Issue 583 | May 13-18, 2019

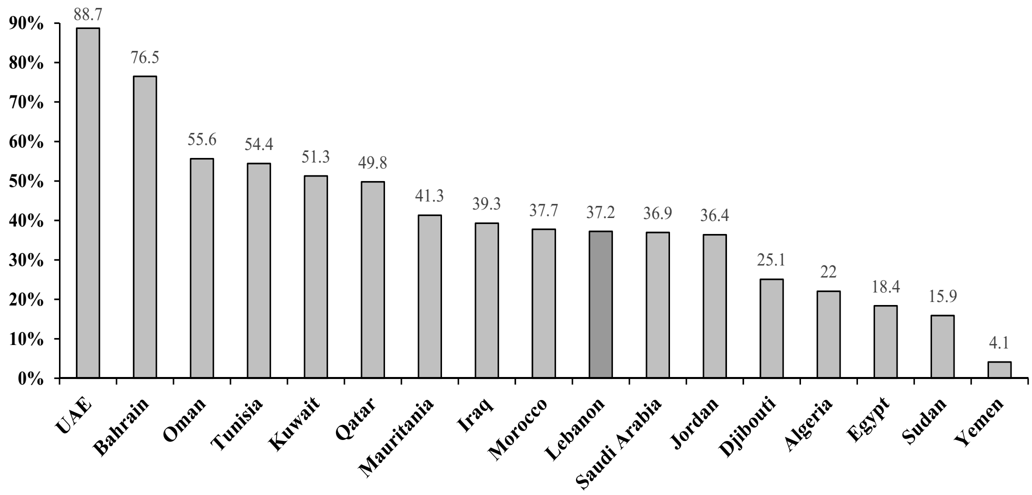
BYBLOS BANK SAL
Economic Research & Analysis Department

LEBANON THIS WEEK

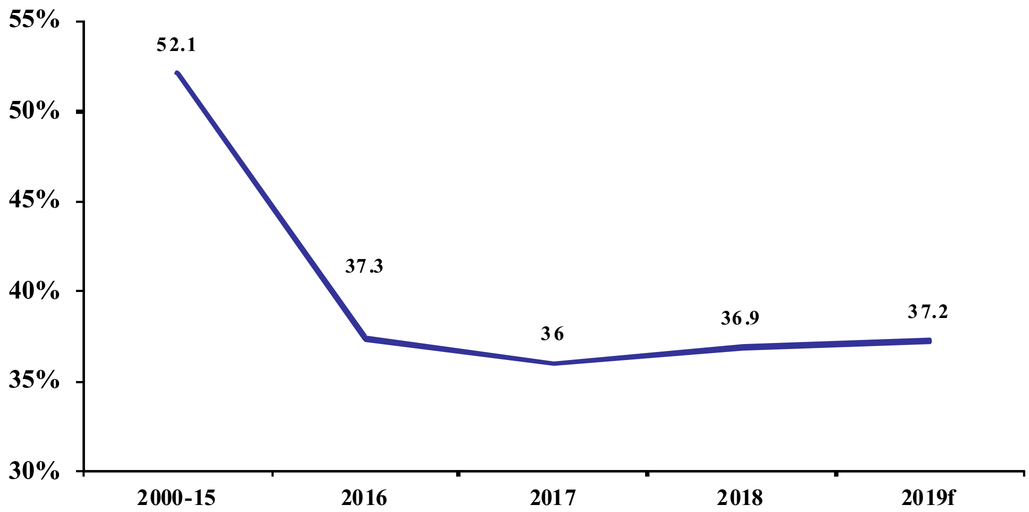
In This Issue

Charts of the Week

Projected Exports of Goods & Services from Arab Countries in 2019 (% of GDP)



Exports of Goods & Services from Lebanon (% of GDP)



Source: International Monetary Fund - April 2019, Byblos Bank

Quote to Note

"The final 2019 budget will be a very important indicator to foreign investors and donor countries about the Lebanese government's commitment to its pledges of reforms."

Ms. Christina Lassen, Ambassador of the European Union to Lebanon, on the expectations of the international community

Number of the Week

22%: Increase in the public sector's wages, salaries, benefits and pension payments in the first 11 months of 2018, according to the Ministry of Finance

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	(2.38)	353,362	8.35%
Audi Listed	4.00	(9.91)	30,286	19.19%
Solidere "A"	5.03	0.60	25,073	6.04%
Solidere "B"	4.88	(1.61)	9,884	3.81%
Audi GDR	3.97	(7.67)	9,623	5.71%
BLOM Listed	8.00	(1.23)	5,700	20.64%
BLOM GDR	7.50	(6.25)	5,697	6.65%
Byblos Pref. 08	70.00	0.00	1,345	1.68%
HOLCIM	14.50	0.00	-	3.40%
Byblos Pref. 09	72.00	0.00	-	1.73%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
May 2019	6.00	99.88	49.58
Mar 2020	6.38	97.88	9.16
Apr 2021	8.25	94.88	11.32
Oct 2022	6.10	85.50	11.40
Jun 2025	6.25	79.75	10.90
Nov 2026	6.60	78.38	10.88
Feb 2030	6.65	75.13	10.57
Apr 2031	7.00	75.00	10.77
Nov 2035	7.05	75.00	10.22
Mar 2037	7.25	75.50	10.27

Source: Byblos Bank Capital Markets

	May 13-17	May 8-10	% Change	April 2019	April 2018	% Change
Total shares traded	470,380	463,454	1.5	689,768	3,491,466	(80.2)
Total value traded	$3,522,951	$2,229,910	58.0	$4,931,247	$19,769,834	(75.1)
Market capitalization	$8.33bn	$8.63bn	(3.48)	$9.02bn	$11.23bn	(19.7)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	May 10, 2019	May 17, 2019	% Change**
CDS 1-year*	804.87	848.83	5.5
CDS 3-year*	871.24	906.25	4.0
CDS 5-year*	851.77	883.79	3.8

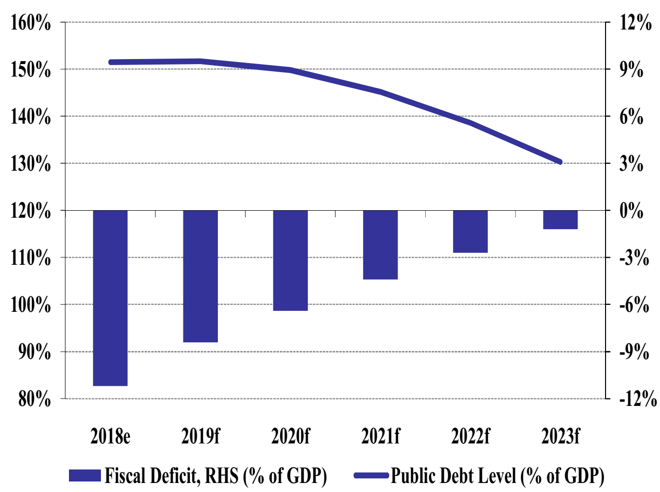
*Source: ICE CMA; *mid-spread in bps **week-on-week*

CDX EM 30*	May 10, 2019	May 17, 2019	% Change***
CDS 5-year**	95.92	95.60	(0.3)

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

Implementation of credible fiscal measures to improve public finances and support growth

Public Finance Dynamics in Case of Reforms



Source: Institute of International Finance

The Institute of International Finance estimated that the implementation of most of the proposed spending and revenues measures in the 2019 draft budget, along with improving tax compliance and fighting corruption, would help significantly narrow the fiscal deficit, reduce the public debt level and unlock the $11.2bn that the international community pledged at the CEDRE conference. It said that the planned fiscal adjustment measures aim to shift the primary fiscal balance from a current deficit to a surplus from 2019 onwards, through reducing non-priority expenditures, containing the public-sector wage bill, reforming Electricité du Liban (EdL), and raising tax revenues.

On the spending side, the IIF anticipated primary spending to regress by LBP600bn, or by 6% in 2019, which means that they would decrease from 22.6% of GDP in 2018 to 20.7% of GDP in 2019 and reach 16.7% of GDP by 2023. It expected that 16% of public-sector employees will retire over the next four years, which would help reduce the size of the public sector and improve its efficiency without resorting to layoffs. It added that this would be achievable in case authorities freeze public-sector recruitment and partially replace retiring personnel, among other reforms to the public sector. As a result, it forecast the public-sector wage bill to decline from 11.6% of GDP in 2018 to 10.7% of GDP in 2019 and 9.7% of GDP by 2023. Also, it said that reforming the electricity sector and eliminating Treasury transfers to EdL by 2023, as planned, would help reduce primary expenditures. Further, it noted that debt servicing cost would remain around 10% of GDP during the 2019-23 period. In addition, it anticipated capital investment to rise from 1.8% of GDP in 2018 to 3.2% of GDP by 2023, and to be mostly financed through concessional loans pledged at the CEDRE conference. Overall, it projected public spending to regress gradually from 32.6% of GDP in 2018 to 31% of GDP in 2019 and 26.3% of GDP by 2023.

However, the IIF did not expect the proposed spending measures to be enough to achieve the significant primary surpluses necessary to reduce the public debt level over the medium term. Consequently, it said that authorities need to implement serious revenue-enhancing measures, supported by fighting tax evasion that it estimated at about $2bn per year. It noted that the proposed tax measures in the 2019 draft budget include raising the tax rate on the interest earned on deposits from 7% to 10%, and increasing the income tax rate on persons and enterprises, excluding corporations and limited partnerships, that generate an annual income of LBP225m or more, among other tax measures. As such, it projected tax revenues to rise from 15% of GDP in 2018 to 15.8% of GDP in 2019 and 18.2% of GDP by 2023. As a result, it anticipated public revenues to increase from 21.3% of GDP in 2018 to 22.7% of GDP in 2019 and 25.1% of GDP by 2023.

In parallel, the IIF indicated that tight monetary policy would support fiscal consolidation and would help maintain price stability, sustain the currency peg to the US dollar and attract adequate inflows of non-resident deposits. It added that the successful implementation of the fiscal adjustment would result in a gradual decline in interest rates and would provide an opportunity for Banque du Liban to strengthen its balance sheet. It noted that credible fiscal reforms would reduce the need for sustained capital inflows to finance the government's fiscal deficit, would send a positive signal to foreign investors and lead to faster deposit growth.

It pointed out that the challenge facing the government is to move from the planning of reforms to the implementation phase. It projected the fiscal deficit to gradually narrow from 11.2% of GDP in 2018 to 8.4% of GDP in 2019 and 1.2% of GDP by 2023 in case authorities proceed with most of the planned fiscal measures, and if they fight corruption and improve tax collection. It noted that the fight against corruption needs an independent judiciary system and a prosecutor with special powers to protect him. It also forecast the public debt level to regress from 151.7% of GDP at the end of 2019 to 149.8% of GDP at end-2020 and 130.3% of GDP by the end of 2023.

Further, the IIF reduced its growth forecast for 2019 to 0.7% from 1.6% previously, due in part to the long delays in reaching an agreement on fiscal adjustment measures. It estimated that real GDP contracted in the first quarter of this year, but it expected economic activity to pick up in the second half of 2019, driven by public investment and tourism. It anticipated growth to accelerate to 2.2% in 2020 and to reach 4% in 2023, as the implementation of reforms, along with the access to CEDRE-related funds, would help increase public investments, improve the quality of infrastructure, restore private and foreign confidence, and support growth.

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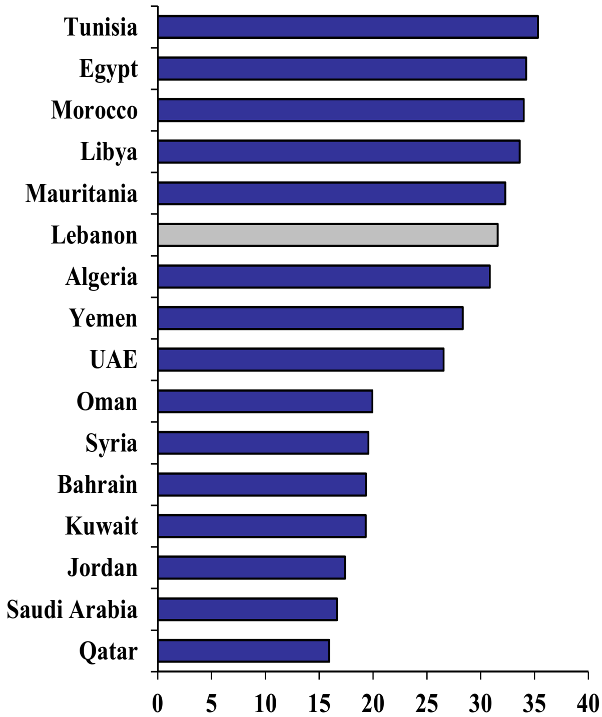
Informal economy equivalent to 29% of GDP in 2015, 74th largest globally

A Working Paper by the International Monetary Fund estimated that the size of the informal economy in Lebanon averaged 31.6% of GDP annually during the 1991-2015 period, the 87th largest among 158 economies globally and the sixth largest among 16 Arab countries. Also, the size of Lebanon's shadow economy was the 26th largest among 40 upper middle-income countries (UMICs). According to the IMF, a shadow economy, which is also known as hidden economy, gray economy, cash economy or informal economy, includes all economic activities that are hidden from official authorities for monetary, regulatory, or institutional reasons. The Fund uses the multiple-indicator multiple-cause model (MIMIC model) to measure the size of a country's informal economy by taking into account the use of cash, the size of the labor force and the growth in the GDP per capita.

According to the IMF, the average size of the informal economy in Lebanon during the 1991-2015 period was larger than the shadow economies of Malaysia (31.5% of GDP), Turkey (31.4% of GDP), and Cyprus (31.3% of GDP) among economies with a GDP of $10bn or more, but it was smaller than the hidden economies of the Dominican Republic (32.4% of GDP), Equatorial Guinea (31.8% of GDP), and Mexico (31.7% of GDP). It was also larger than the size of the informal economy in Malaysia and smaller than that in Mexico among UMICs. Georgia had the largest gray economy globally at 64.9% of its GDP annually in the 1991-2015 period, while Switzerland had the smallest shadow economy in the world at 7.2% of GDP.

Further, the size of Lebanon's informal economy was similar to the average size of the shadow economy worldwide of 31.8% of GDP, while it was smaller than the UMICs' average of 34.1% of GDP, and was larger than the Arab region's average of 25.9% of GDP during the 1991-2015 period.

Average Size of Shadow Economies in Arab countries during 1991-2015 period (% of GDP)



Source: International Monetary Fund

In parallel, the size of the informal economy in Lebanon gradually decreased from 36.7% of GDP in 1991 to 34.1% of GDP in 2000, 32.1% of GDP in 2005 and 24.6% of GDP in 2010. However, the trend has reversed since then, as the size of the country's gray economy increased to 25.7% of GDP in 2012, 29.1% of GDP in 2014 and 29.2% of GDP in 2015.

The size of the shadow economy in Lebanon was the 74th largest globally in 2015, the 18th largest among UMICs and the fourth largest in the Arab world. It was larger than the average size of the shadow economy worldwide of 27.8% of GDP in 2015. The size of the informal economy in Lebanon was larger in 2015 than that of Taiwan (29% of GDP), Cameroon (28.9% of GDP), and Yemen (28.8% of GDP), but it was smaller than the gray economy in Bosnia & Herzegovina (29.9% of GDP), Mali (29.5% of GDP), and Malta (29.4% of GDP). It was also smaller than the hidden economies of only Libya (38.3% of GDP), Egypt (33.3% of GDP), and Tunisia (30.9% of GDP) regionally. Zimbabwe had the largest shadow economy in the world at 67% of GDP in 2015, while Switzerland had the smallest informal economy globally at 6.9% of GDP.

Launch of digitization of transactions and archives at the Economy Ministry

The Ministry of Economy & Trade (MoET) launched, in coordination with the Ministry of State for Administrative Reform, a new project to digitize the transactions and archives at the MoET's General Directorate. The project aims to develop and support the General Directorate of the MoET in its daily tasks, to improve the latter's efficiency, as well as to facilitate the processing of transactions and reduce the administrative burden on citizens and civil servants.

The project is funded by the Arab Fund for Economic & Social Development, and will be implemented in two different phases. The first part of the project is related to the digitization of transactions and operations of the General Directorate's departments, which is expected to speed up the processing of transactions, to facilitate the monitoring of procedures and transactions, as well as to improve, audit and control the performance and productivity of employees. Also, the project will allow the evaluation of the administrative work of the Directorate, which will help in developing recommendations for the modernization of the Directorate's tasks.

The second part of the project mainly consists of digitizing the archives at the MoET's Office of Intellectual Property from 2003 up until the latest available files, which amount to around 3.6 million files. This would help secure and preserve these documents, while reducing the required space to save the hard copies.

The project will pave the way for the digitization of all other public administrations, as it constitutes part of the government's plan to establish an electronic government system. The initiative is also expected to create a supportive environment that will facilitate the implementation of CEDRE-related reforms.

Broad money supply down 1% in first quarter of 2019

Figures released by Banque du Liban show that money supply M1, which includes currency in circulation and demand deposits in Lebanese pounds, reached LBP10,547bn at the end of March 2019, constituting a decline of 9.6% from LBP11,661bn at the end of 2018 and a decrease of 3.6% from LBP10,941bn at end-March 2018. Currency in circulation stood at LBP4,713bn at the end of March 2019, down by 5.9% from LBP5,008bn at end-2018 and by 2.1% from LBP4,816bn at end-March 2018. Also, demand deposits in local currency stood at LBP5,834bn at the end of March 2019, down by 12.3% from end-2018 and by 4.8% from end-March 2018. Money Supply (M1) expanded by a marginal 0.2% in March from LBP10,525bn at end-February 2019, with currency in circulation growing by 1.8% and demand deposits in local currency regressing by 1% month-on-month.

In addition, money supply M2, which includes M1 and term deposits in Lebanese pounds, reached LBP75,983bn at the end of March 2019, constituting a decrease of 1.1% from LBP76,828bn at the end of 2018, and a decline of 6.1% from LBP80,882bn a year earlier. Term deposits in Lebanese pounds totaled LBP65,436bn at the end of March 2019, up by 0.4% from LBP65,167bn at end-2018, while they declined by 6.4% from LBP69,941bn at end-March 2018. Money Supply (M2) increased by 0.3% in March from LBP75,726bn at end-February 2019, with term deposits in local currency expanding by 0.4% month-on-month.

Further, broad money supply M3, which includes M2, deposits in foreign currency and debt securities issued by the banking sector, reached LBP211,351bn at the end of March 2019, constituting a decrease of 0.8% from LBP212,993bn at the end of 2018 and an increase of 0.4% from LBP210,506bn at end-March 2018. Deposits in foreign currency totaled LBP135,048bn at the end of March 2019, down by 0.6% from end-2018 and up by 4.4% from a year earlier. Also, debt securities issued by the banking sector amounted to LBP320bn at the end of March 2019, compared to LBP272bn at the end of 2018 and to LBP239bn at end-March 2018. Money supply (M3) grew by 0.2% from LBP210,836bn at the end of February 2019, with deposits in foreign currency expanding by 0.2% month-on-month, and debt securities issued by the banking sector rising by 10% from the preceding month. In parallel, M3 regressed by LBP1,641bn in the first quarter of 2019, due to a drop of LBP2,812bn in the net foreign assets of deposit-taking institutions and a decline of LBP2,747bn in claims on the private sector, which were partly offset by an increase of LBP1,384bn in net claims on the public sector and a surge of LBP2,534bn in other net items.

Parliament extends law allowing government to grant licenses for private electricity production

The Lebanese Parliament approved on April 17, 2019 Law 129 that extends for three years Law 288, which allows the Council of Ministers to grant licenses for electricity production to private companies, as long as a regulatory authority for the electricity sector has not been established. Law 288 stipulated that the licenses would be granted based on the recommendation of the Ministry of Energy & Water and the Ministry of Finance. Parliament initially ratified Law 288 in April 2014 and extended it until April 2018 under Law 54 dated October 2015. Law 288 provided the legal framework that allowed the approval for the construction of three wind farms with a total capacity of 200 MW in 2018. In addition, current bids and upcoming new bids for solar photovoltaic projects, wind energy, and solar with storage projects, will follow the procedure set by Law 288. As such, all licenses have been granted so far to produce renewable energy.

In parallel, Law 129 stipulates that the commissioning of electricity projects is subject to the administrative, technical and financial requirements specified by the Ministry of Energy & Water. It added that the General Accounting Law and other laws that are relevant to the tendering process will be applied in the Power Purchase Agreement that will be signed by the government with selected companies.

Number of real estate transactions down 11% in first four months of 2019

Figures released by the Ministry of Finance indicate that there were 15,726 real estate transactions in the first four months of 2019, constituting a decrease of 10.9% from 17,651 deals in the same period of 2018. In comparison, there were 22,966 real estate transactions in the first four months of 2017 and 20,413 real estate deals in the same period of 2016. There were 2,854 real estate transactions in the Baabda area in the first four months of 2019, representing 18.1% of the total. The North followed with 2,596 deals (16.5%), then the Zahlé area with 2,030 transactions (12.9%), the South region with 1,859 deals (11.8%), the Metn district with 1,829 transactions (11.6%), the Keserwan region with 1,533 deals (9.7%), the Nabatieh area with 1,287 transactions (8.2%), and Beirut with 1,162 deals (7.4%).

Also, the aggregate value of real estate transactions reached $2.1bn in the first four months of 2019 and decreased by 16.2% from $2.5bn in the same period of 2018. In comparison, the value of real estate deals regressed by 19.7% in the first four months of 2018 and grew by 8.9% in the same period of 2017. Further, the value of real estate transactions in Beirut reached $658.1m and accounted for 31.9% of the total in the first four months of 2019. The Metn district followed with $423.3m (20.5%), then the Baabda region with $330.6m (16%), the Keserwan area with $196.2m (9.5%), the South with $163.2m (7.9%), the North with $135.4m (6.6%), the Zahlé area with $72.2m (3.5%), and the Nabatieh region with $58.5m (2.8%).

In parallel, the average value per real estate transaction was $131,094 in the first four months of 2019, down by 5.9% from an average of $139,375 in the same period of 2018 and relative to $133,463 in the first four months of 2017. Further, there were 323 real estate transactions executed by foreigners in the first four months of 2019, down by 12% from 367 deals in the same period of 2018 and compared to 382 transactions in the first four months of 2017. The number of real estate deals executed by foreigners accounted for 2.1% of total real estate transactions in the first four months of 2019, unchanged from the same period of 2018 and relative to 1.7% of deals in the first four months of 2017. Further, 22.3% of the real estate transactions executed by foreigners were in the Baabda district, followed by Beirut (19.5%), the South (15.5%), the Metn region (13.9%), the Keserwan region (10.8%), the North (9%), the Zahlé area (8%), and the Nabatieh region (0.9%). Also, Syrian nationals accounted for 24.7% of the total value of real estate transactions executed by foreigners in April 2019, followed by Saudi Arabian citizens (16.9%), French nationals (8%), Iraqis (5.4%) and Emiratis (5.3%).

Lebanese Diaspora rejects tax increases in the 2019 budget

The World Lebanese Cultural Union (WLCU), the largest Lebanese Diaspora organization in the world, declared that Lebanese expatriates continue to cautiously watch the financial and economic developments in Lebanon, given the significant impact of such events on their decision to invest in the country. It noted that the negative rumors that have been circulating about the Lebanese economy have triggered concerns within the Lebanese Diaspora, especially among depositors and investors.

The WLCU raised four points related to Lebanon's financial situation and ongoing discussions about the 2019 draft budget. First, it reiterated its confidence in Banque du Liban's (BdL) policies that have maintained the stability of the exchange rate. Second, it indicated that, in 2017, it opposed the government's decision to raise the tax rate on the interest earned on deposits at Lebanese banks from 5% to 7%, as it considered that expatriates were already paying high tax rates, that reach up to 35%, on their income in their countries of residence. In this context, it said that the proposed measure in the 2019 draft budget to further increase the tax rate on deposit rates to 10% would discourage large expatriate depositors from placing their money in Lebanon and, instead, resort to countries that offer better incentives. It noted that smaller expatriate depositors, who place their deposits in Lebanon as part of their retirement plan, will suffer as a result of higher tax rates on their deposits. Overall, it stressed that Lebanese authorities should provide special incentives and exemptions to expatriate depositors so that they would continue to place their money in Lebanon.

Third, it considered that Parliament enacted in 2017 the increase in the public-sector wages and salaries without having an economic plan in place, a decision that could have been motivated by the approaching elections at the time. It expressed discontent about the proposed measures in the 2019 draft budget that will negatively affect the Lebanese Army, as well as public-sector workers and employees.

Fourth, it reiterated that the government would not be able to narrow the fiscal deficit by raising taxes. It added that achieving a narrower deficit requires austerity measures that target the over-sized public sector, as well as the random and politically-driven employment in the public administration. It added that the increase in taxes could lead to economic stagnation or recession. It noted that higher taxes demonstrate the government's inability to formulate a well-defined fiscal policy to support investment and production. Overall, it considered that any economic vision that is not based on incentives to encourage investment or attract capital would simply fail.

Established in 1960, the WLCU is an independent non-profit organization that represents the Lebanese Diaspora around the world. The organization works in cooperation with Lebanese emigrants and aims to unite descendants of Lebanese origin to promote and preserve Lebanon's culture and heritage.

Number of new construction permits down 23% in first four months of 2019

The Orders of Engineers & Architects of Beirut and of Tripoli issued 3,785 new construction permits in the first four months of 2019, constituting a decline of 22.5% from 4,885 permits issued in the same period of 2018. In comparison, new construction permits decreased by 7% year-on-year in the first four months of 2018. Mount Lebanon accounted for 35.7% of newly-issued construction permits in the covered period, followed by the South with 20.6%, the Nabatieh area with 13.6%, the North with 12.4%, the Bekaa region with 9.6%, and Beirut with 6.2%. The remaining 1.8% 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 2,404,509 square meters (sqm) in the first four months of 2019, constituting a decrease of 32.8% from 3,575,752 sqm in the same period of 2018. In comparison, the surface area of granted construction permits regressed by 12% in the first four months of 2018 from the same period of 2017. Mount Lebanon accounted for 876,093 sqm, or 36.4% of the total, in the covered period. The South followed with 463,238 sqm (19.3%), then the North with 398,778 sqm (16.6%), the Bekaa region with 208,420 sqm (8.7%), the Nabatieh area with 185,470 sqm (7.7%), and Beirut with 181,232 sqm (7.5%). The remaining 91,278 sqm, or 3.8% 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.

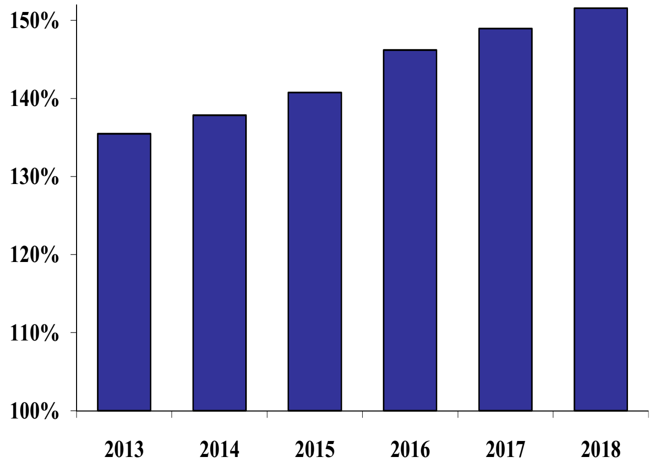
The surface area of new construction permits issued for Mount Lebanon dropped by 42.6% year-on-year in the first four months of 2019, followed by surface areas in the Nabatieh region (-41.8%), the Bekaa area (-38.1%), the North (-30.5%), and the South (-10%); while surface areas in regions located outside northern Lebanon dropped by 42.7%. In contrast, the surface area of granted construction permits in Beirut increased by 22.7% year-on-year in the first four months of the year.

Gross public debt at $86.2bn at end-March 2019

Lebanon's gross public debt reached $86.2bn at the end of March 2019, constituting an increase of 1.3% from $85.1bn at the end of 2018 and a rise of 5.3% from $81.9bn at end-March 2018. In nominal terms, the gross public debt grew by $1.1bn in the first quarter of 2019 relative to an increase of $2.3bn in the same quarter of 2018. Debt denominated in Lebanese pounds totaled $52.4bn at end-March 2019, up by 1.6 % from the end of 2018 and by 2.3% from end-March 2018; while debt denominated in foreign currency stood at $33.8bn, constituting a growth of 0.8% from end-2018 and a rise of 10.4% from end-March 2018. In May 2018, the Finance Ministry issued $5.5bn in Lebanese Eurobonds and exchanged them with LBP8,250bn worth of Lebanese pound-denominated Treasury bills from Banque du Liban's (BdL) portfolio in order to reduce the cost of debt servicing, which explains the growth in foreign-currency debt from March 2018.

Local currency debt accounted for 60.8% of the gross public debt at the end of March 2019 compared to 62.6% a year earlier, while foreign currency-denominated debt represented the balance of 39.2% relative to 37.4% at end-March 2018. The weighted interest rate on outstanding Treasury bills was 6.24% and the rate on Eurobonds was 6.81% in March 2019. Further, the weighted life on Eurobonds was 7.58 years, while it was 1,631 days on Treasury bills.

Lebanon's Gross Public Debt (% of GDP)



Source: Ministry of Finance, Central Administration of Statistics, Institute of International Finance

Commercial banks held 38.6% of the public debt as at end-March 2019 relative to 37.6% of the total at end-March 2018. BdL held 51.5% of the Lebanese pound-denominated public debt at the end of March 2019 compared to 52.5% a year earlier, while commercial banks held 34.1% of the local debt compared to 33.5% at end-March 2018. Also, public agencies, financial institutions and the public held 14.4% of the local debt at end-March 2019, relative to 14% at end-March 2018. Further, holders of Eurobonds and special T-bills in foreign currencies accounted for 93.7% of foreign currency-denominated debt holders at the end of March 2019, followed by multilateral institutions with 4.1% and foreign governments with 2.2%. In addition, the net public debt, which excludes public sector deposits at BdL and at commercial banks from overall debt figures, grew by 8.6% annually to $77.2bn at end-March 2019. Further, the gross market debt accounted for about 59.4% of the public debt. Gross market debt is the total public debt less the portfolios of the BdL, the National Social Security Fund, as well as bilateral and multilateral loans.

Energy Ministry extends deadline to evaluate LNG storage offers

The Ministry of Energy & Water decided to extend by 20 days its previous deadline of May 20 to evaluate the tender offers of six consortiums or companies for the construction of three floating storage and regasification units (FSRU), which are offshore Liquified Natural Gas (LNG) import terminals. The six entities that qualified in the second licensing round are ENI and Qatar Petroleum Int. Ltd; BW, Vitol, Butec, ALmabani, and Rosneft; Excelerate, Shell and BB Energy; Total; Petronas; and Gas Natural Fenosa. The FSRU will be built in Selaata and Deir Ammar in the north and in Zahrani in the south of the country, and will store and transfer LNG through connected pipelines to nearby power grids.

Further, the bids for the construction of the FSRU have been under evaluation by the ministry with the help of Poten & Partners, a U.K.-based company that provides brokerage, consulting, and project development services related to the trading and transportation of crude oil, petroleum products, natural gas and LNG, among other commodities.

Out of the 13 consortiums and companies that initially pre-qualified to participate in the tender to build the FSRU, a total of eight entities submitted their offers by November 2018. However, two consortiums that are Golar Power Ltd and CCC sal; and the Phoenicia Energy Consortium, were subsequently disqualified from the tender process. In 2013, the Ministry of Energy & Water launched a tender for LNG import terminals and selected 13 out of 30 interested companies. However, the process was interrupted due to the political paralysis and presidential vacuum that started in May 2014.

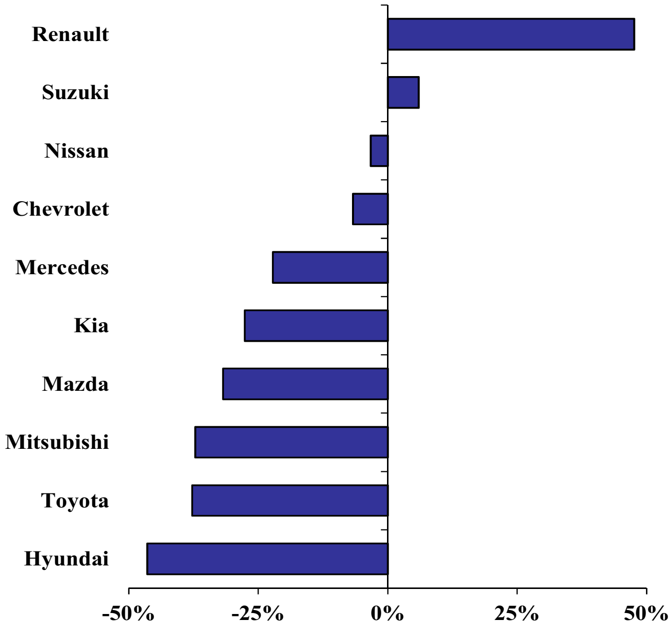
New car sales down 20% in first four months of 2019

Figures released by the Association of Automobile Importers in Lebanon show that dealers sold 8,102 new passenger cars in the first four months of 2019, constituting a decline of 20.4% from 10,184 cars sold in the same period of 2018. Individuals and institutional clients purchased 1,838 new cars in January, 1,906 new vehicles in February, 2,190 new automobiles in March, and 2,168 new cars in April 2019.

Japanese cars accounted for 38.5% of total car sales in the first four months of 2019, followed by Korean vehicles with a 25.1% share, European automobiles (24.1%), American cars (8.3%) and Chinese vehicles (4%). The number of Chinese cars sold grew by 17% year-on-year in the covered period. In contrast, demand for Korean vehicles dropped by 36.2%, the sales of Japanese cars decreased by 21%, demand for new American automobiles declined by 8.4%, and the sales of European vehicles regressed by 4.4% year-on-year in the first four months of 2019.

Kia is the leading brand in the Lebanese market with 1,263 passenger vehicles sold in the first four months of 2019, followed by Nissan with 998 new cars sold, Toyota (793), Hyundai (767) and Renault (583). In parallel, car dealers sold 501 new commercial vehicles in the first four months of 2019, down by 31% from 725 commercial vehicles purchased in the same period of 2018. Overall, car dealers sold 8,603 new passenger cars and commercial vehicles in the covered period, down by 21.1% from 10,909 cars sold in the first four months of 2018.

Sales of Top 10 Car Brands in First Four Months of 2019 (% change*)



**from the same period of 2018*
Source: AIA, Byblos Research

Further, Lebanon's top five car distributors sold 5,163 vehicles in the first four months of 2019 and accounted for 60% of new auto sales. In comparison, they sold 6,809 cars in the same period of 2018 that represented 62.4% of total car sales. Rasamny Younis Motor Co. sal sold 1,320 vehicles in the first four months of 2019, equivalent to 15.3% of the total, followed by NATCO sal with 1,264 automobiles (14.7%), Boustany United Machineries sal with 908 cars (10.6%), Bassoul Heneiné sal with 896 vehicles (10.4%) and Century Motor Co. sal with 775 cars (9%).

Balance sheet of investment banks up 3% in first quarter of 2019

Figures released by Banque du Liban show that the consolidated balance sheet of investment banks in Lebanon reached LBP8,210.2bn, or $5.45bn at the end of March 2019, constituting an increase of 2.7% from LBP7,996bn, or $5.3bn, at end-2018, and a growth of 5.5% from LBP7,782.1bn or $5.16bn at the end of March 2018. On the assets side, claims on resident customers reached $1.56bn at end-March 2019, down by 1.5% from the end of 2018 and by 0.8% from end-March 2018, while claims on non-resident customers totaled $33.1m at the end of March 2019, and rose by 1.3% from end-2018.

In addition, claims on the resident financial sector reached $714.6m at end-March 2019, up by 5.4% from the end of 2018, but down by 6.8% from the end of March 2018; while claims on the non-resident financial sector totaled $79.7m at the end of March 2019 and decreased by 3.7% from end-2018, but grew by 20.5% from a year earlier. Also, claims on the public sector totaled $564,201 at end-March 2019, constituting an decline of 1% from end-2018; while the securities portfolio, which includes Lebanese Treasury Bills and Eurobonds, reached $952.5m at end-March 2019, down by 4.9% from end-2018 and nearly unchanged from end-March 2018. In parallel, currency and deposits with BdL and foreign central banks totaled $1.7bn at the end of March 2019 and increased by 10.3% in the first quarter of 2019, and by 25% from end-March 2018.

On the liabilities side, deposits of resident customers totaled $1.63bn at the end of March 2019, constituting an increase of 1.9% in the first quarter of 2019; while deposits of non-resident customers reached $290.8m at the end of March 2019, representing a decrease of 3.7% from end-2018, and an increase of 4.9% from the end of March 2018. Liabilities to the resident financial sector amounted to $134.6m at end-March 2019, down by 11.5% from end-2018; while those to the non-resident financial sector decreased by 1.4% from end-2018 to $235.8m. Also, public sector deposits regressed by 3.7% in the first quarter of 2019 to $104.3m, while debt securities issued totaled $24m at end-March 2019 and were unchanged from end-2018. Further, the aggregate capital account of investment banks amounted to $1.79bn at the end of March 2019, constituting an increase of 6.9% from end-2018, and a rise of 3.4% from end-March 2018.

Beirut to host first fintech accelerator in Levant region

Accelerator StartechEUS FinHub announced that it would launch its operations in May 2019 at the Beirut Digital District, becoming the first hub for financial technology (fintech) startups in the Levant region. The new accelerator intends to provide startups with mentorship, a fintech office space, as well as access to international markets and to Series A funding of between $100,000 and $2m per company. Series A funding refers to an investment in a start-up that has shown progress in developing its business model and has demonstrated a potential to grow and generate revenue.

Specifically, the StartechEUS Technology Academy would allow industry experts, private leaders and academic partners to provide startups with up-to-date training sessions, as well as with the tools and resources necessary to help them participate in a competitive global market. Also, the accelerator would invest both directly and indirectly in fintech startups through its Finnovation Fund.

Further, StartechEUS's Governance Management Framework aims to support the creation of innovative fintech business models and help transform the entrepreneurs' ideas into companies. In addition, the accelerator would allow startups to have access to international markets, especially Europe and the U.S., through its partnership with the Lebanese International Finance Executives (LIFE) organization, which consists of a global network of more than 1,000 senior Lebanese finance professionals around the world.

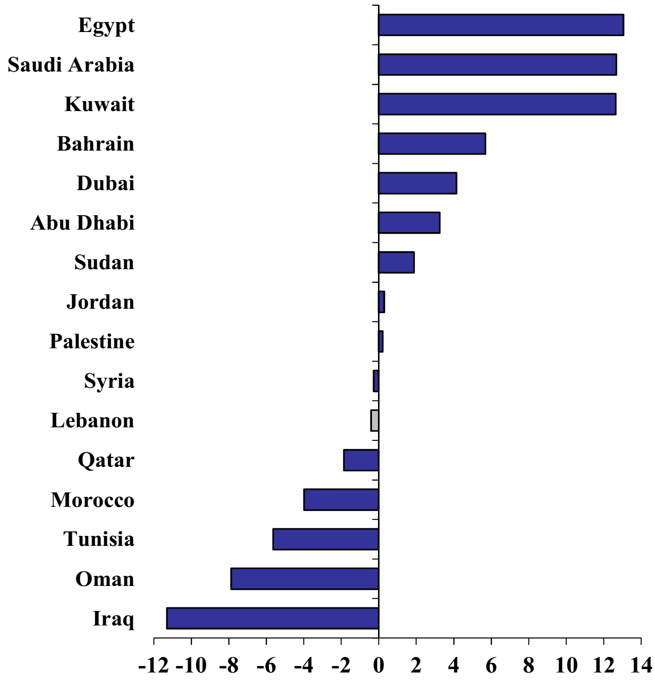
Stock market activity posts sixth slowest performance in Arab world in first quarter of 2019

Figures released by the Arab Federation of Exchanges show that market activity on the Beirut Stock Exchange (BSE) decreased by 0.41% in the first quarter of 2019 from the fourth quarter of 2018, constituting the sixth slowest performance among 16 Arab equity markets. In addition, the BSE underperformed the global equity markets (+11.6%), the stocks of emerging markets (+9.6%), as well as the Arab equity markets (+6.9%) in the covered quarter. In parallel, activity on the BSE dropped by 18% from the first quarter of 2018, constituting the second steepest decline in the region.

The BSE outperformed the Qatar Stock Exchange (-1.86%), the Casablanca Stock Exchange (-3.98%), the Tunis Bourse (-5.64%), the Muscat Securities Market (-7.87%), and the Iraq Stock Exchange (-11.3%). In contrast, the BSE underperformed the Egyptian Exchange (+13.1%), the Saudi Stock Exchange and the Boursa Kuwait (+12.7% each), the Bahrain Bourse (+5.7%), the Dubai Financial Market (+4.2%), the Abu Dhabi Securities Exchange (+3.3%), the Khartoum Stock Exchange (+1.9%), the Amman Stock Exchange (+0.3%), the Palestine Exchange (+0.2%), and the Damascus Securities Exchange (-0.3%).

In parallel, the market capitalization of the BSE reached $9.63bn at the end of March 2019 and accounted for 0.75% of the aggregate market capitalization of Arab stock markets. It was higher than the market capitalization of the Iraq Stock Exchange ($9.23bn), the Tunis Bourse ($7.6bn), the Palestine Exchange ($3.8bn), the Damascus Securities Exchange ($2.1bn), and the Khartoum Stock Exchange ($1.04bn).

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



**from the fourth quarter of 2018*
Source: Arab Federation of Exchanges

Further, the value of shares traded on the BSE totaled $777.3m in the first quarter of 2019 and accounted for 1.1% of the total value of shares traded on Arab equity markets. It was higher than the turnover on the Amman Stock Exchange ($507.6m), the Muscat Securities Market ($392.6m), the Bahrain Bourse ($236.9m), the Tunis Bourse ($164.2m), the Palestine Exchange ($103.3m), the Iraq Stock Exchange ($59.2m), the Damascus Securities Exchange ($13.7m), and the Khartoum Stock Exchange ($4.3m).

Creditbank's net earnings at $23m in 2018

Creditbank sal, one of Lebanon's top 16 banks in terms of deposits, announced unaudited consolidated net profits of $23.4m in 2018, constituting an increase of 17.8% from net earnings of $20m in 2017. Net operating income grew by 1.5% year-on-year to $85.2m in 2018, with net interest income regressing by 0.6% to $62.7m and net fees & commissions receipts increasing by 30.4% to $17m. Non-interest income accounted for 36.2% of total income in 2018, down from 37.4% in 2017; with net fees & commissions representing 48% of non-interest earnings relative to 34.7% in 2017. Further, the bank's interest margin was 1.65% in 2018 relative to 1.82% in 2017, while its spread reached 1.55% in 2018 compared to 1.72% in 2017. Total operating expenditures regressed by 0.5% to $62m in 2018, with staff expenses increasing by 1.4% to $34.3m and administrative & other operating expenditures decreasing by 3.5% to $24.4m. Also, the bank's return on average assets was 0.58% in 2018 relative to 0.54% in 2017, while its return on average equity reached 5.77% compared to 5.48% in 2017. The bank's cost-to-income ratio increased from 61.75% in 2017 to 63% in 2018.

In parallel, the bank's assets reached $4.2bn at the end of 2018, up by 11.2% from end-2017, while loans & advances to customers, excluding those to related parties, increased by 8.3% from end-2017 to $1.95bn. Also, customer deposits, excluding those from related parties, totaled $3.3bn at end-2018 and grew by 5.7% from the end of 2017. The loans-to-deposits ratio stood at 58.47% at the end of 2018, compared to 56.94% at end-2017. Further, the bank's shareholders' equity reached $414.5m at end-2018, up by 4.1% from end-2017.

Arope's net income up 7% to $20m in 2018

Arope Insurance sal announced audited net profits of $19.9m in 2018, constituting an increase of 7.3% from $18.5m in 2017. The company's audited balance sheet shows total assets of $406.1m at the end of 2018, relative to $404.4m at end-2017. On the assets side, general company investments totaled $303.9m at the end of 2018, up by 7.7% from $282.3m a year earlier. They included $24.2m investments in subsidiaries and associates, $18m in cash & cash equivalents, $10.2m in fixed income investments and $2.8m in investment funds. Also, blocked bank deposits and deposits with maturity of more than three months stood at $246m, of which $0.6m, or 0.2%, were blocked in favor of the Ministry of Economy & Trade as guarantees. Further, the reinsurance share in technical reserves for the life category decreased by 67.5% to $6.2m in 2018, while that for the non-life category declined by 35.6% to $13.9m last year.

On the liabilities side, technical reserves for the life segment increased by 11% to $118m at end-2018, while technical reserves for the non-life category reached $85.7m and decreased by 11.8% from the preceding year. Non-life technical reserves included unearned premium reserves of $61.7m that dropped by 7.3% in 2018, and outstanding claims' reserves of $18.4m that regressed by 28.3% year-on-year. Provisions for risks and charges reached $8.8m in 2018 and increased by 58.2% from a year earlier. Also, the firm's shareholders' equity totaled $150m at the end of 2018, up by 6% from 2017.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked Arope Insurance in seventh place in 2018 in terms of life and non-life premiums. The firm's life premiums decreased by 6.5% to $36.2m, while its non-life premiums dropped by 4.7% to $61.5m last year. It had a 6.7% share of the domestic life market and a 5.3% share of the local non-life market in 2018.

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**	182.0	183.1	184.7	0.88
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	Jul 2017	Jun 2018	Jul 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*	Jul 2017	Jun 2018	Jul 2018	Change**	Risk Level
Political Risk Rating	57.9	57.9	58.0	▼	High
Financial Risk Rating	37.9	38.8	38.7	▼	Low
Economic Risk Rating	30.7	32.8	33.0	▼	Moderate
Composite Risk Rating	63.2	64.7	64.8	▼	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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