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LEBANON THIS WEEK

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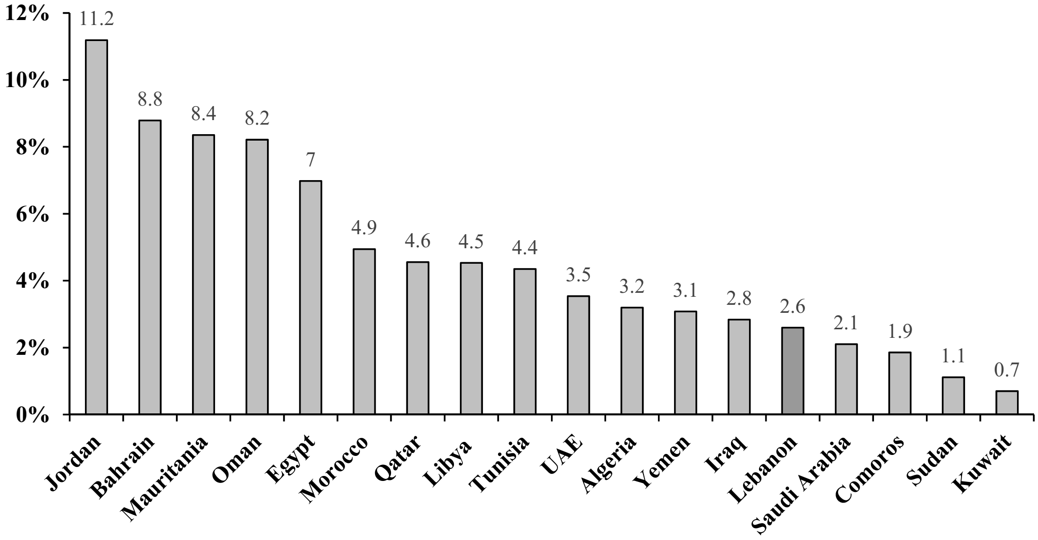
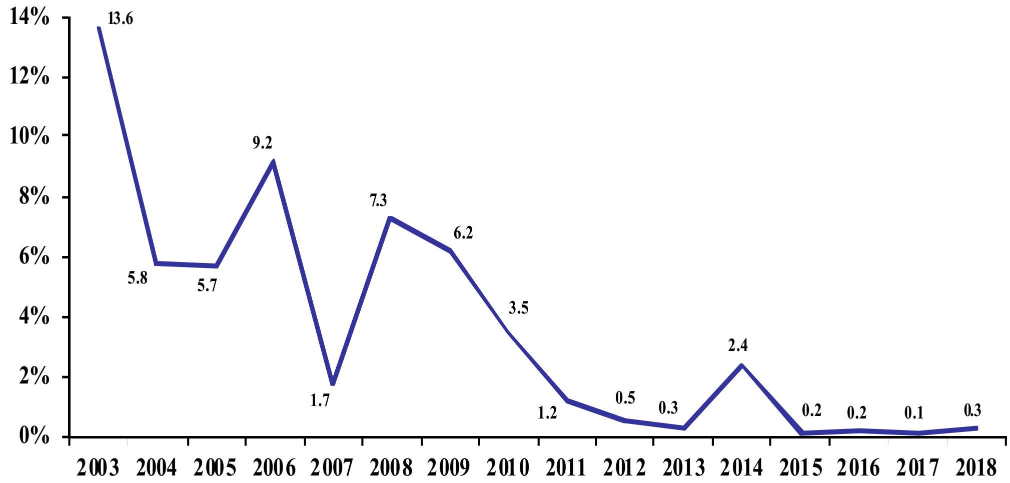
Charts of the Week

Greenfield Foreign Direct Investments in Arab Countries during 2003-18 Period (% of GDP)



Greenfield Foreign Direct Investments in Lebanon (% of GDP)



Source: UNCTAD, International Monetary Fund, Byblos Bank

Quote to Note

"Only a significant improvement of Lebanon's business climate and governance can boost investment, growth and exports."

The International Monetary Fund, on the urgent need for Lebanese authorities to implement structural reforms

Number of the Week

65%: Percentage of members of the Lebanese Parliament who endorsed the 2019 budget

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)	(1,914)	(1,380)	(27.9)	(1,008)	(411)	-
Primary Balance**	(636)	(365)	23	-	11	(7)	-
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 **year-to-date figures reflect results for first four months of each 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"	6.55	10.27	190,973	7.80%
Solidere "B"	6.49	6.39	49,238	5.03%
Byblos Common	1.20	0.00	3,134	8.09%
Audi GDR	3.86	0.00	2,713	5.52%
Byblos Pref. 08	65.00	(5.80)	500	1.55%
HOLCIM	11.50	(11.27)	400	2.67%
Audi Listed	3.86	0.26	350	18.39%
BLOM GDR	7.59	0.13	172	6.68%
BLOM Listed	7.99	0.00	-	20.47%
Byblos Pref. 09	68.60	0.00	-	1.63%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Mar 2020	6.38	97.80	10.04
Apr 2021	8.25	94.26	12.02
Oct 2022	6.10	86.00	11.44
Jun 2025	6.25	80.13	10.91
Nov 2026	6.60	79.00	10.81
Feb 2030	6.65	76.88	10.28
Apr 2031	7.00	77.38	10.37
May 2033	8.20	86.76	9.98
Nov 2035	7.05	76.38	10.02
Mar 2037	7.25	77.13	10.04

Source: Byblos Bank Capital Markets

	Jul 15-19	Jul 8-12	% Change	June 2019	June 2018	% Change
Total shares traded	250,594	240,839	4.1	1,693,147	5,778,738	(70.7)
Total value traded	$1,763,690	$1,205,398	46.3	$7,832,924	$39,079,303	(80.0)
Market capitalization	$8.39bn	$8.34bn	0.64	$8.58bn	$10.43bn	(17.8)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Jul 12, 2019	Jul 19, 2019	% Change**
CDS 1-year*	931.95	920.02	(1.3)
CDS 3-year*	957.28	955.28	(0.2)
CDS 5-year*	932.58	926.51	(0.7)

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

CDX EM 30*	Jul 12, 2019	Jul 19, 2019	% Change***
CDS 5-year**	97.35	97.52	0.02

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

Lebanese Parliament enacts tax-heavy budget for 2019

The Lebanese Parliament enacted on July 19, 2019 the 2019 Budget Law. The Council of Ministers approved on May 27, 2019 the draft budget and submitted it to the Parliament's Finance & Budget Committee for review. The committee finished on July 9, 2019 its budget review and referred its amended version to Parliament's plenary session for debate and ratification. Despite its enactment, the final version of the 2019 budget is not yet available, as the Ministry of Finance still needs to incorporate the latest measures that Parliament voted in order to have the final figures on revenues and expenditures.

Parliament approved new taxes and fees in an attempt to increase public revenues this year, such as raising from 7% to 10% the tax on the interest earned on deposits. The increase also applies to the interest income earned from Lebanese-pound denominated Treasury bills and bonds issued by the Lebanese government, as well as on interest earned on fixed income instruments such as Certificates of Deposits issued by Banque du Liban in Lebanese pounds or in US dollars. It excludes interest earned on Lebanese sovereign Eurobonds. This constitutes the second annual rise in the tax rate, following a previous hike from 5% to 7% that went into effect at the start of 2018. As a result, the tax rate will double from 5% in 2017 to 10% in 2019. Other tax measures consist of adding a new tax bracket for persons and enterprises, excluding corporations and limited partnerships, with a 25% tax rate on the tranche that is above an annual income of LBP225m. Prior to the increase, the tax rate was 20% on the tranche above LBP120m for individuals and 21% on the tranche above LBP104m for enterprises.

In addition, Parliament imposed a 3% duty on all imports that are subject to the value-added tax, except for fuel, raw material and industrial equipment. It also approved the imposition of a new tax on the pension salaries of civil servants and armed and security forces, as well as on the salaries and benefits of current and former presidents, prime ministers, speakers of Parliament, and members of Parliament. It stipulated that the tax rate that will apply to all pension salaries will be 50% of the regular income tax rate and that the first LBP10m of the annual pension salaries are tax deductible. It exempted from the tax the pension salaries that the beneficiaries of martyrs of the armed forces receive, and the pensions of soldiers who suffered combat-related injuries. Prior to the 2019 budget, these remunerations were exempt from the income tax. Parliament also approved the deduction of 1.5% from the retirement salaries of army personnel to the latter's healthcare and social assistance.

Further, Parliament canceled exemptions related to customs duties and excise taxes, including the privilege extended to current members of Parliament to purchase cars that are exempt from tariffs. It also revoked several exemptions on the payment of car registration fees and *mécanique* fees that some persons and parties benefit from. Moreover, it imposed annual fees on cars with special license plate numbers that vary between LBP100,000 and LBP1m per license plate. It also provided incentives for taxpayers to settle their late payments of taxes and fees, including an 85% reduction on penalties, contingent on the taxpayers settling their payments by the end of 2019. Further, it reduced from 3% to 2% the real estate registration fees on the first tranche of the cost of a purchased residential unit up to LBP375m ($250,000), and reduced it from 5% to 3% on the tranche that is above $250,000.

On the expenditures side, Parliament approved to freeze recruitment in the public sector until the government conducts a comprehensive survey about the number of public sector employees and job positions. It also suspended for a period of three years the request to retire for civil servants and most army personnel, except for those who reach retirement age. In addition, it increased the minimum number of years required in service before retirement for army and security personnel, as well as for civil servants. Further, it limited public sector salaries to 12 months per year, as some agencies pay salaries equivalent to 16 months per year. This measure covers employees at telecom services provider Ogero, the Port of Beirut, the Lebanese Petroleum Administration, and La Régie Libanaise Des Tabacs & Tombacs, among many others. It also capped basic public-sector salaries at 20-times the minimum national salary (LBP13.5m per month) and limited all the benefits that civil servants receive to 75% of their annual basic salary. In addition, it prohibited retirees from receiving multiple retirement salaries from various positions in the public sector.

International Support Group encourages government to accelerate reform process

The International Support Group for Lebanon (ISG) stated that it welcomes the Lebanese Parliament’s enactment of the 2019 budget and considered it to be a necessary first step towards reducing the fiscal deficit, as part of Lebanon’s commitments at the CEDRE conference. The ISG consists of China, France, Germany, Italy, Russia, the United Kingdom, the United States, as well as the United Nations, the European Union and the Arab League.

Further, the ISG indicated that it supports the Government’s intention to start preparations for the 2020 budget so that the process concludes within the constitutional deadline. Also, it encouraged Lebanese authorities to adopt additional fiscal, structural and sectoral reforms as soon as possible, in light of the economic challenges facing the country. It urged the Lebanese government to establish an independent regulatory authority for the electricity sector, as part of the sector's reform plan, as well as to implement other good governance mechanisms to improve the sector’s efficiency, transparency and accountability.

In parallel, it called for the implementation of anti-corruption and transparency measures, in line with Lebanon’s commitments at the CEDRE conference. It stressed that these reforms and measures can improve governance and create a favorable business climate, which would encourage investments in vital infrastructure and services, and send positive signals to the domestic and international markets about the country’s commitment to achieving sustainable economic stability and growth.

The United Nations launched the ISG in September 2013 to help mobilize support and assistance for Lebanon’s stability, sovereignty and state institutions. It aims to specifically encourage assistance for the Lebanese Army, Syrian refugees in Lebanon and host communities, as well as government programs and public services impacted by the Syrian crisis.

Main U.S. exports to Lebanon include minerals, vehicles and chemical products

The United States Department of Commerce's 2019 Country Commercial Guide (CCG) for Lebanon indicated that Lebanon has many investment strengths that have encouraged foreign companies to set up offices in the country. It said that Lebanon's key advantages include a free-market economy, the absence of controls on the movement of capital and foreign exchange, a well-developed, well-managed, well-capitalized and regulated banking sector linked to the international financial system, as well as a stable exchange rate and minimal restrictions on investors. It added that payments for business transactions are often made in US dollars, and that nearly all Lebanese banks have American correspondent banking relationships that facilitate financial transactions between U.S. exporters and Lebanese importers. But it noted that some issues continue to cause frustration among local and foreign businesses. It pointed out that impediments include bureaucratic over-regulation and institutionalized corruption, arbitrary licensing decisions, complex customs procedures, outdated legislation, an ineffectual judicial system, high taxes and fees, elevated telecommunication charges and slow Internet speed, poor electricity provision, inconsistent interpretation of laws, as well as the weak enforcement of intellectual property rights. It expected the business climate to remain sensitive to domestic and regional political and security developments. It noted that the spillovers from the Syrian conflict have strained the already weak public infrastructure and poor public service delivery, and have constrained exports to Arab countries through Syria.

The CCG said that the U.S. exported $1.44bn worth of goods to Lebanon in 2018, which accounted for 7.2% of total Lebanese imports, compared to U.S. exports of $1.44bn or 7.4% of Lebanese imports in 2017. It noted that the U.S. was the fourth largest source of imports to Lebanon in 2018, behind China, Greece and Italy. It added that major U.S. exports to Lebanon in 2018 were mineral fuel & oil ($445m), vehicles ($343m), chemical products ($202m), machinery & electrical instruments ($130m), vegetable products ($70m), as well as prepared foodstuff, beverages & tobacco ($58m). Further, it indicated that leading Lebanese sectors for U.S. exports and investments are the automotive market, the pharmaceuticals sector, medical equipment, the apparel sector, and the agricultural sector.

The CCG indicated that U.S. automotive exports to Lebanon amounted to $343m in 2018, down by 5.2% from $362m in 2017. It noted that the size of the auto market in Lebanon decreased by 12% to $1.6bn in 2018, and that the U.S. share of the local market stood at 20% last year. It added that demand for U.S. sport utility vehicles in Lebanon has been growing due to their ability to withstand the country's poor road conditions and to their competitive prices, while demand for U.S. automotive products such as brakes, clutches, engine lubricants and safety accessories is increasing because of their quality advantage over foreign competitors. It projected U.S. automotive exports to Lebanon at $222m in each of 2019 and 2020. In parallel, it said that U.S. agricultural exports to Lebanon totaled $141m in 2018 and accounted for 4% of Lebanon's agricultural imports.

Further, the CCG said that U.S. pharmaceutical exports to Lebanon increased from $143m in 2017 to $151m in 2018 and accounted for 11.4% of the country's total pharmaceutical imports. It added that U.S. pharmaceutical products have an advantage over their European and Asian counterparts in the biotechnology, high-tech, anti-cancer and cardiovascular fields. It indicated that Lebanon is the leading market for imported pharmaceutical drugs in the Levant, while the size of the Lebanese pharmaceuticals market is estimated at over $1.3bn, and has the potential to grow more than 5% annually. However, the U.S. Department of Commerce noted that the sector faces several challenges, such as the high production cost of pharmaceuticals, the presence of counterfeit products, as well as a weak regulatory framework governing pharmaceuticals. It projected U.S. pharmaceutical exports to Lebanon at $144m in each of 2019 and 2020.

In addition, the CCG indicated that the exports of U.S. medical equipment to Lebanon declined from $74m in 2017 to $73m in 2018 and accounted for 20% of the country's total imports of medical equipment last year. It forecast such exports at $84m in each of 2019 and 2020. It considered that the sustained demand for U.S. medical equipment reflects their high quality and competitive value. In parallel, it said that U.S. apparel exports to Lebanon dropped from $11m in 2017 to $7.3m in 2018 and accounted for 1.4% of the country's total apparel imports last year. It projected such exports at $7.8m in 2019 and 2020.

Revenues through Port of Beirut at $92m in first five months of 2019

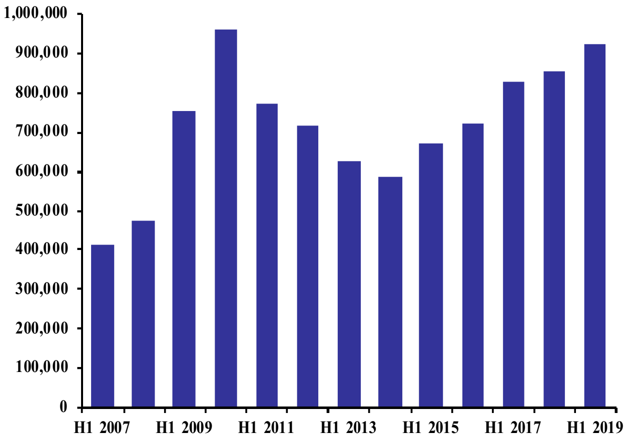
Figures released by the Port of Beirut show that the port's overall revenues reached $91.6m in the first five months of 2019, constituting a decline of 12% from $104.2m in the same period of 2018. The Port of Beirut handled 2.9 million tons of freight in the covered period, down by 13.7% from 3.3 million tons in the first five months of 2018. Imported freight amounted to 2.5 million tons in the first five months of 2019 and accounted for 88.5% of the total, while the remaining 331,000 tons, or 11.5%, consisted of export cargo. A total of 715 vessels docked at the port in the first five months of 2019, down by 5.8% from 759 ships in the same period of 2018.

In parallel, revenues generated through the Port of Tripoli reached $7.1m in the first five months of 2019, and increased by 5.1% from $6.7m in the same period of 2018. The Port of Tripoli handled 954,510 tons of freight in the covered period, constituting a growth of 38% from 692,161 tons in the first five months of 2018. Imported freight amounted to 701,362 tons and accounted for 73.5% of the total, while the remaining 253,148 tons, or 26.5%, were export cargo. A total of 265 vessels docked at the port in the first five months of 2019, up by 2.3% from 259 ships in the first five months of 2018.

Tourist arrivals up 8% in first half of 2019

The number of incoming visitors to Lebanon totaled 923,820 in the first half of 2019, constituting an increase of 8.3% from 853,087 tourists in the same period of 2018 and a decline of 4.2% from 964,067 visitors in the first half of 2010, the record year for tourist arrivals in Lebanon. Also, the number of incoming visitors reached 231,116 in June 2019, increasing by 74% from 132,915 in May 2019 and by 17.5% from 196,643 in June 2018. Tourist arrivals in June 2019 were the second highest on record during that month, compared to a peak of 231,212 in June 2010. The figures exclude Lebanese, Syrian and Palestinian arrivals. Visitors from European countries accounted for 35.8% of the total in the first half of 2019, followed by those from Arab countries with 32.2%, the Americas with 17.7%, Asia with 7.5%, Oceania with 3.6%, and Africa with 3.2%. Further, tourists from Iraq accounted for 11% of total visitors in the first half of 2019, followed by visitors from the United States (9.4%), France (9%), Canada (5.6%), Egypt (5.4%), Germany and Saudi Arabia (4.8% each), Jordan (4.7%), the United Kingdom (3.7%), Kuwait (2.5%), Sweden (2.2%), Turkey (2.1%), Italy (2%), Brazil (1.4%), Venezuela (0.5%), and the UAE (0.1%).

Number of Tourist Arrivals to Lebanon



Source: Ministry of Tourism, Central Administration of Statistics, Byblos Research

In parallel, the number of visitors from Arab countries increased by 21.4% in the first half of 2019 from the same period last year, followed by those from Europe (+10.3%), Asia (+6.4%), and the Americas (+5.5%); while the number of visitors from Africa contracted by 44.1% year-on-year, and those from Oceania regressed by 5.1%. On a country basis, the number of tourists from Saudi Arabia grew by 91% in the covered period, followed by visitors from Kuwait (+44.6%), the UAE (+28.4%), Turkey (+22.5%), Egypt (+20%), Brazil (+17.2%), Italy (+11.8%), Germany (+8.6%), Jordan and the United Kingdom (+7.6% each), France (+7.4%), Sweden (+6.2%), the United States (+5.1%), Iraq (+4.2%), and Canada (+3.4%). In contrast, the number of visitors from Venezuela declined by 6.5% year-on-year in the first half of 2019.

Value of cleared checks down 16%, returned checks down 6% in first half of 2019

The value of cleared checks reached $27.5bn in the first half of 2019, constituting a decline of 16.3% from $32.8bn in the same period of 2018. In comparison, the value of cleared checks decreased by 2.5% in the first half of 2018 from the same period of 2017. The value of cleared checks in Lebanese pounds regressed by 3% year-on-year to the equivalent of $10.3bn in the first half of 2019, while the value of cleared checks in US dollars declined by 22.6% to $17.2bn in the covered period. The dollarization rate of cleared checks regressed from 67.6% in the first half of 2018 to 62.5% in the same period of 2019. There were 5.06 million cleared checks in the first half of 2019, down by 13.8% from 5.88 million in the first half of 2018.

In parallel, the amount of returned checks in domestic and foreign currencies was $701.2m in the first half of 2019 compared to $749m in the same period of 2018 and to $709m in the first half of 2017. This constituted a year-on-year decrease of 6.4% in the first half of 2019 relative to a rise of 5.6% in the first half of 2018 from the same period of 2017. Also, there were 130,659 returned checks in the first half of 2019, up by 0.5% from 130,046 returned checks in the same period of 2018.

Coincident Indicator down 3.5% in first five months of 2019

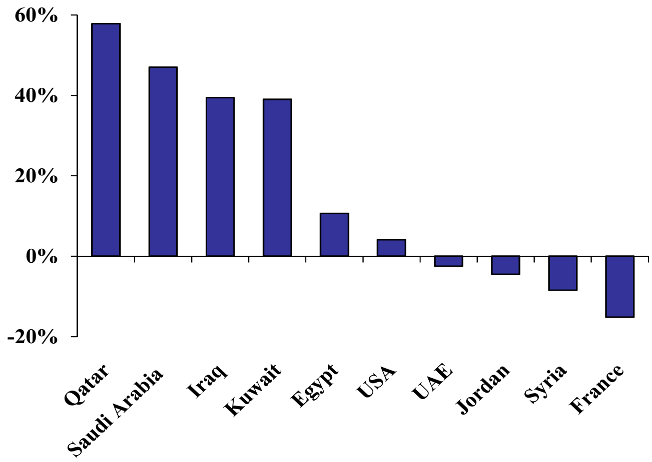
Banque du Liban's Coincident Indicator, an index of economic activity in Lebanon, reached 297.4 points in May 2019 compared to 316.1 in April 2019 and 303.1 in May 2018. The Coincident Indicator, an average of eight weighted economic indicators, decreased by 5.9% month-on-month and by 1.9% year-on-year in May 2019. The indicator averaged 297.4 in the first five months of 2019, down by 3.5% from an average of 314.5 in the same period of 2018. Also, the indicator averaged 303.1 in the 12 months ending May 2019, compared to an average of 303.6 in the 12-month period ending April 2019 and to an average of 309 in the 12 months ending May 2018. As a result, the 12-month average coincident indicator was nearly unchanged month-on-month, while it regressed by 1.9% year-on-year. In parallel, the indicator regressed 18 times and improved nine times on a monthly basis in the month of May since 1993. It averaged 249.5 points in 2010, 255.7 points in 2011, 256.6 points in 2012, 264.7 points in 2013, 273.2 points in 2014, 278.6 points in 2015, 289.5 points in 2016, 305.9 points in 2017 and 307.7 points in 2018.

Tourist spending up 12% in first half of 2019, number of refunds up 7%

Figures issued by Global Blue, the value-added tax (VAT) refund operator for international shoppers, show that spending by visitors in Lebanon increased by 11.5% in the first half of 2019 compared to a growth of 5% in the same period of 2018. Spending by tourists in Lebanon rose by 12.2% year-on-year in the first quarter and by 10.7% in the second quarter of 2019. Also, tourist spending increased by 14.6% year-on-year in January, by 16.3% in February, by 5.5% in March, by 15.1% in April, and by 24.3% in June 2019, while it regressed by 7.7% in May of this year. The figures cover purchases on which visitors claimed VAT refund.

Visitors from Saudi Arabia accounted for 15% of total tourist expenditures in the first half of 2019, followed by visitors from the UAE with 10%, Kuwait, Qatar and Syria with 8% each; Egypt with 6%; France, Jordan and the United States with 4% each; and Iraq with 3%; while visitors from other countries accounted for the remaining 30%. Spending by visitors from Qatar grew by 57.8% year-on-year in the covered period, followed by expenditures by tourists from Saudi Arabia (+47%), Iraq (+39.4%), Kuwait (+39%), Egypt (+10.6%), and the United States (+4.1%). In contrast, spending by visitors from France decreased by 15.1% in the first half of 2019, followed by spending by tourists from Syria (-8.5%), Jordan (-4.5%) and the UAE (-2.5%).

Total Spending by Source in First Half of 2019
(% change from the same period of 2018)



Source: Global Blue, Byblos Research

Further, Beirut attracted 83% of aggregate expenditures in the covered period, followed by the Metn area with 12%, and the Baabda district and the Keserwan region with 2% each. In parallel, fashion & clothing accounted for 66% of total expenditures in the first half of 2019, followed by watches & jewelry with 20%, outlays on home & garden products with 4%, and spending at department stores with 3%, while other categories accounted for the remaining 7%. Expenditures on watches & jewelry grew by 17.1% in the first half of the year, disbursements on fashion & clothing increased by 12.3%, spending at department stores rose by 1.9% and outlays on home & garden products grew by 1.5% year-on-year.

Also, the total number of refund transactions by visitors increased by 6.7% in the first half of 2019 relative to a growth of 5% in the same period of 2018. The number of refund transactions increased by 7.5% year-on-year in January, by 4.4% in February, by 4.2% in March, by 10.2% in April, and by 21.4% in June 2019, while it regressed by 8.5% in May of this year. Visitors from Saudi Arabia accounted for 15% of total refund transactions in the first half of 2019, followed by those from Syria (11%), Egypt and the UAE (10% each), Kuwait (7%), Qatar (5%), Jordan (4%), and France, Iraq and the United States (3% each), while other countries accounted for the remaining 29%.

In parallel, spending by visitors from Saudi Arabia surged by 49.3% in the second quarter of 2019, followed by spending by tourists from Iraq (+35.7%), Qatar (+32.4%), Egypt (+19.6%), Kuwait (+11.4%) and France (+1%). In contrast, spending by visitors from Jordan dropped by 18.6% in the second quarter of 2019, followed by spending by tourists from the UAE (-4.9%), Syria (-4.3%), and the United States (-1.7%).

The Netherlands provides €0.6m for solar power plant feasibility study

The Lebanese Center for Energy Conservation (LCEC) indicated that the Netherlands Enterprise Agency's Develop to Build (D2B) facility approved a €600,000 grant to develop a feasibility study for the development of a concentrated solar power plant in Lebanon. The D2B program provides funding to emerging market governments for the development phase of infrastructure projects. The Netherlands Enterprise Agency initiated the feasibility study in partnership with the LCEC on July 2, 2019. The study will pave the way for the development of a 100 megawatt concentrated solar power plant in Lebanon by 2025.

Established in 2014, the Netherlands Enterprise Agency, a government agency that operates under the Netherland's Ministry of Economic Affairs & Climate Policy, aims to provide entrepreneurs with services that encourage sustainable and innovative businesses. Specifically, it provides grants and expertise, as well as helps entrepreneurs find business partners and comply with laws & regulations.

Utilized credits by private sector at $68bn at end-March 2019, advances against real estate account for 39% of total

Figures issued by Banque du Liban show that utilized credits by the private sector totaled $67.6bn at the end of March 2019, constituting a decline of 2.8% from $69.5bn at end-2018 and a decrease of 1.4% from $68.6bn at end-March 2018. The figures cover loans extended by commercial banks and financial institutions.

Utilized credits for trade & services totaled $22.9bn and accounted for 34% of the total at the end of March 2019, followed by personal credit with $20.7bn (30.6%), construction with $10.7bn (15.8%), industry with $7.3bn (10.9%), financial intermediaries with $3bn (4.5%), and agriculture with $831.5m (1.2%), while other sectors represented the remaining $2bn (3%). The distribution of credits by type shows that advances against real estate totaled $26.5bn and accounted for 39.3% of private sector utilized credits at the end of March 2019. Overdrafts followed with $18.2bn (27%), then advances against personal guarantees with $11.6bn (17.2%), advances against cash collateral or bank guarantees with $8.1bn (11.9%), advances against other real guarantees with $1.9bn (2.8%), and advances against financial values with $1.2bn (1.8%).

Also, the distribution of utilized credits in trade & services shows that wholesale trade accounted for 50.7% of overall trade & services credits, followed by retail with 17.1%; real estate, rent & employment services with 14%; transport & storage with 7%; hotels & restaurants with 7%; and educational services with 4.4%. Personal loans accounted for 85.2% of the number of loan beneficiaries, followed by trade & services with 10% of beneficiaries, industry with 2.5%, construction with 1.5%, agriculture with 1.2% and financial intermediaries with 0.5%, while other sectors attracted the remaining 3.5% of loan beneficiaries.

The aggregate number of loan beneficiaries rose by 0.8% from end-March 2018 but declined by a marginal 0.2% from end-2018 to 625,727 at the end of March 2019; while 67% of beneficiaries had loans ranging from LBP5m to LBP100m at the end of March 2019. Beirut and its suburbs accounted for 74.3% of bank credits and for 53.3% of beneficiaries. Mount Lebanon followed with 13.2% of credits and 18.3% of beneficiaries, then South Lebanon with 4.6% of credits and 10.2% of beneficiaries, North Lebanon with 4.6% of credits and 11% of beneficiaries, and the Bekaa region with 3.3% of credits and 7.3% of beneficiaries.

In parallel, the off-balance sheet liabilities of banks and financial institutions totaled $111.7bn at the end of March 2019, declining by 1.1% from end-2018 and by 0.9% from the end of March 2018. They include endorsement & guarantees of $103.6bn, or 92.8% of the total, followed by letters of undertaking with $2.95bn (2.6%), and commitments on notes with $2.3bn (2.1%).

Commercial activity deteriorates year-on-year in first quarter of 2019

Banque du Liban's quarterly business survey about the opinions of business managers shows that the balance of opinions for the volume of commercial sales reached -39 in the first quarter of 2019, unchanged from the fourth quarter of 2018 and relative to -36 in the first quarter of 2018. The business survey reflects the opinions of enterprise managers about their business activity in order to depict the evolution of a number of key economic variables. The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in an indicator and the proportion of those who reported a decline in the same indicator. The balance of opinions was the lowest in the Bekaa region at -63, followed by the South (-59), Beirut & Mount Lebanon (-32), and the North (-23).

The survey shows that the balance of opinions about the sales of food items was -14 in the first quarter of 2019 relative to -19 in the preceding quarter and to -15 in the first quarter of 2018. Also, the balance of opinions about the sales of non-food products was -47 in the covered quarter, compared to -45 in the previous quarter, and relative to -48 in the first quarter of 2018; while it was -52 for inter-industrial goods relative to -51 in the fourth quarter of 2018 and to -38 in the same quarter of 2018. Further, the balance of opinions for inventory levels in all commercial sub-sectors was -10 in the first quarter of 2019, compared to -3 in the previous quarter and to zero in the first quarter of 2018. Opinions about the level of inventories were the lowest in the North as they reached -20, followed by the South and the Bekaa region (-14 each), and Beirut & Mount Lebanon (-4).

Commercial Activity: Year-on-Year Evolution of Opinions

Aggregate results	**Q1-16**	**Q1-17**	**Q1-18**	**Q1-19**
Sales volume	-24	-12	-36	-39
Number of employees	-1	-8	-8	-11
Inventories of finished goods	0	-10	0	-10
Q1-19 Regional results	**Beirut / Mount Lebanon**	**North**	**South**	**Bekaa**
Sales volume	-32	-23	-59	-63
Inventories of finished goods	-4	-20	-14	-14

Source: Banque du Liban business survey for first quarter of 2019

Fiscal deficit at $1.4bn in first four months of 2019, equivalent to 28.5% of expenditures

Figures released by the Ministry of Finance show that the fiscal deficit reached $1.38bn in the first four months of 2019 and narrowed by 28% from a deficit of $1.91bn in the same period of 2018. The deficit was equivalent to 28.5% of total budget and Treasury expenditures relative to 33.4% of spending in the same period of 2018. Government expenditures reached $4.84bn in the first four months of 2019 and declined by 15.4% from the same period of 2018, while revenues regressed by 9.2% to $3.46bn. As such, the narrowing of the deficit reflects an annual drop of $884.4m in overall expenditures, which was partly offset by a decrease of $350.8m in total revenues in the covered period. The decline in spending is due to a drop of $465.6m in general expenditures, a decrease of $298.2m in transfers to municipalities, and a decline of $145.6m in debt servicing in the first four months of 2019.

On the revenues side, tax receipts regressed by 3.3% year-on-year to $2.73bn in the first four months of 2019, of which 29.4%, or $800.6m, were in VAT receipts that decreased by 17% annually. Tax receipts accounted for 82.7% of budgetary revenues and for 78.8% of total Treasury and budgetary receipts in the covered period. The distribution of other tax revenues shows that receipts from taxes on income, profits & capital gains rose by 22% annually to $1.03bn in the first four months of 2019; revenues from customs regressed by 6.3% to $407.1m; receipts from property taxes declined by 18% to $244.7m; while receipts from stamp fees decreased by 3.7% to $140.2m, and revenues from taxes on goods & services dropped by 21.8% to $102m.

The distribution of income tax receipts shows that the tax on interest income accounted for 50.8% of income tax revenues in the first four months of 2019, followed by taxes on wages & salaries with 28.3%, the tax on profits with 14.1% and the capital gains tax with 5.6%. Receipts from the tax on interest income surged by 56.1%, revenues from taxes on capital gains increased by 21.5%, and receipts from taxes on wages & salaries grew by 1.4%, while revenues from taxes on profits regressed by 8.5% year-on-year in the covered period. Also, the distribution of property taxes indicates that revenues from real estate registration fees fell by 25.1% year-on-year to $120.4m and receipts from the built property tax decreased by 13.7% to $97.7m in the first four months of 2019, while revenues from the inheritance tax grew by 9% to $26.5m.

Further, non-tax budgetary receipts declined by 10.8% year-on-year to $569.1m in the covered period. They mainly included $330.5m in revenues generated from government properties that regressed by 4.5% year-on-year, as well as $181.7m in receipts from administrative fees and charges that declined by 19.1% annually. Receipts from telecommunication services fell by 14.1% to $216.3m, and accounted for 65.4% of income from government properties and for 38% of non-tax budgetary revenues.

On the expenditures side, total budgetary spending, which includes general expenditures and debt servicing, declined by 12% year-on-year to $4.54bn in the first four months of 2019. General spending decreased by 13% to $3.14bn in the covered period, and included $506.7m in transfers to Electricité du Liban (EdL) that regressed by 3% year-on-year, and $818.5m in outlays from previous years that dropped by 18.4% annually, among other general spending items. Also, debt servicing totaled $1.4bn in the first four months of 2019 and declined by 9.4% from the same period of 2018. Debt servicing accounted for 29% of total expenditures and for 31% of budgetary spending, while it absorbed 40.5% of overall revenues and 42.6% of budgetary receipts. Interest payments on Lebanese pound-denominated debt decreased by 13.6% year-on-year to $941.3m in the first four months of 2019, while debt servicing on foreign currency debt grew by 1% to $422.5m. Further, Treasury expenditures, excluding transfers to EdL, declined by 47.8% year-on-year to $298.4m in the covered period, as transfers to municipalities dropped by 81% to $70.6m in the first four months of 2019. The primary budget balance posted a surplus of $155.2m in the first four months of 2019, or 3.4% of budgetary expenditures, while the overall primary balance registered a surplus of $22.8m, or 0.5% of spending.

Fiscal Results in First Four Months of each Year

	2018 (US$m)	2019 (US$m)	Change (%)
Budget Revenues	3,457	3,295	(4.7%)
Tax Revenues	2,819	2,726	(3.3%)
Non-Tax Revenues	638	569	(10.8%)
of which Telecom revenues	*252*	*216*	*(14.1%)*
Budget Expenditures	5,154	4,542	(11.9%)
Budget Surplus/Deficit	**(1,697)**	**(1,247)**	**(26.5%)**
In % of budget expenditures	*-32.9%*	*-27.5%*	
Budget Primary Surplus	**(148)**	**155**	
In % of budget expenditures	*-2.9%*	*3.4%*	
Treasury Receipts	355	166	(53.2%)
Treasury Expenditures	572	298	(47.8%)
Total Revenues	3,812	3,461	(9.2%)
Total Expenditures	5,725	4,841	(15.4%)
Total Deficit	**(1,914)**	**(1,380)**	**(27.9%)**
In % of total expenditures	*-33.4%*	*-28.5%*	
Total Primary Surplus/Deficit	**(365.2)**	**22.8**	
In % of total expenditures	*-6.4%*	*0.5%*	

Source: Ministry of Finance, Byblos Research

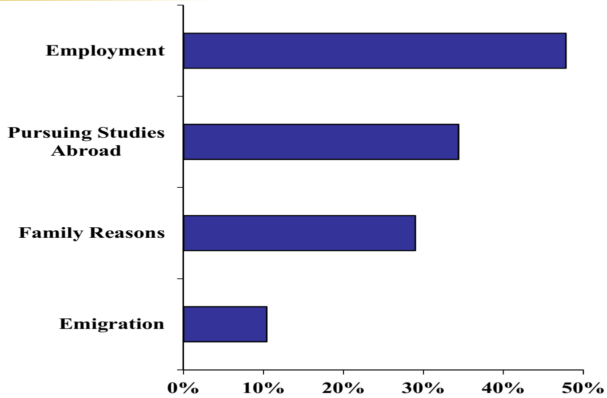
One in four graduates of USJ reside outside Lebanon, 93% of those living in Lebanon are employed

A survey about graduates of Université Saint-Joseph (USJ) indicated that emigration trends among university graduates show that 23.6% of students who graduated from USJ between 2009 and 2013 were residing abroad when the survey was conducted between May 2016 and June 2017. This share was similar to the result of the previous survey that covered students who graduated between 2005 and 2008, but it was higher than the share of 21.5% among students who graduated between 2000 and 2004.

In addition, the survey showed that 73.1% of students who graduated between 2009 and 2013 resided in Lebanon at the time of the survey, while 3.2% of participants resided in Lebanon but worked abroad. The latter category of Lebanese working abroad but residing in Lebanon did not exist in previous surveys of graduates.

USJ's Observatoire Universitaire de la Réalité Socio-économique (OURSE) surveyed 2,225 USJ graduates, or 23.6% of the total number of students who graduated from the university between 2009 and 2013. It conducted the survey between May 2016 and June 2017. The OURSE previously conducted similar studies that covered USJ students who graduated between 2000 and 2004, and those graduating between 2005 and 2008.

Reasons for Leaving Lebanon (%)



Source: OURSE, Université Saint-Joseph

The survey noted that 12.2% of USJ students who graduated between 2009 and 2013 returned to Lebanon after residing abroad for a long period of time, compared to a share of 6% of USJ students who graduated between 2000 and 2008 and returned to the country. As such, 34% of graduates who left the country during the 2009-13 period returned to Lebanon. Also, 47.8% of respondents who reside or have resided abroad indicated that they left Lebanon to look for work, 34.4% of them departed to pursue studies abroad, 29% of respondents left for family reasons, and 10.4% of respondents cited emigration as their reason to leave.

France was the main destination for 34.5% of respondents who reside or have resided abroad, followed by Gulf Cooperation Council countries (22.2%), other European countries (11.2%), Canada (7.9%), Africa (7.8%), the U.S. (6%), South America (1.3%), and Australia (1%). Further, 29.6% of respondents who reside abroad do not plan to return to Lebanon, 13.5% intend to return to Lebanon, while 57% of them are undecided.

Further, the study indicated that 77.7% of respondents residing in Lebanon were working at the time of the survey, 15% of respondents were working and studying at the same time, 2.6% of respondents were looking for a job, 2.4% of them were studying, and 1.2% of surveyed graduates were studying while looking for a job. The remaining 1.1% of respondents residing in Lebanon were inactive.

Based on the responses of 936 surveyed graduates who provided details about their salaries, the average salary of surveyed participants stood at LBP3,576,493, or $2,372 per month. Specifically, surveyed graduates working in Lebanon earned LBP2,809,803, or $1,864 per month, while respondents working abroad received LBP6,138,681, or $4,072 per month. Also, surveyed graduates who reside in Lebanon but work abroad earned LBP5,424,474, or $3,598 per month. Further, 21.1% of respondents who provided details about their salaries earned a monthly income below LBP2m, 27.6% of them earned between LBP2m and LBP4m, 10.8% of surveyed graduates received between LBP4m and LBP6m in monthly salaries, 6.3% of respondents earned between LBP6m and LBP8m and 5.2% of participants had a monthly income of over LBP8m. The study indicated that 49% of respondents were moderately satisfied with their income and 32% of graduates were satisfied, while 16% of surveyed participants were not satisfied with their salary.

In parallel, 42.7% of respondents found their first job after three months of searching, 23.3% of surveyed graduates already had a job before graduating, 15.8% of participants started working after three to six months from graduation, 7.2% of them found a job after searching for seven months to one year, while 6.1% of respondents found a job after looking for more than one year. Moreover, 37.5% of respondents indicated that they used their personal relationships to find a job, 33.1% of them got their job by sharing their resumes, 19.4% of respondents found work through an internship, and 15.5% of respondents found a job through the Internet.

Corporate Highlights

Amendments to Code of Commerce go into effect

Law 126, which consists of amendments to the Code of Commerce or Decree 304 dated December 1942, and to Article 844 of the Code of Obligations and Contracts, went into effect on July 1, 2019. The law, which the Lebanese Parliament approved during its session on March 7, 2019, aims to modernize the legal framework for companies and improve the business environment in the country. The amendments are also part of the government's reform agenda presented at the CEDRE conference.

Law 126 updated and modernized the criteria related to the establishment of joint-stock and limited-liability companies in Lebanon. For instance, it eased the conditions to establish a limited-liability company in Lebanon by no longer requiring firms to have three partners in order to register such firms. It stipulated separating the positions of chairman and of General Manager at companies and detailed the duties of the board of directors and executives. In addition, the law allowed the announcement and invitation for a company's general assembly to be distributed in digital form instead of just publishing it in the print media, and allowed members to attend the general assembly remotely. It also enabled every natural or moral person to prepare manually, or through a secured digital application, the firm's documents such as the journal, ledger and annual inventory. Further, the law stipulated that the record-keeping process through the secured digital application will become mandatory two years after enforcing the changes to the Code of Commerce. In parallel, the law regulated merger & acquisition and demerger transactions, facilitated the usage of arbitration in the resolution of commercial conflicts, defined financial crimes, and updated the closes related to the closure of companies in Lebanon.

ADIR's net profits up 7% to $16m in 2018

Adonis Insurance and Reinsurance Co. (ADIR sal), the insurance affiliate of the Byblos Bank Group, announced audited net profits of $16.1m in 2018, constituting an increase of 6.8% from net earnings of $15.1m in 2017. Its audited balance sheet shows total assets of $364.3m at the end of 2018, constituting a growth of 10.5% from $329.8m a year earlier. On the assets side, general company investments reached $147.6m at end-2018 and increased by 8.4% from $136.1m at the end of 2017. They included $51.8m in fixed income investments, $35.4m in cash & cash equivalents, and $53.5m in blocked bank deposits and deposits with maturity of more than three months, of which $2.2m in bank deposits blocked in favor of the Ministry of Economy & Trade as guarantees.

Also, unit-linked contract investments totaled $168.1m at the end of 2018 and rose by 8.8% from $154.4m a year earlier. They included $82.4m in fixed income investments, $67.9m in cash & similar investments, and $17.7m in placements in mutual funds. Unit-linked investments in fixed income instruments grew by 9.3% and cash & similar investments improved by 13.7%, while placements in mutual funds regressed by 8% year-on-year. The reinsurance share in technical reserves for the life and non-life categories amounted to $28.9m and $12.6m, respectively, constituting year-on-year increases of 10.1% and 194.7%, respectively.

On the liabilities side, unit-linked technical reserves reached $168.1m at the end of 2018, reflecting a rise of 8.8% from $154.4m at end-2017. Also, technical reserves for the life segment grew by 9.4% year-on-year to $42.1m, while technical reserves for the non-life category reached $40.7m at end-2018, up by 25.8% from $32.4m at end-2017. In parallel, the firm's shareholders' equity totaled $66.8m at the end of 2018 and rose by 6.5% from $62.7m a year earlier.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked ADIR in fifth and 15th place in 2018 in terms of life and non-life premiums, respectively. The firm's life premiums grew by 5.9% year-on-year to $52.4m, while its non-life premiums increased by 6.8% to $25m in 2018. It had a 9.7% share of the life market and a 2.1% share of the local non-life market. Overall, ADIR ranked in 11th place in terms of life and non-life premiums in 2018, and had a 4.5% share of total life and non-life premiums.

SGBL increases capital through raising nominal value of common and preferred shares

Société Générale de Banque au Liban sal (SGBL) announced that it raised its capital to LBP27.55bn ($18.3m), through increasing the nominal value of its common and preferred shares from LBP258,000 ($171.2) per share to LBP293,000 ($194.4) per share. The capital increase follows the redemption and cancellation of 12,500 Series 2012 Preferred Shares last year. Currently, the share capital of SGBL consists of 56,535 common shares, 15,000 Preferred Shares Series 2013, 10,000 Preferred Shares Series 2015, and 12,500 Preferred Shares Series 2018/A.

SGBL sal posted unaudited consolidated net profits of $41.6m in the first quarter of 2019, down by 1% from $42m in the same period of 2018. Its total assets reached $26.6bn at the end of March 2019, up by 2.1% from end-2018, while loans & advances to customers, excluding those to related parties, declined by 2.1% from end-2018 to $5.6bn. Also, customer deposits, excluding those from related parties, totaled $18.2bn at end-March 2019 and dropped by 2.4% from the end of 2018.

Ratio Highlights

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