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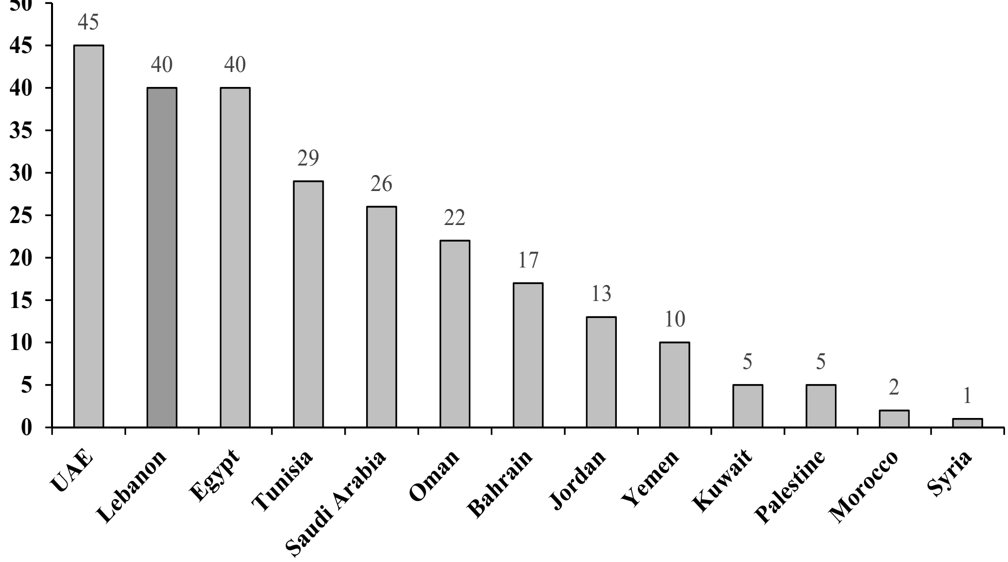
LEBANON THIS WEEK

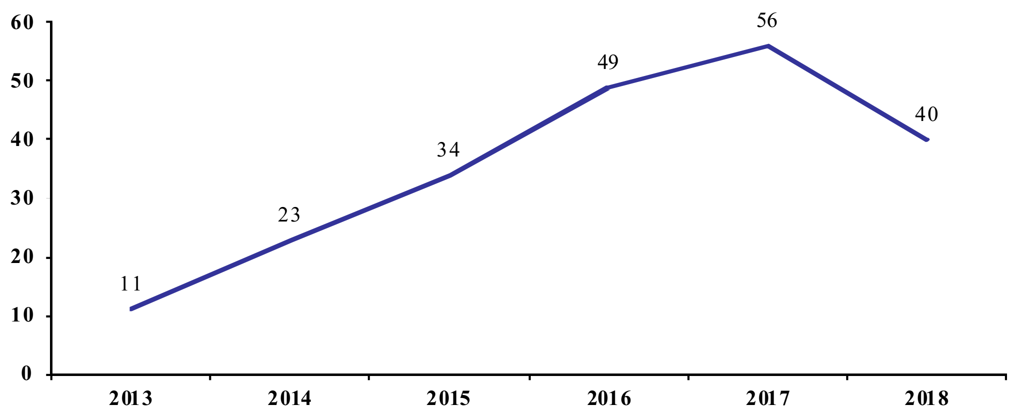
In This Issue

Charts of the Week

Number of Investments by MENA-based Funds in Technology Startups in Arab countries in 2018



Number of Investments by MENA-based Funds in Technology Startups in Lebanon



Source: ArabNet, Byblos Bank

Quote to Note

"A credible plan for growth-enhancing structural and governance reforms would play an important role in rebuilding investors' confidence and pave the way for an economic recovery."

The European Commission, on the benefits of growth-oriented measures for the Lebanese economy

Number of the Week

86%: Percentage of mobile phone owners in Lebanon who had a smartphone in 2018, according to a survey by the U.S.-based Pew Research Center

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	(6,246)	(1,821)	-	-	(956)	-	-
Primary Balance	(636)	(715)	-	-	(386)	-	-
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 **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"	6.69	5.02	235,058	7.80%
Audi Listed	4.00	0.00	87,622	18.65%
Solidere "B"	6.74	8.36	87,562	5.11%
Byblos Common	1.22	(0.81)	33,104	8.05%
BLOM Listed	8.00	0.00	21,000	20.06%
Audi GDR	4.00	2.56	496	5.59%
HOLCIM	13.50	0.00	-	3.07%
BLOM GDR	7.70	0.00	-	6.64%
Byblos Pref. 08	69.00	0.00	-	1.61%
Byblos Pref. 09	72.00	0.00	-	1.68%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Mar 2020	6.38	97.62	10.00
Apr 2021	8.25	93.62	12.33
Oct 2022	6.10	84.50	11.98
Jun 2025	6.25	79.13	11.14
Nov 2026	6.60	78.00	11.02
Feb 2030	6.65	76.00	10.43
Apr 2031	7.00	75.75	10.65
May 2033	8.20	82.29	10.67
Nov 2035	7.05	75.25	10.19
Mar 2037	7.25	76.25	10.16

Source: Byblos Bank Capital Markets

	Jun 24-28	Jun 17-21	% Change	June 2019	June 2018	% Change
Total shares traded	465,022	635,630	(26.8)	1,693,147	5,778,738	(70.7)
Total value traded	$2,657,396	$1,696,288	56.7	$7,832,924	$39,079,303	(80.0)
Market capitalization	$8.58bn	8.50bn	0.85	$8.58bn	$10.43bn	(17.8)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Jun 21, 2019	Jun 28, 2019	% Change**
CDS 1-year*	906.06	892.38	(1.5)
CDS 3-year*	921.76	914.00	(0.8)
CDS 5-year*	894.38	889.56	(0.5)

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

CDX EM 30*	Jun 21, 2019	Jun 28, 2019	% Change***
CDS 5-year**	96.91	97.16	0.3

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

Cost of living in Beirut is 53rd highest in the world, fourth highest among Arab cities in 2019

The annual Cost of Living Survey in 209 cities around the world by global consulting firm Mercer ranked the cost of living in Beirut as the 53rd highest worldwide and the fourth highest among 17 Arab cities surveyed in 2019. Also, the cost of living in Beirut is the 14th highest among 48 cities in 35 upper middle-income countries (UMICs) included in the survey. In comparison, Beirut was the 65th most expensive city worldwide and the fourth most expensive in the Arab world in 2018. Beirut's global rank increased by 12 spots in this year's survey, mainly due the strengthening of the US dollar against other major currencies worldwide as the Lebanese pound is pegged to the US dollar, as well as to a steep increase in rental accommodation costs. Beirut is among 52 cities around the world that posted a double-digit increase in their rank.

The study measures the comparative cost of over 200 items in each location, including the cost of housing, food, clothing and household goods, as well as transportation and entertainment. The rankings are derived from a survey conducted in March 2019. The survey uses New York City as the base city for the index and compares all cities against it. The survey is conducted annually to help multinational companies determine compensation allowances for their expatriate workers. The rankings demonstrate how currency fluctuation and changes in the prices of goods and services can affect the purchasing power of expatriate employees.

On a global basis, the cost of living in Beirut is higher than in the Central African Republic's capital Bangui, in Rome, and in the New York City suburb of White Plains; and is lower than in Sydney, Vienna and Cameroon's capital Yaoundé. Also, the survey considered Beirut to be more expensive than Amman in Jordan, St. Petersburg in Russia, and Sao Paolo in Brazil; and to be less costly than Bangkok in Thailand, and the cities of Qingdao and Shenyang in China among UMICs.

Cost of Living Rankings in 2019

	Arab Rank	Global Rank	Change in Global Rank*
Dubai	1	21	+5
Abu Dhabi	2	33	+7
Riyadh	3	35	+10
Beirut	**4**	**53**	**+12**
Manama	5	57	+20
Djibouti	6	59	+14
Amman	7	75	+19
Jeddah	8	100	+17
Muscat	9	103	+14
Doha	10	115	-
Kuwait City	11	119	+2
Casablanca	12	128	-
Rabat	13	160	+5
Cairo	14	166	+22
Algiers	15	184	+11
Nouakchott	16	192	+2
Tunis	17	209	-1

** (+) reflects a relative increase in the cost of living*
Source: Mercer, Byblos Research

Beirut's ranking is mainly due to the high cost of unfurnished housing, personal leisure and sports, transportation, and the cost of utilities. Mercer indicated that it compares the cost of high-end items that are important to expatriates and their employers, such as upscale residential areas and entertainment venues.

The rankings of 14 out of the 17 Arab cities increased in the 2019 survey, while the ranking of Tunisia's capital Tunis regressed and the rankings of Casablanca and Doha were unchanged from last year's survey. In parallel, the rankings included two non-Arab cities from the region, as Istanbul came in 154th place relative to 163rd place in 2018, while Limassol ranked in the 161st spot compared to 153rd in 2018. Hong Kong is the world's most expensive city, while Tunis is the least costly city worldwide.

Surveyed economists expect Lebanon's real GDP growth rate at 1.5% in 2019

Bloomberg's quarterly survey of economists and analysts about the outlook on the Lebanese economy projected real GDP growth at 1.5% in 2019 compared to a March 2019 forecast of 1.7%, and expected growth to accelerate to 2.1% in 2020. The individual forecasts of growth rates for 2019 ranged from 0.8% to 4.5%, while the consensus forecast among 88% of participants is that real GDP would grow by 1.5% or less this year. The results displayed a median real GDP growth figure of 1.1% for 2019. The survey's results are based on the opinions of eight economists and analysts based in Lebanon and outside the country. Bloomberg conducted the poll between June 14 and June 19, 2019.

Also, participants forecast Lebanon's average inflation rate at 3.2% in 2019 and at 3.1% in 2020. The opinions of polled economists differed on the direction of consumer prices in 2019 with expectations ranging from 2% to 4.5%, while 75% of participants agreed that the inflation rate would be between 3% and 4.5% this year. The poll's results revealed a median inflation rate of 3.4% for 2019.

In addition, surveyed analysts forecast Lebanon's fiscal deficit at 9.8% of GDP in 2019 and at 8.9% of GDP in 2020. The participants expected the fiscal deficit at between 8.5% of GDP and 11.7% of GDP this year, with a median of 9.4% of GDP. Further, polled economists projected the current account deficit at 23% of GDP this year and at 22.8% of GDP in 2020. The surveyed analysts expected the current account deficit to range between 19% of GDP and 28.2% of GDP, with a median of 22% of GDP in 2019.

In parallel, respondents assigned a median probability of 25% for Lebanon to enter into recession in the next 12 months. The opinions of surveyed economists ranged between 20% and 40%.

Lebanon in the News

Parliament enacts anti-corruption law

The Lebanese Parliament enacted on June 26, 2019 the Anti-Corruption Law, which aims to address the widespread corruption in the public sector. The law details the mechanism to establish a National Anti-Corruption Commission, as well as the latter's duties and functions, investigative powers, and preventive actions that it is allowed to undertake. The commission will help detect corruption and promote transparency, as well as contribute to drafting laws and regulations aimed to prevent and combat graft in the public sector.

The law is part of the government's reform agenda that it submitted at the CEDRE conference. It is also part of the Anti-Corruption National Strategy that the government unveiled in 2018, which aims to increase transparency, promote accountability, limit discretionary actions in public administrations and prevent impunity. Parliament enacted other laws under the Anti-Corruption National Strategy, including a law that protects whistleblowers in corruption-related matters dated October 10, 2018. The Anti-Corruption National Strategy calls for the enforcement of the Right to Access Information Law, dated February 10, 2017, which grants Lebanese citizens, foreigners, natural persons and legal entities, the right to access information from various government agencies, ministries and municipalities, among other public and public-related institutions covered by the legislation.

Transparency International's 2018 Corruption Perceptions Index ranked Lebanon in 138th place among 180 countries around the world and in 13th place among 21 countries in the Arab region. Lebanon's global rank improved by five spots from the 2017 survey based on the same set of countries in both surveys, while it improved by one spot from the 2016 survey based on the same criteria. Also, the World Bank's annual World Governance Indicators for 2017 ranked Lebanon in 178th place among 214 countries and territories globally and in 15th place among 20 Arab countries on the Control of Corruption category.

Banque du Liban and Finance Ministry to agree on measures to reduce debt servicing

Governor Riad Salamé indicated that Banque du Liban (BdL) is discussing with the Ministry of Finance the details of a mechanism that would help reduce debt servicing costs and maintain confidence and stability in the local financial markets. He noted that the two sides have not yet reached a final agreement about the mechanism that will be adopted, but that they agreed that the plan should aim to reduce debt servicing costs by up to $700m per year. He said that the plan has to be well-formulated because BdL already holds the majority of the public debt. He added that commercial banks will not be involved in the plan, given that they have already been penalized by the increase in the tax rates and by the double taxation on their income, which has led to an elevated financial burden on the banking sector. As such, he stressed the importance of preserving the resilience of the banking sector, given its crucial role in the economy.

In parallel, Governor Salamé pointed out that the negative rumors that have been circulating about the Lebanese economy from outside the country have triggered concerns about the government's ability to finance the deficit, which stood at 11.5% of GDP in 2018. However, he noted that the government's efforts to narrow the deficit in 2019 and beyond will send a positive signal to the international community. He added that authorities should communicate with external parties the positive developments in Lebanon following the enactment of the 2019 budget. In addition, the governor indicated that BdL and the MoF do not intend to pursue a Eurobond issuance before Parliament enacts the 2019 budget. He added that there is sufficient liquidity in the market, which will not require a Eurobond issuance in the near term.

Further, Governor Salamé considered that there is no reason to downgrade Lebanon's sovereign ratings, given that the government's solvency is not in doubt. He added that the government is honoring its obligations in foreign currency, including the payment of maturing Eurobonds and interest payments. He stressed that the government is able to meet its financing needs and to service its domestic and external obligations. He reiterated that BdL's monetary policy aims to maintain currency stability and preserve the government's solvency and the soundness of the banking sector.

In parallel, the governor indicated that BdL is currently in a deleveraging phase, given the elevated interest rates and reduced liquidity in the market. He considered that a correction in the trajectory of interest rates would stimulate demand in the economy. He estimated that economic growth was zero percent in the first half of 2019, but added that economic conditions have started to improve with the beginning of the tourism season. Further, he said that the financial sector continues to attract financial inflows that he estimated at about $500m per month. Finally, he indicated that a decrease in global interest rates could lead to an economic recovery in Lebanon within six months through higher liquidity in the market.

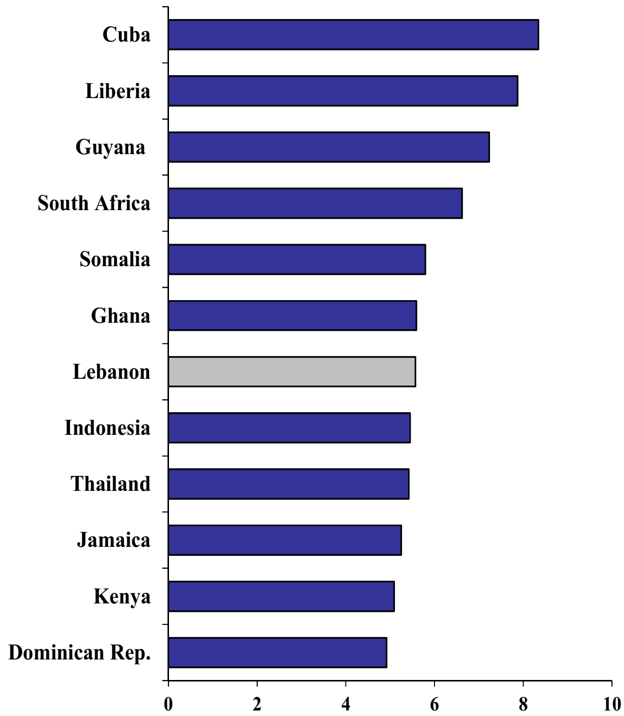
Cost of sending remittances from Canada, the U.K. and the U.S. decreases in second quarter of 2019

Figures issued by the World Bank show that the cost of sending $500 in remittances from the United States to Lebanon reached 5.57% in the second quarter of 2019, down from 5.83% in the first quarter of the year, and from 5.77% in the second quarter of 2018. The cost includes the transaction fee and exchange rate margin, and represents the average cost of transferring money through commercial banks and money transfer operators (MTOs). In nominal terms, the cost of sending $500 from the U.S. to Lebanon was $27.85 in the second quarter of 2019 compared to $29.15 in the preceding quarter and to $28.87 in the second quarter of 2018. Lebanon is the seventh most expensive destination for sending $500 from the U.S. among 42 countries with available data.

Further, the cost of sending remittances from Canada to Lebanon was 6% in the second quarter of 2019 for a transfer of CAD500, down from 6.41% in the first quarter of the year and from 7.5% in the second quarter of 2018. In nominal terms, the cost of sending CAD500 from Canada to Lebanon was CAD30.01 in the second quarter of 2019 relative to CAD32.07 in the previous quarter and to CAD37.52 in the second quarter of 2018. Lebanon is the fourth most expensive destination for sending CAD500 from Canada among 15 countries with available data.

Also, the cost of sending remittances from Australia to Lebanon reached 6.94% in the second quarter of 2019 for a transfer of AUD500, unchanged from the first quarter of the year and down from 7.07% in the second quarter of 2018. The cost of sending AUD500 from Australia to Lebanon was AUD34.68 in the second quarter of 2019 compared to AUD34.72 in the preceding quarter and to AUD35.34 in the second quarter of 2018. Lebanon is the fourth most expensive destination for sending AUD500 from Australia among 16 countries with available data.

Costliest Destinations of Remittances from the United States* (%)



**cost of sending $500 from the U.S.*
Source: World Bank, Byblos Research

In addition, the cost of sending remittances from France to Lebanon was 6.45% in the second quarter of 2019 for a transfer of EUR345, up from 6.4% in the first quarter of the year and relative to 6.63% in the second quarter of 2018. In nominal terms, the cost of sending EUR345 from France to Lebanon was EUR22.25 in the second quarter of 2019 compared to EUR22.09 in the previous quarter and to EUR22.88 in the second quarter of 2018. Lebanon is the sixth most expensive destination for sending EUR345 from France among 16 countries with available data.

Further, the cost of sending remittances from the United Kingdom to Lebanon reached 7.12% in the second quarter of 2019 for a transfer of GBP300, down from 7.68% in the first quarter of the year and from 8.86% in the second quarter of 2018. In nominal terms, the cost of sending GBP300 from the UK to Lebanon was GBP21.36 in the second quarter of 2019 relative to GBP23.03 in the preceding quarter and to GBP26.58 in the second quarter of 2018. Lebanon is the seventh most expensive destination for sending GBP300 from the UK among 33 countries with available data.

Also, the cost of sending remittances from Germany to Lebanon was 7.7% in the second quarter of 2019 for a transfer of EUR345, up from 6.84% in the first quarter of the year and from 7.12% in the second quarter of 2018. In nominal terms, the cost of sending EUR345 from Germany to Lebanon was EUR26.56 in the second quarter of 2019 relative to EUR23.6 in the previous quarter and to EUR24.57 in the second quarter of 2018. Lebanon is the third most expensive destination for sending EUR345 from Germany among 24 countries with available data.

Finally, the cost of sending remittances from Saudi Arabia to Lebanon reached 3.34% in the second quarter of 2019 for a transfer of SAR1,870, equivalent to $500, up from 2.22% in each of the first quarter of the year and the second quarter of 2018. In nominal terms, the cost of sending SAR1,870 from Saudi Arabia to Lebanon was SAR62.51 in the second quarter of 2019, relative to SAR41.51 in each of the preceding quarter and the second quarter of 2018. Lebanon is the seventh most expensive destination for sending SAR1,870 from Saudi Arabia among 17 countries with available data.

Lebanon has seventh largest refugee population globally

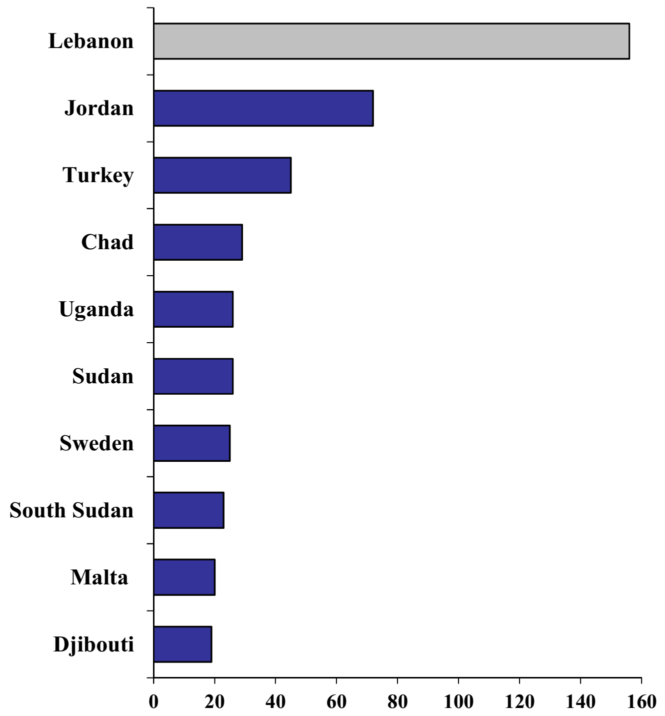
The United Nations High Commissioner for Refugees (UNHCR) indicated that Lebanon hosted 949,700 refugees registered with the UNHCR as at the end of 2018, constituting the seventh largest refugee population worldwide. The figures exclude 475,100 Palestinian refugees under the mandate of the UN Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), as well as unregistered refugees.

The 944,200 Syrian refugees registered with the UNHCR as at the end of 2018 represent 99.4% of the country's total refugee population, while most of the remaining refugees under the agency were from Iraq. Registered Syrian refugees in Lebanon represented 14.2% of total Syrian refugees under the UNHCR's mandate worldwide.

The UNHCR noted that the number of registered refugees in Lebanon slightly declined from 998,900 persons at end-2017, mainly due to data reconciliation, de-registration and resettlement. It added that 14,500 Syrian refugees in Lebanon returned to their country in 2018.

Registered refugees in Lebanon represented 4.7% of the global refugee population at the end of 2018. In comparison, Turkey hosted 3,681,685 registered refugees at the end of 2018, or 18% of total refugees under the UNHCR's mandate, followed by Pakistan (1,404,019), Uganda (1,165,653), Sudan (1,078,287), Germany (1,063,837), and Iran (979,435).

Number of Registered Refugees per 1,000 Inhabitants



Source: United Nations High Commissioner for Refugees

In addition, the UNHCR stated that Lebanon continued to host the highest number of registered refugees relative to its population, with a total of 156 refugees per 1,000 inhabitants in the country, or one refugee for every six persons, as at the end of 2018. Jordan followed with 72 refugees per 1,000 people, then Turkey (45 refugees per 1,000 individuals), Chad (29 refugees per 1,000 inhabitants), and Uganda and Sudan (26 refugees per 1,000 persons each).

According to the UNHCR, a total of 8,393 refugees in Lebanon applied for resettlement in 2018, which constituted the second highest number after Turkey (16,042 submissions), and which represented 10.3% of resettlement submissions worldwide last year. The UNHCR defines resettlement as the selection and transfer of refugees from the area or country where they sought protection to a third area or country that has agreed to admit them as refugees.

Fitch to raise outlook on sovereign ratings in case government reduces borrowing needs

Fitch Ratings projected Lebanon's fiscal deficit to narrow from 11.1% of GDP in 2018 to 9% of GDP in 2019, but to miss the government's target deficit of 7.6% of GDP in the 2019 draft budget. It considered that the estimated revenues from the proposed tax measures in the 2019 budget are optimistic, given subdued economic growth and inefficient tax collection. Also, it said that the government could face challenges in enforcing its planned expenditure controls related to the freezing of recruitment in the public sector and to the disbursement of benefits to public sector employees. As such, it did not expect the government to fully implement the proposed fiscal consolidation measures in the 2019 budget. It added that authorities need to introduce additional fiscal and structural reforms in 2020 in order to stabilize the public debt level that reached 151% of GDP at the end of 2018.

Further, the agency indicated that the government's planned issuance of Treasury bonds at an interest rate of 1%, which would be well below market rates, would help reduce spending in the 2019 budget by the equivalent of 0.6% of GDP. It added that this measure would generate about 50% of the total targeted decline in public spending for this year. It considered that the proposed issuance would most likely involve Banque du Liban (BdL), as it dot not expect commercial banks to subscribe to the proposed low-yielding Treasury bonds. It noted that authorities did not disclose details about the issuance, and that BdL might buy these bonds and structure the transaction in a way that minimizes its impact on its balance sheet.

In parallel, Fitch indicated that the deterioration in Lebanon's public finances last year was among the reasons that prompted the agency to revise, in December 2018, its outlook from 'stable' to 'negative' on Lebanon's 'B-' sovereign rating. It pointed out that the formation of the government in January 2019 has yet to support key indicators, such as a rapid increase in bank deposits and the accumulation of foreign currency reserves. Still, it considered that BdL's gross foreign currency reserves are large and sufficient to meet upcoming Eurobond maturities in case the government does not issue Eurobonds. The agency considered that it is still early to tell if the enactment of the 2019 budget and the implementation of the electricity sector reforms would bolster investor and depositor confidence. It indicated that it would revise the outlook on Lebanon's sovereign ratings from 'negative' to 'stable', in case the government successfully executes plans to reduce its borrowing needs and external vulnerabilities without weighing on investor confidence and undermining the country's funding model.

Stable or lower global interest rates are beneficial for Lebanon

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 has the capacity to maintain the prevailing stability in the exchange rate and interest rate markets. He noted that stable or lower global interest rates would indirectly benefit the prevailing interest rate environment in Lebanon, as the level of interest rates reflects liquidity conditions in the market. He hoped that liquidity conditions in Lebanon would improve, which would help reduce interest rates in the country. He estimated that the loan portfolio at commercial banks contracted by $4bn so far this year, mainly because some clients paid back loans that they borrowed against cash collateral.

Further, Governor Salamé indicated that the elevated yields on Lebanese Eurobonds reflect the risks associated with such instruments. He hoped that the yields would decrease as economic conditions in the country improve, starting with the prospects of increased tourism activity during the summer season. Further, he indicated that the electronic trading platform, which will enable the online trading of financial instruments, currencies and precious metals, among others, requires about six to nine months to become operational.

In parallel, the ABL expressed concerns about the decision of the Parliament's Finance & Budget Committee to revoke several revenue measures that the government included in the 2019 draft budget. It said that this could keep the fiscal deficit wide and affect the actual implementation of CEDRE-related decisions. In this regard, Governor Salamé reassured the ABL that the revoked measures will be replaced by other sources of revenues, and that the committee is making serious efforts to achieve the targeted deficit of 7.6% of GDP. He added that the government has restrained public spending so far this year, which is helping contain the fiscal deficit, and that the actual performance of public finances so far this year is not as bad as it is portrayed in the media. He indicated that reforms in the electricity sector are underway and that international investors have expressed interest in the sector. He added that the upcoming exploration for offshore oil and gas, which will start in 2020, will improve the country's economic outlook.

Further, Governor Salamé ruled out the possibility of banks subscribing to government securities at below market rates. He added that BdL will coordinate with the Ministry of Finance to reduce debt servicing costs without involving the banks in this process.

In addition, the ABL and BdL discussed the possibility to extend the payment period for bank clients who are facing difficulties in repaying their mortgages in Lebanese pounds as a result of the challenging economic conditions. They added that the extension will not affect the subsidies that these clients are receiving on their housing loans as per BdL's circulars. Also, the ABL and BdL said that clients who wish to convert their LBP-denominated mortgages to US dollars should have income sources in US dollars in order to benefit from the spreads on interest rates. The BCCL indicated that it supports and understands the banks' decision to be more flexible with clients facing difficulties in repaying their debt.

Parliament approves $295m financing package to modernize public transportation

The Lebanese Parliament enacted on June 26, 2019 the World Bank's $295m funding package for the Greater Beirut Public Transport Project that aims to modernize the country's public transport system. The Council of Ministers approved the loan agreement in May 2018, following the World Bank's approval in March 2018. The Council for Development and Reconstruction (CDR) will be responsible for executing the project, while World Bank specialists, who are based in Beirut, will follow up regularly with the CDR.

The World Bank's funding package, which is part of the CEDRE-related funds, consists of a $225.2m loan and a $69.8m grant from the Global Concessional Financing Facility. The facility is a multinational fund that provides low- and no-interest financing packages to support middle-income countries experiencing unusual social and economic pressure from refugee inflows. The loan will be paid over 31.5 years and includes an eight-year grace period.

The Greater Beirut Public Transport Project, which is the first phase of a comprehensive national public transportation program, aims to improve the speed, quality and accessibility of public transport for passengers in Greater Beirut and the northern entrance of the city. The funding package will cover 86% of the project's cost of about $345m, while the private sector will finance the remaining $50m (14%). The World Bank expects the project, which will extend over 10 years, to generate an economic internal rate of return of 39%.

Further, the project has three components, which are the Bus Rapid Transit (BRT) system, the feeder bus system, and technical assistance related to the supervision of the BRT and its feeder network. The World Bank will provide $180m for the first component to finance the design, construction and supervision of BRT infrastructure on the northern highway and the outer roads of Beirut. Also, the private sector will invest between $50m and $80m to cover the purchase of 120 buses to service 40 kilometers of dedicated BRT lanes between northern districts and Beirut. The private sector's contribution would be possible under the public-private partnership law.

The second component, which will cost $104.4m, consists of the acquisition of 250 feeder buses, as well as the construction of bus stops, shelters and street equipment. The third component, which will cost $10m, involves technical assistance and consulting services related to strengthening the supervision of the BRT and feeder network.

Fiscal deficit at $6.25bn in 2018, equivalent to 35% of expenditures and 11% of GDP

Figures released by the Ministry of Finance show that the fiscal deficit reached $6.25bn in 2018 and widened by 66% from a deficit of $3.76bn in 2017. The deficit was equivalent to 35.1% of total budget and Treasury expenditures relative to 24.4% of spending in 2017. Government expenditures reached $17.8bn and grew by 15.7% from 2017, while revenues regressed by 0.7% to $11.55bn. As such, the widening of the deficit reflects a rise of $2.4bn in overall expenditures and a decrease of $79m in revenues last year. The growth in spending is due to an increase of $1.86bn in general expenditures, an expansion of $426.5m in debt servicing, and a rise of $157.7m in transfers to municipalities in 2018.

On the revenues side, tax receipts grew by 3.1% to $8.47bn in 2018, of which 30.1%, or $2.55bn, were in VAT receipts that increased by 10.5% annually. Tax receipts accounted for 79% of budgetary revenues and for 73.3% of total Treasury and budgetary receipts last year. The distribution of other tax revenues shows that receipts from taxes on income, profits & capital gains increased by 7.1% annually to $2.98bn in 2018; revenues from customs regressed by 6.4% to $1.34bn; receipts from property taxes dropped by 19.4% to $755.4m; while revenues from taxes on goods & services increased by 9.2% to $437.2m and receipts from stamp fees expanded by 15% to $399.4m.

The distribution of income tax receipts shows that the tax on interest income accounted for 40% of income tax revenues in 2018, followed by the tax on profits with 30.2%, taxes on wages & salaries with 19.3% and the capital gains tax with 9.3%. Receipts from the tax on interest income surged by 99.1%, revenues from taxes on capital gains increased by 17.1%, and receipts from taxes on wages & salaries grew by 13.1%, while revenues from taxes on profits dropped by 35.4% last year. Also, the distribution of property taxes indicates that revenues from real estate registration fees fell by 22.8% to $493.4m in 2018, receipts from the built property tax regressed by 0.2% to $187.2m, and revenues from the inheritance tax dropped by 32.2% to $74.8m. Further, non-tax budgetary receipts decreased by 11.5% to $2.27bn in 2018. They mainly included $1.45bn in revenues generated from government properties that dropped by 17.4% from 2017, as well as $627.6m in receipts from administrative fees and charges that increased by 7.2% annually. Receipts from telecommunication services regressed by 16.6% to $1.07bn in 2018. They accounted for 73.8% of income from government properties and for 47.1% of non-tax budgetary revenues last year.

On the expenditures side, total budgetary spending, which includes general expenditures and debt servicing, increased by 16.2% to $16.36bn in 2018. General spending expanded by 21% to $10.75bn last year, and included $1.76bn in transfers to Electricité du Liban (EdL) that grew by 32.3% from a year earlier, and $1.37bn in outlays from previous years that rose by 23.5% annually, among other general spending items. Also, debt servicing totaled $5.6bn in 2018 and increased by 8.2% from 2017. Debt servicing accounted for 31.5% of total expenditures and for 34.3% of budgetary spending, while it absorbed 48.6% of overall revenues and 52.2% of budgetary receipts. Interest payments on Lebanese pound-denominated debt regressed by 2% to $3.17bn in 2018, while debt servicing on foreign currency debt rose by 27.4% to $2.24bn. Further, Treasury expenditures, excluding transfers to EdL, grew by 10% to $1.43bn last year, as transfers to municipalities surged by 38.2% to $570.4m in 2018. The primary budget balance posted a deficit of $11.6m in 2018, or 0.1% of budgetary expenditures, while the overall primary balance registered a deficit of $635.6m, or 3.6% of spending.

Comparative Fiscal Results (% of GDP)

	2017	**2018**
Budget Revenues	20.2%	19.1%
Tax Revenues	15.4%	15.1%
Non-Tax Revenues	4.8%	4.0%
of which Telecom revenues	*2.4%*	*1.9%*
Budget Expenditures	26.4%	29.1%
Budget Surplus/Deficit	**(6.2%)**	**(10.0%)**
Budget Primary Surplus	**3.5%**	**(0.02%)**
Treasury Receipts	1.6%	1.4%
Treasury Expenditures	2.4%	2.5%
Total Revenues	21.8%	20.6%
Total Expenditures	28.8%	31.7%
Total Deficit	**(7.0%)**	**(11.1%)**
Total Primary Surplus/Deficit	**2.7%**	**(1.1%)**

Source: Ministry of Finance, Institute of International Finance, Byblos Research

Weak institutions and elevated public debt level are main sources of sovereign vulnerability

In its annual sovereign assessment on Lebanon, Moody's Investors Service indicated that Lebanon's 'Caa1' government bond rating balances the country's wide fiscal deficits, elevated public debt burden and large debt servicing cost, with its resilient bank deposit amid sustained remittance inflows and cross-border transfers, as well as the government's perfect track record of public debt repayment despite the economic and geopolitical turmoil. The agency indicated that its assessment is based on four factors that are Economic Strength, Institutional Strength, Fiscal Strength, and Susceptibility to Event Risk.

Moody's ranked Lebanon's Economic Strength at "Low+", the 10th highest level on a scale of 15 notches that range from "Very High (+)" to "Very Low (-)", and similar to the median level of similarly-rated countries. It noted that its assessment reflects the country's moderate income per capita, subdued growth prospects, weak competitiveness, and the country's significant reliance on external funding to sustain investment activity. Other countries with the same level of Economic Strength include Montenegro and Mongolia. It projected Lebanon's real GDP growth to slightly recover in 2019, in case some of the CEDRE-related funds are disbursed following the Parliament's approval of the 2019 budget. Also, it expected the implementation of the Capital Investment Program to boost economic growth in case it is accompanied by measures to improve efficiency. It added that Lebanon continues to attract significantly higher foreign direct investments (FDI) than regional peers. It anticipated the development of the country's hydrocarbon sector to be a source of foreign currency inflows and to boost growth prospects in the long term.

In parallel, the agency assessed Lebanon's Institutional Strength as "Low-", the 12th highest level on a scale of 15 notches, and similar to the Institutional Strength of Azerbaijan, Honduras and Kenya. Lebanon's assessment is three notches higher than the median level of "Very Low (-)" for similarly-rated countries. The agency indicated that its assessment reflects the country's weak government effectiveness, which is partly offset by Banque du Liban's (BdL) credible monetary policy, the resilience of the financial sector, the government's willingness to service its debt, as well as BdL's monetary and quasi-fiscal policies during periods of political deadlock. It noted that the government has never defaulted on its debt despite severe political and economic shocks. It added that BdL has maintained confidence in monetary policy and in the currency peg to the US dollar, which has prevented a deterioration in the country's Institutional Strength assessment.

Further, the agency evaluated Lebanon's Fiscal Strength as "Very Low (-)", which reflects a wide fiscal deficit and an elevated public debt level. Other countries with the same level of Fiscal Strength include Bahrain, Egypt and Zambia. It noted that the 2019 draft budget includes significant measures to narrow the fiscal deficit from 11% of GDP in 2018 to 7.6% of GDP in 2019, mainly through tax increases, other current spending reductions and power sector reforms. It projected Lebanon's primary balance to post a surplus of 1% of GDP in 2019 and of 3.5% of GDP by 2023. It expected the fiscal deficit to narrow from 9% of GDP this year, but to remain at between 7% of GDP and 7.5% of GDP by 2023, in case authorities do not reduce the public-sector wage bill and if debt servicing costs are between 10% of GDP and 11% of GDP. In this context, it forecast the public debt level at 144.2% of GDP at end-2019 and 149% of GDP by end-2020.

Finally, Moody's ranked Lebanon's Susceptibility to Event Risk at "High", similar to the median level of similarly-rated countries. Other countries with the same level of Susceptibility to Event Risk include Turkey and Ukraine. This factor assesses a country's vulnerability to sudden events that would materially impact the government's creditworthiness, such as political risks, as well as risks to government liquidity and to the banking sector. The agency considered deposit inflows to be resilient, due in part to BdL's stabilizing policies and the prevailing interest rates on deposits. It added that the higher deposit inflows following the disbursements of CEDRE-related funds and renewed investor confidence would result in lower interest rates and support fiscal consolidation efforts.

Treasury transfers to Electricité du Liban up 32% to $1.8bn in 2018, equivalent to 3% of GDP

Figures released by the Ministry of Finance show that Treasury transfers to Electricité du Liban (EdL) totaled $1.76bn in 2018, constituting an increase of 32.3% from $1.33bn in 2017. Reimbursements for the purchase of natural gas, fuel and gas oil totaled $1.74bn, or 98.9% of transfers, last year, and transfers to Electricity Syria reached $12.7m, or 0.7% of the total, while EdL's debt servicing represented the balance of $6.4m, or 0.4% of the transfers. The ministry attributed the rise in transfers mainly to an increase of $481.7m in reimbursements for the purchase of natural gas, fuel and gas oil, which mostly consist of payments to the Kuwait Petroleum Corporation and to the Algerian energy conglomerate Sonatrach. Reimbursements grew by 38.4% from $1.26bn in 2017, while debt servicing declined by 37% from $10.1m and transfers to Electricity Syria decreased by 79.7% from $62.3m in 2017.

The ministry said that the increase in payments to KPC and Sonatrach was due to a 31% rise in oil prices at the time the oil contracts were executed, and a growth of 5.5% in the quantity of imported fuel oil, as well as to an increase of 4.8% in the quantity of imported gas oil. Also, it pointed out that EdL contributed 0.3% of the repayments to the two oil suppliers in 2018, down from 2% in 2017. Treasury transfers to EdL accounted for 14.4% of budgetary primary expenditures in 2018 compared to 13% in 2017. They constituted the third largest expenditures item, or 9.9%, of overall fiscal spending after public sector salaries & wages and debt servicing. EdL transfers were equivalent to 5.1% of GDP in 2012, 4.3% of GDP in each of 2013 and 2014, 2.3% of GDP in 2015, 1.8% of GDP in 2016, 2.5% of GDP in 2017 and 3.1% of GDP in 2018.

Stock market index down 10% in first half of 2019

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 187,498,273 shares in the first half of 2019, constituting an increase of 3.2 times from 58,522,006 shares traded in the same period last year; while aggregate turnover amounted to $801.7m, up by 88.3% from a turnover of $425.7m in the first half 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 17.8% from the end of June 2018 to $8.58bn, with banking stocks accounting for 83.3% of the total, followed by real estate equities (12.9%), industrial shares (3.4%) and trading firms' equities (0.4%). But market capitalization recovered by 0.7% from end-May 2019. The market liquidity ratio was 9.3% in the covered period compared to 4.1% in the first half of 2018.

Banking stocks accounted for 97.8% of the aggregate trading volume in the first half of 2019, followed by real estate equities with 2.1% and industrial shares with 0.04%. Also, banking stocks accounted for 96.9% of the aggregate value of shares traded, followed by real estate equities with 3% and industrial stocks with 0.1%. The average daily traded volume for the period was 1.6 million shares for an average daily value of $7m. The figures reflect a year-on-year increase of 3.3 times in average volume, and an annual rise of 94.9% in the average value in the first half of the year. In parallel, the Capital Markets Authority's (CMA) Market Value-Weighted Index for stocks traded on the BSE declined by 9.8% in the first half of 2019, while the CMA's Banks Market Value-Weighted Index regressed by 15% in the covered period.

Import activity of top five shippers and freight forwarders down 10% in first four months of 2019

Figures released by the Port of Beirut show that overall import shipping operations by the top five shipping companies and freight forwarders through the port reached 95,433 20-foot equivalent units (TEUs) in the first four months of 2019, constituting a decrease of 10.4% from 106,555 TEUs in the same period of 2018. The five shipping and freight forwarding firms accounted for 77.7% of imports to the Lebanese market and for 49% of the total import freight market in the first four months of 2019. Mediterranean Shipping Company (MSC) handled 36,242 TEUs in imports in the covered period, equivalent to an 18.6% share of the total import freight market. Merit Shipping followed with 19,529 TEUs (10%), then MAERSK with 16,033 TEUs (8.2%), Metz Group with 11,885 TEUs (6.1%), and Tourism & Shipping Transport with 11,744 TEUs (6%). Further, MAERSK registered an annual increase of 168.2% in import shipping in the first four months of 2019, the highest growth rate among the top five shipping and freight forwarding companies, while Metz Group posted a decrease of 21.4%, 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 21,080 TEUs in the first four months of 2019, constituting a decrease of 6.4% from 22,511 TEUs in the same period of 2018. The five shipping companies and freight forwarders accounted for 85.8% of exported Lebanese cargo and for 11% of the total export freight market in the first four months of 2019. Merit Shipping handled 9,385 TEUs of freight in the first four months of 2019, equivalent to 38.2% of the Lebanese cargo export market. MAERSK followed with 4,123 TEUs (16.8%), then Metz group with 2,730 TEUs (11.1%), Sealine Group with 2,444 TEUs (9.9%), and Tourism & Shipping with 2,398 TEUs (9.8%). Further, MAERSK registered an increase of 271.4% in export shipping in the first four months of 2019, the highest growth rate among the top five shipping and freight forwarding companies, while Sealine Group posted a decline of 40.2%, the steepest decrease in the covered period.

Ciments Blancs approves dividends for 2018

The Ordinary General Assembly of Société Libanaise des Ciments Blancs sal (SLCB), which was held on June 24, 2019, approved the distribution of LBP4.05bn, or $2.7m, in dividends to holders of nominal shares for 2018, which is equivalent to LBP450 ($0.3) per share. In comparison, the company distributed LBP740 ($0.49) in dividends per share last year. The dividends will be paid starting on July 16, 2019 net of a 10% withholding tax. The company produces and sells white cement. Ciments Blancs currently has 9 million nominal common shares listed on the Beirut Stock Exchange. The price of Ciments Blancs' nominal shares closed at $2.66 per share on June 28, 2019, up by 4.3% from $2.55 at end-2018.

Société Libanaise des Ciments Blancs sal, an affiliate of Holcim (Liban) sal, declared net profits of $5.8m in 2018, constituting an increase of 30.2% from net earnings of $4.4m in 2017. The company generated total sales of $13.1m last year compared to $13.5m in 2017. Also, the firm's assets totaled $25.4m at the end of 2018, down by 3.5% from $26.3m at end-2017, while its equity reached $20.6m at end-2018, up by 8% from $19m at the end of 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	20.6	(1.2)
Fiscal Expenditures / GDP	29.0	28.8	31.7	2.9
Fiscal Balance / GDP	(9.6)	(7.0)	(11.1)	(4.1)
Primary Balance / GDP	0.04	2.7	(1.1)	-
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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