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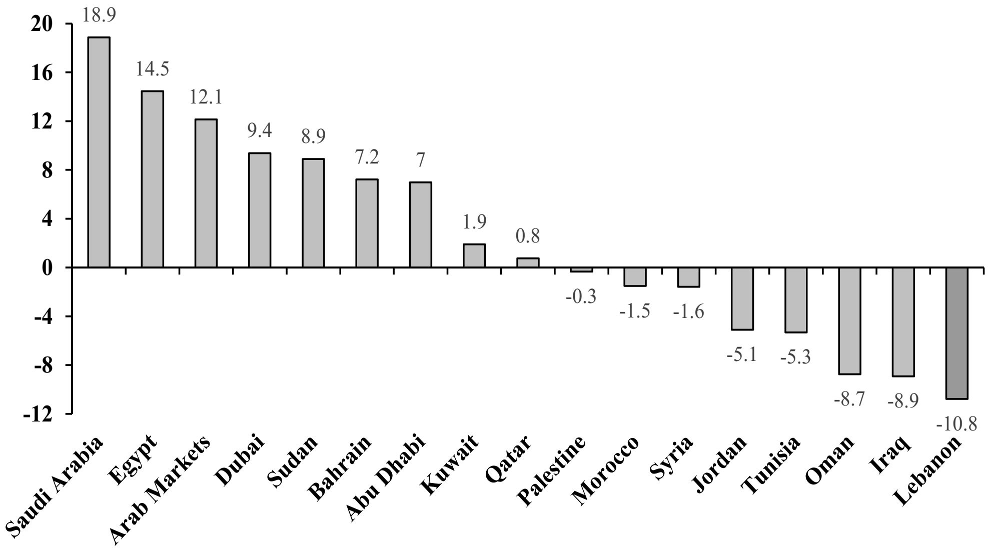
LEBANON THIS WEEK

In This Issue

Charts of the Week

Performance of Arab Stock Markets in First Four Months of 2019 (% change)*



Performance of the Beirut Stock Exchange*

**Capital Markets Authority Value Weighted Index*
Source: Local Stock Markets, Capital Markets Authority, S&P Dow Jones Indices, Byblos Bank

Quote to Note

"The Lebanese Government's commitment to fiscal reforms will be the needed catalyst for the Lebanese economy to regain momentum and to achieve its full potential."

Banque du Liban, on the positive shock that the Lebanese economy is expecting

Number of the Week

40%: Effective tax rate that Lebanese commercial banks pay on their income, according to the Association of Banks in Lebanon

Lebanon in the News

$m *(unless otherwise mentioned)*	2018	Jan-Feb 2018	Jan-Feb 2019	% Change*	Feb-18	Jan-19	Feb-19
Exports	2,952	531	536	0.94	248	236	300
Imports	19,980	3,140	2,769	(11.82)	1,435	1,405	1,364
Trade Balance	(17,028)	(2,609)	(2,233)	(14.41)	(1,187)	(1,169)	(1,064)
Balance of Payments	(4,823)	165	(1,930)	(1267.8)	(72)	(1,380)	(550)
Checks Cleared in LBP	22,133	3,653	3,638	(0.42)	1,686	1,856	1,782
Checks Cleared in FC	44,429	7,431	6,117	(17.68)	3,479	3,045	3,072
Total Checks Cleared	66,562	11,084	9,755	(11.98)	5,165	4,901	4,854
Fiscal Deficit/Surplus**	(5,809)	(865)	-	-	(486)	-	-
Primary Balance**	(491)	(330)	-	-	(223)	-	-
Airport Passengers***	8,842,442	1,102,742	1,131,577	2.61	504,974	607,014	524,563
Consumer Price Index****	6.1	5.4	3.2	(221bps)	5.2	3.2	3.1

$bn *(unless otherwise mentioned)*	Dec-17	Feb-18	Nov-18	Dec-18	Jan-19	Feb-19	% Change*
BdL FX Reserves	35.81	34.39	33.56	32.51	31.93	31.27	(9.06)
In months of Imports	18.57	23.96	21.84	20.72	22.73	22.93	(4.33)
Public Debt	79.53	81.53	83.66	85.14	85.32	85.25	4.55
Bank Assets	219.86	223.07	246.51	249.48	248.88	250.24	12.18
Bank Deposits (Private Sector)	168.66	170.45	173.19	174.28	172.11	171.97	0.89
Bank Loans to Private Sector	59.69	59.03	59.21	59.39	58.14	57.38	(2.78)
Money Supply M2	52.51	53.44	51.55	50.96	49.79	50.23	(6.01)
Money Supply M3	138.62	139.34	140.32	141.29	139.59	139.86	0.37
LBP Lending Rate (%)	8.09	8.67	10.15	9.97	10.41	10.55	188bps
LBP Deposit Rate (%)	6.41	6.51	7.97	8.30	8.93	9.16	265bps
USD Lending Rate (%)	7.67	7.90	8.57	8.57	8.89	8.91	101bps
USD Deposit Rate (%)	3.89	3.96	4.90	5.15	5.58	5.62	166bps

**year-on-year ** 2018 figures are for first 11 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
Byblos Common	1.23	(1.60)	84,985	7.76%
Solidere "A"	5.65	2.36	59,749	6.31%
Solidere "B"	5.50	5.16	35,792	3.99%
Audi GDR	4.48	(1.97)	21,615	6.00%
HOLCIM	14.25	(8.06)	7,000	3.10%
Audi Listed	4.70	(0.84)	4,650	20.97%
Byblos Pref. 08	70.00	(7.89)	3,915	1.56%
BLOM GDR	8.29	3.75	545	6.84%
BLOM Listed	8.50	0.00	-	20.40%
Byblos Pref. 09	78.95	0.00	-	1.76%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
May 2019	6.00	99.63	15.28
Mar 2020	6.38	97.88	9.03
Apr 2021	8.25	96.88	10.06
Oct 2022	6.10	88.38	10.23
Jun 2025	6.25	83.38	9.95
Nov 2026	6.60	82.38	9.97
Feb 2030	6.65	79.25	9.80
Apr 2031	7.00	78.75	10.10
Nov 2035	7.05	78.88	9.63
Mar 2037	7.25	79.50	9.68

Source: Byblos Bank Capital Markets

	Apr 30-May 3	Apr 23-25	% Change	April 2019	April 2018	% Change
Total shares traded	230,251	142,434	61.7	689,768	3,491,466	(80.2)
Total value traded	$1,399,468	$704,805	98.6	$4,931,247	$19,769,834	(75.1)
Market capitalization	$8.96bn	$8.98bn	(0.24)	$9.02bn	$11.23bn	(19.7)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Apr 26, 2019	May 3, 2019	% Change**
CDS 1-year*	754.17	740.23	(1.8)
CDS 3-year*	824.41	810.40	(1.7)
CDS 5-year*	809.52	801.07	(1.0)

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

CDX EM 30*	Apr 26, 2019	May 3, 2019	% Change***
CDS 5-year**	96.15	96.46	0.3

*Source: ICE CMA; * CDX Emerging Market CDS Index-Series 30*
***mid-spread in bps ***week-on-week*

Preliminary 2019 draft budget relies heavily on tax increases

A summarized version of the 2019 draft budget shows budget spending at LBP25,324bn, or $16.8bn, in 2019 and revenues at LBP18,266bn, or $12.1bn, leading to a budget deficit of LBP7,058bn, or $4.68bn. The Ministry of Finance prepared the draft budget in collaboration with the other ministries, while the Council of Ministers has been studying it since April 30, 2019. A summarized version of the draft budget was available for review rather than the full 1,200 pages. The summary did not include Treasury spending, which is necessary to calculate the overall fiscal deficit.

Budget spending in the 2019 draft budget is 2.6% lower than spending of LBP25,991bn, or $17.2bn in the 2018 budget, and is higher than the actual budgetary spending of LBP22,952bn, or $15.2bn in the first 11 months of 2018, the latest available figures.

The breakdown of budgetary spending for 2019, excluding Treasury outlays, shows that current expenditures would amount to LBP23,319bn ($15.47bn), and would be equivalent to 92.1% of such spending. Current expenditures would include LBP8,312 ($5.5bn) in debt servicing cost and LBP1,706 ($1.1bn) in transfers to Electricité du Liban, while the remaining LBP13,301bn ($8.8bn) would consist of public-sector personnel cost and other general expenditures. In comparison, debt servicing reached $5.3bn in the first 11 months of 2018 and transfers to EdL amounted to $1.6bn. In addition, capital spending, which includes investing in infrastructure, land expropriation and the purchase of equipment, would reach LBP2,005bn ($1.3bn), or 7.9% of total expenditures, in 2019.

On the revenues side, the 2019 draft budget forecast tax receipts at LBP14,264bn ($9.46bn), compared to LBP11,998bn ($7.96bn) in realized tax revenues in the first 11 months of 2018, while it projected non-tax revenues at LBP4,001bn ($2.65bn), relative to LBP3,053bn ($2bn) in the first 11 months of 2018. The Finance Ministry expects to generate additional tax revenues mostly from the suggested rise in the tax on interest rate on deposits from 7% to 10%, as well as from adding a new tax bracket for persons and enterprises that generate an annual income of LBP225m or more that raises the income tax rate from 21% to 25%. Specifically, the ministry forecasts to generate 50% of the anticipated increase in tax receipts in 2019 from the suggested tax hike on deposit rates. In addition, the draft budget includes raising the tax on interest rates on Lebanese-pound denominated Treasury bills from 7% to 10%.

The draft budget introduced other revenue measures, such as setting the passport's validity at a minimum of three years for a cost of LBP200,000 rather than the minimum of one year previously (LBP60,000), cancelling all exemptions related to customs duty, revoking some exemptions related to car registration fees, and imposing additional fees for cars with special license plate numbers. It also provides incentives for taxpayers to settle their late tax payments, including a 90% reduction on penalties.

On the cost-cutting side, measures include limiting public sector salaries to 12 months per year, as some agencies pay salaries that can reach 16 months per year. This measure would cover employees at Banque du Liban, telecom services provider Ogero, the National Social Security Fund and the Port of Beirut, among others. The budget draft also caps basic public-sector salaries at the salary of the President of the Republic (LBP12.5m per month) and does not allow retirees to receive multiple retirement salaries from various positions in the public sector. Further, it freezes for a period of three years civil servants' request to retire, except for those who reach retirement age. In case the civil servant, including army personnel, insists on retiring, the request will be approved based on a 25% reduction on all retirement benefits. The budget also intends to reform the pension systems of the Army and security forces, as well as their benefits and the process to join the Army. In addition, it freezes recruitment in the public sector for a period of three years; while it cuts by 50% the salaries of the President, Prime Minister, the Speaker of Parliament, ministers, and current and former Members Parliament for a period of three years. Further, it cancels the privilege of current MPs and ministers to purchase cars that are exempt from tariffs.

Breakdown of Estimated and Actual Tax Revenues

US$m	2019 Draft Budget	First 11 Months of 2018*	2018 Budget
Taxes on Income, Profits and Capital Gains	**3,622.0**	**2,835.0**	**2,653.0**
10% Tax on Interest Rates	1,669.5	1,069.6**	863.6
Taxes on profits	981.5	890.6	990.9
Taxes on wages & Salaries	621.2	571.2	517.7
Taxes on capital Gains	315.2	269.7	224.0
Penalties on Income Tax	33.6	33.6	55.7
Other Taxes on Income	0.6	0.6	0.7

** realized tax receipts*

*** based on 7% tax on interest rates*

Source: Ministry of Finance, Byblos Research

Occupancy rate at Beirut hotels at 65%, room yields up 31% in first two months of 2019

EY's benchmark survey of the hotel sector in the Middle East indicated that the average occupancy rate at four- and five-star hotels in Beirut was 65% in the first two months of 2019 relative to 54.9% in the same period of 2018, and compared to an average rate of 66.4% in 14 Arab markets included in the survey. The occupancy rate at Beirut hotels was the seventh lowest in the region in the first two months of the year, while it was the fourth lowest in the same period of 2018. The occupancy rate at hotels in Beirut increased by 10.1% year-on-year in the first two months of 2019, constituting the second largest increase among the 14 Arab markets, behind only Makkah (+12.8%). In comparison, the average occupancy rate in Arab markets grew by 1.2% year-on-year in the covered period. Occupancy rates at Beirut hotels were 59.8% in January and 70.7% in February 2019, compared to 49.1% in January and 61.3% in February 2018.

The average rate per room at Beirut hotels was $192 in the first two months of 2019, up by 10.4% from $174 in the same period of 2018, and constituting the second highest rate in the region after Dubai ($269). The average rate per room in Beirut was higher than the regional average of $154 that regressed by 5.2% from the first two months of 2018.

Hotel Sector Performance in First Two Months of 2019

	Occupancy Rate (%)	RevPAR (US$)	RevPAR % change
Dubai	85.8	231	(11.6)
Beirut	**65.0**	**125**	**30.6**
Kuwait City	59.1	109	(22.1)
Ras Al Khaimah	70.4	115	(7.4)
Riyadh	64.3	105	(15.3)
Abu Dhabi	84.0	102	15.9
Jeddah	49.0	84	(9.0)
Muscat	66.6	99	0.1
Cairo-City	76.8	83	14.3
Manama	53.0	82	(2.1)
Amman	54.4	75	(2.8)
Makkah	74.2	74	4.6
Madina	61.6	77	(13.8)
Doha	65.7	76	0.4

Source: EY, Byblos Research

Further, revenues per available room (RevPAR) were $125 in Beirut in the first two months of 2019 compared to $95 in the same period of 2018, ranking the capital in second place regionally behind Dubai ($231). Beirut's RevPAR grew by 30.6% year-on-year and posted the largest increase regionally. Beirut posted RevPARs of $118 in January and $132 in February 2019, compared to $87 in January and $105 in February 2018. Dubai posted the highest occupancy rate in the region at 85.8%, the highest average rate per room at $269 as well as the highest RevPAR at $231 in the first two months of 2019. EY attributed the improved performance of Beirut's hospitality market to the increase in tourist arrivals during the winter tourism season, as well as to the formation of the new government and Saudi Arabia's lifting of a 15-month old travel warning to Lebanon in mid-February 2019.

Consumer Price Index up 3.5% in first quarter of 2019

The Central Administration of Statistics' Consumer Price Index increased by 3.5% in the first quarter of 2019 from the same period of 2018, compared to a growth of 5.4% in the first quarter of 2018. Also, the CPI rose by 4.1% in March 2019 from the same month of 2018. The prices of clothing & footwear grew by 15.8% in March 2019 from the same month of 2018, followed by the prices of water, electricity, gas & other fuels (+7.1%), recreation & entertainment costs and the prices of food & non-alcoholic beverages (+6.9% each), the cost of education (+5.1%), the prices of furnishings & household equipment (+4.9%), actual rents (+3.4%), imputed rents (+2.9%), miscellaneous goods & services costs (+2.4%), prices at restaurants & hotels (+1.9%), and the prices of alcoholic beverages & tobacco (+1%). In contrast, healthcare costs declined by 2% year-on-year in March 2019, followed by communication costs (-0.3%) and transportation costs (-0.2%). Also, the distribution of actual rents shows that old rents grew by 5.1% annually in March 2019, while new rents increased by 2.2% year-on-year.

Further, the CPI grew by 1.7% in March 2019 from the preceding month compared to a month-on-month rise of 0.2% in February 2019. The prices of clothing & footwear increased by 19.1% month-on-month in March 2019, followed by the cost of recreation & entertainment (+3.5%), transportation costs (+3.2%), the cost of water, electricity, gas & other fuels (+1.8%), the prices of food & non-alcoholic beverages (+0.5%), and prices at restaurants & hotels and actual rents (+0.3% each). In contrast, the prices of furnishings & household equipment regressed by 0.4% month-on-month in March 2019, while communication costs declined by 0.2% in the covered month. Healthcare costs, imputed rents, the cost of education and miscellaneous goods & services and the prices of alcoholic beverages & tobacco were unchanged month-on-month in March 2019. The CPI increased by 2.4% month-on-month in March 2019 in the North, by 2.2% in the Bekaa, by 1.6% in Mount Lebanon, and by 1.5% in Nabatieh, by 1.4% in Beirut and by 1% in the South. In parallel, the Fuel Price Index rose by 6.1% month-on-month in March 2019, while the Education Price Index was unchanged in the covered month.

Coincident Indicator down 4.6% year-on-year in first two months of 2019

Banque du Liban's Coincident Indicator, an index of economic activity in Lebanon, reached 297.9 points in February 2019 compared to 295.9 in January 2019 and 313 in February 2018. The Coincident Indicator, an average of eight weighted economic indicators, increased by 0.7% month-on-month and declined by 4.8% year-on-year in February 2019. The indicator averaged 296.9 in the first two months of 2019, down by 4.6% from an average of 311.2 in the same period of 2018. Also, the indicator averaged 305.3 in the 12 months ending February 2019, compared to an average of 306.6 in the 12-month period ending January 2019 and to an average of 307.5 in the 12 months ending February 2018. As a result, the 12-month average coincident indicator declined by 0.4% month-on-month, and by 0.7% year-on-year. In parallel, the indicator improved 14 times and regressed 13 times on a monthly basis in the month of February since 1993. It averaged 249.5 points in 2010, 255.7 points in 2011, 256.6 points in 2012, 264.7 points in 2013, 273.2 points in 2014, 278.6 points in 2015, 289.5 points in 2016, 305.9 points in 2017 and 307.7 points in 2018.

Lebanon in the News

Fiscal adjustment to be based on cutting expenditures and avoiding non-market measures

In the monthly meeting between Banque du Liban (BdL), the Banking Control Commission of Lebanon (BCCL) and the Association of Banks in Lebanon (ABL), Governor Riad Salamé reiterated that BdL will maintain its policy of monetary stability. He added that BdL does not intervene in the interest rate market, while it conducts its purchase of government securities in an organized and orderly way. He informed the ABL that BdL settled the $500m Eurobond that matured in April 2019 and that it will also settle the $600m Eurobond that will come is due in May 2019.

Governor Salamé indicated that he does not have details about the 2019 budget, but that he was informed that the government has the intention to narrow the fiscal deficit. He added that BdL will assess the budget once the final document is published. He stressed that BdL will be at the core of the fiscal adjustment and that nobody can impose financial transactions or measures on the market. He noted that, if suggested, it will be up to each bank to participate in a fiscal adjustment, in order to avoid a repetition of the post-Paris II Conference scenario. At the time, commercial banks provided $3.6bn in financing to the Lebanese government for a period of two years through the purchase of Treasury bills at an interest rate of zero percent, in exchange of the government's commitment to implement structural reforms. However, Lebanese authorities did not proceed with the promised reforms even though the banks honored their part of the deal.

Further, the ABL said that the government did not approach banks with any suggestion regarding their participation in the fiscal adjustment. It noted that any measures outside of market-based norms are not a realistic option. It stressed that the budget should be based on reducing expenditures and wasteful spending, without increasing taxes or imposing new ones, as tax measures have backfired in the past and have led to a widening of the fiscal deficit.

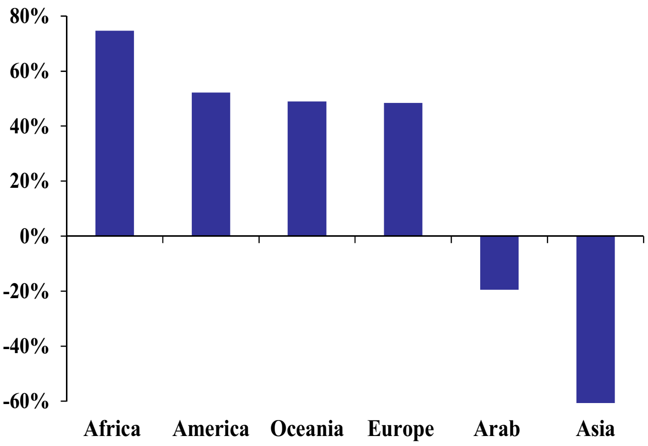
In parallel, Governor Salamé called on banks to respond more forcefully to the negative campaigns and rumors about the banking sector, as they affect confidence and should not be left unaddressed. The ABL indicated that the rumors had a negligible impact on the banks' balance sheets, and that the normal flow of deposits in and out of the country continues. In addition, it said that BdL's communication with the U.S. Department of the Treasury is ongoing. Still, he asked banks to take all necessary measures to avoid any negative impact on the Lebanese financial system amid the new U.S. sanctions on Iran.

Separately, the ABL declared that the tax measures that the Lebanese Parliament enacted in 2017 in a separate law than the budget, in order to finance the increase in public sector wages and salaries, had a negative impact on the Lebanese economy in 2018 that is still ongoing in 2019. It noted that the across-the-board tax increases resulted in the closure of a large number of companies, the layoff of employees, the stagnation in economic growth, the increase in unemployment and in the inflation rate, as well as in an unprecedented deficit in the balance of payments. It added that the tax hikes contributed to the slowdown in deposit growth and in lending to the private sector. As such, the ABL warned that imposing additional taxes on the slowing economy, as stipulated in the preliminary 2019 draft budget, will accelerate and amplify this prevailing trend, which will backfire on the objective of reducing the fiscal deficit-to-GDP ratio. The ABL considered that, in view of the wasteful spending and weak governance in the public sector, the government should address the roots of these issues forcefully and effectively, instead of reverting to tax increases.

Tourist arrivals up 4% in first quarter of 2019

The number of incoming visitors to Lebanon totaled 375,815 in the first quarter of 2019, constituting an increase of 3.7% from 362,398 tourists in the same period of 2018 and a decline of 4.4% from 393,212 visitors in the first quarter of 2010, the record year for tourism activity in Lebanon. Also, the number of incoming visitors reached 144,760 in March 2019, up by 22.5% from 118,175 in February 2019 and by 2.9% from 140,703 in March 2018. Visitors from Arab countries accounted for 36.4% of the total in the first quarter of 2019, followed by those from European economies with 35%, the Americas with 14%, Asia with 8.2%, Oceania with 3.4% and Africa with 3%. Further, tourists from Iraq accounted for 13.1% of total visitors in the first quarter of 2019, followed by visitors from France (8.6%), the U.S. (7.2%), Egypt (6.4%), Jordan (4.9%), Saudi Arabia (4.7%), Canada (4.5%), Germany (4.2%), England (3.8%), and Kuwait (3%).

Change in the Number of Tourist Arrivals from Main Sources in First Quarter of 2019*



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

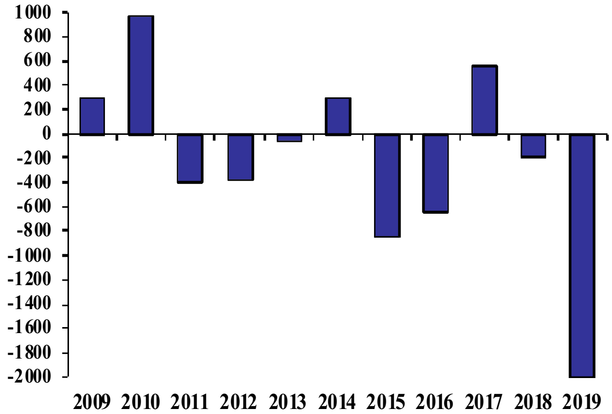
In parallel, the number of visitors from Arab countries increased by 16.4% year-on-year in the first quarter of 2019, followed by those from Asia (+5%), the Americas (+2.7%), Europe (+2.6%) and Oceania (+0.7%); while the number of visitors from Africa regressed by 51.8% year-on-year. On a country basis, the number of tourists from Saudi Arabia grew by 80% year-on-year in the covered quarter, followed by visitors from Kuwait (+44.2%), Turkey (+23.3%), the UAE (+17.8%), Brazil (+15.6%), Egypt (+15.5%), the U.S. (+3.2%), Jordan (+3.1%), Italy (+1.3%), England (+0.8%), Iraq and Sweden (+0.7% each), Canada (+0.6%), and France (+0.2%). In contrast, the number of visitors from Germany dropped by 11.3% year-on-year in the first quarter of 2019 and visitors from Venezuela dropped by 8.8%. The increase in the number of Arab visitors is due in large part to the Fourth Arab Economic and Social Development Summit that was held in Beirut in January 2019.

Net foreign assets of financial sector down by $2bn in first quarter of 2019

Figures issued by Banque du Liban (BdL) show that the net foreign assets of the financial sector, which are a proxy for Lebanon's balance of payments, declined by $2bn in the first quarter of 2019 compared to a decrease of $198.2m in the same quarter of 2018. The net foreign assets of the financial sector declined by $75.1m in March 2019, compared to a decrease of $550.1m in February 2019 and a decline of $363.5m in March 2018. The month-on-month decline in March 2019 was caused by a drop of $319.7m in the net foreign assets of BdL, which was partly offset by an increase of $244.6m in those of banks and financial institutions. Also, the cumulative deficit in the first quarter of 2019 was caused by a decline of $1.11bn in the net foreign assets of BdL and by a decrease of $899m in those of banks and financial institutions.

The net foreign assets of the financial sector grew by $1.2bn in 2016, while they decreased by $155.7m in 2017 and by $4.8bn in 2018. The net foreign assets of the financial sector declined by the equivalent of 8.6% of GDP in 2018, and 0.3% of GDP in 2017, relative to an increase equivalent to 2.4% of GDP in 2016.

Change in Net Foreign Assets of Financial Sector* (US$m)



**in the first quarter of each year*
Source: Banque du Liban

Number of real estate transactions down 15% in first quarter of 2019

Figures released by the Ministry of Finance indicate that there were 12,067 real estate transactions in the first quarter of 2019, constituting a decrease of 14.9% from 14,181 deals in the first quarter of 2018. In comparison, there were 17,081 real estate transactions in the same period of 2017 and 14,985 real estate deals in the first quarter of 2016. There were 2,235 real estate transactions in the Baabda area in the first quarter of 2019, representing 18.5% of the total. The North followed with 1,993 deals (16.5%), then the Zahlé area with 1,504 transactions (12.5%), the South region with 1,463 deals (12.1%), the Metn district with 1,381 transactions (11.4%), the Keserwan region with 1,192 deals (10%), the Nabatieh area with 954 transactions (7.9%), and Beirut with 893 deals (7.4%).

Also, the aggregate value of real estate transactions reached $1.6bn in the first quarter of 2019 and decreased by 19.2% from $2bn in the first quarter of 2018. In comparison, the value of real estate deals regressed by 14% in the same period of 2018 and grew by 10% in the first quarter of 2017. Further, the value of real estate transactions in Beirut reached $532.7m and accounted for 32.8% of the total in the first quarter of 2019. The Metn district followed with $329.3m (20.3%), then the Baabda region with $265.7m (16.3%), the Keserwan area with $148.6m (9.1%), the South with $125.1m (7.7%), the North with $103.5m (6.4%), the Zahlé area with $53.1m (3.3%), and the Nabatieh region with $47.1m (2.9%).

In parallel, the average value per real estate transaction was $134,676 in the first quarter of 2019, down by 5.1% from an average of $141,845 in the same period of 2018 and relative to $136,975 in the first quarter of 2017. Further, there were 234 real estate transactions executed by foreigners in the first quarter of 2019, down by 14.3% from 273 deals in the same period of 2018 and compared to 282 transactions in the first quarter of 2017. The number of real estate deals executed by foreigners accounted for 1.9% of total real estate transactions in the first quarter of 2019, unchanged from the same period of 2018 and relative to 1.7% of deals in the first quarter of 2017. Further, 23.5% of the real estate transactions executed by foreigners were in the Baabda district, followed by Beirut (19.2%), the South (14.5%), the Metn region (12.4%), the North (11.1%), the Keserwan region (10.7%), the Zahlé area (7.3%), and the Nabatieh region (1.3%). Also, Syrian nationals accounted for 9.7% of the total value of real estate transactions executed by foreigners in March 2019, followed by Saudi Arabian citizens (6%), Iraqis (4.3%), Kuwaitis (3.1%), Australians (1%) and Qataris (0.9%).

Revenues through Port of Beirut at $37m in first two months of 2019

Figures released by the Port of Beirut show that the port's overall revenues reached $36.9m in the first two months of 2019, constituting a decline of 15.2% from $43.5m in the same period of 2018. The Port of Beirut handled 1.1 million tons of freight in the covered period, down by 16.5% from 1.4 million tons in the first two months of 2018. Imported freight amounted to one million tons in the first two months of 2019 and accounted for 90.4% of the total, while the remaining 109,000 tons, or 9.6%, consisted of export cargo. A total of 264 vessels docked at the port in the first two months of 2019, down by 15.1% from 311 ships in the same period of 2018.

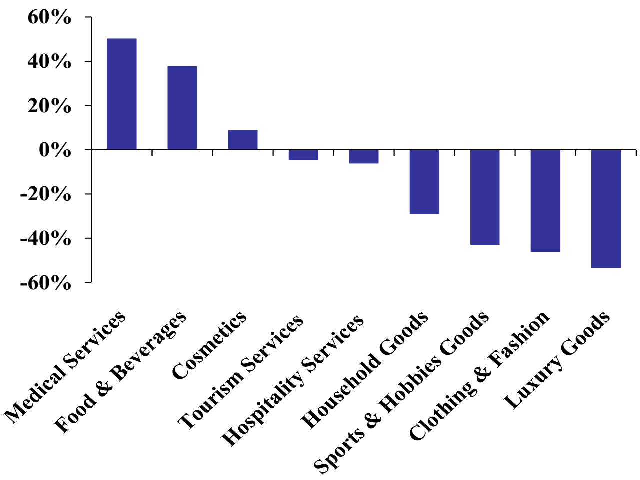
In parallel, revenues generated through the Port of Tripoli reached $2.8m in the first two months of 2019, constituting a decrease of 7.4% from $3m in the same period of 2018. The Port of Tripoli handled 327,152 tons of freight in the covered period, constituting an increase of 24.3% from 263,263 tons in the first two months of 2018. Imported freight amounted to 242,020 tons and accounted for 74% of the total, while the remaining 85,132 tons, or 26%, were export cargo. A total of 99 vessels docked at the port in the first two months of 2019, constituting a rise of 6.5% from 93 ships in the first two months of 2018.

Retail activity indicator up 8.4% in second half of 2018

Figures released by the Lebanese Franchise Association (LFA) show that the LFA's Retail Sales Indicator of consumer goods & services in Lebanon declined by 0.6% in 2018. Also, the index regressed by 9.5% from 2012, which is the base year that the LFA uses to calculate the index. In addition, it increased by 8.4% in the second half of 2018 from the first half of year, while it declined by 9.5% in the first half of 2018. The consumer goods covered by the indicator are fashion & clothing, cosmetics, household goods, sports & hobbies, luxury items, and food & beverages.

The retails sales indicator for the food & beverages category rose by 34% in 2018, while the indicator for household goods grew by 5.4% last year. In contrast, the sales indicator for clothing and fashion regressed by 17.7% in 2018, followed by cosmetics (-16.3%), sports & hobbies goods regressed (-10.4%), and luxury items (-7.8%). In addition, the retail sales indicator for food & beverages rose by 27.1% in the second half of 2018 from the first half of the year, followed by sports & hobbies goods (+25.8%), household goods (+20.5%), and luxury goods (+15.4%), while the sales indicator for cosmetics regressed by 11.7% and the indicator for clothing and fashion declined by 6.6% from the first half of 2018.

Change of Retail Sales Indicator Categories in 2018*



**% change compared to base year 2012*
Source: Lebanese Franchise Association, QuantAnalysts

In parallel, the consumer services segment consists of hospitality, tourism, and medical services. The retail sales indicator for medical services increased by 4.5% in 2018, and rose by 4.1% for tourism services, while the indicator for hospitality services regressed by 9.8% last year. In addition, the retail sales indicator for hospitality services increased by 13.1% in the second half of 2018 from the first half of the year, and the indicator for medical services rose by 9%, while the retail sales indicator for tourism services declined by 7.7% from the first half of 2018. Further, the retail sales indicators for food & beverages and medical services reached their highest level since 2012, while the indicators for clothing & fashion and luxury goods declined to their lowest level on record. Overall, the retail sales indicators for three out of nine categories of consumer goods and services were lower than their base year level by a margin of between 43% and 54%.

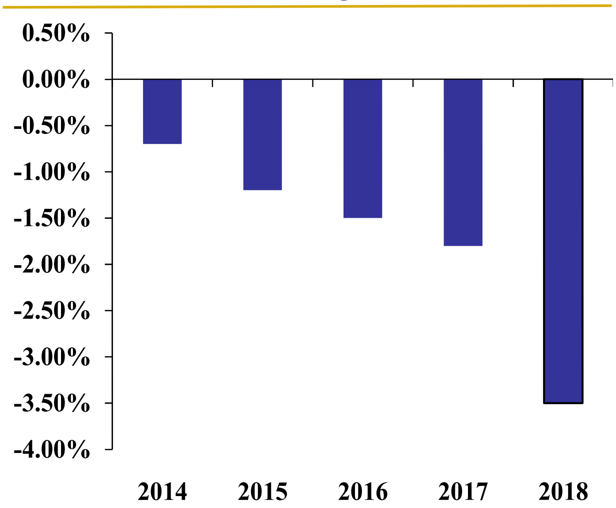
The Lebanese Franchise Association and the Chamber of Commerce, Industry & Agriculture of Beirut and Mount Lebanon launched the Retail Activity Indicators in 2015. The indicators are based on data collected from shopping malls in the Beirut and Mount Lebanon areas, on a retail enterprise survey, and on data from payment system operators. QuantAnalysts sarl, a research and consulting firm, compiled the data and developed the indicators. The firm said that the 72-month time series of retail sales indicators for the nine categories of consumer goods and services were seasonally adjusted.

Asking prices for new apartments in Beirut down 3.5% in 2018

Figures released by Property advisory firm RAMCO show that the asking prices by developers for first floor apartments in residential buildings under construction in Beirut decreased by 3.5% in 2018. This constituted the fifth consecutive annual decline in the asking price for units in projects under construction in the capital. The study covered 152 residential buildings under construction across 58 residential neighborhoods in Beirut in 2018. The prices exclude any negotiation margin or discount.

RAMCO indicated that the asking prices of apartments in 70 projects under construction decreased in 2018, as they did in 2017, with the sale price of units in 21 of the 70 projects declining by 10% to 20% year-on-year. In comparison, the asking price of units at 62 projects regressed in 2016. In contrast, it pointed out that the asking price of apartments in seven projects under construction increased in 2018, relative to an increase in the asking price of apartments in 24 projects under construction in 2017 and in 25 projects under construction in 2016. Further, it noted that asking prices for apartments at 75 projects under construction, or 49.4% of the total, were unchanged in 2018. In parallel, the prices of units at 100 projects, or 51.6% of the total, remained the same in 2017, while the prices of units at 128 projects, or 59.5%, were unchanged in 2016.

Change in Asking Prices for First-Floor Apartments in Residential Buildings in Beirut (%)



Source: RAMCO

RAMCO noted that the real estate market has slowed down but has not come to a halt, as it indicated that there are still some buyers that are able to pay in cash. It added that developers are generally reluctant to drop their prices, and prefer to offer a discount to serious buyers. However, it said that, with the current conditions of the real estate market, developers have no choice but to reduce official prices. It added that negotiation margins vary between different projects, but they range on average between 15% and 20%. Overall, it said that prices have dropped on average by between 25% and 30% during the past five years when taking into account official price reductions and the increased margins of negotiation, with a decline of between 40% and 50% in certain extreme cases.

Lebanon ranks 101st globally, third among Arab countries in press freedom

In its 2019 survey about press freedoms in 180 countries, international organization Reporters Without Borders ranked Lebanon in 101st place worldwide and in third place among 20 Arab countries. In comparison, Lebanon came in 100th place globally and in third place regionally in the 2018 survey, as well as in 99th place globally and in third place among Arab countries in the 2017 survey.

The index measures the level of freedom that journalists and the media have in each country, as well as government efforts to respect press freedoms. The index's calculation is based on answers to a questionnaire that covers seven general criteria, combined with quantitative data on abuses and acts of violence against journalists and media outlets during the covered period. The criteria assess the level of opinion diversity in the media, media independence, self-censorship and the work environment of journalists, the legislative framework, the transparency of the institutions and procedures that affect the production of news and information, the quality of the infrastructure that supports the production of news and information, as well as the level of violence and abuses during the surveyed period. Reporters Without Borders assigns index scores from zero to 100, with a lower score reflecting a higher level of press freedom in a given country.

Globally, Lebanon has a higher level of press freedom than in Ukraine, Mozambique and Brazil, and a lower level of freedom than in Ecuador, Paraguay and Kenya among economies with a GDP of $10bn or more. Lebanon received a score of 32.44 points in the 2019 survey, constituting an improvement of 4.1% from 31.15 points in the 2018 survey. Lebanon's score was better than the global average score of 35.02 points and the average score of 50.2 points among Arab countries.

Press Freedom Index for 2019

	Score	Arab Rank	Global Rank	Change in Rank*
Tunisia	29.61	1	72	25
Mauritania	31.65	2	94	-22
Lebanon	**32.44**	**3**	**101**	**-1**
Kuwait	33.86	4	108	-3
Qatar	42.51	5	128	-3
Jordan	43.11	6	130	2
Oman	43.42	7	132	-5
UAE	43.63	8	133	-5
Morocco	43.98	9	135	0
Palestine	44.68	10	137	-3
Algeria	45.75	11	141	-5
Iraq	52.60	12	156	4
Libya	55.77	13	162	0
Egypt	56.47	14	163	-2
Bahrain	61.31	15	167	-1
Yemen	61.66	16	168	-1
Saudi Arabia	65.88	17	172	-3
Djibouti	71.36	18	173	0
Syria	71.78	19	174	3
Sudan	72.45	20	175	-1

**year-on-year change in rank*

Source: Reporters Without Borders, Byblos Research

The level of press freedom in Lebanon places it, along with 65 other countries worldwide, in the "problematic situation" category. Also, Lebanon was among four Arab countries that came in the "problematic situation" category, while eight Arab states came in the "difficult situation" category and the remaining eight sovereigns were in the "very serious situation" category.

In parallel, Lebanon was among 88 countries worldwide whose rank declined from the 2018 survey, while the rank of 69 countries improved and the ranking of 23 sovereigns was unchanged year-on-year. Also, Lebanon was among 13 Arab countries whose rank regressed, while the rank of four economies improved and the ranking of three countries was unchanged from the 2018 survey. Norway has the highest level of press freedoms globally, while Turkmenistan has the lowest level of media freedoms worldwide in the 2019 survey.

Formation of new government improves confidence and reduces uncertainties

Global investment bank J.P. Morgan indicated that the formation of a new Cabinet in Lebanon has improved confidence and reduced political uncertainties following several months of political deadlock. However, it considered that delays in the implementation of the much-needed reforms could dent confidence, given the country's wide fiscal and external deficits, and elevated public debt level. It expected economic growth to recover in coming years, as the government unlocks the $11bn in pledges from the CEDRE conference, and as the stabilization of conflicts in Syria and Iraq supports a recovery in trade, investment and tourism flows. In this context, it projected Lebanon's real GDP growth to pick up from an estimated 1% in 2018 to 1.7% in 2019. However, it considered that downside risks to the outlook are significant, including the impact of fiscal reforms on growth in case Parliament enacts them.

The investment bank expected authorities to announce public-sector reforms in the next few weeks, which would support confidence. Still, it projected the fiscal deficit to remain wide at 10% of GDP this year relative to an estimated 11% of GDP in 2018. It anticipated most of the fiscal adjustment this year to come from spending cuts that could reach up to $1bn, including lower capital expenditures, as well as reduced government procurement spending and transfers. It added that the government intends to fight tax evasion in the country, but it considered that these measures are unlikely to yield quick results and to broaden the tax base in the near term. It did not expect the government to face difficulties in financing its fiscal deficit, as it anticipated Banque du Liban (BdL) to continue to support the financing of the deficit. It estimated the servicing of foreign currency debt at $5.1bn in 2019, which includes $2.65bn in principal payments.

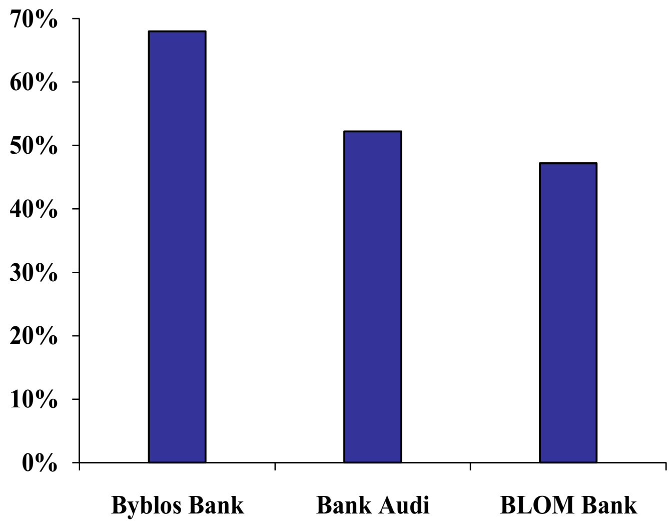
Further, J.P. Morgan expected the current account deficit at 22.4% of GDP in 2019, nearly unchanged from 2018, mainly due to a wide trade deficit and weak service receipts. Further, it did not expect any adjustment to the exchange rate regime in the near term, given BdL's large buffers and the authorities' commitment to the currency peg. In addition, it indicated that the long-term outlook for Lebanon remains uncertain, given the macroeconomic imbalances. But it considered that BdL's large foreign currency reserves, which cover about 14 months of imports, continue to support macroeconomic stability.

Byblos Bank approves $111.5m in dividends for 2018, payout ratio at 68%

The Ordinary General Assembly of Byblos Bank sal that was held on April 17, 2019 approved the distribution of $111.5m in gross dividends for common and preferred shares for 2018, representing a payout ratio of 68% relative to a ratio of 65.6% in 2017. The Bank allocated LBP212 ($0.141) per share to holders of common shares and Global Depository Receipts (GDRs), and $8 per share for the holders of Preferred Shares Class 2008 and Preferred Shares Class 2009. The Bank paid the dividends on April 25, 2019 net of a 10% withholding tax. It also started to disburse the dividends in US dollars to GDR holders on May 2, 2019 through the Bank of New York Mellon after deducting tax and other expenses. Byblos Bank's share capital consists of 565,515,040 common shares and GDRs, 2,000,000 Preferred Shares Class 2008 and 2,000,000 Preferred Shares Class 2009.

Byblos Bank sal declared net profits of $164.1m in 2018 compared to $170.1m in 2017. The Bank's aggregate assets reached $25bn at the end of 2018, growing by 10.3% from $22.7bn at end-2017. Net loans & advances to customers totaled $5.43bn at the end of 2018, nearly unchanged from end-2017, while net loans & advances to related parties reached $16.5m. Further, customer deposits amounted to $18.2bn at the end of 2018, increasing by 2.5% from $17.7bn a year earlier, while deposits from related parties stood at $279.4m.

Dividends Payout Ratio of Select Banks (%)



Source: Banks' statements

Import activity of top five shipping firms and freight forwarders down 19% in first two months of 2019

Figures released by the Port of Beirut show that overall import shipping operations by the top five shipping companies and freight forwarders through the port reached 43,578 20-foot equivalent units (TEUs) in the first two months of 2019, constituting a decrease of 19.3% from 54,029 TEUs in the same period of 2018. The five shipping and freight forwarding firms accounted for 76.9% of imports to the Lebanese market and for 46.4% of the total import freight market in the first two months of 2019. Mediterranean Shipping Company (MSC) handled 17,073 TEUs in imports in the covered period, equivalent to an 18.2% share of the total import freight market. Merit Shipping followed with 8,354 TEUs (8.9%), then MAERSK with 7,670 TEUs (8.2%), Tourism & Shipping Transport with 5,282 TEUs (5.6%), and Metz Group with 5,199 TEUs (5.5%). Further, MAERSK registered an increase of 393.6% in import shipping in the first two months of 2019, the highest growth rate among the top five shipping and freight forwarding companies, while Metz Group posted a decline of 42.6%, the steepest decline in the covered period.

In parallel, export shipping operations by the top five shipping and freight forwarding firms through the Port of Beirut reached 9,288 TEUs in the first two months of 2019, constituting a decrease of 18.7% from 11,430 TEUs in the same period of 2018. The five shipping companies and freight forwarders accounted for 86.5% of exported Lebanese cargo and for 9.8% of the total export freight market in the first two months of 2019. Merit Shipping handled 3,829 TEUs of freight in the first two months of 2019, equivalent to 35.7% of the Lebanese cargo export market. MAERSK followed with 1,764 TEUs (16.4%), then Sealine Group with 1,384 TEUs (12.9%), Metz group with 1,227 TEUs (11.4%), and Tourism & Shipping with 1,084 TEUs (10.1%). Further, MAERSK registered an increase of 527.8% in export shipping in the first two months of 2019, the highest growth rate among the top five shipping and freight forwarding companies, while Metz Group posted a decline of 54%, the steepest decline in the covered period.

Régie signs agreement to produce two international cigarette brands locally

The Régie Libanaise des Tabacs & Tombacs signed an agreement with cigarette & tobacco manufacturing company British American Tobacco to manufacture Kent and Viceroy Cigarettes in Lebanon. The agreement stipulates the local production of the two cigarette brands at Régie's plants and under the supervision of international experts. The Régie indicated that it currently has 12 production lines and 19 foreign and nine local brands, and has a monthly production capacity of 80,000 packs.

In June 2018, the Régie signed a partnership agreement with Japan Tobacco International to manufacture Winchester cigarettes in Lebanon, while it signed in November 2017 an agreement with Philip Morris International to manufacture in Lebanon Marlboro Medium, Marlboro Next, Marlboro Soft, Marlboro Touch and Marlboro Gold. Further, it signed In November 2016 an agreement with Imperial Tobacco, a subsidiary of British multinational company Imperial Brands plc, to manufacture Gitanes Blondes, Gauloises and West cigarette brands in Lebanon.

The Régie Libanaise des Tabacs & Tombacs is a public organization controlled by the Lebanese Ministry of Finance. It aims to manage the plantation, manufacturing, trade and transport of tobacco in Lebanon. Headquartered in London, British American Tobacco is a British multinational cigarette and tobacco manufacturing company with operations in around 180 countries globally.

Byblos Bank's net profits at $27m in first quarter of 2019, foreign currency liquidity at 16.2% of deposits

Byblos Bank sal declared unaudited net profits of $26.9m in the first quarter of 2019 relative to $27.9m in the same quarter of 2018, as the Bank maintained high liquidity levels in view of political and economic uncertainties, the increased cost of deposits, and additional provisions against possible credit risks.

The Bank's net interest income reached $63.9m in the first quarter of 2019 compared to $71.8m in the same period of 2018; while net fees & commissions income stood at $24.1m relative to $24.9m in the first quarter of 2018. The Bank's net operating income totaled $93.9m in the first three months of 2019 relative to $99.1m in the same period of 2018. In parallel, Byblos Bank's operating expenditures reached $59.2m in the first quarter of 2019, down by 2.4% from $60.7m in the same quarter of 2018, with personnel expenditures accounting for 58.3% of the total. The Bank continued to efficiently manage its costs, as it reduced its ratio of operating expenses to average assets from 1.06% at the end of March 2018 to 0.94% at the end of March 2019.

Also, the Bank's aggregate assets reached $25.4bn at the end of March 2019, growing by 1.5% from $25bn at end-2018 and by 9.9% from $23.1bn at end-March 2018. Net loans & advances to customers totaled $5.3bn at the end of March 2019 compared to $5.4bn at end-2018, while net loans & advances to related parties reached $16.4m. Byblos Bank maintained adequate provisioning with a coverage ratio of 88.97% at the end of March 2019, while its non-performing loans ratio was 4.16% at end-March 2019. Further, customer deposits amounted to $18.3bn at the end of March 2019, constituting an increase of 0.9% from $18.2bn at the end of 2018, while deposits from related parties stood at $157.7m. In parallel, the Bank's equity was $2.23bn at the end of March 2019, up by 1.2% from $2.2bn at end-2018 and by 2% from $2.19bn at end-March 2018.

Byblos Bank maintained strong financial buffers to mitigate unexpected risks and to counter economic volatility. The Bank's Basel III capital adequacy ratio surpassed 17%, which significantly exceeds Banque du Liban's regulatory requirement of 15%, and is one of the highest such ratios in the Lebanese banking sector. The Bank also maintained a high level of immediate foreign-currency liquidity, equivalent to 16.23% of deposits in foreign currency at the end of March 2019, in the form of short-term placements with above investment-grade institutions and at levels exceeding the local and international benchmarks.

Aggregate net profits of listed banks down 5% to $308m in first quarter of 2019

Financial results issued by the six banks listed on the Beirut Stock Exchange show that their aggregate net profits reached $307.6m in the first quarter of 2019, constituting a decline of 5% from net earnings of $323.9m in the first quarter of 2018. Further, the banks' aggregate pre-tax profits decreased by 5.3% year-on-year to $378.7m in the first quarter of 2019. The net interest income of the six banks, including net interest on financial instruments, totaled $628.4m in the covered period, down by 5.1% from $662.3m in the first quarter of 2018; while their receipts from net fees & commissions declined by 5.9% year-on-year to $132.8m. Also, the total operating income of the listed banks reached $809.2m in the first quarter of 2019 and decreased by 5% from $851.7m in the same period of 2018. Further, the banks' cost-to-income ratio decreased from 48.4% in the first quarter of 2018 to 47.7% in the same period of 2019.

In parallel, the aggregate assets of the publicly-listed banks increased by 0.5% from end-2018 and by 7.9% from end-March 2018 to $135.6bn at the end of March 2019; while their total loans, including those to related parties, regressed by 5.9% from end-2018 and by 12% year-on-year to $32bn at end-March 2019. Also, total deposits, including those from related parties, decreased by 0.5% from end-2018 to $95.5bn at end-March 2019, largely due to a decline in deposits at Bank Audi and Bank of Beirut. Further, the banks' aggregate equity, including subordinated notes, increased by 1.1% from end-2018 but declined by 0.8% from a year earlier to $13.5bn at the end of March 2019.

The six banks' aggregate loans-to-deposits ratio stood at 33.5% at the end of March 2019 compared to 35.4% at end-2018. BLOM Bank had a loans-to-deposits ratio of 25.1%, down from 26.6% at end-2018; followed by Byblos Bank with a ratio of 28.7% at the end of March 2019 relative to 29.5% at end-2018; Bank of Beirut with 38.9% at end-March 2019 compared to 42.9% at end-2018; Bank Audi with 39.7% at the end of March 2019 relative to 41.5%; BLC Bank with 40.6% at end-March 2019, down from 41.1% at end-2018; and Banque BEMO with 53.9% at the end of March 2019 relative to 55.7% at end-2018.

Results of Listed Banks in First Quarter of 2019

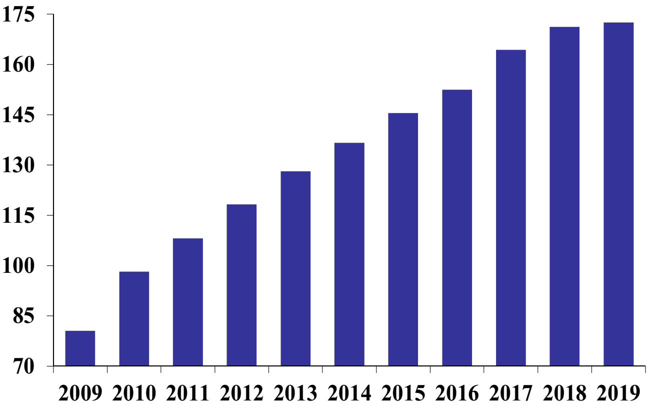
	Bank Audi	BLOM Bank	Byblos Bank	Bank of Beirut	BLC Bank	Banque BEMO
Net Profits ($m)	121.7	117.2	26.9	30.7	6.5	4.6
% Change*	6.7%	0.3%	-3.3%	-39.4%	-37.6%	13.5%
Total Assets ($bn)	46.4	37.8	25.4	18.9	5.1	2.1
% Change**	-1.6%	2.8%	1.5%	0.1%	0.2%	1.9%
Loans ($bn)	12.4	6.9	5.3	5.1	1.6	0.7
% Change**	-6.2%	-3.6%	-2.4%	-11.9%	-2.5%	-6.3%
Deposits ($bn)	31.3	27.5	18.5	13.0	3.9	1.3
% Change**	-2.0%	2.2%	0.2%	-2.8%	-1.2%	-3.1%

** year-on-year;*
*** from end-2018*
Source: Banks' financial statements, Byblos Research

Banking sector assets at $253bn at end-March 2019

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets stood at $252.8bn at the end of March 2019, constituting an increase of 1.3% from $249.5bn at the end of 2018 and an expansion of 12.5% from $224.6bn at end-March 2018. Loans extended to the private sector reached $57.3bn at the end of March 2019, regressing by 3.5% from end-2018 and by 2.9% from a year earlier. Loans to the resident private sector totaled $50.5bn, constituting decreases of 3.4% from the end of 2018 and of 4.3% from a year earlier. Also, credit to the non-resident private sector reached $6.9bn at end-March 2019, declining by 3.7% from end-2018 and growing by 8.8% from a year earlier. In nominal terms, credit to the private sector dropped by $2.1bn in the first quarter of 2019 relative to a decrease of $654.5m in the same period of 2018, as lending to the resident private sector contracted by $1.79bn and credit to the non-resident private sector regressed by $264.3m in the covered quarter. The dollarization rate in private sector lending rose from 67.9% at end-March 2018 to 69.7% at end-March 2019.

Total Private Sector Deposits* (US$m)



**at end-March of each year*
Source: Banque du Liban, Byblos Research

In addition, claims on non-resident financial institutions reached $10.7bn at the end of March 2019 and declined by $1.33bn, or 11.1%, from the end of 2018. Also, claims on the public sector stood at $33.3bn at end-March 2019, down by a marginal 0.9% from end-2018. The average lending rate in Lebanese pounds was 10.58% in March 2019 compared to 8.95% a year earlier, while the same rate in US dollars was 9.31% relative to 7.89% in March 2018. Further, the deposits of commercial banks at Banque du Liban totaled $137bn at the end of March 2019, constituting an increase of 24% from a year earlier.

In parallel, total private sector deposits reached $172.5bn at the end of March 2019. They decreased by 1% from the end of 2018 and increased by 0.8% from end-March 2018. Deposits in Lebanese pounds reached the equivalent of $50.7bn at end-March 2019, down by 1% from end-2018 and by 6.6% from a year earlier; while deposits in foreign currency totaled $121.8bn, as they regressed by 1% in the first quarter of 2019 and grew by 4.2% from $116.9bn a year earlier. Resident deposits totaled $135.6bn at the end of March 2019, decreasing by 0.7% or $954.9m from the end of 2018 and rising by 0.3% or $472.7m from end-March 2018. Also, non-resident deposits reached $36.9bn at end-March 2019, as they regressed by 2.1% or $803.4m from end-2018, and increased by 2.4% or $871.6m from a year earlier. In nominal terms, private sector deposits declined by $2.18bn in January and by $133m in February, while they increased by $550.6m in March 2019. As such, aggregate private sector deposits dropped by $1.76bn in the first quarter of 2019 relative to an increase of $2.5bn in the same quarter of 2018, with deposits in Lebanese pounds declining by $493.4m and foreign-currency deposits dropping by $1.26bn. The dollarization rate of private sector deposits was 70.6% at the end of March 2019, unchanged from the end of 2018, and compared to 68.3% a year earlier.

In parallel, deposits of non-resident financial institutions reached $9.4bn at the end of March 2019 and increased by 21% from end-March 2018. Further, the average deposit rate in Lebanese pounds was 8.75% in March 2019 compared to 6.64% a year earlier, while the same rate in US dollars was 5.69% relative to 4.04% in March 2018. The ratio of private sector loans to deposits in foreign currency stood at 32.8% at the end of March 2019, compared to 34.3% a year earlier and well below Banque du Liban's limit of 70%. The same ratio in Lebanese pounds reached 34.3% at end-March 2019, relative to 35% at the end of March 2018. As such, the total private sector loans-to-deposits ratio reached 33.2% compared to 34.5% at end-March 2018. The banks' aggregate capital base stood at $22.1bn at end-March 2019, up by 2.1% from $21.6bn a year earlier.

Stock market index down 11% in first four months of 2019

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 183,686,867 shares in the first four months of 2019, constituting an increase of 3.7 times from 49,113,414 shares traded in the same period last year; while aggregate turnover amounted to $782.2m, up by 2.2 times from a turnover of $357.9m in the first four months of 2018. The surge in the trading volume and turnover is mostly due to a block trade of the common shares of one listed bank. The trade consisted of 119,924,761 shares exchanged for a total of $557.7m in February 2019.

Market capitalization regressed by 19.7% from the end of April 2018 to $9.02bn, with banking stocks accounting for 85.3% of the total, followed by real estate equities (10.7%), industrial shares (3.6%) and trading firms' equities (0.4%). The market liquidity ratio was 8.7% in the covered period compared to 3.2% in the first four months of 2018.

Banking stocks accounted for 98.5% of the aggregate trading volume in the first four months of 2019, followed by real estate equities with 1.4% and industrial shares with 0.03%. Also, banking stocks accounted for 97.9% of the aggregate value of shares traded, followed by real estate equities with 2.1% and industrial stocks with 0.04%. The average daily traded volume for the period was 2.4 million shares for an average daily value of $10.2m. The figures reflect a year-on-year increase of 3.8 times in average volume, and an annual rise of 2.2 times in the average value in the first four months of the year. In parallel, the Capital Markets Authority's Market Value-Weighted Index for stocks of traded on the BSE declined by 10.8% in the first four months of 2019, while the CMA's Banks Market Value-Weighted Index regressed by 4.1% in the covered period.

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	May 2017	Apr 2018	May 2018	Change**	Risk Level
Political Risk Rating	55.5	55.0	55.0	↑	High
Financial Risk Rating	33.0	33.0	33.0	↔	Moderate
Economic Risk Rating	27.5	28.5	28.5	↓	High
Composite Risk Rating	58.0	58.25	58.25	↓	High

MENA Average*	May 2017	Apr 2018	May 2018	Change**	Risk Level
Political Risk Rating	58.0	58.1	58.0	↔	High
Financial Risk Rating	39.0	38.2	38.1	↑	Low
Economic Risk Rating	30.5	31.9	32.0	↓	Moderate
Composite Risk Rating	63.8	64.1	64.1	↓	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	Negative	B-	B	Negative
Capital Intelligence Ratings	B	B	Negative	B	B	Negative

Source: Rating agencies

Banking Ratings	Outlook
Moody's	Stable

Source: Moody's Investors Service

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