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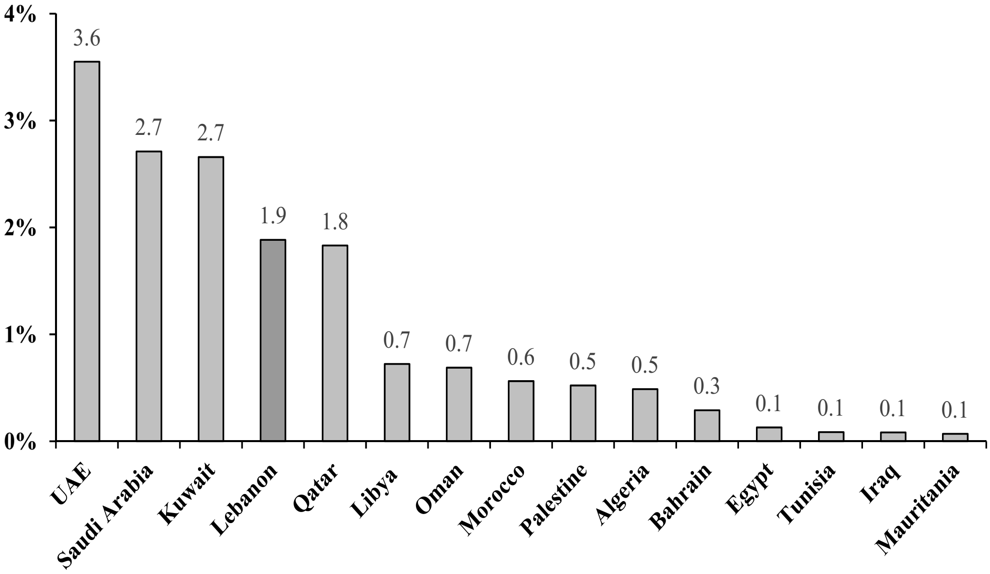
LEBANON THIS WEEK

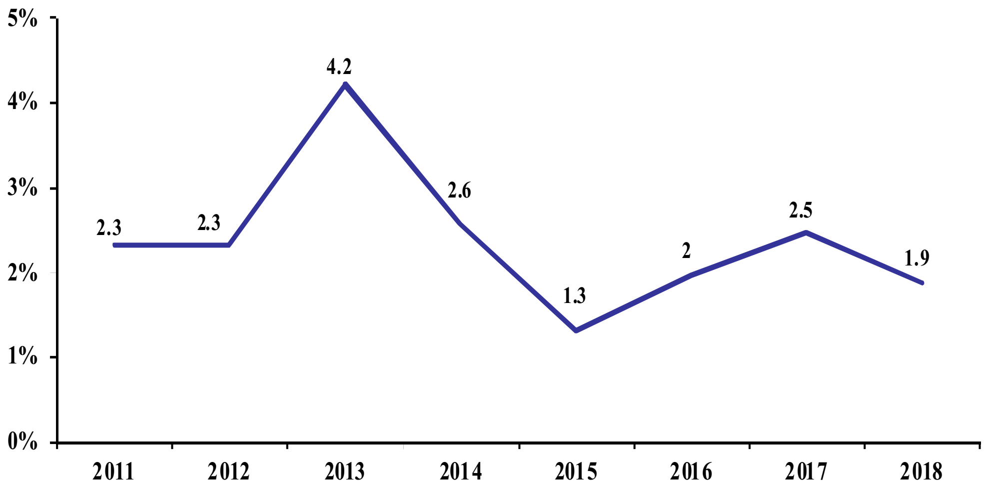
In This Issue

Charts of the Week

Foreign Direct Investment Outflows from Arab Countries in 2018 (% of GDP)



Foreign Direct Investment Outflows from Lebanon (% of GDP)



Source: UNCTAD, Institute of International Finance, International Monetary Fund, Byblos Bank

Quote to Note

"The authorities should improve tax administration, which could deliver meaningful additional revenues, including from those who currently evade taxes."

The International Monetary Fund, on the need to fight tax evasion in Lebanon

Number of the Week

38,000: Approximate number of loan beneficiaries from Banque du Liban's stimulus packages since 2013

Lebanon in the News

$m (unless otherwise mentioned)	2018	Jan-May 2018	Jan-May 2019	% Change*	May-18	Apr-19	May-19
Exports	2,952	1,324	1,446	9.20	254	266	324
Imports	19,980	7,964	8,762	10.02	1,591	1,357	2,456
Trade Balance	(17,028)	(6,640)	(7,316)	10.18	(1,337)	(1,091)	(2,132)
Balance of Payments	(4,823)	430	(5,186)	-	1,204	(1,300)	(1,882)
Checks Cleared in LBP	22,133	8,951	8,732	(2.5)	1,725	1,633	1,623
Checks Cleared in FC	44,429	18,742	14,680	(21.7)	3,841	2,802	2,531
Total Checks Cleared	66,562	27,693	23,412	(15.5)	5,566	4,435	4,154
Fiscal Deficit/Surplus	(6,246)	(2,921)	-	-	(1,008)	-	-
Primary Balance	(636)	(354)	-	-	11	-	-
Airport Passengers**	8,842,442	3,058,157	3,139,690	2.67	598,602	817,121	572,876
Consumer Price Index***	6.1	5.7	3.6	(210bps)	6.5	4.0	3.5

$bn (unless otherwise mentioned)	Dec-17	May-18	Dec-18	Mar-19	Apr-19	May-19	% Change*
BdL FX Reserves	35.81	34.65	32.51	31.09	31.53	29.72	(14.23)
In months of Imports	18.57	21.78	20.72	14.26	23.23	12.10	(44.44)
Public Debt	79.53	82.50	85.14	86.22	85.84	85.37	3.48
Bank Assets	219.86	232.29	249.48	252.75	253.51	253.63	9.19
Bank Deposits (Private Sector)	168.66	172.38	174.28	172.52	172.71	170.85	(0.89)
Bank Loans to Private Sector	59.69	59.45	59.39	57.33	56.97	56.32	(5.27)
Money Supply M2	52.51	53.77	50.96	50.40	49.95	49.23	(8.45)
Money Supply M3	138.62	140.49	141.29	140.20	140.18	139.33	(0.86)
LBP Lending Rate (%)	8.09	8.65	9.97	10.58	10.74	10.75	210bps
LBP Deposit Rate (%)	6.41	6.71	8.30	8.75	8.60	8.72	201bps
USD Lending Rate (%)	7.67	7.87	8.57	9.31	9.34	9.54	167bps
USD Deposit Rate (%)	3.89	4.11	5.15	5.69	5.68	5.79	168bps

**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
Byblos Common	1.20	(3.23)	93,400	8.14%
Solidere "A"	5.94	(4.81)	76,998	7.12%
Audi GDR	3.86	(1.03)	27,243	5.55%
Solidere "B"	6.10	(2.71)	23,172	4.75%
BLOM GDR	7.58	(1.56)	9,767	6.72%
BLOM Listed	7.99	(0.12)	5,000	20.60%
Byblos Pref. 09	68.60	(4.72)	2,503	1.65%
Byblos Pref. 08	69.00	3.29	1,000	1.65%
Audi Listed	3.85	0.00	670	18.45%
HOLCIM	12.96	0.00	-	3.03%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Mar 2020	6.38	97.40	10.59
Apr 2021	8.25	93.80	12.29
Oct 2022	6.10	85.13	11.78
Jun 2025	6.25	79.38	11.10
Nov 2026	6.60	78.13	11.01
Feb 2030	6.65	75.88	10.47
Apr 2031	7.00	76.88	10.46
May 2033	8.20	84.73	10.29
Nov 2035	7.05	75.25	10.19
Mar 2037	7.25	76.25	10.17

Source: Byblos Bank Capital Markets

	Jul 8-12	Jul 1-5	% Change	June 2019	June 2018	% Change
Total shares traded	240,839	166,153	45	1,693,147	5,778,738	(70.7)
Total value traded	$1,205,398	$1,605,803	(24.9)	$7,832,924	$39,079,303	(80.0)
Market capitalization	$8.34bn	$8.42bn	(0.97)	$8.58bn	$10.43bn	(17.8)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Jul 5, 2019	Jul 12, 2019	% Change**
CDS 1-year*	865.09	931.95	7.7
CDS 3-year*	889.23	952.28	6.1
CDS 5-year*	866.37	932.58	7.7

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

CDX EM 30*	Jul 5, 2019	Jul 12, 2019	% Change***
CDS 5-year**	97.36	97.35	(0.01)

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

Tourism revenues in Lebanon up 10.4% to $8.4bn in 2018, equivalent to 15% of GDP

Figures released by Banque du Liban (BdL) show that revenues generated by tourism activity in Lebanon, defined by BdL as "Travel Services", totaled $8.4bn in 2018, constituting an increase of 10.4% from $7.6bn in 2017. Banque du Liban's figures are the only official data on receipts from tourism activity in Lebanon and on tourism spending abroad by Lebanese citizens.

Tourism receipts in 2018 were the highest during the 2002-18 period, exceeding the previous peak of $8bn reached in 2010, and compared to an annual average of $6.45bn between 2002 and 2018. Also, the rise in tourism receipts in Lebanon in 2018 constituted the fifth consecutive annual increase and the highest since 2010, when such receipts grew by 18%. Overall, tourism receipts expanded 11 times on an annual basis and decreased five times between 2002 and 2018.

Tourism receipts in Lebanon expanded at a compound annual growth rate (CAGR) of 4.3% during the 2002-18 period, as they posted a CAGR of 12.6% between 2006 and 2010, a CAGR of -5% during the 2010-14 period, and a CAGR of 6.5% between 2014 and 2018.

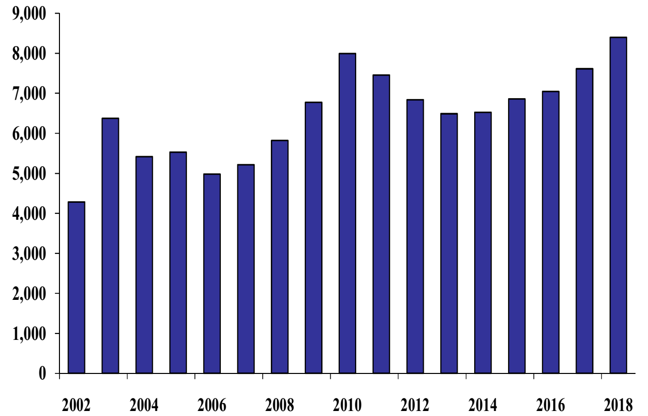
Tourism receipts in Lebanon totaled $1.6bn in the first quarter of 2018 and increased by 6.7% from the same quarter of the previous year, while they reached $2bn in the second quarter and improved by 6.7% from the same quarter of 2017. Also, tourism revenues amounted to $2.6bn in the third quarter of last year and expanded by 7.4% from the same quarter of 2017, while they reached $2.2bn in the fourth quarter and improved by 21.2% from the same quarter of 2017.

Further, tourism revenues in Lebanon was equivalent to 15% of GDP in 2018 compared to 14.3% of GDP in 2017 and 20.8% of GDP in 2010. Aggregate tourism receipts in Lebanon were equivalent to 17.6% of GDP between 2002 and 2018, as they were equivalent to 20.5% of GDP during the 2006-10 period, to 15.2% of GDP between 2011 and 2014, and to 14.2% of GDP during the 2015-18 period.

In parallel, tourism spending abroad by Lebanese citizens amounted to $6.25bn in 2018, up by 12% from $5.6bn in 2017, and posting its highest level during the 2002-18 period. Spending by Lebanese tourists outside Lebanon was equivalent to 11.1% of GDP in 2018, the eighth lowest level on record. Tourism spending outside the country averaged $4.1bn annually between 2002 and 2018, equivalent to 11.2% of aggregate GDP during the covered period.

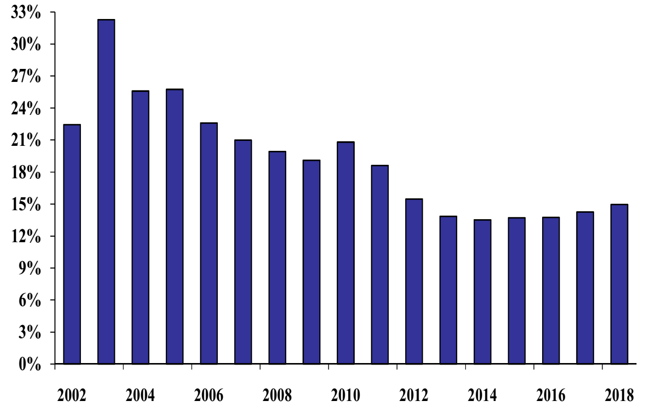
As such, net revenues generated by tourism activity in Lebanon reached $2.15bn in 2018, constituting an increase of 6% from $2bn in 2017, and representing their ninth highest level on record in nominal terms. They were equivalent to 3.8% of GDP in 2018, the third lowest level during the 2002-18 period.

Tourism Receipts in US$m



Source: Banque du Liban, Byblos Research

Tourism Receipts in % of GDP



Source: Banque du Liban, National Accounts, Institute of International Finance, Byblos Research

Lebanon in the News

Lebanese banking sector has low level of potential vulnerability, similar to sectors in the U.S. and Germany

In its semi-annual risk assessment of 116 banking systems in advanced and emerging economies, Fitch Ratings placed Lebanon's banking sector among 98 banking systems with a "low vulnerability to potential systemic stress", the highest category on Fitch's Macro-Prudential Indicator (MPI). The MPI identifies the build-up of potential stress in banking systems due to a specific set of circumstances. It aims to highlight potential systemic stress that could materialize up to three years after an early warning is first detected. As such, it identifies instances of rapid real credit growth over successive two-year periods, along with growth in real property prices, an appreciation in the real exchange rate or a rise in real equity prices. Its assessment is based on three years of annual data, with a trigger in any of the three years determining a country's MPI score. It said that an MPI score of '1' denotes low potential vulnerability, a score of '2' reflects moderate vulnerability, while a score of '2*' denotes moderate vulnerability accompanied by data limitations, and a score of '3' reflects a high level of vulnerability to potential systemic stress.

Fitch has maintained Lebanon's MPI score since October 2013, while it upgraded Lebanon's score to '1' from a previous score of '2'. As such, Lebanon, along with Angola, Bahrain, Cameroon, Cape Verde, Gabon, Ghana, Iraq, Kenya, Kuwait, Lesotho, Malta, Morocco, Mozambique, Namibia, Nigeria, Oman, Qatar, Rwanda, Saudi Arabia, the Seychelles, South Africa, Tunisia, the UAE, Uganda and Zambia have an MPI score of '1' in the Middle East & Africa region. Other countries in this category include Australia, Austria, Denmark, Finland, France, Germany and the United States.

In parallel, the agency indicated that Lebanon's banking sector was among 20 banking systems that have a Banking System Indicator (BSI) of 'b'. The BSI is a measure of a banking system's intrinsic quality or strength, derived from Fitch's Viability Ratings for banks. It deliberately excludes potential support from shareholders or governments since the objective is to highlight systemic weaknesses that might trigger the need for such support. The BSI is an asset-weighted average of the Viability Ratings of at least two-thirds of banks in any banking system, including systemically important unrated banks.

Lebanon came in the 'b' category, along with Egypt and Nigeria in the Middle East & Africa region, as well as Armenia, Azerbaijan, the Dominican Republic, Ecuador, Kazakhstan, Sri Lanka and Vietnam, among others. Fitch said that 62% of banking systems in developed countries have BSIs of 'a' or higher. It added that only four banking sectors in developed economies have a BSI of 'aa' and only one sector has a BSI of 'ccc' or lower. Also, it indicated that the typical level of banking strength in emerging markets is weaker that in developed economies and is distributed evenly across the 'bbb', 'bb' and 'b' categories, with only one banking sector in the 'cc' category. Lebanon is one of 16 countries with an MPI score of '1' and a BSI strength of 'b'.

Goldman Sachs considers Lebanon's Eurobonds to be 'undervalued'

Global investment bank Goldman Sachs indicated that Lebanon's credit spreads have outperformed most peers since June 2019 due to improving risk sentiment and to the announcement that Qatar purchased Lebanese Eurobonds as part the pledge it made in January 2019 to acquire $500m worth of Lebanese Eurobonds. It noted that it is still unclear if Qatar's financial support will serve as an early signal of the materialization of pledges from other Gulf Cooperation Council (GCC) countries, specifically from Saudi Arabia and Kuwait. It considered that the materialization of support from GCC countries would reduce market concerns, improve investor sentiment, and would help narrow Lebanon's spread to the 500 basis point range.

Also, following its valuation of the sovereign credits of 55 emerging market countries, Goldman Sachs indicated that Lebanon's Eurobonds that have a maturity of five years are "undervalued". The bank used a model that estimates which sovereign bonds are 'undervalued', 'fair' or 'expensive' by comparing the difference between the actual spreads and its model-implied spreads.

The difference between the actual spread of 945 basis points (bps) on Lebanon's Eurobonds and the Goldman Sachs' model-implied spread of 495 bps stood at 450 bps. The model-implied valuation metric is based on the current level of investor risk appetite, as well as on the current and expected path of macroeconomic fundamentals in emerging markets. The investment bank's valuations are as of July 10, 2019.

Lebanon's Eurobonds, along with the Eurobonds of Angola, Argentina and Zambia, are the only "undervalued" bonds among 27 'B'-rated sovereigns included in Goldman Sachs' universe as of July 10, 2019. In addition, the investment bank considered as "undervalued" the Eurobonds of Azerbaijan and Oman, which are among 'BB'-rated countries.

Association of banks amends reference rate on US dollar and Lebanese pound lending

The Association of Banks in Lebanon (ABL) recommended to its member banks to increase the Beirut Reference Rate (BRR) in US dollars from 9.72% in June 2019 to 9.81% in July 2019. The rate, considered as the reference rate for lending in foreign currency, replaced the London Interbank Offered Rate (LIBOR) in 2009, as the ABL decided that the LIBOR does not reflect the cost of funding and lending in Lebanon. In addition, the ABL recommended to its member banks to raise the BRR in Lebanese pounds from 13.38% in June 2019 to 13.49% in July 2019. The BRR in US dollars and Lebanese pounds were adopted in March and May 2009, respectively. The ABL considers that the BRR does not replace the Beirut Prime Lending Rate in each currency, but constitutes the basis for calculating the prime rate after adding the cost of liquidity and refinancing, credit risk and the profitability of banks.

Broadband Internet speed in Lebanon is 167th fastest globally, 12th fastest among Arab countries in 2019

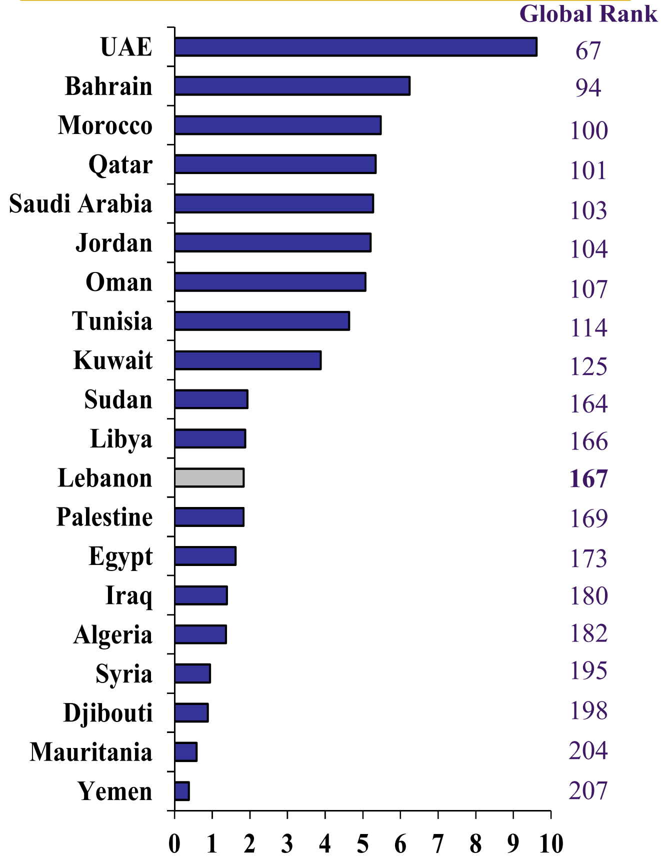
A report published by Cable.co.uk ranked Lebanon in 167th place among 207 countries around the world and in 12th place among 20 countries in the Arab region in terms of broadband Internet speed in 2019. Lebanon also came in 46th place among 54 upper middle-income countries (UMICs) included in the 2019 survey. Based on the same set of countries in the 2018 and 2019 surveys, Lebanon's global rank was unchanged while its regional rank deteriorated by one spot year-on-year. The data for the survey was collected between May 9, 2018 and May 8, 2019 by research group M-Lab, which is led by teams based at the non-profit organization Code for Science and Society, New America's Open Technology Institute, as well as Google and Princeton University's PlanetLab, and was compiled by Cable.co.uk.

Globally, broadband Internet speed in Lebanon is faster than in Côte d'Ivoire, Palestine and the Maldives, while it is slower than in Sudan, Botswana and Libya. Also, broadband Internet speed in Lebanon is faster than only in the Maldives, Cuba, Iraq, Algeria, Venezuela, Gabon, Turkmenistan and Equatorial Guinea among UMICs.

The survey noted that it takes six hours, and nearly 12 minutes to download a 5 gigabyte (GB) high-definition video in Lebanon in 2019. In comparison, it takes one hour and nearly 11 minutes to download a 5GB video in the UAE, the fastest rate among Arab countries, while it takes 28 minutes and 37 seconds to download such a video in Malaysia, the fastest rate among UMICs.

Also, broadband Internet speed in Lebanon is 1.84 megabytes per second (mbps), up from 1.6 mbps in the previous year, but it is significantly below the simple average broadband Internet speed of 11 mbps worldwide, of 6.31 mbps among UMICs and of 3.27 mbps in Arab countries. Further, the country's broadband Internet speed lagged the Gulf Cooperation Council (GCC) countries' average of 5.9 mbps and the non-GCC Arab countries' average of 2.14 mbps.

Broadband Internet Speed in Arab countries in 2019 (megabytes per second)



Source: Cable.co.uk, Byblos Research

Taiwan has the fastest broadband Internet speed among countries included in the survey with a speed of 85.02 mbps, as the time required to download a 5GB video in the country stood at eight minutes and two seconds. In contrast, Yemen has the slowest broadband Internet speed worldwide with an average speed of 0.38 mbps, as it takes 30 hours, one minute and 40 seconds to download a 5GB video in the country.

Industrial exports up 5% to $660m in first quarter 2019

Figures released by the Ministry of Industry show that industrial exports totaled $659.6m in the first quarter of 2019, constituting an increase of 5% from $628.8m in the same quarter of 2018. Industrial exports reached $274.8m in March 2019, increasing by 34.1% from $204.9m in February 2019 and by 15.3% from $238.4m in March 2018.

Exports of machinery & mechanical appliances amounted to $138.1m and accounted for 21% of aggregate industrial exports in the first quarter of 2019, followed by prepared foodstuffs & tobacco with $107.3m (16.3%), chemical products with $104.8m (16%), base metals with $84.7m (13%), pearls or semi-precious stones with $46.3m (7%), and plastics & rubber with $42.1m (6.4%). Arab countries were the destination of 53.1% of Lebanese industrial exports in the first quarter of 2019, followed by European economies with 21.6%, African countries with 10.7%, Asian economies with 9.4%, countries in the Americas with 3.7%, and markets in Oceania with 0.8%.

On a country basis, the UAE was the main destination of Lebanese industrial exports and accounted for 10.1% of the total in the covered quarter, followed by Saudi Arabia and Syria with 7.7% each, Iraq with 7.4%, Qatar with 5.5%, and France with 4.4%. In March 2019, 13 Arab states, 12 European countries, 10 African economies, five 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 $54.8m in the first quarter of 2019, constituting a decline of 22.8% from $71m in the same quarter of 2018. Italy was the main source of such imports and accounted for 22.8% of the total in the first quarter of 2019, followed by China with 18% and Romania with 11.8%. Further, imports of industrial equipment and machinery amounted to $12.5m in March 2019, down by 9.4% from $13.8m in February 2019 and by 55.5% from $28.2m in March 2018. China was the main source of such imports with $2.8m and accounted for 20.5% of the total in the covered month, followed by Italy with $2m(16.3%) and Germany with $1.3m (10.7%).

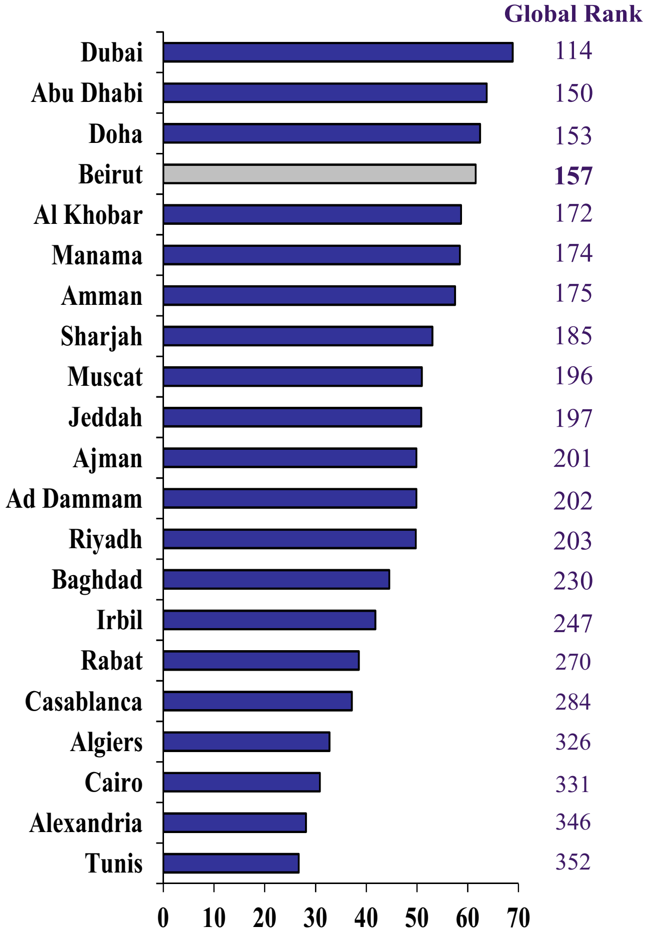
Cost of living in Beirut is 157th highest in the world, fourth highest among Arab cities

The Mid-2019 Cost of Living Index, produced by crowd-sourced global database Numbeo, ranked the cost of living in Beirut as the 157th highest among 377 cities around the world and the fourth highest among 21 Arab cities. Also, the cost of living in Beirut was the highest among 99 cities in upper middle-income countries (UMICs) included in the survey. Based on the same set of cities included in the mid-2018 and mid-2019 surveys, Beirut ranked in 154th place in the mid-2019 survey relative to 157th place a year earlier, reflecting a relative increase in the cost of living. The Cost of Living Index is an indicator of the prices of consumer goods, such as groceries, meals & drinks at restaurants, transportation and utilities. Numbeo benchmarks the Index against New York City. It also issues a Rent Index, which is an estimation of apartment rents in a city compared to New York City rents. Numbeo relies on residents' inputs and uses data from official sources to compute the indices.

According to the Cost of Living Index, consumer goods in Beirut are more expensive than in Cardiff, Sheffield and Southampton in the United Kingdom; while they are less costly than in Limassol, Aachen in Germany, and Winnipeg in Canada. Beirut received a score of 61.57 points, which means that prices in Beirut are 38.4% lower than those in New York City.

In parallel, the Rent Index ranked Beirut in 126th place globally, in sixth place among Arab cities, and in fourth place among cities in UMICs. Globally, renting an apartment in Beirut is more expensive than in Panama City, and in Adelaide and Hobart in Australia; while it is less expensive than in Limassol, Louisville in Kentucky, and Dusseldorf in Germany. Further, Dubai, Doha, Abu Dhabi, Ajman in the UAE, and Manama are the only Arab cities that have more expensive rents than Beirut; while Beijing, Shanghai and Moscow are the only cities among UMICs with more expensive rents. Beirut received a score of 28.47 points on the index, which means that rent in Beirut is 71.5% less expensive than in New York City.

Cost of Living Index for Mid-2019
Scores & Rankings of Arab Cities



Source: Numbeo, Byblos Research

Also, the Groceries Index, which is an estimate of grocery prices in a city compared to New York City, ranked Beirut in 177th place globally, in seventh place among Arab cities and in eighth place among cities in UMICs. Beirut received a score of 45.68 points, which means that groceries in Beirut are 54.3% less expensive than they are in New York City. Globally, groceries in Beirut are more expensive than in Athens, Chengdu in China and Barcelona; while they are cheaper than in Limassol, Madrid, and Amman. In addition, groceries in Beirut are less costly than they are in Dubai, Doha, Abu Dhabi, Al Khobar, Manama, and Amman among Arab cities. Groceries in Beirut are also less costly than only in Bangkok, San Jose in Costa Rica, Shanghai, Amman, as well as in Chiang Mai, Phuket and Pattaya in Thailand among UMICs.

Finally, the Restaurant Index, which compares the prices of meals and drinks at restaurants and pubs relative to New York City, ranked Beirut in 161st place globally, in fourth place among Arab cities and in first place among cities in UMICs. The Lebanese capital received a score of 58.88 points on the index, which means that prices at restaurants and pubs in Beirut are 41.1% less expensive than they are in New York City. Globally, meals and drinks at restaurants and pubs in Beirut are more expensive than in Karlsruhe in Germany, Thessaloniki in Greece and Panama City; while they are cheaper than in Winnipeg, as well as in Barcelona and Madrid. Also, meals and drinks at restaurants and pubs in Beirut are less costly than in Dubai, Abu Dhabi and Doha among Arab cities.

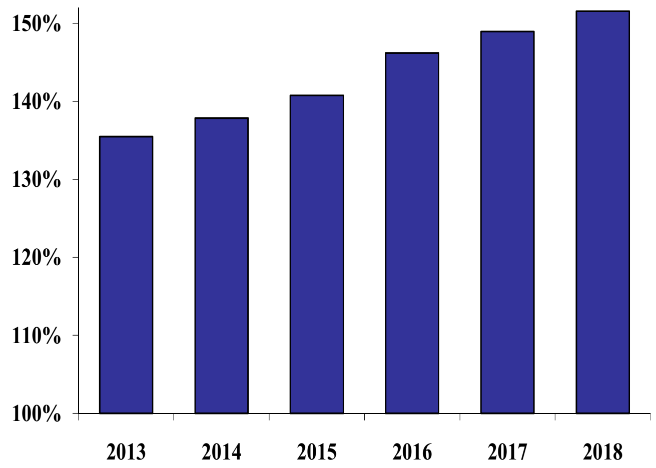
Gross public debt at $85bn at end-May 2019, foreign currency debt down 10% year-on-year

Lebanon's gross public debt reached $85.4bn at the end of May 2019, constituting an increase of 0.3% from $85.1bn at the end of 2018 and a rise of 3.5% from $82.5bn at end-May 2018. In nominal terms, the gross public debt grew by $230.2m in the first five months of 2019 relative to an increase of $3bn in the same period of 2018.

Debt denominated in Lebanese pounds totaled $53.2bn at end-May 2019, up by 3.1% from the end of 2018 and by 13.7% from end-May 2018; while debt denominated in foreign currency stood at $32.1bn, constituting a decrease of 4% from end-2018 and a decline of 9.9% from end-May 2018.

Local currency debt accounted for 62.3% of the gross public debt at the end of May 2019 compared to 56.7% a year earlier, while foreign currency-denominated debt represented the balance of 37.7% relative to 43.3% at end-May 2018. The weighted interest rate on outstanding Treasury bills was 6.33% and the rate on Eurobonds was 6.84% in May 2019. Further, the weighted life on Eurobonds was 7.7 years, while it was 1,627 days on Treasury bills.

Lebanon's Gross Public Debt (% of GDP)



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

Commercial banks held 38.2% of the public debt at end-May 2019 relative to 41.1% of the total at end-May 2018. BdL held 52.6% of the Lebanese pound-denominated public debt at the end of May 2019 compared to 46.3% a year earlier, while commercial banks held 33.4% of the local debt compared to 37.6% at end-May 2018. Also, public agencies, financial institutions and the public held 14% of the local debt at end-May 2019 relative to 16.1% at end-May 2018. Further, holders of Eurobonds and special T-bills in foreign currencies accounted for 93.7% of foreign currency-denominated debt holders at the end of May 2019, followed by multilateral institutions with 4.2% and foreign governments with 2.1%. In addition, the net public debt, which excludes public sector deposits at BdL and at commercial banks from overall debt figures, grew by 6.2% annually to $76.7bn at end-May 2019. Further, the gross market debt accounted for about 58.6% of the public debt. Gross market debt is the total public debt less the portfolios of BdL, the National Social Security Fund, as well as bilateral and multilateral loans.

Fiscal reforms to improve confidence and reduce interest rates

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 indicated that domestic market conditions are acceptable and that concerns about the currency market have receded. He added that demand for foreign currency in the market is within the normal range and that BdL's intervention in the foreign exchange market is limited and is related to meeting demand for commercial purposes. He added that global interest rates are broadly stable and may even decline, which is a positive factor for Lebanon.

In addition, Governor Salamé pointed out that, in its concluding statement of its Article IV Consultation with Lebanon, the International Monetary Fund (IMF) stressed the need to implement the fiscal and structural reforms, which would lead to lower interest rates in the country. He added that the IMF projected a wider fiscal deficit for this year than the government's target deficit in the 2019 draft budget. As such, the governor called on authorities to implement the necessary reforms in order to narrow the deficit and support investor confidence in the Lebanese market.

Further, Governor Salamé encouraged banks to communicate more frequently with international rating agencies, especially about Lebanon's sovereign ratings. He said that rating agencies will take into account in their rating actions any positive developments in Lebanon's public finances and the implementation of reforms, such as the electricity sector reform plan.

In parallel, the ABL informed the governor about its decision to maintain ceilings of 12% on interest rates offered on deposits in Lebanese pounds and of 8% on interest rates on dollar-denominated deposits. But it said that the ceilings exclude interest rates on structured financial products that fall under private banking operations, that amount to $5m or more, that have a maturity of three years or more, and that originate from non-resident sources.

Finally, Governor Salamé encouraged banks to continue to extend mortgages and loans to productive sectors that are subsidized by BdL. He asked banks to be more flexible with clients facing difficulties in repaying their debt. He noted that the deterioration in the asset quality of commercial banks has been limited, with the banking sector's non-performing loans net of provisions ratio reaching 5%, compared to an annual average ratio of 3.75% over the past few years.

Trade deficit widens by 10% to $7bn in first five months of 2019

Total imports reached $8.76bn in the first five months of 2019, constituting an increase of 10% from $8bn in the same period of 2018; while aggregate exports grew by 9.2% year-on-year to $1.45bn in the covered period. As such, the trade deficit widened by 10.2% to $7.3bn in the first five months of 2019 due to a rise of $798m in imports that was partly offset by an increase of $121.7m in exports in the covered period.

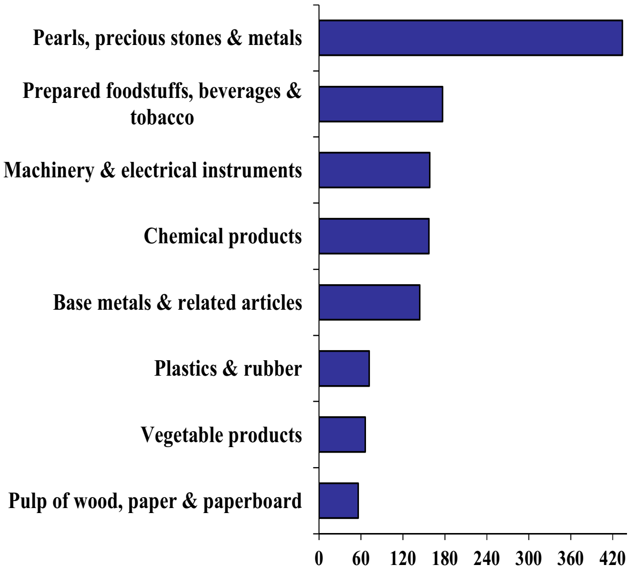
The rise in imports during the first five months of 2019 was mainly due to an increase of $1.7bn, or 2.2 times, in the imports of mineral products, which was partly offset by a drop of $906.3m, or 13.7%, in imported non-hydrocarbon products. Imported oil & mineral fuels reached $3bn and accounted for 35.1% of total imports in the covered period.

Also, the growth in exports in the covered period was mainly due to a rise of $90m, or 26.1%, in the exports of jewelry; a growth of $31.8m, or 281.4%, in exported mineral products; an expansion of $30.4m, or 23.8%, in the exports of machinery & mechanical appliances; and an increase of $7.4m, or 35.4%, in the exports of animal or vegetables fats and oils. They were partly offset by a drop of $39.7m, or 21.6%, in exported base metals; a decline of $5.7m, or 3.1%, in the exports of prepared foodstuff; and a decrease of $2.5m, or 10.6%, in the exports of textiles & textile articles.

Further, exported goods to Switzerland jumped by 115.5% year-on-year in the first five months of 2019, those to Greece expanded by 104.7%, exports to Syria increased by 47%, those to the UAE surged by 22.1%, exports to Saudi Arabia grew by 10.1%, and those to Qatar increased by 6.5%. In contrast, exported goods to South Africa dropped by 48.2%, and those to Jordan declined by 1.5% year-on-year in the covered period. Re-exports totaled $223m in the first five months of 2019 compared to $167.1m in the same period of 2018. The Port of Beirut was the exit point for 41.8% of Lebanon's exports in the first five months of the year, followed by the Hariri International Airport (39.8%), the Port of Tripoli (7.6%), and the Masnaa crossing point (6.8%).

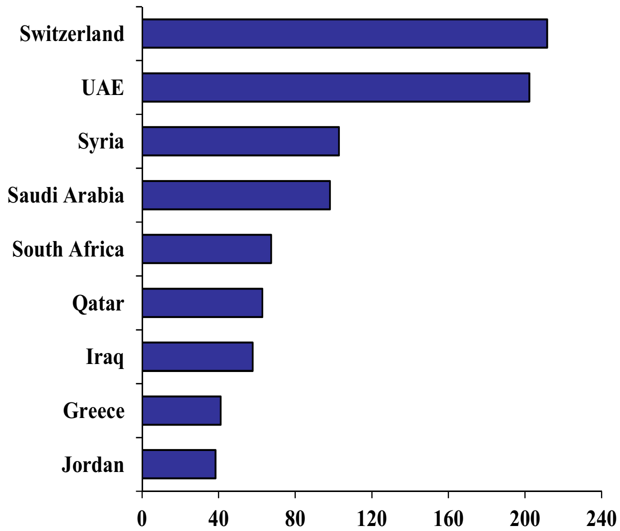
Lebanon's main non-hydrocarbon imports were chemical products that reached $855m in the first five months of 2019 and declined by 9.3% from the same period of 2018. Imported machinery & mechanical appliances followed at $750.3m (-17.3%), then prepared foodstuff at $543m (-3.5%), vehicles, aircraft & vessels at $540.7m (-19.8%), vegetable products at $479.1m (+6.7%), base metals at $391.2m (-25.5%), jewelry, mostly gold bars, at $375.6m (-32.7%), animal products at $366.5m (-8.4%), plastics and rubber at $294m (-2.7%), as well as textiles at $279.7m (-16.3%). The Port of Beirut was the entry point for 75.5% of Lebanon's merchandise imports in the first five months of 2019, followed by the Hariri International Airport (17.1%), and the Port of Tripoli (5.3%).

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



Source: Lebanese Customs Administration, Byblos Research

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



Source: Lebanese Customs Administration, Byblos Research

The U.S. was the main source of imports with $784.4m, or 9% of the total, in the first five months of 2019, followed by China with $737.6m (8.4%), Russia with $650.4m (7.4%), Greece with $592m (6.8%), Italy with $542.2m (6.2%), Germany with $422m (4.8%), France with $398.6m (4.5%), and Kuwait with $372.8m (4.3%). Imported goods from Kuwait surged by 9.4 times, those from Russia expanded by 2.8 times, imports from the U.S. increased by 74.8%, and those from France rose by 32% year-on-year in the first five months of 2019. In contrast, imported goods from Italy dropped by 21.7%, those from China fell by 14.8%, imports from Germany contracted by 14%, and those from Greece declined by 6.1% year-on-year in the covered period.

Lebanon in the News

Occupancy rate at Beirut hotels at 68%, room yields up 28% in first five months of 2019

EY's benchmark survey of the hotel sector in the Middle East indicates that the average occupancy rate at four- and five-star hotels in Beirut was 67.8% in the first five months of 2019 relative to 58.6% in the same period of 2018, and compared to an average rate of 66.8% in 14 Arab markets included in the survey. The occupancy rate at Beirut hotels was the seventh highest in the region in the first five months of the year, while it was the third lowest in the same period of 2018. The occupancy rate at hotels in Beirut rose by 9.2 percentage points year-on-year in the first five months of 2019, constituting the second largest increase among the 14 Arab markets after Makkah (+11.4 percentage points). In comparison, the average occupancy rate in Arab markets grew by 1.2 percentage points year-on-year in the covered period. Occupancy rates at Beirut hotels were 59.8% in January, 70.7% in February, 79% in March, 85.4% in April and 44.8% in May 2019, compared to 49.1% in January, 61.3% in February, 63.5% in March, 68.5% in April and 50.9% in May 2018.

The average rate per room at Beirut hotels was $192 in the first five months of 2019, increasing by 10.6% from $174 in the same period of 2018 and constituting the third highest rate in the region after Dubai ($270) and Jeddah ($222). The average rate per room in Beirut was higher than the regional average of $160.3 that regressed by 3.4% from the first five months of 2018.

Hotel Sector Performance in First Five Months of 2019

	Occupancy Rate (%)	RevPAR (US$)	RevPAR % change
Dubai	78.9	213	(15.0)
Beirut	**67.8**	**130**	**28.0**
Makkah	75.1	124	44.5
Ras Al Khaimah	75.4	120	(11.5)
Jeddah	53.5	119	(11.4)
Kuwait City	60.8	103	(13.3)
Riyadh	63.6	103	(3.6)
Madina	69.5	90	1.2
Abu Dhabi	79.1	88	6.3
Muscat	62.9	85	(7.6)
Manama	52.1	84	0.3
Amman	57.6	79	(8.1)
Cairo City	71.5	79	5.0
Doha	67.5	78	(0.4)

Source: EY, Byblos Research

Further, revenues per available room (RevPAR) were $130 at Beirut hotels in the first five months of 2019 compared to $102 in the same period of 2018, ranking the capital in second place regionally behind Dubai ($213). Beirut's RevPAR grew by 28% year-on-year and posted the second largest increase regionally after Makkah (+44.5%). Beirut posted RevPARs of $118 in January, $132 in February, $146 in March, $174 in April and $83 in May 2019, compared to $87 in January, $105 in February, $110 in March, $120 in April and $89 in May 2018. Abu Dhabi posted the highest occupancy rate in the region at 79.1% in the first five months of the year, while Dubai registered the highest average rate per room at $270 and the highest RevPAR at $213 in the covered period. EY attributed the improved performance of Beirut's hospitality market in the first five months of the year largely to the increase in tourist arrivals amid greater political stability in the country, as well as to Saudi Arabia's lifting of a 15-month old travel warning to Lebanon in mid-February 2019. It added that the government is taking initiatives to promote tourism such as organizing 'Visit Lebanon', an international business-to-business forum that aims to further support the long-term growth of the hospitality sector by promoting leisure tourism and the meetings & incentive (MICE) industry.

Number of new construction permits down 20% in first five months of 2019

The Orders of Engineers & Architects of Beirut and of Tripoli issued 4,897 new construction permits in the first five months of 2019, constituting a decline of 19.6% from 6,094 permits issued in the same period of 2018. In comparison, new construction permits decreased by 11.8% year-on-year in the first five months of 2018. Mount Lebanon accounted for 35.8% of newly-issued construction permits in the covered period, followed by the South with 20.4%, the Nabatieh area and the North with 13% each, the Bekaa region with 9.9%, and Beirut with 6.2%. The remaining 1.7% were permits issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon.

Further, the surface area of granted construction permits reached 3,055,692 square meters (sqm) in the first five months of 2019, constituting a decrease of 30.7% from 4,410,246 sqm in the same period of 2018. In comparison, the surface area of granted construction permits regressed by 16.4% in the first five months of 2018 from the same period of 2017. Mount Lebanon accounted for 1,110,535 sqm, or 36.3% of the total, in the covered period. The South followed with 566,413 sqm (18.5%), then the North with 536,112 sqm (17.5%), the Bekaa region with 289,950 sqm (9.5%), the Nabatieh area with 238,554 sqm (7.8%), and Beirut with 198,339 sqm (6.5%). The remaining 115,789 sqm, or 3.8% of the total, represent the surface area of permits that were issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon.

The surface area of new construction permits issued for Mount Lebanon dropped by 39.4% year-on-year in the first five months of 2019, followed by surface areas in the Nabatieh region (-38.6%), the Bekaa area (-35.6%), the North (-27%), and the South (-12%); while surface areas in regions located outside northern Lebanon decreased by 40.6%. In contrast, the surface area of granted construction permits in Beirut increased by 18.2% year-on-year in the first five months of the year. In parallel, cement deliveries totaled 677,629 tons in the first quarter of 2019, constituting a decline of 35.7% from 1.05 million tons in the same quarter of 2018, and relative to a decrease of 1.3% in the first quarter of 2018.

Fiscal deficit at $72.8m in January 2019, equivalent to 6% of expenditures

Figures released by the Ministry of Finance show that the fiscal deficit reached $72.8m in January 2019 and narrowed by 80.8% from a deficit of $379m in the same month of 2018. The deficit was equivalent to 6% of total budget and Treasury expenditures relative to 23.2% of spending in January 2018. Government expenditures reached $1.22bn in January 2019 and dropped by 25.6% from the same month of 2018, while revenues regressed by 9% to $1.14bn. As such, the narrowing of the deficit reflects an annual drop of $419m in overall expenditures, which was partly offset by a decrease of $112.8m in total revenues in the covered month. The decline in spending is due to a drop of $244m in general expenditures and a decrease of $254.5m in transfers to municipalities, which were partly offset by an increase of $32m in debt servicing in January 2019.

On the revenues side, tax receipts regressed by 1.1% year-on-year to $902.5m in January 2019, of which 33.8%, or $305.4m, were in VAT receipts that decreased by 16.1% annually. Tax receipts accounted for 83.4% of budgetary revenues and for 79% of total Treasury and budgetary receipts in the covered month. The distribution of other tax revenues shows that receipts from taxes on income, profits & capital gains rose by 26% annually to $376.7m in January 2019; revenues from customs regressed by 6.5% to $106.4m; receipts from property taxes decreased by 19.1% to $54.2m; while receipts from stamp fees declined by 8% to $42.9m and revenues from taxes on goods & services dropped by 23.4% to $17m.

The distribution of income tax receipts shows that the tax on interest income accounted for 39.7% of income tax revenues in January 2019, followed by taxes on wages & salaries with 39%, the tax on profits with 15.3% and the capital gains tax with 5%. Receipts from the tax on interest income surged by 2.3 times, revenues from taxes on capital gains increased by 10.6%, and receipts from taxes on wages & salaries grew by 6%, while revenues from taxes on profits dropped by 22.5% year-on-year in the covered month. Also, the distribution of property taxes indicates that revenues from real estate registration fees fell by 42.7% year-on-year to $27m in January 2019, receipts from the built property tax increased by 18.5% to $17.1m, and revenues from the inheritance tax surged by 80.6% to $10.3m.

Further, non-tax budgetary receipts expanded by 2.1 times year-on-year to $179.6m in the covered month. They mainly included $119.6m in revenues generated from government properties that surged by 8.2 times from January 2018, as well as $46.1m in receipts from administrative fees and charges that regressed by 11.2% annually. The rise in revenues from government properties was mainly due to the transfer of $83.2m from the Ministry of Telecommunications compared to no transfers in the same month of 2018. Receipts from telecommunication services accounted for 69.5% of income from government properties and for 46.3% of non-tax budgetary revenues in the covered month.

On the expenditures side, total budgetary spending, which includes general expenditures and debt servicing, declined by 16.1% year-on-year to $1.1bn in January 2019. General spending decreased by 23.4% to $800.2m in the covered month, and included $65.8m in transfers to Electricité du Liban (EdL) that dropped by 26.2% from January 2018, and $311.8m in outlays from previous years that regressed by 18.4% annually, among other general spending items. Also, debt servicing totaled $304.6m in January 2019 and increased by 11.7% from the same month of 2018. Debt servicing accounted for 25% of total expenditures and for 27.6% of budgetary spending, while it absorbed 26.6% of overall revenues and 28.1% of budgetary receipts. Interest payments on Lebanese pound-denominated debt grew by 14.3% year-on-year to $245.5m in January 2019, while debt servicing on foreign currency debt rose by 4.7% to $41.8m. Further, Treasury expenditures, excluding transfers to EdL, declined by 65% year-on-year to $112.1m in the covered month, as transfers to municipalities dropped by 92.7% to $20.1m in January 2019. The primary budget balance posted a surplus of $281.8m in January 2019, or 25.5% of budgetary expenditures, while the overall primary balance registered a surplus of $231.7m, or 19% of spending.

Fiscal Results in January of each Year

	2018 (US$m)	2019 (US$m)	Change (%)
Budget Revenues	998	1,082	8.5%
Tax Revenues	913	903	(1.1%)
Non-Tax Revenues	85	180	111.5%
of which Telecom revenues	-	*83*	-
Budget Expenditures	1,317	1,105	(16.1%)
Budget Surplus/Deficit	(319)	(23)	(92.9%)
In % of budget expenditures	*(24.2%)*	*(2.1%)*	
Budget Primary Surplus	(46)	282	
In % of budget expenditures	*(3.5%)*	*25.5%*	
Treasury Receipts	259	62	(76.1%)
Treasury Expenditures	319	112	(64.9%)
Total Revenues	1,257	1,144	(9%)
Total Expenditures	1,636	1,217	(25.6%)
Total Deficit	(379)	(73)	(80.8%)
In % of total expenditures	*(23.2%)*	*(6%)*	
Total Primary Surplus/Deficit	(106)	232	
In % of total expenditures	*(6.5%)*	*19%*	

Source: Ministry of Finance, Byblos Research

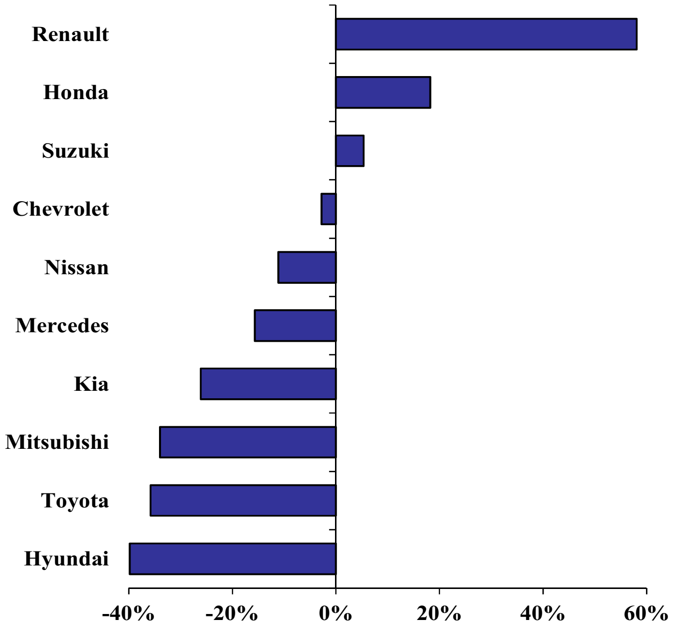
New car sales down 23% in first half of 2019

Figures released by the Association of Automobile Importers (AAI) in Lebanon show that dealers sold 13,176 new passenger cars in the first half of 2019, constituting a decline of 23.4% from 17,208 cars sold in the same period of 2018. Individuals and institutional clients purchased 1,838 new cars in January, 1,906 new vehicles in February, 2,190 new automobiles in March, 2,168 new cars in April, 2,458 new vehicles in May, and 2,616 new automobiles in June 2019.

Japanese cars accounted for 38.8% of total car sales in the first half of 2019, followed by Korean vehicles with a 26.1% share, European automobiles (22.7%), American cars (8.7%) and Chinese vehicles (3.7%). Demand for Korean vehicles dropped by 33.2%, the sales of Japanese cars decreased by 25.4%, demand for new American automobiles declined by 15.1%, and the sales of European vehicles regressed by 11.7% year-on-year in the first half of 2019. In contrast, the number of Chinese cars sold grew by 4.7% year-on-year in the covered period.

Further, Kia is the leading brand in the Lebanese market with 2,037 passenger vehicles sold in the first half of 2019, followed by Nissan with 1,505 new cars sold, Toyota (1,398), Hyundai (1,396) and Renault (922).

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



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

In parallel, Lebanon's top five car distributors sold 8,133 vehicles in the first half of 2019 and accounted for 61.7% of new auto sales. NATCO sal sold 2,037 vehicles in the first half of 2019, equivalent to 15.5% of the total, followed by Rasamny Younis Motor Co. sal with 1,962 automobiles (15%), Boustany United Machineries sal with 1,460 cars (11.1%), Century Motor Co. sal with 1,396 vehicles (10.6%) and Bassoul Heneiné sal with 1,278 cars (9.7%). Unlike in previous months and years, the AAI did not release figures on the sales of commercial vehicles.

Launch of financing facility for energy efficient projects

Banque du Liban (BdL), the European Investment Bank (EIB) and the Agence Française de Développement (AFD) launched the Lebanon Energy Efficiency and Renewable Energy Financing Facility (LEEREFF). The facility aims to support private-sector investments in energy efficiency, renewable energy and green building projects across the country. The facility consists of an €80m credit line, of which €50m is funded by the EIB and €30m is provided by the AFD. Also, BdL will subsidize the interest rates on loans extended through the facility, while loan beneficiaries will receive free technical assistance funded by the European Union.

Small- and medium-sized companies can apply for the credit line through Byblos Bank, as well as through four other local banks. The LEEREFF covers projects between €40,000 and €15m, and can finance up to 80% of eligible projects. The LEEREFF complements the National Energy Efficiency and Renewable Energy Action plan (NEEREA), which is BdL's existing financing mechanism for energy efficiency and renewable energy investments. The LEEREFF aims to contribute to energy savings for businesses, energy conservation, carbon emission reduction, and climate change mitigation. BdL, the EIB and the AFD initially announced the initiative in September 2018, but they signed the partnership agreement with the five banks in July 2019. The Lebanese government aims to reach a renewable energy target of 12% of the projected total electricity and heating demand in Lebanon by 2020.

BLC Bank approves allocations from its 2018 profits

BLC Bank sal announced that its Ordinary General Assembly held on June 12, 2019 approved the allocation from its 2018 net profits of $7.3m to reserves against various banking risks, $4.1m to legal reserve requirements, and $2.4m to provisions covering repossessed real estate collateral. In addition, it allocated $1.7m to cover the June 2003 debt reserves as stipulated by Banque du Liban's Circular 41, and $1.4m to revalued stocks and bonds that were converted to non-distributable income.

The bank also distributed $5.8m in gross dividends for 2018 to the holders of Series 'D' Preferred Shares and Series 'E' Preferred Shares, and allocated $1.05m for the redemption of Series 'C' Preferred Shares. The bank transferred the remainder of the net profits to the retained earnings account.

BLC Bank declared consolidated net profits of $41m in 2018, down by 11.8% from net earnings of $46.5m in 2017. Its aggregate assets reached $5.8bn at the end of 2018, while the bank's loans & advances to customers stood at $1.6bn at end-2018. Further, customer deposits totaled $3.9bn at the end of 2018. BLC Bank's share price closed at $0.93 on July 12, 2019, unchanged from end-2018.

Ratio Highlights

(in % unless specified)	2016	2017	2018	Change*
Nominal GDP ($bn)	51.2	53.4	56.1	
Public Debt in Foreign Currency / GDP	54.9	56.9	59.7	2.82
Public Debt in Local Currency / GDP	91.3	92.0	92.1	0.10
Gross Public Debt / GDP	146.2	149.0	151.9	2.92
Total Gross External Debt / GDP**	182.0	183.1	184.7	0.88
Trade Balance / GDP	(31.5)	(31.3)	(30.4)	1.11
Exports / Imports	15.6	14.5	14.8	0.25
Fiscal Revenues / GDP	19.4	21.8	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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