

LEBANON THIS WEEK

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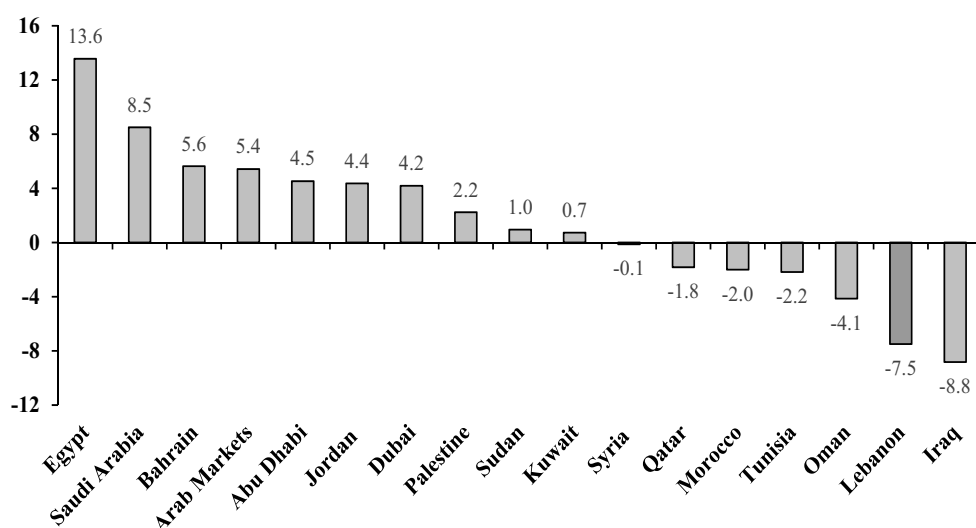
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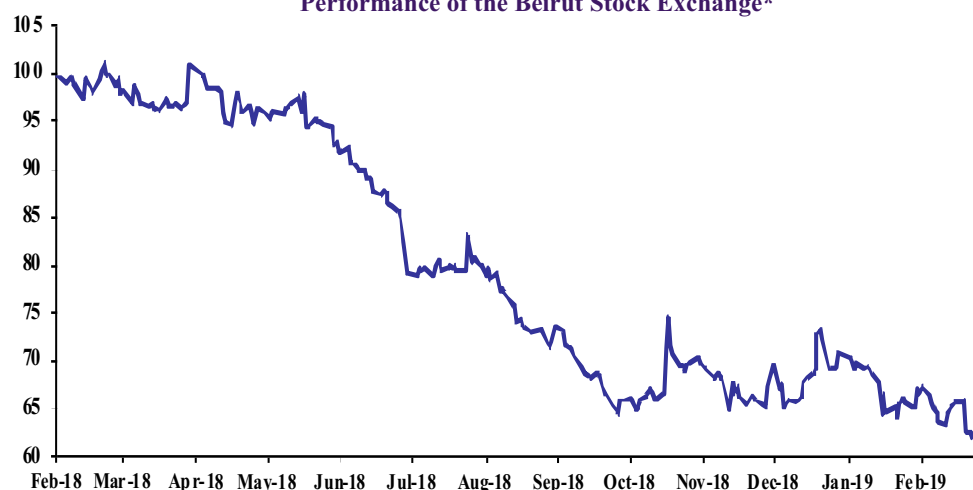
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Charts of the Week

Performance of Arab Stock Markets in the First Two Months of 2019 (% change)*



Performance of the Beirut Stock Exchange*



*Capital Markets Authority Value Weighted Index

Source: Local Stock Markets, Capital Markets Authority, S&P Dow Jones Indices, Arab Federation of Exchanges, Byblos Bank

Quote to Note

"The international community expects from the new government concrete signals that confirm the content of the Ministerial Statement in terms of the political will to implement sectoral and macroeconomic reforms."

The French Inter-ministerial Delegate in Charge of Mediterranean Affairs, Ambassador Pierre Duquesne, on the government's need to show its commitment to structural reforms

Number of the Week

0.6%: The spread between the weighted average interest rate for the last three months on new deposits and the weighted return on the uses of funds in Lebanese pounds at commercial banks in Lebanon as at December 2018, according to the Association of Banks in Lebanon

Lebanon in the News

\$m (unless otherwise mentioned)	2017	2018	% Change*	Dec-17	Oct-18	Nov-18	Dec-18
Exports	2,844	2,952	3.81	251	265	242	246
Imports	19,582	19,980	2.03	1,634	1,718	1,536	1569
Trade Balance	(16,738)	(17,028)	1.73	(1,383)	(1,454)	(1,294)	(1,323)
Balance of Payments	(156)	(4,823)	-	854	(1,810)	(954)	(748)
Checks Cleared in LBP	21,677	22,133	2.11	2,131	2,064	1,875	2,024
Checks Cleared in FC	46,578	44,436	(4.60)	4,127	4,017	3,481	3,455
Total Checks Cleared	68,255	66,569	(2.47)	6,258	6,081	5,356	5,479
Fiscal Deficit/Surplus**	(3,756)	(4,508)	-	(380.1)	-	-	-
Primary Balance**	1,428	(591)	-	(13.9)	-	-	-
Airport Passengers***	8,235,845	8,842,442	7.37	626,866	684,617	628,205	677,845
Consumer Price Index****	4.4	6.07	163bps	5.0	6.3	5.8	4.0

\$bn (unless otherwise mentioned)	Dec-17	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	% Change*
BdL FX Reserves	35.81	33.92	34.15	34.62	33.56	32.51	(9.19)
In months of Imports	18.57	18.64	23.75	20.15	21.85	20.72	(5.44)
Public Debt	79.53	83.70	83.85	84.04	83.66	85.13	7.04
Bank Assets	219.86	238.46	241.12	242.61	246.51	249.48	13.48
Bank Deposits (Private Sector)	168.66	173.22	173.94	173.25	173.19	174.28	3.33
Bank Loans to Private Sector	59.69	59.40	59.42	59.15	59.21	59.39	(0.50)
Money Supply M2	52.51	53.21	52.71	52.06	51.55	50.96	(2.95)
Money Supply M3	138.62	141.04	141.35	140.24	140.32	141.29	1.93
LBP Lending Rate (%)	8.09	8.81	9.31	9.60	10.15	9.97	188bps
LBP Deposit Rate (%)	6.41	7.03	7.39	7.74	7.97	8.30	189bps
USD Lending Rate (%)	7.67	8.12	8.11	8.30	8.57	8.57	90bps
USD Deposit Rate (%)	3.89	4.20	4.36	4.63	4.90	5.15	126bps

*year-on-year ** 2018 figures are for first nine months of the year ***includes arrivals, departures, transit ****year-on-year percentage change

Note: bps i.e. basis points

Source: Association of Banks in Lebanon, Banque du Liban, Ministry of Finance, Central Administration of Statistics, Byblos Research

Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
BLOM Listed	8.90	(1.11)	523,500	20.48%
Solidere "A"	6.55	9.35	96,593	7.01%
Solidere "B"	6.56	10.07	69,837	4.56%
BLOM GDR	8.85	(1.34)	4,000	7.00%
Byblos Common	1.32	(1.49)	1,410	7.99%
Byblos Pref. 08	75.00	7.14	250	1.61%
HOLCIM	15.50	0.00	225	3.24%
Audi Listed	4.65	0.00	-	19.90%
Audi GDR	4.88	0.00	-	6.26%
Byblos Pref. 09	70.00	0.00	-	1.50%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
May 2019	6.00	99.38	8.86
Mar 2020	6.38	97.25	9.28
Apr 2021	8.25	96.75	9.99
Oct 2022	6.10	89.88	9.50
Jun 2025	6.25	85.25	9.41
Nov 2026	6.60	85.25	9.32
Feb 2030	6.65	81.38	9.41
Apr 2031	7.00	81.25	9.65
Nov 2035	7.05	81.25	9.28
Mar 2037	7.25	81.38	9.41

Source: Byblos Bank Capital Markets

	Feb 25-Mar 1	Feb 18-22	% Change	February 2019	February 2018	% Change
Total shares traded	712,381	120,159,588	(99.4)	121,955,414	5,480,337	2,125
Total value traded	\$5,968,727	\$559,581,901	(98.9)	\$569,916,249	\$43,415,304	1,213
Market capitalization	\$9.34bn	\$9.29bn	0.55	\$9.34bn	\$11.65bn	(19.8)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Feb 22, 2019	Mar 1, 2019	% Change**
CDS 1-year*	668.06	655.75	(1.84)
CDS 3-year*	717.23	709.22	(1.12)
CDS 5-year*	699.95	692.33	(1.09)

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

CDX EM 30*	Feb 22, 2019	Mar 1, 2019	% Change***
CDS 5-year**	96.86	97.06	0.21

Source: ICE CMA; * CDX Emerging Market CDS Index-Series 30

mid-spread in bps *week-on-week

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

S&P Global Ratings affirmed Lebanon's long- and short-term foreign and local currency sovereign credit ratings at 'B-/B', and revised the outlook on the long-term ratings from 'stable' to 'negative'. It attributed the affirmation of the ratings to its expectation that deposit inflows to the banking system will increase given the formation of the government. Also, it anticipated that financial support from Qatar and potentially from Saudi Arabia, along with Banque du Liban's (BdL) servicing of the government's foreign currency debt, will remain sufficient to support the government's borrowing requirements and fund the country's external deficit over the next 12 months. It noted that the government's implementation of some of the crucial reforms that it included in the Ministerial Statement could strengthen depositor confidence. In addition, it pointed out that BdL plays a significant role in directing macroeconomic and financial policy, and assists in financing the fiscal deficit. It estimated that BdL's usable foreign currency reserves remain at a comfortable level and cover nine months of current account payments at the end of 2018. It said that the ratings also take into account Lebanon's wide fiscal and external deficits, high public debt levels, sectarian divisions and elevated regional security risks.

S&P indicated that the outlook revision reflects the risk that a lack of material reforms to reduce the fiscal deficit may lead to a deterioration in investor confidence, which could weigh on non-resident deposit flows and foreign currency reserves, and constrain Lebanon's ability to service its foreign currency debt. It pointed out that the new government has shown willingness to act and to address the prevailing challenges, such as through the quick drafting of the Ministerial Statement that included several structural reform measures. It expected the government to finalize the 2019 budget in the coming two months, and to include some of the reforms that authorities submitted at the CEDRE conference. It pointed out that the timely implementation of fiscal and economic reforms could help avoid the deterioration in public finances and investor confidence. However, it considered that the implementation of reforms remains uncertain. Also, it considered that the international community could require more substantial fiscal consolidation than just reducing the fiscal deficit by 1% of GDP annually over the next five years, following the significant widening of the deficit in 2018. In this context, it expected the disbursement of the \$11bn that the international community pledged at the CEDRE conference to be gradual and lower than the initially pledged amount, given that the funding is contingent on the implementation of reforms, including the reduction of public finance imbalances. Also, it expected economic activity to gradually improve in the coming years, supported by the government's Capital Investment Program and by the easing of tensions in Syria.

In parallel, S&P considered that Lebanon's fiscal flexibility remains constrained by high spending pressures from public-sector wages and debt servicing cost, as well as by the rise in Treasury transfers to Electricité du Liban amid higher oil prices in 2018. It added that the public-sector wage bill jumped by 30% in 2018 due to the massive increase in public-sector salaries and wages. It estimated the fiscal deficit to have widened from 7% of GDP in 2017 to 11% of GDP in 2018. It forecast the deficit to gradually narrow through 2021, and to average 10% of GDP annually in the 2019-22 period. But it noted that the narrowing of the deficit will not be enough to reverse the upward trend in the public debt level. It added that about 40% of the debt stock is denominated in foreign currency, but that non-residents hold less than 15% of the commercial debt. As a result, it considered that foreign-investor sentiment is not crucial to meeting the government's foreign currency financing needs.

S&P indicated that it could revise the outlook to 'stable' if the Lebanese government implements substantial economic and fiscal reforms that would support economic growth and reduce the government's debt levels over the medium term, including addressing the gaps and inefficiencies of the electricity sector, as well as reducing the debt servicing cost.

OECD supports Economic and Social Council in building consensus for reforms

The Organization for Economic Co-operation and Development (OECD) launched on February 27, 2019 the Building Consensus for Economic and Social Reform project in Lebanon. The project, which is supported by the German government, consists of training the members of Lebanon's Economic and Social Council (ECOSOC) to facilitate the implementation of the government's economic and social reform agenda. The OECD indicated that it will carry out the project under its MENA-OECD Initiative on Governance and Competitiveness for Development.

The OECD pointed out that the success of the reforms planned by the Lebanese government relies on extensive social dialogue, as well as on strong and transparent partnerships between the private and the public sectors in order to rebuild trust among various stakeholders. In this context, it considered that the ECOSOC could play an important role in building consensus for economic and social policies in Lebanon. As such, the OECD said that it will provide the ECOSOC with the tools to effectively lead social dialogue efforts about the country's priorities. Specifically, it noted that the program will help Lebanon's ECOSOC benefit from the expertise of other ECOSOCs around the world, and will provide consultation mechanisms, participatory approaches and solid analytical tools to build the needed consensus for reforms. Further, the OECD indicated that the project will focus on key policy areas under the government's reform agenda, including integrity and access to information, the social impact of fiscal reforms, business climate reforms, as well as fighting corruption.

The MENA-OECD Competitiveness Program is a strategic partnership between MENA and OECD economies to share knowledge, expertise and good practices. The program's objective is to contribute to the development of inclusive, sustainable and competitive economies across the region. The MENA-OECD Initiative covers Algeria, Bahrain, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Syria, Tunisia, the UAE and Yemen.



Top priority of government should be ratification of 2019 budget

Barclays Capital considered that the top priority of the new Lebanese government is to approve the 2019 draft budget law and send it to Parliament for ratification. It noted that the adoption of a budget for 2019 will send a strong message about the urgent need to address the country's fiscal imbalances. It considered that the 2019 budget represents a test for cohesive decision making and for the country's reform commitments at the CEDRE conference, especially about reducing the fiscal deficit by 1% of GDP annually over five years.

Barclays Capital indicated that the country's main political parties agreed during the summer of 2018 on 22 measures to reduce macro-economic imbalances that include eliminating the deficit of Electricité du Liban (EdL) within three years and increasing electricity capacity. However, it noted that political parties failed to reach an agreement on the timing to phase out electricity subsidies, whether before or after fully eliminating electricity blackouts, which means that addressing the issue of Treasury transfers to EdL could be too contentious. In addition, it considered that the agreement between the main political parties provides an idea about the government's potential roadmap for fiscal reforms. It added that fiscal measures include reforming the public sector pension system, freezing public-sector hiring in 2019, introducing a more transparent framework for subsequent hiring in the public administration and security forces, reducing the benefits of former Members of Parliament, and updating the public procurement law, among other measures.

Further, Barclays expected the implementation of the proposed reforms to be the biggest challenge facing the government. It noted that vested interests, corruption perceptions and implementation capacity will test the government's ability to implement structural reforms. As such, it considered that it is crucial for the government to rebuild trust during the first 100 days of its term through quick and tangible measures, and to gradually introduce long-term policy actions that would permanently address structural bottlenecks.

In parallel, it said that the majority of financial pledges at the CEDRE conference are soft loans from multilateral creditors to finance infrastructure projects. However, it noted that the disbursement of pledges could be slow and gradual, and would test Lebanon's implementation capacity and the new legal framework for public-private partnerships. It anticipated that the government could in the meantime accelerate its efforts to unlock additional financial support from Gulf Cooperation Council countries, given the country's elevated external financing needs and the time needed for the CEDRE financial commitments to materialize.

Occupancy rate at Beirut hotels estimated at 58% in 2018, revenues per available room at \$86

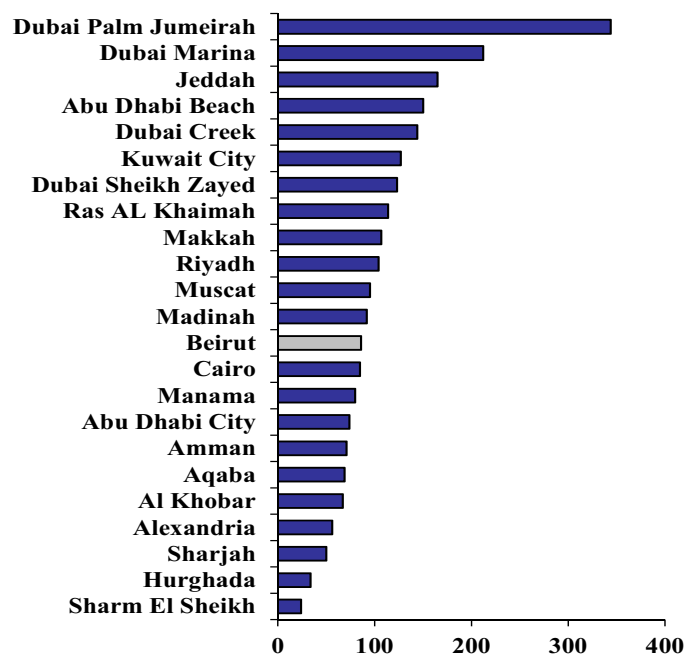
Colliers International estimated the average occupancy rate at hotels in Beirut at 58% in 2018, relative to an average rate of 65.1% in 23 Arab markets included in the survey. The estimated occupancy rate at Beirut hotels was the seventh lowest in the region last year, ahead of only Riyadh (56%), Sharm El Sheikh and Kuwait City (54% each), Amman (52%), Manama (51%) and Al Khobar (50%). The survey provides annual and three-months forecasts about the performance of the hotel sector in 23 markets in key MENA countries. Colliers International is a provider of commercial real estate services in over 69 countries worldwide.

Also, the average daily rate per room at Beirut hotels was \$150 in 2018, which is lower than the regional average of \$162. The average daily rate at Beirut hotels was the 11th lowest in the region, and was higher than daily rates in Madinah (\$149), Amman (\$138), Al Khobar (\$134), Cairo (\$118), Aqaba (\$110), Abu Dhabi City (\$99), Alexandria and Sharjah (\$71 each), Hurghada (\$54) and Sharm El Sheikh (\$44). Further, revenues per available room (RevPAR) were \$86 in Beirut in 2018, unchanged from 2017, and compared to a regional average of \$108. Beirut's RevPAR were the 11th lowest in the region, ahead of Cairo (\$85), Manama (\$80), Abu Dhabi City (\$74), Amman (\$71), Aqaba (\$69), Al Khobar (\$67), Alexandria (\$56), Sharjah (\$50), Hurghada (\$34) and Sharm El Sheikh (\$24).

In parallel, Colliers International projected the average occupancy rate at hotels in Beirut at 46% between December 2018 and February 2019, relative to an average rate of 66.2% in the region. The occupancy rate at Beirut hotels would be the second lowest in the region in the covered period, compared to Sharm El Sheikh (43%).

Also, the average daily rate per room at Beirut hotels is forecast at \$147 during the three months ending in February 2019, which is lower than the regional average of \$165. The average daily rate at Beirut hotels is expected to be the 12th lowest in the region in the covered period. Further, RevPAR are projected at \$68 in Beirut in the covered period, and to decline by 3% year-on-year, compared to a regional average of \$115.5. Beirut's RevPAR are expected to be the sixth lowest in the region, ahead of Amman (\$66), Aqaba (\$44), Alexandria (\$42), Hurghada (\$23), and Sharm El Sheikh (\$18).

Revenues Per Available Room at Hotels in Key Arab Markets in 2018 (US\$)



Source: Colliers International

Lebanon ranks third in Arab world on women's empowerment

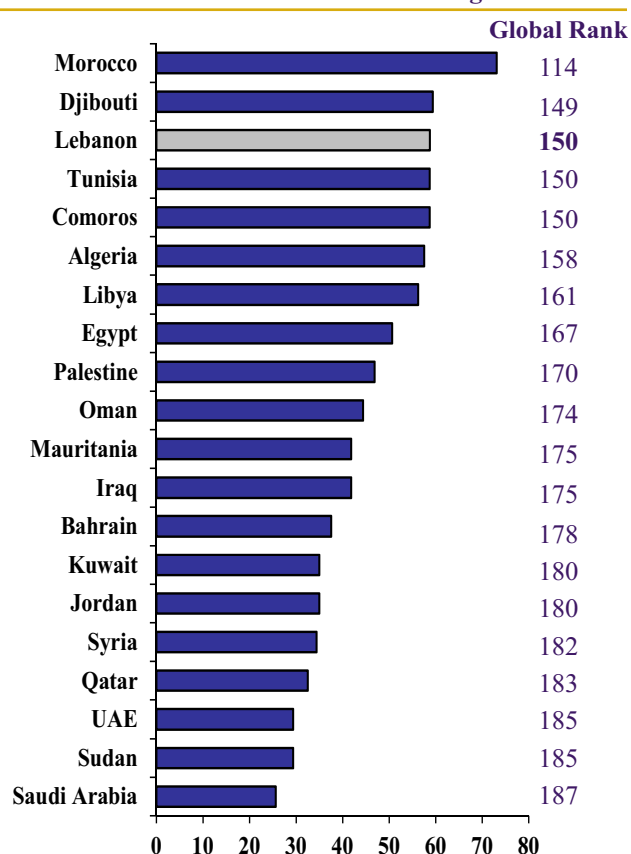
The World Bank's 2019 Women, Business and the Law (WBL) Index ranked Lebanon in 150th place among 187 countries around the world and in third place among 20 Arab economies. Lebanon also came in 42nd place among 50 upper middle-income countries (UMICs) included in the survey. Lebanon's global rank regressed by two spots from 148th place in the 2018 survey.

The index assesses how a country's legislation influences the equality of opportunities for women during different phases of their working lives, and how this, in turn, affects women's empowerment and their participation in the labor force. The index is an unweighted average of eight indicators that examine constraints on females' freedom of movement (Going Places), as well as measure laws and regulations affecting women's pay (Getting Paid), analyze laws affecting women's decisions to work (Starting a Job), and assess legal constraints about marriage (Getting Married). The other four indicators analyze the constraints that women face while starting and running businesses (Running a Business), examine laws affecting women's work after having children (Having Children), consider gender differences in property and inheritance (Managing Assets), and assess laws affecting the size of a woman's pension (Getting a Pension). A country's overall score ranges from zero to 100, with a score of 100 meaning that a country gives women and men equal legal rights in the eight measured areas.

Globally, Lebanon's legislation provides more empowerment to women than laws in Gabon, Haiti, and Algeria, but empowers women less than legislation in Indonesia, Senegal, and Botswana among economies with a GDP of \$10bn or more. Lebanon also came ahead of Gabon and Algeria, and ranked behind Equatorial Guinea and Botswana among UMICs, while it came behind only Morocco and Djibouti among Arab economies. Lebanon received a score of 58.75 points in the 2019 survey, which means that Lebanon's legislation provides women with nearly 60% of the legal rights provided to men on the eight indicators. Belgium, Denmark, France, Latvia, Luxembourg and Sweden are the only countries where men and women have equal legal rights across all indicators.

Lebanon's score was unchanged from the previous survey, but it improved from 56.3 points in the 2009 survey. Lebanon's score in the 2019 survey was also lower than the global average score of 74.7 points and the UMICs' average score of 75.9 points, but was higher than the Arab region's score of 45.3 points. The 2019 survey indicated that Lebanon, along with Algeria, Bahrain and Saudi Arabia, enacted laws against domestic violence.

Women, Business and the Law Index for 2019
Arab Countries' Scores & Rankings



Source: World Bank, Byblos Research

Components of 2019 Women, Business and the Law Index

	Global Rank	UMICs Rank	Arab Rank	Lebanon Score	Global Avg Score	UMICs Avg Score	Arab Avg Score
Going Places	1	1	1	100	88.1	89.5	53.8
Getting a Pension	56	9	4	75	73.5	68.5	60.0
Running a Business	73	17	3	75	83.3	81.5	77.5
Getting Paid	106	27	4	50	63.9	67.0	33.8
Starting a Job	128	34	7	50	75.7	76.5	43.8
Having Children	132	38	9	20	52.1	53.2	30.0
Getting Married	136	42	1	60	78.6	85.2	23.0
Managing Assets	157	43	3	40	82.5	86.0	41.0

Source: World Bank, Byblos Research



Banque du Liban affirms commitment to maintaining exchange rate stability

In the monthly meeting between Banque du Liban (BdL), the Banking Control Commission of Lebanon (BCCL) and the Association of Banks in Lebanon (ABL), Governor Riad Salamé indicated that the currency market has gradually normalized following the formation of a new Cabinet in Lebanon, and that BdL is noticing some selling of foreign currency in the market. He noted that the prices of Lebanese Eurobonds have been stable despite the downgrade in January of Lebanon's sovereign ratings by Moody's Investors Service. Further, he reiterated BdL's commitment to its interest rate policy and to the financial operations that it conducts with banks in order to maintain the stability of the exchange rate. He added that the balance of payments posted a deficit of \$1.3bn in January 2019 and hoped that this trend will be reversed in the wake of the government's formation.

In parallel, the ABL pointed out that the government's good intentions to implement reforms should be translated into concrete measures in order to fulfill the authorities' commitments at the CEDRE conference, including narrowing the fiscal deficit in the upcoming 2019 budget. Further, some ABL members expressed concerns about news that the 2019 budget targets a fiscal deficit in excess of 14% of GDP instead of a more acceptable deficit in the range of 8% of GDP to 9% of GDP. They also expressed concerns about negative campaigns targeting the banking sector under various guises. However, Governor Salamé said that he does not have information about the budget and that the Ministry of Finance could be in the process of adjusting its figures in line with the CEDRE requirements.

Regarding the upcoming Eurobond issuance, Governor Salamé indicated that the average yields on Lebanese Eurobonds is currently 9.37% and that, after the Cabinet grants the Finance Ministry the authority to issue the Eurobonds, the ministry will proceed with testing market sentiment about the offering. He added that Qatar's pledge to purchase Lebanese Eurobonds is a regular market transaction that could be in the form of a direct purchase of Eurobonds from the market and/or a subscription to the new issuance at market rates.

In parallel, the ABL raised the issue of the double taxation on the income of commercial banks in Lebanon. It noted that banks are paying an effective tax rate of about 45% on their income due to the double taxation, compared to the income tax rate of 17% that corporates are paying. It added that the double taxation has cost banks about \$750m in 2018 and comes amid heightened country risks following the downgrade of the sovereign ratings, which results in additional provisions on the banks' sovereign exposure on top of their provisions on their loan portfolios.

In addition, the ABL raised the issue of imposing a 7% tax on the interest rate that banks pay to BdL for the loans and credit facilities that BdL extends to the banking sector. It expressed concerns that banks might be subject to a tax charge and even to penalties dating back to 2014, even though banks are paying BdL the interest and not the other way around. It added that BdL collects the interest directly from the banks' accounts at BdL without deducting any tax on behalf the Treasury. Following the discussions, the ABL, BCCL and BdL agreed to form a small working group that consists of the directors of the legal and accounting departments at BdL, as well as the Secretary General of the ABL, in order to address and follow up on this matter.

Start of technical evaluation of proposals to build PV plants

The Lebanese Center for Energy Conservation (LCEC) announced that 28 out of the 42 consortiums that had submitted bids to build 12 photovoltaic (PV) plants in Lebanon qualified for the second stage, which consists of a technical evaluation of the offers. The 12 plants will be located in the Bekaa & Hermel, the North & Akkar, the South & Nabatieh, and Mount Lebanon, and will have an overall power capacity of 180 megawatts (MW), or 10MW to 15MW per plant. The LCEC noted that 16 consortiums that qualified for the second stage have applied to build the PV plants in the Bekaa & Hermel, five groups requested to build the farms in Mount Lebanon, four consortiums have bid to build the solar plants in the North & Akkar, and three consortiums applied to build the PV plants in the South & Nabatieh. The LCEC noted that the national committee assigned by the Ministry of Energy & Water has already started the technical evaluation of the proposals with the support of an international consultant.

In parallel, the LCEC announced that the International Renewable Energy Agency (IRENA) will conduct the Renewables Readiness Assessment (RRA) and the Renewables Mapping (REmap) studies in Lebanon, at the request of the Ministry of Energy & Water. IRENA's RRA assesses a country's conditions for the development and deployment of renewable energy, and identifies the actions required to improve those conditions. In parallel, the REmap program determines a country's potential to expand its renewable energy capacity. It assesses a country's investment needs, CO₂ emissions, and economic indicators, among other factors, in order to provide insights to policymakers on areas that require improvements.

Ministry of Finance extends deadline to declare income taxes

The Ministry of Finance extended until the end of March 2019 the deadline for companies to declare income taxes on salaries and wages of their employees and workers, as well as to disclose financial records for 2018, and settle the incurred taxes for the period.

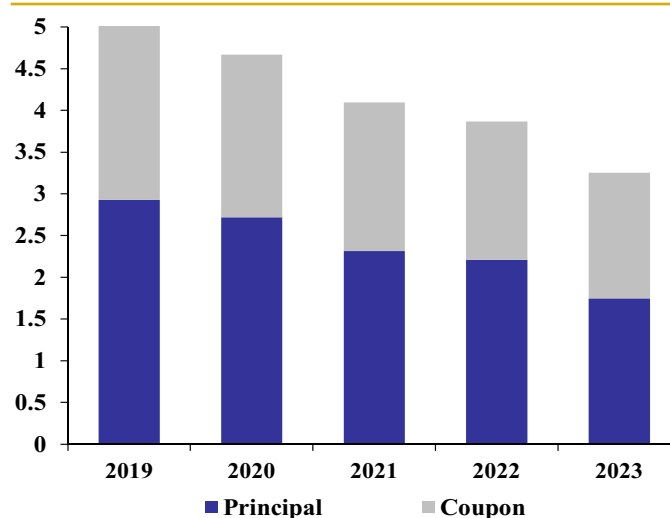
Also, the ministry renewed Article 33 bis of Law 379, along with its previous adjustments, which is related to the value-added tax (VAT) on the rental of non-residential properties. Article 33 details the settlement of VAT on the rental of non-residential properties that involves religious entities or public institutions and agencies, among other stakeholders.

Cabinet approves Eurobond issuance

The Council of Ministers approved the request of the Ministry of Finance to issue Eurobonds as well as to offer a partial or full debt exchange for Eurobonds, including those that mature in 2019. Further, the Cabinet mandated the Finance Minister to carry out the debt issuance and exchange, and to represent the Lebanese Government in concluding all related transactions. A total of \$2.65bn in Eurobonds will come due in 2019, with \$500m that will come due in April 2019, \$650m in May 2019 and \$1.5bn in November 2019.

Lebanon's gross public debt reached \$85.1bn at the end of 2018, constituting an increase of 7% from \$79.5bn at the end of 2017 and compared to increases of 6.2% in 2017, 6.5% in 2016, 5.6% in 2015, 4.9% in 2014, 10% in 2013 and 7.5% in 2012. Debt denominated in Lebanese pounds totaled \$51.6bn at the end of 2018, growing by 5.1% from end-2017; while debt denominated in foreign currency stood at \$33.5bn, constituting a rise of 10.2% from end-2017. Local currency debt accounted for 60.7% of the public debt at end-2018 compared to 61.8% a year earlier, while foreign currency denominated debt represented the balance of 39.3% relative to 38.2% at end-2017.

Redemption Profile of Eurobonds and Loans in Foreign Currency (US\$bn)



Source: Ministry of Finance, Byblos Research

Over two thirds of citizens cite the economy and the country's infrastructure as their primary concerns

The International Republican Institute, in collaboration with the Lebanese Center for Policy Studies, issued its Lebanon Public Opinion Survey 2018, which examines the main economic, political, and security concerns of Lebanese citizens. The Institute indicated that the majority of Lebanese citizens are pessimistic about the direction of the country and recognize that governance is deteriorating on different levels. In fact, 95% of surveyed Lebanese considered that the country is heading in the wrong direction, but this degree of pessimism varies across income groups, as 22% of upper-income respondents were optimistic relative to 5% of low-income participants. Also, more than 50% of Lebanese citizens considered that the situation in Lebanon has worsened since the May 2018 parliamentary elections. Also, 77% of respondents reported challenging economic conditions, 56% cited a deterioration in their personal finances, 53% indicated that the country's reputation is worsening abroad, 53% said that the overall quality of living is deteriorating, and 39% reported security conditions to be worsening in Lebanon. In contrast, only 8% of participants saw an improvement in the country's situation, while 40% did not see any change in the status quo.

In parallel, the survey revealed that participants identified 34 different issues as the top problems facing Lebanon today. As such, corruption was the most widespread issue for 16% of respondents, followed by electricity for 15% of participants, employment and the cost of living for 10% of participants each, water for 6% of respondents, and poverty for 5% of participants. More generally, the survey indicated that 36% of respondents identified economic conditions as their primary concern, while 33% of participants noted that the country's infrastructure was their priority issue. Also, 8% of respondents said that social problems were their primary concern, while issues related to security and political conflict were highlighted by 7% of participants.

Further, the survey pointed out that concerns vary widely across regions in Lebanon. As such, the cost of living is the primary individual concern among respondents in the Baalbek-Hermel region and in the Nabatiyeh area, while employment and corruption are the most reported concerns in Akkar and in the Bekaa region, respectively. Also, electricity is the primary concern among survey participants in Beirut, in Mount Lebanon, and in the North; while the general state of infrastructure is the most cited concern among respondents in the South. Overall, economic issues are the most important concern for 59% of participants in Baalbek-Hermel, followed by 52% of respondents in each of Akkar and the Bekaa region. Also, infrastructure is the main concern for 37% of participants in the Nabatiyeh region; followed by 36% of respondents in each of Beirut, Mount Lebanon and the South, as well as for 35% of participants in the North. In addition, the survey noted that corruption was the most prevalent concern for 26% of respondents in the Bekaa region and for 22% of participants in the North, while social issues were the most reported concern for 11% of respondents in the Nabatiyeh region, as well as for 10% of participants in each of Beirut and the North. Further, the survey reported that security and political issues are the least cited concerns on average among Lebanese citizens.

In parallel, the survey added that economic concerns are more prevalent among the youth and citizens in their thirties, while only 8% of respondents expressed concerns about social benefits, education, healthcare, and housing. Further, the survey indicated that 64% of respondents considered that political parties in Lebanon do not listen to their constituencies when deciding their political agenda.

The International Republican Institute is a non-profit, non-partisan organization committed to advancing freedom and democracy around the world. The survey was conducted in October 2018 on a sample of 1,200 respondents, distributed equally between genders, and who are representative of the confessional and geographical distribution of Lebanese citizens.

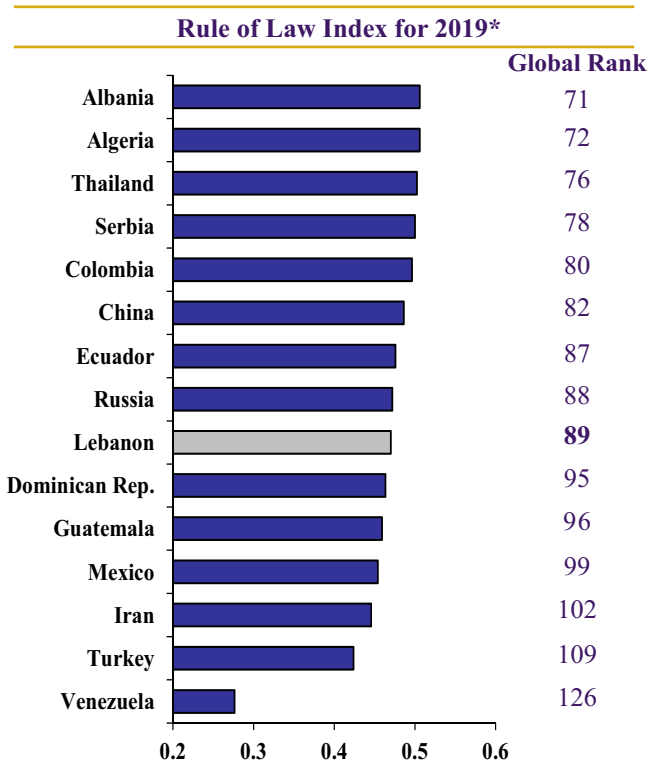
Lebanon ranks in 89th place globally on Rule of Law Index

The World Justice Project's Rule of Law Index for 2019 ranked Lebanon in 89th place among 126 countries around the world and in sixth place among eight countries in the Middle East & North Africa (MENA) region. Lebanon also came in 32nd place among 38 upper middle-income countries (UMICs) included in the survey. Based on the same set of countries, Lebanon's global rank improved by three spots from the 2017-18 survey, while its rank among MENA countries improved by one spot year-on-year.

The index measures the implementation of the rule of law by aggregating 44 sub-factors into eight factors that are Constraints on Government Powers, Absence of Corruption, Open Government, Fundamental Rights, Order & Security, Regulatory Enforcement, Civil Justice and Criminal Justice. The scores and rankings of each factor and sub-factor are based on the results of an opinion poll of the general public and of a survey of legal professionals in each country. The scores range from zero to one point, with a score of one point reflecting the strongest adherence to the rule of law. The general population poll covers only the three major urban areas in each country. The Lebanon survey covered 1,000 participants in Beirut, Sidon and Tripoli.

Globally, the implementation of the rule of law in Lebanon is better than in the Philippines, Tanzania and Zambia, and is weaker than in El Salvador, Ecuador and Russia among economies with a GDP of \$10bn or more. Also, the rule of law in Lebanon is more effective than only in Iran and Egypt in the MENA region. Lebanon received a score of 0.47 points in the 2019 survey, unchanged from the 2017-18 survey. Lebanon's score was lower than the global average score of 0.56 points, the UMICs' score of 0.53 points and the MENA region's average score of 0.5 points.

Lebanon came in the second-tier of countries on the Constraints on Government Powers factor, Fundamental Rights and Criminal Justice factors, while it came in the third-tier of countries on the Absence of Corruption, Open Government, Order & Security, Regulatory Enforcement, and Civil Justice factors.



*bottom 15 UMICs with a GDP of \$10bn or more

Source: World Justice Project, Byblos Research

Components of the 2019 Rule of Law Index for Lebanon

Factors	Global Rank	MENA Rank	UMICs Rank	Lebanon Score	Global Average Score	MENA Average Score	UMICs Average Score
Constraints on Government Powers	73	4	18	0.52	0.55	0.48	0.50
Absence of Corruption	92	8	31	0.39	0.52	0.50	0.49
Open Government	88	3	29	0.44	0.52	0.38	0.49
Fundamental Rights	81	2	25	0.52	0.58	0.44	0.54
Order & Security	95	6	28	0.64	0.72	0.71	0.70
Regulatory Enforcement	94	7	32	0.44	0.54	0.52	0.50
Civil Justice	103	7	34	0.44	0.55	0.53	0.53
Criminal Justice	80	8	26	0.38	0.48	0.46	0.44

Source: World Justice Project, Byblos Research

Ministry of Industry and UNIDO launch creative hub

The Ministry of Industry and the United Nations Industrial Development Organization (UNIDO) launched the Beirut Creative Hub, which is part of a regional UNIDO project intended to foster manufacturing and creative industries. The hub is a platform that offers services and workspace to designers, industrialists and artisans, with the aim to spread knowledge and culture, as well as to foster innovation and improve creativity within the Lebanese manufacturing sector. It consists of physical space, such as co-working areas and laboratories, as well as activities such as monitoring and incubation, lectures, conferences, exhibitions, technical trainings and special events, among others. Through the provision of such services, the hub will promote contact among the different parties as well as facility-sharing between the relevant actors of the creative and manufacturing sectors in the country, such as entrepreneurs, designers, students, mentors, and investors. The hub will be located in Antwork, a co-working space in Beirut, and will be accessible to individuals that have a monthly or yearly subscription to the facility. Established in 2017, Antwork is a Beirut-based start-up incubator, and consists of a community-centered shared and collaborative space. It is equipped with technology-enabled and connected work environments.

Stock market index down 7.5% in first two months of 2019

Figures released by the Beirut Stock Exchange (BSE) indicate that the trading volume reached 172,918,701 shares in the first two months of 2019, constituting an increase of 15.7 times from 10,989,778 shares traded in the same period last year; while aggregate turnover amounted to \$722m, up by 8.1 times from a turnover of \$89.3m in the first two months of 2018. The surge in the trading volume and turnover is due to a block trade of the common shares of one listed bank. The trade consisted of 119,924,761 shares exchanged for a total of \$557.7m in February 2019.

Market capitalization regressed by 19.8% from the end of February 2018 to \$9.33bn, with banking stocks accounting for 84.7% of the total, followed by real estate equities (11.4%), industrial shares (3.5%) and trading firms' equities (0.4%). The market liquidity ratio was 7.7% in the covered period compared to 0.8% in the first two months of 2018.

Banking stocks accounted for 99.2% of the aggregate trading volume in the first two months of 2019, followed by real estate equities with 0.7% and industrial shares with 0.01%. Also, banking stocks accounted for 98.9% of the aggregate value of shares traded, followed by real estate equities with 1.1% and industrial stocks with 0.01%. The average daily traded volume for the period was 4.4 million shares for an average daily value of \$18.5m. The figures reflect a year-on-year increase of 16.1 times in average volume, and an annual rise of 8.3 times in the average value in the first two months of the year. In parallel, the Capital Markets Authority's Market Value-Weighted Index for stocks of traded on the BSE dropped by 7.5% in the first two months of 2019, while the CMA's Banks Market Value-Weighted Index regressed by 2.7% in the covered period.

Saradar Capital Holding acquires 51% of Assurex

Saradar Capital Holding announced the acquisition of 51% of the capital of Lebanese insurance and reinsurance company Assurex sal, which is owned by the Fattal Group. The acquisition is part of Saradar Capital Holding's strategy to build an integrated financial services platform under its Saradar Finance House (SFH) arm, covering banking & microfinance, insurance, money transfer, and asset & wealth management services in Lebanon and abroad.

The acquisition of Assurex will allow SFH to have further access to the Lebanese insurance market by combining Assurex's strong underwriting capabilities and risk management policies with its digital distribution channels and banking presence. Assurex will continue to operate under its current name, with the Fattal Group maintaining a 49% stake in the insurance firm.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked Assurex in 11th place in 2018 in terms of non-life premiums. The firm's non-life premiums totaled \$37.9m in 2018, constituting a rise of 3.1% from 2017, and accounting for 3.2% of the local non-life market. Overall, Assurex had a 2.3% market share of the Lebanese insurance market in 2017, ranking it in 14th place in terms of aggregate life and non-life premiums.

Saradar Capital Holding provides financial, real estate investment, logistics and distribution services. It consists of the Saradar Finance House unit, as well as a real estate development and management arm, and a unit that covers its logistics and distribution activities. Founded in 1897, the Fattal Group is a major distributor of food & beverage products, pharmaceuticals, medical & office equipment, perfume & cosmetics, jewelry, electronics and home appliances in Lebanon and the MENA region.

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**	182.6	182.4	183.3	0.90
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	21.2	(0.57)
Fiscal Expenditures / GDP	29.0	28.8	32.1	3.29
Fiscal Balance / GDP	(9.6)	(7.0)	(11.0)	(3.97)
Primary Balance / GDP	0.04	2.7	(0.5)	-
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	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 Investors Service	Caa1	NP	Stable	Caa1		Stable
Fitch Ratings	B-	B	Negative	B-		Negative
S&P Global Ratings	B-	B	Negative	B-	B	Negative
Capital Intelligence Ratings	B	B	Negative	B	B	Negative

Source: Rating agencies

Banking Ratings	Outlook
Moody's	Stable

Source: Moody's Investors Service



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