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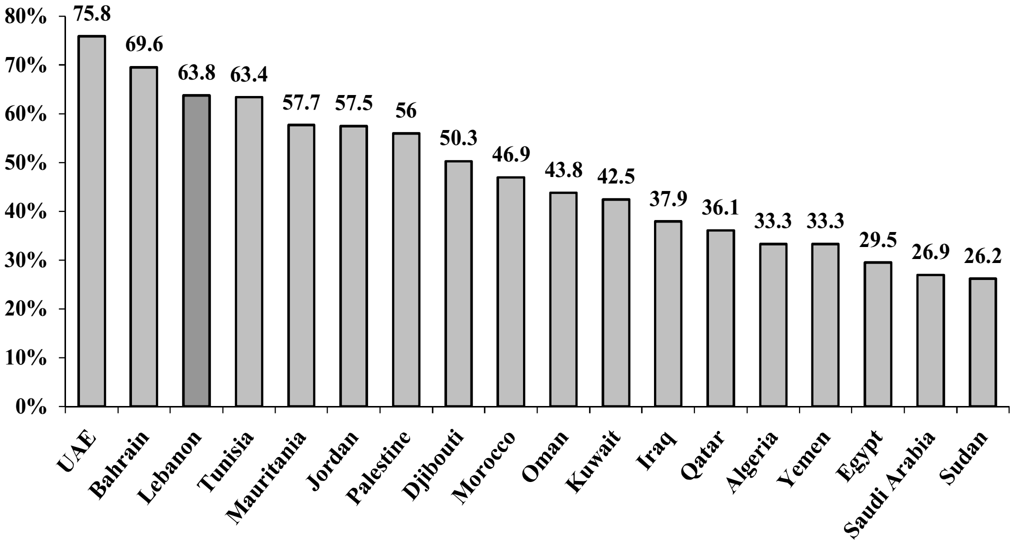
Economic Research & Analysis Department

LEBANON THIS WEEK

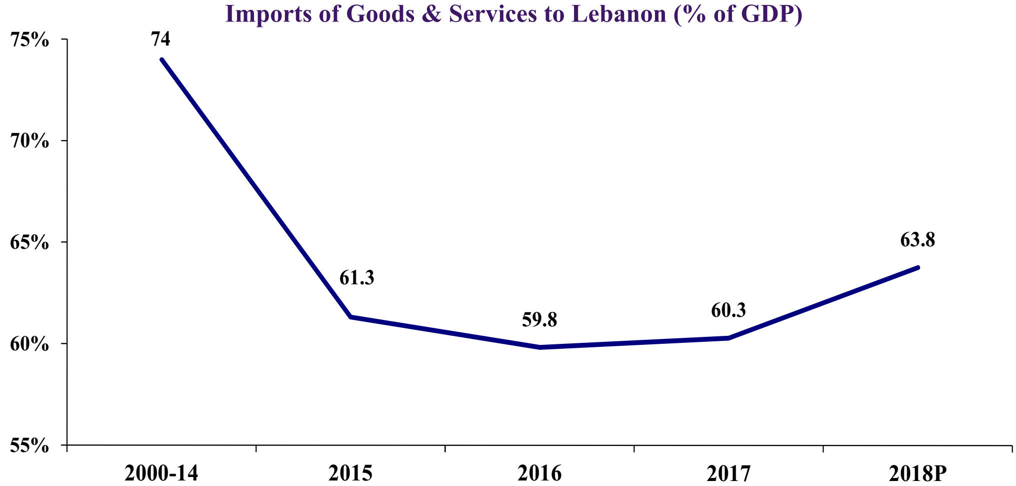
In This Issue

Charts of the Week

Projected Imports of Goods & Services to Arab Countries in 2018 (% of GDP)



Imports of Goods & Services to Lebanon (% of GDP)



Source: International Monetary Fund - November 2018, Institute of International Finance, Byblos Bank

Quote to Note

"The prolonged deadlock and the failure to form a government since May 2018 further constrain economic activity in the country."

S&P Global Ratings, on the opportunity costs of delaying the formation of a government

Number of the Week

6: Number of months since Mr. Saad Hariri's designation as Prime Minister, as at November 24, 2018

Lebanon in the News

$m *(unless otherwise mentioned)*	2017	Aug 2017	May 2018	Jun 2018	Jul 2018	Aug 2018	% Change*
Exports	2,844	251	254	215	218	229	(8.86)
Imports	19,582	1,685	1,591	1,616	2,318	1,820	7.98
Trade Balance	(16,738)	(1,435)	(1,337)	(1,401)	(2,100)	(1,591)	10.93
Balance of Payments	(156)	368	1,204	(639)	(549)	(408)	-
Checks Cleared in LBP	21,677	1,869	1,725	1,680	1,878	1,777	(4.90)
Checks Cleared in FC	46,578	4,100	3,841	3,471	3,953	3,662	(10.68)
Total Checks Cleared	68,255	5,969	5,566	5,151	5,831	5,439	(8.87)
Budget Deficit/Surplus	(3,301)	(513.5)	(930.6)	(36.1)	-	-	-
Budget Primary Balance	1,883	(192.8)	88.3	277.6	-	-	-
Airport Passengers***	8,235,845	1,067,441	598,602	762,041	1,022,467	1,159,811	8.65

$bn *(unless otherwise mentioned)*	2017	Aug 2017	May 2018	Jun 2018	Jul 2018	Aug 2018	% Change*
BdL FX Reserves	35.80	34.03	34.64	33.14	34.21	33.92	(0.31)
In months of Imports	18.57	20.19	21.77	20.51	14.76	18.64	(7.68)
Public Debt	79.53	77.29	82.51	82.95	82.90	83.69	8.30
Bank Assets	219.86	209.39	232.29	234.60	236.31	238.46	13.88
Bank Deposits (Private Sector)	168.66	169.15	172.38	173.32	173.01	173.22	2.41
Bank Loans to Private Sector	59.69	58.19	59.45	59.56	59.22	59.40	2.09
Money Supply M2	52.51	55.52	53.77	53.98	53.58	53.21	(4.16)
Money Supply M3	138.60	139.20	140.49	141.29	140.85	141.04	1.32
LBP Lending Rate (%)****	8.09	8.10	8.65	8.82	8.66	8.81	71bps
LBP Deposit Rate (%)	6.41	5.55	6.71	6.72	6.94	7.03	148bps
USD Lending Rate (%)	7.67	7.29	7.87	7.93	7.96	8.12	83bps
USD Deposit Rate (%)	3.89	3.63	4.11	4.09	4.14	4.20	57bps
Consumer Price Index**	4.4	5.1	6.5	7.6	7.6	6.7	160bps

** Year-on-Year ** Year-on-Year percentage change ***includes arrivals, departures, transit*
***** Starting January 2016, lending rates in Lebanese pounds are reported before any subsidy or facility from reserve requirements according to Intermediate Circular No 389, and as such they are not comparable year-on-year*
Note: bps i.e. basis points
Source: Association of Banks in Lebanon, Banque du Liban, Ministry of Finance, Central Administration of Statistics, Byblos Research

Capital Markets

Most Traded Stocks on BSE	Last Price ($)	% Change*	Total Volume	Weight in Market Capitalization
Byblos Common	1.41	0.00%	407,417	8.34%
Audi Listed	4.69	-1.68%	203,104	19.61%
BLOM Listed	9.31	0.11%	51,500	20.93%
Solidere "A"	6.25	-1.26%	26,485	6.54%
BLOM GDR	9.79	-0.61%	19,596	7.57%
HOLCIM	16.25	-2.11%	11,197	3.32%
Audi GDR	4.93	-6.10%	10,000	6.18%
Solidere "B"	6.39	1.75%	4,314	4.34%
Byblos Pref. 09	72.00	0.00%	-	1.51%
Byblos Pref. 08	71.00	0.00%	-	1.48%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
May 2019	6.00	98.00	10.36
Mar 2020	6.38	94.88	10.74
Apr 2021	8.25	94.00	11.19
Oct 2022	6.10	84.63	11.12
Jun 2025	6.25	77.63	11.16
Nov 2026	6.60	76.25	11.17
Feb 2030	6.65	73.25	10.81
Apr 2031	7.00	73.50	10.96
Nov 2035	7.05	72.75	10.53
Mar 2037	7.25	73.25	10.58

Source: Byblos Bank Capital Markets

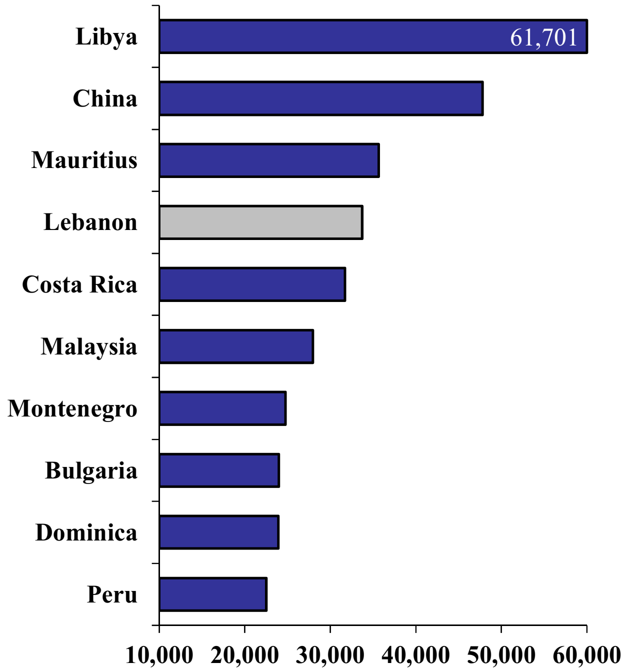
	Nov 19-23	Nov 12-16	% Change	October 2018	October 2017	% Change
Total shares traded	742,113	367,028	102.2	4,899,249	8,915,465	(45.0)
Total value traded	$2,963,497	$1,930,322	53.5	$34,380,794	$78,667,175	(56.3)
Market capitalization	$9.56bn	$9.64bn	(0.83)	$9.75bn	$11.27bn	(13.5)

Source: Beirut Stock Exchange (BSE)

Lebanon's net wealth per adult at $33,726 at end-June 2018

Global investment bank Credit Suisse estimated the net wealth per adult in Lebanon at $33,726 at the end of June 2018, nearly unchanged from $33,689 at end-June 2017 and relative to a peak of $37,111 at the end of 2007. Lebanon's net wealth per adult is the 53rd highest among 174 countries globally, the fourth highest among 48 upper middle-income countries (UMICs) and the eighth highest among 19 Arab countries at end-June 2018. Credit Suisse defines the net wealth per adult as the sum of a person's marketable value of financial and non-financial assets, less aggregate personal debt, with non-financial assets consisting mainly of real estate holdings. It provided annual data for the period between 2000 and 2016, and semi-annual figures for 2017 and 2018.

Net Wealth Per Adult in Top 10 UMICs (US$)



Source: Credit Suisse, Byblos Research

Globally, the net wealth per adult in Lebanon is higher than the wealth per adult in Poland ($31,794), Costa Rica ($31,717) and Panama ($28,897), and lower than it is in Mauritius ($35,668), Slovakia ($34,781) and Latvia ($33,958). It is lower than in Libya ($61,701), China ($47,810) and Mauritius among UMICs. Regionally, net wealth per adult in Lebanon is lower than the wealth per adult in Qatar ($121,638), Kuwait ($91,374), the UAE ($88,173), Libya, Saudi Arabia ($43,174), Oman ($41,804), and Bahrain ($38,882).

The value of financial assets per adult in Lebanon stood at $20,697 at the end of June 2018, down by 1.2% from $20,942 a year earlier and compared to a peak of $25,490 at the end of 2007. Lebanon's financial wealth per adult was the 45th highest globally at end-June 2018, the second highest among UMICs, behind only Mauritius ($21,587), and the sixth highest among Arab countries. Globally, the value of financial assets per adult in Lebanon was higher than in Croatia ($20,191), China ($19,862), and the Bahamas ($19,855), and lower than in Mauritius, Saudi Arabia ($21,509), and Hungary ($20,744). Regionally, it was lower than the financial wealth per adult in Qatar ($75,331), Kuwait ($57,524), the UAE ($54,872), Bahrain ($24,051), and Saudi Arabia.

Also, the value of non-financial assets per adult in Lebanon reached a peak of $23,109 at the end of June 2018, up by 5% from $22,019 a year earlier. Lebanon's non-financial assets per adult were the 52nd highest globally, the sixth highest among UMICs and the eighth highest among Arab countries at end-June 2018. Globally, they were higher than the non-financial assets per adult in Croatia ($22,112), Barbados ($21,694), and Poland ($21,133), and lower than those in Malaysia ($24,064), Mauritius ($23,255), and Costa Rica ($23,119). Regionally, they were lower than non-financial assets per adult in the UAE ($68,061), Qatar ($64,316), Kuwait ($55,883), Libya ($46,651), Oman ($30,085), Saudi Arabia ($29,670), and Bahrain ($29,188).

Further, the debt per adult in Lebanon reached a peak of $10,080 at the end of June 2018, up by 8.7% from $9,272 a year earlier. It was the 38th highest globally, the highest among UMICs and the fifth highest among Arab countries at end-June 2018. Globally, it was higher than the debt per adult in Chile ($9,968), Slovenia ($9,707), and the Czech Republic ($9,358), and lower than in Bahrain ($14,357), Estonia ($11,284) and Slovakia ($10,273). Regionally, it was lower than the debt per adult in the UAE ($34,760), Kuwait ($22,033), Qatar ($18,009), and Bahrain.

In parallel, Credit Suisse indicated that 77.4% of Lebanese adults each had a net wealth below $10,000 as at the end of June 2018, 18.8% had a net wealth between $10,000 and $100,000 each, 3.5% of Lebanese adults had an aggregate net wealth between $100,000 and $1m each, and 0.3% of Lebanese adults each had a total net wealth that exceeds $1m. Further, the median wealth per adult in Lebanon stood at $3,932 at the end of June 2018 relative to $6,125 at end-June 2017, and compared to a high of $6,327 at the end of 2016.

Lebanon streamlines establishment of offshore companies

The Lebanese government published the official text of Law 85 that amends some of the provisions of Legislative Decree 46/83 about the establishment and operations of offshore companies in the country, which the Lebanese Parliament enacted during its sessions of September 24 and 25, 2018.

The law aims to facilitate the establishment of offshore companies in Lebanon in order to support investments and economic activity in the country. In this context, lawmakers allowed one person to establish an offshore company in Lebanon, and adjusted the legal requirements accordingly. Prior to the amendments, an offshore company was limited to joint stock companies with a minimum of three partners. According to the official text of Law 85, several founders of offshore companies in Lebanon used to bring inactive partners to satisfy the regulatory requirement of having three partners, which was leading to legal issues and creating additional burdens for investors.

Lebanon ranks 113th globally, 13th among Arab economies in ease of paying taxes

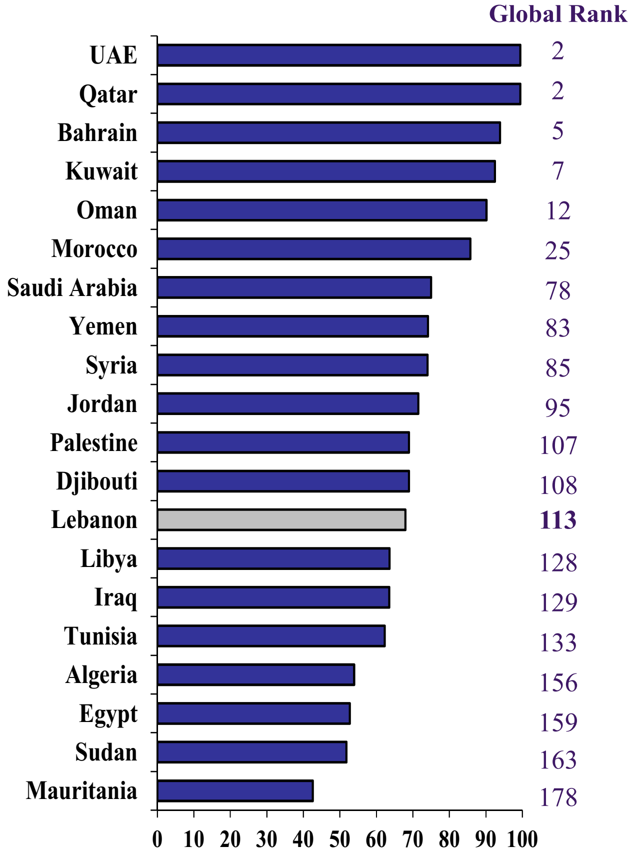
The PricewaterhouseCoopers/World Bank Group Paying Taxes for 2019 ranked Lebanon in 113th place among 189 countries and jurisdictions worldwide and in 13th place among 20 Arab economies included in the survey. Also, Lebanon ranked in 30th place among 51 upper middle-income countries (UMICs) included in the survey. Lebanon's global and regional ranks were unchanged from the 2018 survey.

The index measures the direct impact on a medium-size firm of the taxes and contributions it has to pay, and reflects the government-mandated tax burden that a standard business incurs. The index has four sub-indicators that consist of the number of tax payments incurred by a business, the total time to comply, the total tax rate as a percentage of commercial profits, and the processes that might take place after a firm files a tax return. Taxes include corporate, labor and other sub-categories.

Also, the ease of paying taxes rankings are based on the distance to frontier (DTF) score, instead of a simple percentile distribution. The DTF measures how far economies have progressed towards the best performer around the world on each sub-indicator, rather than simply looking at how they compare to other economies. The DTF scores range from zero to 100, with a score of 100 representing the "frontier", or the best performer. Lebanon's DTF score is 67.94 in the 2019 survey, down from 68.21 in the 2018 survey.

Globally, it is easier for companies in Lebanon to pay taxes than firms in China, Ghana and Mexico, but it is more difficult than firms in Djibouti, Papua New Guinea and Indonesia among economies with a GDP of $10bn or more. Also, it is easier for Lebanese companies to pay their taxes than firms in China, Mexico and Peru, and more difficult than firms in Jordan, Belarus and Guatemala among UMICs.

Ease of Paying Taxes in 2019
DTF Scores & Rankings of Arab Countries



Source: PricewaterhouseCoopers, World Bank, Byblos Research

The survey shows that a medium-size Lebanese firm pays its corporate income taxes once a year, performs 12 labor tax payments per year, and pays all of its other mandatory taxes seven times a year. In comparison, businesses in OECD countries pay corporate taxes once per year, labor taxes three times and other mandatory taxes seven times a year, relative to global averages of three times, nine times and 12 times per year, respectively.

Also, a standard Lebanese firm needs 100 hours per year to process its labor taxes; 40 hours to prepare, file and pay its corporate income taxes; and 41 hours to process its consumption taxes. In comparison, it takes a medium-size firm in OECD countries 42 hours to prepare, file and pay its corporate income taxes; 65 hours for its labor taxes and 54 hours for its consumption taxes, relative to the worldwide averages of 60 hours, 85 hours and 91 hours, respectively.

Further, the corporate income tax rate for a medium-size Lebanese business represents 6.2% of its commercial profits, the labor tax rate is equivalent to 24.5% of its profits, and the non-corporate and non-labor tax rates represent 0.4% of corporate profits. In comparison, the tax rate as a percentage of commercial profits at a standard firm in OECD countries is 15% for corporate tax, 23.3% for labor tax and 2% for other taxes, relative to global averages of 16.1%, 16.1% and 8.1%, respectively.

Finally, it takes a medium-size Lebanese firm 47 hours to prepare a VAT refund, 43.6 weeks to obtain a VAT refund, 23 hours to comply with a corporate income tax audit and 25.1 weeks to complete a corporate income tax correction. In comparison, medium-sized firms globally need an average of 19.6 hours to submit a VAT refund, 29 weeks to obtain a VAT refund, 15.1 hours to comply with a corporate income tax audit and 26.1 weeks to complete a corporate income tax correction.

Indicators for the 2019 Ease of Paying Taxes for Lebanon

	Global Rank	Arab Rank	UMICs Rank	Lebanon Score	Global Average	Arab Average	UMICs Average
Number of Tax Payments	92	11	28	20.0	23.8	20.2	21.2
Time to Comply*	79	13	17	181.0	236.8	201.5	298.7
Total tax Rate**	54	11	19	31.1	40.4	33.9	38.1
Post-Filing Index***	153	11	43	27.48	59.6	38.9	54.9

**Measured in hours **As a percentage of commercial profits ***As distance to frontier*

Source: PricewaterhouseCoopers, World Bank, Byblos Research

Banque du Liban has capacity to maintain monetary stability

Banque du Liban's Governor Riad Salamé expressed the need to quickly form a government in order to implement the reforms pledged at the CEDRE conference, including narrowing the fiscal deficit and reducing the size of the public sector, which would support market confidence. He indicated that Banque du Liban (BdL) has the capacity to maintain stability in the Lebanese market.

Governor Salamé pointed out that Lebanon's wide fiscal and current account deficits are consistently weighing on interest rates and on the availability of domestic financing. He noted that the fiscal deficit widened following the public-sector salary scale that was enacted by Parliament in 2017. As a result, he said that the cost of financing the deficit has increased, especially in the context of higher domestic interest rates that followed the increase in U.S. interest rates. He stressed the importance of implementing reforms aimed at downsizing the public sector, which has become a major burden on the economy. He considered that this would improve confidence and help attract investments.

In parallel, Governor Salamé indicated that BdL has maintained monetary stability, and that there is sufficient liquidity at BdL that can be utilized until the country is able to increase investments. He noted that Lebanon has a highly-dollarized economy, with about 75% of the country's transactions processed in US dollars. As such, he considered that the monetary policy's main priorities include attracting additional capital flows to the country, which would require maintaining confidence in the stability of the Lebanese pound exchange rate and allowing the market to determine interest rates. He added that other factors are needed to support investor confidence in Lebanon, such as the continuing availability of liquidity, the political environment, and the government's ability to contain the fiscal deficit.

In addition, Governor Salamé pointed out that the Lebanese economy would not benefit from a devaluation of the Lebanese pound, given the high dollarization rate in the country. He noted that the stability of the currency increases confidence in Lebanon's financial sector and economy. As such, he said that a currency devaluation would have a severe impact on the economy and on confidence, as it would increase inflation and would result in higher interest rates and nominal wages. Overall, he reiterated BdL's commitment to its policy of exchange rate stability.

Further, Governor Salamé indicated that the Lebanese banking sector's lending to the private sector has reached about $60bn, which is more than the size of the economy. He said that BdL's financial engineering operations were able to attract funds that have been beneficial to the economy, and that BdL will continue with such policies as long as they yield the required results. He pointed out that, following the increase in interest rates in the U.S. and in other emerging markets during 2018, BdL resorted to financial operations to support the competitiveness of Lebanese banks to attract funds. For instance, some banks offered double-digit interest rates on Lebanese pound deposits, provided that the latter are sourced from fresh or existing US dollar deposits, are then converted to Lebanese pounds and are blocked for a period of five years. But he considered that such operations have been limited and did not affect more than 1% of total deposits in the banking sector. He noted that the average deposit rate in Lebanese pounds is currently at 7.65%, while the same rate in US dollars is at 4.7%.

Finally, Governor Salamé indicated that the banking sector is resilient and sound, and meets international standards. He added that Lebanese banks are internationally recognized for their commitment to the implementation of international regulations, including those related to combating money laundering and the financing of terrorism. He reiterated that Lebanon continues to maintain good relations with external parties, which is crucial given the country's high reliance on capital inflows and trade.

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

In its valuation of the sovereign credits of 58 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 'expensive' by comparing the difference between the actual spreads and its model-implied spreads. The difference between the actual spread of 815 basis points (bps) on Lebanon's Eurobonds and the Goldman Sachs' model-implied spread of 446 bps stood at 369 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. Goldman Sachs' valuations are as of November 16, 2018. In comparison, the difference between the spread on Lebanon's Eurobonds and the bank's model-implied spread stood at 285 bps at the end of October 2018, which the investment bank also classified as 'undervalued'

Lebanon's Eurobonds, along with the Eurobonds of Côte d'Ivoire, El Salvador, Ethiopia, Kenya, Sri Lanka, Tunisia and Zambia, are the only 'undervalued' bonds among 24 'B'-rated sovereigns included in Goldman Sachs' universe as of November 16, 2018. The bank noted that the actual spread on Lebanese Eurobonds is the second widest across the 24 'B'-rated sovereigns and among 58 emerging markets. In addition, Goldman Sachs considered as 'undervalued' the Eurobonds of eight sovereigns in other rating categories. They consist of two 'AA'-rated sovereigns, one 'A'-rated country, one 'BBB'-rated sovereign and four 'BB'-rated countries.

More than 70% of Lebanese pound-denominated Treasury securities have five-year maturities or longer

Figures released by the Association of Banks in Lebanon (ABL) show that the face value of outstanding Treasury securities denominated in Lebanese pounds reached LBP72,052bn, or the equivalent of $47.8bn, at the end of October 2018, compared to LBP73,221bn, or $48.6bn, at the end of October 2017. The weighted interest rate on Lebanese Treasury securities denominated in Lebanese pounds was 6.13% in October 2018 compared to 6.36% in October 2017.

The distribution of outstanding Treasury securities denominated in Lebanese pounds at end-October 2018 shows that 15-year Treasury bonds accounted for 0.3%, or LBP215bn, of total securities in the local currency; 12-year Treasury securities represented 4.3% of the total (LBP3,076bn) and 10-year Treasury bonds had a share of 24.5% (LBP17,662bn). Also, the share of eight-year Treasury securities was 2.5% (LBP1,832bn), seven-year Treasury bonds represented 15.4% (LBP11,128bn), five-year Treasury securities accounted for 24.3% (LBP17,510bn), the share of three-year Treasury bonds was 14.3% (LBP10,287bn), two-year Treasury bills represented 10% (LBP7,186bn), one-year Treasury bills accounted for 3.5% (LBP2,520bn), the share of six-month Treasury bills was 0.7% (LBP527bn) and three-month Treasury bills represented 0.2% (LBP109bn). As such, 47% of outstanding Treasury securities have seven-year maturities or longer and 71.3% have five-year maturities or more.

In parallel, the face value of outstanding Treasury securities denominated in Lebanese pounds that matured in October 2018 was LBP946bn ($627.5m), of which 27.9% were one-year Treasury bonds, 21.7% were six-month treasury securities, 20.7% were three-year Treasury bonds, 16% were two-year Treasury securities, 10.7% were three-month Treasury securities and 3.1% were five-year Treasury securities.

According to the ABL, LBP1,386bn or the equivalent to $919.4m of outstanding Treasury bonds in Lebanese pounds will mature in the remainder of 2018, while LBP11,708bn ($7.8bn) will mature in 2019 and LBP10,649bn ($7.1bn) will come due in 2020.

Consumer Price Index up 6.3% in first 10 months of 2018

The Central Administration of Statistics' Consumer Price Index increased by 6.3% in the first 10 months of 2018 from the same period last year, and compared to a growth of 4.3% in the first 10 months of 2017. Also, the CPI increased by 6.3% in October 2018 from the same month of 2017. The prices of clothing & footwear grew by 16.5% in October 2018 from the same month in 2017, followed by the prices of water, electricity, gas & other fuels (+14.1%), transportation costs (+9.2%), recreation & entertainment costs (+6.2%), the cost of education (+5.4%), the prices of food & non-alcoholic beverages (+5.3%), actual rents (+4.3%), imputed rents (+3.7%), the prices of furnishings & household equipment (+2.6%), healthcare costs (+2.5%), miscellaneous goods & services costs (+2.3%), prices at restaurants & hotels (+2.2%), the prices of alcoholic beverages & tobacco (+1.8%), and communication costs (+0.9%). The distribution of actual rents shows that old rents grew by 6.3% annually in October 2018, while new rents increased by 2.9% year-on-year.

Further, the CPI grew by 1.1% in October 2018 from the preceding month compared to a month-on-month increase of 0.4% in September 2018. The prices of clothing & footwear increased by 10.2% month-on-month in October 2018, followed by the cost of education (+5.1%), the cost of water, electricity, gas & other fuels (+1.1%), transportation costs (+0.6%), the prices of furnishings & household equipment, the cost of food & non-alcoholic beverages, the cost of recreation & entertainment and actual rents (+0.3% each), miscellaneous goods & services (+0.2%), and the prices of alcoholic beverages & tobacco and imputed rents (+0.1% each). The prices at restaurants & hotels, and communication and healthcare costs were unchanged in the covered month. The CPI increased by 1.9% month-on-month in October 2018 in Nabatieh, by 1.3% in the Bekaa, by 1.2% in the North, by 1.1% in each of Mount Lebanon and the South, and by 0.7% in Beirut. In parallel, the Education Price Index grew by 5% and the Fuel Price Index increased by 2.1% month-on-month in October 2018.

EU pledges €100m to support public education

The European Union (EU) and the Ministry of Education & Higher Education announced a new €100m financial package to support the education sector in Lebanon, which will be extended through the EU Regional Trust Fund. The funding consists of €80m to cover students' enrolment fees in primary education, teachers' salaries, as well as the maintenance of public schools during the school years 2018/19 and 2019/20. It also includes €10m earmarked for non-formal educational programs, in line with the ministry's policy and plans. The remaining €10m will be allocated to improve the quality of education at Lebanese schools, such as by introducing the child-centered teaching and learning approaches, as well as to strengthen the ministry's capacity to collect data and monitor the quality of educational services. The EU has provided €228m to the public education sector in Lebanon since 2012, in addition to important contributions from EU member states.

In parallel, the United Kingdom's government announced a £5m support package to UNICEF's non-formal education program in Lebanon, which target the most vulnerable children across the country. It noted that the funding will continue to support non-formal education and provide child protection to the most vulnerable, bringing the UK's support in this area to £65m over four years.

Figures published by the World Bank show that there were 327,951 Lebanese and non-Lebanese students in first shift public schools in Lebanon in 2017, up by 13,225 students from 2016 and by 51,832 students since 2011. The number of students grew by 19% between 2011 and 2017 due to an increase of 3.2 times in the number of non-Lebanese students, mainly Syrian pupils.

Trade deficit widens by 5% to $13bn in first nine months of 2018

Total imports reached $15.2bn in the first nine months of 2018, constituting an increase of 4.9% from $14.5bn in the same period of 2017; while aggregate exports grew by 4.1% year-on-year to $2.2bn in the covered period. As such, the trade deficit widened by 5% annually to $13bn in the first nine months of 2018 due to an increase of $702.2m in imports, which were partly offset by a rise of $86.8m in exports.

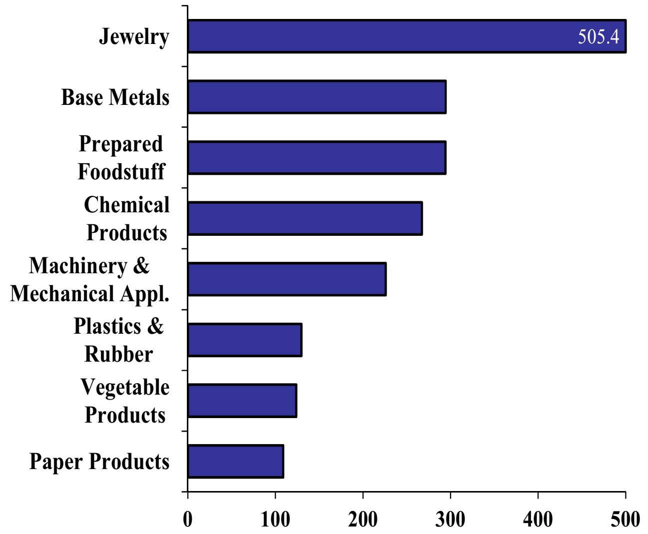
The growth in imports during the covered period was mainly due to an increase of $730.2m, or 6.5%, in imported non-hydrocarbon products, which was marginally offset by a decrease of $28m, or 0.9%, in imported mineral products. Imported oil & mineral fuels reached $3.2bn in the first nine months of 2018 and accounted for 21.1% of total imports in the covered period.

In addition, the increase in exports in the first nine months of 2018 was mainly due to a surge of $50.6m, or 20.8%, in exported base metals; a growth of $44.5m, or 9.7%, in the exports of jewelry; a rise of $27.5m, or 11.5%, in exported chemical products; and an increase of $23.2m, or 21.7%, in the exports of plastics & rubber. They were partly offset by a decline of $40.2m, or 12%, in the exports of prepared foodstuff; a drop of $19.8m, or 48.2%, in exported mineral products; and a decrease of $11.8m, or 23.4%, in textile exports.

Further, exported goods to the UAE expanded by 77.6% year-on-year in the first nine months of 2018, those to Qatar grew by 48.5% and exports to Turkey increased by 18.7% year-on-year. In contrast, exported goods to South Africa dropped by 36.1%, those to Syria fell by 25.4%, exported goods to Iraq decreased by 16.7%, those to Saudi Arabia declined by 13.8%, and exports to Switzerland regressed by 5.2% year-on-year in the covered period. Re-exports totaled $246.1m in the first nine months of 2018 compared to $570.8m in the same period of 2017. Also, the Port of Beirut was the exit point for 51% of Lebanon's exports in the first nine months of 2018, followed by the Hariri International Airport (33%), the Port of Tripoli (8.5%), the Masnaa crossing point (4.5%), and the Port of Saida (1.5%).

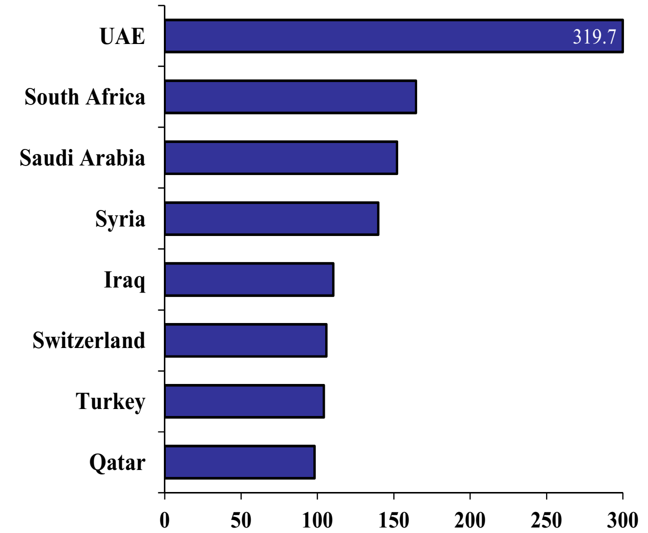
In parallel, Lebanon's main non-hydrocarbon imports were machinery & mechanical appliances that reached $1.77bn in the first nine months of 2018 and increased by 23.6% from the same period of 2017. Imported chemical products followed at $1.65bn (+5.9%), then vehicles, aircraft & vessels at $1.27bn (-8.1%), jewelry at $1bn (+36.9%), prepared foodstuff at $998.6m (-2%), base metals at $964.3m (+3%) and animal products at $753m (+15.8%). The Port of Beirut was the entry point for 72.3% of Lebanon's merchandise imports in the covered period, followed by the Hariri International Airport (19.8%), the Port of Tripoli (6.4%), and the Port of Saida (1.1%).

Main Lebanese Exports* (US$m)



**in the first nine months of 2018*
Source: Lebanese Customs Administration, Byblos Research

Main Destinations of Lebanese Exports* (US$m)



**in the first nine months of 2018*
Source: Lebanese Customs Administration, Byblos Research

China was the main source of imports with $1.54bn, or 10.2% of the total, in the first nine months of 2018, followed by Greece with $1.3bn (8.5%), Italy with $1.2bn (7.7%), the U.S. with $1.1bn (7.3%), Germany with $872.7m (5.8%), Turkey with $739.3m (4.9%), and Russia with $522.3m (3.4%). Imported goods from Turkey expanded by 28.2% year-on-year in the covered period, those from Greece grew by 25%, imports from China rose by 11.1% and those from the U.S. increased by 0.6% year-on-year in the covered period. In contrast, imported goods from Russia dropped by 11.2%, those from Italy decreased by 8.7% and imports from Germany declined by 2.3% year-on-year in the first nine months of 2018.

Ratings on Byblos Bank and four other banks affirmed, outlook revised to 'negative'

Capital Intelligence Ratings (CI) affirmed at 'B' the long- and short-term foreign-currency ratings (FCRs) of Byblos Bank, as well as the ratings on Bank Audi, BLOM Bank, Crédit Libanais and Fransabank. It also maintained at 'BBB-' the financial strength rating (FSR) of BLOM Bank and Bank Audi, and at 'BB+' the FSR of Byblos Bank, Crédit Libanais and Fransabank. The agency also kept the Support Level of the five banks at '3', reflecting a high probability of support from Banque du Liban.

In parallel, the agency revised the outlook from 'stable' to 'negative' on the long-term FCRs and FSRs of the five banks, in line with its recent outlook revision on Lebanon's sovereign ratings. It noted that the banks' long- and short-term FCRs are highly correlated with the sovereign's creditworthiness and are constrained by the sovereign ratings. It attributed its outlook revision on the Lebanese sovereign to concerns about the sustained weakness in public and external finances amid the absence of an effective government that is capable of undertaking significant corrective measures and of unlocking international donor support pledged at the CEDRE conference. It added that the 'negative' outlook takes into account the adverse impact of the political impasse on the Lebanese economy, as well as the country's vulnerability to shifts in investor sentiment. Further, it considered that the 'negative' outlook on the FSR of the five banks reflects increased pressure on the banks' FSRs, stemming from the weakening operating environment and elevated exposure to sovereign credit risk, despite the effective management of the banks' balance sheets against elevated credit and geopolitical risks.

Top five freight forwarders' import activity down 12% in first nine months of 2018, export activity down 20%

Figures released by the Port of Beirut show that overall import shipping operations by the top five freight forwarders through the port reached 235,042 20-foot equivalent units (TEUs) in the first nine months of 2018, constituting a decrease of 12.2% from 267,647 TEUs in the same period of 2017. The five freight forwarders accounted for 75.2% of imports to the Lebanese market and for 49.6% of the total import freight forwarding market in the first nine months of 2018. Mediterranean Shipping Company (MSC) handled 93,379 TEUs in imports in the covered period, equivalent to a 19.7% share of the total freight forwarding import market. Merit Shipping followed with 51,213 TEUs (10.8%), then Metz Group with 33,263 TEUs (7%), Sealine Group with 30,532 TEUs (6.4%), and Tourism & Shipping Services with 26,655 TEUs (5.6%). Further, Tourism & Shipping Services registered a year-on-year increase of 125% in import shipping during the covered period, the highest growth rate among the top five freight forwarders, while Sealine Group posted a decline of 36%, the steepest drop in the first nine months of 2018.

In parallel, export shipping operations by the top five freight forwarders through the Port of Beirut reached 49,906 TEUs in the first nine months of 2018, constituting a decrease of 20.3% from 62,628 TEUs in the same period of 2017. The five freight forwarders accounted for 79.2% of exported Lebanese cargo and for 10.5% of the total export freight forwarding market in the first nine months of 2018. Merit Shipping handled 23,100 TEUs of freight in the covered period, equivalent to 36.6% of the Lebanese cargo export market. Metz Group followed with 8,402 TEUs (13.3%), then Sealine Group with 7,296 TEUs (11.6%), MAERSK Shipping with 5,704 TEUs (9%), and MSC Shipping with 5,404 (8.6%). Further, MAERSK shipping posted a year-on-year increase of 202% in export shipping in the covered period, the highest rise among the top five freight forwarders, while Metz Group posted a decrease of 39.3%, the steepest decline among the top five freight forwarders.

CMA CGM posts net profits of $76.5m in first nine months of 2018

The Lebanese-owned and France-based container-shipping firm CMA CGM declared consolidated net profits of $76.5m in the first nine months of 2018 down from net profits of $628m in the same period of 2017, as the growth in operating expenses was higher than the increase in revenues. The firm's core earnings before interest and taxes (EBIT), excluding disposals and impairment charges, reached $396.4m in the first nine months of 2018 relative to $1.3bn in the same period of 2017. Further, the company's revenues grew by 9.9% to $17.2bn in the first nine months of 2018, mainly due to a 10.7% increase in the company's container shipping segment. In parallel, the firm's operating expenses rose by 17.4% to $16.4bn in the first nine months of 2018 due to the rise of bunker prices, an increase of volumes carried, and the appreciation of the euro against the US dollars that negatively affected operating expenditures incurred in euro.

Further, the firm's consolidated assets reached $20.4bn at the end of September 2018, up by 3.8% from $19.6bn at end-2017. The value of its property and equipment was nearly unchanged from end-2017 to $10.1bn at the end of September 2018, with vessels accounting for $8.7bn or 86.4% of the total, followed by land & buildings at $475.9m (4.7%) and containers at $415.1m (4.1%), while other properties & equipment reached $479.1m (4.7%). Also, CMA CGM's return on invested capital, which measures how well the company is using its money to generate returns, regressed from 10.4% in the third quarter of 2017 to 4.6% in the third quarter of 2018.

CMA CGM is one of the largest container shipping company in the world and operates a fleet of 494 vessels, with a capacity of 2.53 million TEUs that serves over 420 commercial ports. In November 2018, Moody's Investors Service affirmed CMA CGM's corporate family rating at 'B1', its probability of default rating at 'B1-PD' and its senior unsecured bond ratings at 'B3', while it revised the outlook on all the ratings from 'positive' to 'negative' following CMA CGM's announcement on October 25, 2018 of its intention to make a tender offer to acquire supply chain management company CEVA logistics AG. It noted that the outlook revision also takes into account downside risks in the container shipping industry, including the U.S.-China trade tensions, rising fuel costs, and the upcoming IMO 2020 low sulphur fuel regulation. In parallel, S&P Global Ratings affirmed in November 2018 CMA CGM's long-term issuer rating at 'B+' with a 'positive' outlook.

Syrian affiliates of Lebanese banks register profits of SYP4.52bn in first nine months of 2018

Financial results issued by the affiliates of seven Lebanese banks operating in Syria show that their aggregate net profits reached SYP4.52bn in the first nine months of 2018, nearly unchanged from net earnings of SYP4.53bn in the same period of 2017. The appreciation of the Syrian pound from an average of SYP517.4 against the US dollar in the first nine months of 2017 to an average of SYP436 per US dollar in the same period of 2018 resulted in unrealized foreign exchange losses on the banks' structural positions of SYP50m in the covered period, relative to unrealized foreign exchange gains on structural positions of SYP226.9m in the same period of 2017. In US dollar terms, the net profits of the seven banks reached $10.4m relative to net earnings of $8.8m in the same period of 2017. The aggregate net income of the seven banks becomes SYP4.57bn, or $10.5m, in the first nine months of 2018 when excluding foreign exchange losses on structural positions, relative to earnings of SYP4.3bn, or $8.3m, in the same period of 2017. The earnings of Bank Audi Syria grew by SYP277.6m and those of Bank Al-Sharq, the affiliate of Banque Libano-Française sal, increased by SYP171.8m in the first nine months of 2018. In contrast, the earnings of Bank of Syria & Overseas dropped by SYP669.7bn in the covered period, the income of Fransabank Syria decreased by SYP358.1m and the profits of Banque BEMO Saudi Fransi regressed by SYP150.3m. In parallel, Syria Gulf Bank, the affiliate of First National Bank sal incurred losses of SYP472.2m in the first nine months of 2018 relative to losses of SYP1.4bn in the same period last year, while the income of Byblos Bank Syria shifted from profits of SYP132m in the first nine months of 2017 to losses of SYP50.7m in the covered period.

The net interest income of the seven banks totaled SYP10.9bn in the first nine months of 2018, constituting an increase of 1.9% from SYP10.7bn in the same period of 2017; while their net fees & commission receipts grew by 5.8% year-on-year to SYP3bn. In US dollar terms, the banks' net interest income totaled $24.9m in the first nine months of 2018, up by 21% year-on-year; while their net fees & commission income stood at $6.9m and expanded by 25.6% from $5.5m in the same period of 2017. The seven banks' operating income totaled SYP16.1bn in the covered period, constituting an increase of 4.7% from SYP15.4bn in the first nine months of 2017, while their operating expenses reached SYP10.1bn in the covered period and rose by 13.6% from the first nine months of 2017. In US dollar terms, the seven banks' operating income reached $37m in the first nine months of 2018, and grew by 24.2% from operating profits of $29.8m in the same period of 2017; while their operating expenses stood at $23.3m, up by 34.8% from $17.3m in the first nine months of 2017. The banks' operating income increases by 6.6% to SYP16.2bn in the first nine months of 2018 when excluding foreign exchange losses on structural positions, relative to SYP15.2bn in the same period of 2017.

In parallel, the banks' aggregate assets reached SYP880.5bn at the end of September 2018 and increased by 8.6% from SYP810.7bn at end-2017. In US dollar terms, the assets of the seven banks stood at $2bn at the end of September 2018 relative to $1.86bn at the end of 2017, amid a stable exchange rate of SYP436 per US dollar between the end of 2017 and end-September 2018. Also, the banks' total loans reached SYP156.4bn at end-September 2018 compared to SYP109.8bn at the end of 2017. In US dollar terms, the aggregate loans of the seven banks stood at $358.6m at the end of September 2018 relative to $251.8m at end-2017.

Further, the banks' customer deposits reached SYP599bn at the end of September 2018, increasing by 15.7% from SYP517.6bn at end-2017. In US dollar terms, customer deposits at the seven banks totaled $1.37bn at the end of September 2018 relative to $1.19bn at the end of 2017. The banks' loans-to-deposits ratio stood at 26.1% at the end of September 2018 relative to 21.2% at end-2017. Also, the aggregate shareholders' equity of the banks was SYP135.1bn, or $309.8m, at the end of September 2018, relative to SYP130.8bn, or $300m, at end-2017.

Results of Affiliates of Lebanese Banks in Syria in First Nine Months of 2018 ($USm)

	Banque BEMO Saudi Fransi	Bank of Syria & Overseas	Bank Audi Syria	Fransabank Syria	Byblos Bank Syria	Al-Sharq Bank	Syria Gulf Bank
Net Profits	4.6	3.7	2.1	0.2	-0.1	1.0	-1.1
Total Assets	654.6	398.7	271.9	262.6	183.4	147.9	100.4
*% Change** *	*13.7%*	*-3.2%*	*6.1%*	*9.3%*	*18.3%*	*40.8%*	*-13.0%*
Loans	144.4	18.0	21.2	60.8	47.3	51.3	15.6
*% Change** *	*46.8%*	*98.8%*	*-6.2%*	*25.5%*	*38.2%*	*103.9%*	*12.1%*
Customer Deposits	533.2	243.6	143.4	143.6	125.0	106.5	78.5
*% Change** *	*16.9%*	*1.8%*	*12.1%*	*25.8%*	*29.1%*	*66.7%*	*-11.6%*

**Change from end-2017*
Source: Banks' financial statements

Ratio Highlights

(in % unless specified)	2015	2016	2017e	Change*
Nominal GDP ($bn)	49.5	49.7	52.5	
Public Debt in Foreign Currency / GDP	54.7	56.6	57.9	1.30
Public Debt in Local Currency / GDP	87.4	94.1	93.6	(0.54)
Gross Public Debt / GDP	142.1	150.7	151.5	0.76
Total Gross External Debt / GDP	175.8	183.9	185.6	1.70
Trade Balance / GDP	(31.6)	(32.5)	(31.9)	0.60
Exports / Imports	15.9	15.6	14.5	(1.04)
Fiscal Revenues / GDP	19.3	20.0	22.1	2.17
Fiscal Expenditures / GDP	27.3	29.9	29.3	(0.62)
Fiscal Balance / GDP	(8.0)	(9.9)	(7.2)	2.79
Primary Balance / GDP	1.5	0.0	2.7	2.68
Gross Foreign Currency Reserves / M2	58.7	62.2	68.2	5.98
M3 / GDP	249.7	267.2	263.6	(3.61)
Commercial Banks Assets / GDP	375.7	411.1	418.8	7.69
Private Sector Deposits / GDP	306.2	327.0	321.3	(5.69)
Private Sector Loans / GDP	109.5	115.0	114.9	(0.16)
Private Sector Deposits Dollarization Rate	64.9	65.8	68.7	2.88
Private Sector Lending Dollarization Rate	74.8	72.6	71.0	(1.61)

*Change in percentage points 16/17

**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

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	Dec 2016	Nov 2017	Dec 2017	Change**	Risk Level
Political Risk Rating	55	54.5	55	⧓	High
Financial Risk Rating	36.5	33.0	33.0	▲	Moderate
Economic Risk Rating	30.5	27.5	28.5	▲	High
Composite Risk Rating	61.0	57.5	58.25	▲	High

MENA Average*	Dec 2016	Nov 2017	Dec 2017	Change**	Risk Level
Political Risk Rating	57.6	58.0	58.2	▼	High
Financial Risk Rating	38.3	38.5	38.5	▼	Low
Economic Risk Rating	29.6	31.0	30.9	▼	Moderate
Composite Risk Rating	62.8	63.8	63.9	▼	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	B3	NP	Stable	B3		Stable
Fitch Ratings	B-	B	Stable	B-		Stable
Standard & Poor's	B-	B	Stable	B-	B	Stable
Capital Intelligence Ratings	B	B	Negative	B	B	Negative

Source: Rating agencies

Banking Ratings	Outlook
Moody's	Stable

Source: Moody's Investor Services

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