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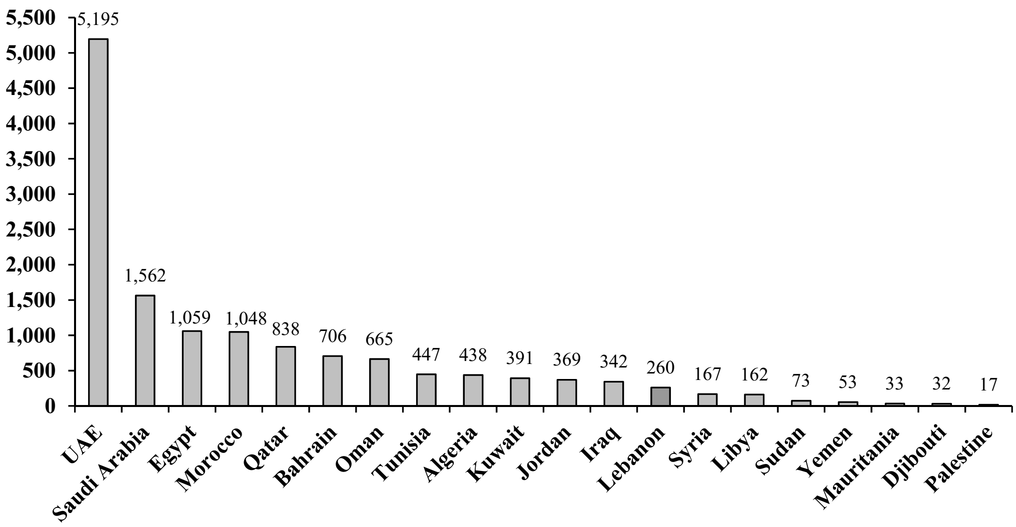
LEBANON THIS WEEK

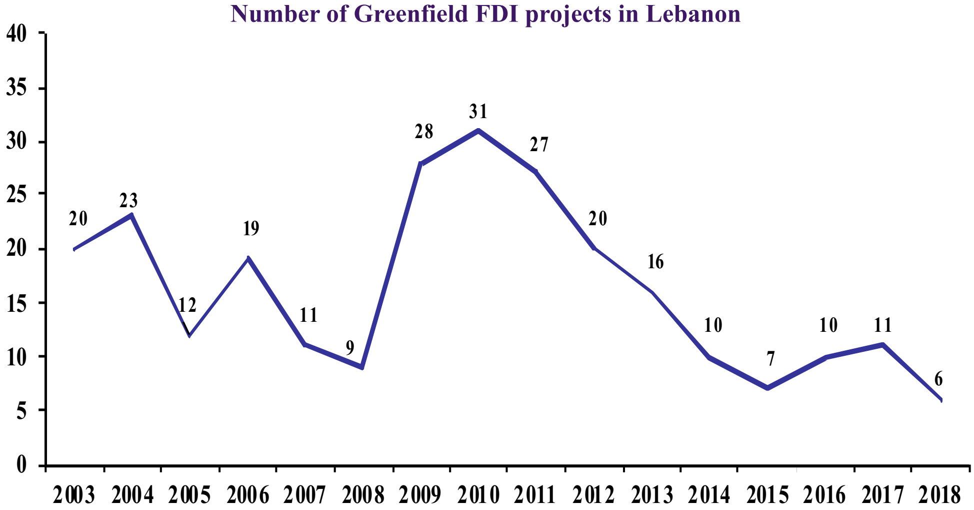
In This Issue

Charts of the Week

Number of Greenfield FDI projects in Arab Countries in the 2003-18 period



Number of Greenfield FDI projects in Lebanon



Source: UNCTAD, Byblos Bank

Quote to Note

"Rating agencies are likely to monitor deposit formation, approval of the 2020 budget, timely execution of the 2019 budget and Eléctricité du Liban reforms, as well as the materialization of CEDRE projects and donor disbursements."

Bank of America Merrill Lynch, on some of the trends that rating agencies analyze in order to form their opinion

Number of the Week

$240m: Amount channeled by donors in 2018 to strengthen service delivery, policy development, capacity building and institutional stability at Lebanese public institutions under the Lebanon Crisis Response Plan, according to the United Nations Inter-Agency Committee

Lebanon in the News

$m (unless otherwise mentioned)	2018	Jan-Jun 2018	Jan-Jun 2019	% Change*	Jun-18	May-19	Jun-19
Exports	2,952	1,539	1,725	12.08	215	319	285
Imports	19,980	9,580	10,138	5.82	1,616	2,456	1,377
Trade Balance	(17,028)	(8,042)	(8,414)	4.63	(1,401)	(2,137)	(1,092)
Balance of Payments	(4,823)	(208)	(5,391)	2488.0	(639)	(1,882)	(204)
Checks Cleared in LBP	22,133	10,632	10,313	(3.0)	1,680	1,623	1,581
Checks Cleared in FC	44,429	22,213	17,182	(22.6)	3,471	2,531	2,502
Total Checks Cleared	66,562	32,845	27,495	(16.3)	5,151	4,154	4,083
Fiscal Deficit/Surplus**	(6,246)	(2,921)	(2,386)	(18.3)	(115)	(1,006)	-
Primary Balance**	(636)	(354)	(38)	(89.4)	199	(60)	-
Airport Passengers***	8,842,442	3,820,198	3,978,188	4.14	762,041	572,876	838,498
Consumer Price Index****	6.1	6.0	3.3	(270bps)	7.6	3.5	1.7

$bn (unless otherwise mentioned)	Dec-17	Jun-18	Dec-18	Apr-19	May-19	Jun-19	% Change*
BdL FX Reserves	35.81	33.10	32.51	31.53	29.72	29.75	(10.12)
In months of Imports	18.57	20.48	20.72	23.24	12.10	21.60	5.49
Public Debt	79.53	82.95	85.14	85.85	85.38	85.73	3.35
Bank Assets	219.86	234.60	249.48	253.65	253.63	255.98	9.11
Bank Deposits (Private Sector)	168.66	173.32	174.28	172.71	170.85	172.13	(0.69)
Bank Loans to Private Sector	59.69	59.56	59.39	56.97	56.32	56.00	(5.97)
Money Supply M2	52.51	53.98	50.96	49.95	49.23	49.11	(9.02)
Money Supply M3	138.62	141.29	141.29	140.18	139.33	139.93	(0.97)
LBP Lending Rate (%)	8.09	8.82	9.97	10.74	10.75	10.94	212bps
LBP Deposit Rate (%)	6.41	6.72	8.30	8.60	8.72	8.80	208bps
USD Lending Rate (%)	7.67	7.93	8.57	9.34	9.54	9.49	156bps
USD Deposit Rate (%)	3.89	4.09	5.15	5.68	5.79	5.84	175bps

**year-on-year **year-to-date figures reflect results for first five 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
BLOM GDR	7.10	(1.39)	142,962	6.60%
Byblos Common	1.15	0.88	46,262	8.19%
Solidere "A"	5.96	(4.79)	42,986	7.50%
Audi Listed	3.74	(1.58)	35,700	18.82%
BLOM Listed	7.30	0.00	30,000	19.76%
Audi GDR	3.69	(1.60)	19,936	5.57%
Solidere "B"	5.98	0.84	13,278	4.89%
Byblos Pref. 08	66.00	0.00	3,580	1.66%
Byblos Pref. 09	65.00	(5.25)	780	1.64%
HOLCIM	9.89	1.44	180	2.43%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Mar 2020	6.38	93.62	19.45
Apr 2021	8.25	86.00	18.58
Oct 2022	6.10	76.50	15.99
Jun 2025	6.25	70.38	13.84
Nov 2026	6.60	68.88	13.45
Feb 2030	6.65	67.25	12.29
Apr 2031	7.00	67.50	12.32
May 2033	8.20	74.51	12.04
Nov 2035	7.05	67.75	11.48
Mar 2037	7.25	67.63	11.61

Source: Byblos Bank Capital Markets

	Aug 19-23	Aug 14-16	% Change	July 2019	July 2018	% Change
Total shares traded	335,985	91,689	266.4	1,969,484	2,161,984	(8.9)
Total value traded	$2,150,302	$649,994	230.8	$9,821,149	$22,895,761	(57.1)
Market capitalization	$7.94bn	$8.04bn	(1.25)	$8.21bn	$10.35bn	(20.6)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Aug 16, 2019	Aug 23, 2019	% Change**
CDS 1-year*	1,151.49	1,179.00	2.4
CDS 3-year*	1,158.80	1,183.95	2.2
CDS 5-year*	1,113.01	1,140.79	2.5

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

CDX EM 30*	Aug 16, 2019	Aug 23, 2019	% Change***
CDS 5-year**	95.88	95.78	(0.1)

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

S&P Global Ratings affirms Lebanon's sovereign ratings at 'B-', maintains 'negative' outlook

S&P Global Ratings affirmed Lebanon's long- and short-term foreign- and local- currency sovereign credit ratings at 'B-/B', and maintained the outlook on the long-term ratings at 'negative'. It attributed the affirmation of the ratings to its expectation that Banque du Liban's (BdL) usable foreign currency reserves, which it forecast at about $19.1bn at the end of 2019, would be sufficient to service the government's debt in the near term. Also, it said that the ratings take into account Lebanon's wide fiscal and external deficits, elevated public debt level, political divisions and regional security risks. It added that investor confidence has weakened significantly following delays in the formation of the government and in the approval of the 2019 budget. It anticipated non-resident depositors and foreign investors to remain cautious of Lebanon unless the government is able to resolve the political divergences and implement structural reforms to narrow the fiscal deficit and improve economic activity.

S&P indicated that the government's debt servicing capacity depends largely on the financial sector's willingness and ability to add to its government debt holdings which, in turn, relies on the sustained inflow of non-resident deposits. It noted that total deposit outflows reached about $2.5bn and foreign currency reserves declined in the first half of 2019. However, it expected non-resident deposits to recover following BdL's recent measures that aim to increase US dollar inflows to Lebanon by offering incentives to banks and depositors. In addition, the agency pointed out that BdL plays a significant role in directing macroeconomic and financial policy, and assists in financing the fiscal deficit. It expected BdL to utilize its available tools to support the banking sector and to ensure financial stability in the event of sudden market distress or pressure on the banks' capital position.

Further, S&P expected the government to make some progress on economic and fiscal reforms in the next six months in order to improve investor confidence. It noted that recent government measures include the approval of a fiscal deficit reduction plan in 2019, a roadmap to reform the electricity sector, and plans to finalize the 2020 budget before the end of 2019. It added that authorities are seeking to incorporate in the 2020 budget major changes to the pension system and public sector, as well as new procurement, customs, and tax evasion laws. It considered that the historical track record on the implementation of these reforms is mixed, but that even the partial implementation of such reforms could support the disbursement of donor funds pledged by the international community at the CEDRE conference in April 2018.

In parallel, the agency indicated that Lebanon's fragile political landscape will continue to hamper policy-making in the country. It expected economic growth to gradually recover to 2.2% by 2022, supported by an increase in exports and investment, assuming the partial implementation of the government's Capital Investment Program and the easing of tensions in Syria.

In addition, S&P stated that Lebanon's fiscal flexibility remains constrained by high spending pressures from public-sector wages and elevated debt servicing costs. It expected the fiscal deficit to miss the government's target of 7.6% of GDP this year, as it considered that the 2019 budget was approved in July and the impact of the government's policy measures will be limited to the remaining five months of the year. It forecast the deficit to gradually narrow in coming years in case the government makes progress on the electricity sector reforms. But it said that challenges to public finances persist and include vested political interests, weak economic growth, and public opposition to austerity measures. In parallel, S&P forecast the current account deficit to average 21.4% of GDP annually during the 2019-22 period, due to higher capital imports for the expected implementation of infrastructure projects.

Further, S&P pointed out that it could revise the outlook to 'stable' in the next six to 12 months if the Lebanese government takes credible steps to implement its fiscal consolidation and electricity sector reform plans, which would strengthen foreign investor confidence.

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

In its valuation of the sovereign credits of 55 emerging market countries, global investment bank 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 "overvalued" by comparing the difference between the actual spreads and its model-implied spreads.

The difference between the actual spread of 1,209 basis points (bps) on Lebanon's Eurobonds and the Goldman Sachs' model-implied spread of 552 bps stood at 657 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 August 15, 2019. In comparison, the difference between the spread on Lebanon's Eurobonds and the bank's model-implied spread stood at 450 bps as at July 10, 2019, which the investment bank also classified as 'undervalued'.

Lebanon's Eurobonds, along with the Eurobonds of Angola, Argentina, Egypt, Ethiopia, Tunisia and Zambia, are the only "undervalued" bonds among 27 'B'-rated sovereigns included in Goldman Sachs' universe as of August 15, 2019. In addition, the investment bank considered as "undervalued" the Eurobonds of Oman, which is among 'BB'-rated countries.

Lebanon in the News

Lebanon receives 15% of IMF regional technical assistance in May-July period

The International Monetary Fund's Middle East Technical Assistance Center (METAC) indicated that Lebanon received 15% of the center's overall allocation of technical assistance delivery to member countries between May and the end of July 2019. The center provided two technical assistance projects to Lebanon in public financial management in the covered period. In comparison, it provided three technical assistance projects to Tunisia, two projects to each of Afghanistan and Iraq, and one technical assistance project to each of Egypt, Jordan and Morocco. It indicated that there are 10 technical assistance projects planned for Lebanon in the fiscal year that ends in April 2020, the second highest number of such projects among member countries, behind only Egypt (11 projects).

First, METAC provided training to the Debt, Accounting and Treasury departments at the Ministry of Finance on the implementation of International Public Sector Accounting Standards and Fiscal Reporting (IPSAS) for financial instruments. It indicated that the training is part of an ongoing project that started in 2016 and that aims to improve the government's financial reporting practices.

Second, it designed a medium-term capacity development project in order to develop human and institutional capabilities to assess and manage the implications of public private partnerships (PPP) projects on public finances. It prepared a roadmap to clarify the roles and responsibilities of the Ministry of Finance in the management of PPPs, to include PPPs within the budget process and documentation, as well as to set up mechanisms to identify and approve contingent liabilities that could arise from PPP projects.

METAC indicated that Lebanon made progress to increase transparency in the budget accounting of financial instruments, and in the management of risks related to PPPs. Still, it said that Lebanon has limited experience in the implementation of PPP projects. It considered that authorities need to ensure that PPP projects generate the expected benefits without putting at risk the sustainability of public finances. It added that Lebanon's low level of public investment and significant infrastructure needs could be partially met through PPPs.

In addition, it noted that planned activities in the second quarter of FY2019/20, which extends from August 2019 to end-October, consist of the implementation of quality assurance mechanisms for the annual national accounts, improving and expanding the Producer Price Index and updating the weights of the Consumer Price Index, as well as following up on the development of a compliance improvement plan for revenue administration.

The IMF established METAC in Beirut in October 2004 to serve Afghanistan, Algeria, Djibouti, Egypt, Iraq, Jordan, Lebanon, Libya, Morocco, Palestine, Sudan, Syria, Tunisia, and Yemen. The center's mandate is to assist in capacity-building, facilitate the reform process in member countries, and support the region's integration in the world economy.

Industrial activity improves in first quarter of 2019 from previous quarter

Banque du Liban's quarterly survey of the opinions of business managers shows that the balance of opinions about industrial production was -25 in the first quarter of 2019 compared to -17 in the first quarter of 2018, and constituting the lowest level since the first quarter of 2012, when the balance of opinions was -24. In comparison, the balance of opinions about industrial production stood at -34 in the fourth quarter of 2018. The balance of opinions was the lowest in the South at -56, followed by the Bekaa (-49), Beirut & Mount Lebanon (-16), and the North (-1). The business survey reflects the opinions of managers of industrial enterprises about their businesses, in order to depict the evolution of a number of key economic variables. The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in a particular indicator and the proportion of those who reported a decline in the same indicator.

The balance of opinions about overall demand for industrial goods stood at -28 in the first quarter of 2019 compared to -35 in the preceding quarter and to -21 in the first quarter of 2018. The balance of opinions about demand for industrial goods was the lowest in the South at -56, followed by the Bekaa (-54), Beirut & Mount Lebanon (-19), and the North (-1).

In parallel, the balance of opinions for the volume of investments in the industrial sector stood at -12 in the first quarter of 2019 compared to -13 in the fourth quarter of 2018 and unchanged from the first quarter of 2018. The balance of opinions about the volume of investments was the lowest in the South at -69, followed by Beirut & Mount Lebanon (-8), and the Bekaa and the North (zero). Also, the balance of opinions for foreign demand of industrial goods stood at -15 during the first quarter of 2019 compared to -24 in the previous quarter and to -16 in the first quarter of 2018. The balance of opinions for foreign demand of industrial goods was the lowest in the South at -65, followed by Beirut & Mount Lebanon (-15), the Bekaa (-8) and the North (zero).

Industrial Activity: Evolution of Opinions

Aggregate results	Q1-16	Q1-17	Q1-18	Q1-19
Production	-8	-11	-17	-25
Total demand	-15	-12	-21	-28
Foreign demand	-20	-20	-16	-15
Volume of investments	-9	-9	-12	-12
Inventories of finished goods	-11	-13	-6	-6
Inventories of raw material	-12	-7	-9	-13
Registered orders	-14	-18	-22	-37

Source: Banque du Liban Business Survey for First Quarter of 2019

Lebanon in the News

Fitch downgrades Lebanon's sovereign ratings

Fitch Ratings downgraded Lebanon's long-term foreign- and local-currency Issuer Default Ratings (IDRs) from 'B-' to 'CCC'. It also revised downwards the country's short-term foreign- and local-currency IDRs from 'B' to 'C', and the senior unsecured foreign currency bonds from 'B-' to 'CCC', while it affirmed at 'B-' the Country Ceiling. It attributed the downgrade to the lack of a credible medium-term plan to stabilize the public debt level and to higher risks to the government's capacity to service its debt. It added that the downgrade reflects pressures on banking sector deposits and Banque du Liban's (BdL) foreign currency reserves, given the government's reliance on BdL to finance its domestic debt and to repay Eurobond maturities.

However, Fitch pointed out that Lebanon's strong track record of debt repayment and the depth of the financial sector, with deposits at commercial banks equivalent to around 300% of GDP, are key strengths for the sovereign ratings. It indicated that the country has had very few episodes of deposit outflows during the past 15 years. It added that the financial sector has helped the government manage its elevated debt burden over a long period of time. Further, it noted that the banking sector and BdL hold a large part of the country's public debt, while most of the non-resident deposits originate from the Lebanese Diaspora.

Further, it stated that it could upgrade the ratings if the external financing outlook improves, including an increase in non-resident deposit inflows into the banking system or other substantial inflows of external support. It added that improving public debt dynamics, through fiscal tightening or stronger economic growth, would also lead to a positive rating action. It indicated that environmental, social and governance indicators, such as the control of corruption, institutional and regulatory quality, and the rule of law, constitute key drivers of Lebanon's sovereign ratings.

The agency estimated Lebanon's gross external financing needs at 24% of GDP in 2019, and pointed out that the country relies on significant capital inflows to finance its fiscal and current account deficits. It noted that the increase in private sector deposits has slowed down due to domestic political instability, government ineffectiveness, low economic growth, as well as to geopolitical risks. It also noted that non-resident foreign currency deposits grew by nearly 3% year-on-year in June 2019, reflecting BdL's recent financial operations to attract non-resident foreign currency inflows. It added that the BdL's foreign currency reserves increased by $0.7bn in July 2019 due to BdL's financial operations, which will provide some relief to external financing pressures.

In parallel, Fitch indicated that authorities lack a credible medium-term plan to stabilize the public debt level. It also indicated that the factional nature of domestic politics leaves the country vulnerable to periods of political vacuum and policy uncertainty. It projected the fiscal deficit to narrow from 11.1% of GDP in 2018 to 9.2% of GDP in 2019, but to miss the budgeted target of 7.6% of GDP for this year, due to its expectation of lower-than-budgeted revenues amid inefficient tax collection and weak economic growth. But it considered the spending allocations under the 2019 budget to be realistic, in case authorities maintain the freeze on public-sector hiring and if the level of arrears is not underestimated.

The agency estimated that the government would need to post a primary surplus of around 5% of GDP in the coming four years in order to stabilize the debt level given the weak growth outlook, which shows the extent of structural and fiscal reforms needed to put the debt level on a sustainable path. It indicated that authorities have shown commitment to approve the 2020 budget within the constitutional deadline. It also pointed out that the Lebanese government has started to implement the electricity reform plan that aims to eliminate the deficit of Electricité du Liban (EdL) by the 2022-23 period. It said that authorities have demonstrated higher political willingness to tackle the deficit, but noted that there remain significant risks of delays and of political disagreement over the implementation of the plan. It anticipated EdL's deficit to decline from 3% of GDP in 2018 to 1.9% of GDP by 2021.

Value of cleared checks down 16%, returned checks down 7.5% in first seven months of 2019

The value of cleared checks reached $32.6bn in the first seven months of 2019, constituting a decline of 15.8% from $38.7bn in the same period of 2018. In comparison, the value of cleared checks decreased by 2.9% in the first seven months of 2018 from the same period of 2017. The value of cleared checks in Lebanese pounds regressed by 2.4% year-on-year to the equivalent of $12.2bn in the first seven months of 2019, while the value of cleared checks in US dollars declined by 22.2% to $20.4bn in the covered period. The dollarization rate of cleared checks regressed from 67.7% in the first seven months of 2018 to 62.5% in the same period of 2019. There were 6.03 million cleared checks in the first seven months of 2019, down by 12.7% from 6.9 million in the first seven months of 2018.

In parallel, the amount of returned checks in domestic and foreign currencies was $818m in the first seven months of 2019 compared to $885m in the same period of 2018 and to $831m in the first seven months of 2017. This constituted a decrease of 7.5% in the first seven months of 2019 relative to a rise of 6.4% in the first seven months of 2018 from the same period of 2017. Also, there were 152,650 returned checks in the first seven months of 2019, nearly unchanged from 152,929 returned checks in the same period of 2018.

Consumer Price Index up 3% in first seven months of 2019

The Central Administration of Statistics' Consumer Price Index increased by 3% in the first seven months of 2019 from the same period of 2018, compared to a growth of 6.2% in the first seven months of 2018. Also, the CPI rose by 1.4% in July 2019 from the same month of 2018. The prices of clothing & footwear grew by 17.3% in July 2019 from the same month of 2018, followed by recreation & entertainment costs (+6.7%), the prices of furnishings & household equipment (+6%), the cost of education (+5.1%), actual rents and the cost of miscellaneous goods & services (+2.4% each), imputed rents (+2.3%), prices at restaurants & hotels (+1.2%), prices of food & non-alcoholic beverages (+0.6%), and the prices of alcoholic beverages & tobacco (+0.5%). In contrast, the price of water, electricity, gas & other fuels declined by 3.1% year-on-year in July 2019, followed by healthcare costs (-1.9%), transportation (-1.4%), and communication costs (-0.6%). Also, the distribution of actual rents shows that old rents grew by 2.7% and new rents increased by 2.2% annually in July 2019.

Further, the CPI regressed by 0.5% in July 2019 from the preceding month, compared to a month-on-month decline of 0.8% in June 2019. The prices of clothing & footwear declined by 3.9% month-on-month in July 2019, followed by food & non-alcoholic beverages (-1.2%), the prices of water, electricity, gas & other fuels (-0.5%), and transportation costs (-0.3%). In contrast, healthcare costs increased by 1% month-on-month in July 2019, followed by actual rents (+0.4%) and the cost of miscellaneous goods & services (+0.2%); while the prices of the remaining components of the CPI basket were nearly unchanged in the covered month. Further, the CPI decreased by 1.2% in July 2019 in the Nabatieh region, by 1% in the North, by 0.6% in the Bekaa area, by 0.3% in Mount Lebanon and by 0.1% in Beirut, while it increased by 0.1% in the South. In parallel, the Fuel Price Index declined by 1.3% month-on-month in July 2019, while the Education Price Index was unchanged in the covered month.

Compensation of public-sector personnel up 7% in first quarter of 2019, absorbs 65% of revenues

Figures issued by the Ministry of Finance show that the compensation of public-sector personnel totaled $1.7bn in the first quarter of 2019, constituting an increase of 6.5% from $1.6bn in the same period of 2018. Salaries, wages and related benefits accounted for 60% of the total in the first quarter of 2019, followed by retirement benefits (25.4%), end-of-service indemnities (11.3%), and transfers to public institutions to cover salaries (3.1%). The compensation of public-sector personnel represented the largest component of current primary spending and accounted for 76.5% of such expenditures in the covered period, compared to 63.7% in the first quarter of 2018. Also, the compensation of public-sector personnel was equivalent to 65.4% of total fiscal receipts in the first quarter of 2019 relative to 58.6% in the same period of 2018. It absorbed 47.5% of overall fiscal spending in the first quarter of 2019 compared to 35% in the first quarter of 2018.

Salaries, wages & related benefits paid to public-sector employees reached $1.01bn in the first quarter of 2019, constituting a decline of 1.8% from $1.03bn in the same period of 2018. This category includes basic salaries, employment benefits, allowances, contributions to civil servants' cooperatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly civil and religious judges, and employees at the Parliament. In addition, retirement benefits grew by 19.4% to $428.5m in the first quarter of 2019, and end-of-service indemnities rose by 58% to $191m, while transfers to public institutions to cover salaries fell by 26% to $52.4m in the covered period. As such, the increase in the compensation of public-sector personnel cost was entirely due to retirement benefits and end-of-service indemnities, which increased by 29% or by $140m to $619.6m in the covered period. The two components accounted for 36.8% of the compensation of public-sector personnel in the covered quarter, up from a share of 30.3% in the first quarter of 2018.

Number of new construction permits down 16% in first seven months of 2019

The Orders of Engineers & Architects of Beirut and of Tripoli issued 6,914 new construction permits in the first seven months of 2019, constituting a decline of 16.4% from 8,267 permits issued in the same period of 2018. In comparison, new construction permits decreased by 12.7% year-on-year in the first seven months of 2018. Mount Lebanon accounted for 34.9% of newly-issued construction permits in the covered period, followed by the South with 20.8%, the North with 13.8%, the Nabatieh area with 12.9%, the Bekaa region with 9.8%, and Beirut with 6.3%. The remaining 1.6% 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 4,100,796 square meters (sqm) in the first seven months of 2019, constituting a decrease of 27.9% from 5,689,127 sqm in the same period of 2018. In comparison, the surface area of granted construction permits regressed by 20.2% in the first seven months of 2018 from the same period of 2017. Mount Lebanon accounted for 1,459,006 sqm, or 35.6% of the total, in the covered period. The South followed with 762,644 sqm (18.6%), then the North with 752,572 sqm (18.4%), the Bekaa region with 394,383 sqm (9.6%), the Nabatieh area with 323,256 sqm (7.9%), and Beirut with 280,008 sqm (6.8%). The remaining 128,927 sqm, or 3.1% 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 the Nabatieh region dropped by 36.3% year-on-year in the first seven months of 2019, followed by surface areas in Mount Lebanon (-36.1%), the Bekaa region (-29.3%), the North (-25%), and the South (-14.1%); while surface areas in regions located outside northern Lebanon decreased by 48.3%. In contrast, the surface area of granted construction permits in Beirut increased by 39.1% year-on-year in the first seven months of the year. In parallel, cement deliveries totaled 1.56 million tons in the first half of 2019, constituting a decline of 32.4% from 2.31 million tons in the same period of 2018, and relative to a decrease of 3.4% in the first half of 2018.

Broad money supply down 1% in first half of 2019

Figures released by Banque du Liban show that money supply M1, which includes currency in circulation and demand deposits in Lebanese pounds, reached LBP10,788bn at the end of June 2019, constituting a decline of 7.5% from LBP11,661bn at the end of 2018 and a decrease of 6.1% from LBP11,489bn at end-June 2018. Currency in circulation stood at LBP5,049bn at the end of June 2019, up by 0.8% from LBP5,008bn at end-2018 and by 1.7% from LBP4,964bn at end-June 2018. Also, demand deposits in local currency stood at LBP5,738bn at the end of June 2019, constituting a decline of 13.7% from end-2018 and of 12.1% from end-June 2018. Money Supply (M1) regressed by a marginal 0.3% in June from LBP10,825bn at end-May 2019, with currency in circulation growing by 0.8% and demand deposits in local currency declining by 1.3% month-on-month.

In addition, money supply M2, which includes M1 and term deposits in Lebanese pounds, reached LBP74,039bn at the end of June 2019, constituting a decrease of 3.6% from LBP76,828bn at the end of 2018, and a decline of 9% from LBP81,369bn a year earlier. Term deposits in Lebanese pounds totaled LBP63,252bn at the end of June 2019, down by 2.9% from LBP65,167bn at end-2018 and by 9.5% from LBP69,881bn at end-June 2018. Money Supply (M2) regressed by a marginal 0.2% in June from LBP74,213bn at end-May 2019, with term deposits in local currency declining by 0.2% month-on-month.

Further, broad money supply M3, which includes M2, deposits in foreign currency and debt securities issued by the banking sector, reached LBP210,938bn at the end of June 2019, constituting a decrease of 1% from LBP212,993bn at the end of 2018 and a decline of 1% from LBP213,000bn at end-June 2018. Deposits in foreign currency totaled LBP136,591bn at the end of June 2019, up by a marginal 0.5% from end-2018 and by 4.1% from a year earlier. Also, debt securities issued by the banking sector amounted to LBP307bn at the end of June 2019, compared to LBP272bn at the end of 2018 and to LBP461bn at end-June 2018. Money supply (M3) grew by a marginal 0.4% in June from LBP210,042bn at the end of May 2019, with deposits in foreign currency expanding by 0.8% and debt securities issued by the banking sector declining by 3.3% month-on-month. In parallel, M3 regressed by LBP2,055bn in the first half of 2019, due to a drop of LBP6,155bn in the net foreign assets of deposit-taking institutions, a decline of LBP4,401bn in claims on the private sector and a decrease of LBP19bn in net claims on the public sector, which were partly offset by a surge of LBP8,520bn in other net items.

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

Figures issued by Banque du Liban about the distribution of bank deposits at commercial banks in Lebanon show that term deposits were the preferred type of account for resident and non-resident depositors in Lebanese pounds and in foreign currency at the end of June 2019. Term deposits in all currencies reached $168.4bn at end-June 2019, constituting an increase of 0.7% from $167.3bn at end-2018 and of 2.2% from $164.8bn at the end of June 2018. They accounted for 90.4% of total deposits in Lebanese pounds and in foreign currency at end-June 2019 relative to a share of 89.1% at end-2018.

Term deposits of the resident private sector denominated in foreign currency amounted to $81.1bn and accounted for 43.6% of total deposits at the end of June 2019. Term deposits in Lebanese pounds of the resident private sector followed with $41bn (22%), then term deposits of non-residents with $34.4bn (18.5%), term deposits of the non-resident financial sector with $7.5bn (4%), term deposits of the public sector in Lebanese pounds with $4.2bn (2.2%), and term deposits of the public sector in foreign currency with $195.3m (0.1%).

In parallel, demand deposits of the resident private sector in foreign currency amounted to $9bn and represented 4.9% of total deposits at the end of June 2019. Demand deposits of the resident private-sector in Lebanese pounds followed with $4bn (2.1%), then demand deposits of non-residents with $2.5bn (1.4%), demand deposits of the non-resident financial sector with $1.9bn (1%), demand deposits in Lebanese pounds of the public sector with $322.8m (0.2%), and demand deposits in foreign currency of the public sector with $144.8m (0.1%).

Beirut and its suburbs accounted for 67.1% of private-sector deposits and for 46.9% of the number of depositors at the end of March 2019, the latest available figures. Mount Lebanon followed with 14.8% of deposits and 18.6% of beneficiaries, then South Lebanon with 7.1% of deposits and 13% of depositors, North Lebanon with 6.1% of deposits and 12.4% of beneficiaries, and the Bekaa with 4.9% of deposits and 9.1% of depositors.

Coincident Indicator down 3.2% in first half of 2019

Banque du Liban's Coincident Indicator, an index of economic activity in Lebanon, reached 293.1 points in June 2019 compared to 297.4 in May 2019 and 298 in June 2018. The Coincident Indicator, an average of eight weighted economic indicators, decreased by 1.4% month-on-month and declined by 1.6% year-on-year in June 2019. The indicator averaged 301.7 in the first half of 2019, constituting a decline of 3.2% from an average of 311.8 in the same period of 2018. Also, the indicator averaged 302.7 in the 12 months ending June 2019, compared to an average of 303.1 in the 12-month period ending May 2019 and to an average of 309.7 in the 12 months ending June 2018. As a result, the 12-month average coincident indicator was nearly unchanged month-on-month, while it regressed by 2.3% year-on-year. In parallel, the indicator regressed 15 times and improved 12 times on a monthly basis in the month of June 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.

Kafalat loan guarantees down 86% to $4.5m in first seven months of 2019

Figures released by the Kafalat Corporation show that loans extended to small- and medium-sized enterprises (SMEs) under the guarantee of Kafalat reached $4.5m in the first seven months of 2019, constituting a decrease of 86.2% from $32.7m in the same period of 2018. Kafalat provided 40 loan guarantees in the first seven months of the year, down by 84.1% from 251 guarantees in the same period of 2018. The average loan size was $112,632 in the first seven months of 2019 compared to $130,216 in the same period of 2018. Mount Lebanon accounted for 47.5% of the total number of guarantees in the first seven months of 2019, followed by the Bekaa region with 30%, Beirut with 10%, the North and the South with 5% each, and Nabatieh with 2.5%. Also, the industrial sector accounted for 35% of the total number of guarantees in the covered period, followed by the agricultural sector with 32.5%, the tourism sector with 25%, specialized technologies with 5% and the handicraft sector with 1%.

Kafalat is a state-sponsored organization that provides financial guarantees for loans earmarked for the setup and expansion of SMEs in productive sectors. It offers various financial products for SMEs in the industry, agriculture, tourism, high technology, crafts and energy sectors. It guarantees up to 90% of the loan amount and a similar percentage of the accrued interest. The Ministry of Finance subsidizes interest rates and Banque du Liban administers the subsidies. The National Institute for the Guarantee of Deposits holds a 75% stake in Kafalat, while the remaining 25% is held by 50 Lebanese banks.

Import activity of top five shippers and freight forwarders down 11% in first half of 2019

Figures released by the Port of Beirut show that overall import shipping operations by the top five shipping companies and freight forwarders through the port reached 143,423 20-foot equivalent units (TEUs) in the first half of 2019, constituting a decrease of 10.8% from 160,861 TEUs in the same period of 2018. The five shipping and freight-forwarding firms accounted for 77.2% of imports to the Lebanese market and for 47.7% of the total import freight market in the first half of 2019. Mediterranean Shipping Company (MSC) handled 57,327 TEUs in imports in the covered period, equivalent to a 19.1% share of the total import freight market. Merit Shipping followed with 29,678 TEUs (9.9%), then MAERSK with 23,076 TEUs (7.7%), Metz Group with 17,472 TEUs (5.8%), and Tourism & Shipping Transport with 15,870 TEUs (5.3%). Further, MAERSK registered an annual increase of 95% in import shipping in the first half of 2019, the highest growth rate among the top five shipping and freight forwarding companies, while Metz Group posted a decrease of 19.8%, the steepest decline in the covered period.

In parallel, export shipping operations by the top five shipping and freight-forwarding firms through the Port of Beirut reached 31,084 TEUs in the first half of 2019, constituting a decrease of 3.3% from 32,135 TEUs in the same period of 2018. The five shipping companies and freight forwarders accounted for 85% of exported Lebanese cargo and for 10.4% of the total export freight market in the first half of 2019. Merit Shipping handled 14,715 TEUs of freight in the first half of 2019, equivalent to 40.2% of the Lebanese cargo export market. MAERSK followed with 5,951 TEUs (16.3%), then Metz group with 3,812 TEUs (10.4%), Sealine Group with 3,359 TEUs (9.2%), and Tourism & Shipping with 3,247 TEUs (8.9%). Further, MAERSK registered an increase of 136.5% in export shipping in the first half of 2019, the highest growth rate among the top five shipping and freight forwarding companies, while Sealine Group posted a decline of 41.3%, the steepest decrease in the covered period.

Balance sheet of financial institutions down 5% in first half of 2019

Figures released by Banque du Liban show that the consolidated balance sheet of financial institutions in Lebanon totaled LBP2,213bn, or $1.47bn at the end of June 2019, constituting a decrease of 4.6% from LBP2,321bn, or $1.54bn at end-2018, and a decline of 7.8% from LBP2,400bn, or $1.59bn at end-June 2018.

On the assets side, claims on resident customers reached $692.4m at the end of June 2019, up by 2.6% from the end of 2018, while claims on non-resident customers stood at $53.1m at end-June 2019 and decreased by 24.2% from end-2018. In addition, claims on the resident financial sector reached $322.4m at end-June 2019, down by 2.8% from end-2018; while claims on the non-resident financial sector totaled $47.3m at the end of June 2019 and dropped by 49.8% from end-2018. Also, claims on the public sector totaled $5.1m at end-June 2019, constituting an increase of 4.4% from end-2018; while the securities portfolio, which includes Lebanese Treasury bills and Eurobonds, reached $104.9m at end-June 2019, down by 5.8% from end-2018. In parallel, currency and deposits with local and foreign central banks amounted to $40.9m at the end of June 2019 and decreased by 8.4% from $44.6m at end-2018.

On the liabilities side, deposits of resident customers stood at $156.4m at the end of June 2019, constituting a decline of 0.8% from end-2018; while deposits of non-resident customers reached $20.1m at the end of June 2019 and decreased by 1.4% from end-2018. Liabilities to the resident financial sector amounted to $328.6m at end-June 2019, down by 11.8% from end-2018; while those to the non-resident financial sector declined by 24.9% from end-2018 to $107.5m. Also, public sector deposits decreased by 28.5% in the first half of 2019 to $3.2m, while issued debt securities totaled $122.6m at end-June 2019 and regressed by 17.8% from end-2018. Further, the aggregate capital account of financial institutions was $487.1m at the end of June 2019, constituting a rise of 4% from end-2018, and an increase of 1.6% from end-June 2018.

Bankers Assurance's net income at $10.7m in 2018

Bankers Assurance sal announced audited net profits of $10.66m in 2018, nearly unchanged from $10.68m in 2017. The firm's audited balance sheet shows total assets of $219.5m at the end of 2018, up by 10.7% from $198.2m at the end of 2017. On the assets side, general company investments reached $92.7m at the end of 2018 and grew by 4.2% from a year earlier. They included $20.2m in cash & cash equivalents, $13.4m in fixed income instruments, $3.7m in mutual funds, and $2.3m in land and real estate assets. Further, the firm blocked $48.1m as bank deposits with maturities of more than three months and $2.4m in favor of the Ministry of Economy & Trade as guarantees.

Unit-linked contracts investments totaled $16.7m at end-2018, constituting a decrease of 5.8% from $17.7m a year earlier. They included $10.4m in mutual funds, $3.8m in cash & similar investments, and $2.5m in fixed income investments. Unit-linked investments in mutual funds decreased by 25.8% year-on-year, while those in cash & similar placements increased by 3.1 times from end-2017 and those in fixed income instruments were unchanged. Also, the reinsurance's share in technical reserves for the non-life category increased by 25% to $10.8m at end-2018, while reserves for the life segment grew by 7.3% to $5.2m last year.

On the liabilities side, unit-linked technical reserves reached $16.7m at the end of 2018 and declined by 5.8% from $17.7m a year earlier. Technical reserves for the non-life segment increased by 6.9% to $83.5m at end-2018, while technical reserves for the life category reached $10.6m at end-2018 and increased by 8.3% from a year earlier. Non-life technical reserves included unearned premium reserves of $46.1m that regressed by 0.7%, outstanding claims reserves of $30m that grew by 17.5%, and $3.6m in "reserves incurred but not enough reported" that grew by 24.5% year-on-year. Also, provisions for risks and charges reached $3.5m and rose by 24.7% from end-2017. The firm's shareholders' equity totaled $85.1m at end-2018 and increased by 13.4% from a year earlier.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked Bankers Assurance in first and 10th place in 2018 in terms of non-life and life premiums, respectively. The firm's non-life premiums totaled $109.8m in 2018 and grew by 3.4% from the previous year; while life premiums increased by 10% to $13.7m last year. The company had a 9.4% share of the local non-life market and a 2.5% share of the life market in 2018. Overall, Bankers Assurance had a 7.2% market share of the Lebanese insurance market in 2018, ranking it in third place in terms of life and non-life premiums.

Banque de Crédit National raises capital by $30m

The Banque de Crédit National raised its capital by LBP45.3bn ($30m) from LBP23.5bn ($15.6m) to LBP68.8bn ($45.6m), through the issuance of 453,000 common shares at a par value of LBP100,000 ($66.3) per share. The bank's Extraordinary General Assembly voted to increase the capital on May 3, 2019, while Banque du Liban approved the capital increase on June 13, 2019. As such, the bank's share capital consists of 688,000 common shares that are not listed on the Beirut Stock Exchange.

The bank declared net losses of $1.95m in 2018 relative to losses of $1.8m in 2017. Its aggregate assets reached $185.5m at the end of 2018 and declined by 10.9% from $208.2m at end-2017. Also, the bank's loans & advances to customers stood at $57.5m at the end of 2018 and grew by 4.1% from $55.2m end-2017. Further, customer deposits amounted to $127.9m at the end of 2018 and regressed by 11.2% from $144.1m at end-2017.

Ratio Highlights

(in % unless specified)	2016	2017	2018	Change*
Nominal GDP ($bn)	51.2	53.4	56.1	
Public Debt in Foreign Currency / GDP	54.9	56.9	59.7	2.82
Public Debt in Local Currency / GDP	91.3	92.0	92.1	0.10
Gross Public Debt / GDP	146.2	149.0	151.9	2.92
Total Gross External Debt / GDP**	182.0	183.1	184.7	0.88
Trade Balance / GDP	(31.5)	(31.3)	(30.4)	1.11
Exports / Imports	15.6	14.5	14.8	0.25
Fiscal Revenues / GDP	19.4	21.8	20.6	(1.2)
Fiscal Expenditures / GDP	29.0	28.8	31.7	2.9
Fiscal Balance / GDP	(9.6)	(7.0)	(11.1)	(4.1)
Primary Balance / GDP	0.04	2.7	(1.1)	-
Gross Foreign Currency Reserves / M2	62.2	68.2	63.8	(4.39)
M3 / GDP	259.2	259.6	252.1	(7.55)
Commercial Banks Assets / GDP	398.7	411.8	445.1	33.32
Private Sector Deposits / GDP	317.1	315.9	310.9	(4.97)
Private Sector Loans / GDP***	111.6	111.8	105.9	(5.84)
Private Sector Deposits Dollarization Rate	65.8	68.7	70.6	1.90
Private Sector Lending Dollarization Rate	72.6	68.6	69.2	0.57

**change in percentage points 18/17*
***includes portion of public debt owed to non-residents, liabilities to non-resident banks, non-resident deposits (estimated by the IMF), Bank for International Settlements' claims on Lebanese non-banks *** in January 2018, Lebanese banks started reporting their financials based on international accounting standard IFRS 9, and revised the 2017 figures accordingly*
Source: Association of Banks in Lebanon, Institute of International Finance, International Monetary Fund, World Bank, Byblos Research Estimates & Calculations
Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

Risk Metrics

Lebanon	Jul 2017	Jun 2018	Jul 2018	Change**	Risk Level
Political Risk Rating	55.5	55.0	55.0	▲	High
Financial Risk Rating	33.0	33.0	33.0	⧓	Moderate
Economic Risk Rating	27.5	28.5	28.5	▼	High
Composite Risk Rating	58.0	58.25	58.25	▼	High

MENA Average*	Jul 2017	Jun 2018	Jul 2018	Change**	Risk Level
Political Risk Rating	57.9	57.9	58.0	▼	High
Financial Risk Rating	37.9	38.8	38.7	▼	Low
Economic Risk Rating	30.7	32.8	33.0	▼	Moderate
Composite Risk Rating	63.2	64.7	64.8	▼	Moderate

**excluding Lebanon*
***year-on-year change in risk*
Source: The PRS Group, Byblos Research
Note: Political & Composite Risk Ratings range from 0 to 100 (where 100 indicates the lowest risk)
Financial & Economic Risk ratings range from 0 to 50 (where 50 indicates the lowest risk)

Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's Investors Service	Caa1	NP	Stable	Caa1		Stable
Fitch Ratings	CCC	C	-	CCC	C	-
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 Investors Service	Stable

Source: Moody's Investors Service

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