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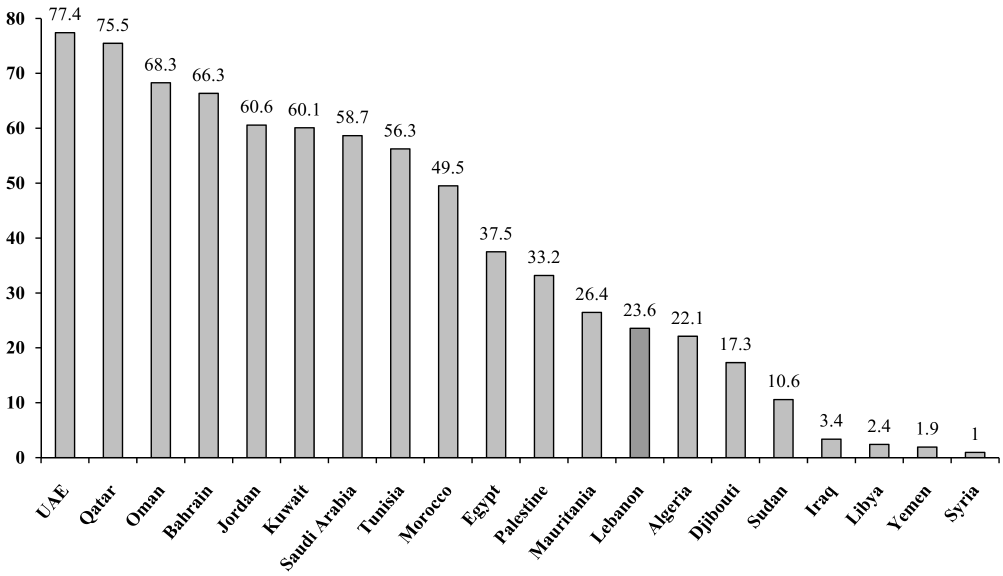
BYBLOS BANK SAL
Economic Research & Analysis Department

LEBANON THIS WEEK

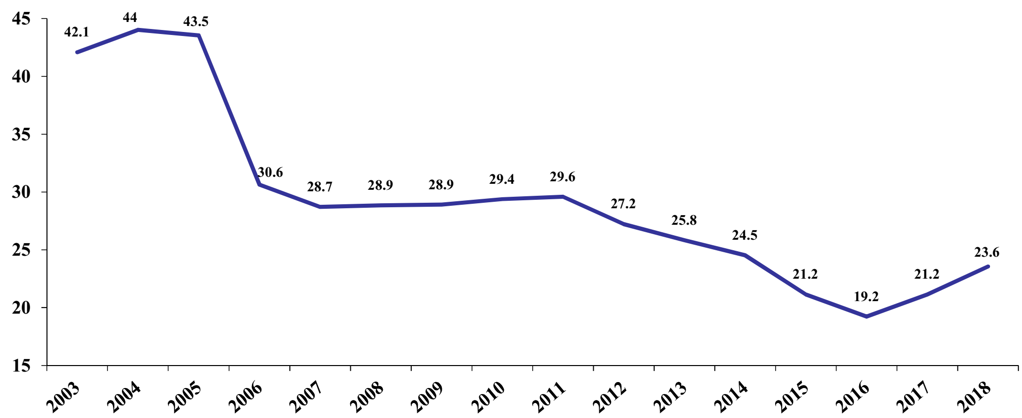
In This Issue

Charts of the Week

Percentile Rank of Arab Countries on the Rule of Law Indicator in 2018 (%)



Percentile Rank of Lebanon on the Rule of Law Indicator (%)



Source: World Bank Governance Indicators, Byblos Bank

Quote to Note

"A strong fiscal adjustment would reduce the government's reliance on financing from the domestic banking system and reduce the need for ongoing financial inflows."

The Institute of International Finance, on the benefits of a sharp reduction in public expenditures

Number of the Week

57%: Percentage of public revenues that were needed to cover the public sector's wages, salaries, end-of-service indemnities and pension payments in the first half of 2019, according to the Ministry of Finance

Lebanon in the News

$m (unless otherwise mentioned)	2018	Jan-Jul 2018	Jan-Jul 2019	% Change*	Jul-18	Jun-19	Jul-19
Exports	2,952	1,757	2,089	18.94	218	285	365
Imports	19,980	11,898	12,335	3.67	2,318	1,377	2,196
Trade Balance	(17,028)	(10,142)	(10,245)	1.02	(2,100)	(1,092)	(1,831)
Balance of Payments	(4,823)	(757)	(5,318)	602.37	(549)	(204)	72
Checks Cleared in LBP	22,133	12,509	12,214	(2.36)	1,878	1,581	1,900
Checks Cleared in FC	44,436	26,166	20,352	(22.220)	3,953	2,502	3,170
Total Checks Cleared	66,569	38,675	32,566	(15.80)	5,831	4,083	5,070
Fiscal Deficit/Surplus	(6,246)	(3,078)	(2,409)	(21.74)	(42)	(33)	10
Primary Balance	(636)	68	577	751.13	223	347	268
Airport Passengers**	8,842,442	4,842,665	5,037,455	4.02	1,022,467	838,498	1,059,267
Consumer Price Index***	6.1	6.2	3.0	(323bps)	7.6	1.7	1.4

$bn (unless otherwise mentioned)	Dec-17	Jul-18	Dec-18	May-19	Jun-19	Jul-19	% Change*
BdL FX Reserves	35.81	34.21	32.51	29.72	29.75	31.06	(9.23)
In months of Imports	18.57	14.76	20.72	12.10	21.61	14.15	(4.18)
Public Debt	79.53	82.90	85.14	85.38	85.73	86.01	3.74
Bank Assets	219.86	236.31	249.48	253.63	255.98	259.18	9.68
Bank Deposits (Private Sector)	168.66	173.01	174.28	170.85	172.13	172.35	(0.38)
Bank Loans to Private Sector	59.69	59.22	59.39	56.32	56.00	55.30	(6.62)
Money Supply M2	52.51	53.58	50.96	49.23	49.11	48.91	(8.72)
Money Supply M3	138.62	140.85	141.29	139.33	139.93	140.34	(0.36)
LBP Lending Rate (%)	8.09	8.66	9.97	10.75	10.94	11.13	247bps
LBP Deposit Rate (%)	6.41	6.94	8.30	8.72	8.80	8.81	187bps
USD Lending Rate (%)	7.67	7.96	8.57	9.54	9.49	9.90	194bps
USD Deposit Rate (%)	3.89	4.14	5.15	5.79	5.84	6.01	187bps

*year-on-year **includes arrivals, departures, transit ***year-on-year percentage change
Note: bps i.e. basis points
Source: Association of Banks in Lebanon, Banque du Liban, Ministry of Finance, Central Administration of Statistics, Byblos Research

Capital Markets

Most Traded Stocks on BSE	Last Price ($)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "A"	5.56	(1.07)	58,002	7.18%
Byblos Common	1.10	0.00	55,614	8.03%
Solidere "B"	5.49	4.37	9,966	4.61%
BLOM GDR	6.40	(5.88)	3,920	6.11%
Audi Listed	3.70	2.78	3,000	19.10%
BLOM Listed	7.29	0.00	2,700	20.24%
Byblos Pref. 09	64.90	0.00	-	1.68%
Byblos Pref. 08	65.00	0.00	-	1.68%
HOLCIM	9.98	0.00	-	2.51%
Audi GDR	3.70	0.00	-	5.72%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Mar 2020	6.38	97.00	14.27
Apr 2021	8.25	85.75	19.76
Oct 2022	6.10	72.13	18.78
Jun 2025	6.25	67.75	14.88
Nov 2026	6.60	66.75	14.16
Feb 2030	6.65	66.38	12.53
Apr 2031	7.00	66.63	12.56
May 2033	8.20	73.94	12.17
Nov 2035	7.05	66.75	11.68
Mar 2037	7.25	67.13	11.71

Source: Byblos Bank Capital Markets

	Oct 7-11	Sep 30-Oct 4	% Change	September 2019	September 2018	% Change
Total shares traded	133,202	4,521,644	(97.1)	1,989,279	3,153,549	(36.9)
Total value traded	$481,483	$32,311,745	(98.5)	$20,464,132	$25,051,529	(18.3)
Market capitalization	$7.74bn	$7.73bn	0.25	$7.86bn	$9.68bn	(18.9)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Oct 4, 2019	Oct 11, 2019	% Change**
CDS 1-year*	1,399.06	1,408.39	0.7
CDS 3-year*	1,404.81	1,366.60	(2.7)
CDS 5-year*	1,301.46	1,247.54	(4.1)

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

CDX EM 30*	Oct 4, 2019	Oct 11, 2019	% Change***
CDS 5-year**	96.23	96.29	0.1

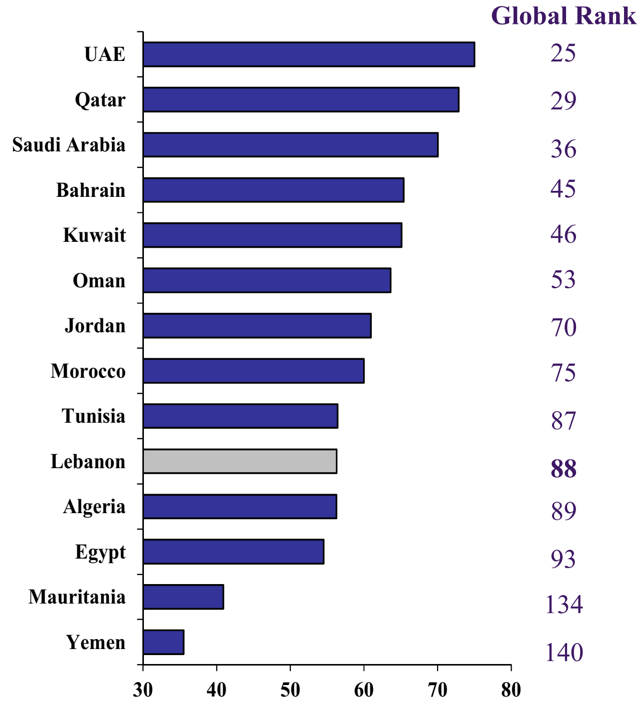
*Source: ICE CMA; * CDX Emerging Market CDS Index-Series 30*
***mid-spread in bps ***week-on-week*

Lebanon ranks 88^{th} globally, 10^{th} among Arab countries in terms of competitiveness

The World Economic Forum (WEF) ranked Lebanon in 88^{th} place among 141 countries globally and in 10^{th} place among 14 Arab countries on its Global Competitiveness Index for 2019. Lebanon also ranked in 28^{th} place among 38 upper middle-income countries (UMICs) included in the survey. In comparison, Lebanon came in 80^{th} place among 140 countries globally and in ninth place among 14 Arab countries on the index in 2018. Based on the same set of countries, Lebanon's global rank regressed by seven spots from the 2018 survey, which constituted, along with Costa Rica and Serbia, the fifth steepest decline globally. Lebanon's rank among Arab countries declined by one notch from last year's survey.

The index measures the ability of a country and its enterprises to compete in global markets by assessing the country's institutions, infrastructure, macroeconomic stability, education and healthcare systems, and entrepreneurial culture. It also evaluates the country's capacity for innovation, its overall market efficiency, technological readiness, and the sophistication of domestic markets and business practices, among other areas. The index's score is the simple average of 12 pillars grouped into four categories that are the Enabling Environment, Human Capital, Markets, and the Innovation Ecosystem. It scores countries on a scale from zero to 100, with 100 representing the highest level of competitiveness.

Global Competitiveness Index for 2019
Arab Countries Scores & Rankings



Source: World Economic Forum, Byblos Research

Globally, Lebanon has a more competitive economy than Algeria, Ecuador and Botswana, and is less competitive than Ukraine, Moldova and Tunisia among economies with a GDP of $10bn or more. Also, the Lebanese economy is more competitive than its counterparts in Algeria and Ecuador, and is less competitive than Argentina and Sri Lanka among UMICs. Lebanon received a score of 56.3 points, compared to the global average of 60.6 points, the UMICs' average of 59.8 points and the Arab average of 59.5 points. Further, Lebanon's score came lower than Gulf Cooperation Council (GCC) countries' average of 68.7 points, but higher than the average of non-GCC Arab countries of 52.6 points.

The WEF indicated that Lebanon has competitive advantages in the digital skills of the labor force, the ease of finding skilled employees, in domestic credit to the private sector, as well as in the size of imports of goods & services relative to the country's GDP. In contrast, it noted that Lebanon ranks poorly in terms of the quality of roads, the cost of starting a business, the insolvency regulatory framework for businesses, as well as in terms of corporate governance, bureaucracy in the public sector, debt dynamics and the future orientation of the government, among others.

Lebanon ranked ahead of Laos and Kenya, and came behind Cape Verde and Mongolia on the Enabling Environment category. This indicator covers institutions, infrastructure, information & communications technology adoption, and macroeconomic stability. Further, Lebanon came ahead of Egypt, Mauritania and Yemen among Arab countries on this category.

Also, Lebanon preceded Bulgaria and Venezuela, and trailed Serbia and Ecuador on the Human Capital category that covers health and skills components. Lebanon came ahead of Tunisia, the UAE, Algeria, Morocco, Egypt, Mauritania and Yemen in the Arab world on this category.

Further, Lebanon ranked ahead of Trinidad & Tobago and Nigeria, and came behind Tunisia and Albania on the Innovation Ecosystem category, which includes the business dynamism and innovation capability components. Regionally, Lebanon ranked ahead of Algeria, Kuwait, Mauritania and Yemen on this category.

Components of the 2019 Global Competitiveness Index for Lebanon

	Global Rank	Arab Rank	UMIC Rank	Lebanon Score	Global Avge Score	Arab Avge Score	UMIC Avge Score
Enabling Environment	99	11	33	54.7	64.0	63.1	62.3
Human Capital	66	7	7	73.1	68.3	69.3	70.7
Markets	83	10	26	54.7	58.0	57.2	57.4
Innovation Ecosystem	89	10	27	45.7	51.5	47.2	48.6

Source: World Economic Forum, Byblos Research

Potential GCC financial support is not substitute for reforms

Global investment bank Goldman Sachs indicated that Lebanese Eurobonds benefited from the positive momentum built in recent months. It said that Banque du Liban's (BdL) assets in foreign currency increased by more than $2bn between June and September 2019. It noted that the ratio of BdL's assets in foreign currency to broad money supply (M2), which is an important indicator of reserve adequacy, is within the historically comfortable level of between 60% and 70%. Also, it said that the Parliament's enactment of the 2019 budget, the ongoing progress to endorse the 2020 budget before the end of the year, and the Cabinet's approval of the electricity sector reform plan point to some progress on the government's economic agenda and could pave the way for the disbursement of some CEDRE-related funds. However, it indicated that Lebanon's external debt has underperformed broader emerging markets, and that the news flow has been increasingly negative in recent weeks. It considered that underlying foreign currency liquidity dynamics continue to be challenging despite the increase in BdL's assets in foreign currency. It attributed the prevailing challenges mainly to Lebanon's structural and elevated dependence on imports, which has widened the current account deficit to more than 20% of GDP. It noted that the wider deficit coincided with a deterioration in external financing conditions in recent years, as deposit inflows to the banking sector slowed down. It added that BdL has recently stepped in to finance the government's external obligations, including the principal payments and coupons of maturing Eurobonds.

In parallel, it indicated that the likelihood of financial support from Gulf Cooperation Council (GCC) countries has increased, even though the nature of any potential support remains uncertain. It said that the materialization of GCC financial support would reduce Lebanon's external financing gap that it estimates at $6.5bn per year, would preserve BdL's assets in foreign currency, and reduce the need for further BdL intervention in the near term. In addition, it considered that the disbursement of financial support from GCC countries would send a positive signal to the market that the implicit guarantee from Gulf countries would be restored, at least in part. It noted that this would have a significant and lasting impact on depositor and investor sentiment towards Lebanon, which would encourage higher capital inflows and ease external funding constraints in the medium term.

However, it said that the GCC financial support would be by itself insufficient to address Lebanon's underlying imbalances, as it considered that the improvement of the country's fiscal and external imbalances depends on the implementation of significant structural reforms. It considered that Lebanese authorities have made efforts to implement such reforms, but expected these efforts to remain subject to domestic political uncertainties. It cautioned from a slippage in the reform agenda once the materialization of GCC financial support eases economic pressure. In this regard, it indicated that conditionality associated with any GCC support package for Lebanon would encourage authorities to continue with the implementation of reforms.

Value of cleared checks down 15%, returned checks down 9% in first nine months of 2019

The value of cleared checks reached $42.4bn in the first nine months of 2019, constituting a decline of 14.6% from $49.7bn in the same period of 2018. In comparison, the value of cleared checks decreased by 1.2% in the first nine months of 2018 from the same period of 2017. The value of cleared checks in Lebanese pounds was nearly unchanged year-on-year at the equivalent of $16.1bn in the first nine months of 2019, while the value of cleared checks in foreign currencies declined by 21.5% to $26.3bn in the covered period. The dollarization rate of cleared checks regressed from 67.4% in the first nine months of 2018 to 62% in the same period of 2019. There were 7.8 million cleared checks in the first nine months of 2019, down by 12.1% from 8.9 million in the first nine months of 2018.

In parallel, the amount of returned checks in domestic and foreign currencies was $1.05bn in the first nine months of 2019 compared to $1.16bn in the same period of 2018, while it was unchanged from the first nine months of 2017. This constituted a decrease of 9.4% in the first nine months of 2019 relative to a rise of 10.4% in the first nine months of 2018 from the same period of 2017. Also, there were 196,153 returned checks in the first nine months of 2019, down by 2.4% from 201,004 returned checks in the same period of 2018.

Association of banks amends reference rate on US dollar lending

The Association of Banks in Lebanon (ABL) recommended to its member banks to increase the Beirut Reference Rate (BRR) in US dollars from 10.14% in September 2019 to 10.39% in October 2019. The rate, considered as the reference rate for lending in foreign currency, replaced the London Interbank Offered Rate (LIBOR) in 2009, as the ABL decided that the LIBOR does not reflect the cost of funding and lending in Lebanon. In addition, the ABL recommended to its member banks to maintain the BRR in Lebanese pounds at 13.49% in October 2019, unchanged from September 2019. The BRR in US dollars and Lebanese pounds were adopted in March and May 2009, respectively. The ABL considers that the BRR does not replace the Beirut Prime Lending Rate in each currency, but constitutes the basis for calculating the prime rate after adding the cost of liquidity and refinancing, credit risk and the profitability of banks.

Coincident Indicator down 3% in first seven months of 2019

Banque du Liban's Coincident Indicator, an index of economic activity in Lebanon, reached 304.3 points in July 2019 compared to 293.1 in June 2019 and 306.7 in July 2018. The Coincident Indicator, an average of eight weighted economic indicators, increased by 3.8% month-on-month and regressed by 0.8% year-on-year in July 2019. The indicator averaged 302.1 in the first seven months of 2019, constituting a decline of 2.9% from an average of 311 in the same period of 2018. Also, the indicator averaged 302.5 in the 12 months ending July 2019, compared to an average of 302.7 in the 12-month period ending June 2019 and to an average of 310 in the 12 months ending July 2018. As a result, the 12-month average coincident indicator was nearly unchanged month-on-month, while it regressed by 2.4% year-on-year. In parallel, the indicator regressed 16 times and improved 11 times on a monthly basis in the month of July 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.

UAE lifts travel ban for its citizens to Lebanon

The United Arab Emirates announced on October 7, 2019 that it lifted the travel ban it had imposed since February 2016 on its nationals coming to Lebanon. The announcement was made during the UAE-Lebanon Investment Forum that was held in Abu Dhabi and that aimed to strengthen economic cooperation between the two countries and to encourage Emirati investments in Lebanon. The UAE reiterated its support for Lebanon and stressed that it will continue to back the country in order to preserve its security and stability, and considered that Lebanon's investment climate has become more stable. The UAE's decision follows Saudi Arabia's lifting in February 2019 of its 15-month travel warning for its nationals traveling to Lebanon.

Nationals from the GCC, including the UAE, have historically played an important role in Lebanon's economy, specifically in the tourism and real estate sectors. The number of incoming visitors from the UAE to Lebanon reached 1,548 in the first eight months of 2019 compared to 34,563 visitors in the same period of 2010, the record year for tourism activity in Lebanon. Emirati visitors accounted for 0.1% of total tourist arrivals to Lebanon in the first eight months of this year relative to 2.3% in 2010. In addition, the number of visitors from the UAE accounted for 0.3% of tourist arrivals from Arab countries in the first eight months of 2019 compared to a share of 5.6% in 2010. Further, visitors from the UAE accounted for 10% of total tourist expenditures in the first half of 2019, the latest available figures, compared to about 11% of total tourist spending in the same period of 2010.

Number of real estate transactions down 15% in first nine months of 2019

Figures released by the Ministry of Finance indicate that 36,952 real estate transactions took place in the first nine months of 2019, constituting a decrease of 14.6% from 43,263 deals in the same period of 2018. In comparison, there were 51,993 real estate transactions in the first nine months of 2017 and 45,848 deals in the same period of 2016. There were 6,799 real estate transactions in the Baabda area in the first nine months of 2019, representing 18.4% of the total. The North followed with 5,848 deals (15.8%), then the Zahlé area with 4,822 transactions (13%), the South with 4,755 deals (12.9%), the Metn district with 4,164 transactions (11.3%), the Keserwan region with 3,439 deals (9.3%), the Nabatieh area with 3,177 transactions (8.6%), and Beirut with 2,768 deals (7.5%).

Also, the aggregate amount of real estate transactions reached $4.7bn in the first nine months of 2019 and decreased by 19% from $5.8bn in the same period of 2018. In comparison, the amount of real estate deals regressed by 16.8% in the first nine months of 2018 and grew by 14.8% in the same period of 2017. Further, the value of real estate transactions in Beirut totaled $1.5bn and accounted for 32% of the total in the first nine months of 2019. The Metn district followed with $878.6m (18.5%), then the Baabda region with $819.5m (17.3%), the Keserwan area with $450.3m (9.5%), the South with $408.4m (8.6%), the North with $309.1m (6.5%), the Zahlé area with $171.8m (3.6%), and the Nabatieh region with $141.2m (3%).

In parallel, the average amount per real estate transaction was $128,228 in the first nine months of 2019, down by 5% from an average of $135,021 in the same period of 2018 and relative to an average of $135,038 in the first nine months of 2017. Further, there were 758 real estate transactions executed by foreigners in the first nine months of 2019, constituting a decline of 10.3% from 845 deals in the same period of 2018 and compared to 923 transactions in the first nine months of 2017. The number of real estate deals executed by foreigners accounted for 2.1% of total real estate transactions in the first nine months of 2019, relative to 2% in the same period of 2018 and to 1.8% of deals in the first nine months of 2017. Further, 24.5% of real estate transactions executed by foreigners in the covered period were in the Baabda district, followed by Beirut (17.5%), the South (16.9%), the Metn region (13.1%), the North (9.9%), the Keserwan region (8.8%), the Zahlé area (8%), and the Nabatieh region (1.2%). Also, Saudi nationals accounted for 18.4% of the total amount of real estate transactions executed by foreigners in September 2019, followed by Syrian citizens (8.1%), Jordanian nationals (4%), Algerian citizens (1.4%) and Omani nationals (1.3%).

Number of airport passengers up 3% in first nine months of 2019

Figures released by the Beirut-Rafic Hariri International Airport (HIA) show that 7,040,341 passengers utilized the airport (arrivals, departures and transit) in the first nine months of 2019, constituting an increase of 2.8% from 6,851,775 passengers in the same period of 2018. The number of arriving passengers increased by 1.2% year-on-year to 3,476,176 in the first nine months of 2019, compared to a growth of 7.8% in the same period last year and to a rise of 8.6% in the first nine months of 2017. Also, the number of departing passengers grew by 3.4% year-on-year to 3,527,406 in the first nine months of 2019, relative to an increase of 6.4% in the same period last year and to a rise of 8.4% in the first nine months of 2017.

In parallel, the airport's aircraft activity expanded by 0.5% annually to 56,785 take-offs and landings in the first nine months of 2019, relative to an increase of 3.5% in the same period of 2018 and to a growth of 0.6% in the first nine months of 2017. In addition, the HIA processed 67,820 metric tons of freight in the covered period that consisted of 38,761 tons of import freight and 29,059 tons of export freight. Middle East Airlines had 20,953 flights in the covered period and accounted for 37% of HIA's total aircraft activity.

Fiscal deficit narrows by 22% to $2.4bn in first seven months of 2019

Figures released by the Ministry of Finance show that the fiscal deficit reached $2.4bn in the first seven months of 2019 and narrowed by 21.7% from a deficit of $3.1bn in the same period of 2018. The deficit was equivalent to 25.7% of total budget and Treasury expenditures relative to 29.8% of spending in the same period last year. Government expenditures reached $9.4bn in the first seven months of 2019 and declined by 9.1% from the same period of 2018, while revenues regressed by 3.7% to $7bn. As such, the narrowing of the deficit reflects an annual drop of $940.1m in overall expenditures, which was partly offset by a decrease of $271.1m in total revenues in the covered period. The decline in spending is due to a decline of $557.7m in general expenditures, a decrease of $180.7m in transfers to municipalities, and a contraction of $159.6m in debt servicing outlays in the first seven months of 2019.

On the revenues side, tax receipts grew by 1% year-on-year to $5.6bn in the first seven months of 2019, of which 26.7%, or $1.5bn, were in VAT receipts that decreased by 8% annually. Tax receipts accounted for 83.2% of budgetary revenues and for 79.6% of Treasury and budgetary income in the covered period. The distribution of other tax revenues shows that receipts from taxes on income, profits & capital gains rose by 17% annually to $2.5bn in the first seven months of 2019; revenues from customs regressed by 5% to $748.6m; receipts from property taxes dropped by 25.1% to $346.3m; while revenues from taxes on goods & services grew by 2% to $258.2m, and receipts from stamp fees declined by 10.6% to $225.3m.

The distribution of income tax receipts shows that the tax on interest income accounted for 39.2% of income tax revenues in the first seven months of 2019, followed by the tax on profits with 34.6%, the tax on wages & salaries with 17.4%, and the capital gains tax with 8.3%. Receipts from the tax on interest income surged by 52.8%, revenues from the tax on profits rose by 4.3% and receipts from the tax on wages & salaries were unchanged; while revenues from the tax on capital gains declined by 2.5% year-on-year in the covered period. Also, the distribution of property taxes indicates that revenues from real estate registration fees fell by 34.1% year-on-year to $184.7m and receipts from the built property tax retreated by 16% to $117.2m in the first seven months of 2019, while revenues from the inheritance tax increased by 2.7% to $44.4m.

Further, non-tax budgetary receipts regressed by 3.5% year-on-year to $1.1bn in the covered period. They mainly included $701.7m in revenues generated from government properties that increased by 3.6% year-on-year, as well as $316.4m in receipts from administrative fees and charges that dropped by 14.5% annually. Receipts from telecommunication services decreased by 5.5% to $457.8m, and accounted for 65.2% of income from government properties and for 40.7% of non-tax budgetary revenues.

On the expenditures side, total budgetary spending, which includes general expenditures and debt servicing, declined by 7.7% year-on-year to $8.65bn in the first seven months of 2019. General spending decreased by 9% to $5.66bn in the covered period, and included $838.7m in transfers to Electricité du Liban (EdL) that dropped by 11.8% year-on-year, and $1.3bn in outlays from previous years that grew by 27.6% annually, among other general spending items. Also, debt servicing totaled $3bn in the first seven months of 2019 and declined by 5.1% from the same period of 2018. Interest payments on Lebanese pound-denominated debt dropped by 7.6% year-on-year to $1.74bn in the first seven months of 2019, while debt servicing on foreign currency debt decreased by 1.4% to $1.13bn. In addition, Treasury expenditures, excluding transfers to EdL, declined by 23.2% year-on-year to $738.7m in the covered period, as transfers to municipalities dropped by 39.4% to $278.1m in the first seven months of 2019. Further, the primary budget balance posted a surplus of $1bn in the first seven months of 2019, or 11.8% of budgetary expenditures, while the overall primary balance registered a surplus of $577.2m, or 6.2% of spending.

Fiscal Results in First Seven Months of Each Year

	2018 (US$m)	2019 (US$m)	Change (%)
Budget Revenues	6,663	6,678	0.2%
Tax Revenues	5,498	5,554	1.0%
Non-Tax Revenues	1,165	1,125	(3.5%)
of which Telecom revenues	*485*	*458*	*(5.5%)*
Budget Expenditures	9,363	8,646	(7.7%)
Budget Surplus/Deficit	**(2,700)**	**(1,968)**	**(27.1%)**
In % of budget expenditures	*-28.8%*	*-22.8%*	
Budget Primary Surplus	**446**	**1,018**	**128.5%**
In % of budget expenditures	*4.8%*	*11.8%*	
Treasury Receipts	584	298	(49.0%)
Treasury Expenditures	962	739	(23.2%)
Total Revenues	7,247	6,976	(3.7%)
Total Expenditures	10,325	9,385	(9.1%)
Total Deficit	**(3,078)**	**(2,409)**	**(21.7%)**
In % of total expenditures	*-29.8%*	*-25.7%*	
Total Primary Surplus/Deficit	**67.8**	**577.2**	**751.1%**
In % of total expenditures	*0.7%*	*6.2%*	

Source: Ministry of Finance, Byblos Research

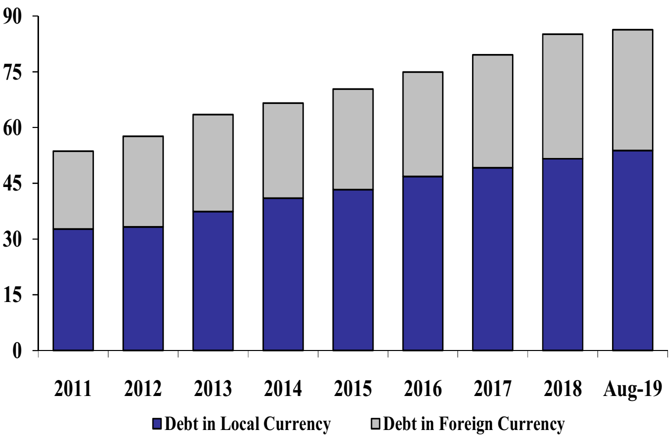
Gross public debt at $86.3bn at end-August 2019, foreign currency debt down 8% year-on-year

Lebanon's gross public debt reached $86.3bn at the end of August 2019, constituting an increase of 1.4% from $85.1bn at the end of 2018 and a rise of 3.1% from $83.7bn at end-August 2018. In nominal terms, the gross public debt grew by $1.15bn in the first eight months of 2019 relative to an increase of $4.2bn in the same period of 2018.

Debt denominated in Lebanese pounds totaled $53.8bn at end-August 2019, up by 4.2% from the end of 2018 and by 11.3% from end-August 2018; while debt denominated in foreign currency stood at $32.5bn, constituting a decrease of 3% from end-2018 and a decline of 8.1% from end-August 2018.

Local currency debt accounted for 62.3% of the gross public debt at the end of August 2019 compared to 57.7% a year earlier, while foreign currency-denominated debt represented the balance of 37.7% relative to 42.3% at end-August 2018. The weighted interest rate on outstanding Treasury bills was 6.44% and the rate on Eurobonds was 6.84% in August 2019. Further, the weighted life on Eurobonds was 7.45 years, while it was 1,619 days on Treasury bills and bonds.

Lebanon's Gross Public Debt (US$bn)



Source: Ministry of Finance, Byblos Research

Commercial banks held 36.9% of the public debt at end-August 2019 relative to 40.3% of the total at end-August 2018. BdL held 53.4% of the Lebanese pound-denominated public debt at the end of August 2019 compared to 48.4% a year earlier, while commercial banks held 32.5% of the local debt compared to 36.4% at end-August 2018. Also, public agencies, financial institutions and the public held 14.1% of the local debt at end-August 2019 relative to 15.2% at end-August 2018. Further, holders of Eurobonds and special T-bills in foreign currencies accounted for 93.7% of foreign currency-denominated debt holders at the end of August 2019, followed by multilateral institutions with 4.2% and foreign governments with 2.1%. In addition, the net public debt, which excludes public sector deposits at BdL and at commercial banks from overall debt figures, grew by 6.5% annually to $77.6bn at end-August 2019. Further, the gross market debt accounted for about 57% of the public debt. The gross market debt is the total public debt less the portfolios of BdL, the National Social Security Fund, as well as bilateral and multilateral loans.

Nearly 4,000 job vacancies available in the manufacturing sector

A survey conducted by the Association of Lebanese Industrialists (ALI) in cooperation with the Ministry of Industry to assess job vacancies in the industrial sector indicated that there are currently 3,850 job vacancies for Lebanese nationals in the manufacturing sector. It identified 1,500 vacancies in the ready-made garment sector, 500 vacancies in the footwear-manufacturing sector and 1,850 vacancies in other industries and factories. The Ministry of Industry and ALI posted the job vacancies on their websites, along with the information related to the job opportunities, including the name of the employer, the job position and requirements, as well as contact details.

In parallel, the ministry indicated that it intends to establish, in cooperation with the General Directorate of Vocational and Technical Education, training centers in Lebanon's industrial zones. It noted that the centers will provide intensive courses and training for a period of up to two months for workers and employees to prepare them for the 1,850 vacant positions in other industries and factories.

The ministry considered that the measures and initiatives that it is implementing have started to yield positive results for the manufacturing sector. It launched at the end of July 2019 the "Support the Nation by Buying Local Products" initiative, which is a national campaign that aims to raise awareness about the quality and competitiveness of locally-produced products, and to encourage the population to prioritize these products in its purchases. The ministry said that the development of the industrial sector would support economic activity, increase employment and help narrow the trade deficit.

In addition, ALI and the Port of Beirut signed a Memorandum of Understanding in March 2019, under the auspices of the Ministry of Industry and the Ministry of Public Works & Transport, in order to support the industrial sector. The agreement aimed to reduce duties by about 50% on raw materials imported by industrial firms through the port. The Ministry of Industry considered that the reduction in tariffs on industrial raw materials will enable manufacturing firms to compete in the domestic market. The decision came after ALI declared "a State of Emergency" in the manufacturing sector, as companies have been facing challenging economic conditions, mainly from smuggling and illegal manufacturing operations in the parallel economy.

According to the most recent national accounts for Lebanon, the manufacturing sector's contribution to GDP, at current prices, increased gradually from 7.7% of GDP in 2013 to 8.6% of GDP in 2017. However, the sector's activity posted a compound annual growth rate of -4.9% in the 2013-17 period when taking constant 2010 prices, which reflects declining output.

Lebanon and European Investment Bank agree on €225m financing package

The European Investment Bank (EIB) signed a €151m agreement with the Council for Development and Reconstruction to finance the rehabilitation and maintenance of 900 kilometers of existing primary, secondary and tertiary roads across Lebanon. Specifically, the financing agreement, which is part of EIB's Economic Resilience Initiative (ERI), intends to create direct and indirect jobs, lower vehicle operating costs, and improve road safety. The ERI aims to mobilize financing to support investment projects in Algeria, Egypt, Jordan, Lebanon, Libya, Morocco, Palestine and Tunisia, as well as in countries in the Western Balkans region, such as Albania, Bosnia & Herzegovina and Serbia, among others.

Also, the ERI Trust Fund has allocated a €1.8m grant to support the CDR in implementing the project, while the European Union's Neighborhood Investment Platform (NIP) approved an additional €20m investment grant. The NIP is a mechanism that aims to mobilize funding to finance capital-intensive infrastructure projects in sectors such as transport, energy, environment and social development. The platform provides funding to projects in Armenia, Azerbaijan, Egypt, Georgia, Jordan, Lebanon, Morocco, Tunisia, and Ukraine, among other countries. The EIB's financing will cover 36% of the overall cost of the project. The bank would co-finance the project with the World Bank, and has previously signed two financing agreements for an aggregate €135m to improve road networks in Lebanon.

In parallel, the EIB and Lebanon agreed on the terms of a €74m loan for the Greater Tripoli Basin Wastewater Networks project, which aims for the extension of wastewater networks in Tripoli and the surrounding areas. The financing agreement will be signed following the approval of the Council of Ministers. The project will also benefit from an additional €18.3m investment grant from the ERI Trust Fund and a €4m technical assistance grant to support its implementation. The Greater Tripoli Basin Wastewater Networks project aims to increase sewerage flow to the existing Tripoli wastewater treatment plant (WWTP). It is also part of a wider program to expand and optimize wastewater service coverage in the Tripoli area, and to enable the WWTP to operate at full capacity. The EIB's financing will cover 69% of the overall project cost.

Plan by Parliament's Economy & Trade Committee targets balanced budget by 2023

The Lebanese Parliament's National Economy, Trade, Industry & Planning Committee issued a five-year economic plan that aims to restore the confidence of the Lebanese citizens and potential international donors in the Lebanese economy and financial system. The plan's ultimate target is to reach a balanced budget by 2023 through the implementation of specific reform measures. The committee indicated that it will discuss the plan with stakeholders in Lebanon with the aim to refer it to the Parliament's plenary session for debate and ratification. It added that, once Parliament enacts the plan, the latter will constitute the framework and vision for upcoming budgets.

The plan, which sets 2019 as the starting year, consists of recurrent measures and the monetization of government assets. The recurrent measures aim to narrow the fiscal deficit by about $1bn per year on average throughout the 2019-23 period. It estimated that fighting customs evasion, enforcing the increase of custom duties, and reducing wasteful spending in the public sector would reduce the fiscal deficit by $1.2bn in 2019. It added that eliminating smuggling across the borders, as well as introducing a ceiling on Treasury transfers to Electricité du Liban (EdL), by enhancing bill collection, raising electricity tariffs and reducing technical losses, would narrow the fiscal deficit by $1bn in 2020. In addition, reforms in 2021 include additional cuts of EdL losses, reducing the government's operating expenditures by restructuring the public administration and modernizing the public sector, and imposing additional fees on non-Arab foreign labor in the country. Also, the plan intends to reform the telecommunications sector in 2021 by launching a third mobile telecommunications company and amending the management contracts of the foreign firms currently running the country's two cellular networks. The set of measures during the third year of the plan would cut the deficit by $1.05bn in 2021.

Further, the plan aims to eliminate EdL losses in 2022 through ongoing measures under the electricity sector reform plan, as well as to increase the value-added tax rate, introduce a new tax on hydrocarbon imports, and to offer new digital services in the telecommunication sector. These measures aim to narrow the deficit by $1.38bn in 2022. According to the plan, EdL would start generating revenues by 2023, which would contribute to the gradual increase in public revenues. Also, the plan intends to reform the Port of Beirut, Casino du Liban and the Beirut Hariri International Airport, and to activate the René Mouawad airport through a Build-Operate-Transfer contracts, which would cut the fiscal deficit by $1.52bn in 2023. The committee noted that it postponed unpopular measures, such as the increase in taxes, to the last two years of the plan, in order to demonstrate to citizens the government's commitment to the plan and the positive impact of the first three years of reforms on the fiscal deficit.

In parallel, the second set of reforms consists of five measures that aim to monetize government assets, including the sale of the government's assets in the National Deposit Guarantee Institution to Banque du Liban. The reforms also include other measures in the telecommunications, transportation and electricity sectors. The plan estimated that the second set of reforms would generate about $2.4bn during the 2019-23 period.

As a result, the committee expected the plan's full implementation to improve Lebanon's growth prospects. It projected real GDP growth to accelerate from zero percent in 2019 to 1.2% in 2020 and 1.8% in 2021, and to average 2% annually during the 2022-23 period. It forecast the country's nominal GDP to expand from $58bn in 2019 to $63bn in 2023. In addition, it anticipated that the public debt stock will increase from $89.6bn at end-2019 to $101.7bn at end-2023, while it projected the debt-to-GDP ratio to rise from 154% at end-2019 to 162% at end-2023. It noted that the persistent rise in the debt level throughout the five-year period points to the importance of attracting foreign capital and of enacting laws to improve the business environment and the economy's competitiveness. However, it predicted that the debt level will decrease once the budget deficit is eliminated.

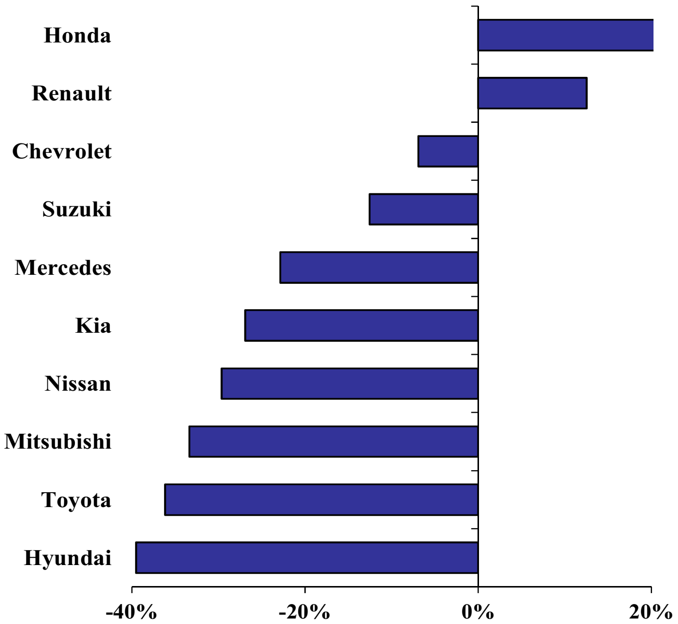
New car sales down 24% in first nine months of 2019

Figures released by the Association of Automobile Importers (AAI) in Lebanon show that dealers sold 19,865 new passenger cars in the first nine months of 2019, constituting a decline of 23.8% from 26,081 cars sold in the same period of 2018. Individuals and institutional clients purchased 1,838 new cars in January, 1,906 new vehicles in February, 2,190 new automobiles in March, 2,168 new cars in April, 2,458 new vehicles in May, 2,616 new automobiles in June, 2,948 new cars in July, 2,041 new vehicles in August, and 1,700 new automobiles in September 2019.

Japanese cars accounted for 39.3% of total car sales in the first nine months of 2019, followed by Korean vehicles with a 25.6% share, European automobiles (22.2%), American cars (9%), and Chinese vehicles (3.9%). Demand for Korean vehicles dropped by 32.7%, the sales of Japanese cars decreased by 26.6%, demand for new American automobiles declined by 14.6%, and the sales of European vehicles regressed by 12.5% annually in the first nine months of 2019. In contrast, the number of Chinese cars sold grew by 2.1% in the covered period.

Further, Kia is the leading brand in the Lebanese market with 3,008 passenger vehicles sold in the first nine months of 2019, followed by Nissan with 2,173 new cars sold, Toyota (2,161), Hyundai (2,067), and Renault (1,285).

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



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

In parallel, Lebanon's top five car distributors sold 12,041 vehicles in the first nine months of 2019 and accounted for 60.6% of new auto sales. NATCO sal sold 3,008 vehicles in the covered period, equivalent to 15.1% of the total, followed by Rasamny Younis Motor Co. sal with 2,895 automobiles (14.6%), Boustany United Machineries sal with 2,253 cars (11.3%), Century Motor Co. sal with 2,067 vehicles (10.4%), and Bassoul Heneiné sal with 1,818 cars (9.2%). The AAI stopped disclosing figures about the sales of commercial vehicles since June 2019.

Ogero and Dell Technologies sign MoU to improve digital connectivity and infrastructure in Lebanon

The state-owned telecommunications services provider Ogero signed with Dell Technologies a memorandum of understanding (MoU), which would enable Ogero to implement state-of-the art, secure, reliable and adaptable solutions to support Lebanon's digital connectivity and infrastructure. Specifically, the MoU allows the two organizations to implement cloud computing that would host Ogero's workload, and would help the latter meet customer demand efficiently amid a rapidly-evolving technological landscape.

Founded in 1972, Ogero is a state-owned provider of telecom services, including internet, landline and international calls, through a network of 50 point of sales deployed across Lebanon. Headquartered in Texas, Dell Technologies is an American multinational company that provides technology products & services, including computers, servers, smartphones, televisions, computer software, computer and network security, as well as information security services.

Arab Bank's net income in Lebanon down 6% to $16.5m in 2018

The Jordan-based Arab Bank plc announced audited net profits of $16.5m in 2018 for its operations in Lebanon, constituting a decrease of 5.5% from net earnings of $17.5m in 2017. The bank's net operating income rose by 4.1% to $55.8m in 2018, with net interest income increasing by 9.7% to $50.1m and net fees & commissions receipts growing by 2.5% to $7.5m.

Total operating expenditures rose by 7.5% to $35.2m in 2018, with staff expenses increasing by 8.6% to $18.3m and administrative & other operating expenditures growing by 7.4% to $14.8m. The bank's cost-to-income ratio increased from 56.2% in 2017 to 56.6% in 2018. The bank's return on assets in Lebanon reached 1.3% in 2018, unchanged from 2017, while its return on equity stood at 14.1% last year, down from 15.3% in 2017.

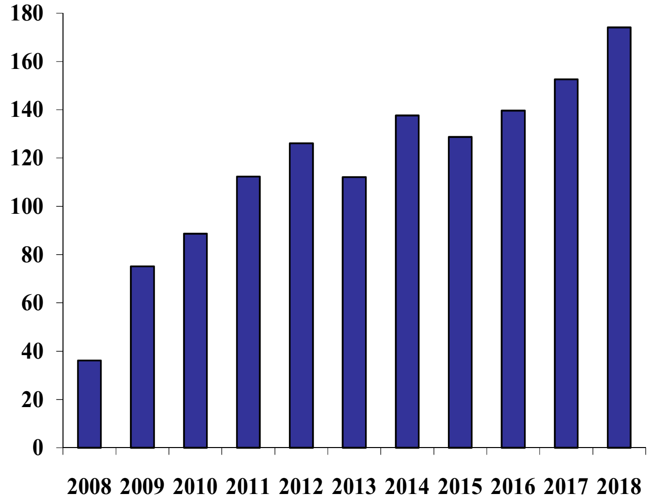
In parallel, total assets reached $1.3bn at the end of 2018, constituting a decrease of 5.6% from $1.38bn at end-2017; while loans & advances to customers, excluding loans & advances to related parties, regressed by 2.1% to $659m. Also, customer deposits, excluding deposits from related parties, totaled $997.5m at end-2018, down by 7.3% from a year earlier. The loans-to-deposits ratio increased from 62.6% at end-2017 to 66.1% at end-2018. The bank's shareholders' equity reached $117m at end-2018 and increased by 1.9% from $114.7m a year earlier.

Net profits of insurance sector up 14% to $174m in 2018

Figures released by the Insurance Control Commission (ICC) show that the declared net profits of 50 licensed insurance companies in Lebanon reached $174.1m in 2018, constituting an increase of 14.1% from $152.6m in 2017. The ICC revised downwards the sector's net profits for 2017 from a previous estimate of $167.2m. Net profits from the life category accounted for 67.9% of the sector's net earnings in 2018 relative to 72.2% in 2017, while those from the non-life segment represented 32.1% of the total compared to 27.8% in the previous year. The sector's net profit margin reached 10.6% in 2018, up from 9.3% in 2017. Further, net investment income of the insurance sector totaled $132.6m in 2018 and grew by a marginal 0.4% from the preceding year. The sector's return on assets increased from 3.2% in 2017 to 3.5% in 2018, while its return on equity rose from 13% in 2017 to 14.5% in 2018.

In parallel, the sector's gross written premiums totaled $1.64bn in 2018, and grew by a marginal 0.3% from premiums of $1.63bn in 2017. They consisted of net premiums that expanded by 1.3% to $1.3bn, policy fees that declined by 4% to $242m, and the cost of policies that reached $110.4m in 2018 compared to $111.8m in 2017.

Net Profits of the Insurance Sector ($m)



Source: Insurance Control Commission, Byblos Research

Also, net income from the life category totaled $118.2m in 2018 and increased by 7.4% year-on-year, while net profits from the non-life categories amounted to $55.9m and expanded by 31.6% in 2018. The results of the non-life branch show that the fire insurance category generated net profits of $16.5m in 2018, followed by the accidents insurance category with $12.5m, health insurance with $8.4m, the motor insurance category with $8.3m, transportation coverage with $4.9m and civil liability insurance with $2.3m, while the credit insurance and contractors all risk insurance categories posted losses of $0.7m and $0.4m, respectively.

Further, the sector's gross paid claims reached $937.2m in 2018 and declined by 3% from $966.4m in 2017. Gross claims paid for the medical category amounted to $362.6m and accounted for 38.7% of total claims settled by insurers last year. Claims disbursed for the life insurance category followed at $291.5m (31.1%), then the motor insurance category at $194.8m (20.8%), the fire insurance category at $33.1m (3.5%), the accidents insurance category at $25m (2.7%), and the transportation category at $11.7m (1.2%); while claims paid for other categories in the non-life segment totaled $18.6m, or 2% of total claims settled by insurers in 2018.

Also, general expenditures totaled $501.1m in 2018, up by 12.1% from $447m in the previous year, and included $246.3m in brokerage expenses that rose by 11.1% from 2017 and $190m in administration costs that grew by 11.3% year-on-year, while net reinsurance expenditures reached $83.3m in 2018 and surged by 62.2% from $51.3m in 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	Sep 2017	Aug 2018	Sep 2018	Change**	Risk Level
Political Risk Rating	55.5	54.0	54.0	▲	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	57.75	57.75	▲	High

MENA Average*	Sep 2017	Aug 2018	Sep 2018	Change**	Risk Level
Political Risk Rating	57.8	57.9	57.9	▼	High
Financial Risk Rating	38.1	38.7	38.8	▼	Low
Economic Risk Rating	30.4	33.2	33.1	▼	Moderate
Composite Risk Rating	63.1	64.9	64.9	▼	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	Under Review*	Caa1		Under Review*
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

**for downgrade*
Source: Rating agencies

Banking Sector Ratings	Outlook
Moody's Investors Service	Stable

Source: Moody's Investors Service

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