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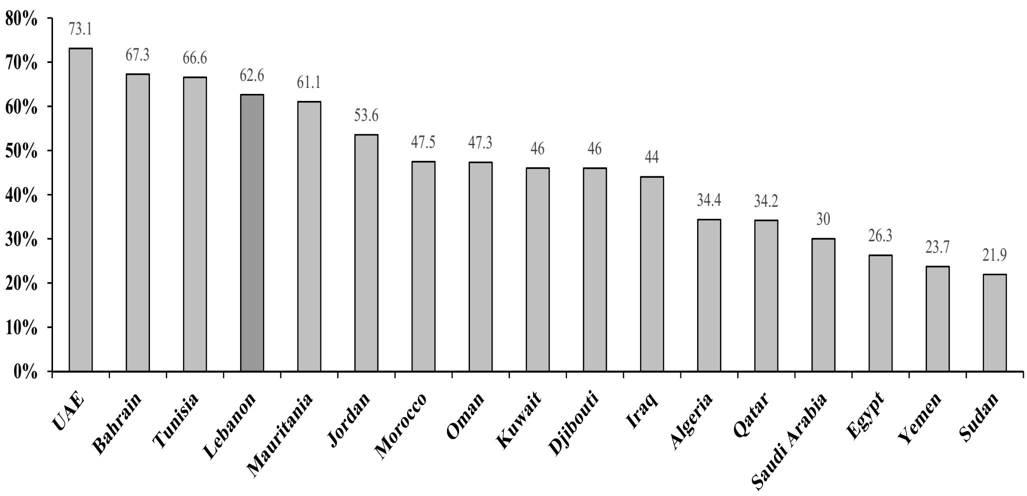
Economic Research & Analysis Department

LEBANON THIS WEEK

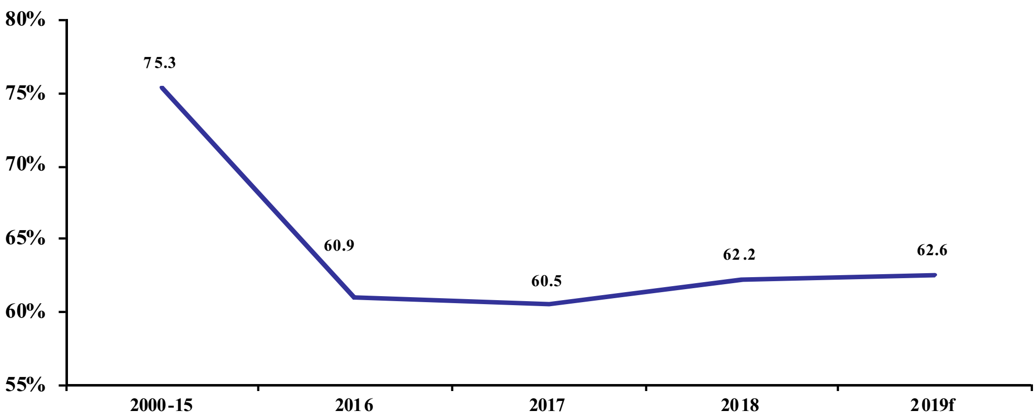
In This Issue

Charts of the Week

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



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



Source: International Monetary Fund - April 2019, Byblos Bank

Quote to Note

"Successful fiscal adjustment would lead to a gradual decline in interest rates."

The Institute of International Finance, on one of the outcomes from narrowing the fiscal deficit

Number of the Week

0.31%: The spread between the weighted average interest rate for the last three months on new deposits and the weighted return on the uses of funds in Lebanese pounds at commercial banks in Lebanon as at March 2019, according to the Association of Banks in Lebanon

Lebanon in the News

$m *(unless otherwise mentioned)*	2018	Jan-Mar 2018	Jan-Mar 2019	% Change*	Mar-18	Feb-19	Mar-19
Exports	2,952	814	856	5.14	283	300	320
Imports	19,980	4,809	4,949	2.90	1,669	1,364	2,181
Trade Balance	(17,028)	(3,995)	(4,093)	2.45	(1,387)	(1,064)	(1,861)
Balance of Payments	(4,823)	(198)	(2,005)	911.5	(364)	(550)	(75)
Checks Cleared in LBP	22,133	5,529	5,475	(1.0)	1,876	1,782	1,837
Checks Cleared in FC	44,429	11,296	9,347	(17.3)	3,865	3,072	3,230
Total Checks Cleared	66,562	16,825	14,822	(11.9)	5,741	4,854	5,067
Fiscal Deficit/Surplus**	(5,809)	(865)	-	-	(486)	-	-
Primary Balance**	(491)	(330)	-	-	(223)	-	-
Airport Passengers***	8,842,442	1,728,816	1,749,693	1.21	626,074	524,292	618,617
Consumer Price Index****	6.1	5.4	3.5	(188bps)	5.4	3.1	4.1

$bn *(unless otherwise mentioned)*	Dec-17	Mar-18	Dec-18	Jan-19	Feb-19	Mar-19	% Change*
BdL FX Reserves	35.81	34.65	32.51	31.93	31.27	31.09	(10.27)
In months of Imports	18.57	20.76	20.72	22.74	22.93	14.26	(31.32)
Public Debt	79.53	81.87	85.14	85.32	85.25	86.22	5.31
Bank Assets	219.86	224.57	249.48	248.88	250.24	252.75	12.55
Bank Deposits (Private Sector)	168.66	171.18	174.28	172.11	171.97	172.52	0.79
Bank Loans to Private Sector	59.69	59.03	59.39	58.14	57.38	57.33	(2.88)
Money Supply M2	52.51	53.65	50.96	49.79	50.23	50.40	(6.06)
Money Supply M3	138.62	139.64	141.29	139.59	139.86	140.20	0.40
LBP Lending Rate (%)	8.09	8.95	9.97	10.41	10.55	10.58	163bps
LBP Deposit Rate (%)	6.41	6.64	8.30	8.93	9.16	8.75	211bps
USD Lending Rate (%)	7.67	7.89	8.57	8.89	8.91	9.31	142bps
USD Deposit Rate (%)	3.89	4.04	5.15	5.58	5.62	5.69	165bps

**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
Audi GDR	4.02	1.26	679,052	5.59%
Solidere "A"	5.20	3.38	121,500	6.03%
BLOM GDR	7.70	2.67	20,580	6.60%
Solidere "B"	5.35	9.63	19,717	4.03%
Byblos Common	1.22	(0.81)	11,370	8.00%
Audi Listed	4.30	7.50	2,545	19.94%
BLOM Listed	8.55	6.88	2,303	21.32%
HOLCIM	14.01	(3.38)	1,595	3.17%
Byblos Pref. 08	70.00	0.00	-	1.62%
Byblos Pref. 09	72.00	0.00	-	1.67%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Mar 2020	6.38	98.00	9.06
Apr 2021	8.25	95.20	11.15
Oct 2022	6.10	86.00	11.23
Jun 2025	6.25	80.25	10.78
Nov 2026	6.60	79.50	10.64
Feb 2030	6.65	75.50	10.50
Apr 2031	7.00	75.88	10.62
May 2033	8.20	86.52	10.01
Nov 2035	7.05	75.50	10.14
Mar 2037	7.25	76.13	10.18

Source: Byblos Bank Capital Markets

	May 20-24	May 13-17	% Change	April 2019	April 2018	% Change
Total shares traded	860,252	470,380	82.9	689,768	3,491,466	(80.2)
Total value traded	$3,829,461	$3,522,951	8.7	$4,931,247	$19,769,834	(75.1)
Market capitalization	$8.62bn	$8.33bn	3.47	$9.02bn	$11.23bn	(19.7)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	May 17, 2019	May 23, 2019	% Change**
CDS 1-year*	848.83	842.29	(0.8)
CDS 3-year*	906.25	900.75	(0.6)
CDS 5-year*	883.79	881.37	(0.3)

*Source: ICE CMA; *mid-spread in bps **between May 17 and 23*

CDX EM 30*	May 17, 2019	May 23, 2019	% Change***
CDS 5-year**	95.60	95.50	(0.1)

*Source: ICE CMA; * CDX Emerging Market CDS Index-Series 30*
***mid-spread in bps ***between May 17 and 23*

Main expenditure and revenue measures in 2019 draft budget

The Council of Ministers has endorsed since the end of April 2019 several revenue and spending measures, which will be included in the final version of the 2019 draft budget that it will submit to the Parliament's Budget & Finance Committee for review.

On the revenues side, the 2019 draft budget raises from 7% to 10% the tax on the interest earned on deposits. The increase also applies to the interest income earned from Treasury bills and bonds issued by the Lebanese government, among others. This constitutes the second annual rise in the tax rate, following a previous adjustment from 5% to 7% that went into effect at the start of 2018. As a result, the tax rate will double from 5% in 2017 to 10% in 2019. Also, the draft budget raises to 25% the income tax rate on persons and enterprises, excluding corporations and limited partnerships, that generate an annual income of LBP225m or more. Prior to the increase, the tax rate was 20% on an annual income above LBP120m for individuals and 21% on an annual income above LBP104m for enterprises.

In addition, the budget imposes a 2% fee on imported products, excluding hybrid cars, raw material and machinery used for local production. It allocates part of the revenues to providing subsidized housing loans and to financing incentive programs for productive sectors. Further, it cancels exemptions related to customs duties and excise taxes, including the privilege extended to current members of Parliament and ministers to purchase cars that are exempt from tariffs. It also revokes several exemptions on the payment of car registration fees and *mécanique* fees that some persons and parties benefit from. Moreover, it imposes annual fees on cars with special license plate numbers that vary between LBP60,000 and LBP2.3m per license plate. In addition, the draft budget imposes an annual fee of between LBP500,000 and LBP1m on installing tinted car windows, an annual fee of LBP250,000 on licenses to carry a weapon for individuals, a LBP1,000 fee on shisha orders at cafés and restaurants, as well as a fee on hotel rooms or furnished apartments ranging between LBP3,000 and LBP10,000 per room per night.

In parallel, the draft budget indicates that the pension salaries of civil servants, as well as the salaries and benefits of current and former presidents, prime ministers, speakers of Parliament, and members of Parliament will be subject to the income tax. Prior to the 2019 budget, these remunerations were exempt from the income tax. The draft budget also imposes a 3% deduction on the retirement salaries of army personnel to be allocated for healthcare and social assistance. It also provides incentives for taxpayers to settle their late payments of taxes and fees, including an 85% reduction on penalties, contingent on the taxpayers settling their payments within a period of six months from the day that the 2019 Budget Law comes into force. Further, the draft budget reduces from 3% to 2% the real estate registration fees on the first tranche of the cost of a purchased residential unit up to LBP375m ($250,000), and reduces it to 3% on the tranche that is above $250,000.

On the expenditures side, the 2019 draft budget freezes the recruitment in the public sector for a period of three years. It also 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. In addition, the draft budget increases the minimum number of years required in service before retirement for army and security personnel, and other civil servants. Further, the draft budget limits public sector salaries to 12 months per year, as some agencies pay salaries equivalent to 16 months per year. This measure would cover employees at telecom services provider Ogero, the National Social Security Fund and the Port of Beirut, among others. The draft budget also caps basic public-sector salaries at 20-times the minimum national salary (LBP13.5m per month) and limits all the benefits that civil servants receive to 75% of their annual basic salary. In addition, it prohibits most retirees from receiving multiple retirement salaries from various positions in the public sector.

Industrial exports down 4% to $180m in January 2019

Figures released by the Ministry of Industry show that industrial exports totaled $180m in January 2019, constituting a drop of 15.9% from $213.8m in December 2018, and a decline of 3.8% from $187m in January 2018. Exports of machinery & mechanical appliances totaled $35.9m and accounted for 20% of aggregate industrial exports in January 2019, followed by chemical products with $31.5m (17.5%), prepared foodstuffs & tobacco with $28.2m (15.7%), base metals with $22.4m (12.4%), plastic & rubber with $13.5m (7.5%), and pearls or semi-precious stones with $10.5m (6%). Arab countries were the destination of 55.4% of Lebanese industrial exports in January 2019, followed by European economies with 19.8%, African countries with 11.1%, Asian economies with 7.7%, countries in the Americas with 4.3% and markets in Oceania with 0.9%.

On a country basis, the UAE was the main destination of Lebanese industrial exports and accounted for 10.2% of the total in the covered month, followed by Iraq with 9.1%, Saudi Arabia with 7.8%, Syria with 6.3%, Qatar with 5.7%, and Egypt with 4.4%. In January 2019, 12 Arab states, 10 European economies, eight African countries, three Asian economies, two countries in the Americas and one country in Oceania imported $1m or more each of Lebanese industrial products.

In parallel, imports of industrial equipment and machinery reached $28.5m in January 2019, up by 74.8% from $16.3m in December 2018, and by 18.6% from $24m in January 2018. Italy was the main source of such imports and accounted for 26% of the total in January 2019, followed by Romania with 22.7%, and China with 11.7%.

Over two-thirds of Lebanese adults use Facebook

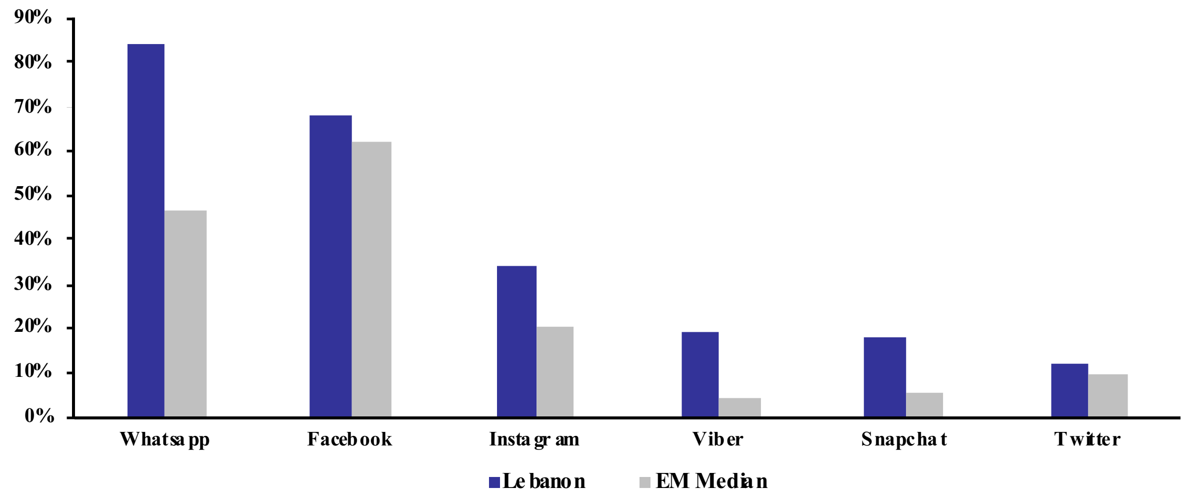
A survey conducted by U.S.-based Pew Research Center indicated that 89% of Lebanese respondents owned a mobile phone in 2018, constituting, along with Colombia and Kenya, the fourth highest percentage among 11 emerging markets (EMs) covered in the survey. The share of participants who owned a mobile phone in Lebanon was similar to the median share among the 11 EMs. Also, 86% of mobile phone owners in Lebanon had a smartphone in 2018 relative to the EM median share of 53%, representing the highest share among countries covered in the survey. Also, the survey shows that 62% of Lebanese who are 50 years or older used smartphones in 2018, the second highest utilization rate behind only Jordan (64%). The survey was conducted between September 7 and December 7, 2018 on a sample size of 28,122 adults in 11 EMs.

Further, 87% of Lebanese adults noted that they used the Internet in 2018, relative to the median share of 74% among EMs, constituting the highest ratio among the 11 countries. In addition, 84% of Lebanese respondents indicated that they used the Whatsapp messaging application last year, relative to the EM median of 47%, representing the largest percentage among EMs. Also, 68% of Lebanese adults used Facebook relative to the EM median share of 62%, constituting the second largest usage rate among EMs, behind Jordan (71% of respondents).

In parallel, the survey pointed out that Lebanese adults are concerned about a broad range of negative effects from the use of mobile phones in 2018, including children's exposure to harmful content (79% of Lebanese respondents), mobile phone addiction (56% of Lebanese adults), and identity theft (56% of Lebanese participants). In contrast, 66% of Lebanese respondents considered that the increasing use of the Internet had a positive impact on education in 2018 compared to a share of 58% in 2014, while 42% of Lebanese adults believed that the use of the Internet had a favorable impact on the Lebanese economy in 2018 relative to a share of 20% in 2014.

In addition, 47% of Lebanese adults trust, to some extent, the news and information that they get from social media, the second highest percentage among EMs, behind only Venezuela (48% of surveyed participants). Further, 80% of Lebanese social media users indicated that they regularly read content on social media platforms and messaging applications that introduces them to new ideas, which also represents the second largest percentage among EMs, behind Tunisia (84% of adults).

Adults Who Use Social Media Platforms & Messaging Applications (% of Respondents)



Source: Pew Research Center

Consumer Price Index up 3.6% in first four months of 2019

The Central Administration of Statistics' Consumer Price Index increased by 3.6% in the first four months of 2019 from the same period of 2018, compared to a growth of 5.5% in the first four months of 2018. Also, the CPI rose by 4% in April 2019 from the same month of 2018. The prices of clothing & footwear grew by 20.4% in April 2019 from the same month of 2018, followed by recreation & entertainment costs (+6.6%), the prices of water, electricity, gas & other fuels (+6%), food & non-alcoholic beverages (+5.6%), the cost of education (+5.1%), the prices of furnishings & household equipment (+4.8%), actual rents (+3.3%), imputed rents (+2.8%), miscellaneous goods & services (+2.2%), the prices at restaurants & hotels (+1.6%), the prices of alcoholic beverages & tobacco (+0.9%), and transportation costs (+0.8%). In contrast, healthcare costs declined by 2.2% year-on-year in April 2019, and communication costs regressed by 0.3% annually. Also, the distribution of actual rents shows that old rents grew by 4.9% year-on-year in April 2019, while new rents increased by 2.2% annually.

Further, the CPI grew by 0.5% in April 2019 from the preceding month compared to a month-on-month rise of 1.7% in March 2019. The prices of clothing & footwear increased by 7.3% month-on-month in April 2019, followed by transportation costs (+2.6%), and the prices of furnishings & household equipment (+0.2%). In contrast, the prices of food & non-alcoholic beverages regressed by 0.9% month-on-month in April 2019, and healthcare costs declined by 0.6% in the covered month. The prices of the remaining components of the CPI basket were unchanged month-on-month in April 2019. The CPI increased by 0.9% month-on-month in April 2019 in the Bekaa, by 0.6% in Nabatieh, by 0.5% in each of Mount Lebanon and the South, by 0.3% in the North, and by 0.1% in Beirut. In parallel, the Fuel Price Index rose by 3.5% month-on-month in April 2019, while the Education Price Index was unchanged in the covered month.

Lebanon ranks 95th globally, 10th among Arab countries in terms of economic openness

The 2019 Global Index for Economic Openness (GIEO) ranked Lebanon in 95th place among 157 countries around the world and in 10th place among 18 Arab countries. Lebanon also came in 31st place among 41 upper middle-income countries (UMICs) included in the survey. Lebanon's global rank regressed by nine spots year-on-year, while its regional rank declined by one notch from the 2018 survey. Also, Lebanon's global rank dropped by 13 spots between the 2009 and 2019 surveys.

The GIEO is a joint initiative between the Legatum Institute and the Templeton World Charitable Foundation. It measures an economy's openness to commerce by assessing the environment that enables or hinders a country's ability to trade both domestically and internationally. The index is based on 22 variables grouped into four equally-weighted pillars, which are Market Access & Infrastructure, the Investment Environment, Enterprise Conditions, and Governance. The index focuses on the microeconomic drivers of productivity and economic growth by emphasizing the relationship between productivity and economic openness.

Globally, the level of economic openness in Lebanon is higher than the level in Vietnam, Mongolia and Paraguay, while it is lower than the level of economic openness in Ghana, Bosnia & Herzegovina and Ukraine among economies with a GDP of $10bn or more. Also, Lebanon's economy has a higher level of openness than only Paraguay, Ecuador, Gabon, Algeria, Iran, Iraq, Libya and Venezuela among UMICs.

2019 Global Index for Economic Openness

Country	Arab Rank	Global Rank	Change in Rank*
UAE	1	30	+7
Qatar	2	39	+1
Bahrain	3	46	-3
Oman	4	53	-1
Saudi Arabia	5	55	+7
Jordan	6	61	+2
Kuwait	7	73	-13
Morocco	8	76	+2
Tunisia	9	87	-20
Lebanon	**10**	**95**	**-13**
Egypt	11	102	+3
Algeria	12	126	+3
Iraq	13	133	+7
Sudan	14	142	-9
Syria	15	145	-7
Mauritania	16	149	-10
Libya	17	150	-7
Yemen	18	155	-10

**from 2009 survey; (+) denotes improvement in rank*
Source: Legatum Institute, Byblos Research

Lebanon ranked ahead of Ecuador, Indonesia and Ukraine, and came behind Bosnia & Herzegovina, South Africa and Tunisia globally on the Market Access & Infrastructure pillar. This category assesses the quality of a country's infrastructure that enables trade, as well as the obstacles to the flow of goods and services to and from a country's trading partners. Lebanon ranked ahead of Ecuador and Brazil, and came behind Bosnia & Herzegovina and South Africa among UMICs. Regionally, it came ahead of Egypt, Algeria, Syria, Iraq, Libya, Sudan, Mauritania, and Yemen.

Also, Lebanon came ahead of Ecuador, Tunisia and Kyrgyzstan, and ranked behind Honduras, Argentina and Greece worldwide on the Investment Environment pillar. This category measures the extent that property rights, investor protections and contract enforcement adequately protect investments, as well as the availability of domestic and international capital for investment. Lebanon ranked ahead of Ecuador, Gabon, Iran, Algeria, Venezuela, Iraq and Libya among UMICs; while it came ahead of Tunisia, Egypt, Sudan, Algeria, Syria, Iraq, Libya, Mauritania, and Yemen among Arab countries.

In addition, Lebanon ranked ahead of Thailand, Panama and Russia, and came behind Botswana, the Philippines and Colombia globally on the Enterprise Conditions pillar. This category assesses a country's regulatory structure, as well as how easy it is for businesses to start, compete and expand in a given country. Lebanon ranked ahead of Thailand and Russia, and came behind Botswana and Colombia among UMICs; while it ranked behind only the UAE, Qatar, Saudi Arabia, Bahrain, Oman and Jordan in the region.

Further, Lebanon preceded Honduras, Iran and Nicaragua, and trailed Nigeria, Bolivia and Madagascar worldwide on the Governance pillar. This category encompasses the rule of law, government integrity and the effectiveness of a country's public institutions. Lebanon ranked ahead of only Iran, Belarus, Algeria, Iraq, Libya and Venezuela among UMICs; while it came ahead of Algeria, Egypt, Iraq, Mauritania, Sudan, Libya, Yemen and Syria among Arab countries.

Components of the 2019 Global Index for Economic Openness for Lebanon

	Global Rank	Arab Rank	UMIC Rank
Market Access & Infrastructure	83	10	27
Investment Environment	95	9	32
Enterprise Conditions	77	7	22
Governance	124	10	35

Source: Legatum Institute, Byblos Research

Banks' subscription to low-yielding Treasury bills to affect net interest margins

Moody's Investors Service indicated that the potential participation of Lebanese commercial banks in the planned issuance of about LBP11 trillion, equivalent to $7.3bn, worth of Treasury bills at a 1% coupon rate is credit negative for banks. It indicated that the banks' subscription to the low-yielding issuance would put pressure on their profitability, which is already constrained by subdued economic activity, higher cost of funds and significant tax increases that Parliament enacted in 2017. It noted that the planned issuance comes amid additional increases in some taxes that affect the banks as part of the 2019 draft budget, such as raising the tax rate on interest income from 7% to 10%.

The agency pointed out that the banks' net interest margins would come under pressure in case they subscribe to these Treasury bills. It noted that the banks' margins are already under pressure due to the rise in the cost of deposits since May 2018. It noted that the average cost of deposits in Lebanese pounds increased from 6.64% in March 2018 to 8.75% in March 2019, which implies a negative carry of close to 8% for the intended Treasury bills. It anticipated that the return on average assets of the Alpha Group of banks, which consist of banks that have deposits in excess of $2bn, will decline by about 1%, in case the banks buy 50% of the proposed issuance.

In parallel, Moody's considered that the incentives for banks to participate in the issuance are the future positive implications of tangible reforms and Lebanon's access to the $11bn that the international community pledged at the CEDRE conference. It indicated that the implementation of tangible reforms and a narrower fiscal deficit would boost depositor confidence, encourage higher financial inflows and reduce the risk premiums that banks pay for deposits, which would support the banks' profitability from 2020 onwards.

In parallel, Moody's indicated that the planned issuance of low-yielding Treasury bills comes amid the government's efforts to reduce Lebanon's fiscal deficit and unlock the CEDRE-related funds. It said that the planned issuance would allow the government to refinance maturing local-currency debt at below market rates, which would reduce debt servicing costs by up to LBP1 trillion, or $663m, per year.

Capital Intelligence affirms Lebanon's sovereign ratings

Capital Intelligence Ratings (CI) affirmed Lebanon's long- and short-term foreign and local currency sovereign ratings at 'B', and maintained the outlook at 'negative'. It said that the ratings are supported by Lebanon's adequate external liquidity, reliable investor base and the government's perfect track record of public debt repayment. But it noted that the ratings are constrained by Lebanon's elevated public debt level, large financing needs, weak budget structure and limited fiscal flexibility, socio-economic challenges, as well as by domestic political risks.

CI said that the 'negative' outlook reflects the sustained weaknesses in Lebanon's public and external finances, as well as the decrease in the country's foreign currency reserves. It considered that the government's endorsement of the electricity sector's reform plan and the Parliament's eventual enactment of the 2019 budget are positive developments, but it added that the country's short- to medium-term growth prospects depend on the government's acceleration of structural reforms. Also, the agency indicated that the ratings and the outlook take into account its concern that the new government may not implement all the reforms required to unlock the funds pledged at the CEDRE conference, due to political divisions and rising social discontent.

In parallel, the agency said that the government's gross financing requirements are equivalent to about 31.7% of GDP in 2019, and expected them to average 31.9% of GDP annually during the 2020-21 period. It noted that the government's reliance on the domestic banking system to finance most of its needs in local and foreign currency makes the economy vulnerable to a shock that would adversely affect the confidence of depositors. However, it considered that the government's gross financing needs are manageable in the short term in the absence of such a shock, and that the government would likely meet its needs by borrowing from Banque du Liban.

Revenues through Port of Beirut at $54m in first quarter of 2019

Figures released by the Port of Beirut show that the port's overall revenues reached $53.6m in the first quarter of 2019, constituting a decline of 15.7% from $63.5m in the same quarter of 2018. The Port of Beirut handled 1.8 million tons of freight in the covered period, down by 14.2% from 2.1 million tons in the first quarter of 2018. Imported freight amounted to 1.6 million tons in the first quarter of 2019 and accounted for 88.8% of the total, while the remaining 198,000 tons, or 11.2%, consisted of export cargo. A total of 411 vessels docked at the port in the first quarter of 2019, down by 12.7% from 471 ships in the same quarter of 2018.

In parallel, revenues generated through the Port of Tripoli reached $4.2m in the first quarter of 2019, constituting a decrease of 5.2% from $4.45m in the same quarter of 2018. The Port of Tripoli handled 538,063 tons of freight in the covered period, constituting an increase of 24% from 434,347 tons in the first quarter of 2018. Imported freight amounted to 406,047 tons and accounted for 75.5% of the total, while the remaining 132,016 tons, or 24.5%, were export cargo. A total of 155 vessels docked at the port in the first quarter of 2019, nearly unchanged from 156 ships in the first quarter of 2018.

Occupancy rate at Beirut hotels at 70%, room yields up 32% in first quarter of 2019

EY's benchmark survey of the hotel sector in the Middle East indicates that the average occupancy rate at four- and five-star hotels in Beirut was 69.8% in the first quarter of 2019 relative to 57.9% in the same quarter of 2018, and compared to an average rate of 68.7% in 14 Arab markets included in the survey. The occupancy rate at Beirut hotels was the sixth highest in the region in the first quarter of the year, while it was the third lowest in the same quarter of 2018. The occupancy rate at hotels in Beirut rose by 11.9% year-on-year in the first quarter of 2019, constituting the largest increase among the 14 Arab markets. In comparison, the average occupancy rate in Arab markets grew by 1.8% year-on-year in the covered period. Occupancy rates at Beirut hotels were 59.8% in January, 70.7% in February and 79% in March 2019, compared to 49.1% in January, 61.3% in February and 63.5% in March 2018.

The average rate per room at Beirut hotels was $189 in the first quarter of 2019, up by 9.1% from $173 in the same quarter of 2018, and constituting the second highest rate in the region after Dubai ($270). The average rate per room in Beirut was higher than the regional average of $152.5 that regressed by 6% from the first quarter of 2018.

Hotel Sector Performance in First Quarter of 2019

	Occupancy Rate (%)	RevPAR (US$)	RevPAR % change
Dubai	86.3	234	(14.7)
Beirut	**69.8**	**132**	**31.6**
Ras Al Khaimah	75.3	124	(11.3)
Kuwait City	60.8	111	(17.4)
Riyadh	67.0	110	(4.7)
Abu Dhabi	84.9	103	15.3
Muscat	69.1	99	(4.1)
Manama	56.5	91	4.1
Cairo City	78.2	84	10.5
Jeddah	49.0	81	(11.2)
Doha	69.6	81	1.1
Amman	58.6	80	(4.2)
Madina	63.5	76	(13.9)
Makkah	72.9	70	(2.4)

Source: EY, Byblos Research

Further, revenues per available room (RevPAR) were $132 in Beirut in the first quarter of 2019 compared to $100 in the same quarter of 2018, ranking the capital in second place regionally behind Dubai ($234). Beirut's RevPAR grew by 31.6% year-on-year and posted the largest increase regionally. Beirut posted RevPARs of $118 in January, $132 in February and $146 in March 2019, compared to $87 in January, $105 in February and $110 in March 2018. Dubai posted the highest occupancy rate in the region at 86.3%, the highest average rate per room at $270, as well as the highest RevPAR at $234 in the first quarter of 2019. EY attributed the improved performance of Beirut's hospitality market in the first quarter of the year to the increase in tourist arrivals amid greater political stability in the country and Saudi Arabia's lifting of a 15-month old travel warning to Lebanon in mid-February 2019.

Value of cleared checks down 13%, returned checks down 1% in first four months of 2019

The value of cleared checks reached $19.3bn in the first four months of 2019, constituting a decline of 13% from $22.1bn in the same period of 2018. In comparison, the value of cleared checks decreased by 1.4% annually in the first four months of 2018 from the same period of 2017. The value of cleared checks in Lebanese pounds regressed by 1.6% year-on-year to the equivalent of $7.1bn in the first four months of 2019, while the value of cleared checks in US dollars declined by 18.5% to $12.1bn in the covered period. The dollarization rate of cleared checks regressed from 67.3% in the first four months of 2018 to 63.1% in the same period of 2019. There were 3.48 million cleared checks in the first four months of 2019, down by 11.5% from 3.9 million in the first four months of 2018.

In parallel, the value of returned checks in domestic and foreign currencies was $486m in the first four months of 2019 compared to $492m in the same period of 2018 and to $471m in the first four months of 2017. This constituted a year-on-year decrease of 1.1% in the first four months of 2019 relative to a rise of 4.4% in the first four months of 2018 from the same period of 2017. Also, there were 88,933 returned checks in the first four months of 2019, up by 3.7% from 85,759 returned checks in the same period of 2018.

Coincident Indicator down 4.3% year-on-year in first quarter of 2019

Banque du Liban's Coincident Indicator, an index of economic activity in Lebanon, reached 309.7 points in March 2019 compared to 297.9 in February 2019 and 321.4 in March 2018. The Coincident Indicator, an average of eight weighted economic indicators, increased by 4% month-on-month and declined by 3.6% year-on-year in March 2019. The indicator averaged 301.2 in the first quarter of 2019, down by 4.3% from an average of 314.6 in the same quarter of 2018. Also, the indicator averaged 304.4 in the 12 months ending March 2019, compared to an average of 305.3 in the 12-month period ending February 2019 and to an average of 308.8 in the 12 months ending March 2018. As a result, the 12-month average coincident indicator declined by 0.3% month-on-month, and by 1.4% year-on-year. In parallel, the indicator improved 17 times and regressed 10 times on a monthly basis in the month of March 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.

Trade deficit up 2% to $4bn in first quarter of 2019

Total imports reached $5bn in the first quarter of 2019, constituting an increase of 3% from $4.8bn in the same quarter of 2018; while aggregate exports grew by 5.1% year-on-year to $855.8m in the covered quarter. As such, the trade deficit widened by 2.4% to $4.1bn in the first quarter of 2019 due to a rise of $139.6m in imports that was partly offset by an increase of $41.8m in exports in the covered quarter.

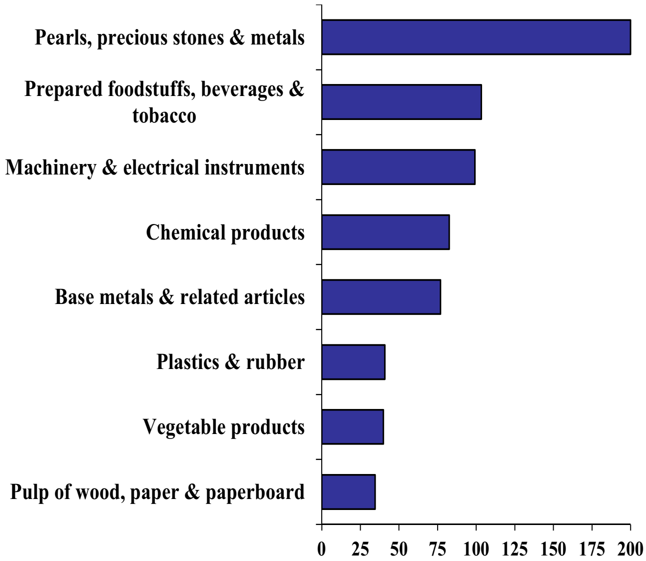
The rise in imports during the first quarter of 2019 was mainly due to an increase of $744.2m, or 87%, in the imports of mineral products, which was mostly offset by a drop of $604.6m, or 15.3%, in imported non-hydrocarbon products. Imported oil & mineral fuels reached $1.6bn and accounted for 32.3% of total imports in the covered quarter.

Also, the growth in exports in the covered quarter was mainly due to a rise of $38m, or 16%, in the exports of jewelry; an expansion of $26.6m, or 36.6%, in the exports of machinery & mechanical appliances; a rise of $17.5m, or 248%, in exported mineral products; and an increase of $7.4m, or 74.5%, in the exports of animal or vegetables fats and oils. They were partly offset by a drop of $40.6m, or 34.6%, in exported base metals; a decrease of $3.8m, or 4.4%, in the exports of chemical products; and a decline of $3.3m in the exports of prepared foodstuff.

Further, exported goods to Switzerland jumped by 55.3% year-on-year in the first quarter of 2019, those to Syria expanded by 45.5%, exports to the UAE surged by 31.7%, those to Qatar increased by 12.6%, exports to Jordan rose by 10.2%, and those to Saudi Arabia grew by 5.3%. In contrast, exported goods to South Africa dropped by 42.1% and those to Iraq fell by 14% year-on-year in the covered quarter. Re-exports totaled $96.4m in the first quarter of 2019 compared to $96.5m in the same quarter of 2018. The Port of Beirut was the exit point for 41.5% of Lebanon's exports in the first quarter of 2019, followed by the Hariri International Airport (41.2%), the Port of Tripoli (6.9%), and the Masnaa crossing point (6.8%).

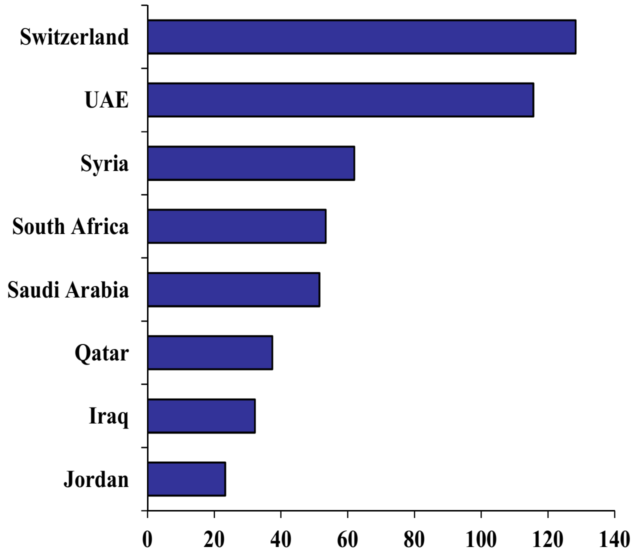
In parallel, Lebanon's main non-hydrocarbon imports were chemical products that reached $518.7m in the first quarter of 2019 and fell by 7.8% from the same quarter of 2018. Imported machinery & mechanical appliances followed at $460.4m (-15.7%), then prepared foodstuff at $309m (-5.3%), vegetable products at $308m (6.8%), vehicles, aircraft & vessels at $298.2m (-20.5%), base metals at $237m (-33%), jewelry, mostly gold bars, at $234.3m (-34%), animal products at $195.6m (-8%), textiles at $164m (-20.6%), as well as plastics and rubber at $163.7m (-6.1%). The Port of Beirut was the entry point for 73.4% of Lebanon's merchandise imports in the first quarter of 2019, followed by the Hariri International Airport (18.9%), and the Port of Tripoli (5.6%).

Main Lebanese Exports in First Quarter of 2019 (US$m)



Source: Lebanese Customs Administration, Byblos Research

Main Destinations of Lebanese Exports in First Quarter of 2019 (US$m)



Source: Lebanese Customs Administration, Byblos Research

Russia was the main source of imports with $586m, or 11.8% of the total, in the first quarter of 2019, followed by China with $432.8m (8.7%), Greece with $321.7m (6.5%), Italy with $306.8m (6.2%), Kuwait with $303.4m (6.1%), Germany with $232.2m (4.7%), and the U.S. with $227.1m (4.6%). Imported goods from Kuwait surged by 8.4 times and imported goods from Russia expanded by 3.1 times year-on-year in the first quarter of 2019. In contrast, imported goods from Italy dropped by 26%, those from China fell by 21.7%, imports from Germany contracted by 20.4%, those from Greece declined by 8.8% and imported goods from the U.S. decreased by 5.9% year-on-year in the covered quarter.

Utilized credits by private sector at $69.5bn at end-2018, advances against real estate account for 39% of total

Figures issued by Banque du Liban show that utilized credits by the private sector from commercial banks and financial institutions totaled $69.5bn at the end of 2018, constituting an increase of 1.3% from $68.7bn at end-2017. Trade & services accounted for $23.7bn or 34.1% of utilized credits at the end of 2018, followed by personal credit with $21.1bn (30.4%), construction with $11.2bn (16%), industry with $7.6bn (11%), financial intermediaries with $3.1bn (4.5%), and agriculture with $789.1m (1.1%), while other sectors represented the remaining $2bn (2.9%). The distribution of credits by type shows that advances against real estate totaled $27bn and accounted for 39% of private sector utilized credits at the end of 2018. Overdrafts followed with $18.7bn (29%), then advances against personal guarantees with $11.9bn (17.1%), advances against cash collateral or bank guarantees with $8.8bn (12.6%), advances against other real guarantees with $1.9bn (2.7%), and advances against financial values with $1.3bn (1.8%).

Also, the distribution of utilized credits in trade & services shows that wholesale trade accounted for 49% of overall trade & services credits, followed by retail with 16.6%; real estate, rent & employment services with 15.2%; transport & storage with 7%; hotels & restaurants with 6.8%; and educational services with 5.4%. Personal loans accounted for 85.3% of the number of loan beneficiaries, followed by trade & services with 9.8% of beneficiaries, industry with 2.5%, construction with 1.4%, agriculture with 1% and financial intermediaries with 0.5%, while other sectors attracted the remaining 3.5% of loan beneficiaries.

The aggregate number of loan beneficiaries grew by 1.8% from the end of 2017 to 626,839 at end-2018; while 68% of beneficiaries had loans ranging from LBP5m to LBP100m at the end of 2018. Beirut and its suburbs accounted for 74.7% of bank credits and for 52.2% of beneficiaries. Mount Lebanon followed with 13.1% of credits and 18.4% of beneficiaries, then South Lebanon with 4.5% of credits and 10.3% of beneficiaries, North Lebanon with 4.5% of credits and 11.5% of beneficiaries, and the Bekaa region with 3.2% of credits and 7.5% of beneficiaries.

In parallel, the off-balance sheet liabilities of banks and financial institutions totaled $112.9bn at the end of 2018, increasing by 0.6% from $112.3bn at end-2017. They include endorsement & guarantees of $104.7bn, or 92.7% of the total, followed by letters of undertaking with $2.9bn (2.6%), and commitments on notes with $2.5bn (2.2%).

Commercial activity deteriorates in fourth quarter of 2018

Banque du Liban's quarterly business survey about the opinions of business managers shows that the volume of commercial sales deteriorated during the fourth quarter of 2018, with the balance of opinions standing at -39 compared to -31 in the preceding quarter and to -26 in the fourth quarter of 2017. The business survey reflects the opinions of enterprise managers about their business activity in order to depict the evolution of a number of key economic variables. The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in an indicator and the proportion of those who reported a decline in the same indicator. The balance of opinions was the lowest in the Bekaa at -66, followed by the South region (-54), Beirut & Mount Lebanon (-37), and the North (-11).

The survey shows that the balance of opinions about the sales of food items was -19 in the fourth quarter of 2018 relative to -15 in the preceding quarter and to -16 in the fourth quarter of 2017. Also, the balance of opinions about the sales of non-food products was -45 in the covered quarter, compared to -37 in the previous quarter, and relative to -30 in the fourth quarter of 2017; while it was -51 for inter-industrial goods relative to -40 in the third quarter of 2018 and to -29 in the fourth quarter of 2017. Further, the balance of opinions for inventory levels in all commercial sub-sectors was -3 in the fourth quarter of 2018, compared to zero in the previous quarter and to +1 in the fourth quarter of 2017. Opinions about the level of inventories were the highest in Beirut & Mount Lebanon as they reached +2, followed by the Bekaa (-4), the South (-5), and the North (-13).

Commercial Activity: Year-on-Year Evolution of Opinions

Aggregate results	**Q4-15**	**Q4-16**	**Q4-17**	**Q4-18**
Sales volume	-17	0	-26	-39
Number of employees	-6	-4	-3	-9
Inventories of finished goods	-11	-4	+1	-3
Q4-18 Regional results	**Beirut / Mount Lebanon**	**North**	**South**	**Bekaa**
Sales volume	-37	-11	-54	-66
Inventories of finished goods	+2	-13	-5	-4

Source: Banque du Liban business survey for fourth quarter of 2018

Import activity of top five shipping and freight forwarding firms down 16% in first quarter 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 67,621 20-foot equivalent units (TEUs) in the first quarter of 2019, constituting a decrease of 15.8% from 80,313 TEUs in the same quarter of 2018. The five shipping and freight forwarding firms accounted for 77.6% of imports to the Lebanese market and for 48% of the total import freight market in the first quarter of 2019. Mediterranean Shipping Company (MSC) handled 26,986 TEUs in imports in the covered period, equivalent to a 19.2% share of the total import freight market. MAERSK followed with 11,976 TEUs (8.5%), then Merit Shipping with 11,813 TEUs (8.4%), Metz Group with 8,496 TEUs (6%), and Tourism & Shipping Transport with 8,350 TEUs (5.9%). Further, MAERSK registered an increase of 188% in import shipping in the first quarter of 2019, the highest growth rate among the top five shipping and freight forwarding companies, while Merit Shipping posted a decrease of 31.4%, 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 15,058 TEUs in the first quarter of 2019, constituting a decrease of 16.3% from 17,992 TEUs in the same quarter of 2018. The five shipping companies and freight forwarders accounted for 85.7% of exported Lebanese cargo and for 10.6% of the total export freight market in the first quarter of 2019. Merit Shipping handled 5,883 TEUs of freight in the first quarter of 2019, equivalent to 33.5% of the Lebanese cargo export market. MAERSK followed with 2,939 TEUs (16.7%), then Sealine Group with 2,313 TEUs (13.2%), Metz group with 2,137 TEUs (12.2%), and Tourism & Shipping with 1,786 TEUs (10.2%). Further, MAERSK registered an increase of 283.2% in export shipping in the first quarter of 2019, the highest growth rate among the top five shipping and freight forwarding companies, while Metz Group posted a decline of 41.5%, the steepest decrease in the covered period.

Banque Libano-Française's net earnings at $121m in 2018

Banque Libano-Française (BLF) sal, one of Lebanon's top 16 banks in terms of deposits, announced unaudited consolidated net profits of $121.4m in 2018, constituting an increase of 1.1% from net earnings of $120.1m in 2017. Net operating income grew by 3.1% year-on-year to $271.6m in 2018, with net interest income rising by 25.1% to $247.8m and net fees & commissions receipts nearly unchanged at $38.1m. Non-interest income accounted for 15.1% of total income in 2018, down from 34.8% in 2017; with net fees & commissions representing 84.3% of non-interest earnings relative to 34.5% in 2017. Further, the bank's interest margin was 1.85% in 2018 relative to 1.64% in 2017, while its spread reached 1.76% in 2018 compared to 1.58% in 2017. Total operating expenditures regressed by 1.5% to $132m in 2018, with staff expenses increasing by 2.6% to $84.6m and administrative & other operating expenditures decreasing by 10.2% to $38.6m. Also, the bank's return on average assets was 0.84% in 2018 relative to 0.91% in 2017, while its return on average equity reached 9.42% compared to 9.9% in 2017. The bank's cost-to-income ratio increased from 42.1% in 2017 to 44% in 2018.

In parallel, the bank's assets reached $15.3bn at the end of 2018, up by 12.2% from end-2017, while loans & advances to customers, excluding those to related parties, amounted to $4.3bn, nearly unchanged from the end of 2017. Also, customer deposits, excluding those from related parties, totaled $11.2bn at end-2018 and grew by 4.1% from the end of 2017. The loans-to-deposits ratio stood at 38.42% at the end of 2018, compared to 39.76% at end-2017. Further, the bank's shareholders' equity reached $1.3bn at end-2018, up by 4% from end-2017.

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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