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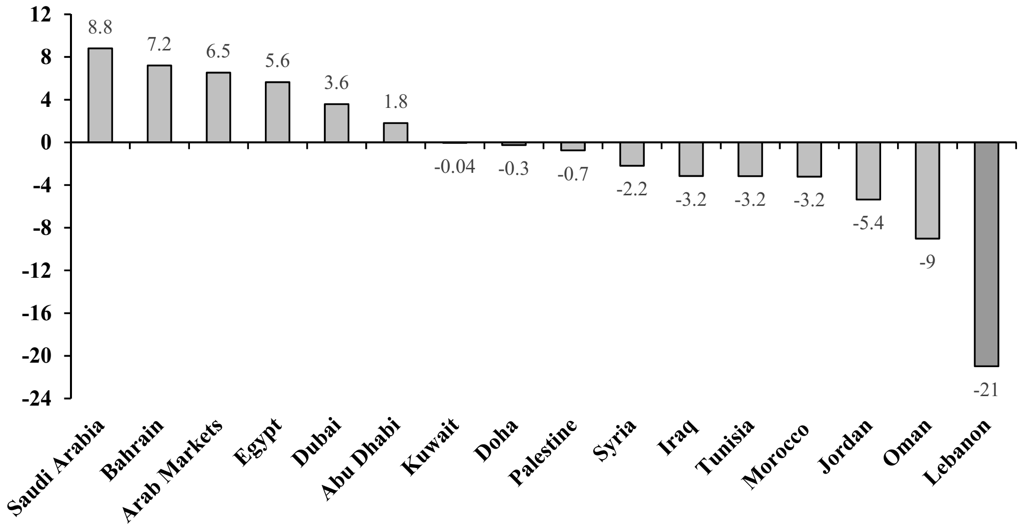
LEBANON THIS WEEK

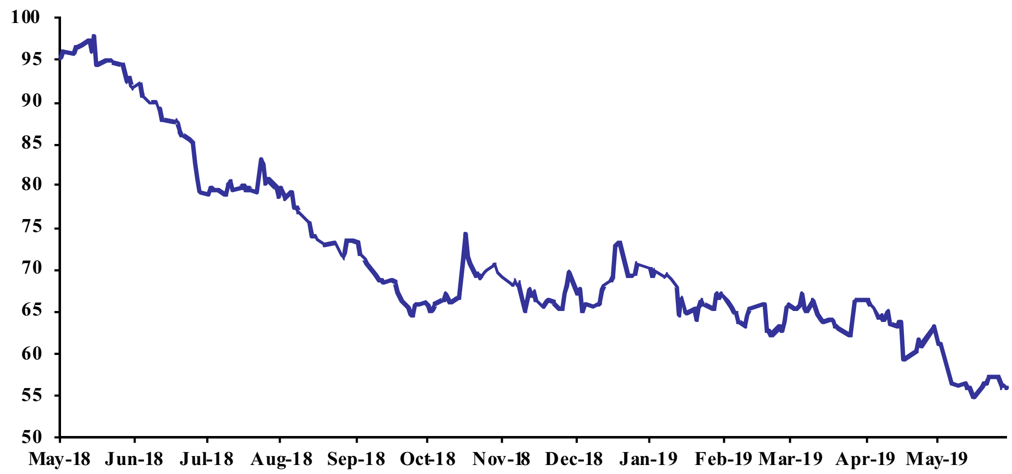
In This Issue

Charts of the Week

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



Performance of the Beirut Stock Exchange*



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

Quote to Note

"The adoption of the 2019 budget creates an opportunity to take initial measures to reduce the deficit, as well as to start introducing necessary reforms as part of the broader effort towards revitalizing good governance, accountability, investment and job creation."

Mr. Jan Kubis, the United Nations' Special Coordinator for Lebanon, on the expected impact of the 2019 budget

Number of the Week

37,022: Number of persons currently on the government's payroll who were illegally hired across the public sector, according to the Lebanese Parliament's Budget & Finance Committee

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
Solidere "A"	5.11	(1.73)	65,262	6.00%
BLOM GDR	7.70	0.00	58,584	6.68%
Solidere "B"	5.08	(5.05)	24,220	3.88%
Audi Listed	4.00	(6.98)	9,815	18.78%
Byblos Common	1.25	2.46	3,100	8.30%
Audi GDR	4.20	4.48	1,200	5.92%
HOLCIM	14.30	2.07	638	3.28%
Byblos Pref. 08	69.00	(1.43)	150	1.62%
BLOM Listed	8.55	0.00	-	21.59%
Byblos Pref. 09	72.00	0.00	-	1.69%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Mar 2020	6.38	97.87	9.29
Apr 2021	8.25	95.20	11.17
Oct 2022	6.10	85.50	11.45
Jun 2025	6.25	79.50	10.99
Nov 2026	6.60	78.63	10.84
Feb 2030	6.65	74.63	10.68
Apr 2031	7.00	75.25	10.73
May 2033	8.20	85.35	10.19
Nov 2035	7.05	74.75	10.26
Mar 2037	7.25	75.38	10.29

Source: Byblos Bank Capital Markets

	May 27-31	May 20-24	% Change	May 2019	May 2018	% Change
Total shares traded	176,372	860,252	(79.5)	2,118,259	3,629,854	(41.6)
Total value traded	$1,211,557	$3,829,461	(68.4)	$11,598,742	$28,779,512	(59.7)
Market capitalization	$8.51bn	$8.62bn	(1.24)	$8.51bn	$10.97bn	(22.4)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	May 24, 2019	May 31, 2019	% Change**
CDS 1-year*	823.81	846.55	2.8
CDS 3-year*	882.57	893.11	1.2
CDS 5-year*	868.16	873.67	0.6

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

CDX EM 30*	May 24, 2019	May 31, 2019	% Change***
CDS 5-year**	95.59	95.43	(0.2)

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

Draft budget for 2019 projects deficit of 7.6% of GDP

The 2019 draft budget that the Council of Ministers approved on May 27, 2019 shows budget expenditures at LBP25,840bn or $17.1bn, and budget revenues at LBP19,016bn or $12.6bn, leading to a budget deficit of LBP6,824bn or $4.5bn. The budget is based on a real GDP growth rate of 1.2%, a nominal GDP of LBP89,935bn or $59.7bn, and an inflation rate of 1.75% in 2019. As such, budget spending would be equivalent to 28.7% of GDP and revenues would come at 21.1% of GDP in 2019, resulting in a deficit of 7.6% of GDP. In comparison, actual fiscal spending totaled $15.2bn in the first 11 months of 2018, the latest available figures, while revenues amounted to $10bn, leading to a fiscal deficit of $5.2bn.

The breakdown of budgetary spending for 2019, excluding Treasury outlays, shows that current expenditures amount to LBP24,169bn ($16bn), equivalent to 93.5% of such spending. Also, capital spending, which includes investing in infrastructure, land expropriation and the purchase of equipment, reaches LBP1,671bn ($1.1bn), or 6.5% of total expenditures in 2019. The compensation of public-sector personnel, which includes salaries, wages & related benefits, as well as retirement & end-of-service indemnities, and transfers to public institutions to cover salaries, amounts to LBP10,054bn, or $6.7bn, representing 39% of total budget spending in 2019. It is followed by interest payments at LBP8,312bn, or $5.5bn (32% of total budget spending) and Transfers to Electricité du Liban (EdL) at LBP2,500bn, or $1.7bn (10% of total budget spending) this year. The estimate for interest payments in the 2019 draft budget incorporates the issuance of LBP12,000bn, or the equivalent of $8bn, worth of Treasury bills at a 1% coupon rate in coordination with Banque du Liban, which aims to generate significant savings in terms of interest payments. In comparison, the compensation of public-sector personnel stood at $5.9bn or 38.7% of total budget spending in the first 11 months of 2018, while interest payments reached $5.1bn (33.7%), and transfers to EdL amounted to $1.6bn (10.7%).

On the revenues side, the 2019 draft budget forecast tax receipts at LBP14,824bn ($9.8bn), compared to LBP11,998bn ($8bn) in realized tax revenues in the first 11 months of 2018, while it projected non-tax revenues at LBP4,192bn ($2.8bn), relative to LBP3,053bn ($2bn) in the first 11 months of 2018. Receipts from the value-added tax and excise tax on goods & services would generate 42% of total tax revenues, followed by revenues from the tax on income, profits & capital gain (38%), and income from the property tax and custom duties (8% each), while other taxes would generate the remaining 5%.

The Council of Ministers imposed new taxes and fees in the 2019 draft budget in an attempt to increase revenues this year, including raising from 7% to 10% the tax on the interest earned on deposits. The increase also applies to the interest income earned from Lebanese-pound denominated Treasury bills and bonds issued by the Lebanese government, as well as on interest earned on fixed income instruments such as Certificates of Deposits issued by Banque du Liban in Lebanese pounds or in US dollars, among others. It excludes interest earned on Lebanese sovereign Eurobonds. This constitutes the second annual rise in the tax rate, following a previous hike 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.

Other tax measures consist of raising 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. The budget also imposes new fees or raises exiting ones on hotel rooms, airline tickets, and incoming or outgoing airplanes from the Beirut airport.

Projected Tax Revenues in the 2019 Draft Budget (US$m)

	2019 Budget	**2018***
Value-added & Excise Taxes	4,149	3,615
10% Tax on Interest Income	1,670	1,070
Tax on Profits	1,048	890.6
Customs	762.9	455.6
Property Tax	749.9	681.1
Wages & Salaries	637.8	571.2
Other Taxes (stamp fees)	467.1	371.8
Capital Gains & Dividends	315.2	269.7
Penalties on Income Tax	33.6	33.6
Other Taxes on Income	0.6	0.6

** Actual results in the first 11 months of 2018*
Source: 2019 draft budget, Byblos Research

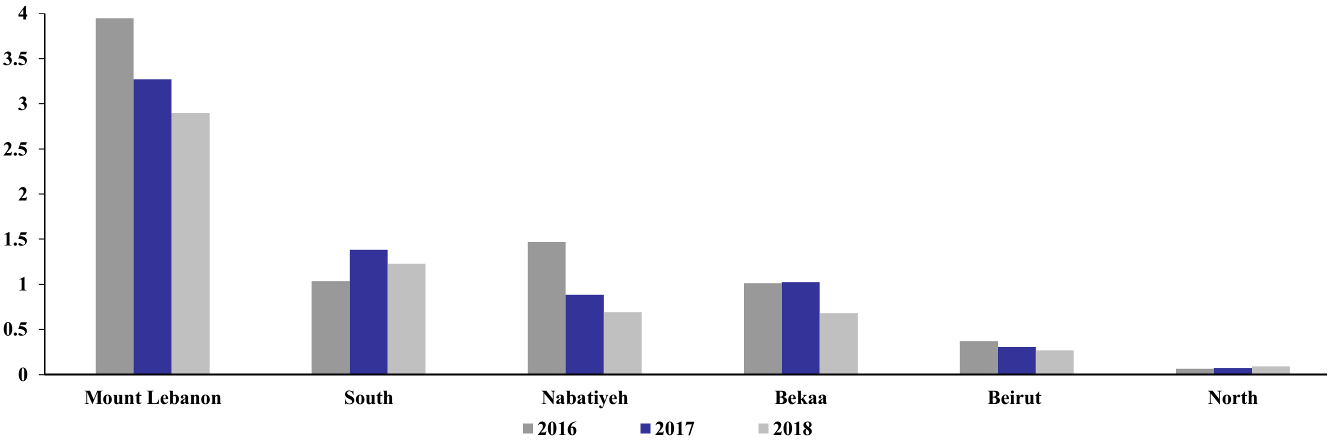
Residential buildings represent 77% of surface area of new construction permits in 2018

Figures released by the Order of Engineers & Architects of Beirut show that the surface area of construction permits for new buildings totaled 5.34 million square meters (sqm) in 2018, constituting a decrease of 22.1% from 6.85 million sqm in 2017. The surface area of construction permits for new residential buildings was 4.1 million sqm last year, equivalent to 77.2% of the total. Commercial buildings & offices followed with 512,681 sqm, or 10% of the total, then industrial and agricultural-related buildings with 284,336 sqm (5.3%), general service buildings such as hospitals and schools with 178,887 sqm (3.3%), general purpose buildings with 107,695 sqm (2%), and hotels and tourism-related buildings with 99,752 sqm (1.9%). The distribution of the surface area of construction permits for new buildings shows that Mount Lebanon accounted for 47.6% of the total, followed by the South with 21.9%, the Bekaa with 12.4%, Nabatieh with 12.1%, Beirut with 4.9%, and the North with 1.2%. The figures for the North region include only those registered in the Order of Engineers & Architects of Beirut.

In parallel, the Order of Engineers & Architects of Beirut issued 5,497 authorizations to start construction work in 2018, constituting a decrease of 13% from 6,319 authorizations in 2017 and relative to a decline of 9.5% in 2017. Applications for the authorizations of construction permits for new buildings, as well as for modifications or extensions of buildings and for restorations, should be filed during a period of up to one year after receiving the construction permit, depending on the surface area of the project. Mount Lebanon accounted for 35.2% of total authorizations in 2018, followed by the South (30.3%), Nabatieh (19.5%), the Bekaa (12.4%), Beirut (1.5%), and the North (1.1%).

Further, the surface area of issued authorizations reached 5.86 million sqm in 2018, constituting a decrease of 15.6% from 6.95 million sqm in 2017 and compared to a decline of 12.1% in 2017. Mount Lebanon accounted for 2.9 million sqm or 49.4% of the total in 2018. The South followed with 1.2 million sqm (20.9%), then the Nabatieh area with 695,053 sqm (11.9%), the Bekaa region with 682,296 sqm (11.6%), Beirut with 267,702 sqm (4.6%), and the North with 94,272 sqm (1.6%). The surface area of issued authorizations for new residential units consisted of 3.9 million sqm for residential buildings and 982,676 sqm for individual houses last year, equivalent to 67% and 16.8% of the total, respectively. Commercial buildings & offices followed with 391,258 sqm, or 6.7% of the total, then industrial- and agricultural-related buildings with 258,124 sqm (4.4%), general service buildings such as hospitals and schools with 99,278 sqm (1.7%), general purpose buildings with 40,541 sqm (0.7%), and hotel- and tourism-related buildings with 23,109 sqm (0.4%).

Surface Area of Issued Authorizations (in Millions of Square Meters)



Source: Order of Engineers & Architects of Beirut, Byblos Research

Association of banks amends reference rate on US dollar lending

The Association of Banks in Lebanon (ABL) recommended to its member banks to increase the Beirut Reference Rate (BRR) in US dollars from 9.58% in May 2019 to 9.72% in June 2019. The rate, considered as the reference rate for lending in foreign currency, replaced the London Interbank Offered Rate (LIBOR) in 2009, as the ABL decided that the LIBOR does not reflect the cost of funding and lending in Lebanon. In addition, the ABL recommended to its member banks to maintain the BRR in Lebanese pounds at 13.38% in June 2019, unchanged from May 2019. The BRR in US dollars and Lebanese pounds were adopted in March and May 2009, respectively. The ABL considers that the BRR does not replace the Beirut Prime Lending Rate in each currency, but constitutes the basis for calculating the prime rate after adding the cost of liquidity and refinancing, credit risk and the profitability of banks.

Fiscal adjustment provides opportunity to address structural imbalances

Barclays Capital indicated that the Council of Ministers approved the 2019 draft budget that targets a fiscal deficit of 7.6% of GDP compared to a realized deficit of about 11.5% of GDP in 2018, a year that was marked by considerable fiscal slippages. It pointed out that the adjustment of nearly 3.8% of GDP is ambitious but is not unprecedented, as previous governments achieved similar results in 2004 and 2007. However, it said that the contribution of expenditure cuts to the fiscal adjustment is low, even though Lebanon's government expenditures-to-GDP ratio is the highest among regional peers such as Jordan, Morocco and Tunisia, while its revenues-to-GDP ratio is much lower.

In parallel, Barclays noted that several items from the budget have been left to future discussions, including measures aimed at reducing the public sector's generous retirement and end-of-service compensation outlays, and pointed out that the proposed cuts to public sector wages and salaries were constrained by several weeks of strikes. It said that the government has committed to a three-year freeze for all types of public sector hiring and to a cap on benefits of public-sector employees. It added that the pensions of public sector retirees will be taxed at the prevailing income tax rates. It indicated that an investigation by the Parliament's Finance and Budget Committee revealed that more than 37,000 employees in public institutions were illegally hired, of which 5,000 were recruited during the hiring freeze that the Salary Scale Law of July 2017 stipulated. As such, it considered that the implementation of the 2019 budget will face challenges from previous practices, which would require strict oversight of hiring across the public sector.

It pointed out that reducing debt servicing cost and the new tax on imports will account for most of the fiscal adjustment this year. In fact, it said that, according to the Ministry of Finance, the issuance of about LBP12 trillion, in Lebanese pound-denominated debt at an interest rate of 1% would save the Treasury LBP1 trillion, or $663m, in terms of debt servicing costs in 2019. It indicated that this would require a significant contribution from domestic banks to the fiscal adjustment, which would weigh on their interest rate margins. In parallel, it said that the increase of tariffs on imports by 2% is expected to add LBP450bn, or $300m, to public revenues. It considered that this tax will help narrow the current account deficit that has significantly increased external vulnerabilities. However, it pointed out that raising tariffs does not address the allocation of resources towards the most competitive sectors. As such, it noted that the top 10 sectors with the highest comparative advantages account for only 14.3% of total exports, slightly higher than the 10 sectors with the lowest comparative advantages and that account for 12% of total exports.

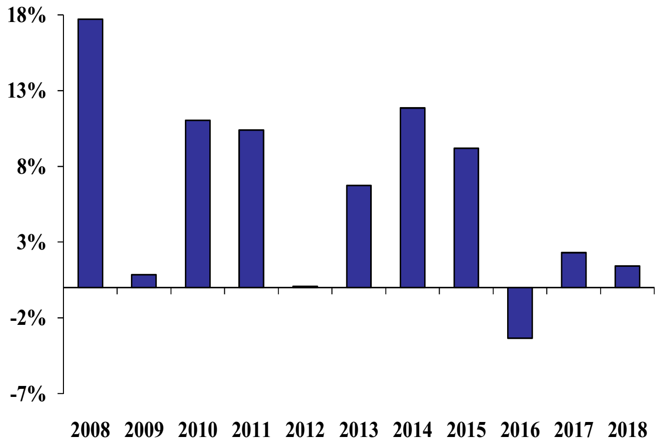
Barclays considered that fiscal policy can play a crucial role in the allocation of resources. It noted that, despite the size of the adjustment under the 2019 budget, the pace and quality of fiscal consolidation will be equally important. It indicated that the targeted deficit of 7.6% of GDP should reduce near-term pressure on the government, and will offer more time to address structural imbalances in the economy.

Payment cards reach 2.78 million at the end of 2018, ATMs total 1,998

Figures released by Banque du Liban show that the number of payment cards issued in Lebanon reached 2,778,510 cards at the end of 2018, constituting an increase of 1.2% from 2,744,589 cards at end-September 2018 and a rise of 5.5% from 2,633,459 cards at end-2017. Cards held by residents accounted for 96.5% of total cards issued in Lebanon at end-2018. The distribution of payment cards by type shows that debit cards with residents reached 1,562,334 and accounted for 56.2% of the total, followed by credit cards with residents at 557,485 (20.1%), prepaid cards with residents at 465,631 (16.8%), charge cards with residents at 96,067 (3.5%), debit cards held by non-residents at 65,431 (2.4%), credit cards with non-residents at 22,430 (0.8%), charge cards held by non-residents at 7,499 (0.3%), and prepaid cards with non-residents at 1,633 (0.1%).

Further, the aggregate number of points-of-sales accepting payment cards reached 45,142 at the end of 2018, constituting an increase of 0.5% from end-September 2018 and a growth of 6.2% from end-2017. As a result, there were 4.3 points-of-sales per square kilometer in Lebanon at the end of 2018.

Growth in the Number of Credit Cards Held by Residents*



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

In parallel, there were 1,998 ATMs across Lebanon at the end of 2018, constituting an increase of 1.5%, or 30 ATMs, from 1,968 ATMs at the end of September 2018 and a rise of 5%, or 96 ATMs, from 1,902 ATMs at end-2017. Mount Lebanon had 746 ATMs at end-2018, equivalent to 37.3% of the total; followed by the Greater Beirut area with 724 ATMs (36.2%), the North with 195 ATMs (9.8%), the South with 159 ATMs (8%), the Bekaa region with 141 ATMs (7.1%), and Nabatieh area with 33 ATMs (1.7%). As such, there were 191 ATMs per 1,000 square kilometers in Lebanon at the end of 2018.

Lebanon ranks 106th globally, last among Arab countries in energy transition

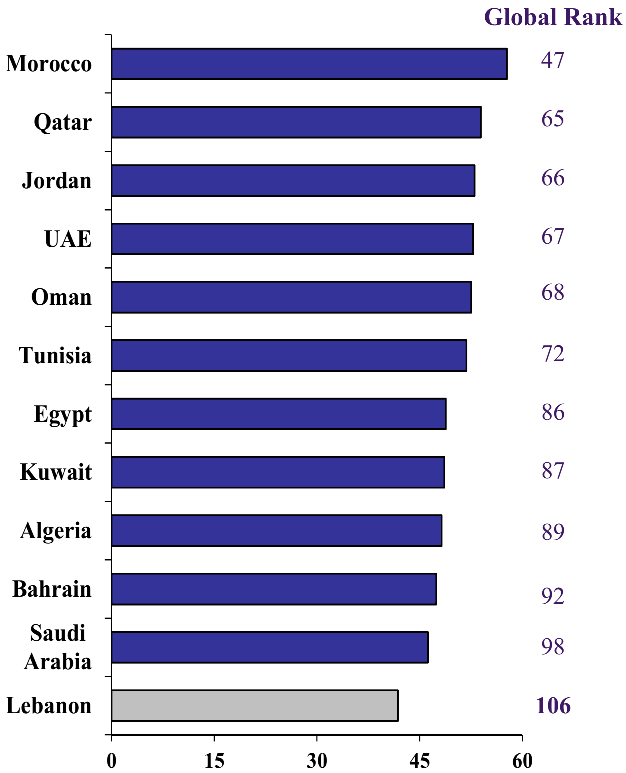
The World Economic Forum (WEF) ranked Lebanon in 106th place among 115 countries and in last place among 12 Arab countries on its Energy Transition Index for 2019. It also ranked Lebanon in 30th place among 32 upper middle-income countries (UMICs) included in the survey. Based on the same set of countries included in the 2018 and 2019 surveys, Lebanon's global rank regressed by three spots from 2018, while its regional rank was unchanged year-on-year.

The index evaluates the performance of the energy systems of 115 economies, as well as the countries' readiness for a transition towards a future energy system that is more secure, sustainable, affordable, inclusive and reliable. The index score is based on 40 indicators grouped in two equally-weighted sub-indices, which are the System Performance Sub-Index and the Transition Readiness Sub-Index. The WEF scores a country on a scale from zero to 100%, with 100% representing the best possible performance.

Globally, Lebanon's energy system performs better and has a higher transition readiness than Ukraine, Mongolia, Nigeria, Mozambique, Venezuela, Zimbabwe, South Africa and Haiti among economies with a GDP of $10bn or more. It also ranks ahead of energy systems in only Venezuela and South Africa among UMICs. Lebanon received a score of 41.8%, which is lower than the global average score of 55.3%, the UMICs' average score of 52.6% and the Arab average score of 50.2%. Also, Lebanon's score was lower than the average score of Gulf Cooperation Council (GCC) countries and non-GCC Arab countries of 50.2% each.

In parallel, Lebanon ranked ahead of Zambia, Zimbabwe, South Africa and Haiti globally, and in last place regionally on the System Performance Sub-Index. This category measures a country's performance in promoting an energy system that supports inclusive economic development and growth, secure and reliable access to energy, and environmental sustainability.

Energy Transition Index for 2019 Scores & Rankings of Arab Countries



Source: World Economic Forum, Byblos Research

In addition, Lebanon ranked ahead of Saudi Arabia and Bolivia, and came behind Benin and Nicaragua on the Transition Readiness Sub-Index. This category measures the future preparedness of a country's energy systems in terms of the availability of investments and capital, effective regulations and political commitment, stable institutions and governance, supportive infrastructure and an innovative business environment, human capital and consumer participation, and the ability and the structure of the current energy system. Also, Lebanon ranked ahead of Saudi Arabia and Algeria among Arab economies.

Further, the WEF placed Lebanon among 41 economies that came in the "emerging" energy system category, which indicates that the performance of Lebanon's energy system and its readiness to transition towards a secure, affordable, inclusive and reliable energy system are below the global mean levels.

Components of the 2019 Energy Transition Index for Lebanon

	Global Rank	UMICs Rank	Arab Rank	Lebanon Score	Global Average	UMICs Average	Arab Average
System Performance	110	31	12	42.4%	60.1%	59.4%	54.6%
Transition Readiness	99	24	10	41.3%	50.4%	45.9%	45.9%

Source: World Economic Forum, Byblos Research

Term deposits account for 90% of customer deposits at end-March 2019

Figures issued by Banque du Liban about the distribution of bank deposits at commercial banks in Lebanon show that term deposits were the preferred type of account for resident and non-resident depositors in Lebanese pounds and in foreign currency at the end of March 2019. Term deposits in all currencies reached $168.1bn at end-March 2019, constituting a marginal increase of 0.5% from $167.3bn at end-2018, and relative to $163.2bn at the end of March 2018. They accounted for 90.1% of total deposits in Lebanese pounds and in foreign currency at end-March 2019 relative to a share of 89.1% at end-2018.

Resident private-sector term deposits in foreign currency amounted to $80bn and accounted for 42.9% of total deposits at the end of March 2019. Resident private-sector term deposits in Lebanese pounds followed with $42.4bn (22.8%), then non-resident term deposits with $34.2bn (18.3%), term deposits of the non-resident financial sector with $7.3bn (3.9%), public-sector term deposits in Lebanese pounds with $3.9bn (2.1%), and public-sector term deposits in foreign currency with $184.4m (0.1%).

In parallel, resident private-sector demand deposits in foreign currency amounted to $9.1bn and represented 4.9% of total deposits at the end of March 2019. Resident private-sector demand deposits in Lebanese pounds followed with $4.1bn (2.2%), then non-resident demand deposits with $2.7bn (1.5%), demand deposits of the non-resident financial sector with $2.1bn (1.1%), public-sector demand deposits in Lebanese pounds with $343.8m (0.2%), and public-sector demand deposits in foreign currency with $114.6m (0.1%).

Beirut and its suburbs accounted for 67.6% of private-sector deposits and for 47.1% of depositors at the end of 2018, the latest available figures. Mount Lebanon followed with 14.6% of deposits and 18.7% of beneficiaries, then South Lebanon with 7% of deposits and 12.9% of depositors, North Lebanon with 6% of deposits and 12.3% of beneficiaries, and the Bekaa with 4.8% of deposits and 9% of depositors.

Industrial activity deteriorates year-on-year in fourth quarter of 2018

Banque du Liban's quarterly survey of the opinions of business managers shows that the balance of opinions about industrial production was -34 in the fourth quarter of 2018, unchanged from the third quarter of 2018 and relative to -17 in the fourth quarter of 2017. The balance of opinions was the highest in the North at -1, followed by Beirut & Mount Lebanon at -30, the South (-46) and the Bekaa (-61). The business survey reflects the opinions of managers of industrial enterprises about their businesses, in order to depict the evolution of a number of key economic variables. The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in a particular indicator and the proportion of those who reported a decline in the same indicator.

The balance of opinions about overall demand for industrial goods stood at -35 in the fourth quarter of 2018 compared to -36 in the preceding quarter and to -19 in the fourth quarter of 2017. The balance of opinions about demand for industrial goods was -1 in the North, followed by Beirut & Mount Lebanon (-33), the South (-46), and the Bekaa (-64).

In parallel, the balance of opinions for the volume of investments in the industrial sector stood at -13 in the fourth quarter of 2018 compared to -12 in the third quarter of 2018 and to -7 in the fourth quarter of 2017. The balance of opinions about the volume of investments was zero in the North, while it stood at -1 in the Bekaa, at -15 in Beirut & Mount Lebanon, and at -52 in the South. Also, the balance of opinions for foreign demand of industrial goods stood at -24 during the fourth quarter of 2018 compared to -15 in the previous quarter and to -11 in the fourth quarter of 2017. The balance of opinions for foreign demand of industrial goods was zero in the North, followed by Beirut & Mount Lebanon (-22), the Bekaa (-29), and the South (-62).

Industrial Activity: Evolution of Opinions

Aggregate results	Q4-15	Q4-16	Q4-17	Q4-18
Production	-12	0	-17	-34
Total demand	-13	-3	-19	-35
Foreign demand	-14	-21	-11	-24
Volume of investments	-7	-1	-7	-13
Inventories of finished goods	-6	-10	-5	-7
Inventories of raw material	-5	-11	-6	-15
Registered orders	-16	-6	-19	-37

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

Stock market index down 21% in first five months of 2019

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 185,805,126 shares in the first five months of 2019, constituting an increase of 3.5 times from 52,743,268 shares traded in the same period last year; while aggregate turnover amounted to $793.8m, up by 2.1 times from a turnover of $386.6m in the first five months of 2018. The surge in the trading volume and turnover is mostly due to a block trade of the common shares of a listed bank. The trade consisted of 119,924,761 shares exchanged for a total of $557.7m in February 2019.

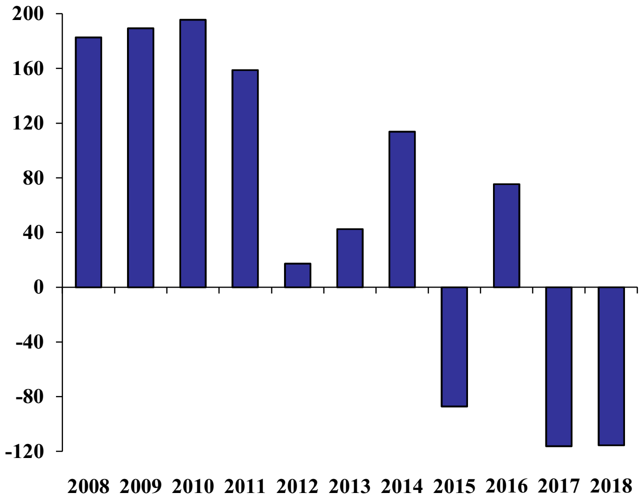
Market capitalization regressed by 22.4% from the end of May 2018 to $8.51bn, with banking stocks accounting for 86.1% of the total, followed by real estate equities (9.9%), industrial shares (3.6%) and trading firms' equities (0.4%). The market liquidity ratio was 9.3% in the covered period compared to 3.5% in the first five months of 2018.

Banking stocks accounted for 98.3% of the aggregate trading volume in the first five months of 2019, followed by real estate equities with 1.7% and industrial shares with 0.03%. Also, banking stocks accounted for 97.6% of the aggregate value of shares traded, followed by real estate equities with 2.4% and industrial stocks with 0.1%. The average daily traded volume for the period was 1.9 million shares for an average daily value of $8.2m. The figures reflect a year-on-year increase of 3.6 times in average volume, and an annual rise of 2.1 times in the average value in the first five months of the year. In parallel, the Capital Markets Authority's (CMA) Market Value-Weighted Index for stocks traded on the BSE declined by 21% in the first five months of 2019, while the CMA's Banks Market Value-Weighted Index regressed by 10.4% in the covered period.

Solidere's consolidated net losses at $116m in 2018

Solidere, The Lebanese Company for the Development and Reconstruction of Beirut Central District sal, announced consolidated audited net losses of $115.7m in 2018 relative to net losses of $116.4m in 2017. The consolidated results reflect Solidere's stand-alone financials and those of its subsidiaries (the Group), which mainly include Solidere International Limited, and other subsidiaries such as Solidere Management Services sal, BCD Cinemas sal, Beirut Waterfront Development sal and Beirut Hospitality Company Holding sal. In parallel, Solidere's non-consolidated financials, which include the company's stand-alone financial statements excluding those of its local and foreign subsidiaries, showed net losses of $112m last year compared to net losses of $118.5m in 2017.

Solidere's Net Profits* (US$m)



**on a consolidated basis*
Source: Solidere Financial Statements

The Group's consolidated revenues from land sales increased by 13.5 times from $94,500 in 2017 to $1.3m in 2018, while revenues from rented properties decreased by 5.1% to $56.9m last year. Also, consolidated revenues from services rendered grew by 9% to $8.1m in 2018, while receipts from hospitality services declined by 96.4% to $8,656. In parallel, the firm's total cost of revenues regressed by 7.1% to $29.2m in 2018, while its total net operating revenues reached $37.4m in 2018, down by 7% from 2017.

Also, the general and administrative expenses of the Solidere Group regressed by 13% to $31.4m in 2018. In addition, net impairment provisions reached $35m in 2018 relative to $79.3m in 2017, while provisions for contingencies dropped from $14.3m in 2017 to $8.6m in 2018. In parallel, Solidere's non-consolidated net operating revenues regressed by 7.2% to $35.2m in 2018, while its general and administrative expenditures declined by 12.2% to $29.7m last year.

Further, Solidere stated that its consolidated assets reached $2.5bn at the end of 2018 and decreased by 8.5% from $2.7bn at end-2017, with the inventory of land and projects in progress totaling $1.2bn. In parallel, the firm's non-consolidated assets totaled $2.3bn at the end of 2018, down by 8.8% from end-2017. The firm's consolidated liabilities, including bank overdrafts, term bank loans and accounts payable, dropped by 14% from end-2017 to $698.7m at the end of 2018. The Group's consolidated shareholders' equity was $1.8bn at the end of 2018, down by 6.1% from $1.9bn at end-2017.

Solidere is Lebanon's fifth largest listed firm on the Beirut Stock Exchange in terms of market capitalization as at the end of May 2019. The prices of Solidere A closed at $5.11 per share on May 31, 2019, down by 27% from $7 per share at the end of 2018, while Solidere B shares closed at $5.08 per share, down by 29.3% from $7.19 per share at end-2018.

Saradar Bank's net earnings at $1.6m in 2018

Saradar Bank sal, one of Lebanon's top 16 banks in terms of deposits, announced unaudited consolidated net profits of $1.6m in 2018 compared to net earnings of $10.1m in 2017. Net operating income regressed by 22.2% to $50.5m in 2018, as the bank posted net losses of $40,464 on its financial investments in 2018 compared to net gains of $3.7m in 2017, while other operating income declined by 54.6% year-on-year to $2.7m. In contrast, net interest income increased by 6.4% to $29.1m and net fees & commissions receipts rose by 8.2% to $15.5m. Non-interest income accounted for 37.5% of total income in 2018, down from 48.7% in 2017; with net fees & commissions representing 89% of non-interest earnings relative to 55.3% in 2017. Further, the bank's interest margin was 1.06% in 2018 relative to 1.25% in 2017, while its spread reached 1.02% in 2018 compared to 1.2% in 2017. Total operating expenditures declined by 13.1% to $46.3m in 2018, with staff expenses decreasing by 20% to $24.9m and administrative & other operating expenditures regressing by 8.6% to $18.3m. Also, the bank's return on average assets was 0.06% in 2018 relative to 0.44% in 2017, while its return on average equity reached 0.66% compared to 4.18% in 2017. The bank's cost-to-income ratio was 99.41% in 2018 relative to 99.93% in 2017.

In parallel, the bank's assets reached $3.2bn at the end of 2018, up by 26% from end-2017, while loans & advances to customers, excluding those to related parties, grew by 13% from end-2017 to $856.3m at end-2018. Also, customer deposits, excluding those from related parties, totaled $2bn at end-2018 and increased by 3.8% from end-2017. The loans-to-deposits ratio stood at 40.42% at end-2018, compared to 37.74% at end-2017. Further, the bank's shareholders' equity reached $236m at end-2018, down by 3.9% from end-2017.

Fitch affirms Allianz ratings, outlook 'stable'

Fitch Ratings affirmed at 'AA' the Insurer Financial Strength (IFS) rating of Germany-based insurance group Allianz SE and at 'AA-' its long-term Issuer Default Rating (IDR). It also affirmed at 'AA' the IFS ratings of Allianz's main subsidiaries. It maintained a 'stable' outlook on all the ratings. The group fully owns Allianz SNA, one of Lebanon's largest insurance firms.

The agency said that the ratings' affirmation reflects Allianz's extremely strong business profile, the group's very strong consolidated capital position and asset-liability management, as well as its robust technical profitability. It added that the group is well-diversified through its business lines, geographical exposure and distribution channels. But it pointed out that the ratings are constrained by a challenging medium-term outlook in some of the group's life insurance markets.

Further, Fitch indicated that Allianz posted operating profits of €11.5bn in 2018 compared to €11.1bn in 2017, mainly driven by higher income from the property and casualty division, which were partly offset by a decline in earnings from the life and health divisions. It also noted that the firm's combined ratio, which is the ratio of incurred losses and expenses to earned premiums, regressed from 95.2% in 2017 to 94% in 2018, due to a decrease in the loss and expense ratios. It added that the group reported an operating profit of €3bn in the first quarter of 2019, which is in line with the insurer's operating profit target of between €11bn and €12bn for 2019.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked Allianz SNA in third and fifth places in 2018 in terms of life and non-life premiums, respectively. The firm's life premiums reached $67.9m in 2018, down by 3.1% from 2017; while its non-life premiums amounted to $79.3m, and increased by 11.1% from 2017. It had a 12.5% share of the life market and a 6.8% share of the local non-life market in 2018. Allianz SNA ranked in first place in terms of life and non-life premiums in 2018, and had an 8.6% market share.

Agency downgrades ratings of BankMed's Turkish subsidiary

Fitch Ratings downgraded from 'B+' to 'B' the long-term Issuer Default Ratings (IDRs) of Turkland Bank (T-Bank), with a 'stable' outlook. T-Bank is equally-owned by BankMed sal and the Arab Bank Group. The agency attributed the downgrade to Arab Bank's reduced willingness to provide support to T-Bank due to Arab Bank's classification of T-Bank as an asset for sale, to the decreasing importance of T-Bank and Turkey to Arab Bank's international operations, as well as to T-Bank's weak performance in recent years. Still, it noted that T-Bank's shareholders agreed in January 2019 to inject $30m of additional Tier-One notes into its capital.

Also, the agency downgraded the Viability Rating of T-Bank from 'b-' to 'ccc+', due to the sustained deterioration of the bank's asset quality and its weak profitability, which have weighed on its capitalization. It noted that the impaired loans ratio rose from 11% at end-2017 to 37% at the end of 2018, mainly due to large increases in the recognition of impaired loans. It added that the bank's loan-loss allowances covered 62% of impaired loans at the end of 2018. Further, Fitch pointed out that the bank's profitability has been weakening as a result of large loan impairment charges. It said that T-Bank recorded losses of TRY265m, equivalent to 47% of its equity in 2018. It expected profitability to remain weak as the bank continues to book provisions against problem loans amid slowing economic growth and higher funding costs in Turkey. It added that T-Bank's Tier One capital ratio regressed from 14% at end-2017 to a low of 10.2% at the end of 2018.

In parallel, the agency considered that T-Bank's funding and liquidity metrics constitute strengths to the bank's VR. It noted that customer deposits represented 94% of the bank's total funding at the end of 2018, and added that T-Bank's loans-to-deposits ratio was at 80% at end-2018, one of the lowest ratios among Fitch-rated Turkish banks. Still, it indicated that the bank's liquidity could come under pressure in case of material deposit outflows, given the bank's limited franchise in Turkey as it accounted for 0.2% of the banking sector's aggregate assets, loans and deposits at the end of 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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