

LEBANON THIS WEEK

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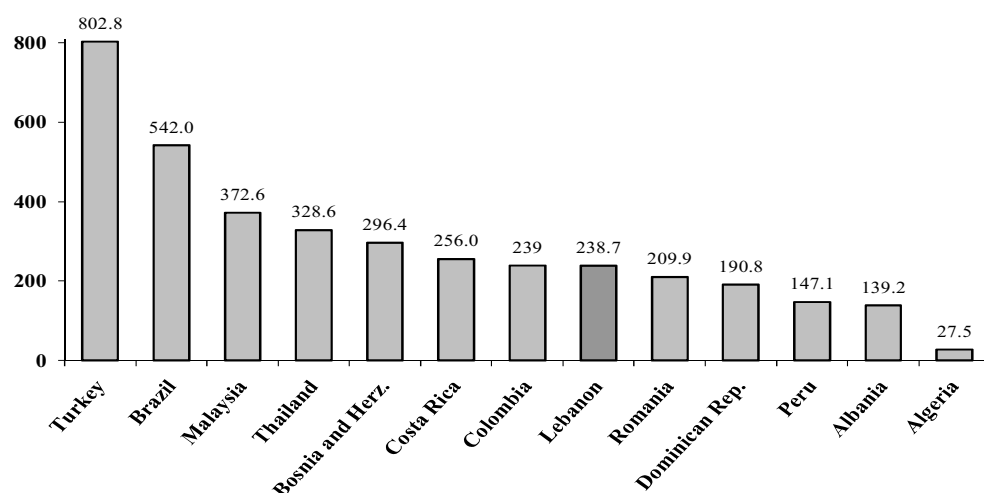
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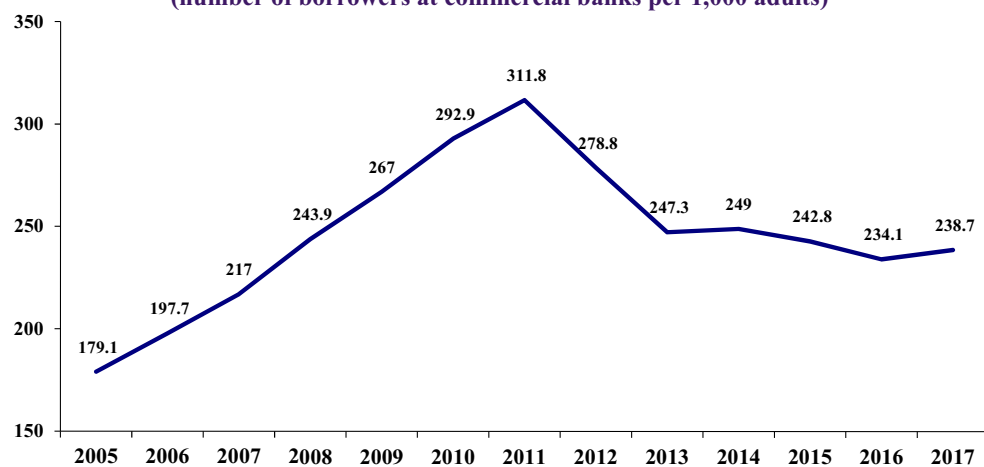
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Charts of the Week

Upper Middle-Income Countries with Highest Borrower Penetration Rates at end-2017*
(number of borrowers at commercial banks per 1,000 adults)



Borrowers' Penetration Rates in Lebanon
(number of borrowers at commercial banks per 1,000 adults)



*excluding countries with a GDP of \$10bn or less

Source: International Monetary Fund, Byblos Bank

Quote to Note

"A prompt Cabinet formation is needed as a positive catalyst to restore confidence and policy-making capacity, as well as to coordinate CEDRE reforms and associated donor disbursements."

Bank of America Merrill Lynch, on the urgent need to form a Cabinet

Number of the Week

\$1.56bn: The Lebanese public sector's retirement salaries and end-of-service indemnities paid in 2017, compared to \$1.3bn in Treasury transfers to Electricité du Liban during the same year, according to the Ministry of Finance

Lebanon in the News

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

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

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

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

Note: bps i.e. basis points

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

Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
HOLCIM	16.60	0.61	437,544	3.33%	Nov 2018	5.15	99.875	-
BLOM Listed	9.25	(0.22)	303,320	20.42%	May 2019	6.00	98.50	9.02
Solidere "B"	6.54	(2.82)	85,082	4.36%	Mar 2020	6.38	95.88	9.76
Audi GDR	5.25	5.21	33,989	6.46%	Oct 2022	6.10	86.25	10.50
Solidere "A"	6.66	(1.91)	33,066	6.84%	Jun 2025	6.25	79.63	10.63
BLOM GDR	10.00	0.00	27,899	7.59%	Nov 2026	6.60	78.75	10.59
Byblos Common	1.40	(1.41)	24,000	8.13%	Feb 2030	6.65	75.88	10.31
Audi Listed	4.90	2.51	1,000	20.11%	Apr 2031	7.00	76.13	10.48
Byblos Pref. 09	72.00	0.00	-	1.48%	Nov 2035	7.05	75.75	10.06
Byblos Pref. 08	71.00	0.00	-	1.46%	Mar 2037	7.25	76.13	10.14

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

Source: Byblos Bank Capital Markets

	Nov 5-9	Oct 29-Nov 2	% Change	October 2018	October 2017	% Change
Total shares traded	951,407	7,926,454	(88)	4,899,249	8,915,465	(45.0)
Total value traded	\$11,534,623	\$40,231,061	(71.3)	\$34,380,794	\$78,667,175	(56.3)
Market capitalization	\$9.74bn	\$9.70bn	0.41	\$9.75bn	\$11.27bn	(13.5)

Source: Beirut Stock Exchange (BSE)



Total net private wealth in Lebanon at \$140.4bn at end-June 2018, 62nd highest worldwide

Global investment bank Credit Suisse estimated the aggregate net wealth of Lebanese citizens at a record high of \$140.4bn at the end of June 2018, constituting an increase of 2% from \$137.6bn a year earlier. Lebanon's total private net wealth stood at \$103.2bn at the end of 2010, regressed to \$95.2bn at end of 2011, and has been gradually rising ever since. The aggregate net wealth of Lebanese citizens at the end of June 2018 was the 62nd highest among 174 countries and jurisdictions, and the 11th highest among 19 Arab countries. It was also the 16th highest among 48 upper middle-income countries (UMICs) included in the survey.

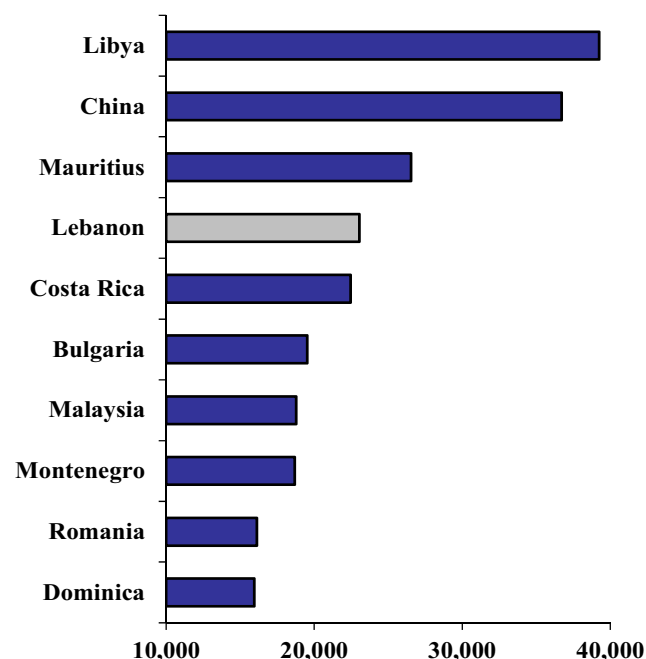
Credit Suisse defines a country's net wealth as the sum of its population's marketable value of financial and non-financial assets less its aggregate personal debt, with non-financial assets consisting mainly of real estate holdings. It excludes a country's stock of human capital as well as its stock of public assets and liabilities, such as the public debt. The investment bank provided annual data for the period between 2000 and 2016, and semi-annual figures for 2017 and 2018.

Globally, Lebanon's net wealth was higher than the wealth of Nigeria (\$138.8bn), Bulgaria (\$138bn) and Iceland (\$137.8bn), and lower than the wealth of Luxembourg (\$188bn), Slovakia (\$151bn) and Oman (\$144.2bn). It was higher than that of Bulgaria, Ecuador (\$116.3bn) and Costa Rica (\$110.7bn), and lower than that of Iraq (\$272bn), Libya (\$252bn) and Algeria (\$241bn) among UMICs. Regionally, it was higher than the net wealth of Tunisia (\$119.7bn), Jordan (\$71.6bn), Bahrain (\$44.8bn), Yemen (\$27.8bn), Syria (\$11.3bn), Sudan (\$10.5bn), Mauritania (\$4bn) and Djibouti (\$3bn).

Lebanon's net wealth accounted for 0.04% of the global net wealth, for 0.2% of the UMICs' aggregate net wealth and for 3.5% of the Arab region's net wealth at end-June 2018. American citizens had the world's highest aggregate net wealth at \$98.2 trillion, while citizens of Saudi Arabia accumulated \$977bn as at the end of June 2018, highest in the Arab world. The total net wealth in Lebanon included \$86.1bn in financial wealth at the end of June 2018 that increased by 0.7% year-on-year, \$96.2bn in non-financial wealth that grew by 6.9% from a year earlier, and \$42bn in personal debt that rose by 10.8% from end-June 2017.

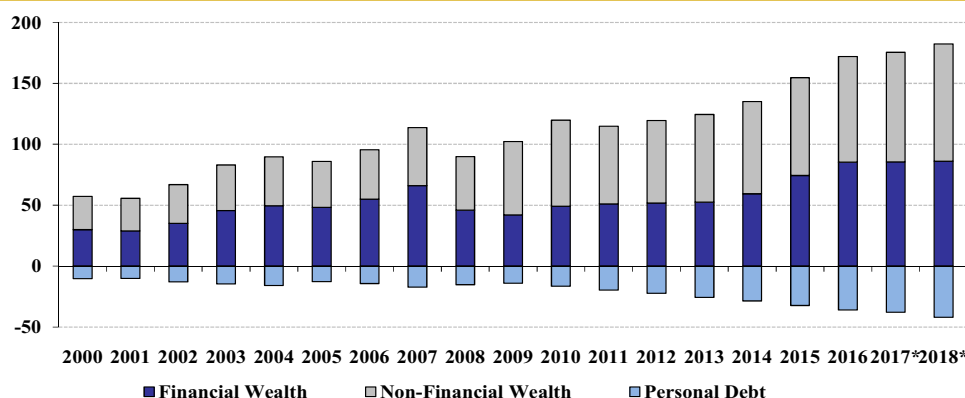
Further, net wealth per capita in Lebanon stood at \$23,056 at the end of June 2018, up by 1.3% from \$22,766 at end-June 2017, and compared to a peak of \$23,801 at the end of 2010. Lebanon's net wealth per capita was the 54th highest globally, the fourth highest among UMICs and the eighth highest among Arab countries at the end of June 2018. Globally, Lebanon's net wealth per capita at end-June 2018 was higher than the wealth per capita of Costa Rica (\$22,457), Barbados (\$21,421) and Lithuania (\$19,677), and lower than that of Latvia (\$27,254), Mauritius (\$26,547) and Poland (\$25,532). Regionally, it was lower than the net wealth per capita of Qatar (\$99,290), the UAE (\$72,169), Kuwait (\$66,771), Libya (\$39,242), Oman (\$30,472), Saudi Arabia (\$29,387) and Bahrain (\$29,301). Switzerland has the world's highest net wealth per capita at \$424,382, while Qatar is the wealthiest Arab country on a per capita basis.

Countries with Highest Net Wealth per Capita in UMICs (US\$)



Source: Credit Suisse, Byblos Research

Wealth in Lebanon (\$bn)



*at the end of June of each year

Source: Credit Suisse, Byblos Research

External bonds post highest return in emerging markets in October 2018

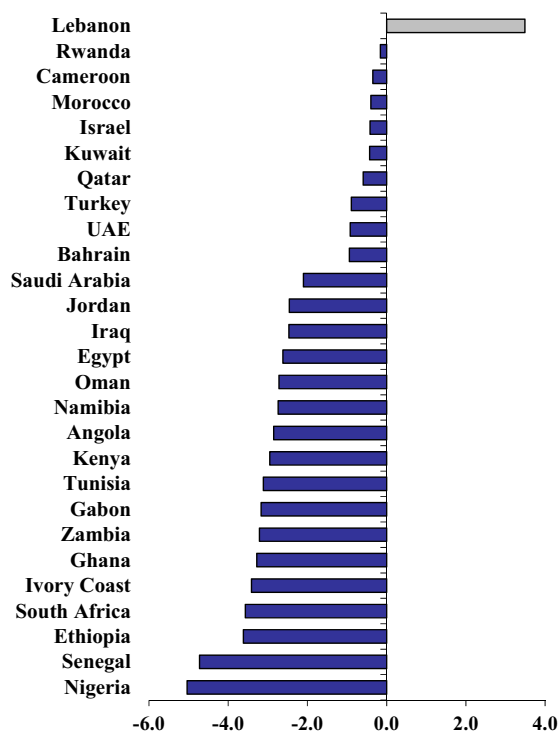
Figures issued by Intercontinental Exchange, Inc. (ICE) indicate that Lebanon's external debt posted a return of 3.49% in October 2018, constituting the highest return among 27 countries in the Middle East & Africa region and among 44 markets in the Central & Eastern Europe and the Middle East & Africa (CEEMEA) region. It also registered the second highest return among 76 emerging markets included in ICE's External Debt EM Sovereign Index.

Lebanon outperformed the emerging markets' return of -1.79%, and the 'B'- rated sovereigns' return of -2.4% in October 2018.

Further, Lebanon has a weight of 2.65% 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 4.7% of allocations in the CEEMEA region.

In parallel, figures issued by Citi Research indicate that Lebanon's external sovereign debt posted a return of 2.4% in October 2018, constituting the highest return among 48 emerging markets included in the Citi EM Sovereign Bond Index. Lebanon outperformed the emerging markets' return of -1.7%, the 'B'-rated sovereigns' return of -1.1% and the speculative grade sovereigns' return of -0.9% during the covered month.

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



Source: ICE, Byblos Research

Broad money supply up 2% in first nine 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 LBP11,295.7bn at the end of September 2018, constituting an increase of 6.3% from LBP10,624bn at the end of 2017 and a rise of 8.2% from LBP10,438.6bn at end-September 2017. Currency in circulation stood at LBP4,757.3bn at the end of September 2018, down by 2.6% from LBP4,886.5bn at end-2017, but up by 5.9% from LBP4,492bn year-on-year. Also, demand deposits in local currency stood at LBP6,538.4bn at the end of September 2018, up by 14% from end-2017 and by 10% from end-September 2017. Money Supply (M1) grew by 0.5% in September from LBP11,242bn at end-August 2018, with demand deposits in local currency increasing by 1.7% and currency in circulation regressing by 1.2% month-on-month.

Further, money supply M2, which includes M1 and term deposits in Lebanese pounds, reached LBP79,453bn at the end of September 2018, constituting a marginal increase of 0.4% from LBP79,166.2bn at the end of 2017, but a decline of 4.8% from LBP83,441.7bn a year earlier. Term deposits in Lebanese pounds totaled LBP68,157.3bn at the end of September 2018, down by 0.6% from LBP68,542.1bn at end-2017 and by 6.6% from LBP73,003.1bn at end-September 2017. Money Supply (M2) regressed by 1% in September from LBP80,216.2bn at end-August 2018, with term deposits in local currency declining by 1.2% 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 LBP213,087.6bn at the end of September 2018, constituting a growth of 2% from LBP208,964.7bn at the end of 2017 and an increase of 1.7% from LBP209,549.2bn at end-September 2017. Deposits in foreign currency totaled LBP133,365.6bn at the end of September 2018, up by 3% from end-2017 and by 6% from a year earlier. Also, debt securities issued by the banking sector amounted to LBP269.1bn at the end of September 2018, compared to LBP321.8bn at the end of 2017 and to LBP326.9bn at end-September 2017. Money supply (M3) grew by a marginal 0.2% in September from LBP212,610.7bn at the end of August 2018, with deposits in foreign currency increasing by 0.9% month-on-month, and debt securities issued by the banking sector rising by 1.1% from the preceding month. In parallel, M3 expanded by LBP4,122.9bn in the first nine months of 2018, due to an increase of LBP3,691.6bn in net claims on the public sector and a surge of LBP6,534bn in other net items, which were partly offset by a drop of LBP3,732.1bn in the net foreign assets of deposit-taking institutions and a decline of LBP2,370.6bn in claims on the private sector.

Occupancy rate at Beirut hotels at 64%, room yields down 2% in first nine 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 63.6% in the first nine months of 2018, down from 65.4% in the same period of 2017 and compared to an average rate of 62.7% in 14 Arab markets included in the survey. The occupancy rate at Beirut hotels was the sixth highest in the region in the first nine months of 2018, unchanged from the same period of 2017. The occupancy rate at hotels in Beirut regressed by 1.8 percentage points year-on-year in the covered period, constituting, along with Ras Al Khaimah, the fourth steepest decrease among the 14 Arab markets, behind Muscat (-14.7 percentage points), Doha (-3.3 percentage points) and Dubai (-2.8 percentage points). In comparison, the average occupancy rate in Arab markets decreased by 1.9% year-on-year in the first nine 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, 73.3% in August, and 72.3% in September 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, 68% in August and 74.4% in September 2017.

The average rate per room at Beirut hotels was \$187 in the first nine months of 2018, the fifth highest rate in the region relative to Jeddah (\$298), Dubai (\$225), Makkah (\$198) and Kuwait (\$190). The average rate per room at Beirut hotels increased by a marginal 0.6% year-on-year in the covered period. The average rate per room in Beirut was higher than the regional average of \$167.5 that regressed by 2.2% from the first nine months of 2017.

Further, revenues per available room (RevPAR) were \$119 in Beirut in the first nine months of 2018 compared to \$122 in the same period of 2017. They were the fourth highest in the region relative to Jeddah (\$187), Dubai (\$166) and Makkah (\$123). Beirut's RevPAR decreased by 2.1% year-on-year and posted the second 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, \$152 in August and \$133 in September 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, \$135 in August and \$149 in September 2017. Abu Dhabi posted the highest occupancy rate at 75.8%, while Jeddah had the highest average rate per room in the region at \$298 and the highest RevPAR at \$187 in the first nine months of 2018.

Airport passengers up 7% in first 10 months of 2018

Figures released by the Beirut-Rafic Hariri International Airport (HIA) show that 7,536,392 passengers utilized the airport (arrivals, departures and transit) in the first 10 months of 2018, constituting an increase of 7.4% from 7,016,089 passengers in the same period of 2017. The number of arriving passengers grew by 8% year-on-year to 3,762,585 in the first 10 months of 2018, compared to an increase of 9.1% in the same period last year and to a rise of 7.3% in the first 10 months of 2016. Also, the number of departing passengers grew by 6.9% year-on-year to 3,769,954 in the first 10 months of 2018, relative to an increase of 8.4% in the same period last year and to an increase of 4.3% in the first 10 months of 2016.

In parallel, the airport's aircraft activity expanded by 3.9% annually to 62,435 take-offs and landings in the first 10 months of 2018, compared to an increase of 0.6% in the same period of 2017 and to a growth of 4% in the first 10 months of 2016. In addition, the HIA processed 80,603 metric tons of freight in the covered period that consisted of 47,044 tons of import freight and 33,559 tons of export freight. Middle East Airlines had 21,682 flights in the first 10 months of 2018 and accounted for 34.7% of HIA's total aircraft activity.

Hotel Sector Performance in First Nine Months of 2018

	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Jeddah	62.6	187	8.1
Dubai	73.8	166	1.1
Makkah	62.4	123	(4.6)
Beirut	63.6	119	(2.1)
Ras Al Khaimah	70.8	111	3.1
Kuwait City	56.1	107	(0.4)
Madina	69.1	103	(9.7)
Riyadh	53.1	91	(2.5)
Amman	58.5	84	3.2
Manama	50.2	82	(10.8)
Muscat	54.0	75	(30.9)
Doha	57.6	73	(20.1)
Cairo City	70.8	73	17.0
Abu Dhabi	75.8	72	(7.0)

Source: EY, Byblos Research

Fiscal deficit at \$3bn in first half of 2018, equivalent to 34% of expenditures

Figures released by the Ministry of Finance show that the fiscal deficit reached \$3bn in the first half of 2018 compared to a deficit of \$907.6m in the same period of 2017. The deficit was equivalent to 33.8% of total budget and Treasury expenditures compared to 13% of spending in the same period last year. Government expenditures reached \$9bn and grew by 28.8% from the first half of 2017, while revenues regressed by 2% year-on-year to \$6bn. As such, the widening of the deficit reflects a rise of \$2bn in overall expenditures and a decrease of \$119.1m in total revenues in the covered period. The growth in spending is due to an increase of \$1.3bn in general budgetary expenditures, an expansion of \$343.4m in debt servicing cost, and a rise of \$341m in transfers to municipalities in the covered period.

On the revenues side, tax receipts declined by 3.2% year-on-year to \$4.6bn in the first half of 2018, of which 27.2%, or \$1.2bn, were in VAT receipts that increased by 9.7% year-on-year. Tax receipts accounted for 84.2% of budgetary revenues and for 76.9% of total Treasury and budgetary receipts. The distribution of other tax revenues shows that receipts from taxes on income, profits & capital gains decreased by 10.1% to \$1.8bn in the first half of 2018; revenues from customs regressed by 3.9% to \$663.7m; receipts from property taxes dropped by 17% to \$409.7m; while revenues from taxes on goods & services increased by 7% to \$214.7m and receipts from stamp fees expanded by 24.4% to \$202m.

The distribution of income tax receipts shows that the tax on profits accounted for 44.1% of income tax revenues in the first half of 2018, followed by the tax on interest deposits with 27.7%, taxes on wages & salaries with 16.6% and the capital gains tax with 10.4%. Receipts from the tax on interest deposits surged by 73.8%, revenues from taxes on capital gains grew by 31.8%, and receipts from taxes on wages & salaries rose by 17.9%, while revenues from taxes on profits dropped by 38.6% in the covered period. Also, the distribution of property taxes shows that revenues from real estate registration fees fell by 18.7% to \$240.7m in the first half of 2018, receipts from the built property tax regressed by 5.5% to \$131.5m, and revenues from the inheritance tax dropped by 35% to \$37.5m. Further, non-tax budgetary receipts decreased by 17% year-on-year to \$860.3m. They mainly included \$442.3m in revenues generated from government properties that fell by 33.2% year-on-year, as well as \$317m in receipts generated from administrative fees and charges that grew by 5.3% year-on-year. Receipts from telecommunication services dropped by 26.1% to \$318.3m. They accounted for 72% of income from government properties and for 37% of non-tax budgetary revenues in the covered period. The Finance Ministry did not disclose the reason for the decline in telecom receipts.

On the expenditures side, total budgetary expenditures, which include general expenditures and debt servicing, increased by 25.7% to \$8bn in the first half of 2018. General spending expanded by 33.7% year-on-year to \$5.2bn, and included \$1bn in outlays from previous years that rose by 31.3% year-on-year and \$738.4m in transfers to Electricité du Liban that grew by 32.8% annually, among other general spending items. Also, debt servicing totaled \$2.9bn in the first half of 2018 and increased by 13.5% from the same period of 2017. Debt servicing accounted for 32.1% of total expenditures and for 35.6% of budgetary spending, while it absorbed 48.5% of overall revenues and 53.1% of budgetary receipts. Interest payments on Lebanese pound-denominated debt grew by 5.5% to \$1.7bn in the first half of 2018, while debt servicing on foreign currency debt rose by 29.7% to \$1.1bn. Further, Treasury transfers surged by 66.7% to \$884.4m in the covered period, as transfers to municipalities grew from \$102.2m in the first half of 2017 to \$443.2m in the same period of this year. The primary budget balance posted a surplus of \$217.4m in the first half of 2018, or 2.7% of budgetary expenditures, while the overall primary balance posted a deficit of \$155.4m, or 1.7% of spending.

Fiscal Results in the First Half of each Year			
	2017 (US\$m)	2018 (US\$m)	Change (%)
Budget Revenues	5,758	5,429	(5.7%)
Tax Revenues	4,722	4,569	(3.2%)
Non-Tax Revenues	1,036	860	(16.9%)
<i>of which Telecom revenues</i>	431	318	(26.1%)
Budget Expenditures	6,437	8,093	25.7%
Budget Surplus/Deficit	(679)	(2,663)	292.2%
<i>In % of budget expenditures</i>	<i>(10.5)</i>	<i>(32.9%)</i>	
Budget Primary Surplus	1,858	(217)	(88.3%)
<i>In % of budget expenditures</i>	<i>28.9%</i>	<i>2.7%</i>	
Treasury Receipts	302	512	69.3%
Treasury Expenditures	531	884	66.7%
Total Revenues	6,060	5,941	(2%)
Total Expenditures	6,968	8,977	28.8%
Total Deficit	(908)	(3,036)	234.5%
<i>In % of total expenditures</i>	<i>(13.0%)</i>	<i>(33.8%)</i>	
Total Primary Surplus/Deficit	1,630	(155)	
<i>In % of total expenditures</i>	<i>23.4%</i>	<i>(1.7%)</i>	

Source: Ministry of Finance, Byblos Research



Capital Intelligence affirms Lebanon's sovereign ratings, outlook revised to 'negative'

Capital Intelligence Ratings (CI) affirmed at 'B' Lebanon's long- and short-term foreign and local currency sovereign ratings, and revised the outlook from 'stable' to 'negative' on the long-term ratings. It attributed the outlook revision to Lebanon's public finance imbalances in the absence of an effective government that undertakes significant corrective measures and unlocks funds pledged at the CEDRE conference that was held in April 2018. It added that the 'negative' outlook incorporates the impact of the ongoing political deadlock on the Lebanese economy, as well as the country's vulnerability to shifts in investor sentiment.

The agency indicated that the ratings are supported by Lebanon's adequate external liquidity, reliable investor base and the government's perfect track record of public debt repayment. But it said that the ratings are constrained by Lebanon's elevated public debt level, large financing needs, a weak budget structure and limited fiscal flexibility, socio-economic challenges, the slow pace of economic and fiscal reforms, as well as by persistent local and regional political risks.

CI indicated that political risks have increased in Lebanon, due to the continuous disagreements among major political parties and the prevailing inability to form a national unity government. It added that the political impasse is adversely affecting the country's short- to medium-term growth prospects, and is weighing on investor sentiment. In this context, the agency projected Lebanon's real GDP growth to decelerate from 1.7% in 2017 to 1% in 2018 and to average 1.6% annually during the 2019-20 period, amid the ongoing uncertainties. In addition, it pointed out that the Syrian conflict continues to weigh heavily on the Lebanese economy, with the large presence of refugees placing significant pressure on the country's limited resources and creating significant social challenges.

In parallel, the agency indicated that Lebanon's public finances remain weak, and estimated the fiscal deficit to widen from 6.9% of GDP in 2017 to 9.8% of GDP in 2018, and to average 11.2% of GDP annually in the 2019-20 period. It expected the primary budget surplus to narrow from 2.5% of GDP in 2017 to 0.2% of GDP in 2018, as the government continues to rely heavily on costly market borrowing to fund its budget gap. It projected the public debt level at about 150% of GDP at end-2018.

In parallel, the agency said that the government's gross financing requirements are equivalent to about 30% of GDP at end-2018, and expected them to decline marginally in 2019, reflecting the improved maturity structure of the public debt. It said that the government's reliance on the domestic banking system to finance most of its needs in local and foreign currency makes the economy vulnerable to a shock that would adversely affect the confidence of depositors. However, it considered that the government's gross financing needs are manageable in the short term in the absence of such a shock, and that the government would likely meet its needs by borrowing from Banque du Liban (BdL).

In addition, CI expected Lebanon's current account deficit at about 16.4% of GDP annually during the 2018-20 period. It noted that non-resident deposit inflows have increased by 4.3% in the first eight months of 2018. Finally, it said that gross foreign currency and gold reserves at BdL remain adequate at about \$45bn.

PMI results show weak operating conditions for the private sector in October 2018

The BLOM Lebanon Purchasing Managers' Index (PMI), an indicator of operating conditions in Lebanon's private sector, stood at 46.2 in October 2018, the highest value since May 2018. The October value came below the PMI's average of 47.1 since inception in May 2013. The index has remained below the 50 mark since June 2013, which reflects the deterioration in the domestic operating environment. The PMI averaged 46.3 in the first 10 months of 2018, compared to 46.7 in the same period last year. A score that exceeds 50 signals improvement in the index compared to the preceding month, while a score that falls below 50 shows a month-on-month deterioration.

The survey's results show that the New Orders Index increased from 42.1 in September 2018 to 43.4 in October, the highest value since February 2018. But the Index remained significantly below the 50-mark, which means that demand continued to contract but at a slower pace. Businesses attributed the sustained contraction in new orders to political uncertainties and to challenging economic conditions. In addition, the New Export Orders Index stood at 48.3 in October 2018 relative to 48.1 in September, the highest value in the past five months. Still, export sales continued to regress, with difficulties in the region reducing new demand from abroad, but the rate of decline in new export orders was significantly less pronounced than the contraction in total new business.

Further, the survey indicated that the level of business activity in Lebanon's private sector continued to contract month-on-month, but at a slower pace, as the Output Index was at 43.4 in October 2018 compared to 42.5 in September this year. Businesses attributed the drop in output to political uncertainties. The survey pointed out that the drop in incoming new orders led businesses to scale back employment. In fact, the Employment Index reached 49.1 in October, down from 49.6 in September. It added that the rate of job cutting accelerated to a one-year high. The results show an increase in overall input costs for private sector firms in Lebanon. But it noted that the average prices charged by companies further decreased for the eighth successive month in October, as companies are offering promotions to generate new business.

The PMI is a weighted average of five individual sub-components that are New Orders with a weight of 30%, Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). The calculation of the PMI is based on data compiled from replies to questionnaires sent to purchasing executives at about 400 private sector companies in Lebanon across the manufacturing, services, construction and retail sectors. The sample selection is based on each sector's contribution to GDP. The survey is compiled monthly by information provider IHS Markit.

Lebanon ranks 36th globally, third in Arab world in Internet freedom

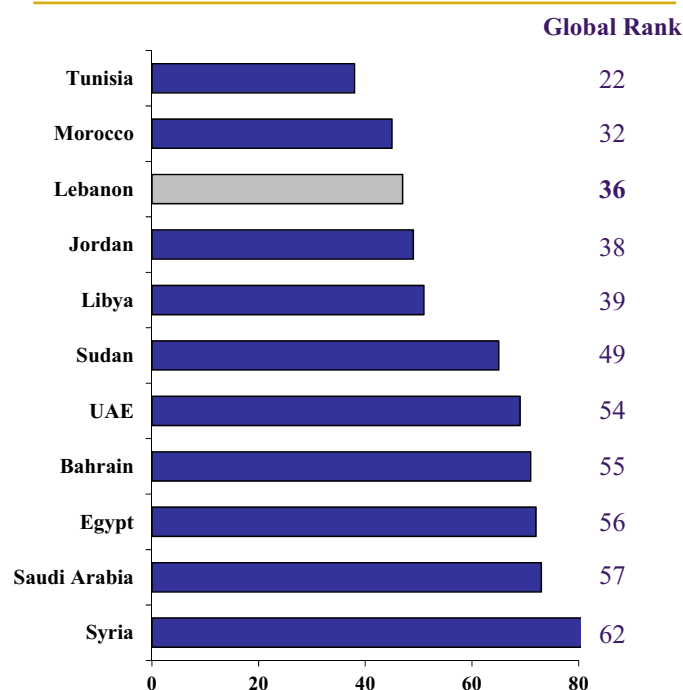
Independent think tank Freedom House ranked Lebanon in 36th place among 65 countries globally and in third place among 11 Arab countries in terms of Internet freedom for 2018. Lebanon also came in eighth place among 20 upper middle-income countries (UMICs) included in the survey. Lebanon's global and regional ranks were unchanged from the 2017 survey.

The survey measures the level of Internet and digital media freedoms across countries, as well as tracks any improvement or deterioration in internet freedom conditions in each country. The survey covers the period from June 1, 2017 to May 31, 2018. A country's numerical rating is the sum of its rating on the Obstacles to Access category that varies between zero and 25 points, the Limit on Content category that ranges between zero and 35 points, and the Violations of Users' Rights category that varies between zero and 40 points. The survey provides a numerical rating for each country from zero to 100, with zero being the highest level of freedom. It categorizes each country's level of Internet freedom as 'Free,' 'Partly Free,' or 'Not Free' based on its numerical rating.

Globally, Lebanon's level of Internet freedom is higher than in Jordan, Bangladesh and Libya, and is lower than in Morocco, Indonesia and Sri Lanka. Lebanon's score stood at 47 in 2018 compared to a score of 46 points in the 2017 survey. It was better than the global average score of 47.2 points, the UMIC's average of 54.4 points and the Arab average of 60.3 points. It was also better than the GCC countries' average score of 71 points and the non-GCC Arab countries' average of 56.3 points. Lebanon also came in the 'Partly Free' category along with 29 countries globally and four countries regionally. In parallel, 15 countries worldwide were categorized as 'Free', while 20 economies globally that include six Arab countries were in the 'Not Free' category.

Freedom House noted that Lebanon continues to lack a legal framework to protect user rights, and has a weak telecommunications infrastructure, expensive communications services, and a digital divide between urban and rural areas. However, it said that authorities do not engage in significant filtering of Internet content in the country, while it pointed out that civil society organizations and individuals have used the Internet in recent years as a tool to extend the reach of their national awareness-raising campaigns.

**Freedom to the Net Index for 2018
Scores & Rankings of Arab Countries**



Source: Freedom House, Byblos Research

Fitch Ratings affirms Byblos Bank's ratings at 'B-', outlook 'stable'

Fitch Ratings affirmed at 'B-' Byblos Bank's long-term Issuer Default Ratings (IDRs) and maintained its 'stable' outlook on the ratings. It also kept the Bank's Viability Ratings at 'b-' and the Support Rating at '5'. It indicated that the Bank's long-term IDRs are driven by its intrinsic strengths and that the 'stable' outlook mirrors the outlook on the sovereign. It said that the ratings are capped by the sovereign's creditworthiness due to the Bank's substantial holdings of government debt and of Certificates of Deposits issued by Banque du Liban (BdL), as well as by the prevailing operating environment.

The agency indicated that Byblos Bank is the third largest bank in the country, with assets accounting for about 10% of the banking sector's aggregate assets. It said that the Bank has a strong domestic franchise that supports revenue generation and deposit growth. It added that the Bank's experienced management has demonstrated its ability to implement well-articulated and consistent strategic objectives. It pointed out that the Bank's balance sheet is well-balanced between liquid and non-liquid assets. But it considered that the Bank's exposure to the sovereign and BdL as unavoidable amid the decline in domestic lending opportunities.

Further, Fitch said that Byblos Bank has prudent underwriting standards for loans, with acceptable diversification by economic sector and single obligor. It noted that the Bank's loan growth has been sustainable, supported by internal capital generation, while lending opportunities could increase if operating conditions improve in regional markets. It indicated that Byblos Bank's loan book is resilient, with low problem loan generation and a stable non-performing loans (NPLs) ratio that compares well with similarly-rated peers. It added that the Bank's loan-loss reserve coverage is adequate. It noted that the Bank is cost-efficient and has low impairment charges.

In addition, it pointed out that Byblos Bank's balance sheet is very liquid, with a loans-to-deposits ratio of about 30%. It added that the Bank's placements at BdL and its holdings of sovereign securities underpin its liquidity flexibility. It noted that the Bank's deposits have been historically stable and well-diversified, which mitigates liquidity maturity mismatches.

In parallel, Fitch indicated that Lebanese authorities would have a high willingness to support Byblos Bank in case of need, given its systemic importance to the banking sector and to the economy as a whole. But it noted that the authorities' ability to provide such support cannot be relied upon. The agency said that it would upgrade Byblos Bank's ratings in case of a sovereign upgrade or a substantial reduction in the Bank's exposure to the government or to BdL relative to its capital. But it considered that a significant drop in the Bank's sovereign exposure is unlikely in the short- to medium-term, given the Bank's key role in financing the sovereign that keeps its exposure elevated.

Balance sheet of investment banks up 1% in first nine months of 2018

Figures released by Banque du Liban show that the consolidated balance sheet of investment banks in Lebanon reached LBP7,803.4bn, or \$5.2bn at the end of September 2018, constituting an increase of 0.9% from LBP7,733bn, or \$5.13bn, at the end of 2017, and a growth of 4.4% from LBP7,473bn or \$5bn at end-September 2017.

On the assets side, claims on resident customers reached \$1.57bn at end-September 2018, nearly unchanged from end-2017, while claims on non-resident customers totaled \$35.2m, down by 28% from end-2017. In addition, claims on the resident financial sector reached \$738.3m at the end of September 2018, down by 21.2% from end-2017; while claims on the non-resident financial sector totaled \$63.4m at end-September and decreased by 14.7% from end-2017. Also, claims on the public sector totaled \$0.7m at end-September 2018, constituting an increase of 7.9% from end-2017; while the securities portfolio, which includes Lebanese Treasury Bills and Eurobonds, reached \$929.4m at end-September 2018, down by 11% in the first nine months of the year. In parallel, currency and deposits with local and foreign central banks totaled \$1.5bn at the end of September 2018 and increased by 38.3% from \$1.07bn at end-2017.

On the liabilities side, deposits of resident customers totaled \$1.56bn at the end of September 2018, constituting a decrease of 7.4% in the first nine months of 2018; while deposits of non-resident customers reached \$287.7m at the end of September 2018, representing a decrease of 6% from end-2017. Liabilities to the resident financial sector amounted to \$164.8m at end-September 2018, down by 23.2% from end-2017; while those to the non-resident financial sector declined by 19% from end-2017 to \$236.1m. Also, public sector deposits regressed by 44.5% in the first nine months of 2018 to \$104.1m, while debt securities issued totaled \$30m at end-September 2018 and declined by 3% from end-2017. Further, the aggregate capital account of investment banks amounted to \$1.67bn at the end of September 2018, constituting an increase of 4.4% from end-2017 and a rise of 4.2% from end-September 2017.

Profits of Gamma banks up 133% to \$17m in 2017

The consolidated net profits of the Gamma Group of banks totaled \$16.9m in 2017, compared to net earnings of \$7.2m in 2016. The Gamma Group consists of banks with deposits between \$200m and \$500m each. The banks' aggregate net operating income increased by 4.8% to \$65.1m in 2017, with net interest income increasing by 3% to \$50.1m and net fees & commissions receipts declining by 34.4% to \$4.8m year-on-year. Non-interest income accounted for 23.4% of total income in 2017, up from 22% in the preceding year. The banks' interest spread slightly narrowed from 2.13% in 2016 to 2.12% in 2017. The banks' total operating expenditures declined by 12.4% to \$45.2m in 2017, with staff expenses decreasing by 17.2% to \$26.4m and administrative & other operating expenditures declining by 6.3% to \$15.8m. Further, the cost-to-income ratio dropped from 82.6% in 2016 to 69.1% in 2017. The banks' return on average assets was 0.71% in 2017 relative to 0.32% in 2016, while their return on average equity was 4.78% in 2017 compared to 2.13% in 2016.

The Gamma banks' total assets reached \$2.47bn at the end of 2017, constituting an increase of 9.5% from \$2.26bn end-2016. Liquid assets accounted for 49% of total assets at end-2017, followed by portfolio securities with 25%, loans with 21%, fixed assets with 3% and other assets with 2%. Further, total net loans reached \$517.7m at the end of 2017, down by 4% from \$539.2m at end-2016. Corporate loans accounted for 46% of total net lending to customers at the end of 2017 compared to 44.9% a year earlier. Lending to small- and medium-sized enterprises followed with 31.3% of the total relative to 31.5% at end-2016, then retail loans with 8.7% of the total compared to 6.9% a year earlier, and mortgages with 5.2% relative to 5.5% and end-2016. Also, customer deposits reached \$1.28bn at the end of 2017 and increased by 5.4% from a year earlier, while deposits from related parties decreased by 1.2% to \$26.8m at end-2017.

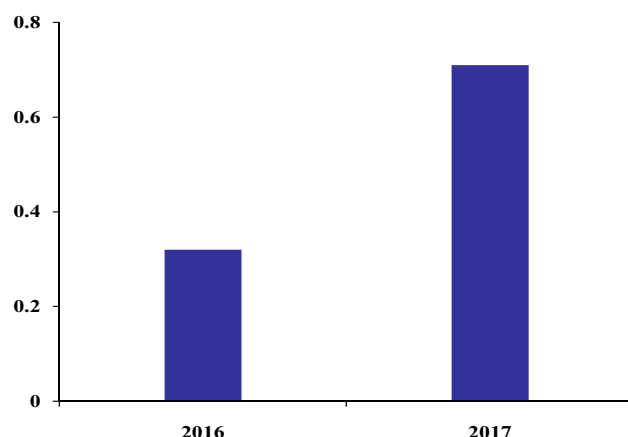
In parallel, the banks' loans-to-deposits ratio regressed from 43.34% at the end of 2016 to 39.51% at end-2017. The loans-to-deposits ratio in local currency was 40% at end-2017 compared to 45% at end-2016, while the same ratio in foreign currency was 39.25% at end-2017 relative to 42.43% a year earlier. Further, the primary liquidity-to-assets ratio rose from 41% at the end of 2016 to 48.82% at end-2017. The banks' net doubtful loans plus substandard loans were equivalent to 2.37% of gross loans at end-2017 relative to 3.8% a year earlier; while their net doubtful loans over equity stood at 3.4% at the end of 2017, down from a ratio of 3.5% at end-2016. Also, loan-loss reserves on doubtful loans were 97.1% of gross doubtful loans at the end of 2017. The banks' capital adequacy ratio stood at 17.71% at the end of 2017, down from 18.35% at end-2016, according to Basel III criteria.

Bank of Beirut issues new common shares

Bank of Beirut sal announced that it raised its capital from LBP115.2bn (\$76.4m) to LBP119.7bn (\$79.4m) through the issuance of 3,050,000 new common shares at a par value of LBP1,460 (\$0.97) per share. The bank's Extraordinary General Assembly validated and ratified the capital increase on September 26, 2018. The new shares were listed on the Beirut Stock Exchange. As a result, the bank's share capital consists of 81,966,900 shares that include 56,234,900 common shares; 4,762,000 Priority Shares Series 2014; 3,570,000 Series "G" Preferred Shares; 5,400,000 Series "H" Preferred Shares, 5,000,000 Series "I" Preferred Shares, 3,000,000 Series "J" Preferred Shares, and 4,000,000 Series "K" Preferred Shares. The Series "G" Preferred Shares, as well as 63% of the bank's common shares, are not listed on the Beirut Stock Exchange. In addition, the bank announced the acquisition of Luxembourg-based Fortuna Bank. The deal still requires the approval of Banque du Liban and the European Central Bank.

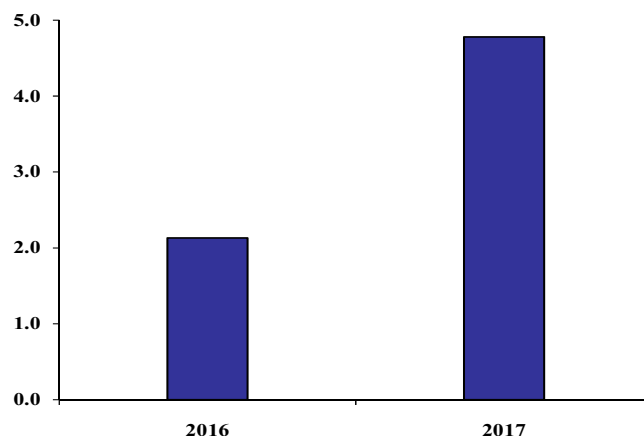
The bank announced unaudited consolidated net profits of \$146.9m in the first nine months of 2018, constituting a decline of 1.1% from net earnings of \$148.5m in same period of 2017. Also, the bank's loans & advances to customers, excluding those to related parties, decreased by 3.6% from end-2017 to \$5.4bn. Further, its customer deposits, excluding those from related parties, totaled \$12.7bn at end-September 2018 and dropped by 2.6% from the end of 2017.

Return on Average Assets (%)



Source: Bankdata Financial Services

Return on Average Equity (%)



Source: Bankdata Financial Services

Moody's revises CMA CGM's outlook to 'negative'

Moody's Investors Service affirmed the Lebanese-owned and France-based container shipping group CMA CGM's corporate family rating at 'B1', its probability of default rating at 'B1-PD' and its senior unsecured bond ratings at 'B3'. But it revised the outlook on all the ratings from 'positive' to 'negative' following CMA CGM's announcement on October 25, 2018 of its intention to make a tender offer to acquire supply chain management company CEVA logistics AG. It noted that the outlook revision also takes into account downside risks in the container shipping industry, including the U.S.-China trade tensions, rising fuel costs, and the upcoming IMO 2020 low sulphur fuel regulation.

The agency noted that the potential offer could also raise CMA CGM's leverage ratio to over 5-times, which is the group's debt divided by its earnings before interest, tax, depreciation and amortization. In addition, it indicated that lower freight rates amid vessel oversupply, along with rising bunker costs and the delayed pass-through impact of fuel price increases to customers, have weighed on CMA CGM's container shipping business in the first half of 2018.

Moody's pointed out that CMA CGM plans to combine its logistics business, CCLog, with the freight management business of CEVA, which would allow the latter to benefit from CMA CGM's operational expertise. It also considered the integration to be strategically positive for CMA CGM, which would allow it to offer door-to-door services to its key customers. Further, it noted that the group's liquidity is adequate, as it has \$1.6bn in cash and access to a \$1.2bn revolving credit facility. In addition, the company has \$1bn worth of unencumbered vessels, and has no bullet debt maturities until 2020.

The agency said that it would upgrade the outlook on CMA CGM's ratings if the leverage ratio is at or below 5-times and if its coverage ratio, which is the group's funds from operations plus interest expense divided by interest expense, exceeds 3-times. It added that CMA CGM should maintain good liquidity and consistent free cash flow generation in order for the agency to keep the group's current rating.

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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