserwan area with 3,729 deals (9.8%), the Nabatieh region with 3,475 transactions (9.1%), and Beirut with 2,848 deals (7.5%).

Also, the aggregate value of real estate transactions reached $5.1bn in the first eight months of 2018 and decreased by 20.7% from $6.5bn in the same period of 2017. In comparison, the value of real estate deals increased by 20.4% annually in the first eight months of 2017 and grew by 6.5% year-on-year in the same period of 2016. Further, the value of real estate transactions in Beirut reached $1.5bn and accounted for 28.8% of the total in the first eight months of 2018. The Baabda district followed with $992.6m (19.3%), then the Metn region with $890.1m (17.3%), the Keserwan area with $620.1m (12%), the South with $380.2m (7.4%), the North with $342.4m (6.7%), the Zahlé area with $217.5m (4.2%) and the Nabatieh region with $151m (2.9%).

In parallel, the average value per real estate transaction was $135,074 in the first eight months of 2018, down by 0.7% from an average of $135,975 in the same period of 2017 and relative to $132,781 in the first eight months of 2016. Further, there were 742 real estate transactions executed by foreigners in the first eight months of 2018, down by 12% from 843 deals in the same period of 2017, and compared to 657 deals in the first eight months of 2016 and to 914 transactions in the same period of 2015. 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 eight months of 2017 and to 1.6% of deals in the same period of 2016. Further, 22.2% of the real estate transactions executed by foreigners were in the Baabda district, followed by Beirut (21.3%), the South (13.5%), the Metn region (11.9%), the Zahlé area and the North (10% each), the Keserwan area (8.8%) and the Nabatieh region (2.4%).

Broad money supply up 2% in first seven months of 2018

Figures released by Banque du Liban show that money supply M1, which includes currency in circulation and demand deposits in Lebanese pounds, reached LBP11,455bn at the end of July 2018, constituting an increase of 13.3% from LBP10,112.4bn at end-July 2017 and a rise of 7.8% from LBP10,624.1bn at the end of 2017. Currency in circulation stood at LBP4,857.3bn at the end of July, up by 6.9% from a year earlier, but slightly lower than LBP4,887bn at end-2017. Also, demand deposits in local currency stood at LBP6,597.8bn at the end of July, up 18.4% year-on-year and by 15% from end-2017. M1 decreased by 0.3% in July from LBP11,488.6bn at end-June 2018, with demand deposits in local currency rising by 1.1% month-on-month and currency in circulation regressing by 2.1%.

Further, money supply M2, which includes M1 and term deposits in Lebanese pound, reached LBP80,767.8bn at the end of July 2018, constituting a drop of 2.8% from LBP83,114.6bn a year earlier and an increase of 2% from LBP79,166.2bn at the end of 2017. Term deposits in Lebanese pounds totaled LBP69,312.7bn at the end of July, down by 5.1% from a year earlier but up by 1.1% from LBP68,542.1bn at end-2017. M2 decreased by 0.7% in July, with term deposits in local currency declining by 0.8% month-on-month.

In addition, broad money supply M3, which includes M2, deposits in foreign currency and debt securities issued by the banking sector, reached LBP212,335bn at the end of July 2018, constituting a rise of 1.7% from LBP208,754bn a year earlier and an increase of 1.6% from LBP208,965bn at the end of 2017. Deposits in foreign currency totaled LBP131,316bn at the end of July, up by 4.8% from a year earlier and by 1.4% from end-2017. Also, debt securities issued by the banking sector amounted to LBP250.8bn at the end of July 2018, compared to LBP318.6bn at end-July 2017 and LBP321.8bn at the end of 2017. Money supply M3 regressed by 0.3% in July 2018 from LBP213,000bn at the end of June 2018, with deposits in foreign currency nearly unchanged month-on-month, and debt securities issued by the banking sector decreasing by 45.5% from the preceding month. In parallel, M3 expanded by LBP3,370 in the first seven months of 2018, due to a decrease of LBP2,405.2bn in the net foreign assets of deposit-taking institutions and a drop of LBP2,318.5bn in claims on the private sector, which were offset by an increase of LBP750.3bn in net claims on the public sector and a surge of LBP7,343.3bn in other net items.

Revenues through Port of Beirut up 2% to $144.3m in first seven months of 2018

Figures released by the Port of Beirut show that the port's overall revenues reached $144.3m in the first seven months of 2018, constituting an increase of 1.9% from $141.6m in the same period of 2017. The Port of Beirut handled 4.6 million tons of freight in the covered period, down by 6.2% from 4.9 million tons in the first seven months of 2017. Imported freight amounted to 4.1 million tons in the first seven months of 2018 and accounted for 88.3% of the total, while the remaining 542,000 tons, or 11.7%, consisted of export cargo. A total of 1,091 ships docked at the port in the year-to-July 2018 compared to 1,087 vessels in the first seven months of 2017.In parallel, revenues generated through the Port of Tripoli reached $9.2m in the first seven months of 2018, constituting a decrease of 6.6% from $9.9m in the same period of 2017. The Port of Tripoli handled 993,413 tons of freight in the covered period, constituting a decrease of 14.3% from 1,159,277 tons in the first seven months of 2017. Imported freight amounted to 818,997 tons and accounted for 82.4% of the total, while the remaining 174,416 tons, or 17.6%, were export cargo. A total of 369 vessels docked at the port in the first seven months of 2018, constituting a drop of 22.3% from 475 ships in the same period of 2017.

Trade deficit widens by 4% to $10bn in first seven months of 2018

The total value of imports reached $11.9bn in the first seven months of 2018, constituting an increase of 4.3% from $11.4bn in the same period of 2017; while the aggregate value of exports increased by 6.3% year-on-year to $1.8bn in the covered period. As such, the trade deficit widened by 3.9% to $10.1bn in the first seven months of 2018 due to a year-on-year increase of $488.4m in imports, which was partly offset by an increase of $104.8m in exports.

The growth in imports is mainly due to an increase of $472m, or 5.3%, in the value of imported non-hydrocarbon products, and a growth of $16.5m, or 0.6%, in the value of imported mineral products. The value of imported oil & mineral fuels reached $2.6bn in the first seven months of 2018 and accounted for 21.8% of total imports in the covered period.

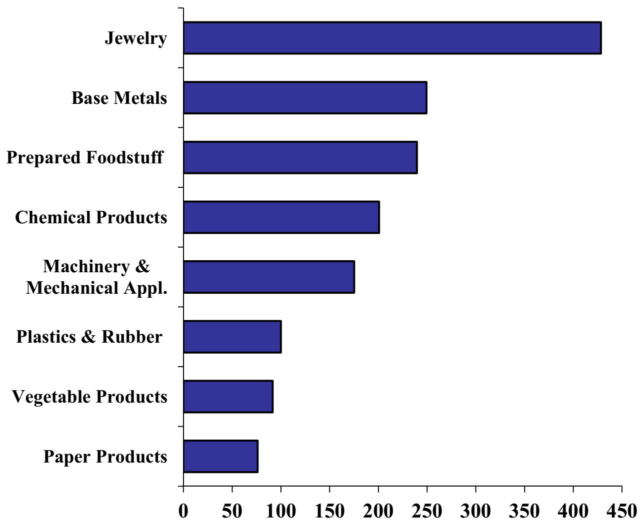
In addition, the increase in exports in the first seven months of 2018 is mainly due to an increase of $67.3m, or 18.6%, in the value of exported jewelry, a surge of $63.8m, or 34.4%, in exported base metals, a rise of $21.3m, or 27.1%, in the exports of plastics & rubber, and an increase of $16.7m, or 9.1%, in exported chemical products. They were partly offset by a decline of $32.9m, or 12.1%, in the exports of prepared foodstuff, a drop of $20.7m, or 56.5%, in exported mineral products, and a decrease of $11.1m, or 12.8%, in the value of exported wood, paper & paperboard.

Further, exported goods to Qatar expanded by 76.5% year-on-year in the first seven months of 2018, those to the UAE grew by 66%, exports to the Turkey increased by 41.6% and those to Switzerland rose by 14% year-on-year. In contrast, exported goods to Syria dropped by 31.6%, while those to Iraq declined by 25.4%, exported goods to South Africa decreased by 22.6% and exports to Saudi Arabia regressed by 15.5% year-on-year in the covered period. Re-exports totaled $205.3m in the first seven months of 2018 compared to $444.7m in the same period of 2017. Also, the Port of Beirut was the exit point for 50.7% of Lebanon's exports in the first seven months of 2018, followed by the Hariri International Airport (34.1%), the Port of Tripoli (8%), the Masnaa crossing point (4.2%) and the Port of Saida (1.5%).

In parallel, Lebanon's main non-hydrocarbon imports were chemical products that reached $1.33bn in the first seven months of 2018 and increased by 8.5% from the same period of 2017. Imports of machinery & mechanical appliances followed at $1.25bn (+9.6%), then vehicles, aircraft & vessels at $1bn (-7.8%), prepared foodstuff at $801.6m (-2.1%), jewelry at $787m (+29.8%), base metals at $801.6m (-2.1%), jewelry at $787m (+29.8%), base metals at $752.6m (+1.5%) and animal products at $601m (+23.6%). The Port of Beirut was the entry point for 72.3% of Lebanon's merchandise imports in the covered period, followed by the Hariri International Airport (19.7%), the Port of Tripoli (6.4%) and the Port of Saida (1.1%).

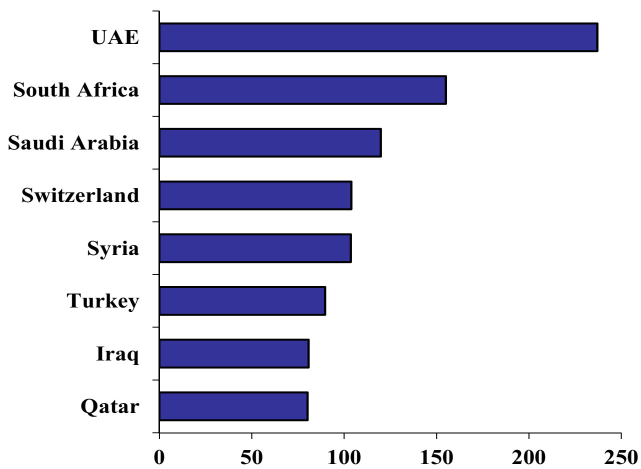
China was the main source of imports with $1.22bn, or 10.2% of the total, in the first seven months of 2018, followed by Greece with $948.5m (8%), Italy with $941m and the U.S. with $936.1m (7.9% each), Germany with $686.3m (5.8%), Russia with $468.5m (3.9%) and France with $414.1m (3.5%). Imported goods from Greece grew by 15.4% year-on-year in the covered period, those from China rose by 11.4%, imports from the U.S. increased by 5.9%, those from France expanded by 2.4% and imports from Italy grew by 0.8%. In contrast, imported goods from Russia dropped by 10.4% and those from Germany decreased by 2.8% year-on-year in the first seven months of 2018.

Main Lebanese Exports* (US$m)



**in the first seven months of 2018*
Source: Lebanese Customs Administration, Byblos Research

Main Destinations of Lebanese Exports*(US$m)



**in the first seven months of 2018*
Source: Lebanese Customs Administration, Byblos Research

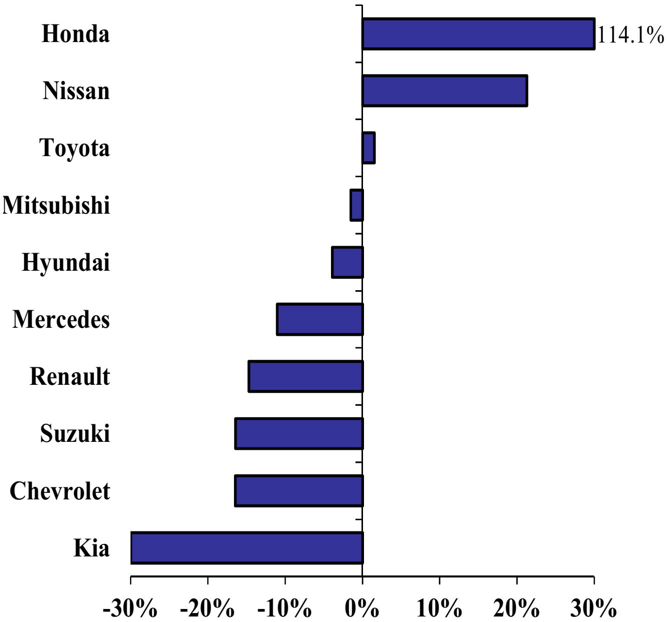
New car sales down 7% in first eight months of 2018

Figures released by the Association of Automobile Importers in Lebanon show that dealers sold 23,645 new passenger cars in the first eight months of 2018, constituting a decrease of 6.8% from 25,363 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 and 2,772 vehicles in August 2018.

Japanese cars accounted for 40.5% of total car sales in the first eight months of 2018, followed by Korean vehicles with a 29.1% share, European automobiles (19.4%), American cars (8.1%) and Chinese vehicles (2.9%). The sales of new Chinese cars jumped by 105.5% in the covered period and demand for Japanese automobiles grew by 2.7% year-on-year. In contrast, demand for Korean vehicles regressed by 20.1%, the sales of European automobiles decreased by 9.3%, and the number of American cars sold declined by 5.9% year-on-year in the covered period.

Kia is the leading brand in the Lebanese market with 3,711 passenger vehicles sold in the first eight months of 2018, followed by Hyundai with 3,146 new cars sold, Toyota (3,054), Nissan (2,803) and Suzuki (1,099). In parallel, car dealers sold 1,508 new commercial vehicles in the covered period, down by 22% from 1,930 commercial vehicles purchased in the first eight months of 2017. Overall, car dealers sold 25,153 new passenger cars and commercial vehicles in the first eight months of 2018, down by 7.8% from 27,293 cars sold in the same period of 2017.

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



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

Further, Lebanon's top five distributors sold 15,837 vehicles in the first eight months of 2018 and accounted for 63% of new car sales. Rasamny Younis Motor Co. sal sold 3,846 vehicles, equivalent to 15.3% of the total, followed by NATCO sal with 3,725 automobiles (14.8%), Boustany United Machineries sal with 3,311 cars (13.2%), Century Motor Co. sal with 3,219 vehicles (12.8%), and Bassoul Heneiné sal with 1,736 cars (6.9%).

In parallel, the Traffic, Trucks and Vehicles Management Authority announced the reduction of registration fees for all used cars by up to 20% starting on September 3, 2018. It added that the registration fee for a used car will be determined based on the age and horsepower of the vehicle, as was the case previously. In April 2018, the Traffic, Trucks and Vehicles Management Authority announced the reduction by 90% of accrued fines from the delayed payment of *mécanique* fees, if the arrears are settled between April 24 to October 19, 2018.

Kafalat loan guarantees down 27% to $35m in first eight months of 2018

Figures released by the Kafalat Corporation show that loans extended to small- and medium-sized enterprises (SMEs) under the guarantee of Kafalat reached $35m in the first eight months of 2018, constituting a decrease of 27% from $47.8m in the same period of 2017. Kafalat provided 271 loan guarantees in the covered period, down by 31.7% from 397 guarantees in the first eight months of 2017. The average loan size was $129,084 in the first eight months of 2018 compared to $120,463 in the same period of 2017. Mount Lebanon accounted for 43.2% of the total number of guarantees, followed by the Bekaa with 18.1%, the North with 12.2%, Nabatieh with 9.2%, Beirut with 8.9% and the South with 8.5%. Also, the agricultural sector accounted for 37.6% of the total number of guarantees in the first eight months of 2018, followed by the industrial sector with 36.5%, the tourism sector with 20%, the handicraft sector with 3.3% and specialized technologies with 2.6%.

Kafalat is a state-sponsored organization that provides financial guarantees for loans of up to $430,000 earmarked for the setup and expansion of SMEs in productive sectors. It guarantees up to 75% of the loan amount and a similar percentage of the accrued interest. It also guarantees up to 90% of the loan amount for innovative start-ups and a similar percentage of the accrued interest. Interest rate subsidies are financed by the Ministry of Finance and administered by Banque du Liban. The National Institute for the Guarantee of Deposits holds a 75% stake in Kafalat, while the remaining 25% is held by 50 Lebanese banks.

Top five freight forwarders' import activity down 12% in first seven months of 2018, export activity down 20%

Figures released by the Port of Beirut show that overall import shipping operations by the top five freight forwarders through the port reached 186,946 20-foot equivalent units (TEUs) in the first seven months of 2018, constituting a decrease of 11.7% from 211,773 TEUs in the same period of 2017. The five freight forwarders accounted for 76.1% of imports to the Lebanese market and for 50.8% of the total import freight forwarding market in the first seven months of 2018. Mediterranean Shipping Company (MSC) handled 71,674 TEUs in imports in the covered period, equivalent to a 19.5% share of the total freight forwarding import market. Merit Shipping followed with 40,788 TEUs (11.1%), then Sealine Group with 27,163 TEUs (7.4%), Metz Group with 26,012 TEUs (7.1%) and Tourism & Shipping with 21,309 TEUs (5.8%). Further, Tourism & Shipping registered a year-on-year increase of 175.8% in import shipping in the covered period, the highest growth rate among the top five freight forwarders, while Sealine Group posted a decline of 29%, the steepest drop in the first seven months of 2018.

In parallel, export shipping operations by the top five freight forwarders through the Port of Beirut reached 38,080 TEUs in the first seven months of 2018, constituting a decrease of 19.5% from 47,304 TEUs in the same period of 2017. The five freight forwarders accounted for 78.8% of exported Lebanese cargo and for 10.2% of the total export freight forwarding market in the first seven months of 2018. Merit Shipping handled 17,370 TEUs of freight in the covered period, equivalent to 35.9% of the Lebanese cargo export market. Sealine Group followed with 6,430 TEUs (13.3%), then Metz Group with 6,287 TEUs (13%), MSC Shipping with 4,147 TEUs (8.8%) and MAERSK Shipping with 3,846 (8%). Further, MAERSK shipping posted a year-on-year increase of 193.6% in export shipping in the covered period, the highest rise among the top five freight forwarders, while Metz Group posted a decrease of 31.1%, the steepest decline among the top five freight forwarders.

Holcim's net profits at $13m in first half of 2018

Cement producer Holcim (Liban) sal posted unaudited net profits of $13.1m in the first half of 2018 constituting a decline of 31.2% from net earnings of $19m in the same period of 2017. The decrease in profits is mainly due to lower net sales and a higher cost of goods sold. The firm's sales totaled $72.8m in the first half of 2018, down by 2.8% from $74.9m in the same period of 2017; and its gross profit margin reached 41.8% in the first half of 2018 relative to 47.9% in the same period of 2017. Holcim's assets reached $247.7m at the end of June 2018, constituting a decrease of 6.3% from $264.3m at end-2017. The firm's current ratio, which is a measure of the company's ability to meet its short-term obligations, was 2.12x at the end of June 2018, up from 1.38x at end-2017 but down from 2.54x a year earlier.

In parallel, Holcim's shareholders' equity was $189.1m at end-June 2018, up by 7.4% from $176.1m at the end of 2017. The company's debt-to-equity ratio was 30.9% at end-June 2018 relative to 50.1% at the end of 2017 and 25.8% at end-June 2017. The firm produces and sells cement and other related products. Holcim's share price closed at $16.6 on September 14, 2018, up by 14.8% from $14.46 at end-2017.

Ciments Blancs' net income up 31% to $2.2m in first half of 2018

Société Libanaise des Ciments Blancs sal, an affiliate of Holcim (Liban) sal, declared net profits of $2.2m in the first half of 2018, constituting an increase of 31.1% from net earnings of $1.7m in the same period last year. The company generated total sales of $6.2m in the first half of 2018 compared to $6.4m in the same period of 2017. The cost of goods sold declined by 23.4% year-on-year to $3.1m, resulting in a gross profit margin of 48.9% in the first half of 2018 relative to 35.6% in the same period of 2017. In addition, the firm's gross financial income grew by 47.8% year-on-year to $339,680 in the first half of 2018.

Further, Ciments Blancs' assets totaled $26.5m at the end of June 2018, up by 0.8% from $26.3m at end-2017. The firm's current ratio, which is a measure of the company's ability to meet its short-term obligations, was 4.2x at the end of June 2018, compared to 2.4x at the end of 2017 and to 4.3x at end-June 2017.

The company's total equity reached $21.3m at end-June 2018, up by 11.6% from $19m at the end of 2017. The firm's debt-to-equity ratio was 24.6% at end-June 2018 relative to 38% at the end of 2017 and to 18.9% at end-June 2017. The price of Ciments Blancs' nominal shares closed at $2.84 on September 14, up by 26.2% from $2.25 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

Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut – Lebanon
Tel: (961) 1 338 100
Fax: (961) 1 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com

BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605 Riad El Solh - Beirut 1107 2811- Lebanon
Phone: (+ 961) 1 335200
Fax: (+ 961) 1 339436

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60, Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457/8/9 - 2560017/9
E-mail: erbilbranch@byblosbank.com.lb

Sulaymaniyah Branch, Kurdistan, Iraq
Salem street, Kurdistan Mall - Sulaymaniyah
Phone: (+ 964) 773 042 1010 / (+ 964) 773 041 1010

Baghdad Branch, Iraq
Al Karrada - Salman Faeq Street
Al Wahda District, No. 904/14, Facing Al Shuruk Building
P.O.Box: 3085 Badalat Al Olwiya – Iraq
Phone: (+ 964) 770 6527807 / (+ 964) 780 9133031/2
E-mail: baghdadbranch@byblosbank.com.lb

Basra Branch, Iraq
Intersection of July 14th, Manawi Basha Street, Al Basra – Iraq
Phone: (+ 964) 770 4931900 / (+ 964) 770 4931919
E-mail: basrabranch@byblosbank.com.lb

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Al Reem Island - Sky Tower - Office 2206
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336050 - 2 6336400
Fax: (+ 971) 2 6338400
E-mail: abudhabirepoffice@byblosbank.com.lb

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryan Street - Area 0002
Yerevan - Republic of Armenia
Phone: (+ 374) 10 530362 Fax: (+ 374) 10 535296
E-mail: infoarm@byblosbank.com

NIGERIA

Byblos Bank Nigeria Representative Office
161C Rafu Taylor Close - Off Idejo Street
Victoria Island, Lagos - Nigeria
Phone: (+ 234) 706 112 5800
(+ 234) 808 839 9122
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

BELGIUM

Byblos Bank Europe S.A.
Brussels Head Office
Rue Montoyer 10
Bte. 3, 1000 Brussels - Belgium
Phone: (+ 32) 2 551 00 20
Fax: (+ 32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

UNITED KINGDOM

Byblos Bank Europe S.A., London Branch
Berkeley Square House
Berkeley Square
GB - London W1J 6BS - United Kingdom
Phone: (+ 44) 20 7518 8100
Fax: (+ 44) 20 7518 8129
E-mail: byblos.london@byblosbankeur.com

FRANCE

Byblos Bank Europe S.A., Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+33) 1 45 63 10 01
Fax: (+33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

CYPRUS

Limassol Branch
1, Archbishop Kyprianou Street, Loucaides Building
P.O.Box 50218
3602 Limassol - Cyprus
Phone: (+ 357) 25 341433/4/5 Fax: (+ 357) 25 367139
E-mail: byblosbankcyprus@byblosbank.com.lb

ADIR INSURANCE

Dora Highway - Aya Commercial Center
P.O.Box: 90-1446
Jdeidet El Metn - 1202 2119 Lebanon
Phone: (+ 961) 1 256290
Fax: (+ 961) 1 256293