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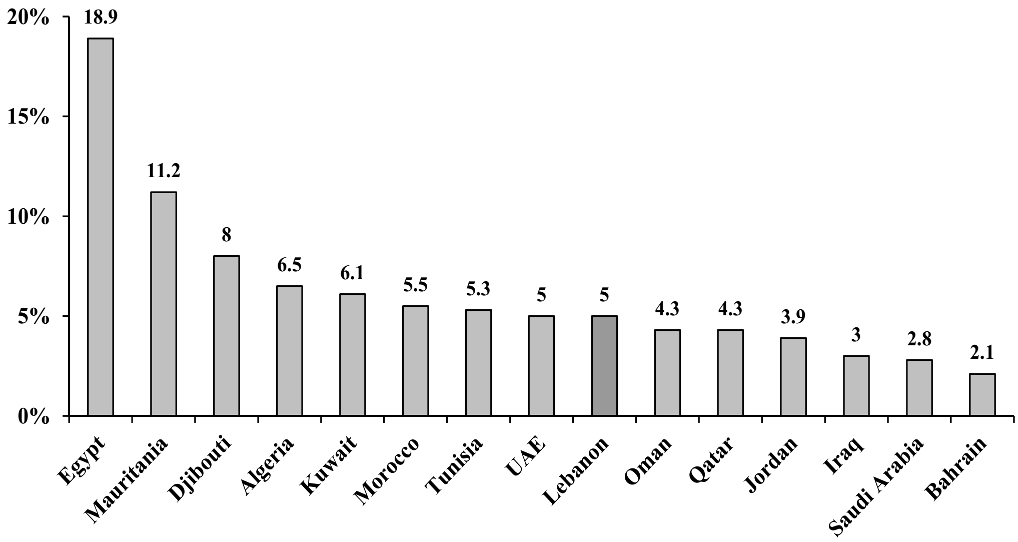
BYBLOS BANK SAL
Economic Research & Analysis Department

LEBANON THIS WEEK

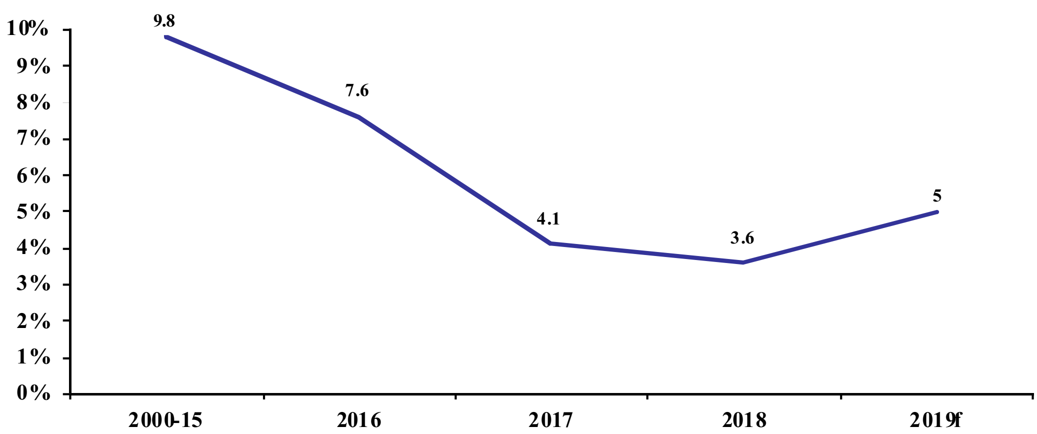
In This Issue

Charts of the Week

Projected Broad Money Growth in Select Arab Countries in 2019 (%)



Broad Money Growth in Lebanon (%)



Source: International Monetary Fund - April 2019, Byblos Bank

Quote to Note

"Lebanon needs to have an independent judiciary system and a prosecutor with special powers that protect him."

The Institute of International Finance, on a key requirement in the fight against corruption in the public sector

Number of the Week

0.92%: 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 US dollars 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 Listed	4.00	0.00	51,311	18.91%
Solidere "A"	4.98	(2.54)	29,723	5.89%
Solidere "B"	5.02	(1.18)	14,872	3.86%
HOLCIM	14.00	(2.10)	1,274	3.23%
BLOM GDR	7.70	0.00	1,250	6.73%
BLOM Listed	8.50	(0.58)	1,000	21.61%
Audi GDR	4.00	(4.76)	43	5.67%
Byblos Common	1.25	0.00	-	8.36%
Byblos Pref. 08	69.00	0.00	-	1.63%
Byblos Pref. 09	72.00	0.00	-	1.70%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Mar 2020	6.38	97.80	9.47
Apr 2021	8.25	95.05	11.29
Oct 2022	6.10	84.88	11.74
Jun 2025	6.25	78.63	11.24
Nov 2026	6.60	77.63	11.08
Feb 2030	6.65	73.38	10.92
Apr 2031	7.00	74.25	10.92
May 2033	8.20	84.61	10.30
Nov 2035	7.05	73.75	10.42
Mar 2037	7.25	74.13	10.49

Source: Byblos Bank Capital Markets

	Jun 3-7	May 27-31	% Change	May 2019	May 2018	% Change
Total shares traded	111,473	176,372	(36.8)	2,118,259	3,629,854	(41.6)
Total value traded	$965,584	$1,211,557	(20.3)	$11,598,742	$28,779,512	(59.7)
Market capitalization	$8.46bn	$8.51bn	(0.67)	$8.51bn	$10.97bn	(22.4)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	May 31, 2019	Jun 7, 2019	% Change**
CDS 1-year*	846.55	878.89	3.8
CDS 3-year*	893.11	916.85	2.7
CDS 5-year*	873.67	891.08	2.0

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

CDX EM 30*	May 31, 2019	Jun 7, 2019	% Change***
CDS 5-year**	95.43	95.98	0.6

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

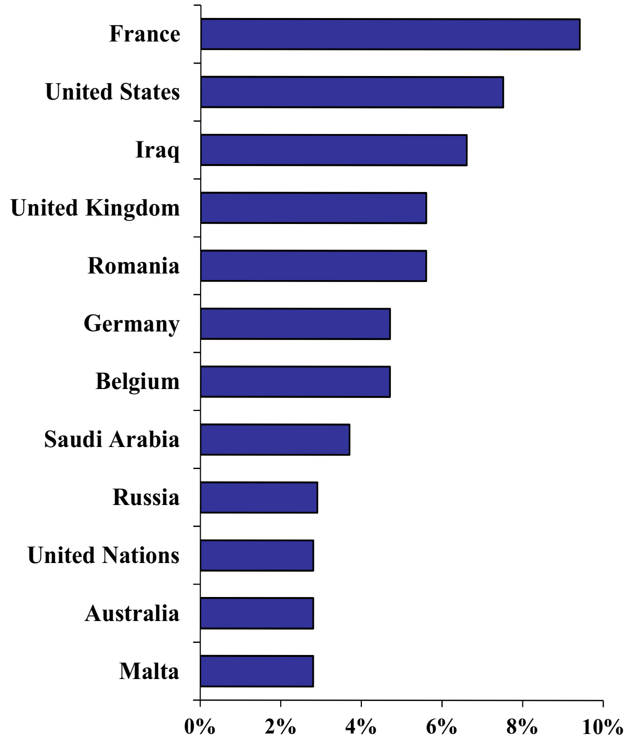
Banque du Liban lifts banking secrecy on 30 cases suspected of money laundering

The Special Investigation Commission (SIC) against money laundering and terrorism financing issued its annual report detailing its activities about tracing money generated from illegal activities in Lebanon in 2018. Established by Banque du Liban as an independent legal entity, the SIC's mandate is to investigate suspected money-laundering operations and to monitor compliance with the rules and procedures of Law 318, the anti-money laundering law that was enacted by the Lebanese Parliament in April 2001 and that was replaced by Law 44 in November 2015.

The report indicated that the SIC received 489 suspected cases in 2018. It received 398 cases, or 81.4% of the total, from local sources, and 91 cases, or 18.6% from international sources. In turn, the SIC referred 168 suspected cases to the judicial authorities, while 74 cases are still pending and the remaining 247 cases did not fall within the framework of Law 44. Further, authorities lifted the banking secrecy on 30 cases, with six of those cases referred from foreign governments and organizations and 24 cases from domestic sources. The remaining 138 cases were related to information requests. Overall, the SIC investigated 415 out of 489 cases, or 84.9% of the total in 2018, relative to 86.1% of suspected cases in 2017, 84.9% of cases in 2016, 77.5% of cases in 2015, 73.6% of cases in 2014, 84.7% of cases in 2013 and 67.3% of cases in 2012.

Cybercrime accounted for 25.1% of the cases that the SIC received in 2018; followed by counterfeiting & forgery with 20.8%; narcotics trafficking with 6.1%; terrorism and terrorism financing with 5.1%; fraud with 4.6%; corruption with 4.4%; embezzlement of private funds with 2.5%; tax evasion with 2.3%; the use of insider information with 1.3%; smuggling with 1.1%; and organized crimes, sexual exploitation, murder and illegal arms trade with 0.2% each; while the remaining 26% of cases did not fall under a specific category.

Sources of Request for Assistance*
(from Foreign Countries and Organizations)



**% of total foreign requests*
Source: Special Investigation Commission, Byblos Research

In cases related to terrorism or terrorism financing, the SIC received 82 names (10 cases) from domestic sources and 59 names (14 cases) from foreign parties. The breakdown of local sources shows that the police provided 48 names (four cases), banks reported 18 names (two cases), ministries provided 14 names (two cases), and money transfer operators supplied two names (two cases). The distribution of foreign sources reveals that financial investigation units supplied 53 names (11 cases), followed by foreign law enforcement authorities with five names (two cases), and Interpol with one name (one case).

In parallel, the SIC received 455 suspicious transactions reports, 223 requests of assistance, four cross border cash reports, and 28 other cases that were not categorized. Further, Lebanon received 107 foreign requests for assistance, with 54.2% of the reports coming from Europe, 13.1% from the Middle East & the Arabian Gulf, 9.3% from Asia, 8.4% from North America, 6.6% from South America, and 2.8% from each of Africa, Australia and the United Nations.

In parallel, the SIC's Compliance Unit examined a number of institutions in order to ensure their full compliance with Law 44. It covered eight brokerage firms, equivalent to 57% of the total number of brokerages in Lebanon, 21 insurance companies (42% of insurers), 17 financial institutions (38% of financial institutions), 22 banks (34% of banks in Lebanon), 90 money dealers (30% of total money dealers), and two money transfer operators (25% of MTOs).

Launch of initiative to encourage usage of energy-efficient home appliances

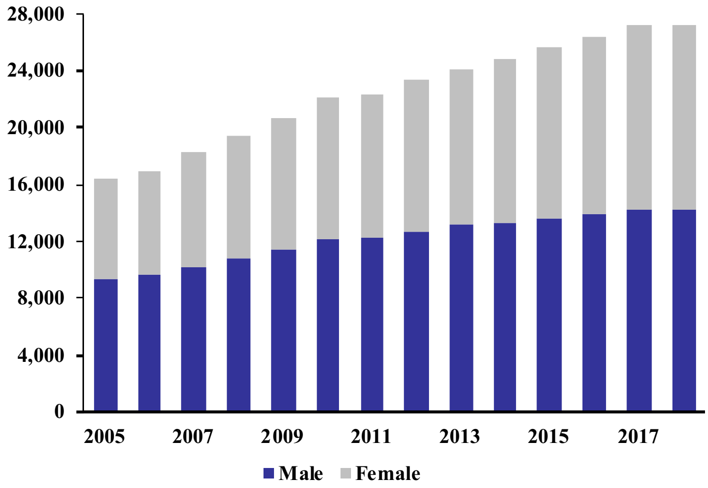
The Lebanese Center for Energy Conservation (LCEC) signed a Memorandum of Understanding (MoU) with Abed Tahan, Aghasarkissian, Beytech and Khoury Home, four of the largest retailers of home appliances in Lebanon. The LCEC indicated that the MoU aims to promote the usage of high energy-efficient home appliances, such as televisions, refrigerators, washing machines and air conditioners, through a cash-back system on the purchases of Italian energy-efficient home appliances. It added that the Italian Ministry for the Environment, Land and Sea will support this initiative by providing technical and financial assistance.

The LCEC noted that the MoU is the first step in a series of activities that seek to replace about 15,000 appliances across Lebanon with energy-efficient products. It said that this initiative is one of 26 initiatives under Lebanon's National Energy Efficiency Action Plan 2016-2020 (NEEAP 2016-20). The plan tackles energy efficiency in the generation, transmission and distribution of electricity, as well as energy saving measures in major industries, such as the construction, agricultural, transportation, industrial and public sectors. The implementation of NEEAP 2016-20's 26 initiatives would reduce the growth in electricity consumption from an estimated annual average of 7% in 2010 to 5.8% in 2020.

Number of employees in financial sector up 40% in 10 years, reaches 27,267 at end-2018

Figures issued by Banque du Liban (BdL) show that there were 27,267 individuals employed in the Lebanese financial sector at the end of 2018, constituting a marginal increase of 0.2% from 27,202 persons at the end of 2017, while they grew by 12.9% from 24,155 at end-2013 and by 39.6% from 19,534 at the end of 2008. Commercial banks accounted for 91.9% of total employees in the financial sector, followed by financial institutions with 4.9% and medium- & long-term banks with 3.2%. There were 13,047 females employed in the Lebanese financial sector at the end of 2018, equivalent to 47.8% of the sector's workforce.

Number of Employees in the Financial Sector



Source: Banque du Liban, Byblos Research

Commercial banks had 25,071 employees at the end of 2018, relative to 22,265 individuals at end-2013 and to 18,190 persons at the end of 2008. They consisted of 17,086 non-executive employees or 68.2% of the total, 7,749 executives (30.9%), and 236 individuals who were either general managers, deputy general managers or assistant general managers (0.9%). In addition, there were 12,150 females employed at banks at end-2018, accounting for 48.5% of the total number of employees at commercial banks. Further, 80% of executives and non-executives at commercial banks held a university degree, 12% had a baccalaureate and 8% held a degree below the baccalaureate level. There were 49 commercial banks operating in Lebanon at the end of 2018, unchanged from end-2017, with 1,080 branches across Lebanon relative to 1,065 at end-2017.

Also, financial institutions had 1,326 employees at end-2018, relative to 1,119 individuals at end-2013 and 923 persons at end-2008. They consisted of 650 executives or 49% of the total, 612 non-executive employees (46.2%), and 64 individuals who were either general managers, deputy general managers or assistant general managers (4.8%). In addition, there were 556 female employees at financial institutions at the end of 2018, representing 42% of the total. Further 65.5% of executives and non-executives at financial institutions held a university degree, 24.5% had a baccalaureate and 10.1% held a degree below the baccalaureate level. There were 45 financial institutions operating in Lebanon with 73 branches at the end of 2018, relative to 49 institutions with 75 branches a year earlier.

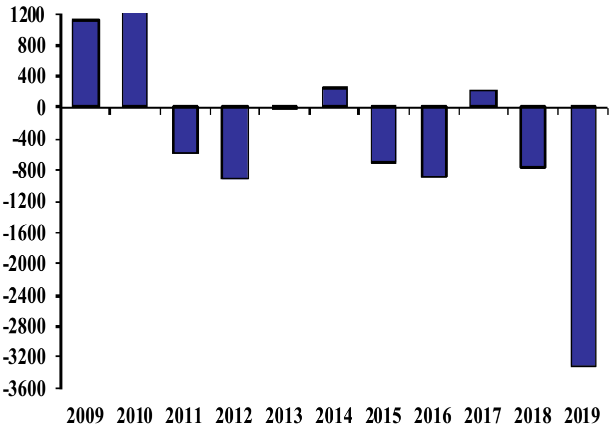
Finally, medium- and long-term banks employed 870 persons at the end of 2018, compared to 771 employees at end-2013 and to 421 individuals at the end of 2008. They consisted of 523 non-executive employees (60.1%), 317 executives (36.4%), and 30 individuals who were either general managers, deputy general managers or assistant general managers (3.4%). In addition, there were 341 female employees at medium- and long-term banks at the end of 2018, or 39.2% of the total. Also, 78.3% of executives and non-executives at medium- & long- term banks held a university degree, 9.5% had a baccalaureate and 12.1% held a degree below the baccalaureate level. There were 16 medium- & long-term banks with 21 branches across Lebanon at the end of 2018, unchanged from a year earlier.

Net foreign assets of financial sector down by $3.3bn in first four months of 2019

Figures issued by Banque du Liban (BdL) show that the net foreign assets of the financial sector, which are a proxy for Lebanon's balance of payments, declined by $3.3bn in the first four months of 2019 compared to a decrease of $773.2m in the same period of 2018. The net foreign assets of the financial sector regressed by $1.3bn in April 2019, compared to a decline of $75m in March 2019 and a decrease of $575m in April 2018. The month-on-month decline in April 2019 was caused by a drop of $710.8m in the net foreign assets of banks and financial institutions and by a decrease of $589.3m in those of BdL. Also, the cumulative deficit in the first four months of 2019 was caused by a decline of $1.7bn in the net foreign assets of BdL and by a decrease of $1.6bn in those of banks and financial institutions.

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

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



**in first four months of each year*
Source: Banque du Liban

Lebanon to issue new Eurobonds following budget approval in Parliament

In the monthly meeting between Banque du Liban (BdL), the Banking Control Commission of Lebanon (BCCL) and the Association of Banks in Lebanon (ABL), Governor Riad Salamé reiterated that BdL will maintain its policy of monetary stability. He noted that the slowdown in global and regional economic growth, as well as the escalation of global-trade disputes, are negatively affecting emerging markets where Lebanese expatriates work, which requires conservative monetary and financial policies to help Lebanon overcome this period.

He indicated that BdL has settled the government's maturing Eurobonds, including $500m in April 2019 and $650m in May 2019, in addition to the interest rates on Lebanese Eurobonds. He pointed out that the Lebanese Treasury pledged to pay back BdL the amounts it disbursed in order to preserve its stock of foreign currencies, as he considered that the solvency of the government should not come at the expense of BdL's reserves. He added that the next Eurobond maturity will be due in November 2019.

Further, Governor Salamé welcomed the government's efforts to contain the fiscal deficit, as well as its endorsement of the electricity sector's reform plan. Also, he noted that the tourism season this year is promising and that the exploration of gas is approaching amid signs of progress in the demarcation of Lebanon's maritime borders. He added that Lebanon will gradually return to the international capital markets through a Eurobond issuance after Parliament enacts the 2019 budget.

In parallel, the ABL indicated that the 2020 budget should include a clear roadmap for the Lebanese economy and public finances. It noted that there is no point in increasing taxes on the economy and on banks, given that such measures would weigh on economic activity and result in a drop in tax revenues, while the banking sector could become unattractive for depositors. He added that there is room to reduce public spending instead of imposing new taxes.

In addition, the ABL and BdL discussed the need to have an ABL media strategy and policy that should run in parallel with BdL's efforts, in order to highlight the positive reports from global investment banks and international agencies on Lebanon and to counter the media's focus solely on negative reports covering the country. Governor Salamé condemned the organized campaigns in the media that targeted the stability of the currency and local banks during the past 12 months. He encouraged the ABL to counter these campaigns and negative rumors in local and external media, to correct the false information that is being disseminated, and to highlight the strengths and advantages of the Lebanese economy. For instance, he said that the net public debt that is traded in the market is $48bn and not $85bn.

In parallel, Governor Salamé pointed out that the issuance of LBP11 trillion worth of Treasury bills at low interest rates is not on the table due to the commercial banks' lack of liquidity to subscribe to such issuance and their limited ability to subscribe to government securities at below market rates.

Further, the ABL and BdL indicated that the Ministry of Finance imposes a tax on the interest that accrues on the loans that BdL extends to banks, and that the ministry collects this tax from the banks. However, BdL is considered the party that should pay this tax rather than the banks, given that it is the party that receives the interest on the loans. Therefore, until BdL and ABL receive the opinion of the Shuraa Council on this matter, the two parties agreed that banks should report the tax on interest that they pay on behalf of BdL. In turn, BdL will audit these amounts and include them in the banks' accounts at BdL.

Constitutional Council rules in favor of prevailing rules and regulations in tendering of electricity projects

The Constitutional Council invalidated on June 3, 2019 a section of Law 129 about the electricity sector that the Lebanese Parliament enacted on April 17, 2019. The implementation of the electricity sector's reform plan that the Council of Ministers endorsed in early April 2019 required specific legislation that was included in Law 129.

The Constitutional Council revoked a section of Clause B in Article 2, as it considered this section to be unclear. It specifically canceled all exceptions related to the application of the General Accounting Law and other related laws when conducting tendering processes of electricity projects and signing Power Purchase Agreements with private-sector companies. Following the removal of this section, Clause B stipulates the enforcement of the General Accounting Law and other laws to all tendering processes and Power Purchase Agreements that the government will sign with selected companies.

The Constitutional Council did not modify Article 1 and Clause A in Article 2 of Law 129. Article 1 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 stipulates 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 provides the legal framework that allowed the approval for the construction of three wind farms with a total capacity of 200 Megawatts 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. Further, Clause A of Article 2 stipulates that the commissioning of electricity projects is subject to the administrative, technical and financial requirements specified by the Ministry of Energy & Water.

Fiscal adjustment in 2019 to meet CEDRE commitment

Bank of America Merrill Lynch (BofAML) indicated that Lebanon's 2019 draft budget highlights the political urgency to adopt fiscal reforms and to start a multi-year fiscal adjustment process, in order to address the ongoing macroeconomic imbalances and to support the disbursement of funds that the international community pledged at the CEDRE conference starting from 2020. It noted that the 2019 draft budget has surprised positively in terms of the proposed fiscal consolidation. It said that the budget targets a narrowing of 3% of GDP in the fiscal deficit to about 7.8% of GDP this year. However, it indicated that the adjustment is semi-permanent, as some measures could be reversed in three years.

It considered that the proposed fiscal adjustment is equally balanced between revenues and expenditures measures. It noted that revenue measures include increasing the tax on interest income from 7% to 10% for the next three years, raising the highest income tax bracket for persons and enterprises, excluding corporations and limited partnerships, to 25% from 20% and 21%, respectively, as well as raising customs duties by two percentage points on imported products and increasing several government fees, among others. It said that the proceeds from the revenue measures will mainly come from tax hikes, as it estimated that the tax on interest income and the tariffs on imports could generate about 0.9% of GDP and 0.5% of GDP in revenues, respectively. But it indicated that tax receipts account for about 80% of budgeted revenues, which makes these revenues vulnerable to a slowdown in economic activity. In parallel, it pointed out that the main cost-cutting measures in the 2019 budget include a freeze on public-sector employment and on early retirement for three years, among others. Also, it said that the issuance of about LBP11 trillion in Lebanese pound-denominated Treasury bonds at an interest rate of 1% could save between $0.4bn and $0.7bn, or between 0.6% of GDP and 1.2% of GDP, in debt servicing costs this year.

Further, the investment bank considered that the targeted revenues in the 2019 budget are credible. It said that the expected proceeds from the additional two percentage points in tariffs on imports are consistent with revenues that would accrue if tariffs increased by two percentage points on imports in 2018, excluding mineral and medicinal products. It added that the full-year budgeted proceeds from the increase in the tax on interest income do not appear to factor-in a significant increase in deposit growth from levels registered in the first quarter of 2019. Further, it did not expect the proposed ceiling on benefits and allowances of civil servants to result in significant savings, given that these allowances represent only 36% of the employees' basic salaries on average.

Overall, BofAML pointed out that the 2019 budget has room to achieve a fiscal adjustment of 1% of GDP in the second half of 2019, in line with the government's commitments at the CEDRE conference. But it said that this would still leave the fiscal deficit elevated at more than 10% of GDP in 2019. As such, it considered that delays in the adoption of the budget would prevent the impact of the adjustments from being realized in 2019. Still, it indicated that the budget remains consistent with the additional fiscal adjustment of 1.5% of GDP in 2020, along with the proposed start of reforms to the electricity sector.

Growth-oriented reforms to put public debt level on downward path

Global investment bank Goldman Sachs indicated that the 2019 budget approved by the Council of Ministers targets a fiscal deficit of 7.5% of GDP this year compared to an estimated deficit of 11.5% of GDP in 2018, and expected the primary balance to shift from a deficit of 1% of GDP last year to a surplus of 1% of GDP in 2019. It pointed that the planned fiscal adjustment is anticipated to occur on the revenue side and, therefore, will depend on the country's growth outlook.

It cautioned that austerity measures, whether through further tax hikes or deeper spending cuts, would weigh on economic growth. It estimated that for every increase of one percentage point in the GDP growth rate, the primary surplus needed to stabilize the public debt level would decline by 1.5 percentage points of GDP. As such, it considered that, in order to reach fiscal sustainability, authorities need to boost economic growth rather than seek deeper cuts to public expenditures. In this context, it considered that the authorities' plan to reform the electricity sector and to attract donor funds pledged at the CEDRE conference to finance infrastructure projects could provide a much-needed boost to the economy, and would put the public debt level on a sustainable trajectory. However, it anticipated such reforms to remain vulnerable to implementation risks, given that given that the electricity plan depends on continued efforts by the government over a period of at least six years, and includes elements that will require strong political will to implement them.

Further, it encouraged authorities to step up efforts to address the austerity-growth dilemma, and noted that fiscal consolidation is a necessary but insufficient condition for long-term economic stability. It added that, in order boost investor and depositor confidence, authorities should prioritize deep structural reforms aimed at improving the competitiveness of the tradable sector, reducing the country's dependence on expatriate remittances, curbing imports, and generating domestic investments. It estimated that, in order to stabilize the public debt level without deep structural reforms, the primary budget balance would need to post a surplus of about 5% of GDP and the economy would need to grow by between 2% and 3% in 2020. It said that this would require deeper-than-budgeted cuts to public expenditures along with a significant increase in tax receipts.

Labor Ministry unveils plan to address illegal workers in Lebanon

The Ministry of Labor unveiled a plan to combat illegal foreign labor in Lebanon. According to the plan, the ministry will launch a media campaign to explain to citizens the objectives of the plan, and to clarify the rights and duties of business owners and foreign workers. Also, the ministry will give foreign workers and business owners a period of one month to settle their violations starting from June 10, 2019. In addition, it will ask the private sector, the General Confederation of Lebanese Workers, and syndicates, among other entities, to abide by the law that prohibits the recruitment of foreign workers in professions, jobs and occupations confined to Lebanese nationals, as well as to insure the availability of a work permit for their foreign workers in sectors where they are allowed to work.

The plan stipulates that the share of non-Lebanese business owners in the capital of the company or enterprise should be no less than LBP100m when applying for their work permits. Also, it requires such companies to have at least 75% of their headcount as Lebanese nationals. In addition, the ministry intends to strengthen the role of its inspection unit in order to enforce the law, to fine non-abiding employers, close illegal businesses and scrutinize the provision of work permits, among others. It noted that the fine for non-abiding employers will increase from a maximum of LBP2.5m to LBP5m under the 2019 draft budget.

Further, the plan includes the establishment of a joint-operation task force between the Ministry of Labor, the Internal Security Forces, the State Security and the General Security, in order to support the inspection unit when conducting its tasks. It also stipulates that ministries that have inspection units, as well as municipalities, should cooperate with the Labor Ministry to control illegal employment. In addition, the plan incorporates the support of the Ministry of Social Affairs, which should provide the Ministry of Labor with the names of individuals who benefit from contributions and donations from international organizations and the United Nations High Commissioner for Refugees, in order to withhold work permits from these beneficiaries.

In parallel, the plan considered that Lebanon is facing a steep challenge regarding the foreign labor force in the country, especially in the aftermath of the Syrian crisis that started in 2011. It indicated that the influx of Syrian refugees led thousands of skilled Syrian workers to compete with Lebanese nationals in several sectors. It noted that the Syrian workforce has expanded from the construction and agricultural sectors prior to 2011, to hotels, restaurants, healthcare and trade, among other sectors. It added that several Syrian firms that have relocated to Lebanon employ mostly Syrians, while thousands of illegal outlets that are owned and managed by Syrians are currently operating in Lebanon, exacerbating illegal activities in the Lebanese labor market. The ministry noted that there are currently 1,733 valid working permits for Syrians in Lebanon, which is significantly below the number of Syrians who are actually working in the country. It noted that Syrian workers avoid applying for a work permit despite the facilities provided to them, such as a 75% reduction on work permit fees, given that there is no deterrence for working illegally.

In addition, the ministry pointed out that there is a significant number of illegal workers from other nationalities in the country. It noted that these persons work at gas stations and homes, as well as in the industrial, hospitality and construction sectors. Also, the ministry indicated that the pressure on Lebanese workers was exacerbated by some business owners that tend to avoid hiring Lebanese nationals in order to reduce their contribution to the National Social Security Fund, and by the fact that most Lebanese workers do not accept the same work conditions as some foreign workers, especially in terms of working hours and remuneration.

Budget to achieve primary surplus of 1.5% of GDP in 2019

Moody's Investors Service indicated that the 2019 draft budget would help achieve a primary budget surplus of 1.5% of GDP in 2019, which it expected to increase to 3.5% of GDP by 2023. It noted that authorities would be able to implement the planned fiscal adjustment through spending cuts, as well as through the issuance of low-yielding Treasury bills with the participation of Banque du Liban and (BdL) and commercial banks. It anticipated limited additional proceeds from the proposed revenue measures amid subdued economic activity that has prevailed since 2011. It expected the intended increase in the tax on interest earned from deposits and on interest income from Treasury bills, as well as on the interest on Certificates of Deposits issued by BdL, to put pressure on the banks' profitability. It considered that the targeted adjustment to the primary balance in the 2019 draft budget and the planned issuance of Treasury bills at a 1% coupon rate would be insufficient to put Lebanon's public debt trajectory on a downward trend, unless the differential between interest rates and real GDP growth rates narrows and is reversed.

The agency anticipated the budget deficit to remain at between 7% of GDP and 7.5% of GDP during the 2019-23 period in case interest payments continue to be equivalent to 10% of GDP or 11% of GDP, and if authorities proceed with a limited reduction in the public-sector wage bill. It indicated that the implied cuts in the main spending components would reduce the overspending that took place over the past few years, but would not signal a reversal in trend unless the government sustains its spending cuts in the future and economic activity improves. Further, it projected the net public debt level, which excludes domestic debt holdings by public entities that it estimates at about 10% of GDP, to rise from about 140% of GDP at the end of 2018 to 155% of GDP by end-2023 despite the interest savings expected from the issuance of low-yielding Treasury bills.

In parallel, the agency pointed out that the increase in deposits at commercial banks since 2018 has been insufficient to cover the fiscal deficit amid the government's gross borrowing requirements that exceed 30% of GDP annually. It said that BdL can monetize the deficit in the local currency, but it cautioned that such a move will increase inflationary pressure and domestic borrowing costs. Further, Moody's noted that the government received parliamentary approval to issue up to $4.8bn in Eurobonds in order to roll over upcoming and future Eurobond maturities. It said that BdL would likely acquire the newly-issued Eurobonds, and then sell them to local and external market participants at its own pace.

Industrial exports down 1.4% to $385m in first two months 2019

Figures released by the Ministry of Industry show that industrial exports totaled $384.8m in the first two months of 2019, constituting a decrease of 1.4% from $390.4m in the same period of 2018. Industrial exports totaled $204.9m in February 2019, increasing by 14% from $180m in January 2019 and by a marginal 0.7% from $203.4m in February 2018.

Exports of machinery & mechanical appliances totaled $79.6m and accounted for 20.7% of aggregate industrial exports in the first two months of 2019, followed by prepared foodstuffs & tobacco with $66.9m (17.4%), chemical products with $52.5m (13.7%), base metals with $45m (11.7%), pearls or semi-precious stones with $29.5m (7.7%), and plastics & rubber with $27.6m (7.2%). Arab countries were the destination of 57.3% of Lebanese industrial exports in the first two months of 2019, followed by European economies with 18.5%, African countries with 11.7%, Asian economies with 7%, countries in the Americas with 3.9%, and markets in Oceania with 0.7%.

On a country basis, the UAE was the main destination of Lebanese industrial exports and accounted for 11.2% of the total in the covered period, followed by Saudi Arabia and Syria with 8.5% each, Iraq with 8.3%, Qatar with 6.3%, and Jordan with 3.5%. In February 2019, 12 European countries, 11 Arab states, seven African countries, four 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 $42.3m in the first two months of 2019, constituting a decline of 1.2% from $42.8m in the same period of 2018. Italy was the main source of such imports and accounted for 24.8% of the total in the first two months of 2019, followed by China with 17.1% and Germany with 9.9%. Further, imports of industrial equipment and machinery amounted to $13.8m in February 2019, down by 51.6% from $28.5m in January 2019 and by 26.6% from $18.8m in February 2018. China was the main source of such imports with $3.9m and accounted for 28.3% of the total in the covered month, followed by Italy with $3.1m (22.2%) and Germany with $1.9m (14.1%).

Construction activity declines in fourth quarter of 2018

Banque du Liban's quarterly business survey about the opinions of business managers shows that general construction activity deteriorated in the fourth quarter of 2018, with the balance of opinions standing at -59 compared to -52 in the third quarter of 2018 and -40 in the fourth quarter of 2017. The business survey reflects the opinions of enterprise managers about the evolution of their businesses, in order to depict the trend 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 increase in a particular indicator and the proportion of those who reported a decline in the same indicator.

The balance of opinions about construction activity was -60 in the fourth quarter compared to -51 in the third quarter of 2018 and to -39 in the fourth quarter of 2017. The balance of opinions about construction activity was the highest in the North at -36, followed by Beirut & Mount Lebanon (-53), the Bekaa (-85), and the South (-93). Also, the balance of opinions about public works stood at -49 in the fourth quarter of 2018 compared to -42 in the preceding quarter and to -31 in the fourth quarter of 2017. Opinions about the level of public works were the highest in the North at -36, followed by Beirut & Mount Lebanon (-37), the Bekaa (-74), and the South (-100).

In parallel, the balance of opinions about the portfolio of projects was -53 in the fourth quarter of 2018 relative to -59 in the third quarter of 2018 and to -45 in the fourth quarter of 2017. The balance of opinions about the portfolio of projects was the highest in the North at -32, followed by Beirut & Mount Lebanon (-45), the Bekaa (-75), and the South (-93). Further, the balance of opinions about construction costs reached +4 in the covered quarter, unchanged from the third quarter of 2018 and compared to +1 in the fourth quarter of 2017.

Construction and Public Work Activity: Evolution of Opinions

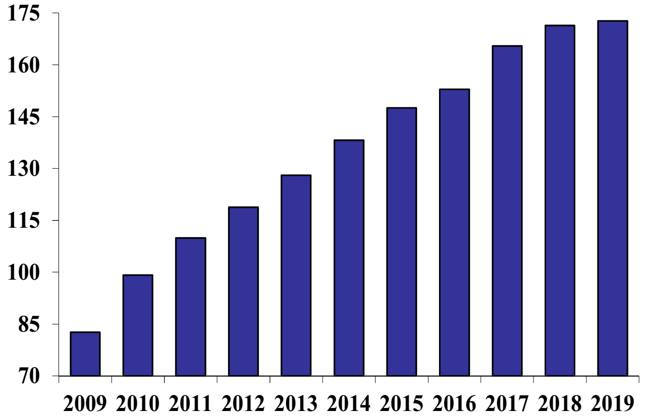
Aggregate results	Q4-15	Q4-16	Q4-17	Q4-18
General activity	-33	-33	-40	-59
Construction	-36	-27	-39	-60
Public work	-28	-35	-31	-49
Portfolio of projects	-39	-30	-45	-53
Construction costs	-23	+17	+1	+4
Investments (% of yes)	37%	32%	29%	16%

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

Banking sector assets at $254bn at end-April 2019

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets stood at $253.6bn at the end of April 2019, constituting an increase of 1.7% from $249.5bn at the end of 2018 and an expansion of 12.1% from $226.3bn at end-April 2018. Loans extended to the private sector reached $57bn at the end of April 2019, regressing by 4.1% from end-2018 and by 3.5% from a year earlier. Loans to the resident private sector totaled $50bn, constituting decreases of 4.3% from the end of 2018 and of 5% from a year earlier. Also, credit to the non-resident private sector reached $6.9bn at end-April 2019, declining by 2.5% from end-2018 and growing by 9.6% from a year earlier. In nominal terms, credit to the private sector dropped by $2.4bn in the first four months of 2019 relative to a decrease of $665.5m in the same period of 2018, as lending to the resident private sector contracted by $2.24bn and credit to the nonresident private sector regressed by $175.6m in the covered period. The dollarization rate in private sector lending rose from 67.7% at end-April 2018 to 69.8% at end-April 2019.

Total Private Sector Deposits* (US$m)



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

In addition, claims on non-resident financial institutions reached $10.3bn at the end of April 2019 and declined by $1.7bn, or 14.3%, from the end of 2018. Also, claims on the public sector stood at $33.2bn at end-April 2019, down by 1.3% from end-2018. The average lending rate in Lebanese pounds was 10.74% in April 2019 compared to 8.99% a year earlier, while the same rate in US dollars was 9.34% relative to 7.82% in April 2018. Further, the deposits of commercial banks at Banque du Liban totaled $138.8bn at the end of April 2019, constituting an increase of 23.2% from a year earlier.

In parallel, total private sector deposits reached $172.7bn at the end of April 2019. They decreased by a marginal 0.9% from the end of 2018 and increased by 0.8% from end-April 2018. Deposits in Lebanese pounds reached the equivalent of $50.2bn at end-April 2019, down by 1.9% from end-2018 and by 7.6% from a year earlier; while deposits in foreign currency totaled $122.5bn, as they regressed by a marginal 0.5% in the first four months of 2019 and grew by 4.6% from $117.1bn a year earlier. Resident deposits totaled $135.5bn at the end of April 2019, decreasing by 0.8% or $1.06bn from the end of 2018 and rising by 0.1% or $100.7m from end-April 2018. Also, non-resident deposits reached $37.2bn at end-April 2019, as they regressed by 1.4% or $511.2m from end-2018, and increased by 3.3% or $1.2bn from a year earlier. In nominal terms, private sector deposits declined by $2.18bn in January and by $133m in February, while they increased by $550.6m in March and by $186.4m in April 2019. As such, aggregate private sector deposits dropped by $1.57bn in the first four months of 2019 relative to an increase of $2.7bn in the same period of 2018, with deposits in Lebanese pounds declining by $995.7m and foreign-currency deposits dropping by $576.1m. The dollarization rate of private sector deposits was 70.9% at the end of April 2019, up from 70.6% at the end of 2018, and compared to 68.3% a year earlier.

In parallel, deposits of non-resident financial institutions reached $9.4bn at the end of April 2019 and increased by 20.8% from end-April 2018. Further, the average deposit rate in Lebanese pounds was 8.60% in April 2019 compared to 6.64% a year earlier, while the same rate in US dollars was 5.68% relative to 4.1% in April 2018. The ratio of private sector loans to deposits in foreign currency stood at 32.5% at the end of April 2019, compared to 34.1% a year earlier and well below Banque du Liban's limit of 70%. The same ratio in Lebanese pounds reached 34.2% at end-April 2019, relative to 35.1% at the end of April 2018. As such, the total private sector loans-to-deposits ratio reached 33% compared to 34.4% at end-April 2018. The banks' aggregate capital base stood at $21.2bn at end-April 2019, up by 1.2% from $21bn a year earlier.

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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