Issue 569 | January 21-26, 2019

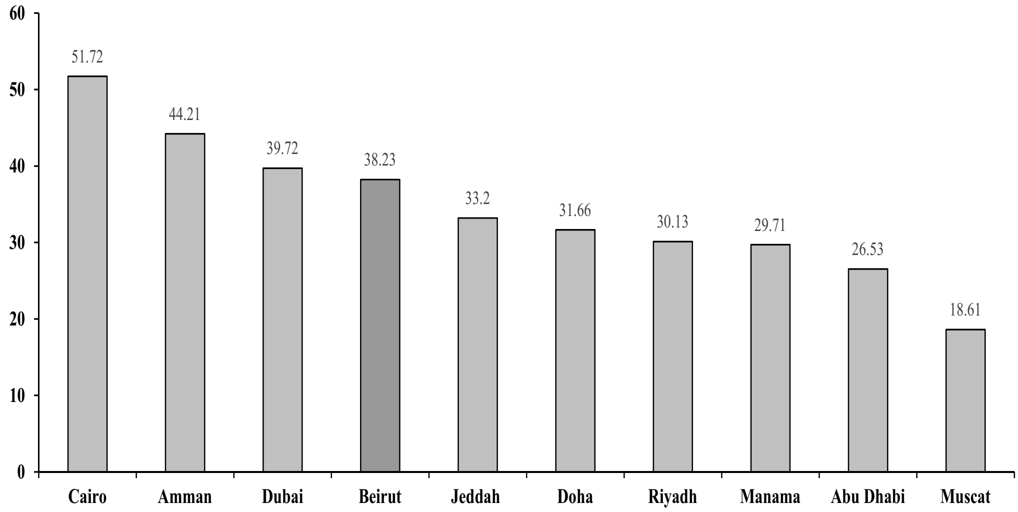
BYBLOS BANK SAL
Economic Research & Analysis Department

LEBANON THIS WEEK

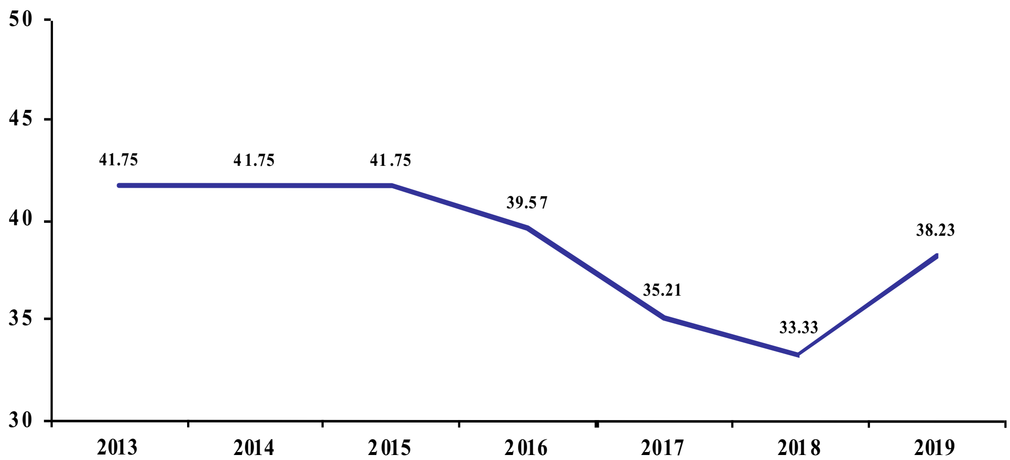
In This Issue

Charts of the Week

Performance of Arab Cities on Traffic Commute Time Index*



Performance of Beirut on Traffic Commute Time Index*



**higher score reflects more time spent in traffic*
Source: Numbeo's 2019 Quality of Life Index, Byblos Bank

Quote to Note

"The status of the country as a regional financial center and the large Lebanese Diaspora are important factors to mitigating downside risks."

Global investment bank J.P. Morgan, on factors of support to Lebanon's financial and economic stability

Number of the Week

8: Number of months since Mr Saad Hariri was designated as Prime Minster to form a government

Lebanon in the News

$m *(unless otherwise mentioned)*	2017	Jan-Nov 2017	Jan-Nov 2018	% Change*	Nov-17	Oct-18	Nov-18
Exports	2,844	2,593	2,706	4.36	229	265	242
Imports	19,582	17,949	18,410	2.57	1,726	1,718	1,536
Trade Balance	(16,738)	(15,356)	(15,704)	2.27	(1,497)	(1,454)	(1,294)
Balance of Payments	(156)	(1,010)	(4,076)	303.72	68	(1,810)	(954)
Checks Cleared in LBP	21,677	19,544	20,110	2.90	1,880	2,064	1,875
Checks Cleared in FC	46,578	42,444	40,975	(3.46)	3,687	4,017	3,481
Total Checks Cleared	68,255	61,988	61,085	(1.46)	5,567	6,081	5,356
Fiscal Deficit/Surplus**	(3,755.9)	(2,003.4)	(4,507.7)	125.01	(492.4)	(1,125.4)	-
Primary Balance**	1,427.8	1,628.9	(590.9)	-	(52.6)	(665.1)	-
Airport Passengers***	8,235,845	7,608,979	8,164,597	7.30	592,890	684,617	628,205
Consumer Price Index****	4.4	4.4	6.3	190bps	4.8	6.3	5.8

$bn *(unless otherwise mentioned)*	2017	Nov 2017	Aug 2018	Sep 2018	Oct 2018	Nov 2018	% Change*
BdL FX Reserves	35.81	35.69	33.92	34.15	34.62	33.56	(5.95)
In months of Imports	18.57	20.68	18.64	23.75	20.15	21.85	5.68
Public Debt	79.53	79.37	83.69	83.85	84.03	83.64	5.38
Bank Assets	219.86	216.21	238.46	241.12	242.61	246.51	14.01
Bank Deposits (Private Sector)	168.66	166.81	173.22	173.94	173.25	173.19	3.82
Bank Loans to Private Sector	59.69	59.05	59.40	59.42	59.15	59.21	0.26
Money Supply M2	52.51	52.04	53.21	52.71	52.06	51.55	(0.95)
Money Supply M3	138.62	137.29	141.04	141.35	140.24	140.32	2.21
LBP Lending Rate (%)	8.09	7.98	8.81	9.31	9.60	10.15	217bps
LBP Deposit Rate (%)	6.41	5.88	7.03	7.39	7.74	7.97	209bps
USD Lending Rate (%)	7.67	7.32	8.12	8.11	8.30	8.57	125bps
USD Deposit Rate (%)	3.89	3.80	4.20	4.36	4.63	4.90	110bps

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

Capital Markets

Most Traded Stocks on BSE	Last Price ($)	% Change*	Total Volume	Weight in Market Capitalization
Solidere "B"	6.37	1.43	265,400	4.41%
BLOM Listed	9.10	(1.62)	148,277	20.85%
Solidere "A"	6.42	4.56	115,514	6.84%
Audi Listed	4.64	(5.31)	75,000	19.77%
BLOM GDR	9.00	(2.17)	55,090	7.09%
Byblos Common	1.35	0.00	20,000	8.14%
Audi GDR	4.75	1.50	18,317	6.07%
Byblos Pref. 09	70.00	0.00	8,228	1.49%
Byblos Pref. 08	72.00	2.86	1,000	1.53%
HOLCIM	15.50	0.00	-	3.22%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
May 2019	6.00	99.25	8.38
Mar 2020	6.38	93.75	12.54
Apr 2021	8.25	91.50	12.78
Oct 2022	6.10	83.50	11.74
Jun 2025	6.25	79.75	10.71
Nov 2026	6.60	79.25	10.56
Feb 2030	6.65	77.00	10.15
Apr 2031	7.00	77.50	10.27
Nov 2035	7.05	77.13	9.87
Mar 2037	7.25	77.50	9.95

Source: Byblos Bank Capital Markets

	Jan 21-25	Jan 14-17	% Change	December 2018	December 2017	% Change
Total shares traded	706,826	291,418	142.5	5,407,192	11,929,343	(54.7)
Total value traded	$5,190,327	$2,033,546	155.2	$27,863,342	$116,215,896	(76.0)
Market capitalization	$9.38bn	$9.49bn	(1.10)	$9.68bn	$11.47bn	(15.7)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Jan 18, 2019	Jan 25, 2019	% Change**
CDS 1-year*	1,390.33	965.03	(30.5)
CDS 3-year*	990.21	865.1	(12.6)
CDS 5-year*	920.56	792.6	(13.9)

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

CDX EM 30*	Jan 18, 2019	Jan 25, 2019	% Change***
CDS 5-year**	96.5	96.67	0.18

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

Government stalemate extends stagnation of consumer confidence in fourth quarter of 2018

The results of the Byblos Bank/AUB Consumer Confidence Index for the fourth quarter of 2018 show that the Index regressed by 0.9% in October from the preceding month, declined by 0.8% in November and increased by 5.3% in December 2018. The Index averaged 75.5 in the fourth quarter of 2018 and was nearly unchanged from 75.3 in the third quarter of the year. In addition, the Byblos Bank/AUB Present Situation Index averaged 66.7 in the fourth quarter of 2018 and increased by 1.1% from the preceding quarter, while the Byblos Bank/AUB Expectations Index averaged 81.4 and was nearly unchanged from the third quarter of 2018. Further, the average monthly score of the Index in the fourth quarter of 2018 was 28.6% lower than the quarterly peak of 105.8 registered in the fourth quarter of 2008, and remained 22% below the annual peak of 96.7 reached in full year 2009.

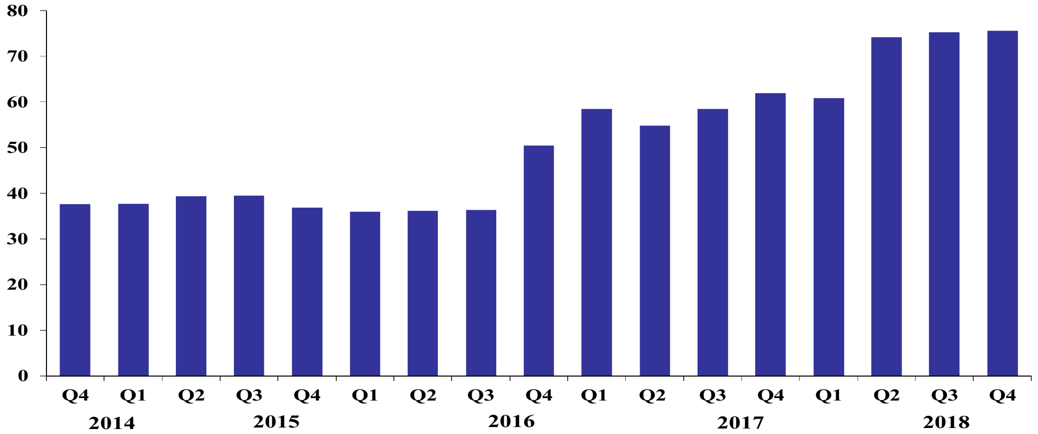
The stagnation in household sentiment during the fourth quarter of 2018 reflects the ongoing political impasse that has prevented the formation of a new government in Lebanon more than seven months after the May 2018 parliamentary elections. However, the flood of rumors and scare tactics since the summer about the impending collapse of the Lebanese economy and of the national currency did not succeed in triggering broad panic among citizens. In fact, the momentum in confidence evaporated soon after the elections, but the Index held steady during the third and fourth quarters, instead of dropping materially during this period.

The fourth-quarter results show that 9.6% of the Lebanese polled in the fourth quarter of 2018 expected their financial conditions to improve in the coming six months, down from 11.5% in the third quarter of the year. In parallel, 57.9% of respondents in the covered quarter believed that their financial situation will deteriorate, nearly unchanged from 58.1% in the previous quarter, while 29.8% forecast their financial condition to remain the same in the next six months compared to 28.2% in the third quarter of 2018. In addition, 9.6% of the Lebanese surveyed in December 2018 expected business conditions in Lebanon to improve in the coming six months compared to 10% in September 2018, while 65.8% of respondents anticipated business conditions to deteriorate, relative to 67.4% in September.

The results of the Byblos Bank/AUB Consumer Confidence Index for the fourth quarter of 2018 show that female consumers had a higher level of confidence than their male counterparts, and consumers in the 21 to 29 year-old bracket posted the highest confidence level relative to citizens in other age brackets during the covered quarter. Also, households with an income of USD 2,500 or more per month continued to be more confident than those earning less. Moreover, public sector employees were more optimistic than housewives, the self-employed, private sector employees and the unemployed in the fourth quarter of the year, while students were the most optimistic segment overall. In addition, the confidence level of residents in the Bekaa region was the highest among all geographic regions during the fourth quarter of 2018, followed by households in the North, Beirut, the South and Mount Lebanon. Further, Shiite households registered the highest level of confidence in the fourth quarter of 2018, followed by Christian, Sunni and Druze households.

The Byblos Bank/AUB Consumer Confidence Index is a measure of the sentiment and expectations of Lebanese consumers toward the economy and their own financial situation. The index is compiled, implemented and analyzed in line with international best practices and according to criteria from leading consumer confidence indices worldwide. It is composed of two sub-indices, the Byblos Bank/AUB Present Situation Index and the Byblos Bank/AUB Expectations Index. The Byblos Bank Economic Research & Analysis Department has been calculating the index on a monthly basis since July 2007, with January 2009 as its base month. The index is based on a face-to-face monthly survey of a nationally representative sample of 1,200 males and females living throughout Lebanon. The monthly field survey is conducted by Statistics Lebanon Ltd, a market research and opinion-polling firm.

Byblos Bank/AUB Consumer Confidence Index*



** Quarterly Average Score*

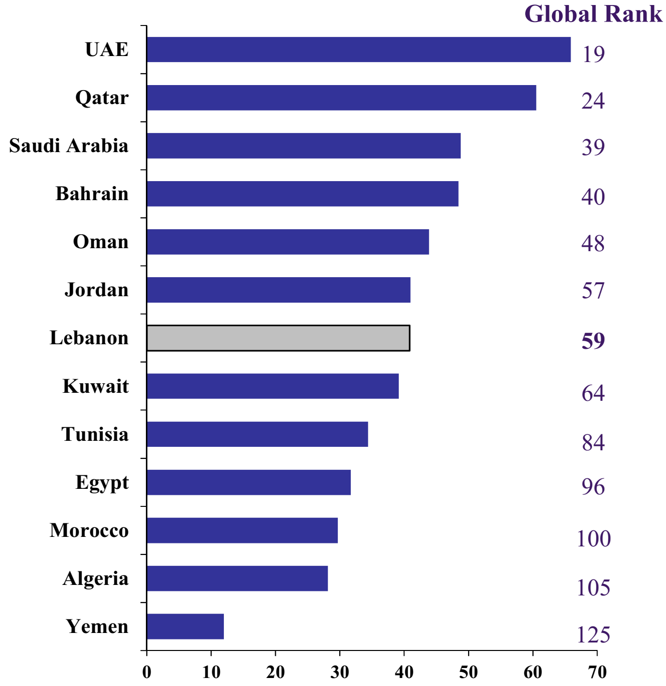
Source: Byblos Bank Economic Research & Analysis Department, based on surveys conducted by Statistics Lebanon

Lebanon ranks 59th globally, seventh in Arab region in terms of talent competitiveness

INSEAD's Global Talent Competitiveness Index (GTCI) for 2019 ranked Lebanon in 59th place among 125 countries around the world and in seventh place among 13 countries in the Arab region. Lebanon also came in 11th place among 32 upper middle-income countries (UMICs) included in the 2019 survey. Based on the same set of countries included in the 2018 and 2019 surveys, Lebanon's global rank was unchanged year-on-year.

The GTCI measures a country's ability to attract, develop and retain talent. It assesses the steps and decisions that countries take to develop and acquire talented individuals, as well as a country's ability to provide the set of skills required to have a productive, innovative and competitive economy. The GTCI is a composite of six pillars grouped in two sub-indices that are the Talent Competitiveness Input Sub-Index and the Talent Competitiveness Output Sub-Index. A country's score is the simple average of its scores on the six pillars, with a higher score reflecting a better performance in terms of talent competitiveness. The countries included in the GTCI represent 93% of the world's population and 98% of global GDP.

Global Talent Competitiveness Index for 2019
Scores & Rankings in Arab Countries



Source: INSEAD, Byblos Research

Globally, the talent level in Lebanon is more competitive than its counterparts in Argentina, Armenia and Botswana, and is less competitive than talent in Kazakhstan, Jordan and the Philippines among economies with a GDP of $10bn or more. Lebanon ranked ahead of Armenia, Botswana and Colombia, and came behind Bulgaria, Kazakhstan and Jordan among UMICs; while it came ahead of Kuwait and behind Jordan in the Arab region. Lebanon received a score of 40.85 points compared to 41.91 points in the 2018 survey. Lebanon's score was lower than the global average score of 43.44 points, but it was higher than the UMIC's average score of 38.9 points and the Arab region's average score of 40.3 points. Also, Lebanon's score was lower than the Gulf Cooperation Council's (GCC) average score of 51.1 points, but was higher than the non-GCC countries' average score of 31.1 points.

Lebanon ranked ahead of Mongolia, Peru and Ukraine, and came behind Guatemala, India and Laos on the Talent Competitiveness Input Sub-Index. This category covers the policies, resources and efforts that a country can use to promote its talent competitiveness. It includes four pillars that reflect how much the regulatory, market, and business environments support a favorable climate for talent to develop and thrive. It also focuses on what countries are doing to attract, grow and retain talented individuals. Lebanon ranked ahead of only Peru, the Dominican Republic, Ecuador, Bosnia & Herzegovina, Paraguay, Iran, Algeria and Venezuela among UMICs. Regionally, it came ahead of only Tunisia, Morocco, Egypt, Algeria and Yemen.

Also, Lebanon ranked ahead of Chile, Russia and Poland, and came behind Portugal, Italy and Latvia on the Talent Competitiveness Output Sub-Index. This category measures the quality of talent in a country that results from domestic policies, resources and efforts. It is composed of two pillars that assess the current situation of a particular country in terms of vocational and technical skills, as well as in terms of global knowledge skills. Lebanon ranked behind only Malaysia among UMICs; while it came behind only the UAE and Qatar in the Arab world.

Components of the 2019 Talent Competitiveness Index

	Global Rank	Arab Rank	UMICs Rank
Talent Competitiveness Input	**81**	**8**	**24**
Enablers	87	8	25
Attract	93	8	23
Grow	61	5	15
Retain	84	11	24
Talent Competitiveness Output	**35**	**3**	**2**
Vocational & Technical Skills	40	4	5
Global Knowledge Skills	35	1	3

Source: INSEAD, Byblos Research

Banking sector growth at 14% in 2018, Banque du Liban to resume mortgage subsidies

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 banking sector's total deposits grew by $7.5bn, or by 3.8%, in 2018. He noted that deposits in Lebanese pounds increased by 2% last year, while deposits in foreign currency rose by 6.4% from 2017. He added that the dollarization rate of deposits exceeded 71% at the end of 2018, and that the non-performing loans ratio grew from 3.22% in 2017 to 3.75% last year. He indicated that the banks' credit to the public sector stood at $34.4bn at the end of 2018, of which $16.3bn are denominated in foreign currency. Also, he pointed out that the balance of payments registered a deficit of $4.8bn in 2018.

Further, Governor Salamé indicated that the banking sector's aggregate assets reached $254bn at end-2018, up by 13.8% year-on-year. He added that the banks' assets in foreign currency held abroad grew to $25.4bn at end-2018 and included $12bn at correspondent banks, $7bn in loans and $5bn in participations. Also, he noted that the weighted average rate on deposits in foreign currency reached 5.76% at the end of 2018, while the weighted average lending rate in foreign currency was 8.53%. In addition, he indicated that BdL revised downward its forecast for real GDP growth in Lebanon to between 1% and 1.5%, due to the ongoing delays in the formation of a new government.

Governor Salamé considered that the downgrade of Lebanon's issuer rating by Moody's Investors Service reflects the urgent need for structural and fiscal reforms in the country. He added that BdL will not revise the structure of its risk-weighted assets based on the rating action of a single rating agency. Also, he welcomed Qatar's announcement that it will buy $500m in Lebanese Eurobonds, as well as signs from other Gulf Cooperation Council governments that they will support the Lebanese economy. He noted that Eurobond prices recovered prior to the Qatari initiative. Further, he stressed BdL's commitment to maintain monetary stability in the country and to implement the necessary measures to provide sufficient liquidity to the market.

Further, the ABL expressed concerns about the sovereign downgrade and its impact on Lebanon. It called on all political parties to work together in order to accelerate the formation of a new government and the implementation of fiscal consolidation measures to narrow the fiscal deficit, which, in turn, would unlock the $11bn pledged at the CEDRE conference. It pointed out that Lebanon is committed to its timely public debt repayments as well as to preserving private sector deposits and financial stability.

In this context, Governor Salamé pointed out that Moody's downgrade did not take into account the influx of Syrian refugees in Lebanon and the country's perfect track record of public debt repayment. He noted that the Treasury's total funds stand at LBP2,600bn and that it is not under any imminent pressure, adding that any intervention in the market from BdL would have inflationary repercussions.

In parallel, Governor Salamé indicated that BdL's stimulus package for 2019 will include LBP300bn in subsidies for new mortgages, in addition to about LBP750bn in subsidized loans to productive sectors. He added that interest rates on the housing loans would be about 5.9%, and that mortgages extended through Banque de l'Habitat will have a ceiling of LBP450m. Further, the amount of housing loans extended to expatriates will be LBP600m. In addition, he pointed out that BdL will issue a mechanism for the subsidies, where the banks will place foreign currency deposits at BdL and obtain the equivalent amount in Lebanese pounds that they will use to extend the housing loans.

Consumer Price Index up 6.1% in 2018

The Central Administration of Statistics' Consumer Price Index increased by 6.1% in 2018, compared to a growth of 4.5% in 2017. Also, the CPI increased by 4% in December 2018 from the same month of 2017. The prices of clothing & footwear grew by 9.7% in December 2018 from the same month of 2017, followed by the prices of water, electricity, gas & other fuels and the prices of food & non-alcoholic beverages (+6.2% each), the cost of education and recreation & entertainment costs (+5.4% each), the prices of furnishings & household equipment (+5%), actual rents (+3.6%), imputed rents (+2.7%), healthcare costs and prices at restaurants & hotels (+2.5% each), miscellaneous goods & services costs (+2.3%), the prices of alcoholic beverages & tobacco (+1.4%), transportation costs (+1.1%) and communication costs (+0.8%). Also, the distribution of actual rents shows that old rents grew by 6.2% annually in December 2018, while new rents increased by 1.9% year-on-year.

Further, the CPI regressed by 0.9% in December 2018 from the preceding month compared to a month-on-month increase of 0.1% in November 2018. The cost of recreation & entertainment increased by 1% month-on-month in December 2018, followed by the cost of food & non-alcoholic beverages (+0.5%), prices at restaurants & hotels and miscellaneous goods & services costs (+0.3% each), imputed rents (+0.2%) and actual rents (+0.1%). In contrast, transportation costs regressed by 4.3% month-on-month in December 2018, followed by the prices of clothing & footwear (-3.2%) and the cost of water, electricity, gas & other fuels (-3%). Communication, healthcare and education costs were unchanged in the covered month. The CPI decreased by 1.3% month-on-month in December 2018 in the North, by 1.2% in Nabatieh, by 0.9% in each of the Bekaa and Mount Lebanon, by 0.6% in Beirut, and 0.5% in the South. In parallel, the Fuel Price Index decreased by 10.7% month-on-month in December 2018, while the Education Price Index was unchanged in the covered month.

Lebanon in the News

Lebanon has ample reserves to cover financing requirements

Global Investment Bank Morgan Stanley indicated that the Lebanese sovereign has ample foreign currency reserves to meet its near-term foreign currency financing requirements, and is willing to service its foreign currency denominated debt. It added that a credit event in the near term is not part of its baseline scenario for Lebanon due to multiple reasons. First, it said that domestic banks held $16.1bn worth of Lebanese Eurobonds as at the end of November, compared to their aggregate equity position of $20.2bn. In this context, it pointed out that it is not in the interest of the government to re-profile its Eurobonds, given the banks' large holdings of this instrument. It considered that the Lebanese government can refinance its domestic debt without affecting the banks' capital position. Second, it noted that Banque du Liban's assets in foreign currency stand at $39.7bn, which, in the absence of significant deposit outflows, are sufficient to service the current account deficit estimated at $13.2bn and foreign currency debt redemptions of $2.9bn in 2019. Third, it considered that the Minister of Finance's statements about fiscal challenges in the country are directed towards local political parties and aim to put pressure for the formation of a new government. It added that the current caretaker government has limited decision-making powers and that any key decision about Lebanon's debt profile would have to wait until the formation of a new government. Overall, it considered that the main pressure on Lebanon's ability to service its debt under a "tail-risk scenario" would come from deposit outflows. But it did not expect such a scenario to materialize in the near term, given continued deposit inflows, including an estimated rise in resident deposits of $880m in December, and the lengthening in the average maturity of deposits.

Further, Morgan Stanley considered that an average primary surplus of 3.9% of GDP in the 2019-23 period, or a fiscal consolidation of between 4% of GDP and 5% of GDP, would stabilize Lebanon's public debt level. It said that Lebanon is targeting fiscal consolidation of a similar magnitude as part of its commitments at the CEDRE conference. It added that achieving the pledged targets would unlock the CEDRE-related funding and reduce financing costs. Second, the investment bank noted that Lebanon has been able to sustain a higher public debt level than emerging market peers, given that domestic banks cover the government's financing needs. It added that borrowing costs largely depend on the banks' liquidity, given that Lebanese banks hold most of the Eurobonds. As such, it expected borrowing costs to remain elevated in the near term in case of subdued deposit growth, tight liquidity conditions in Lebanese pounds, and due to the Finance Ministry's recent decision to issue Treasury bonds at market rates.

Qatar to buy $500m in Lebanese Eurobonds

Qatar announced on January 21, 2019, that it plans to buy $500m worth of Lebanese Eurobonds. Further, the Qatari Ministry of Foreign Affairs reiterated Qatar's commitment to support the Lebanese economy and the country's stability. It added that the rationale behind the purchase of Lebanese bonds is to secure a good investment, given that Lebanon had never failed to service its debt, which reflects the country's ability to meet its external obligations. Following the announcement, Lebanese Eurobond prices increased by 1% to 2% from their previous close.

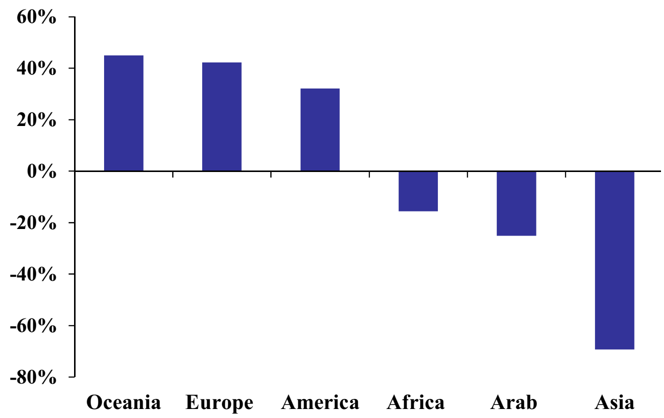
Lebanon's gross public debt reached $83.6bn at the end of November 2018. Debt denominated in Lebanese pounds totaled $50.3bn, or 60.1% of gross public debt at end-November 2018, while debt denominated in foreign currency stood at $33.4bn, or 39.9% of the total. Holders of Eurobonds and special T-bills in foreign currencies accounted for 93.8% of foreign currency-denominated debt holders at the end of November 2018, followed by multilateral institutions with 4% and foreign governments with 2.2%. Commercial banks held 38.9% of the public debt as at end-November 2018 relative to 41.4% of the total at end-November 2017.

Tourist arrivals up 6% in 2018

The number of incoming visitors to Lebanon totaled 1,963,917 in 2018, constituting an increase of 5.8% from 1,856,795 tourists in 2017 and a drop of 9.4% from 2,167,989 visitors in 2010, the record year for tourism activity in Lebanon. Also, the number of incoming visitors reached 162,506 in December 2018, up by 14.5% from 141,983 tourists in December 2017. Visitors from Europe accounted for 36% of the total in 2018, followed by those from Arab countries with 28.6%, the Americas with 18.2%, Asia with 7.2%, Africa with 5.5%, and Oceania with 4.5%. Further, tourists from Iraq accounted for 10.8% of total visitors last year, followed by visitors from the U.S. (9.7%), France (9.2%), Canada (5.8%), Germany (5.3%), Jordan and Egypt (4.7% each), England (3.8%), Saudi Arabia (3.1%) and Sweden (2.2%).

In parallel, the number of visitors from Europe increased by 10.4% in 2018, followed by those from the Americas (+9.2%), Oceania (+7.1%), Asia (+3%) and the Arab region (+0.2%), while the number of visitors from Africa regressed by 0.6% last year. On a country basis, the number of tourists from Brazil grew by 14% in 2018, followed by visitors from Sweden (+13%), Egypt (+12%), the U.S. (+11.3%), England (+10.2%), Italy (+10%), France (+9.9%), Turkey (+9.7%), Germany (+7.7%), Canada (+6%), and Jordan (+3.2%). In contrast, the number of visitors from Iraq dropped by 6.8% in 2018, followed by visitors from Saudi Arabia (-4.2%), Venezuela (-3%), the UAE (-2%), and Kuwait (-1.2%).

Change in the Number of Tourist Arrivals from Main Sources in 2018*



*from 2010
Source: Ministry of Tourism, Byblos Research

Association of Banks amends reference rate on US dollar and Lebanese pound lending

Following its meeting on January 23, 2019, the Association of Banks in Lebanon (ABL) recommended to its member banks to increase the Beirut Reference Rate (BRR) in US dollars from 8.58% in January 2019 to 8.93% in February 2019. As such, the ABL modified its previous recommendation from its January 17 meeting to raise the BRR in US dollars to 8.63% for February. 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 did not modify its previous recommendation to increase the BRR in Lebanese pounds from 11.9% in January 2019 to 11.94% in February 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 to calculate the prime rate after adding the cost of liquidity and refinancing, credit risk and the profitability of banks.

Sovereign has buffers to face fiscal imbalances

Citi Research indicated that Lebanon has built buffers against short-term fiscal vulnerabilities. First, it said that the share of short-term Lebanese pound-denominated sovereign debt as a share of the gross public debt in local currency has decreased from 24% in 2005 to low single-digits currently, which reduces debt rollover risks. Second, it noted that public deposits at commercial banks and at Banque du Liban (BdL) have significantly increased over the past years, which provides short-term respite for the government. Third, it pointed out that BdL's foreign currency reserves have almost quadrupled over the past 10 years due to the ongoing de-dollarization and to sizeable non-resident deposit inflows, which offsets in part the mismatches on the public sector's balance sheet. However, it said that the buffers could offset short-term fiscal vulnerabilities more effectively if Lebanon unlocks the $11bn that the international community pledged at the CEDRE conference. It noted that this requires a rapid formation of government that would be able to implement the reforms that Lebanon committed to at the CEDRE conference. Over the long-term, Citi indicated that the government needs to consolidate its fiscal balance and achieve large primary surpluses in order to stabilize the public debt path.

Saudi Arabia to lift travel warning to Lebanon following government formation

Saudi Arabia announced that it will lift its travel ban on its nationals to Lebanon after the formation of a new Lebanese government. In November 2017, Saudi Arabia, along with Kuwait, Bahrain and the UAE warned their citizens against traveling to Lebanon, citing safety fears and heightened political uncertainties in the aftermath of Prime Minister Saad Hariri's sudden resignation on November 4, 2017.

Nationals from the GCC, especially from Saudi Arabia, have historically played an important role in Lebanon's economy, specifically in the tourism and real estate sectors. The number of incoming visitors from Saudi Arabia to Lebanon reached 61,547 in 2018 compared to 191,066 visitors in 2010, the record year for tourism activity in Lebanon. Saudi visitors accounted for 3.1% of total tourist arrivals to Lebanon in 2018 relative to 9% in 2010. In addition, Saudi visitors accounted for 12% of tourist arrivals from Arab countries in 2018 compared to a share of 21.4% in 2010. Further, visitors from Saudi Arabia accounted for 12% of total tourist expenditures in 2018 compared to 23% of total tourist spending in 2010.

Moody's downgrades Lebanon's sovereign ratings, revises outlook to 'stable'

Moody's Investors Service downgraded Lebanon's issuer rating from 'B3' to 'Caa1', and revised the outlook on the rating from 'negative' to 'stable'. Also, it lowered the country's long-term foreign currency bond ceiling from 'B1' to 'B2', its long-term foreign currency deposit ceiling from 'B3' to 'Caa1', and the country's long-term local currency bond and deposit ceilings from 'Ba2' to 'Ba3'. Further, the agency downgraded Lebanon's senior unsecured Medium-Term Note Program rating from (P)B3 to (P)Caa1.

Moody's attributed its downgrade to its claim that the government may take, upon its formation, measures that would involve a debt rescheduling or other liability management exercise that constitute a default under Moody's definition. It said that Lebanon's gross financing needs exceed 30% of GDP, among the highest of rated sovereigns. Also, it noted that the ongoing delays in the formation of a government are adding to Lebanon's liquidity pressures, and would increase the potential size and urgency to address these challenges in the future.

Further, the agency said that the 'stable' outlook reflects a balance of risks at the 'Caa1' level. It said that Lebanon has a proven track record of avoiding default despite longstanding weak credit metrics and periods of elevated credit pressure in previous years. It noted that a credit event can be avoided if a new government is quickly formed and implements fiscal consolidation measures that would unlock the $11bn pledged at the CEDRE conference. It expected that the disbursement of the CEDRE-related funds, which would be equivalent to about 3% to 4% of GDP annually, to support the growth outlook and improve investors' and depositors' confidence. It said that additional financial interventions by Banque du Liban could also avoid a default scenario while maintaining broad financial stability. In contrast, it indicated that further deterioration in Lebanon's fiscal and external metrics, as a result of the delay in government formation, could weigh on Lebanon's credit pressures and undermine depositor confidence.

In parallel, Moody's pointed out that it would upgrade Lebanon's ratings in case the government, upon its formation, implements significant fiscal reforms that would support macroeconomic stability and gradually reduce the public debt level. It added that such prospects would support sustained financial inflows, including non-resident deposits, which continue to be the main funding source for the government's fiscal and external deficits.

Energy Ministry signs agreement with Rosneft to rehabilitate oil storage facilities

The Ministry of Energy & Water announced that it signed a contract agreement with Russian energy company Rosneft to rehabilitate and develop oil storage facilities in Tripoli. The agreement stipulates that Rosneft would be responsible for the 20-year operations of the oil storage facilities. The rehabilitated oil facilities will have a storage capacity of 450,000 metric tons, which would be expanded to 1.5 million metric tons in the future. The facilities were built about 90 years ago, and were used to store oil that was shipped through a pipeline from the northern Iraqi city of Kirkuk.

In May 2011, the Ministry of Energy & Water announced a tender offer for the construction of 14 oil storage facilities in Tripoli with total storage capacity of 428,000 cubic meters. The tender aims to increase Lebanon's oil storage capacity through the restoration and upgrade of the Zahrani and Tripoli oil storage facilities, and the construction of new storage facilities at the two locations. However, the ministry cancelled the tender in September 2011, citing inconsistencies between the bids offered by interested companies.

Founded in 1995, Rosneft Oil Company is a Russian integrated energy firm that specializes in the exploration, extraction, production, refinement, transport, and sale of natural gas, petroleum and petroleum products.

ESFD guaranteed 346 loans in 2018

The Economic & Social Fund for Development (ESFD) indicated that it guaranteed 346 loans for a total of LBP8.83bn, or $5.9m, to small- and medium-sized enterprises in 2018. The ESFD guaranteed 114 loans for an aggregate value of LBP2.8bn, or $1.9m, in the first quarter, 103 projects for a total value of LBP2.78bn ($1.8m) in the second quarter, 76 projects for an aggregate value of LBP1.77bn ($1.2m) in the third quarter, and 53 projects for an aggregate value of LBP1.48bn ($0.98m) in the fourth quarter of 2018. Overall, the ESFD guaranteed 10,232 loans for an aggregate value of LBP191bn, or $126.7m, between 2003 and December 2018. Mount Lebanon accounted for 29.5% of the total number of loans guaranteed by the ESFD since 2003, followed by Nabatieh (21.8%), the North (17.7%), the South (13.5%), the Bekaa (12.7%) and Beirut (4.8%). The ESFD has guaranteed 4,007 loans, or 39.2% of the total, to the services sector, followed by trade with 3,691 loans (36.1%), the industry with 1,491 loans (14.6%) and agriculture with 1,043 loans (10.2%). It claims that it has helped create 8,880 new jobs since 2003.

The ESFD guarantees 50% of the loan principal and accrued interest for 120 days. It provides, through financial intermediaries, financial and technical support to small and medium-sized enterprises in order to finance projects in poor regions of the country. The ESFD was established in November 2000 based on the signing of a financing agreement between the European Commission and the Lebanese government through the Council for Development & Reconstruction. The ESFD is funded by the European Union and the Lebanese government.

Number of new construction permits down 13% in 2018, surface area down 23% in 2018

The Orders of Engineers & Architects of Beirut and of Tripoli issued 13,712 new construction permits in 2018, constituting a decrease of 13% from 15,758 permits in 2017, and relative to a decline of 8.9% in 2017. Mount Lebanon accounted for 37.9% of newly-issued construction permits in 2018, followed by the South with 20%, the Nabatieh area with 13.4%, the North with 12.5%, the Bekaa region with 9.4% and Beirut with 5%. The remaining 1.8% were permits issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon. The number of new construction permits issued for the North regressed by 17.7% in 2018, followed by permits for Nabatieh (-15.6%), the Bekaa (-14.1%), Mount Lebanon (-10.7%), Beirut (-9.5%) and the South (-6.8%). In parallel, permits issued for regions located outside northern Lebanon declined by 49% in 2018.

Further, the surface area of granted construction permits reached 9,019,565 square meters (sqm) in 2018, constituting a decrease of 23.1% from 11,730,386 sqm in 2017. In comparison, the surface area of granted construction permits regressed by 4.1% in 2017. Mount Lebanon accounted for 3,495,433 sqm, or 38.8% of the total, in 2018. The North followed with 1,574,602 sqm (17.5%), then the South with 1,510,088 sqm (16.7%), the Bekaa region with 863,130 sqm (9.6%), the Nabatieh area with 835,719 sqm (9.3%), and Beirut with 363,995 sqm (4%). The remaining 376,598 sqm, or 4.2% of the total, represented the surface area of permits that were issued by the Order of Engineers & Architects of Tripoli for regions located outside northern Lebanon.

The surface area of new construction permits issued for Beirut dropped by 49% in 2018, followed by surface areas in Mount Lebanon (-25.6%), the Bekaa region (-23.2%), the North (-21.2%), the Nabatieh area (-18.1%), and the South (-5.6%). Also, the surface area of granted construction permits for regions located outside northern Lebanon fell by 35.1% in 2018. In parallel, cement deliveries totaled 4.47 million tons in the first 11 months of 2018, constituting a decline of 5.3% from 4.72 million tons in the same period of 2017, relative to a decrease of 4.6% in the first 11 months of 2017.

Byblos signs EUR200m loan agreement with EIB

Byblos Bank signed a EUR200m loan agreement with the European Investment Bank (EIB) to finance small and medium-sized enterprises (SMEs) and mid-cap companies in Lebanon. The EIB defines mid-cap firms as enterprises that have between 250 to 3,000 employees. The loan facility, which seeks to support Lebanon's private sector under the EIB's Economic Resilience Initiative, will provide financing for projects that meet EIB's eligibility criteria. It would also support economic activity and create jobs in Lebanon. The Economic Resilience Initiative aims to rapidly mobilize additional financing to support and address crises and shocks 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.

Specifically, Byblos Bank will extend the credit to companies in the industrial, tourism, services, healthcare, energy, telecommunications, information technology and education sectors, as well as in other knowledge-based industries, among others. Accordingly, it will be able to provide local companies with medium- and long-term financing at competitive interest rates, which would allow them to cover their capital expenditures and working capital needs. The credit line constitutes Byblos Bank's fifth line from the EIB, and brings to $540m the total credit amount that EIB extended to the Bank. The EIB extended to Byblos Bank loans of $60m in 2005, $87m in 2007, $52m in 2014 and $111m in 2017.

Agencies take rating actions on Lebanese banks

Moody's Investors Service downgraded the long-term deposit ratings of Bank Audi, BLOM Bank and Byblos Bank from 'B3' to 'Caa1'. It also downgraded the three banks' baseline credit assessments (BCA) and adjusted BCAs from 'b3' to 'caa1', their long-term Counterparty Risk Ratings from 'B2' to 'B3', their Counterparty Risk Assessments from 'B2(cr) ' to 'B3(cr)', and the banks' national scale deposit ratings from 'A3.lb/LB-2' to 'Baa3.lb/LB-3'. In addition, it downgraded BLOM Bank's long-term foreign currency deposit certificates from 'B3' to 'Caa1'. Further, it revised the outlook on the banks' long-term deposit and national scale ratings from 'negative' to 'stable'.

The agency attributed its downgrade of the banks' ratings to its earlier similar action on the Lebanese sovereign. It said that the banks have a high exposure to the sovereign through holdings of government securities and placements at Banque du Liban (BdL). It considered that this exposure links the banks' balance sheets to the sovereign, which constrains their ratings. It added that the three banks are exposed to the challenging Lebanese operating environment, which also makes them indirectly vulnerable to sovereign event risk.

Moody's pointed out that the political deadlock in the country, subdued economic activity, rising global interest rates and tighter emerging market liquidity have weighed on deposits in the banking sector throughout 2018. Still, it said that Lebanese banks were able to continue to attract customer deposits by offering higher interest rates, which are supported by elevated returns on the banks' placements at BdL. It considered that the formation of a new government and the authorities' commitment to implement significant reforms that unlock CEDRE-related funds would support macroeconomic stability in the country, incite new deposit inflows and reduce the banks' funding costs.

Also, the agency indicated that BdL's ample foreign assets, which include $33.6bn in foreign currency reserves, $11.3bn in gold reserves and $7.3bn in other foreign assets as at the end of November 2018, provide a buffer in case of a decline in financial inflows, as well as in the event of short-term outflows or conversions into foreign currency. It said that BdL's foreign currency reserves are equivalent to 65% of money supply (M2) and to 90% of all non-resident deposits, which support the stability of the Lebanese pound against the US dollar.

Further, Moody's pointed out that the banks' own financial fundamentals have remained relatively resilient against the country's challenging operating environment. It added that banks are profitable, while their capital ratios are significantly higher than the regulatory capital requirements. The agency indicated that Byblos Bank's BCA reflects the Bank's established position in the domestic market as one of the largest banks in Lebanon, as well as its strong liquidity profile and stable deposit-based funding structure.

In parallel, Fitch Ratings affirmed at 'B-' the long-term Issuer Default Ratings (IDRs) of Bank Audi and Byblos Bank and revised from 'stable' to 'negative' the outlook on the ratings. It also kept the banks' Viability Ratings (VR) at 'b-' and the Support Rating at '5'. It indicated that the banks' long-term IDRs are driven by their intrinsic strengths, as reflected by their VRs and that the outlook revision follows the agency's earlier similar action on the sovereign. It said that the ratings are capped by the sovereign's creditworthiness due to the banks' substantial holdings of government debt and of Certificates of Deposits issued by BdL, as well as by a lack of domestic lending opportunities and weak economic activity. The agency indicated that Byblos Bank's VR reflects its strong domestic franchise, liquid balance sheet, resilient deposit base and competent management.

Ratio Highlights

(in % unless specified)	2015	2016	2017	Change*
Nominal GDP ($bn)	50.0	51.2	53.4	
Public Debt in Foreign Currency / GDP	54.2	54.9	56.9	2.06
Public Debt in Local Currency / GDP	86.5	91.3	92.0	0.72
Gross Public Debt / GDP	140.7	146.2	149.0	2.78
Total Gross External Debt / GDP**	168.4	182.6	182.4	(0.20)
Trade Balance / GDP	(31.3)	(31.5)	(31.3)	0.16
Exports / Imports	15.9	15.6	14.5	(1.04)
Fiscal Revenues / GDP	19.2	19.4	21.8	2.41
Fiscal Expenditures / GDP	27.1	29.0	28.8	(0.21)
Fiscal Balance / GDP	(7.9)	(9.6)	(7.0)	2.61
Primary Balance / GDP	1.5	0.04	2.7	2.63
Gross Foreign Currency Reserves / M2	58.7	62.2	68.2	5.95
M3 / GDP	247.4	259.2	259.6	0.44
Commercial Banks Assets / GDP	372.2	398.7	411.8	13.02
Private Sector Deposits / GDP	303.3	317.1	315.9	(1.24)
Private Sector Loans / GDP***	108.5	111.6	111.8	0.19
Private Sector Deposits Dollarization Rate	64.9	65.8	68.7	2.88
Private Sector Lending Dollarization Rate	74.8	72.6	68.6	(3.97)

**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 *** 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	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 Investors Service

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