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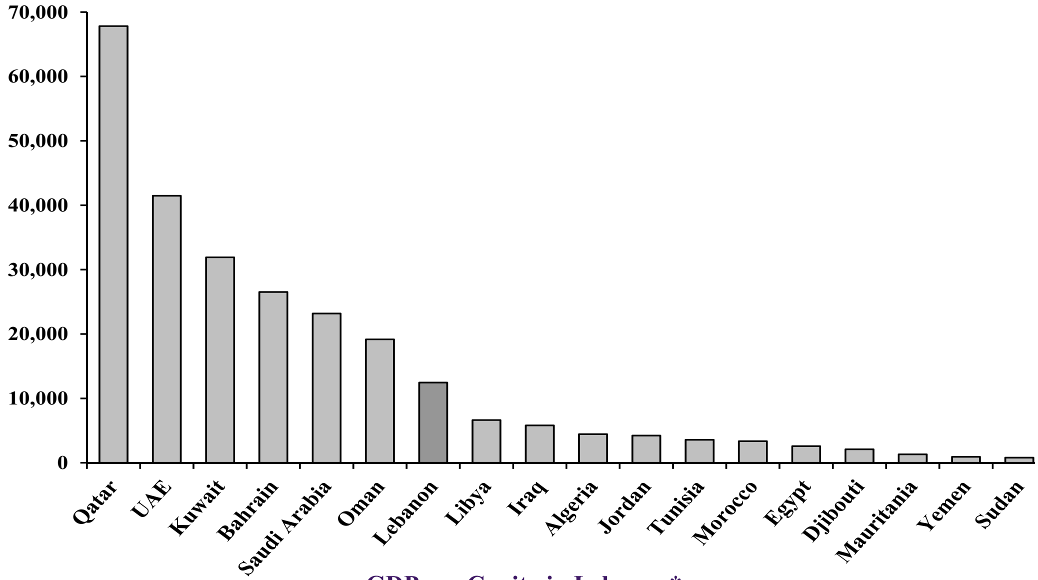
BYBLOS BANK SAL
Economic Research & Analysis Department

LEBANON THIS WEEK

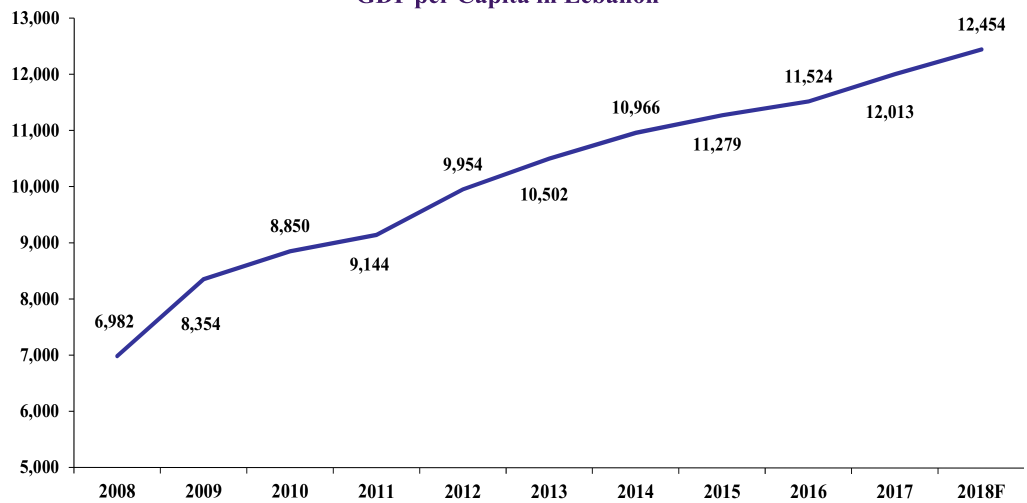
In This Issue

Charts of the Week

Projected GDP per Capita of Arab Countries in 2018*



GDP per Capita in Lebanon*



**in US dollar at current prices*
Source: International Monetary Fund - October 2018, Byblos Research

Quote to Note

"Depositors' commitment to Lebanon will remain strong, motivated by a deep trust in the financial system and the stability of the fixed exchange rate regime."

The Institute of International Finance, on the confidence of depositors in the Lebanese banking system

Number of the Week

18.2%: Share of non-technical losses at Electricité du Liban's from "billed and not collected invoices" related to public sector institutions, divisions and agencies, according to preliminary estimates from the World Bank

Lebanon in the News

$m (unless otherwise mentioned)	2017	Aug 2017	May 2018	Jun 2018	Jul 2018	Aug 2018	% Change*
Exports	2,844	251	254	215	218	229	(8.86)
Imports	19,582	1,685	1,591	1,616	2,318	1,820	7.98
Trade Balance	(16,738)	(1,435)	(1,337)	(1,401)	(2,100)	(1,591)	10.93
Balance of Payments	(156)	368	1,204	(639)	(549)	(408)	-
Checks Cleared in LBP	21,677	1,869	1,725	1,680	1,878	1,777	(4.90)
Checks Cleared in FC	46,578	4,100	3,841	3,471	3,953	3,662	(10.68)
Total Checks Cleared	68,255	5,969	5,566	5,151	5,831	5,439	(8.87)
Budget Deficit/Surplus	(3,300.82)	(513.46)	-	-	-	-	-
Budget Primary Balance	1,882.86	(192.78)	-	-	-	-	-
Airport Passengers***	8,235,845	1,067,441	598,602	762,041	1,022,467	1,159,811	8.65

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

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

***** Starting January 2016, lending rates in Lebanese pounds are reported before any subsidy or facility from reserve requirements according to Intermediate Circular No 389, and as such they are not comparable year-on-year*

Note: bps i.e. basis points

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

Capital Markets

Most Traded Stocks on BSE	Last Price ($)	% Change*	Total Volume	Weight in Market Capitalization
BLOM GDR	9.25	(2.63)	307,418	6.97%
Solidere "A"	7.02	16.03	212,512	7.16%
Solidere "B"	6.99	15.54	121,645	4.63%
BLOM Listed	9.25	(2.63)	72,728	20.27%
Byblos Common	1.40	0.00	35,517	8.07%
Audi Listed	4.89	(2.20)	33,000	19.93%
Audi GDR	5.00	0.00	20,000	6.11%
Byblos Pref. 08	70.00	0.00	4,529	1.43%
HOLCIM	17.95	6.53	3,367	3.57%
Byblos Pref. 09	75.00	(11.66)	1,081	1.53%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Nov 2018	5.15	99.75	9.46
May 2019	6.00	98.38	8.93
Mar 2020	6.38	96.13	9.42
Oct 2022	6.10	87.13	10.14
Jun 2025	6.25	81.63	10.11
Nov 2026	6.60	81.00	10.09
Feb 2030	6.65	77.50	10.01
Apr 2031	7.00	78.25	10.10
Nov 2035	7.05	77.38	9.81
Mar 2037	7.25	77.88	9.88

Source: Byblos Bank Capital Markets

	Oct 15-19	Oct 8-12	% Change	September 2018	September 2017	% Change
Total shares traded	824,941	2,055,815	(59.9)	3,153,549	7,527,126	(58.1)
Total value traded	$6,809,693	$12,729,938	(46.5)	$25,051,528	$49,770,271	(49.7)
Market capitalization	$9.81bn	$9.77bn	0.45	$9.68bn	$11.36bn	(14.7)

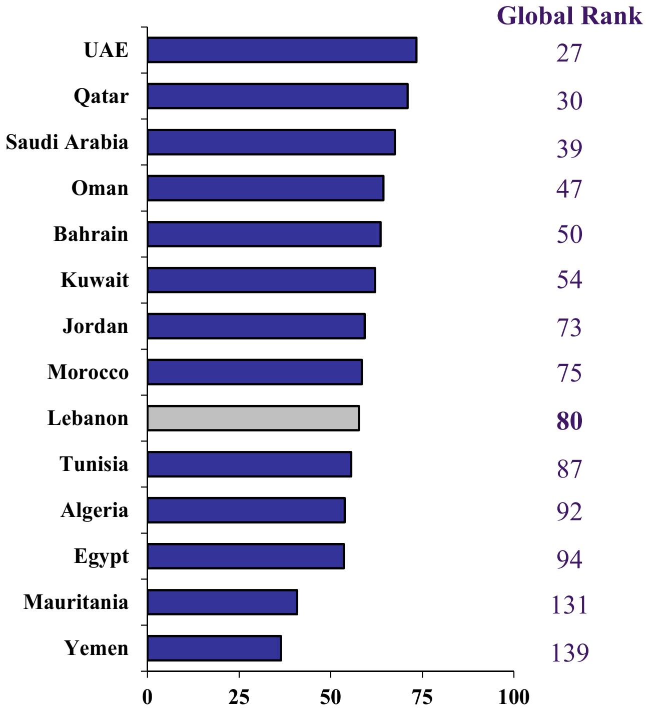
Source: Beirut Stock Exchange (BSE)

Lebanon ranks 80th globally, ninth among Arab countries in terms of competitiveness

The World Economic Forum (WEF) ranked Lebanon in 80th place among 140 countries globally and in ninth place among 14 Arab countries on its Global Competitiveness Index for 2018. Lebanon also ranked in 23rd place among 34 upper middle-income countries (UMICs) included in the survey. Lebanon's global rank regressed by five spots from the previous survey, which constituted, along with Botswana, Guatemala, Haiti, South Africa and Tajikistan, the seventh steepest decline globally. Lebanon's rank among Arab countries declined by one spot year-on-year.

The index measures the ability of a country and its enterprises to compete in global markets by assessing the country's institutions, infrastructure, macroeconomic stability, education and healthcare systems, and entrepreneurial culture. It also evaluates the country's capacity for innovation, its overall market efficiency, technological readiness, and the sophistication of domestic markets and business practices, among other areas. The WEF modified the methodology for this year's Index and adjusted the 2017 results accordingly. It attributed the methodology revision to new fundamental changes in the functioning of economies following the emergence of what it called the "fourth industrial revolution". The index's score is the simple average of 12 pillars grouped into four categories that are the Enabling Environment, Human Capital, Markets, and the Innovation Ecosystem. It scores countries on a scale from zero to 100, with 100 representing the highest level of competitiveness.

Global Competitiveness Index for 2018
Arab Countries Scores & Rankings



Source: World Economic Forum, Byblos Research

Globally, Lebanon has a more competitive economy than Argentina, the Dominican Republic and Ukraine, and is less competitive than Vietnam, Trinidad & Tobago and Jamaica among economies with a GDP of $10bn or more. Also, the Lebanese economy is more competitive than its counterparts in the Dominican Republic and Macedonia, and is less competitive than Albania and Jamaica among UMICs. Lebanon received a score of 57.7 points, lower than the global average of 60 points, the UMICs' average of 59.6 points and the Arab average of 58.4 points. Further, Lebanon's score came lower than Gulf Cooperation Council (GCC) countries' average of 67 points, but higher than the average of non-GCC Arab countries of 52 points.

The WEF indicated that Lebanon has competitive advantages in the digital skills of the labor force, the ease of finding skilled employees, and in domestic credit to the private sector. In contrast, it noted that Lebanon ranks poorly in terms of reliable water supply, active labor policies, the insolvency regulatory framework for businesses, the quality of roads, and the future orientation of the government, among others. However, the WEF's updated measure for electricity infrastructure, which it assessed through the electrification rate and transmission and distribution losses, distorted the evaluation of Lebanon's global competitiveness. In fact, the WEF ranked Lebanon in first place globally on the electrification rate, but it did not take into consideration other factors that render the state of the electricity sector a burden on the competitiveness of the Lebanese economy.

Lebanon ranked ahead of Bosnia & Herzegovina and Tunisia, and came behind Vietnam and Jamaica on the Enabling Environment category, which covers institutions, infrastructure, information & communications technology adoption, and macroeconomic stability. Further, Lebanon came ahead of only Tunisia, Algeria, Egypt, Mauritania and Yemen among Arab countries on this category. In addition, Lebanon ranked ahead of Latvia and Bahrain, and came behind Uruguay and Slovakia on the Human Capital category that covers health and skills components. Lebanon came behind only Qatar, Saudi Arabia and Oman in the Arab world.

Further, Lebanon came ahead of Tunisia and Trinidad & Tobago, and ranked behind Egypt and Guinea on the Innovation Ecosystem category, which includes the business dynamism and innovation capability components. Regionally, Lebanon ranked ahead of only Tunisia, Morocco, Kuwait, Algeria, Mauritania and Yemen on this category.

Components of the 2018 Global Competitiveness Index for Lebanon

	Global Rank	Arab Rank	UMIC Rank	Lebanon Score	Global Avge Score	Arab Avge Score	UMIC Avge Score
Enabling Environment	86	9	27	57.2	63	62.5	61.7
Human Capital	47	4	6	75.2	66.3	67.1	69.1
Markets	76	9	21	55.2	57.8	55.7	57.8
Innovation Ecosystem	83	8	23	45.5	50.8	45.4	48.1

Source: World Economic Forum, Byblos Research

Occupancy rate at Beirut hotels at 63%, room yields down 1% in first eight 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 62.6% in the first eight months of 2018, down from 64.3% in the same period of 2017 and compared to an average rate of 62.8% in 14 Arab markets included in the survey. The occupancy rate at Beirut hotels was the seventh highest in the region in the first eight months of 2018, while it was the sixth highest in the same period of 2017. The occupancy rate at hotels in Beirut regressed by 1.7 percentage points year-on-year in the covered period, constituting the fourth steepest decrease among the 14 Arab markets, behind Muscat (-14.3 percentage points), Doha (-5.2 percentage points) and Dubai (-2.2 percentage points). In comparison, the average occupancy rate in Arab markets decreased by 0.8% year-on-year in the first eight 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, 50.9% in May, 60.9% in June, 73% in July and 73.3% in August 2018. In comparison, occupancy rates at Beirut hotels were 56.3% in January, 68.3% in February, 63.1% in March, 70.6% in April, 69.5% in May, 44.1% in June, 74% in July and 68% in August 2017.

Hotel Sector Performance in First Eight Months of 2018

	Occupancy Rate (%)	RevPAR (US$)	RevPAR % change
Jeddah	62.1	183	10.2
Dubai	74.1	174	2.5
Makkah	65.2	133	4.6
Beirut	**62.6**	**118**	**(0.8)**
Ras Al Khaimah	72.2	116.4	7.4
Kuwait City	56.7	108	1.0
Madina	69.5	105	(2.9)
Manama	51.7	96	0.8
Riyadh	52.7	91	(4.5)
Amman	58.3	84	5.5
Doha	57.5	73	(22.1)
Abu Dhabi	76.2	73	(6.1)
Cairo City	70.5	73	19.2
Muscat	50.3	64	(33.0)

Source: EY, Byblos Research

The average rate per room at Beirut hotels was $188 in the first eight months of 2018, the fifth highest rate in the region relative to Jeddah ($295), Dubai ($235), Makkah ($203) and Kuwait ($191). The average rate per room at Beirut hotels increased by 1.9% year-on-year in the covered period. The average rate per room in Beirut was higher than the regional average of $170.2 that regressed by 0.5% from the first eight months of 2017.

Further, revenues per available room (RevPAR) were $118 in Beirut in the first eight months of 2018, compared to $119 in the same period of 2017. They were the fourth highest in the region relative to Jeddah ($183), Dubai ($174) and Makkah ($133). Beirut's RevPAR decreased by 0.8% year-on-year and posted the lowest decline regionally. Beirut posted RevPARs of $74 in January, $88 in February, $110 in March, $120 in April, $89 in May, $134 in June, $144 in July and $152 in August 2018. In comparison, RevPARs at Beirut hotels reached $87 in January, $99 in February, $106 in March, $127 in April, $121 in May, $92 in June, $152 in July and $135 in August 2017. Abu Dhabi posted the highest occupancy rate at 76.2%, while Jeddah had the highest average rate per room in the region at $295 and the highest RevPAR at $183 in the first eight months of 2018.

Number and value of real estate transactions down 17% in first nine months of 2018

Figures released by the Ministry of Finance indicate that there were 43,263 real estate transactions in the first nine months of 2018, constituting a decrease of 16.8% from 51,993 deals in the same period of 2017. In comparison, the number of real estate transactions grew by 13.4% year-on-year in the first nine months of 2017 and increased by 1.2% annually in the same period of 2016. There were 8,500 real estate transactions in the Baabda area in the first nine months of 2018, representing 19.6% of the total. The North followed with 6,832 deals (15.8%), then the Zahlé region with 5,462 transactions (12.6%), the South with 5,021 deals (11.6%), the Metn district with 4,842 transactions (11.2%), the Keserwan area with 4,197 deals (9.7%), the Nabatieh region with 3,913 transactions (9%), and Beirut with 3,244 deals (7.5%).

Also, the aggregate value of real estate transactions reached $5.84bn in the first nine months of 2018 and decreased by 16.8% from $7bn in the same period of 2017. In comparison, the value of real estate deals grew by 14.8% annually in the first nine months of 2017 and increased by 6% year-on-year in the same period of 2016. Further, the value of real estate transactions in Beirut reached $1.7bn and accounted for 29% of the total in the first nine months of 2018. The Baabda district followed with $1.2bn (19.8%), then the Metn region with $993.8m (17%), the Keserwan area with $678m (11.6%), the South with $429.7m (7.4%), the North with $395m (6.8%), the Zahlé area with $242.5m (4.2%) and the Nabatieh region with $171.5m (2.9%).

In parallel, the average value per real estate transaction was $135,021 in the first nine months of 2018, nearly unchanged from an average of $135,038 in the same period of 2017 and relative to $133,446 in the first nine months of 2016. Further, there were 845 real estate transactions executed by foreigners in the first nine months of 2018, down by 8.5% from 923 deals in the same period of 2017, and compared to 752 deals in the first nine months of 2016 and to 1,028 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 first nine months of 2017 and to 1.6% of deals in the same period of 2016. Further, 23% of the real estate transactions executed by foreigners were in the Baabda district, followed by Beirut (21.9%), the South (12.8%), the Metn region (11.4%), the North (10.3%), the Zahlé area (9.6%), the Keserwan area (8.9%) and the Nabatieh region (2.2%).

Government formation to improve short-term sentiment and start reform process

Global investment bank Goldman Sachs considered that the formation of a new government in Lebanon would have a positive impact on sentiment over the short term. It indicated that there is an emerging broad consensus among the country's political class on economic reforms, which would bode well for economic policy. It said that policymakers appear to have a clear focus on a set of economic priorities that they intend to address in the immediate term, specifically fiscal consolidation, electricity reforms and implementing projects under the CEDRE conference.

The bank pointed out that the drive for fiscal consolidation is motivated by concerns about the sustainability of Lebanon's public finances, as well as by the need to narrow the fiscal deficit as a condition to unlock the funds that the international community pledged at the CEDRE conference. It said that policymakers consider that reducing Treasury transfers to Electricité du Liban (EdL) would yield rapid fiscal savings, which they project at about $2bn per year, equivalent to 3.5% of GDP, starting with fiscal savings of up to $1bn in 2019. However, the bank considered these short-term targets to be ambitious. It added that implementing policies that lead to higher GDP growth would help reduce the fiscal deficit-to-GDP ratio. It noted that policymakers believe that there are limited prospects for other initiatives, such as freezing recruitment in the civil service, a possible recalibration of the tax system, or increasing taxes and fees.

Further, it considered that the CEDRE-related projects are unlikely to have a significant impact on economic growth in the near term, given the time needed to prepare for the projects and the relatively limited government capacity to implement them.

In parallel, Goldman Sachs indicated that the $5.5bn debt swap that the Ministry of Finance conducted with Banque du Liban (BdL) in May 2018 can finance maturing Eurobonds up until April 2019, which would limit short-term refinancing risks. It added that BdL and the Finance Ministry do not intend to carry out additional debt swaps, as this would undermine confidence in debt markets and distort pricing. It noted that Lebanon would tap the market to meet its financing requirements next year and could issue debt in smaller sizes and more frequently in order to achieve better pricing.

The bank noted that BdL would continue to encourage deposit inflows through its financial engineering operations until the prospects for such inflows improve through the formation of a new government, as well as the implementation of policies that would support economic activity and narrow the fiscal deficit. It estimated the aggregate returns for banks on their financial operations with BdL at about 17.5%, which consist of a 7% return on their deposits in US dollars at BdL and a positive carry of 10.5% on their operations in Lebanese pounds. It said that this has enabled banks to offer customers interest rates of up to 15% on five-year Lebanese pound deposits that get converted from US dollar deposits. It noted that BdL's operations focus on lowering the dollarization rate of deposits by encouraging the conversion of dollar deposits to Lebanese pounds.

Goldman Sachs indicated that BdL's average cost of US dollar funds from local banks is 5.3%, while the negative carry with respect to BdL's conventional reserve placements is 3%. It indicated that BdL is offsetting these costs through high yielding holdings within its foreign currency portfolio, which include Lebanese Eurobonds, as well as through returns on other assets, including gold, real estate, and dividend-paying company holdings. It noted that other sources of BdL's income include revenues from its local currency portfolio and seigniorage income. The bank expected sentiment to improve following the formation of a government and the start of the reforms drive, which would ease funding pressure in the near term. But it noted that it is too early to know if the anticipated increase in deposits inflows would be enough to allow BdL to scale back its financial engineering operations.

Opening of Jaber-Naseeb crossing to support Lebanese agricultural and industrial exports

The Jaber-Naseeb border crossing between Jordan and Syria reopened on October 15, 2018 following its closure in April 2015 due to the prevailing Syrian conflict. Prior to its closure, the Jaber-Naseeb border crossing was the main land route for the transport of goods from Lebanon and Syria to Jordan and Gulf Cooperation Council (GCC) countries. As such, the reopening of the border crossing would support Lebanon's export activity, specifically agricultural and industrial exports, as Lebanese farmers will now be able to resume the export of their products to Arab countries through the land route.

Following the closure of the Jaber-Naseeb border crossing, Lebanese exporters had to resort to maritime exports, which are more expensive than land transport. As such, the Cabinet ratified the maritime export subsidy decree in August 2015, which subsidizes part of the additional costs that Lebanese exporters would incur when shipping their products by sea rather than via traditional land routes. The Maritime Lebanese Exports Bridge (M.LEB) program officially began operations on September 17, 2015 for a seven-month period and was extended on May 5, 2016 until March 31, 2017. The Cabinet earmarked LBP21bn ($13.9m) for the program, with 76% of the funds spent between September 2015 and end-2016 and the remaining 24% during the first quarter of 2017. In June 2017, the Cabinet approved the extension of the M.LEB program until June 2018 and earmarked LBP14.5bn ($9.6m) to fund it for the period.

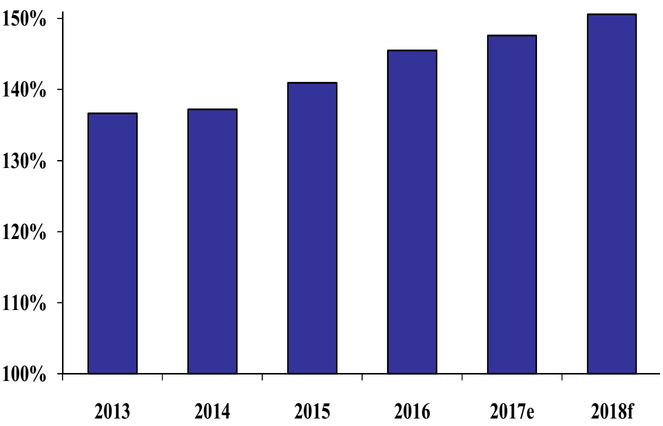
The subsidies under the M.LEB program allocate between LBP4.5m ($2,985) and LBP6m ($3,900) per truck filled with Lebanese-made goods, depending on the nature of the vessel and the maritime route it adopts. The program facilitated the weekly maritime transport of about 120 trucks from the Port of Tripoli through the Suez Canal to Saudi Arabia's Duba Port and Jordan's Port of Aqaba.

Lebanon's total exports reached $2.8bn in 2017, down from $3bn in 2016, $2.95bn in 2015 and $3.3bn in 2014. Lebanese exports to GCC countries stood at $740.6m in 2017, $695m in 2016, $859.6m in 2015 and $920.6m in 2014. Exports to Iraq reached $172m in 2017, and represented 6.1% of total Lebanese exports last year, relative to 5.4% of exports in 2016, 7.6% in 2015 and 7.7% in 2014; while exports to Jordan stood at $89.4m, and accounted for 3.1% of the total, down from 3.3% in 2016, 3.8% in 2015 and 3.9% in 2014.

Gross public debt at $84bn at end-August 2018

Lebanon's gross public debt reached $83.7bn at the end of August 2018, constituting an increase of 5.2% from $79.5bn at the end of 2017 and a rise of 8.3% from $77.3bn at end-August 2017. In nominal terms, the gross public debt grew by $4.2bn in the first eight months of 2018 relative to an increase of $2.4bn in the same period of 2017. Debt denominated in Lebanese pounds totaled $48.3bn at end-August 2018, down by 1.6% from the end of 2017 and up by 1.8% from end-August 2017; while debt denominated in foreign currency stood at $35.4bn, constituting a growth of 16.3% from end-2017 and an increase of 18.6% from end-August 2017. In May 2018, the Finance Ministry issued $5.5bn in Lebanese Eurobonds and exchanged them with LBP8,250bn worth of Lebanese pound-denominated Treasury bills from Banque du Liban's (BdL) portfolio in order to reduce the cost of debt servicing, which explains the growth in foreign-currency debt. Local currency debt accounted for 57.7% of the gross public debt at the end of August 2018 compared to 61.4% a year earlier, while foreign currency-denominated debt represented the balance of 42.3% relative to 38.6% at end-August 2017. The weighted interest rate on outstanding Treasury bills was 6.28% and that on Eurobonds was 6.73% in August 2018. Further, the weighted life on Eurobonds was 7.78 years, while it was 1,472 days on Treasury bills.

Lebanon's Gross Public Debt (% of GDP)



Source: Institute of International Finance

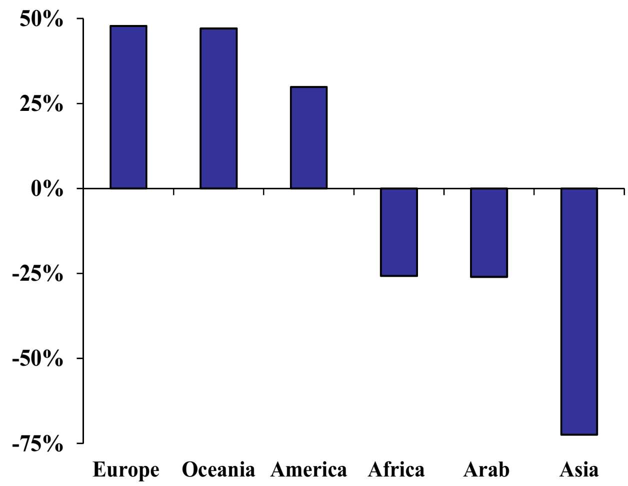
Commercial banks held 40.3% of the public debt as at end-August 2018 relative to 43.4% of the total at end-August 2017. BdL held 48.4% of the Lebanese pound-denominated public debt at the end of August 2018 relative to 47.7% a year earlier, while commercial banks held 36.4% of the local debt compared to 37% at end-August 2017. Also, public agencies, financial institutions and the public held 15.2% of the local debt at end-August 2018 relative to 15.3% a year earlier. Further, holders of Eurobonds and special T-bills in foreign currencies accounted for 93.9% of foreign currency-denominated debt holders at the end of August 2018, followed by multilateral institutions with 3.8% and foreign governments with 2.3%. In addition, the net public debt, which excludes public sector deposits at BdL and at commercial banks from overall debt figures, grew by 8.5% annually to $72.9bn at end-August 2018. Further, the gross market debt accounted for about 62.2% of the total public debt. Gross market debt is the total public debt less the portfolios of the BdL, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II related debt.

Tourist arrivals up 4% in first nine months of 2018

The number of incoming visitors to Lebanon totaled 1,505,745 in the first nine months of 2018, constituting an increase of 3.9% from 1,449,517 tourists in the same period of 2017 and a drop of 11.1% from 1,694,662 visitors in the first nine months of 2010, the record year for tourism activity in Lebanon. Also, the number of incoming visitors reached 166,526 in September 2018, down by 25.4% from 223,353 visitors in August 2018 and up by 2.7% from 162,135 tourists in September 2017. Visitors from Europe accounted for 35.7% of the total in the first nine months of 2018, followed by those from Arab countries with 27.8%, the Americas with 19.1%, Asia with 6.9%, Africa with 5.8% and Oceania with 4.6%. Further, tourists from Iraq accounted for 10.7% of total visitors in the covered period, followed by visitors from the U.S. (10.2%), France (9.3%), Canada (6.1%), Germany (5.5%), Jordan (4.7%), Egypt (4.5%), England (3.7%), Saudi Arabia (2.9%) and Sweden (2.3%).

In parallel, the number of visitors from Europe increased by 9.5% year-on-year in the first nine months of 2018, followed by those from the Americas (+8.7%), Oceania (+6.9%), Africa (+6.8%) and Asia (+0.5%), while the number of visitors from the Arab region regressed by 5.5% year-on-year. On a country basis, the number of tourists from Brazil grew by 13.4% annually in the covered period, followed by visitors from Sweden (+12.5%), the U.S. (+10.8%), France (+10.7%), Italy (+8.9%), Turkey (+8.5%), Egypt and England (+7.7% each), Germany (+7.2%), Canada (+5.7%) and Jordan (+1%). In contrast, the number of visitors from the UAE dropped by 19.5% year-on-year in the first nine months of 2018, followed by visitors from Saudi Arabia (-19.3%), Kuwait (-14%), Iraq (-9.3%) and Venezuela (-5.1%).

Change in the Number of Tourist Arrivals from Main Sources in First Nine Months of 2018*



*from same period of 2010
Source: Ministry of Tourism, Byblos Research

Surveyed economists expect Lebanon's real GDP growth rate at 1.9% in 2018

Bloomberg's quarterly survey of economists and analysts about the outlook on the Lebanese economy projected real GDP growth at 1.9% in 2018, unchanged from the June 2018 survey, while it expected growth to accelerate to 2.4% in 2019. The individual forecasts of growth rates for 2018 ranged from 1.3% to 2.5%, while the consensus forecast among 87.5% of participants is that real GDP would grow by 2% or less this year. The survey's results are based on the opinions of nine economists and analysts based in Lebanon and abroad. Bloomberg conducted the poll between September 16 and September 19, 2018.

Also, participants forecast Lebanon's average inflation rate at 5.2% in 2018 and at 3.9% in 2019. The opinions of polled economists differed on the direction of consumer prices in 2018 with expectations ranging from 3% to 6.7%, while 77.8% of participants agreed that the inflation rate would be between 3% and 6% this year.

In addition, surveyed economists forecast Lebanon's fiscal deficit at 8.5% of GDP in 2018 and at 7.7% of GDP in 2019. The participants expected the fiscal deficit at between 6.5% of GDP and 9.5% of GDP this year. Further, polled economists projected the current account deficit at 21% of GDP this year and at 20.2% of GDP in 2019. The surveyed economists expected the current account deficit to range between 19% of GDP and 25% of GDP in 2018.

In parallel, respondents assigned a median probability of 20% for Lebanon to enter into recession in the next 12 months. The opinions of surveyed economists ranged between 10% and 40%.

Wholesale and retail trade account for 29% of VAT receipts from domestic activity in 2017

Figures issued by the Ministry of Finance show that revenues from the value-added tax (VAT) totaled $2.3bn in 2017, constituting an increase of 7.5% from $2.15bn in 2016, and accounting for 85% of aggregate revenues from domestic taxes on goods and services last year. VAT collected at customs totaled $1.4bn in 2017 and increased by 9.3% from $1.2bn in 2016. It accounted for 59% of overall VAT receipts in 2017, up from a share of 58% in 2016. Also, the effective VAT rate at customs, which is the ratio of VAT collected at customs over total imports, increased marginally from 6.5% in 2016 to 6.9% in 2017, as VAT collected grew at a faster rate than imports. Further, collected VAT receipts from internal economic activity stood at $947.3m in 2017, constituting an increase of 5% from $902.8m in 2016, and compared to a growth of 8.4% in 2013, 13% in 2010 and 23% in 2009. VAT receipts from internal economic activity represented 41% of aggregate VAT revenues in 2017, down from 42% in 2016.

In parallel, the ministry provided a breakdown of the amount of declared VAT from internal economic activity in 2017, the first such breakdown since 2013. The amount of declared VAT by the wholesale trade sector, excluding motor vehicles and motorcycles, stood at $153.2m in 2017, up by 3.85% from the previous year. Also, the amount of declared VAT by the retail trade sector, excluding motor vehicles and motorcycles, reached $120.7m last year, reflecting an increase of 7.2% from 2016. Further, the amount of declared VAT by hotels & restaurants totaled $76.3m, up by 9.1% year-on-year; while the amount of VAT declared by the construction and real estate sectors stood at $61.7m each last year. The amount of VAT declared by the real estate sector increased by 12.7% in 2017, while the amount declared by the construction sector regressed by 4.6% last year.

Top 10 Sources of Declared VAT from Internal Activity in 2017 ($USm)

	2012	2016	2017	Share	% Change 16/17
Wholesale trade, except of motor vehicles & motorcycles	115.4	147.9	153.2	16.2%	3.9%
Retail trade, except of motor vehicles and motorcycles	93.5	112.8	120.7	12.8%	7.2%
Hotels & restaurants	66.3	70.3	76.3	8.1%	9.1%
Construction	60.4	65.0	61.7	6.5%	-4.6%
Real estate activities	41.1	54.4	61.7	6.5%	12.7%
Manufacture of food products and beverages	33.8	41.1	43.8	4.6%	4.9%
Sale, maintenance & repair of motor vehicles; retail sale of automotive fuel	27.9	33.8	33.8	3.6%	-0.6%
Manufacture of other non metallic mineral products	25.9	37.1	31.2	3.3%	-15.2%
Post & telecommunications	20.6	27.9	27.2	2.9%	-3.4%
Other business activities	109.5	120.7	122.1	12.9%	0.9%

Source: Ministry of Finance, Byblos Research

Trade deficit widens by 5% to $12bn in first eight months of 2018

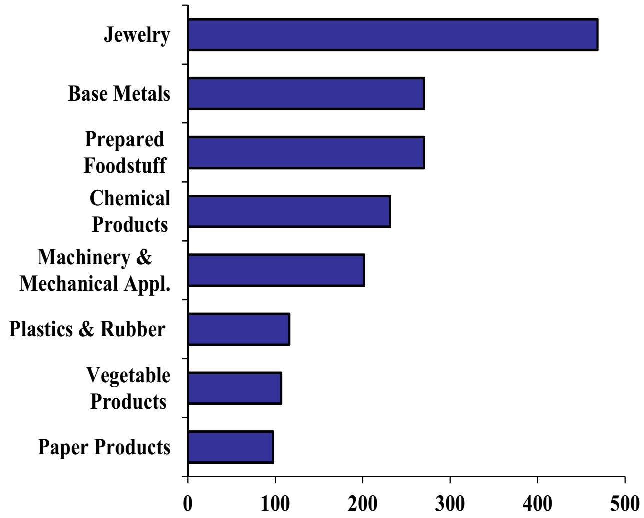
The total value of imports reached $13.7bn in the first eight months of 2018, constituting an increase of 4.8% from $13.1bn in the same period of 2017; while the aggregate value of exports grew by 4.3% year-on-year to $1.9bn in the covered period. As such, the trade deficit widened by 4.8% annually to $11.7bn in the first eight months of 2018 due to an increase of $623m in imports, which was partly offset by a rise of $82.5m in exports.

The growth in imports during the covered period was mainly due to an increase of $626.6m, or 6.2%, in the value of imported non-hydrocarbon products, which was marginally offset by a decrease of $3.6m, or 0.1%, in the value of imported mineral products. The value of imported oil & mineral fuels reached $2.9bn in the first eight months of 2018 and accounted for 21.3% of total imports in the covered period.

In addition, the increase in exports in the first eight months of 2018 was mainly due to a growth of $67.5m, or 16.8%, in the value of exported jewelry, a surge of $50.3m, or 23%, in exported base metals, a rise of $20.4m, or 21.4%, in the exports of plastics & rubber, and an increase of $16m, or 7.4%, in exported chemical products. They were partly offset by a decline of $37.2m, or 12.1%, in the exports of prepared foodstuff, a drop of $20.9m, or 53.2%, in exported mineral products, and a decrease of $15.5m, or 7.1%, in the value of exported machinery & mechanical appliances.

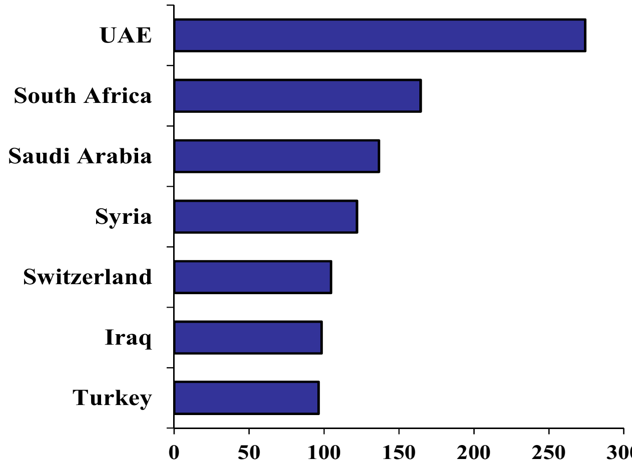
Further, exported goods to the UAE expanded by 71% year-on-year in the first eight months of 2018, those to Qatar grew by 51.4%, exports to Turkey increased by 21.6%, and those to Switzerland rose by 11.7% year-on-year. In contrast, exported goods to Syria dropped by 30%, while those to South Africa declined by 28.5%, exported goods to Iraq decreased by 19.2%, and exports to Saudi Arabia regressed by 15.3% year-on-year in the covered period. Re-exports totaled $228.3m in the first eight months of 2018 compared to $521.7m in the same period of 2017. Also, the Port of Beirut was the exit point for 51% of Lebanon's exports in the first eight months of 2018, followed by the Hariri International Airport (33.6%), the Port of Tripoli (8%), the Masnaa crossing point (4.3%) and the Port of Saida (1.6%).

Main Lebanese Exports* (US$m)



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

Main Destinations of Lebanese Exports*(US$m)



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

In parallel, Lebanon's main non-hydrocarbon imports were machinery & mechanical appliances that reached $1.63bn in the first eight months of 2018 and increased by 25.7% from the same period of 2017. Imported chemical products followed at $1.5bn (+5.6%), then vehicles, aircraft & vessels at $1.13bn (-9.7%), jewelry at $904.4m (+34.9%), prepared foodstuff at $897.3m (-3.2%), base metals at $870.8m (+2.4%) and animal products at $684.1m (+18%). The Port of Beirut was the entry point for 72.7% of Lebanon's merchandise imports in the covered period, followed by the Hariri International Airport (19.5%), the Port of Tripoli (6.2%) and the Port of Saida (1.2%).

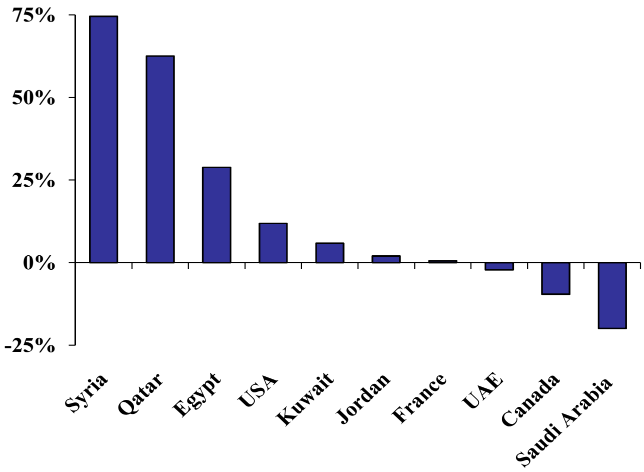
China was the main source of imports with $1.38bn, or 10.1% of the total, in the first eight months of 2018, followed by Greece with $1.14bn (8.3%), Italy with $1.1bn (7.9%), the U.S. with $1bn (7.4%), Germany with $781.7m (5.7%), Turkey with $675.1m (4.9%), and Russia with $497.8m (3.6%). Imported goods from Turkey grew by 30.1% year-on-year in the covered period, those from Greece rose by 24.1% and imports from China increased by 10%. In contrast, imported goods from Russia dropped by 11%, those from Italy decreased by 5.1%, imports from Germany declined by 4% and those from the U.S. regressed by 0.6% year-on-year in the first eight months of 2018.

Tourist spending up 5.4% in first nine months of 2018

Figures issued by Global Blue, the VAT refund operator for international shoppers, show that total spending by visitors in Lebanon increased by 5.4% in the first nine months of 2018 compared to a growth of 7% in the same period of 2017. Spending by tourists in Lebanon decreased by 0.1% in January, by 5.3% in February, by 0.7% in May and by 4.1% in July, while it increased by 10.8% in March, by 1.6% in April, by 36.5% in June, by 19.8% in August, and by 2.4% in September 2018.

Visitors from Saudi Arabia accounted for 12% of total tourist expenditures in the first nine months of 2018, followed by visitors from the UAE with 11%, Syria with 9%, Kuwait with 7%, Qatar with 6%, Egypt and France with 5% each, Jordan and the United States with 4% each, and Canada with 3%; while visitors from other countries accounted for the remaining 34%. Spending by visitors from Syria grew by 74.6% year-on-year in the covered period, followed by expenditures by tourists from Qatar (+62.6%), Egypt (+28.8%), the United States (+12%), Kuwait (+6%), Jordan (+2%) and France (+0.5%). In contrast, spending by visitors from Saudi Arabia decreased by 20% in the first nine months of 2018, followed by spending by tourists from Canada (-9.6%) and the UAE (-2.2%).

Spending by Source in First Nine Months of 2018 (% change from same period of 2017)



Source: Global Blue, Byblos Research

Further, Beirut attracted 81% of aggregate expenditures in the covered period, followed by the Metn area with 13%, the Baabda district with 3% and the Keserwan region with 2%. Specifically, the Beirut Central District attracted 53% of tourist expenditures, followed by Ashrafieh and Verdun (10% each), Dbayeh (5%), Jal el Dib and Mina El Hosn (4% each), Hazmieh (3%), Hamra (2%), and Jounieh and Sin el Fil (1% each); while other locations accounted for the remaining 7% of total expenditures during the first nine months of 2018.

In parallel, fashion & clothing accounted for 67% of total expenditures in the first nine months of 2018, followed by watches & jewelry with 18%, and spending at department stores and on home & garden products with 4% each, while other categories accounted for the remaining 7%. Expenditures on watches & jewelry grew by 23.8% in the first nine months of the year, spending at department stores rose by 15% and expenditures on fashion & clothing increased by 1%, while outlays on home & garden products regressed by 3.9% year-on-year.

Also, the total number of refund transactions by visitors increased by 3.2% in the first nine months of 2018 relative to a growth of 4% in the same period of 2017. The number of refund transactions increased by 5.1% in January, by 14.3% in March, by 44% in June and by 22.2% in August, while it decreased by 4.2% in February, by 5% in April, by 7.8% in May, by 9.8% in July and by 10.1% in September 2018. Visitors from Saudi Arabia accounted for 12% of total refund transactions in the first nine months of 2018, followed by those from Syria and the UAE (11% each), Egypt (8%), Kuwait (6%), France, Jordan and Qatar (4% each), and Canada and the United States (3% each), while other countries accounted for the remaining 36%.

In parallel, total spending by tourists in Lebanon increased by 6% in the third quarter of 2018 from the same quarter last year, relative to a rise of 7% annually in the third quarter of 2017. Spending by visitors from Qatar surged by 60.5% year-on-year in the third quarter of 2018, followed by spending by tourists from Syria (+41.3%), the Unites States (+22.4%), Kuwait (+21.6%) and Egypt (+13.5%). In contrast, spending by visitors from Saudi Arabia dropped by 17.7% year-on-year in the third quarter of 2018, followed by spending by tourists from Canada (-16.7%), France (-4.4%), the UAE (-3.9%), and Jordan (-1%).

Kafalat loan guarantees down 33% to $36m in first nine 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 $36.2m in the first nine months of 2018, constituting a decrease of 33.3% from $54.2m in the same period of 2017. Kafalat provided 282 loan guarantees in the covered period, down by 37% from 447 guarantees in the first nine months of 2017. The average loan size was $128,210 in the first nine months of 2018 compared to $121,249 in the same period of 2017. Mount Lebanon accounted for 43.3% of the total number of guarantees, followed by the Bekaa with 17.7%, the North with 11.7%, Nabatieh with 9.6%, Beirut with 9.2% and the South with 8.5%. Also, the agricultural sector accounted for 38.3% of the total number of guarantees in the first nine months of 2018, followed by the industrial sector with 36.5%, the tourism sector with 19.5%, the handicraft sector with 3.2% and specialized technologies with 2.5%.

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.

Creditbank's net earnings at $12.4m in first half of 2018

Creditbank sal, one of Lebanon's top 15 banks in terms of deposits, announced unaudited consolidated net profits of $12.4m in the first half of 2018, constituting an increase of 32.8% from net earnings of $9.4m in the same period of 2017. Net operating income grew by 12% year-on-year to $44m in the first half of 2018, with net interest income improving by 31% to $35.1m and net fees & commissions receipts increasing by 31.3% to $8.5m. Non-interest income accounted for 22.1% of total income in the first half of 2018, down from 34.2% in the same period last year; with net fees & commissions representing 85.5% of non-interest earnings relative to 46.5% in the first half of 2017.

Further, the bank's interest margin was 1.89% in the first half of 2018 relative to 1.58% in the same period last year; while its spread reached 1.78% in the covered period compared to 1.48% in the first half of 2017. Total operating expenditures grew by 4.2% year-on-year to $29.6m in the first half of 2018, with staff expenses decreasing by 5.2% to $17.2m and administrative & other operating expenditures increasing by 24.3% to $10.7m. Also, the bank's return on average assets was 0.63% in June 2018 on an annualized basis relative to 0.52% in June 2017, while its return on average equity reached 6.2% on an annualized basis compared to 5.7% in June 2017. The bank's cost-to-income ratio decreased from 69.7% in the first half of 2017 to 65.7% in the same period of 2018.

In parallel, total assets reached $4bn at the end of June 2018, up by 6% from end-2017, while loans & advances to customers, excluding those to related parties, increased by 5.3% from end-2017 to $1.9bn. Also, customer deposits, excluding those from related parties, totaled $3.3bn at end-June 2018 and grew by 4.4% from the end of 2017. The loans-to-deposits ratio stood at 57.58% at the end of June 2018 compared to 57.97% at end-June 2017. Further, the bank's shareholders' equity reached $410.5m at end-June 2018, up by 3.1% from end-2017.

Al Mashrek Insurance posts net losses of $8m in 2017

Al Mashrek Insurance & Reinsurance sal announced audited net losses of $8m in 2017 compared to net losses of $2.1m in 2016. Its audited balance sheet shows total assets of $63.7m at the end of 2017, constituting a decrease of 4.3% from $66.6m at end-2016. On the assets side, general company investments reached $29.9m and decreased by 4.6% from a year earlier. They included $18.3m in land & real estate investments, $4.1m in variable income investments, and $1.8m in cash & cash equivalents. Also, the firm blocked $5m as term deposits and deposits with maturity of more than three months, of which $4.7m, or 92.7%, were blocked in favor of the Ministry of Economy & Trade as guarantees. Further, the reinsurance's share in technical reserves for the non-life category decreased by 45% to $3m in 2017, while reserves for the life segment increased by 9.8% year-on-year to $0.7m. On the liabilities side, technical reserves for the non-life category reached $35m at end-2017 and increased by 9.6% from a year earlier, while technical reserves for the life segment decreased by 45.6% year-on-year to $2.7m. Non-life technical reserves included unearned premium reserves of $19.1m that increased by 3% and outstanding claims reserves of $9m that grew by 14.4% year-on-year. Provisions for risks and charges reached $1.1m and declined by 5.7% from the previous year. Also, the firm's shareholders' equity totaled $3.5m at end-2017, down by 67.8% from $10.9m a year earlier.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked Al Mashrek in 12th and 22nd places in 2017 in terms of non-life and life premiums, respectively. The firm's non-life premiums amounted to $31.8m, constituting a decrease of 22.2% year-on-year; while its life premiums reached $1.6m, nearly unchanged from the previous year. It had a 2.8% share of the local non-life market and a 0.3% share of the life market in 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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