

LEBANON THIS WEEK

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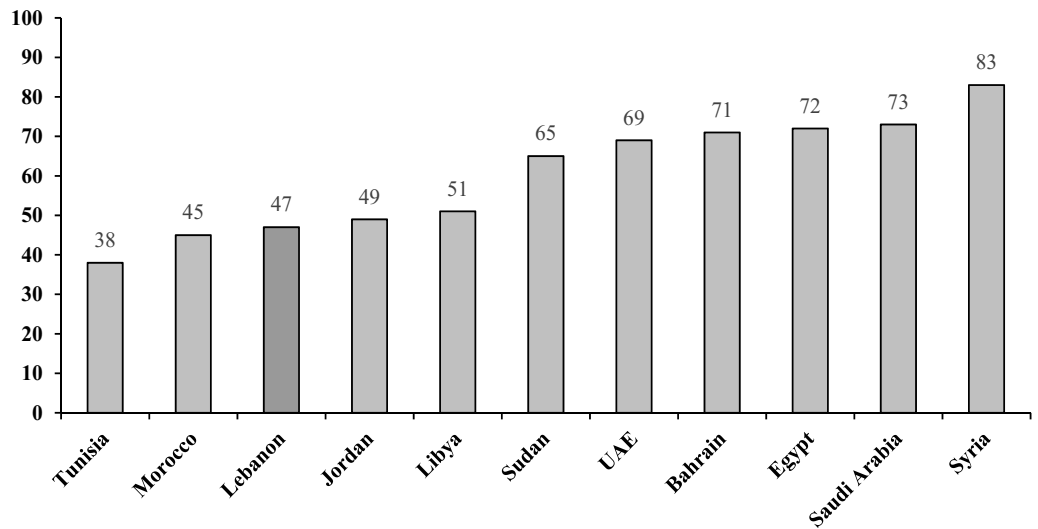
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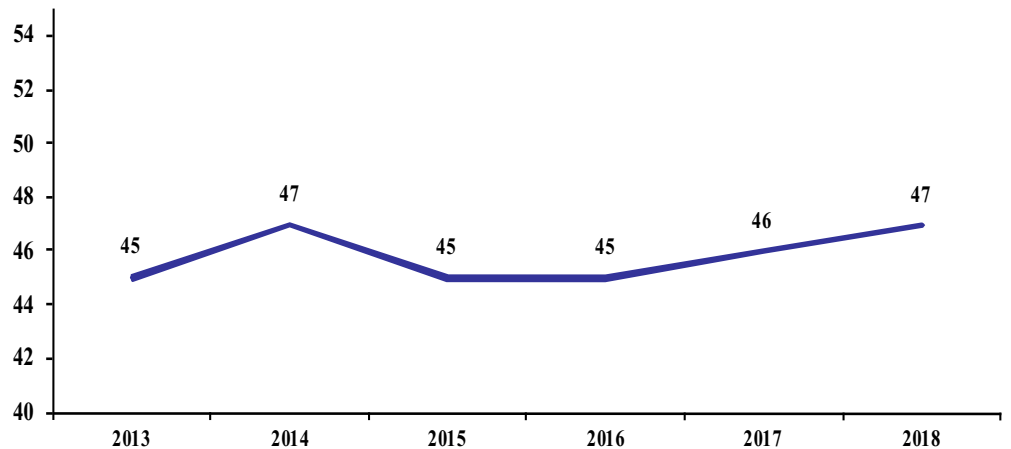
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Charts of the Week

Level of Internet Freedom in Arab Countries in 2018*



Level of Internet Freedom in Lebanon*



*higher score reflects lower level of Internet freedom

Source: Freedom House, Byblos Bank

Quote to Note

"Reliable and timely statistics are key to effective policy-making and analysis."

The Institute of International Finance, on the need to upgrade the statistical system in Lebanon

Number of the Week

\$12bn: The banking sector's immediately available liquidity in foreign currency with non-resident financial institutions as at end-2018, according to the Association of Banks in Lebanon

Lebanon in the News

\$m (unless otherwise mentioned)	2017	2018	% Change*	Dec-17	Oct-18	Nov-18	Dec-18
Exports	2,844	2,952	3.81	251	265	242	246
Imports	19,582	19,980	2.03	1,634	1,718	1,536	1,569
Trade Balance	(16,738)	(17,028)	1.73	(1,383)	(1,454)	(1,294)	(1,323)
Balance of Payments	(156)	(4,823)	-	854	(1,810)	(954)	(748)
Checks Cleared in LBP	21,677	22,133	2.11	2,131	2,064	1,875	2,024
Checks Cleared in FC	46,578	44,436	(4.60)	4,127	4,017	3,481	3,455
Total Checks Cleared	68,255	66,569	(2.47)	6,258	6,081	5,356	5,479
Fiscal Deficit/Surplus**	(3,756)	(4,508)	-	(380.1)	-	-	-
Primary Balance**	1,428	(591)	-	(13.9)	-	-	-
Airport Passengers***	8,235,845	8,842,442	7.37	626,866	684,617	628,205	677,845
Consumer Price Index****	4.4	6.07	163bps	5.0	6.3	5.8	4.0

\$bn (unless otherwise mentioned)	Dec-17	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	% Change*
BdL FX Reserves	35.81	33.92	34.15	34.62	33.56	32.51	(9.19)
In months of Imports	18.57	18.64	23.75	20.15	21.85	20.72	(5.44)
Public Debt	79.53	83.70	83.85	84.04	83.66	85.13	7.04
Bank Assets	219.86	238.46	241.12	242.61	246.51	249.48	13.48
Bank Deposits (Private Sector)	168.66	173.22	173.94	173.25	173.19	174.28	3.33
Bank Loans to Private Sector	59.69	59.40	59.42	59.15	59.21	59.39	(0.50)
Money Supply M2	52.51	53.21	52.71	52.06	51.55	50.96	(2.95)
Money Supply M3	138.62	141.04	141.35	140.24	140.32	141.29	1.93
LBP Lending Rate (%)	8.09	8.81	9.31	9.60	10.15	9.97	188bps
LBP Deposit Rate (%)	6.41	7.03	7.39	7.74	7.97	8.30	189bps
USD Lending Rate (%)	7.67	8.12	8.11	8.30	8.57	8.57	90bps
USD Deposit Rate (%)	3.89	4.20	4.36	4.63	4.90	5.15	126bps

*year-on-year ** 2018 figures are for first nine months of the 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
Audi Listed	4.65	0.00	119,925,761	20.01%
Byblos Common	1.34	(0.74)	75,678	8.16%
BLOM Listed	9.00	0.67	65,700	20.83%
Solidere "A"	5.99	(7.28)	40,755	6.45%
Solidere "B"	5.96	(7.88)	30,446	4.17%
BLOM GDR	8.97	(2.07)	10,608	7.13%
HOLCIM	15.50	0.00	1,125	3.26%
Audi GDR	4.88	2.74	920	6.30%
Byblos Pref. 08	70.00	0.00	395	1.51%
Byblos Pref. 09	70.00	0.00	-	1.51%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
May 2019	6.00	99.50	8.03
Mar 2020	6.38	97.63	8.81
Apr 2021	8.25	97.25	9.70
Oct 2022	6.10	90.50	9.25
Jun 2025	6.25	85.63	9.32
Nov 2026	6.60	85.75	9.21
Feb 2030	6.65	82.00	9.30
Apr 2031	7.00	81.88	9.55
Nov 2035	7.05	81.63	9.23
Mar 2037	7.25	81.75	9.36

Source: Byblos Bank Capital Markets

	Feb 18-22	Feb 11-15	% Change	January 2019	January 2018	% Change
Total shares traded	120,159,588	1,171,763	10154.8	50,963,287	5,509,441	825
Total value traded	\$559,581,901	\$6,010,100	9210.7	\$152,075,282	\$45,845,113	231.7
Market capitalization	\$9.29bn	\$9.36bn	(0.76)	\$9.38bn	\$11.77bn	(20.3)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Feb 15, 2019	Feb 22, 2019	% Change**
CDS 1-year*	673.37	668.06	(0.79)
CDS 3-year*	711.51	717.23	0.80
CDS 5-year*	692.56	699.95	1.07

CDX EM 30*	Feb 15, 2019	Feb 22, 2019	% Change***
CDS 5-year**	96.75	96.86	0.11

Source: ICE CMA; * CDX Emerging Market CDS Index-Series 30

mid-spread in bps *week-on-week

Source: ICE CMA; *mid-spread in bps **week-on-week

Housing demand stagnates in fourth quarter of 2018

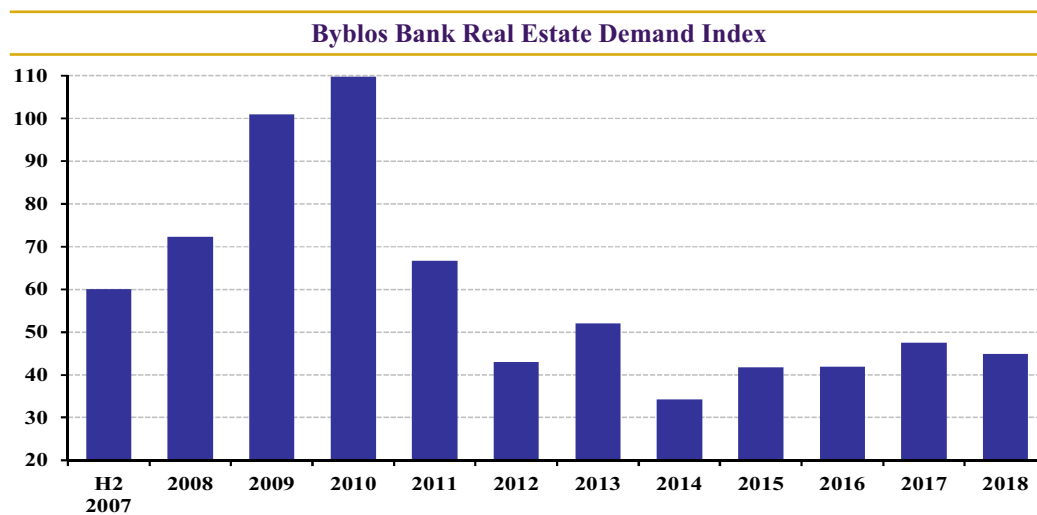
Demand for residential real estate in Lebanon stagnated in the fourth quarter of 2018, as reflected by the results of the Byblos Bank Real Estate Demand Index. The Index posted a monthly average of 51.2 points in the fourth quarter of 2018, nearly unchanged from 51.4 points in the third quarter of 2018 and increasing by 14% from 44.9 points in the fourth quarter of 2017. The fourth quarter results constitute the 20th lowest level in 46 quarters.

Real estate demand in the fourth quarter of 2018 was affected by the absence of concrete initiatives to stimulate housing demand, amid political uncertainties, stagnating consumer confidence and slow economic activity. As such, the Index's average monthly score in the fourth quarter of 2018 came 61% lower than the peak of 131 points registered in the second quarter of 2010, and remained 53.4% below the annual peak of 109.8 points posted in 2010. Also, it was 14.1% lower than the Index's monthly trend average score of 59.6 points since the Index's inception in July 2007.

In parallel, the Byblos Bank Real Estate demand Index posted a monthly average of 44.9 points in 2018, constituting a decline of 5.7% from a monthly average of 47.6 points in 2017. The limited decline of the Index reflects the continuous efforts by commercial banks to extend housing loans during the year, as banks met part of the demand by subsidizing mortgages from their own funds, as well as by offering regular housing loans. The other reason for the limited decline of the Index in 2018 is that stakeholders in the private sector have tried to fill part of the gap left by the suspension of subsidies, as some developers that are financially liquid have started to offer payment facilities to potential buyers that are similar to subsidized loans, until subsidies resume.

The results of the Index show that demand for housing was the highest in the South in the fourth quarter of 2018, as 9.2% of its residents had plans to build or buy a house in the coming six months, compared to 9.1% in the third quarter of 2018. The Bekaa followed with 9.1% of its residents planning to build or buy a residential unit in the coming six months, up from 6.3% in the preceding quarter; while 6.3% of residents in the North had plans to buy or build a house, relative to 4.7% in the previous quarter. In addition, 3.8% of residents in Mount Lebanon intend to buy or build a house, down from 5.5% in the preceding quarter, while 3% of residents in Beirut had plans to build or buy a residential unit, down from 4% in the third quarter of 2018. In parallel, real estate demand decreased in two out of four income brackets in the fourth quarter of the year, while it increased by 17% quarter-on-quarter for residents who earn between \$1,500 and \$2,499, and by 16.2% for those who earn between \$750 and \$1,499.

The Byblos Bank Real Estate Demand Index is a measure of local demand for residential units and houses in Lebanon. The Index is compiled, implemented and analyzed in line with international best practices and according to criteria from leading indices worldwide. The Index is based on a face-to-face monthly survey of a nationally representative sample of 1,200 males and females living throughout Lebanon, whereby residents are asked about their plans to buy or build a house in the coming six months. The data segregates the Index based on age, gender, income, profession, geographic region and religious affiliation. The Byblos Bank Economic Research & Analysis Department has been calculating the Index on a monthly basis since July 2007, with November 2009 as its base month. The survey has a margin of error of $\pm 2.83\%$, a confidence level of 95% and a response distribution of 50%. The monthly field survey is conducted by Statistics Lebanon Ltd, a market research and opinion-polling firm.



Source: Byblos Bank Economic Research & Analysis Department, based on surveys conducted by Statistics Lebanon

UNCTAD issues recommendations to improve investment climate in Lebanon

In its Investment Policy Review of Lebanon (IPR), the United Nations Conference on Trade and Development (UNCTAD), at the request of the Lebanese government, assessed the country's investment regulatory framework to identify key constraints that limit Lebanon's investment potential, and to provide recommendations to address them. It reviewed several areas of the policy framework that affect local and foreign investors, including land registration, taxation, labor, competition, governance, and the environment, among others.

The UNCTAD's assessment of the access to land and property rights shows that registering title to land is a lengthy process, while land and real estate valuation is a key bottleneck. It said that, once a property is registered, property rights are secure and the owner can freely dispose of property, but it added that property acquisition by foreigners is subject to specific regulations. As such, the UNCTAD called on authorities to simplify the process of title registration and to base it on clear criteria in order to reduce red tape. It noted that a project to modernize land administration is in preparation, with the assistance of the World Bank, which would help address these issues. The UNCTAD's medium-term recommendation consists of introducing an electronic registration platform for land and built property titles, among other reforms that would clarify the requirements for foreigners when acquiring a property in Lebanon.

In addition, the UNCTAD indicated that tax collection and compliance are weak in Lebanon, despite rising tax rates and efforts to simplify tax declarations. It considered that Lebanon's corporate tax regime makes tax administration difficult and renders compliance by investors challenging. It noted that eligible investors benefit from incentive schemes under the investment law, such as tax exemptions and reductions. But it said that incentive schemes are not developed on the basis of a systematic analysis and currently do not require a cost-benefit assessment. In this context, the UNCTAD's short-term recommendations consist of establishing and using tax e-declaration and e-payment, of connecting the Trade Register and the Ministry of Finance, and of reducing the list of value-added tax exemptions. Over the medium term, it encouraged authorities to conduct a cost-benefit analysis to assess the relevance of incentives, to introduce guidelines on transfer pricing, and to amend the investment law in order to make incentives automatic, based on pre-determined, clear and objective criteria.

In parallel, the UNCTAD said that Lebanon does not have a comprehensive competitive policy nor a competition law. It noted that the focus of existing legislation is not on the prevention of monopolistic market structures, but on the resulting price setting. It added that the Lebanese market is characterized by a high level of market concentration, which constitutes a structural weakness for the economy. As such, it considered that the adoption of a comprehensive competition law and strategy, and the establishment of a credible competition agency, should be a policy priority.

Further, the UNCTAD said that corruption is perceived by the private sector as one of the most significant deterrents to business in the country. It noted that understaffing and the lack of transparency in the judiciary affect the enforcement of contracts. It added that public procurement is particularly sensitive to corruption, while the legal and institutional frameworks to fight corruption are incomplete. As such, the UNCTAD's short-term recommendations consist of effectively implementing the physical single window for customs administration, of providing high-level political support to the fight against corruption, and of introducing anti-corruption provisions in the draft law on public procurement. It also encouraged authorities to promote arbitration, mediation and conciliation, which would help unclog the courts system. Over the medium term, it called on authorities to upgrade the automation of customs procedures, to establish the Higher Anti-Corruption Authority, to adopt the draft law on public procurement and to complete the legal framework for the fight against corruption.

Number of new construction permits down 28% in January 2019

The Orders of Engineers & Architects of Beirut and of Tripoli issued 841 new construction permits in January 2019, constituting a decline of 27.6% from 1,161 permits in January 2018. In comparison, new construction permits decreased by 1.3% year-on-year in January 2018. Mount Lebanon accounted for 37.3% of newly-issued construction permits in the covered month, followed by the South with 19.5%, the North with 13.3%, the Nabatieh area with 13%, the Bekaa region with 8.3% and Beirut with 6.4%. The remaining 2.1% 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 501,955 square meters (sqm) in January 2019, constituting a decrease of 38.8% from 820,402 sqm in the same month of 2018. In comparison, the surface area of granted construction permits regressed by 3.4% year-on-year in January 2018. Mount Lebanon accounted for 192,497 sqm, or 38.3% of the total, in the covered month. The North followed with 91,099 sqm (18.1%), then the South with 70,297 sqm (14%), Beirut with 42,086 sqm (8.4%), the Nabatieh area with 40,529 sqm (8.1%), and the Bekaa region with 32,153 sqm (6.4%). The remaining 33,294 sqm, or 6.6% 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 the Bekaa region dropped by 50.1% year-on-year in January 2019, followed by surface areas in the South (-49.4%), the Nabatieh region (-44.3%), Mount Lebanon (-41%), the North (-35%), and Beirut (-7.6%). In contrast, the surface area of granted construction permits for regions located outside northern Lebanon increased by 3.3% year-on-year in the covered month. In parallel, cement deliveries totaled 4.7 million tons in 2018, constituting a decline of 8.7% from 5.15 million tons in 2017, and relative to a decrease of 1.9% in 2017.



Lebanon ranks 35th globally in terms of entrepreneurship environment

The Global Entrepreneurship Monitor's 2018 National Entrepreneurship Context Index (NECI), which assesses the national environment for entrepreneurship, ranked Lebanon in 35th place among 54 countries worldwide and in fifth place among 12 economies in the Middle East & Africa (ME&A) region. The NECI score is a weighted average of 12 entrepreneurship framework conditions. Experts evaluate a country's performance on each of the framework conditions, and rate the countries on a nine-point Likert scale. The experts' ratings are then re-adjusted to a 10-point scale, with a score of 10 reflecting a very good entrepreneurship environment. The Global Entrepreneurship Monitor, which provides data and information on entrepreneurship globally, is sponsored by Babson College in the U.S., Universidad Del Desarrollo in Chile, and the Korea Entrepreneurship Foundation, as well as over 200 national sponsors that include academic institutions, ministries, agencies, international aid programs, banks and corporations.

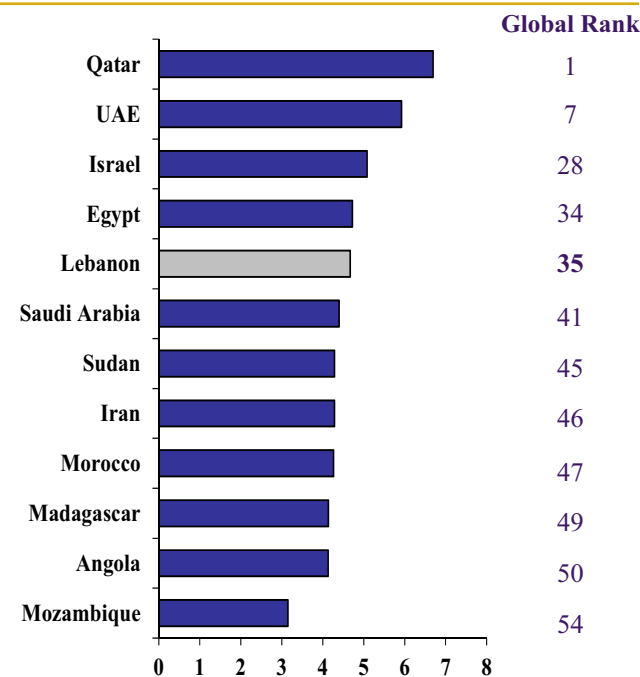
Lebanon received a score of 4.67 points, similar to the ME&A's average score of 4.65 points, and lower than the global average score of 5 points. Globally, Lebanon had a better entrepreneurial environment than Bulgaria, Russia and the Dominican Republic, but a worse environment for entrepreneurs than in Colombia, Uruguay and Egypt.

In parallel, Lebanon came ahead of France, South Korea and Italy, and ranked behind Sweden, Turkey and Germany worldwide on the Entrepreneurial Finance indicator. This indicator evaluates the availability of funds and financing channels for entrepreneurs in a country. Lebanon ranked behind only Israel and Qatar in the ME&A region on this indicator.

Further, Lebanon ranked ahead of Greece, Bulgaria and Puerto Rico, and came behind Peru, the United Kingdom and Madagascar globally on the Government Policies Support & Relevance indicator, which assesses a government's support for entrepreneurs. It also came ahead of Sudan and Mozambique among economies in the ME&A region on the indicator.

In addition, Lebanon ranked ahead of Canada, Slovenia and Russia, and came behind Ireland, Peru and Thailand globally on the post-school stage entrepreneurial education indicator. This indicator evaluates the degree that colleges, business schools and vocational centers provide education on entrepreneurship. Lebanon came behind only Qatar, Madagascar and the UAE among ME&A countries on this indicator.

National Entrepreneurship Context Index for 2018 ME&A Countries' Scores & Rankings



Source: Global Entrepreneurship Monitor, Byblos Research

Components of 2018 National Entrepreneurship Context Index

	Global Rank	ME&A Rank	Lebanon Score	Global Avg Score	ME&A Avg Score
Cultural and social norms	3	2	7.22	5.4	5.5
Commercial & legal infrastructure	22	3	5.74	5.4	5.2
Entrepreneurial education post-school	28	4	5.32	5.3	4.8
Entrepreneurial finance	23	3	5.25	4.8	4.2
Internal market dynamics	46	12	4.75	5.8	5.9
Entrepreneurial education at school	10	3	4.42	3.5	3.3
Physical Infrastructure	54	12	4.37	7	6.3
Internal market burdens	37	5	4.19	4.7	4.2
Governmental entrepreneurship programs	39	6	4.17	4.9	4.1
Taxes and bureaucracy	37	7	3.81	4.3	4.0
Governmental policies: support & relevance	44	10	3.66	4.8	4.3
R&D Transfer	41	6	3.65	4.4	3.8

Source: Global Entrepreneurship Monitor, Byblos Research



Consumer Price Index up 3% in January 2019

The Central Administration of Statistics' Consumer Price Index (CPI) increased by 3.2% in January 2019 from the same month last year. In comparison, the CPI rose by 5.6% year-on-year in January 2018. The prices of food & non-alcoholic beverages grew by 7.7% in January 2019, followed by the prices of clothing & footwear (+7.5%), recreation & entertainment costs (+5.5%), the cost of education (+5.4%), the prices of furnishings & household equipment (+4.7%), actual rents (+3.6%), the cost of water, electricity, gas & other fuels (+2.8%), imputed rents (+2.7%), healthcare costs (+2.5%), miscellaneous goods & services (+2.4%), prices at restaurants & hotels (+1.7%), and the prices of alcoholic beverages & tobacco (+1.1%). The distribution of actual rents shows that old rents grew by 6.2% year-on-year in January 2019, while new rents increased by 1.9% in the covered month. In contrast, transportation costs regressed by 2.7% in January 2019, while communication costs were nearly unchanged in the covered month.

Further, the CPI regressed by 0.7% in January 2019 from the preceding month, relative to a month-on-month decrease of 0.9% in December 2018. The prices of food & non-alcoholic beverages increased by 1.8% month-on-month in January 2019, followed by miscellaneous goods & services (+1%), recreation & entertainment costs (+0.3%), and the prices of alcoholic beverages & tobacco (+0.1%). In contrast, the prices of clothing & footwear declined by 9.4% month-on-month in January 2019, followed by transportation costs (-2.7%), and the cost of water, electricity, gas & other fuels (-2.4%). The prices of furnishings & household equipment, actual and imputed rents, the prices at restaurants & hotels, as well as healthcare, communication and education costs were nearly unchanged month-on-month in January 2019. The CPI decreased by 1.8% month-on-month in the Bekaa, by 0.8% in Beirut, by 0.7% in each of the North and Nabatieh, by 0.6% in Mount Lebanon and by 0.3% in the South. In parallel, the Fuel Price Index regressed by 6.6% month-on-month in January 2019, while the Education Price Index was unchanged from the preceding month.

Coincident Indicator up 0.6% in 2018

Banque du Liban's Coincident Indicator, an index of economic activity in Lebanon, reached 300.7 points in December 2018 compared to 316.5 in November 2018 and 318.3 in December 2017. The Coincident Indicator, an average of 8 weighted economic indicators, decreased by 5% month-on-month and by 5.5% year-on-year in December 2018. Also, the indicator averaged 307.7 points in 2018 and increased by 0.6% from an average of 305.9 points in 2017. In parallel, the indicator regressed 14 times and improved 12 times on a monthly basis in the month of December 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 and 289.5 points in 2016.

Term deposits account for 89% of customer deposits at end-2018

Figures issued by Banque du Liban about the distribution of bank deposits at commercial banks in Lebanon show that term deposits were the preferred type of account for resident and non-resident depositors in Lebanese pounds and in foreign currency at the end of 2018. Term deposits in all currencies reached \$167.3bn at the end of 2018, constituting an increase of 3% from \$162.5bn at end-2017. They accounted for 89.1% of total deposits in Lebanese pounds and in foreign currency at end-2018 relative to a share of 90% at end-2017.

Resident private-sector term deposits in foreign currency totaled \$79.5bn and accounted for 42.4% of total deposits at the end of 2018. Resident private-sector term deposits in Lebanese pounds followed with \$42.3bn (22.5%), then non-resident term deposits with \$34.4bn (18.3%), term deposits of the non-resident financial sector with \$7.1bn (3.8%), public-sector term deposits in Lebanese pounds with \$3.7bn (2%), and public-sector term deposits in foreign currency with \$158.6m (0.1%).

In parallel, resident private-sector demand deposits in foreign currency amounted to \$10.1bn and represented 5.4% of total deposits at the end of 2018. Resident private-sector demand deposits in Lebanese pounds followed with \$4.6bn (2.4%), then non-resident demand deposits with \$3.3bn (1.8%), demand deposits of the non-resident financial sector with \$2.1bn (1.1%), public-sector demand deposits in Lebanese pounds with \$301.4m (0.2%), and public-sector demand deposits in foreign currency with \$126.1m (0.1%).

Beirut and its suburbs attracted 67.65% of private sector deposits and 47.1% of depositors at the end of September 2018, the latest available figures. Mount Lebanon followed with 14.7% of deposits and 18.7% of beneficiaries, then South Lebanon with 6.9% of deposits and 12.9% of depositors, North Lebanon with 6% of deposits and 12.4% of beneficiaries, and the Bekaa with 4.8% of deposits and 9% of depositors.

Revenues through Port of Beirut at \$239m in 2018

Figures released by the Port of Beirut show that the port's overall revenues reached \$239m in 2018, down by 2.5% from \$245.1m in 2017. The Port of Beirut handled 8 million tons of freight in the covered year, down by 7.5% from 8.6 million tons in 2017. Imported freight amounted to 7.1 million tons in 2018 and accounted for 88.4% of the total, while the remaining 930,000 tons, or 11.6%, consisted of export cargo. A total of 1,872 ships docked at the port in 2018, down by 1.9% from 1,909 in 2017.

In parallel, revenues generated through the Port of Tripoli reached \$16.5m in 2018, constituting a decrease of 0.7% from \$16.6m in 2017. The Port of Tripoli handled 1,846,878 tons of freight in the covered year, constituting a decline of 4.4% from 1,931,778 tons in 2017. Imported freight amounted to 1,504,691 tons and accounted for 81.5% of the total, while the remaining 342,187 tons, or 18.5%, were export cargo. A total of 665 vessels docked at the port in 2018, constituting a drop of 13.7% from 771 ships in 2017.



Ministry of Finance extends deadline for tax penalty reductions

The Ministry of Finance extended until the end of June 2019 the deductions on tax penalties that resulted from delays in tax declarations and payments. It issued Decision 78/1 dated February 15, 2019 that details the mechanism of this penalty deduction process.

The ministry granted taxpayers reductions on penalties that result from delays in declaring the income tax, the value-added tax (VAT), the built property tax, the inheritance tax and indirect fees that occurred prior to November 6, 2018. Specifically, Decision 78/1 reduced variable penalties by 85% and lump-sum penalties by 60%. In addition, the ministry lowered by 75% the penalties on payment delays of all taxes and fees, such as stamp duty and VAT, incurred prior to November 6, 2018. Taxpayers can only benefit from this facility if they pay the taxes and penalties before June 30, 2019.

The reductions exclude penalties that are subject to specific laws, penalties that are not allowed to benefit from reductions, and penalties that are less than LBP50,000, among other non-deductible penalties. Further, the settlement of penalties that exceed LBP1bn, after reduction, requires the approval of the Council of Ministers.

New electronic system to classify contractors and engineering firms

The Lebanese government signed a memorandum of understanding with the Lebanese Contractors Syndicate of Public Works & Buildings and with the Orders of Engineers & Architects of Beirut and of Tripoli to launch an electronic system for the classification of contractors, and of engineering and consultancy firms in Lebanon.

The electronic system, which will be used by ministries, as well as by government agencies and departments, will classify contractors and engineering firms in 12 categories based on a unified set of criteria with the aim of limiting favoritism in the tendering process. The criteria include expertise, human resources, financial solvency, and organizational structure, among others. Also, the electronic system aims to promote transparency and to ensure the effectiveness of the evaluation of companies, as well as the quality standards in engineering projects.

The electronic system is part of the CEDRE-related reforms, as it aims to ensure transparency and integrity when contracting for projects financed by funds pledged at the conference, as well as for all other government projects. Currently, the conditions that are required for engineering companies to submit a tender offer for a public-sector project are governed by Decree 3688, which dates back to 1966.



Non-life premiums up 3% to \$1.2bn in 2018

The annual survey by *Al-Bayan* magazine of the insurance sector in Lebanon shows that total non-life premiums generated by 44 insurance companies reached \$1.17bn in 2018, constituting an increase of 3.4% from \$1.13bn in 2017, and compared to growth rates of 3.5% in 2017 and 3% in 2016. Non-life premiums totaled \$1.06bn in 2015 and \$1.09bn in 2016. Bankers Assurance ranked in first place with \$109.8m in non-life premiums in 2018, followed by Fidelity Assurance & Reinsurance with \$99.1m, AXA Middle East with \$85.1m, MedGulf with \$80.8m and Allianz SNA with \$79.3m. Byblos Bank's insurance affiliate Adonis Insurance and Reinsurance Co. (ADIR) ranked in 15th place and improved by two spots from its rank in 2017. Its non-life premiums totaled \$25m in 2018, up by 6.8% from \$23.3m in 2017. Also, the rank of Berytus Insurance improved by five spots to 26th place and registered the highest jump in the rankings among the 44 providers of non-life insurance operating in Lebanon. Its non-life premiums grew from \$6.4m in 2017 to \$11.2m last year. Further, the rank of Liberty Insurance deteriorated by 14 notches to 35th place and registered the steepest drop in the rankings. Its non-life premiums declined from \$13.6m in 2017 to \$5.6m last year.

The composition of the top 10 insurers was unchanged from 2017. Further, Fidelity improved by three spots to second place and Arope Insurance improved by one notch to seventh place in 2018. In contrast, Medgulf regressed by two spots to fourth place, Allianz SNA and LIA declined by one notch each to fifth and eighth place, respectively, while the remaining five insurers maintained their rankings in 2018. In addition, six out of the top 10 insurers posted increases in their non-life premiums last year, while the non-life premiums of MedGulf dropped by 12.8%, those of LIA declined by 9.3%, non-life premiums of Arope Insurance decreased by 4.7% and those of Al Mashrek Insurance regressed by 3% from 2017. Also, there were six advances and six declines in the rankings of the top 20 insurers in Lebanon, while the rankings of eight insurers were unchanged. The top 10 insurers accounted for 63.8% of the non-life insurance market in 2018 relative to 64% in 2017 and 64.5% in 2016; while the top 20 insurers represented 85.7% premiums in 2018 compared to 86.6% in 2017 and 86.9% in 2016. The aggregate non-life premiums were equivalent to 2.1% of GDP in 2018, nearly unchanged from 2016 and 2017.

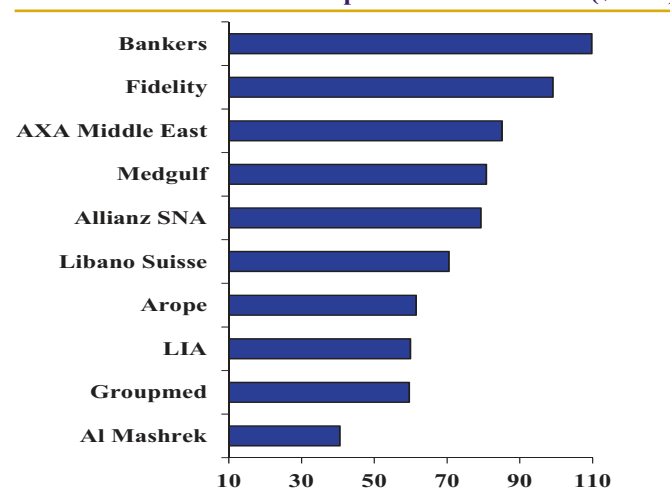
SGBL increases capital through issuance of preferred shares

Société Générale de Banque au Liban sal (SGBL) announced that it raised its capital by LBP3.23bn or \$2.1m, from LBP24.26bn (\$16.1m) to LBP27.49bn (\$18.2m), through the issuance of 12,500 Preferred Shares Series 2018/A at a par value of LBP258,000 (\$171.1) each. The bank's Extraordinary General Assembly validated and ratified the capital increase on October 19, 2018, following Banque du Liban's approval on August 29, 2018. The shares are redeemable, non-cumulative and perpetual, and have an issue price of \$10,000 per share. The preferred shares carry an annual dividend rate of 8.33% of the issue price, which will be paid net of a 10% withholding tax.

Further, the bank has the option to redeem or cancel all or part of the preferred shares in case a regulatory event occurs within 150 days after the Ordinary General Assembly meets in 2023 to approve the financials for fiscal year 2022, and annually thereafter, at a redemption price of \$10,300 per share plus any declared but unpaid dividends.

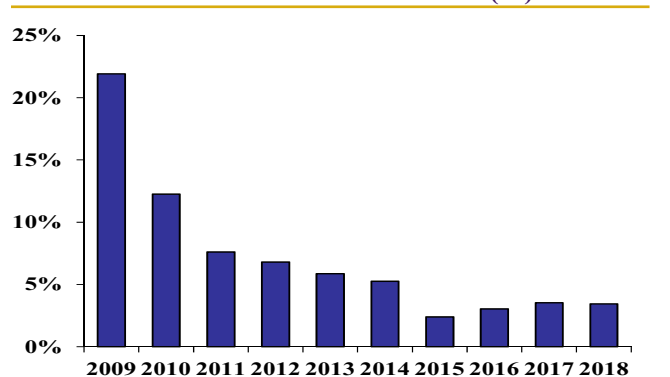
SGBL sal posted unaudited consolidated net profits of \$147.4m in the first nine months of 2018, down by 14% from \$171.3m in the same period of 2017. Its total assets reached \$23.5bn at the end of September 2018, up by 9% from \$21.6bn at end-2017, while loans & advances to customers, excluding those to related parties, increased by 2.9% from end-2017 to \$5bn. Also, customer deposits, excluding those from related parties, totaled \$17.47bn at end-September 2018 and increased by 6.6% from the end of 2017.

Non-Life Premiums of the Top 10 Insurers in 2018 (\$USm)



Source: *Al-Bayan*, *Byblos Research*

Growth in Non-Life Premiums (%)



Source: *Al-Bayan*, *Byblos Research*

Stock market activity posts third highest performance in Arab world in fourth quarter of 2018

Figures released by the Arab Federation of Exchanges show that market activity on the Beirut Stock Exchange (BSE) increased by 0.25% in the fourth quarter of 2018 from the previous quarter, constituting, along with the Casablanca Stock Exchange, the third highest performance among 16 Arab equity markets. In addition, the BSE underperformed the global equity markets (+6%), but it outperformed Arab equity markets that posted flat growth, as well as the stocks of emerging markets that declined by 7.84% quarter-on-quarter. In parallel, activity on the BSE dropped by 15% from the fourth quarter of 2017, constituting the third steepest decline in the region.

The BSE posted higher returns than the Palestine Exchange (+0.1%), the Bahrain Bourse (-0.1%), the Damascus Securities Exchange (-0.24%), the Abu Dhabi Securities Exchange (-0.41%), the Saudi Stock Exchange (-2.16%), the Boursa Kuwait (-2.83%), the Amman Stock Exchange (-3.38%), the Iraq Stock Exchange (-4.13%), the Muscat Securities Market (-4.84%), the Tunis Bourse (-6.8%), the Dubai Financial Market (-10.77%), and the Egyptian Exchange (-10.81%). In contrast, the BSE underperformed the Khartoum Stock Exchange (+7.83%), and the Qatar Stock Exchange (+4.95%).

In parallel, the market capitalization of the BSE reached \$9.68bn at the end of 2018 and accounted for 0.8% of the aggregate market capitalization of Arab stock markets. It was higher than the market capitalization of the Iraq Stock Exchange (\$9.46bn), the Tunis Bourse (\$8.14bn), the Palestine Exchange (\$3.73bn), the Damascus Securities Exchange (\$1.52bn), and the Khartoum Stock Exchange (\$1bn).

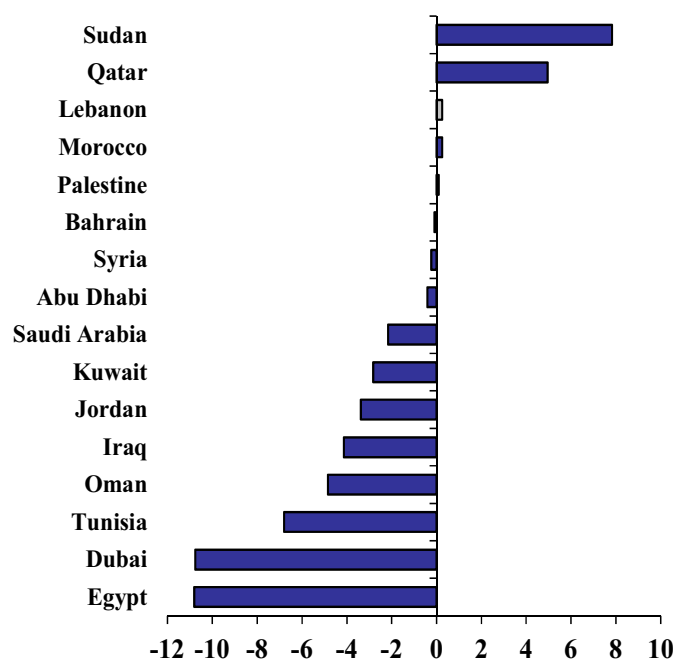
Further, the value of shares traded on the BSE totaled \$147.3m in the fourth quarter of 2018 and accounted for 0.18% of the total value of shares traded on Arab equity markets. It was higher than the turnover on the Iraq Stock Exchange (\$110.3m), the Palestine Exchange (\$40.8m), the Damascus Securities Exchange (\$30.8m), and the Khartoum Stock Exchange (\$6.1m).

Top five freight forwarders' import activity down 12% in 2018, export activity down 23%

Figures released by the Port of Beirut show that overall import shipping operations by the top five freight forwarders through the port reached 313,504 20-foot equivalent units (TEUs) in 2018, constituting a decrease of 11.9% from 355,771 TEUs in 2017. The five freight forwarders accounted for 74.7% of imports to the Lebanese market and for 49.6% of the total import freight forwarding market in 2018. Mediterranean Shipping Company (MSC) handled 124,420 TEUs in imports in the covered year, equivalent to a 19.7% share of the total freight forwarding import market. Merit Shipping followed with 68,537 TEUs (10.8%), then Metz Group with 45,361 TEUs (7.2%), MAERSK with 38,155 TEUs (6%), and Sealine Group with 37,031 TEUs (5.9%). Further, MAERSK registered an increase of 246% in import shipping in 2018, the highest growth rate among the top five freight forwarders, while Sealine Group posted a decline of 43%, the steepest decline in the covered year.

In parallel, export shipping operations by the top five freight forwarders through the Port of Beirut reached 66,129 TEUs in 2018, constituting a decrease of 22.9% from 85,766 TEUs in 2017. The five freight forwarders accounted for 79.3% of exported Lebanese cargo and for 10.4% of the total export freight forwarding market in 2018. Merit Shipping handled 30,364 TEUs of freight in the covered year, equivalent to 36.4% of the Lebanese cargo export market. Metz Group followed with 11,219 TEUs (13.5%), then MAERSK Shipping with 9,114 TEUs and Sealine Group with 9,063 TEUs (10.9% each), and MSC Shipping with 6,369 (7.6%). Further, MAERSK shipping posted an increase of 252.4% in export shipping in the covered year, the highest rise among the top five freight forwarders, while Sealine Group posted a decrease of 43.4%, the steepest decline among the top five freight forwarders.

Performance of Arab Stock Markets in Fourth Quarter of 2018 (% change*)



*from the third quarter of 2018

Source: Arab Federation of Exchanges

Net profits of Syrian affiliates of Lebanese banks at \$15m in 2018

Preliminary financial results issued by the affiliates of seven Lebanese banks operating in Syria show that their aggregate net profits reached SYP6.7bn in 2018 relative to net losses of SYP14.3bn in 2017. The banks' profits in 2017 were significantly affected by net losses on their foreign exchange structural positions that resulted from the appreciation of the exchange rate during that year. However, the banks' foreign exchange structural positions did not affect their results in 2018, as the exchange rate was stable throughout the year at SYP436 against the US dollar. Further, the exchange rate averaged SYP436 per dollar in 2018 relative to an average of SYP507.9 per dollar in 2017, which means that, in US dollar terms, the seven banks generated net profits of \$15.3m in 2018 relative to net losses of \$28.1m in 2017.

The profits of Fransabank Syria increased by SYP4.9bn, followed by a rise of SYP4.88bn in those of Banque BEMO Saudi Fransi, a growth of SYP4.4bn in the income of Bank Audi Syria, an improvement of SYP2.7bn in the profits of Bank of Syria & Overseas, an increase of SYP2.6bn in those of Bank Al-Sharq, the affiliate of Banque Libano-Française, a growth of SYP1.2bn in the income of Syria Gulf Bank, the affiliate of First National Bank, and a rise of SYP270.6m in the profits of Byblos Bank Syria in 2018.

In parallel, the banks' aggregate assets reached SYP911.4bn at the end of 2018 and increased by 12.4% from SYP810.7bn at end-2017. The rise in assets was due to a 46% growth in the assets of Bank Al Sharq (+SYP21.1bn), a 21.7% expansion in those of Banque BEMO Saudi Fransi (+SYP54.4bn), a 21.4% increase in the assets of Byblos Bank Syria (+SYP14.5bn), a 13.4% rise in those of Fransabank Syria (+SYP14bn), and a 7.9% increase in the assets of Bank Audi Syria (+SYP8.8bn), which were partly offset by a 5.5% decline in the assets of Syria Gulf Bank (-SYP2.8bn) and a 5.2% decrease in those of Bank of Syria & Overseas (-SYP9.3bn). In US dollar terms, the assets of the seven banks increased from \$1.86bn at the end of 2017 to \$2.1bn at end-2018. In parallel, the aggregate shareholders' equity of the seven banks reached SYP137bn at end-2018, constituting an increase of 5% from SYP130.5bn at end-2017, while, in US dollar terms, the banks' shareholders' equity rose from \$299.2m the end of 2017 to \$314.2m at end-2018. The seven banks have not published yet their detailed financial results for 2018.

Results of Affiliates of Lebanese Banks in Syria for 2018 (\$USm)

	Net Earnings		Total Assets	Shareholder's Equity
	2017	2018		
Banque BEMO Saudi Fransi	-\$4.1	\$6.4	\$700.6	\$69.7
Bank of Syria & Overseas	-\$1.5	\$4.4	\$390.4	\$53.1
Byblos Bank Syria	\$1.9	\$2.8	\$188.2	\$54.1
Bank Audi Syria	-\$6.4	\$2.6	\$276.4	\$58.5
Bank Al-Sharq	-\$4.2	\$1.2	\$153.4	\$28.8
Fransabank Syria	-\$9.2	\$0.5	\$272.3	\$48.8
Syria Gulf Bank	-\$4.6	-\$2.7	\$109.0	\$1.3

Source: Banks' financial statements

Launch of Agri-Food Innovation Cluster

The Beirut-based Berytech Foundation launched QOOT, the first Agri-Food Innovation Cluster in Lebanon, with the support of the government of Netherlands. The cluster aims to create a platform where startups and existing companies in the country's agri-food sector collaborate, exchange accumulated experience, and have access to business opportunities. The cluster seeks to develop new agri-food products and services, promote Lebanese cuisine, attract foreign investments in the agri-food sector, raise the competitiveness of the industry, and place Lebanon on the innovation map, both regionally and internationally.

The cluster currently consists of 26 Lebanese firms and international companies in Lebanon, and is open for innovation-driven agri-food organizations and to providers of smart agri-food services and products, including multinational companies in Lebanon and small- and medium-sized enterprises. In 2017, Berytech launched the Agrytech accelerator program with the support of the Netherlands, in order to provide technical and business resources to startups in the Lebanese agri-food sector.

Kafalat loan guarantees down 83% to \$0.8m in January 2019

Figures released by the Kafalat Corporation show that loans extended to small- and medium-sized enterprises (SMEs) under the guarantee of Kafalat reached \$799,293 in January 2019, constituting a decrease of 82.8% from \$4.7m in January 2018. Kafalat provided eight loan guarantees in the first month of the year, down by 79.5% from 39 guarantees in January 2018. The average loan size was \$99,912 in January 2019 compared to \$119,438 in January 2018. Mount Lebanon accounted for 50% of the total number of guarantees in January 2019, followed by the Bekaa with 25%, and Nabatieh and the South with 12.5% each. Also, the industrial sector accounted for 62.5% of the total number of guarantees in January 2019, followed by the agricultural sector with 25%, and the tourism sector with 12.5%.

Kafalat is a state-sponsored organization that provides financial guarantees for loans earmarked for the setup and expansion of SMEs in productive sectors. It offers various financial products for SMEs in industry, agriculture, tourism, high technology, crafts and energy sectors. It guarantees up to 90% of the loan amount and a similar percentage of the accrued interest. The Ministry of Finance subsidizes interest rates and Banque du Liban administers the subsidies. The National Institute for the Guarantee of Deposits holds a 75% stake in Kafalat, while the remaining 25% is held by 50 Lebanese banks.

Ratio Highlights

(in % unless specified)	2016	2017	2018	Change*
Nominal GDP (\$bn)	51.2	53.4	56.1	
Public Debt in Foreign Currency / GDP	54.9	56.9	59.7	2.82
Public Debt in Local Currency / GDP	91.3	92.0	92.1	0.10
Gross Public Debt / GDP	146.2	149.0	151.9	2.92
Total Gross External Debt / GDP**	182.6	182.4	183.3	0.90
Trade Balance / GDP	(31.5)	(31.3)	(30.4)	1.11
Exports / Imports	15.6	14.5	14.8	0.25
Fiscal Revenues / GDP	19.4	21.8	21.2	(0.57)
Fiscal Expenditures / GDP	29.0	28.8	32.1	3.29
Fiscal Balance / GDP	(9.6)	(7.0)	(11.0)	(3.97)
Primary Balance / GDP	0.04	2.7	(0.5)	-
Gross Foreign Currency Reserves / M2	62.2	68.2	63.8	(4.39)
M3 / GDP	259.2	259.6	252.1	(7.55)
Commercial Banks Assets / GDP	398.7	411.8	445.1	33.32
Private Sector Deposits / GDP	317.1	315.9	310.9	(4.97)
Private Sector Loans / GDP***	111.6	111.8	105.9	(5.84)
Private Sector Deposits Dollarization Rate	65.8	68.7	70.6	1.90
Private Sector Lending Dollarization Rate	72.6	68.6	69.2	0.57

*change in percentage points 18/17

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	Caa1	NP	Stable	Caa1		Stable
Fitch Ratings	B-	B	Negative	B-		Negative
S&P Global Ratings	B-	B	Stable	B-	B	Stable
Capital Intelligence Ratings	B	B	Negative	B	B	Negative

Source: Rating agencies

Banking Ratings

Banking Ratings	Outlook
Moody's	Stable

Source: Moody's Investors Service



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