

LEBANON THIS WEEK

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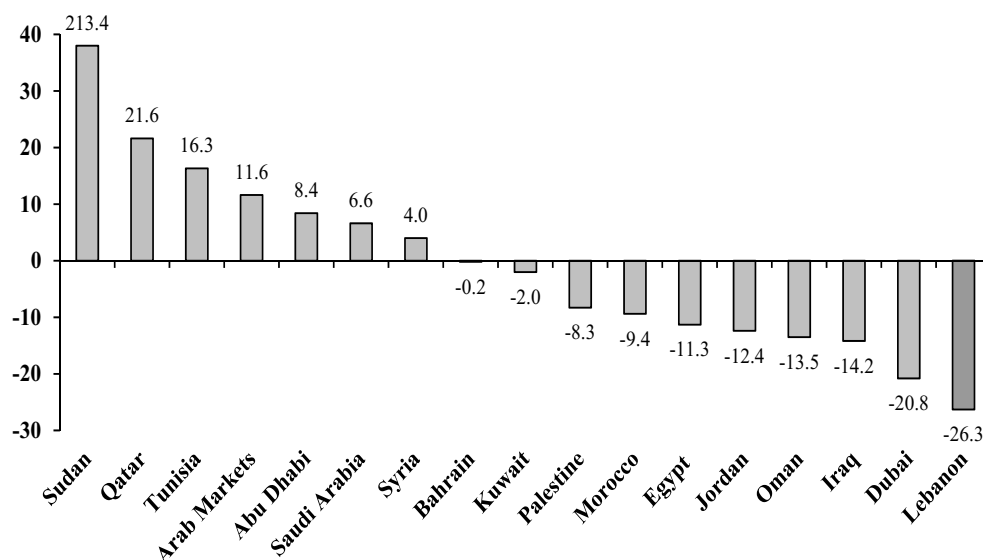
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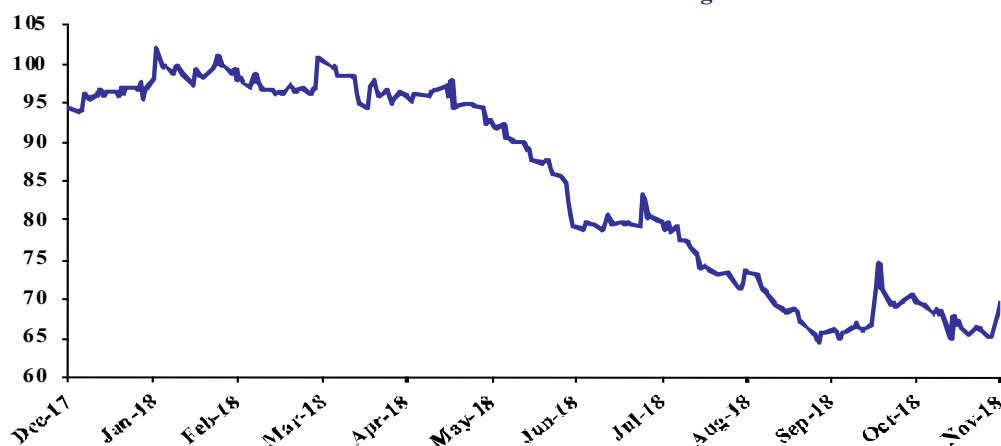
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Charts of the Week

Performance of Arab Stock Markets in First 11 Months of 2018 (% change)



Performance of the Beirut Stock Exchange*



*Capital Markets Authority Value Weighted Index

Source: Local Stock Markets, Capital Markets Authority, S&P Dow Jones Indices, Arab Federation of Exchanges, Byblos Bank

Quote to Note

"The country no longer has the luxury of wasting time."

H.E. President Michel Aoun, on the opportunity costs of the delays in the formation of a new government

Number of the Week

2.03%:

The spread between the weighted average interest rate for the last three months on new deposits and the weighted return on the uses of funds in US dollars at commercial banks in Lebanon as at August 2018, according to the Association of Banks in Lebanon

Lebanon in the News

\$m (unless otherwise mentioned)	2017	Sep 2017	Jun 2018	Jul 2018	Aug 2018	Sep 2018	% Change*
Exports	2,844	210	215	218	229	214	1.89
Imports	19,582	1,359	1,616	2,318	1,820	1,438	5.83
Trade Balance	(16,738)	(1,149)	(1,401)	(2,100)	(1,591)	(1,224)	6.55
Balance of Payments	(156)	457	(639)	(549)	(408)	(146)	-
Checks Cleared in LBP	21,677	1,475	1,680	1,878	1,777	1,885	27.79
Checks Cleared in FC	46,578	3,009	3,471	3,952	3,659	3,653	21.40
Total Checks Cleared	68,255	4,484	5,151	5,830	5,436	5,538	23.50
Budget Deficit/Surplus	(3,300.82)	(651.25)	(36.10)	-	-	-	-
Budget Primary Balance	1,882.86	(145.72)	277.61	-	-	-	-
Airport Passengers***	8,235,845	861,828	762,041	1,022,467	1,159,811	849,299	(1.45)

\$bn (unless otherwise mentioned)	2017	Sep 2017	Jun 2018	Jul 2018	Aug 2018	Sep 2018	% Change*
BdL FX Reserves	35.80	35.06	33.14	34.21	33.92	34.15	(2.59)
In months of Imports	18.57	25.81	20.51	14.76	18.64	23.75	(7.96)
Public Debt	79.53	78.16	82.95	82.90	83.69	83.84	7.27
Bank Assets	219.86	213.42	234.60	236.31	238.46	241.12	12.98
Bank Deposits (Private Sector)	168.66	169.09	173.32	173.01	173.22	173.94	2.86
Bank Loans to Private Sector	59.69	58.45	59.56	59.22	59.40	59.42	1.66
Money Supply M2	52.51	55.35	53.98	53.58	53.21	52.71	(4.78)
Money Supply M3	138.60	139.00	141.29	140.85	141.04	141.35	1.69
LBP Lending Rate (%)****	8.09	8.31	8.82	8.66	8.81	9.31	100bps
LBP Deposit Rate (%)	6.41	5.53	6.72	6.94	7.03	7.39	186bps
USD Lending Rate (%)	7.67	7.53	7.93	7.96	8.12	8.11	58bps
USD Deposit Rate (%)	3.89	3.65	4.09	4.14	4.20	4.36	71bps
Consumer Price Index**	4.4	4.1	7.6	7.6	6.7	6.5	240bps

* 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 %
Solidere "B"	6.81	6.57	2,078,571	4.56%	May 2019	6.00	98.00	10.50
Solidere "A"	6.86	9.76	1,690,162	7.06%	Mar 2020	6.38	94.50	11.13
Audi Listed	5.02	7.04	496,027	20.65%	Apr 2021	8.25	93.38	11.53
BLOM GDR	9.44	(3.58)	135,960	7.18%	Oct 2022	6.10	84.13	11.32
BLOM Listed	9.25	(0.64)	107,260	20.47%	Jun 2025	6.25	77.38	11.23
Audi GDR	4.71	(4.46)	10,900	5.81%	Nov 2026	6.60	76.00	11.23
HOLCIM	16.04	(1.29)	5,000	3.22%	Feb 2030	6.65	72.50	10.96
Byblos Pref. 08	72.00	1.41	3,400	1.48%	Apr 2031	7.00	72.88	11.07
Byblos Common	1.41	0.00	-	8.21%	Nov 2035	7.05	72.00	10.66
Byblos Pref. 09	72.00	0.00	-	1.48%	Mar 2037	7.25	72.25	10.74

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

Source: Byblos Bank Capital Markets

	Nov 26-30	Nov 19-23	% Change	November 2018	November 2017	% Change
Total shares traded	4,658,938	742,113	527.8	14,323,108	3,450,170	315.1
Total value traded	\$30,811,616	\$2,963,497	939.7	\$85,065,154	\$43,641,250	94.9
Market capitalization	\$9.72bn	\$9.56bn	1.61	\$9.72bn	\$10.87bn	(10.6)

Source: Beirut Stock Exchange (BSE)



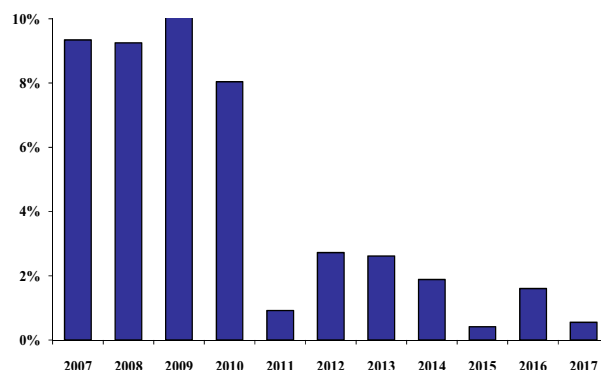
Real GDP growth rate at 1.6% in 2016 and 0.6% in 2017 according to national accounts

The Central Administration for Statistics (CAS) released national economic data that covers official figures for gross domestic product (GDP) and its structure and components for 2017, and revised its previous figures for the 2012-16 period. The CAS indicated that its national accounts figures include the informal sector that it estimated at around 30% of recorded output, even though the precise level is uncertain. It indicated that it could not produce a full set of sectoral accounts, especially for the households and non-financial corporate sectors, given the limited amount of data on incomes. Further, the CAS stated that its estimates are subject to a wide range of uncertainty. It added that the uncertainty derives from the lack of regular surveys and detailed data on the cost of production, consumer spending, employment, visitors' expenditures and other transactions. It cautioned that its figures are not as accurate as national accounts are supposed to be. The CAS estimated economic growth at 0.6% in real terms in 2017, while it reduced Lebanon's real GDP growth rate for 2016 to 1.6% from 1.7% previously.

Lebanon's nominal GDP stood at \$53.4bn in 2017 relative to \$51.2bn in 2016. Also, aggregate consumption spending reached \$56bn in 2017, up from \$51.5bn in 2016. It included \$49.1bn in household expenditures and \$7bn in government spending in 2017. Further, the private sector's gross fixed capital formation reached \$9.6bn, while it totaled \$820.9m for the public sector in 2017. The results show that public consumption expanded by 6% in real terms in 2017, while private consumption grew by 4% year-on-year. Further, gross fixed capital formation by the private sector increased by 3% in real terms in 2017, while it regressed by 21% for the public sector, leading to an overall contraction of 0.2% in gross fixed capital formation during the year. Also, household consumption contributed 3.6 percentage points and government consumption contributed 0.8 percentage points to real GDP growth in 2017, while gross capital formation did not contribute to real GDP growth last year. In parallel, imports of goods and services had a negative contribution of -3 percentage points, while exports of goods and services had a negative contribution of 0.8 percentage points to real GDP growth in 2017.

In parallel, real estate services accounted for 15.4% of output in 2017, followed by commercial trade & motor vehicle repairs (13.1%), the public administration (9.8%), manufacturing (8.6%), financial services (8.3%), education (7%), professional services (4.1%), health & social care (3.6%), construction (3.5%), personal & community services and transport activity (3.2% each), hotels & restaurants (3%), agriculture & livestock (2.9%), information & communication (2.7%), and administrative services and mining & utilities (2.5% each). Further, the output of personal & community services grew by 17.4% in real terms in 2017, followed by the hotels & restaurants sector (+8.9%), the information & communication sector (+4%), transport activity (+2.7%), the public administration (+1.3%), professional services and the health & social care segment (+1.1% each), the real estate sector (+0.9%), and activity in commercial trade & motor vehicles (+0.5%). In contrast, the output of the mining & utilities sector contracted by 6.5% in real terms in 2017, followed by output in the financial services sector (-5.9%), the construction sector (-3.8%), the manufacturing sector (-2.7%), activity in administrative services (-1.8%), and education (-0.5%).

Real GDP Growth in Lebanon (%)



Source: Central Administration of Statistics

Gross Domestic Product (Expenditure components in billions of LBP)

	2016*	2017*	% change in	
			price	real terms
Gross domestic product at market prices	77,243	80,491	3.6%	0.6%
Total final consumption expenditures	77,673	84,492	4.2%	4.4%
by households	68,232	73,963	4.1%	4.1%
by government	9,441	10,529	4.9%	6.3%
Gross capital formation	16,162	15,954	-1.1%	-0.2%
Gross fixed capital formation	15,738	15,640	-1%	0.4%
private	14,147	14,402	-1%	2.9%
public	1,591	1,238	-1%	-21.4%
Acquisition less disposal of valuables	424	314	-	-
Net exports	(16,592)	(19,955)	-	-
Export of goods and services	19,516	19,198	1.7%	-3.3%
Exports of goods (fob)	5,926	6,070	-0.3%	2.8%
Exports of services	13,589	13,128	2.7%	-5.9%
Import of goods and services	36,108	39,153	2%	6.3%
Imports of goods (fob)	26,730	29,548	2.2%	8.2%
Imports of services	9,377	9,605	1.4%	1.1%

*at current prices

Source: Central Administration of Statistics



Compensation of public-sector personnel up 26% in first half of 2018, absorbs 35.5% of fiscal spending

Figures issued by the Ministry of Finance show that the compensation of public-sector personnel totaled \$3.2bn in the first half of 2018, constituting an increase of 26.3% from \$2.5bn in the same period of 2017. The double-digit increase is due to the new public-sector salary scale that was enacted by the Lebanese Parliament in July 2017. Salaries, wages and related benefits accounted for 64.8% of the total in the first half of 2018, followed by retirement benefits (22.8%), end-of-service indemnities (7.8%), and transfers to public institutions to cover salaries (4.6%). The compensation of public-sector personnel represented the largest component of budgetary current primary spending and accounted for 67.6% of such expenditures in the covered period compared to 69.3% in the first half of 2017. It absorbed 35.5% of fiscal spending in the first half of 2018 relative to 36.2% in the first half of 2017.

Salaries, wages & related benefits paid to public-sector employees reached \$2.1bn in the first half of 2018, constituting an increase of 26.2% from \$1.6bn in the same period of 2017. This category includes basic salaries, employment benefits, allowances, contributions to civil servants' cooperatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly civil and religious judges, and employees at the Parliament. In addition, retirement benefits grew by 17% to \$726.4m in the first half of 2018, while end-of-service indemnities rose by 95% to \$248.1m, and transfers to public institutions to cover salaries expanded by 5.9% to \$145.9m in the covered period.

Breakdown of New Salary Scale by Grade and Level of Select Pubic Sector Employees	
Grade and Level of Public Sector Employees	Avg growth in salaries*
Public Sector First Grade	60%
Public Sector Second Grade	105%
Public Sector Third Grade	77%
Public Sector Fourth Grade - First Level	75%
Public Sector Fourth Grade - Second Level	53%
Public Sector Fifth Grade	32%
Pilot in the Directorate General of Civil Aviation	81%
Navigator in the Directorate General of Civil Aviation	89%
Foreign Service Officers - First Grade	23%
Foreign Service Officers Outside Lebanon - Second Grade	31%
Foreign Service Officers Outside Lebanon - Third Grade	39%
Education Staff below University Level	88%

*After salary-scale adjustment

Source: Ministry of Finance

Treasury transfers to Electricité du Liban up 33% to \$738m in first half of 2018

Figures released by the Finance Ministry show that Treasury transfers to Electricité du Liban (EdL) totaled \$738.3m in the first half of 2018, constituting an increase of 32.8% from \$556.6m in the same period of 2017. Reimbursements for the purchase of natural gas, fuel and gas oil totaled \$734.3bn, or 99.5% of transfers, in the covered period, while EdL's debt servicing represented the balance of \$4m, or 0.5% of the total. Reimbursements for the purchase of natural gas, fuel and gas oil mostly consist of payments to the Kuwait Petroleum Corporation and to the Algerian energy conglomerate Sonatrach, as well as \$12.6m in transfers to Electricity Syria. Reimbursements grew by 33.2% from \$551.2m in the first half of 2017, while debt servicing declined by 15.7% from \$5.3m in the same period of 2017.

EdL transfers accounted for 12.1% of primary expenditures in the first half of 2018, compared to 12.6% in the same period of 2017. They constituted the third largest expenditures item after public sector salaries & wages and debt servicing in overall fiscal spending. EdL transfers were equivalent to 5.1% of GDP in 2012, 4.2% of GDP in each of 2013 and 2014, 2.3% of GDP in 2015, 1.8% of GDP in 2016 and 2.5% of GDP in 2017.

Real Estate Syndicate of Lebanon signs agreement with Kuwaiti counterpart

The Real Estate Syndicate of Lebanon (REAL) signed an agreement with the Kuwait Real Estate Brokers Union to promote Kuwaiti investments in the Lebanese real estate market, as well as to help provide Kuwaiti investors with information about investment prospects and projects in the local real estate sector.

The agreement aims to facilitate the organization of joint workshops and the exchange of expertise, as well as allow the two parties to hold real estate exhibitions in Lebanon and Kuwait. Further, it clarifies the procedures for purchasing a property in the Lebanese market, as well as the related applicable laws and required documents. In addition, the agreement stipulates the issuance of a list of companies and specialists active in the real estate sector that have shown commitment to the code of conduct of the REAL.

Figures released by the Ministry of Finance show that real estate transactions decreased by 17.6% from 60,276 deals in the first 10 months of 2017 to 49,652 transactions in the same period of 2018. In comparison, the number of real estate transactions grew by 16.6% year-on-year in the first 10 months of 2017 and increased by 1.2% annually in the same period of 2016. Also, according to the latest figures of the Central Administration of Statistics, the contribution of the real estate sector to economic activity reached 15.4% of GDP in 2017, nearly unchanged from the previous year, and relative to 14.3% of GDP in 2015. Further, the output of the real estate sector grew by 0.9% in real terms in 2017 compared to a growth of 3.7% in 2016.

Lebanon ranks in 107th place globally, 10th place regionally in terms of prosperity

The Legatum Institute's 2018 Prosperity Index ranked Lebanon in 107th place among 149 countries globally, in 34th place among 40 upper middle-income countries (UMICs) and in 10th place among 18 Arab countries. Based on the same set of countries, Lebanon's rank regressed by six spots from 101st place in the 2017 survey and by 18 spots from 89th place on the 2008 index.

The Legatum Institute assesses the prosperity of citizens based on their material wealth and social well-being. The data covers 104 variables grouped in nine sub-indices that are the Economy, the Business Environment, Governance, Education, Health, Safety & Security, Personal Freedom, Social Capital and the Natural Environment, each identified as a foundation of prosperity. The rankings are based on the simple average of the scores of the nine sub-indices for each country.

Lebanon received a score of 55 points on the 2018 survey compared to 55.8 points in the 2017 survey, below the global average of nearly 60 points. Norway ranked first globally on the 2018 index, while Afghanistan came in last place.

Globally, Lebanon has a higher level of prosperity than Iran, Bangladesh and Ukraine and a lower level than Tanzania, Zambia and Senegal among economies with a GDP of \$10bn or more. Also, it is more prosperous than Iran, Algeria, Venezuela, Gabon, Libya and Iraq among UMICs.

Prosperity Index for 2018		
	Arab Rank	Global Rank
UAE	1	39
Qatar	2	46
Bahrain	3	51
Kuwait	4	66
Oman	5	69
Saudi Arabia	6	86
Jordan	7	91
Tunisia	8	102
Morocco	9	103
Lebanon	10	107
Djibouti	11	112
Algeria	12	116
Egypt	13	122
Libya	14	133
Mauritania	15	142
Iraq	16	143
Sudan	17	145
Yemen	18	147

Source: Legatum Institute, Byblos Research

Lebanon ranked ahead of Gabon, Mauritania and Iraq, and came behind Belarus, Zimbabwe and Cameroon on the Governance Sub-Index. This category measures a country's performance on the effectiveness and accountability of the government, the level of democracy and political participation, and the rule of law. Lebanon ranked ahead of only Gabon, Iraq, Libya and Venezuela among UMICs. It also came ahead of Mauritania, Iraq, Sudan, Libya and Yemen among Arab countries.

Further, Lebanon ranked ahead of Pakistan, Burkina Faso and Ethiopia, and came behind Honduras, Macedonia and Greece on the Economy Sub-Index. This category measures a country based on the openness of its economy, macroeconomic indicators, foundations for growth, economic opportunity and financial sector efficiency. Lebanon also ranked ahead of Botswana and Albania, and came behind Serbia and Macedonia among UMICs. Regionally, Lebanon came behind Bahrain, the UAE, Qatar, Kuwait, Saudi Arabia, Oman, Djibouti and Morocco.

In addition, Lebanon came ahead of Côte d'Ivoire, Egypt and Jordan, and ranked behind the Nicaragua, Croatia and Ukraine on the Business Environment Sub-Index. This category measures a country's entrepreneurial environment, its business infrastructure, barriers to innovation, and its labor market flexibility. Lebanon also ranked ahead of Jordan and Brazil, and came behind Paraguay and Turkey among UMICs; while it ranked ahead of Egypt and Jordan, and came behind Kuwait and Tunisia and in the Arab region.

Finally, Lebanon ranked ahead of India, Sudan and Mali, and came behind Lithuania, Japan and Turkey on the Social Capital Sub-Index. This category measures the strength of social networks support, social norms, and civic participation in a country. Lebanon also ranked ahead of Venezuela and Russia, and ranked behind Kazakhstan and Turkey among UMICs; while it came ahead of Sudan and behind Jordan regionally.

Components of the 2018 Prosperity Index for Lebanon				
Sub-Index	Global Rank	Change in Rank	Arab Rank	UMIC Rank
Economy	103	-6	9	30
Business Environment	107	-10	9	29
Governance	135	-9	13	36
Education	94	+2	9	32
Health	71	+2	9	19
Safety & Security	90	-16	12	23
Personal Freedom	114	+2	5	29
Social Capital	101	+14	10	29
Natural Environment	71	-3	6	22

Source: Legatum Institute, Byblos Research

Lebanon's external debt posts 25th highest return in emerging markets in third quarter of 2018

Figures issued by Intercontinental Exchange, Inc. (ICE) indicate that Lebanon's external debt posted a return of 1.81% in the third quarter of 2018, constituting the 25th highest return among 44 markets in the Central & Eastern Europe and the Middle East & Africa (CEEMEA) region, and the 44th highest return among 75 emerging markets included in ICE's External Debt EM Sovereign Index. In comparison, emerging markets posted a return of 1.97% in the covered quarter. Lebanon also posted the eighth highest return among 27 countries in the Middle East & Africa region during the third quarter of 2018.

In parallel, Lebanon's external debt posted a return of -12% in the second quarter of 2018 relative to the emerging markets' return of -3.12%. Also, Lebanon's external debt posted a return of 2.27% in the first quarter of 2018 compared to the emerging markets' return of -1.78%, constituting the second highest return among 44 markets in the CEEMEA region and the third highest return among 76 emerging markets. In addition, Lebanon's external debt posted a return of 0.69% in the third quarter of 2017 compared to the emerging markets' return of 2.07%.

Lebanon has a weight of 2.36% on ICE's External Debt EM Sovereign Index, the seventh largest weight in the CEEMEA universe and the 14th largest among emerging economies. Lebanon accounted for 4.2% of allocations in the CEEMEA region.

Coincident Indicator up 1.6% year-on-year in first nine months of 2018

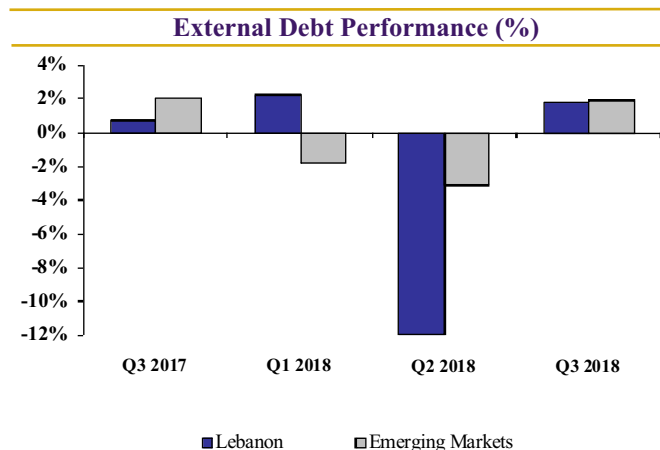
Banque du Liban's Coincident Indicator, an index of economic activity in Lebanon, reached 292.3 points in September 2018 compared to 296.6 in August 2018 and 291.2 in September 2017. The Coincident Indicator, an average of 8 weighted economic indicators, decreased by 1.4% month-on-month, while it increased marginally by 0.4% year-on-year in September 2018. The indicator averaged 307.4 in the first nine months of 2018, up by 1.6% from 302.5 in the same period of 2017. Also, the indicator averaged 309.5 in the 12 months ending September 2018, compared to 309.4 in the 12-month period ending August 2018 and to 301.1 in the 12 months ending September 2017. As a result, the 12-month average coincident indicator was nearly unchanged month-on-month, while it grew by 2.8% year-on-year. In parallel, the indicator improved 11 times and regressed 15 times on a monthly basis in the month of September since 1993. It averaged 249.5 points in 2010, 255.7 points in 2011, 256.6 points in 2012, 264.7 points in 2013, 273.2 points in 2014, 278.6 points in 2015, 289.5 points in 2016 and 305.9 points in 2017.

Industrial exports up 1% to \$1.7bn in first eight months of 2018

Figures released by the Ministry of Industry show that industrial exports totaled \$1.68bn in the first eight months of 2018, constituting an increase of 1.3% from \$1.65bn in the same period of 2017. Industrial exports reached \$212.4m in August 2018, up by 7% from \$198.5m in the preceding month, and down by 6.4% from \$227m in August 2017.

Exports of chemical products totaled \$300.7m and accounted for 18% of aggregate industrial exports in the first eight months of 2018, followed by foodstuffs & tobacco with \$282m (16.8%), machinery & mechanical appliances with \$279.2m (16.7%), base metal exports with \$277.2m (16.5%), plastics & rubber with \$120.2m (7.2%), and paper & paperboard with \$97.4m (5.8%). Arab countries were the destination of 50.3% of Lebanese industrial exports in the first eight months of 2018, followed by European economies with 19.6%, African economies with 11.3%, Asian countries with 10.9%, countries in the Americas with 6.6%, and markets in Oceania with 0.6%. On a country basis, the UAE was the main destination of Lebanese industrial exports and accounted for 9.3% of the total in the covered period, followed by Saudi Arabia with 8.2%, Iraq and Syria with 7% each, Turkey with 5.9%, and Qatar with 4.9%. In August 2018, 13 Arab states, nine economies in each of Africa and Europe, three countries in each of Asia and the Americas, and one country in Oceania imported \$1m or more each of Lebanese industrial products.

In parallel, imports of industrial equipment and machinery reached \$196.8m in the first eight months of 2018, up by 20% from \$164m in the same period of 2017. Italy was the main source of such imports and accounted for 33.6% of the total in the first eight months of 2018, followed by Germany with 18.2% and China with 13.4%. Further, imports of industrial equipment and machinery amounted to \$27.6m in August 2018, up by 2% from \$27m in August 2017. Romania was the main source of such imports with \$6.6m and accounted for 24% of the total in the covered month, followed by Italy with \$4.6m (16.6%) and Germany with \$4.4m (15.9%).



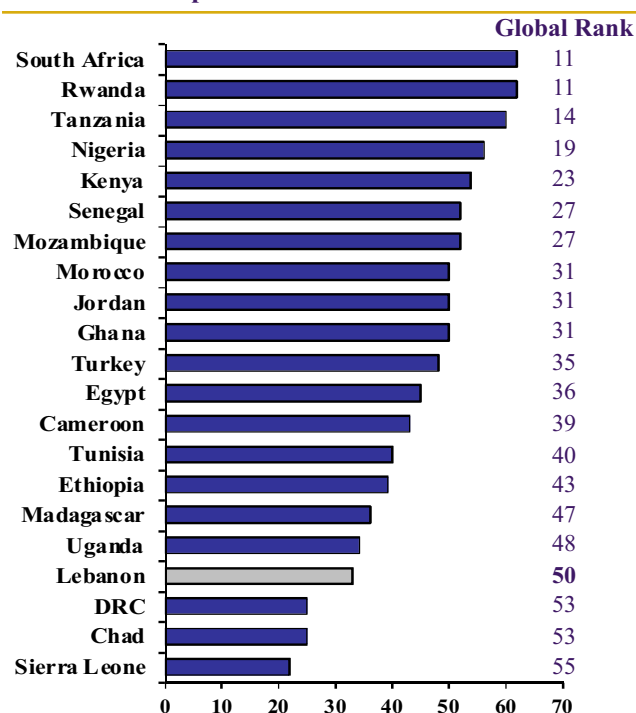
Source: Intercontinental Exchange, Inc, Byblos Research

Lebanon ranks 50th globally, 18th in the Middle East & Africa region in terms of financial inclusion

The Economist Intelligence Unit's (EIU) 2018 Global Microscope Index for Financial Inclusion ranked Lebanon in 50th place among 55 developing countries and in 18th place among 21 countries in the Middle East & Africa (ME&A) region. Also, Lebanon came in last place among 18 upper middle-income countries (UMICs) included in the survey.

The index assesses a country's enabling environment for financial inclusion across five domains, which are Government and Policy Support, Stability and Integrity, Products and Outlets, Consumer Protection, and Infrastructure. The index also includes a sixth indicator used as an adjustment factor to reflect political instability, which impacts the country's financial inclusion environment. It assigns to each country a score between zero and 100, with 100 representing the best possible outcome. The EIU revised the 2018 index to put a forward-looking focus on digital financial services, and to address the critical role of financial inclusion envisioned in the United Nations Sustainable Development Goals. As a result, the results of this year's survey are not comparable with the 2017 edition. Globally, Lebanon ranked ahead of only Myanmar, Haiti, Chad, the Democratic Republic of Congo and Sierra Leone. Lebanon received a score of 33 points on the 2018 survey, below the global average score of 55.1 points, the UMICs' average score of 50.9 points and the ME&A average score of 44.7 points. Colombia ranked first globally, while Sierra Leone came in last place.

Global Microscope Index for Financial Inclusion for 2018



Source: Economist Intelligence Unit, Byblos Research

The EIU indicated that Lebanon has a strong banking sector and benefits from large remittance inflows, which led to an unusually high degree of bank account penetration in the country. It noted that a large part of the population has access to financial services and insurance. It said that the financial sector has been stable, despite ongoing political crises, and that Lebanon has adopted at least a preliminary financial inclusion strategy. It added that Banque du Liban launched a \$400m facility to provide capital to technology start-ups, incubators and accelerators, in an attempt support the country's plan to become a fintech and technology hub.

However, the EIU pointed out that the weak investment climate, ongoing political uncertainties, and gaps in financial infrastructure, present structural challenges to financial inclusion in Lebanon. It added that microfinance institutions in Lebanon are under-regulated and cannot collect deposits or investment funds from the public. It considered that the regulations pertaining to digital financial services in the country are outdated. As such, it said that a stronger regulatory framework for microfinance is required.

Components of the 2018 Global Microscope Index for Financial Inclusion

	Global Rank	ME&A Rank	UMIC Rank	Lebanon Score	Global Avg Score	ME&A Avg Score	UMIC Avg Score
Government & Policy Support	53	20	17	25	66.1	62	66.9
Stability and Integrity	39	13	14	53	62.6	59.1	66.1
Products and Outlets	34	13	11	49	53.9	48.5	56.3
Consumer Protection	40	13	17	45	57.4	49.3	66.6
Infrastructure	42	13	17	39	49.2	40	57.4

Source: Economist Intelligence Unit, Byblos Research

Revenues through Port of Beirut up 1% to \$181m in first nine months of 2018

Figures released by the Port of Beirut show that the port's overall revenues reached \$180.8m in the first nine months of 2018, constituting an increase of 1.2% from \$178.6m in the same period of 2017. The Port of Beirut handled 5.9 million tons of freight in the covered period, down by 7.1% from 6.4 million tons in the first nine months of 2017. Imported freight amounted to 5.2 million tons in the first nine months of 2018 and accounted for 88.2% of the total, while the remaining 701,000 tons, or 11.8%, consisted of export cargo. A total of 1,413 ships docked at the port in the year-to-September 2018 compared to 1,410 vessels in the first nine months of 2017.

In parallel, revenues generated through the Port of Tripoli reached \$11.7m in the first nine months of 2018, constituting a decrease of 6.1% from \$12.5m in the same period of 2017. The Port of Tripoli handled 1,304,227 tons of freight in the covered period, constituting a decline of 12.5% from 1,490,262 tons in the first nine months of 2017. Imported freight amounted to 1,072,714 tons and accounted for 82.2% of the total, while the remaining 231,513 tons, or 17.8%, were export cargo. A total of 488 vessels docked at the port in the first nine months of 2018, constituting a drop of 18.4% from 598 ships in the same period of 2017.

Stock market index down 26% in first 11 months of 2018

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 84,702,491 shares in the first 11 months of 2018, constituting an increase of 12.8% from 75,059,974 shares traded in the same period of 2017; while aggregate turnover amounted to \$607.1m, down by 6% from a turnover of \$645.9m in the first 11 months of 2017. Market capitalization regressed by 10.6% from the end of November 2017 to \$9.72bn, with banking stocks accounting for 84.6% of the total, followed by real estate equities (11.6%), industrial shares (3.5%) and trading firms' equities (0.4%). The market liquidity ratio was 6.2% in the covered period compared to 5.9% in the first 11 months of 2017.

Banking stocks accounted for 76.7% of the aggregate trading volume in the first 11 months of 2018, followed by real estate equities with 20.7%, industrial shares with 2.2%, and trading stocks with 0.3%. Also, banking stocks represented 73.5% of the aggregate value of shares traded, followed by real estate equities with 22%, industrial stocks with 4.4% and trading stocks with 0.1%. The average daily traded volume for the period was 383,269 shares for an average daily value of \$2.7m. The figures reflect an increase of 13.4% in average volume, and a decline of 5.6% in the average value in the first 11 months of the year. In parallel, the Capital Markets Authority's Market Value-Weighted Index for stocks traded on the BSE dropped by 26.3% in the first 11 months of 2018, while the CMA's Banks Market Value-Weighted Index regressed by 26.2% in the covered period.

Middle East Airlines to distribute \$55m in dividends for 2017

National flag carrier Middle East Airlines (MEA) projected its operating profits in 2018 to be slightly lower than last year's earnings of \$69m due to higher global oil prices. It expected to carry about 3 million passengers in 2018, nearly unchanged from 2017, with a passenger load factor, or capacity utilization rate, of 80%.

MEA, which is 99% owned by Banque du Liban (BdL), estimated that it will distribute gross dividends of about \$55m for 2017, similar to the level it distributed for 2016. It added that BdL plans to list 25% of its shares on the Beirut Stock Exchange (BSE), once the privatization of the BSE and the launch of the electronic trading platform for securities and equities are finalized.

In parallel, the airline indicated that it plans to expand its fleet from 18 aircrafts currently to 20 aircrafts by 2020. It added that it will acquire 15 new Airbus planes in 2020 and 2021 to replace the 13 oldest planes in the company's fleet. As a result, it said that the commercial fleet will consist of five "Airbus 330" aircrafts and 15 "Airbus 321" planes, along with two "Embraer" private jets.

Further, MEA said that its network currently consists of 33 routes across Europe, the Middle East and Africa, and plans to add a new route to Abuja in Nigeria in 2019. It added that Turkey is the top touristic destination for Lebanese travelers, while the Beirut-Istanbul route is MEA's most utilized route in terms of the number of carried passengers.

In parallel, MEA called on the Lebanese government to modernize and expand the Beirut-Rafic Hariri International Airport and to release the \$100m that have been earmarked for this project. It commended the government's recent release of \$18m for the modernization of the airport, but it noted that this amount would not help solve the airport's problems. The airline indicated that the airport generates about \$300m in revenues to the Treasury, with about eight million passengers utilizing this facility (arrivals, departures and transit) each year.

S&P Global Ratings affirms ratings and outlook of three banks

S&P Global Ratings affirmed at 'B-' the long- and short-term issuer credit ratings of BLOM Bank sal, Bank Audi sal and BankMed sal, with a 'stable' outlook. The three financial institutions are the only Lebanese banks that S&P rates. It noted that the prolonged political deadlock and the failure to form a new government since May 2018 have constrained economic activity in Lebanon and reduced lending opportunities for the banks. Further, S&P indicated that the stable outlook on the three banks reflects the outlook on the Lebanese sovereign. It attributed its stable outlook to its expectations of sustained deposit inflows to the banking sector over the next 12 months, which will remain sufficient to support the government's borrowing requirements and the country's external financing gap.

Further, S&P downgraded its assessment of BLOM Bank's standalone credit profile (SACP) from 'b+' to 'b', mainly due to higher industry risks in Lebanon. Still, it expected the bank's net interest margin to expand, which will result in stronger profitability. Also, it revised Bank Audi's SACP from 'b+' to 'bb-', to reflect a combination of increasing domestic risks and a deterioration of the bank's asset quality abroad, mainly in Turkey. It noted that Odea Bank, the bank's subsidiary in Turkey, is facing asset quality problems amid the deterioration of macroeconomic conditions in the country. It said that 'Stage 3' loans at Odea Bank stood at 7.6% of total loans at the end of September 2018. It added that the volatile environment in Lebanon and Turkey could result in additional provisioning needs.

In addition, S&P affirmed Bankmed's SACP at 'b-'. It noted that the bank's exposure to sovereign risk, which represents almost 60% of its balance sheet, constitutes a key risk for the bank. It added that the bank is currently at a turning point with a changing strategy and gradual remediation of accumulated problems on the balance sheet amid weak economic operating environments in Lebanon and Turkey. It expected Bankmed to raise additional capital of about \$110m in 2018 and to sell some of the properties it accumulated in exchange for distressed exposures in 2018 and 2019. S&P added that the stable outlook on Bankmed reflects its expectation that the bank will complete its planned capital injection, execute the planned sale of repossessed collateral and improve its margins over the next 12 months.

Profits of Delta banks up 18% to \$37m in 2017

The consolidated net profits of the Delta Group of banks reached \$37.3m in 2017, constituting an increase of 17.7% from \$31.6m in 2016. The Delta Group consists of banks with deposits under \$200m each. Aggregate net operating income rose by 18% to \$115.9m in 2017, with total net interest income expanding by 42.3% to \$96.6m and net fees & commissions receipts growing by 15.7% to \$36m year-on-year. Also, non-interest income accounted for 31% of total income in 2017, down from 35.3% in the preceding year. The banks' interest spread improved to 3.59% in 2017 from 3% in the preceding year. Further, operating expenditures increased by 12.8% year-on-year to \$69.8m in 2017, with staff expenses rising by 12.8% to \$42.3m and administrative and other operating expenses growing by 18.4% to \$22.3m in 2017. In parallel, the cost-to-income ratio declined from 55.2% in 2016 to 47.8% last year. The banks' return on average assets was 1.33% in 2017 relative to 1.31% in 2016, while their return on average equity grew from 5.17% in 2016 to 5.84% in 2017.

The aggregate assets of Delta banks reached \$3.19bn at the end of 2017, constituting an increase of 31.4% from \$2.43bn at end-2016. Loans accounted for 62% of assets at end-2017, followed by liquid assets with 21%, portfolio securities with 12% and fixed assets with 2%, while other assets accounted for the remaining 3%. Further, net loans reached \$1.97bn at the end of 2017, constituting an increase of 56.9% from \$1.25bn at the end of 2016. Housing loans accounted for 48.5% of total net lending at the end of 2017 compared to 54.9% a year earlier. They were followed by corporate loans with 42% of the total relative to 31.9% at end-2016; credit to small- and medium-sized enterprises with 1.3% at end-2017 relative to 1.9% at end-2016; and retail lending with 1.2% compared to 2% a year earlier; Further, customer deposits reached \$676.2m at end-2017 and grew by 11.1% from a year earlier.

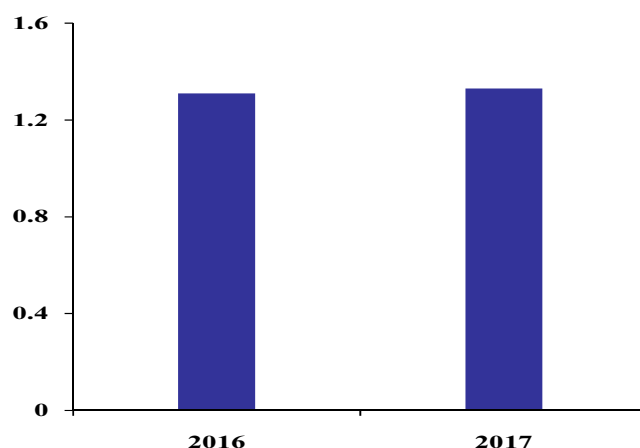
In parallel, the banks' loans-to-deposits ratio increased from 188.1% at end-2016 to 269.6% at end-2017. The ratio of loans-to-deposits in local currency reached 573.8% at end-2017 compared to 272.87% at end-2016, while the rate in foreign currency was 93.64% at the end of 2017 relative to 131.78% a year earlier. Further, the primary liquidity-to-assets ratio regressed from 23.62% at the end of 2016 to 20.61% at end-2017. The banks' net doubtful loans (DLs) plus substandard loans were equivalent to 5.4% of gross loans at end-2017 relative to 7.91% a year earlier; while their net DLs were equivalent to 12.67% of equity at the end of 2017, down from 15.41% at end-2016. Also, loan-loss reserves on doubtful loans were equivalent to 63.9% of doubtful loans at the end of 2017 compared to a ratio of 65.2% at end-2016. The banks' capital adequacy ratio stood at 28.39% at the end of 2017, down from 35.55% at end-2016, according to Basel III criteria.

Guidelines for reduction of water usage published

The Lebanese Center for Energy Conservation (LCEC) published a new set of technical guidelines in cooperation with the USAID-funded Lebanese Water Project, as part of the development of Banque du Liban's (BdL) Lebanese Environmental Action (LEA). The LEA is a national financing mechanism that provides financing for environmentally-friendly projects. The guidelines cover water conservation in the agricultural sector, as well as softscaping and efficient irrigation systems and indoor water reduction for residential and commercial applications. The LCEC encouraged parties that are interested in applying for subsidized environmental loans to use and apply these guidelines. Specifically, the guidelines aim to help potential loan beneficiaries, consultants, and contractors to prepare comprehensive technical reports and proposals.

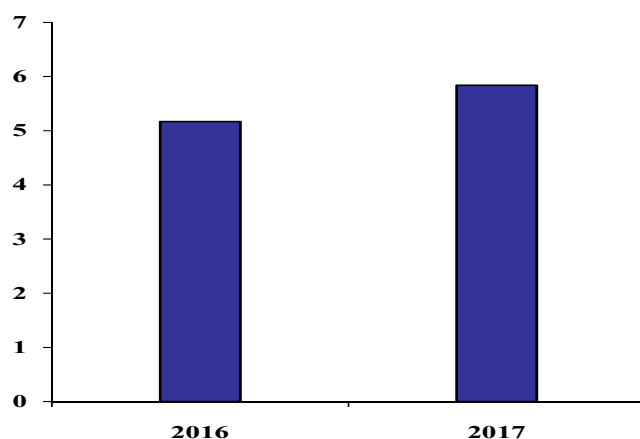
First, the LCEC indicated that projects that require an agricultural loan under the LEA should reduce their water usage by at least 45% through efficient irrigation systems. Second, residential and commercial projects that cover outdoor softscaping and irrigation should reduce water usage by at least 30%. Finally, indoor residential and commercial projects should reduce their water usage by a minimum of 20% through water-efficient fixtures, which would lessen the burden on potable water supply and on wastewater systems.

Return on Average Assets (%)



Source: Bankdata Financial Services

Return on Average Equity (%)



Source: Bankdata Financial Services

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	Negative	B	B	Negative

Source: Rating agencies

Banking Ratings	Outlook
Moody's	Stable

Source: Moody's Investor Services



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