

LEBANON THIS WEEK

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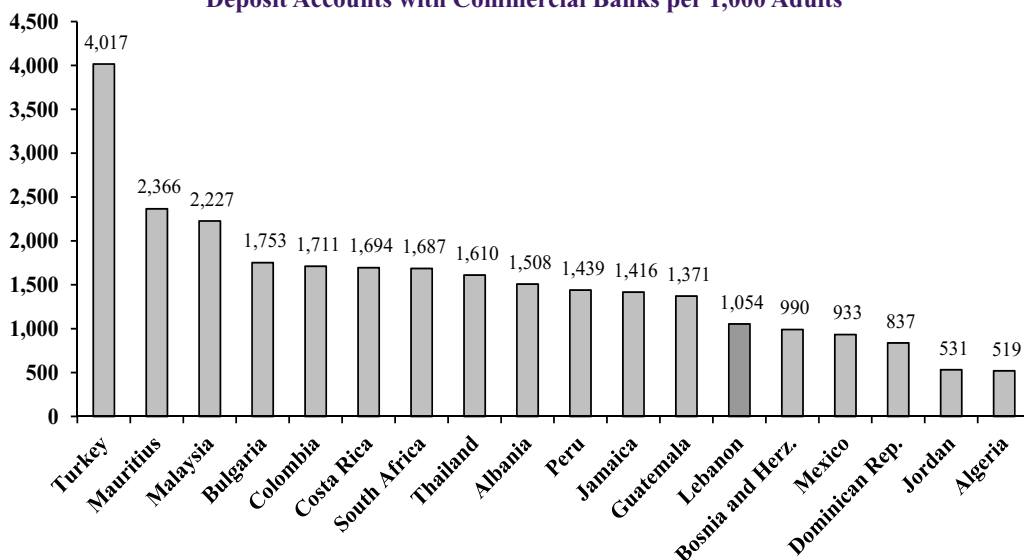
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Charts of the Week

Penetration Rates of Deposit Accounts in Upper Middle-Income Countries at end-2017*
Deposit Accounts with Commercial Banks per 1,000 Adults



Penetration Rates of Deposit Accounts in Lebanon
(Number of Deposit Accounts at Commercial Banks per 1,000 Adults)



*countries with a GDP of \$10bn or more

Source: International Monetary Fund, Byblos Bank

Quote to Note

"Lebanon's strong reserves position represents a major source of comfort and support for the Lebanese pound's peg to the US dollar."

Global investment bank Goldman Sachs, on the adequate level of Banque du Liban's foreign currency reserves

Number of the Week

26.3%: Increase in the compensation of the public sector's personnel in the first half of 2018, according to the Ministry of Finance

Lebanon in the News

\$m (unless otherwise mentioned)	2017	Jan-Oct 2017	Jan-Oct 2018	% Change	Oct-17	Sep-18	Oct-18
Exports**	2,844	2,112	2,199	4.11	251	214	-
Imports**	19,582	14,454	15,156	4.86	1,769	1,438	-
Trade Balance**	(16,738)	(12,342)	(12,957)	4.99	(1,517)	(1,224)	-
Balance of Payments	(156)	(1,078)	(3,122)	189.68	(888)	(146)	(1,810)
Checks Cleared in LBP	21,674	17,663	18,235	3.24	1,993	1,885	2,064
Checks Cleared in FC	46,562	38,751	37,493	(3.25)	4,147	3,655	4,017
Total Checks Cleared	68,254	56,429	55,735	(1.23)	6,140	5,540	6,081
Fiscal Deficit/Surplus***	(3,756)	(907.6)	(3,036)	234.54	(492.4)	-	-
Primary Balance***	1,427.8	1,629.8	(155.4)	-	(52.6)	-	-
Airport Passengers****	8,235,845	7,016,089	7,536,392	7.42	616,742	849,299	684,617
Consumer Price Index*****	4.4	4.3	6.3	200bps	4.6	6.5	6.3

\$bn (unless otherwise mentioned)	2017	Oct 2017	Jul 2018	Aug 2018	Sep 2018	Oct 2018	% Change*
BdL FX Reserves	35.81	36.77	34.21	33.92	34.15	34.62	(5.85)
In months of Imports	18.57	20.79	14.76	18.64	23.75	-	-
Public Debt	79.53	78.48	82.90	83.69	83.85	84.02	7.06
Bank Assets	219.86	215.79	236.31	238.46	241.12	242.61	12.43
Bank Deposits (Private Sector)	168.66	169.40	173.01	173.22	173.94	173.25	2.27
Bank Loans to Private Sector	59.69	58.59	59.22	59.40	59.42	59.15	0.96
Money Supply M2	52.51	54.98	53.58	53.21	52.71	52.06	(5.32)
Money Supply M3	138.62	138.82	140.85	141.04	141.35	140.24	1.02
LBP Lending Rate (%)	8.09	8.24	8.66	8.81	9.31	9.60	136bps
LBP Deposit Rate (%)	6.41	5.56	6.94	7.03	7.39	7.74	218bps
USD Lending Rate (%)	7.67	7.39	7.96	8.12	8.11	8.30	91bps
USD Deposit Rate (%)	3.89	3.72	4.14	4.20	4.36	4.63	91bps

*year-on-year **figures are for first nine months of each year ***figures are for first six months of each year ****includes arrivals, departures, transit

*****year-on-year percentage change

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 "A"	6.70	6.35	159,015	7.02%	May 2019	6.00	98.25	10.25
Byblos Common	1.37	(2.84)	99,521	8.12%	Mar 2020	6.38	94.88	10.93
BLOM GDR	9.30	0.43	34,435	7.21%	Apr 2021	8.25	93.13	11.71
Audi GDR	4.70	(0.21)	22,230	5.91%	Oct 2022	6.10	84.25	11.32
BLOM Listed	9.25	0.00	22,087	20.85%	Jun 2025	6.25	76.88	11.39
Solidere "B"	6.78	6.10	15,691	4.62%	Nov 2026	6.60	75.50	11.36
Audi Listed	4.75	0.00	12,000	19.91%	Feb 2030	6.65	72.00	11.07
HOLCIM	15.51	(3.06)	3,650	3.17%	Apr 2031	7.00	72.50	11.15
Byblos Pref. 09	70.00	(2.78)	2,055	1.47%	Nov 2035	7.05	72.00	10.66
Byblos Pref. 08	70.00	(2.78)	13	1.47%	Mar 2037	7.25	72.00	10.79

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

Source: Byblos Bank Capital Markets

	Dec 10-14	Dec 3-7	% Change	November 2018	November 2017	% Change
Total shares traded	371,697	231,869	60.3	14,323,108	3,450,170	315.1
Total value traded	\$2,281,048	\$1,705,018	33.8	\$85,065,154	\$43,641,250	94.9
Market capitalization	\$9.54bn	\$9.51bn	0.28	\$9.72bn	\$10.87bn	(10.6)

Source: Beirut Stock Exchange (BSE)



Lebanon ranks 64th globally, sixth among Arab countries in electronic commerce

The 2018 UNCTAD Business-to-Consumer (B2C) E-commerce Index ranked Lebanon in 64th place among 151 countries worldwide, in 16th place among 39 economies in upper middle-income countries (UMICs), and in sixth place among 19 Arab countries included in the survey. In comparison, Lebanon ranked in 56th place globally, in 13th place among UMICs and in fourth place regionally in the 2017 survey. Lebanon's global rank regressed by six spots based on the same set of countries included in the 2017 and 2018 surveys. The index measures the readiness of countries to engage in online commerce. It reflects the steps involved in a B2C transaction, and is composed of four indicators that consist of the Internet penetration rate, the number of secure Internet servers per one million inhabitants, the payment account penetration rate, and the reliability of postal services.

Globally, Lebanon's readiness for e-commerce is more developed than in Albania, Armenia and Jamaica, and is less developed than in Brazil, Bahrain and China. Also, Lebanon ranked ahead of Albania and Armenia, and came behind Brazil and China among UMICs. Lebanon received a score of 61.3 points, higher than the global average score of 54.9 points, the UMICs' average score of 56.7 points, and the Arab average score of 45.8 points. Also, Lebanon's score was lower than the Gulf Cooperation Council (GCC) countries' average score of 66.4 points, but higher than the average score of non-GCC Arab countries of 36.3 points.

The index shows that Lebanon's Internet penetration rate in the 2018 survey was 83%, constituting the 26th highest rate globally, the highest rate among UMICs and the fourth highest among Arab countries included in the survey. Also, Lebanon's Internet penetration rate was higher than the global penetration rate of 54%, the UMICs' rate of 60.9% and the Arab rate of 56.3%.

Further, the survey indicates that the payment account penetration rate in Lebanon stood at 45%, which is the 96th highest rate globally, the 31st highest rate among UMICs and the eighth highest in the Arab world. The payment account penetration rate is the percentage of respondents who have an account at a bank or at another type of financial institution. Lebanon's penetration rate was lower than the global payment account penetration rate of 60.3%, the UMICs' rate of 61%, and the Arab countries' rate of 45.2%.

In addition, the index reveals that there are 47 secure Internet servers per one million inhabitants in Lebanon, relative to 55.7 servers per one million inhabitants globally, to 58.3 servers per one million inhabitants among UMICs, and to 42.3 servers per one million inhabitants in the Arab region. The number of secure Internet servers per one million inhabitants in Lebanon is the 92nd highest worldwide, the 31st highest among UMICs and the 10th highest regionally.

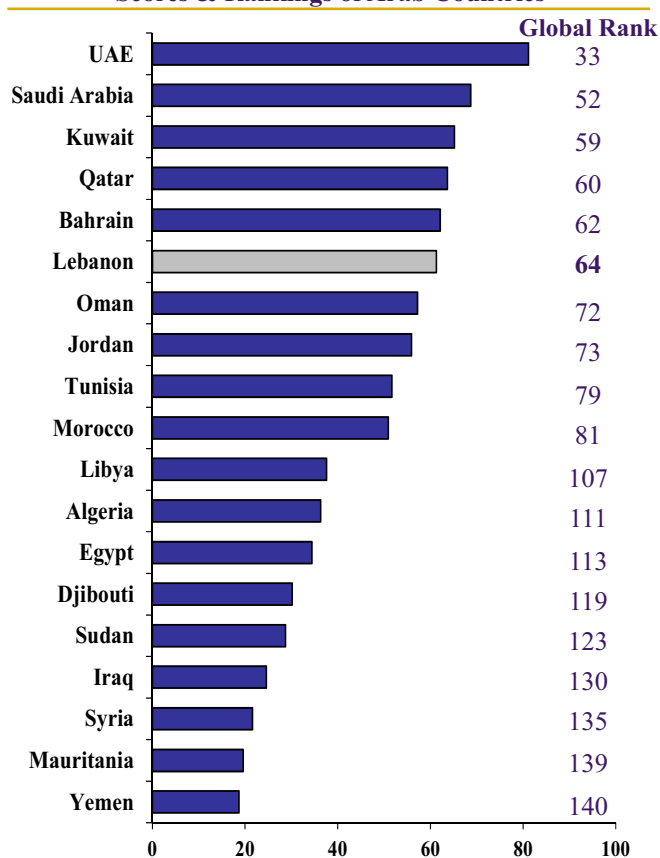
Number of new construction permits down 12% in first 10 months of 2018

The Orders of Engineers & Architects of Beirut and of Tripoli issued 11,703 new construction permits in the first 10 months of 2018, down by 12.2% from 13,324 permits in the same period of 2017. In comparison, new construction permits declined by 8% year-on-year in the first 10 months of 2017. Mount Lebanon accounted for 38.1% of newly-issued construction permits in the covered period, followed by the South with 20%, the Nabatieh area with 13.4%, the North with 12.5%, the Bekaa region with 9.5% and Beirut with 4.8%. The remaining 1.7% were permits issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon.

Further, the surface area of granted construction permits reached 7,772,663 square meters (sqm) in the first 10 months of 2018, constituting a decrease of 23.1% from 10,113,630 sqm in the same period of 2017, while it regressed by a marginal 0.3% in the first 10 months of 2017. Mount Lebanon accounted for 3,018,368 sqm, or 38.8% of the total, in the covered period. The North followed with 1,346,232 sqm (17.3%), then the South with 1,289,747 sqm (16.6%), the Bekaa region with 765,600 sqm (9.8%), the Nabatieh area with 726,813 sqm (9.4%) and Beirut with 296,656 sqm (3.8%). The remaining 329,247 sqm, or 4.2% of the total, represent the surface area of permits that were issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon.

The surface area of new construction permits issued for Beirut dropped by 50.3% year-on-year in the first 10 months of 2018, followed by surface areas in Mount Lebanon (-27.7%), the Bekaa region (-21.3%), the North (-20%), the Nabatieh area (-15.3%) and the South (-6.6%). Also, the surface area of granted construction permits for regions located outside northern Lebanon fell by 27% year-on-year in the covered period. In parallel, cement deliveries totaled 3.6 million tons in the first nine months of 2018, constituting a decline of 4.1% from 3.8 million tons in the same period of 2017, and relative to a decrease of 2.3% in the first nine months of 2017.

**Business-to-Consumer E-Commerce Index for 2018
Scores & Rankings of Arab Countries**



Source: UNCTAD, Byblos Research

Foreign direct investments up 5% to \$784m in first quarter of 2018

Figures released by Banque du Liban show that foreign direct investments (FDI) in Lebanon totaled \$783.6m in the first quarter of 2018, constituting an increase of 5% from \$747m in the same quarter of 2017 and a rise of 28.2% from \$611.5m in the fourth quarter of 2017.

Further, FDI inflows to Lebanon in the first quarter of 2018 reached their third highest level for the first three months of the year between 2002 and 2018. FDI inflows to the country averaged \$589m during the first quarter of each year between 2008 and 2018, and reached a high of \$816m in the first quarter of 2014. Overall, FDI inflows to Lebanon posted a compound annual growth rate (CAGR) of 4.62% between the first quarter of 2008 and the same period of 2018.

In parallel, FDI outflows from Lebanon amounted to \$289m in the first quarter of 2018, down by 11.3% from \$325.8m in the same quarter of 2017 and by 33% from \$431.3m in the fourth quarter of 2017. FDI outflows from Lebanon in the first quarter of 2018 reached their fifth highest level for the first quarter of the year in the 2002-18 period. They averaged \$268.2m during the first three months of each year between 2008 and 2018, with a high of \$628.4m in the first quarter of 2014.

As such, net FDI inflows to Lebanon reached \$494.7m in the first quarter of 2018, constituting an increase of 17.5% from \$421.2m in the first quarter of 2017 and a rise of 174.6% from \$180.2m in the fourth quarter of 2017. Lebanon's net FDI inflows constituted their fourth highest level for the first quarter of a year between 2002 and 2018.

Broad money supply up 1% in first 10 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 LBP11,022.5bn at the end of October 2018, constituting an increase of 3.8% from LBP10,624bn at the end of 2017 and a rise of 7.7% from LBP10,232bn at end-October 2017. Currency in circulation stood at LBP4,682.4bn at the end of October 2018, down by 4.2% from LBP4,886.5bn at end-2017, but up by 2.6% from LBP4,565.7bn year-on-year. Also, demand deposits in local currency stood at LBP6,340.1bn at the end of October 2018, up by 10.5% from end-2017 and by 12% from end-October 2017. Money Supply (M1) declined by 2.4% in October from LBP11,295.7bn at end-September 2018, with demand deposits in local currency decreasing by 3% and currency in circulation regressing by 1.6% month-on-month.

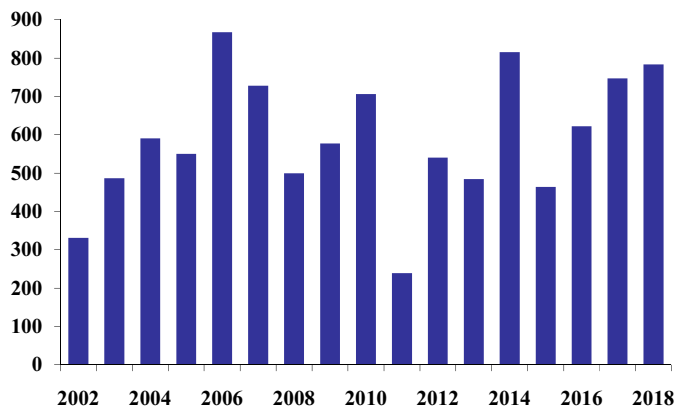
Further, money supply M2, which includes M1 and term deposits in Lebanese pounds, reached LBP78,473.4bn at the end of October 2018, constituting a decrease of 0.9% from LBP79,166.2bn at the end of 2017, and a decline of 5.3% from LBP82,880.3bn a year earlier. Term deposits in Lebanese pounds totaled LBP67,451bn at the end of October 2018, down by 1.6% from LBP68,542.1bn at end-2017 and by 7.2% from LBP72,648.4bn at end-October 2017. Money Supply (M2) regressed by 1.2% in October from LBP79,453bn at end-September 2018, with term deposits in local currency declining by 1% 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 LBP211,404.3bn at the end of October 2018, constituting a growth of 1.2% from LBP208,964.7bn at the end of 2017 and an increase of 1% from LBP209,272bn at end-October 2017. Deposits in foreign currency totaled LBP132,649.7bn at the end of October 2018, up by 2.5% from end-2017 and by 5.2% from a year earlier. Also, debt securities issued by the banking sector amounted to LBP281.2bn at the end of October 2018, compared to LBP321.8bn at the end of 2017 and to LBP324.8bn at end-October 2017. Money supply (M3) declined by 0.8% in October from LBP213,087.6bn at the end of September 2018, with deposits in foreign currency decreasing by a marginal 0.5% month-on-month, and debt securities issued by the banking sector rising by 4.5% from the preceding month. In parallel, M3 expanded by LBP2,439.6bn in the first 10 months of 2018, due to an increase of LBP3,824.6bn in net claims on the public sector and a surge of LBP7,478bn in other net items, which were partly offset by a drop of LBP5,948.3bn in the net foreign assets of deposit-taking institutions and a decline of LBP2,914.7bn in claims on the private sector.

Association of Banks amends reference rate on US dollar and Lebanese pound lending

The Association of Banks in Lebanon (ABL) recommended to its member banks to increase the Beirut Reference Rate (BRR) in US dollars from 8.2% in December 2018 to 8.58% in January 2019. The rate, considered as the reference rate for lending in foreign currency, replaced the London Interbank Offered Rate (LIBOR) in 2009, as the ABL decided that the LIBOR does not reflect the cost of funding and lending in Lebanon. In addition, the ABL recommended to its member banks to raise the BRR in Lebanese pounds from 11.5% in December 2018 to 11.9% in January 2019. The BRR in US dollars and Lebanese pounds were adopted in March and May 2009, respectively. The ABL considers that the BRR does not replace the Beirut Prime Lending Rate in each currency, but constitutes the basis to calculate the prime rate after adding the cost of liquidity and refinancing, credit risk and the profitability of banks.

FDI Inflows to Lebanon* (\$USm)



*in first quarter of each year

Source: Banque du Liban, Byblos Research

Moody's affirms Lebanon's sovereign ratings, changes outlook to 'negative'

Moody's Investors Service affirmed Lebanon's issuer rating at 'B3', and revised the outlook on the rating from 'stable' to 'negative'. It also maintained at 'B1' the country's long-term foreign currency bond ceiling, at 'B3' its long-term foreign currency deposit ceiling and at 'Ba2' its long-term local currency bond and deposit ceilings.

Moody's attributed its affirmation of the rating to its assumption that a government will be formed in the near term and will implement some fiscal consolidation that would unlock the \$11bn pledged at the CEDRE conference, which, in turn, would support economic growth and ease liquidity risks. It considered that the disbursement of the CEDRE-related funds, which is contingent on narrowing the fiscal deficit by 1% of GDP per year over the next five years, would increase public and private investments and support the economy. It added that the start of fiscal consolidation would improve investor and depositor confidence. The agency also pointed out that the rating affirmation takes into account Banque du Liban's (BdL) demonstrated capacity to maintain financial stability and channel financing to the government, despite large macroeconomic imbalances. In addition, it noted that Lebanon's financial institutions have a track record of supporting the government's willingness and capacity to meet its debt payments, even during highly challenging economic, social and political conditions.

The agency indicated that private sector deposits have been a main source of indirect financing for the government. It said that BdL's financial engineering operations, which started in May 2016, incentivized commercial banks to attract new deposits and to park their liquid foreign assets at BdL. It noted that BdL conducted these operations to stabilize the economy's net foreign asset position amid the slower growth in foreign capital inflows that started in 2011. It considered that the centralization of liquidity at BdL has allowed it to maintain interest rates at low levels and to keep rates stable. In addition, Moody's noted that BdL's substantial gross foreign currency reserves, estimated at about \$34.6bn at end-October 2018, provide sufficient coverage of more than 13 months of imports of goods and services, as well as coverage for significant local-currency deposit conversions to US dollars in case of need.

In parallel, Moody's attributed the outlook revision to heightened domestic and geopolitical tensions that are constraining the authorities' capacity to contain the widening fiscal and external imbalances. It noted that the prevailing situation has a negative impact on Lebanon's access to the funds pledged at the CEDRE conference, and has increased risks to the government's liquidity position and the country's financial stability. It pointed out that political tensions and the policy stalemate continue to weigh on capital inflows and the disbursements of CEDRE-related funds. It considered that Lebanon's fiscal metrics could further weaken in case the government does not honor its promise of narrowing the fiscal deficit by 1% of GDP annually over the next five years, and if the recent widening in risk premia is not reversed. It estimated that the risk premia on Lebanon's external debt have widened by 300 basis points since April 2018 to about 800 basis points, which implies higher funding costs.

Further, Moody's indicated that the slowdown in deposit growth, along with a wide fiscal deficit, exacerbates government liquidity risks. It projected the fiscal deficit to reach 10.5% of GDP in 2018 compared to an earlier forecast of 8.9% of GDP due to the absence of fiscal consolidation, as well as to higher debt servicing cost, lower public revenues and larger Treasury transfers to Electricité du Liban. It forecast the deficit to narrow to 9.5% of GDP in 2019 and 9% of GDP in 2020. It expected the net public debt level to increase from 141% of GDP at end-2018 to 150% of GDP by the end of 2021, and projected the government's annual borrowing needs to remain above 30% of GDP. It forecast deposits at commercial banks to grow by about 3%, or by \$5bn, in 2018, relative to a previous growth estimate of \$6.5bn. It noted that the slow growth in deposits is due to heightened political risks, higher U.S. interest rates, and reduced confidence. In addition, the agency said that it would revise the outlook on Lebanon's ratings to 'stable' in case authorities implement significant reforms that would unlock the funds pledged at the CEDRE conference, raise growth prospects, as well as improve investor and depositor confidence and deposit growth.

Value of cleared checks down 1.5%, returned checks up 14.4% in first 11 months of 2018

The value of cleared checks reached \$61.1bn in the first 11 months of 2018, constituting a decline of 1.5% from \$62bn in the same period of 2017. In comparison, the value of cleared checks regressed by 0.5% annually in the first 11 months of 2017 and decreased by 2% year-on-year in the same period of 2016. The value of cleared checks in Lebanese pounds increased by 2.9% year-on-year to the equivalent of \$20.1bn in the first 11 months of 2018, while the value of cleared checks in US dollars declined by 3.5% to \$41bn in the covered period. The dollarization rate of cleared checks regressed from 68.5% in the first 11 months of 2017 to 67.1% in the same period of 2018. There were 10.9 million cleared checks in the first 11 months of 2018, down by 2.1% from 11.1 million in the same period of 2017.

In parallel, the value of returned checks in domestic and foreign currency was \$1.47bn in the first 11 months of 2018 compared to \$1.28bn in the same period of 2017 and to \$1.34bn in the first 11 months of 2016. This constituted a year-on-year increase of 14.4% in the first 11 months of 2018 relative to annual decreases of 4.4% in the same period of 2017 and of 4.5% in the first 11 months of 2016. Also, there were 254,257 returned checks in the first 11 months of 2018, up by 20.6% from 210,765 returned checks in the same period of 2017.



Occupancy rate at Beirut hotels at 64%, room yields down 2% in first 10 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 64.2% in the first 10 months of 2018, down from 65.8% 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 10 months of 2018, unchanged from the same period of 2017. The occupancy rate at hotels in Beirut regressed by 1.5 percentage points year-on-year in the covered period, constituting the fourth lowest decrease among the 14 Arab markets, behind Manama (-0.8 percentage points), Kuwait (-1 percentage point) and Doha (-1.2 percentage points). In comparison, the average occupancy rate in Arab markets regressed by 1.9% year-on-year in the first 10 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, 72.3% in September and 69.6% in October 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, 74.4% in September and 68.8% in October 2017.

The average rate per room at Beirut hotels was \$186 in the first 10 months of 2018, the fifth highest rate in the region relative to Jeddah (\$290), Dubai (\$249), Makkah (\$191) and Kuwait (\$190). The average rate per room at Beirut hotels increased by a marginal 0.3% year-on-year in the covered period. The average rate per room in Beirut was higher than the regional average of \$168 that improved by 7.8% from the first 10 months of 2017.

Further, revenues per available room (RevPAR) were \$120 in Beirut in the first 10 months of 2018 compared to \$122 in the same period of 2017. They were the third highest in the region relative to Dubai (\$185) and Jeddah (\$175). Beirut's RevPAR decreased by 2% year-on-year and posted the third 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, \$133 in September and \$123 in October 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, \$149 in September and \$124 in October 2017. Abu Dhabi posted the highest occupancy rate at 76.4%, while Jeddah had the highest average rate per room in the region at \$290 and Dubai had the highest RevPAR at \$185 in the first 10 months of 2018.

Details about extension of tax deadline published

The Lebanese government published the official text of Law 110 that extends until the end of January 2019 the deadline of some of provisions of the 2018 Budget Law related to tax exemptions, reductions and facilities. The Lebanese Parliament enacted Law 110 during its session on November 12, 2018. Lawmakers attributed their decision to extend the deadline to the prevailing difficult economic situation in the country and to the fact that a large number of taxpayers did not benefit from the tax exemptions, reductions and facilities throughout 2018. Specifically, the deadline's extension affects Articles 17 to 25, as well as Article 32 of the 2018 Budget Law. Taxpayers include individuals, companies, or any other taxable entity subject to Lebanese laws.

Article 17 of the Budget Law exempts taxpayers from any penalties from their failure to maintain accounting records about their income tax. It reduced by 90% the penalties that result from all other tax violations if the penalties are paid by January 31, 2019. Further, Articles 18 to 22 reduce by 90% the fines and penalties that are due to government entities, such as municipality fees, mécanique fees and payment arrears to the National Social Security Fund, provided that taxpayers settle their dues before January 31, 2019. Article 23 allows taxpayers to file their objection about any tax adjustments by January 31, 2019, provided that they pay 10% of the adjusted taxes prior to submitting the objection. In addition, Article 24 exempts taxpayers from penalties related to violations of the income tax law up until 2016, provided that the taxes are paid by January 31, 2019. Article 25 stipulates that taxpayers could pay in installments any unpaid value-added tax or taxes deducted at source (TDS), if they submit a written request and settle 50% of those taxes by January 31, 2019. However, in case the installments are not paid on time, the outstanding payments will be subject to a 12% interest rate. Further, Article 32 allows taxpayers who have objected to a tax adjustment related to the income and value added taxes to pay 50% of the tax adjustment, even if the objection committee has not ruled on this issue yet.

Hotel Sector Performance in First 10 Months of 2018

	Occupancy Rate (%)	RevPAR (US\$)	RevPAR % change
Dubai	74.2	185	(0.7)
Jeddah	60.4	175	5.2
Beirut	64.2	120	(2.0)
Makkah	61.1	116	(5.1)
Ras Al Khaimah	71.3	114	2.7
Kuwait City	56.1	107	(0.8)
Madina	65.4	97	(10.4)
Riyadh	54.4	94	(2.4)
Amman	59.1	84	1.9
Manama	49.9	81	(11.6)
Muscat	55.4	76	(32.5)
Doha	58.9	74	(17.4)
Abu Dhabi	76.4	73	(7.9)
Cairo City	71.6	73	18.1

Source: EY, Byblos Research

PMI shows slower deterioration in operating conditions in November 2018

The BLOM Lebanon Purchasing Managers' Index (PMI), an indicator of operating conditions in Lebanon's private sector, stood at 46.7 in November 2018, its highest value since February 2018. The November value came below the PMI's average of 47.1 since its 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 11 months of 2018, compared to 46.6 in the same period last year. A score that exceeds 50 signals positive business activity, while a score that falls below 50 shows a deterioration in activity.

The survey's results show that the New Orders Index increased from 43.4 in October 2018 to 43.9 in November, its 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 49 in November 2018 relative to 48.3 in October, due to a marginal contraction in export sales, with the rate of decline slowing for the fifth month in a row. Also, the survey respondents attributed the contraction to the regional uncertainties that reduced new external demand.

Further, the survey indicated that the level of business activity in Lebanon's private sector continued to contract month-on-month, but at a softer pace, as the Output Index was at 44 in November 2018 compared to 43.4 in October this year. Businesses attributed the drop in output to political uncertainties and deteriorating economic conditions. The survey pointed out that the decline in incoming new orders led businesses to scale back employment, but at a lower rate than in October, as reflected by the increase in the Employment Index from 49.1 in October to 49.5 in November 2018. Also, the results show that pressure on profit margins persisted due to an increase in overall input costs for private sector firms in Lebanon. Also, despite contracting at a slower pace than in October, the average prices charged by companies decreased for the ninth successive month in November, 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.

Industrial activity deteriorates in second quarter of 2018

Banque du Liban's quarterly survey of the opinions of business managers shows that the balance of opinions about industrial production was -19 in the second quarter of 2018, down from -17 in the first quarter of 2018 and from -9 in the second quarter of 2017. The balance of opinions was the highest in the North at +5, followed by Beirut & Mount Lebanon (-10), and the Bekaa and the South (-45 each). The business survey reflects the opinions of managers of industrial enterprises about their businesses, in order to depict the evolution of a number of key economic variables. The balance of opinions about overall demand for industrial goods stood at -22 in the second quarter of 2018 compared to -21 in the preceding quarter and to -15 in the second quarter of 2017. The balance of opinions about demand for industrial goods was +5 in the North, followed by Beirut & Mount Lebanon (-13), the South (-45), and the Bekaa (-51).

In parallel, the balance of opinions for the volume of investments in the industrial sector stood at -11 in the second quarter of 2018 compared to -12 in the first quarter of 2018 and to -5 in the second quarter of 2017. The balance of opinions about the volume of investments was zero in the Bekaa and the North, while it stood at -7 in Beirut & Mount Lebanon, and at -73 in the South. Also, the balance of opinions for foreign demand of industrial goods stood at -13 during the second quarter of 2018 compared to -16 in the previous quarter and to -20 in the second quarter of 2017. The balance of opinions for foreign demand of industrial goods was zero in the North, followed by Beirut & Mount Lebanon (-7), the Bekaa (-12), and the South (-64). The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in a particular indicator and the proportion of those who reported a decline in the same indicator.

Industrial Activity: Evolution of Opinions				
Aggregate results	Q2-15	Q2-16	Q2-17	Q2-18
Production	-10	-9	-9	-19
Total demand	-17	-12	-15	-22
Foreign demand	-16	-19	-20	-13
Volume of investments	2	-7	-5	-11
Inventories of finished goods	-6	-9	-10	-5
Inventories of raw material	-6	-11	-9	-7
Registered orders	-13	-8	-13	-23

Source: Banque du Liban Business Survey for Second Quarter of 2018

New car sales down 9.4% in first 11 months of 2018

Figures released by the Association of Automobile Importers in Lebanon show that dealers sold 30,785 new passenger cars in the first 11 months of 2018, constituting a decrease of 9.4% from 33,996 cars sold in the same period of 2017. Individuals and institutional clients purchased 2,489 new cars in January, 2,256 new vehicles in February, 2,900 automobiles in March, 2,539 new cars in April, 2,862 vehicles in May, 4,162 new automobiles in June, 3,665 new cars in July, 2,772 vehicles in August, 2,436 new cars in September, 2,509 vehicles in October and 2,195 new automobiles in November 2018.

Japanese cars accounted for 40.6% of total car sales in the first 11 months of 2018, followed by Korean vehicles with a 28.6% share, European automobiles (19.5%), American cars (8.4%) and Chinese vehicles (2.9%). The sales of new Chinese vehicles doubled year-on-year in the covered period. In contrast, demand for Korean vehicles dropped by 23.4%, the sales of European automobiles decreased by 11.8%, the number of American cars sold declined by 4.8% and demand for Japanese automobiles regressed by 0.2 % year-on-year in the first 11 months of 2018.

Kia is the leading brand in the Lebanese market with 4,761 passenger vehicles sold in the first 11 months of 2018, followed by Hyundai with 4,011 new cars sold, Toyota (3,919), Nissan (3,705) and Chevrolet (1,510). In parallel, car dealers sold 2,122 new commercial vehicles in the covered period, down by 13.6% from 2,457 commercial vehicles purchased in the first 11 months of 2017. Overall, car dealers sold 32,907 new passenger cars and commercial vehicles in the first 11 months of 2018, down by 9.7% from 36,453 cars sold in the same period of 2017.

Further, Lebanon's top five distributors sold 20,484 vehicles in the first 11 months of 2018 and accounted for 62.2% of new car sales. Rasamny Younis Motor Co. sal sold 5,082 vehicles, equivalent to 15.4% of the total, followed by NATCO sal with 4,777 automobiles (14.5%), Boustany United Machineries sal with 4,290 cars (13%), Century Motor Co. sal with 4,105 vehicles (12.5%), and Bassoul Heneiné sal with 2,230 cars (6.8%).

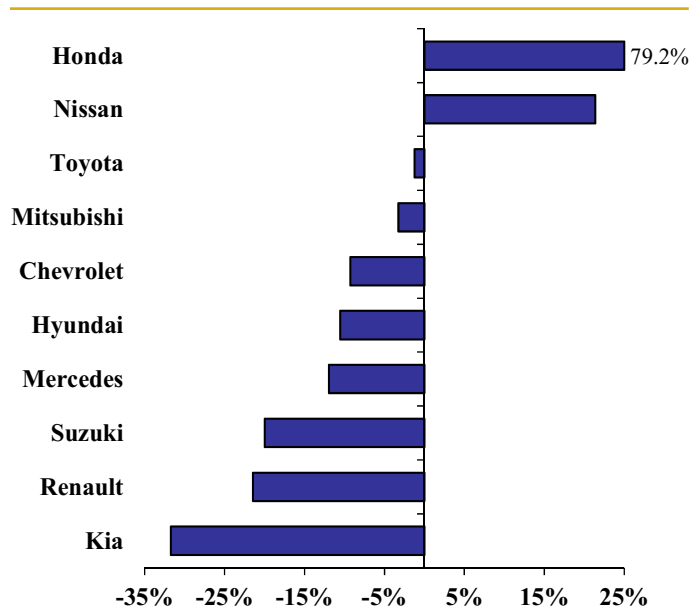
Total E&P Liban calls on Lebanese entities to submit EOI to set up logistics base at Beirut Port

Total E&P Liban sal, which is wholly owned by France's Total S.A., called on Lebanese companies to submit an expressions of interest (EOIs) to set up a logistics base at the Port of Beirut and provide related services, in preparation for offshore oil & gas exploration and production in Lebanon. The selected company will be required to set up an onshore logistics base and storage facility at the Beirut Port, as well as to provide fuel for ships at the port. The firm will also need to secure charter ships to transport the crew and materials to and from the drilling rigs, as well as two multi-engine helicopters for the transportation of the crew.

Interested companies have until December 31, 2018 to submit their EOIs to Total E&P Liban, which will then send these firms a screening questionnaire, to be filled and sent back within 14 days. Total E&P Liban will evaluate the candidates based on their experience, previous performance, compliance, and other criteria described in the questionnaire.

A total of 53 oil and gas companies pre-qualified by April 2017 to submit their bids for the first licensing round for offshore oil and gas exploration and production in Lebanon. However, Lebanon received by the October deadline two bids submitted by one consortium, which consists of France's Total S.A., Italy's Eni International BV and Russian firm JSC Novatek, for Block 4 in the center of Lebanon's territorial waters and for Block 9 in the south of Lebanon's territorial waters. In December 2017, the Council of Ministers approved the bid submitted by the consortium for offshore oil & gas exploration and production in Lebanon.

Sales of Top 10 Car Brands in First 11 Months of 2018
(% change*)



*year-on-year

Source: AIA, Byblos Research

Net income of top 15 banks down 14% to \$1.1bn in first nine months of 2018, ROAA at 0.94% and ROAE at 10.5%

The unaudited consolidated net profits of the Alpha Group of banks reached \$1.7bn in the first nine months of 2018, constituting a drop of 13.8% from net earnings of \$2bn in the same period of 2017. The Alpha Group consists of 15 banks with deposits in excess of \$2bn each. The decline in the banks' net profits is due to a decrease of \$326.6m in net gains on financial assets, a drop of \$175.3m in net gains on financial investments, a decline of \$259.5m in other operating income and a decrease of \$88m in operating expenses, which were partly offset by an increase of \$463.8m in net interest income. Aggregate net operating income regressed by 6.2% year-on-year to \$4.2bn in the first nine months of 2018. The banks' net interest income grew by 15.8% to \$3.4bn, while their net fees & commissions improved by 1.6% to \$667.6m. In addition, net gains on financial assets at fair value decreased by 59.5% year-on-year to \$222m in the first nine months of 2018, with net interest income from financial assets declining by 56% to \$96.1m and net profits on foreign exchange increasing by 24.3% to \$119m. Also, net gains on financial investments dropped by 88.3% year-on-year to \$23.3m in the first nine months of 2018. Non-interest income accounted for 22.1% of total income in the first nine months of 2018, down from 35.4% in the same period last year; with net fees & commissions representing 67.6% of non-interest income, up from 38.2% in the first nine months of 2017. Also, the net interest spread was 1.93% in the first nine months of 2018 relative to 1.87% in the same period last year.

In parallel, total operating expenditures regressed by 3.9% year-on-year to \$2.2bn in the first nine months of 2018, with staff expenses declining by 1.6% to \$1.24bn and administrative & other operating expenditures decreasing by 7.6% to \$777.2m. Further, the cost-to-income ratio was 48.4% in the first nine months of 2018, up from 46.3% in the first nine months of 2017. The banks' return on average assets was 0.94% in September 2018 on an annualized basis relative to 1.17% in September 2017, while their return on average equity was 10.48% in September 2018 on an annualized basis compared to 12.65% in September 2017.

The banks' total assets reached \$249.2bn at the end of September 2018, constituting an increase of 7% from end-2017 and a rise of 8.6% from end-September 2017. Net loans & advances to customers totaled \$62.5bn, down by 5.1% from end-2017 and by 6.1% from the end of September 2017; while credit extended to related parties regressed by 3.9% from end-2017 to \$519.4m at the end of September 2018. Customer deposits reached \$179.7bn at the end of September 2018, up by 0.4% from end-2017; while deposits from related parties totaled \$3.2bn at end-September 2018, down by 11% from end-2017 and by 17% from a year earlier. The banks' shareholders equity reached \$21.5bn at the end of September 2018 and decreased by 1.3% from end-2017.

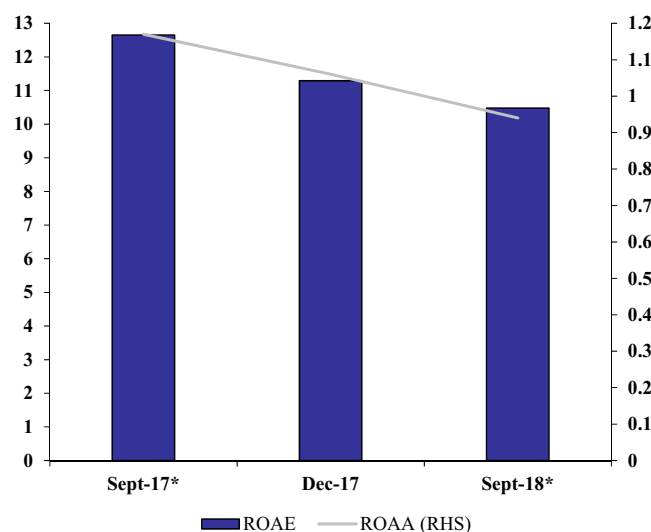
In parallel, the banks' loans-to-deposits ratio decreased from 36.6% at the end of September 2017 to 34.4% at end-September 2018. The loans-to-deposits ratio in local currency was 28.5% compared to 27.3% at end-September 2017, while the ratio in foreign currency was 36.8% at the end of September 2018 relative to 40.3% a year earlier. Further, the primary liquidity-to-assets ratio was 44.3% at the end of September 2018, up from 39% at end-September 2017. In addition, the banks' gross doubtful loans-to-gross loans ratio increased from 6.03% at end-September 2017 to 7.04% at the end of September 2018. Also, the loan-loss reserves on doubtful loans covered 72.7% of gross doubtful loans at end-September 2018, up from a coverage of 72% a year earlier. Further, the ratio of collective provisions-to-net loans decreased from 1.7% at the end of September 2017 to 1.23% at end-September 2018.

MEA signs \$300m deal with Rolls-Royce for aircraft engine supply and maintenance

National flag carrier Middle East Airlines (MEA) signed a \$300m deal with British firm Rolls-Royce for the long-term maintenance of Trent 7000 engines that power the Airbus A330-900neo planes, which MEA plans to purchase. The deal also entails the supply of spare engines and parts for the new planes. MEA intends to purchase four new Airbus A330-900neo that are scheduled to be delivered by 2021, and has an option to buy two additional planes. The upgraded fleet will replace the airline's Airbus A330 aircraft that is powered by Trent 700 engines and would, in turn, improve fuel consumption by 10% and significantly reduce engine-related noise.

MEA's network currently consists of 33 routes across Europe, the Middle East and Africa. It plans to add a new route to Abuja in Nigeria in 2019. 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%. In parallel, Rolls-Royce is an engineering company that designs, manufactures and distributes power systems for aviation, vehicles and other industries.

Profitability Metrics of Top 15 Banks (%)



*on an annualized basis

Source: Bankdata Financial Services, Byblos Research

Ratio Highlights

(in % unless specified)	2015	2016	2017	Change*
Nominal GDP (\$bn)	50.0	51.2	53.4	
Public Debt in Foreign Currency / GDP	54.2	54.9	56.9	2.06
Public Debt in Local Currency / GDP	86.5	91.3	92.0	0.72
Gross Public Debt / GDP	140.7	146.2	149.0	2.78
Total Gross External Debt / GDP**	168.4	182.6	182.4	(0.20)
Trade Balance / GDP	(31.3)	(31.5)	(31.3)	0.16
Exports / Imports	15.9	15.6	14.5	(1.04)
Fiscal Revenues / GDP	19.2	19.4	21.8	2.41
Fiscal Expenditures / GDP	27.1	29.0	28.8	(0.21)
Fiscal Balance / GDP	(7.9)	(9.6)	(7.0)	2.61
Primary Balance / GDP	1.5	0.04	2.7	2.63
Gross Foreign Currency Reserves / M2	58.7	62.2	68.2	5.95
M3 / GDP	247.4	259.2	259.6	0.44
Commercial Banks Assets / GDP	372.2	398.7	411.8	13.02
Private Sector Deposits / GDP	303.3	317.1	315.9	(1.24)
Private Sector Loans / GDP***	108.5	111.6	111.8	0.19
Private Sector Deposits Dollarization Rate	64.9	65.8	68.7	2.88
Private Sector Lending Dollarization Rate	74.8	72.6	68.6	(3.97)

*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 * in January 2018, Lebanese banks started reporting their financials based on international accounting standard IFRS 9, and revised the 2017 figures accordingly

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 Investors Service	B3	NP	Negative	B3		Negative
Fitch Ratings	B-	B	Stable	B-		Stable
S&P Global Ratings	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 Investors Service



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

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BYBLOS BANK GROUP

LEBANON

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

IRAQ

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

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

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

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

UNITED ARAB EMIRATES

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

ARMENIA

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

NIGERIA

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

BELGIUM

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

UNITED KINGDOM

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

FRANCE

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

CYPRUS

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

ADIR INSURANCE

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

