

LEBANON THIS WEEK

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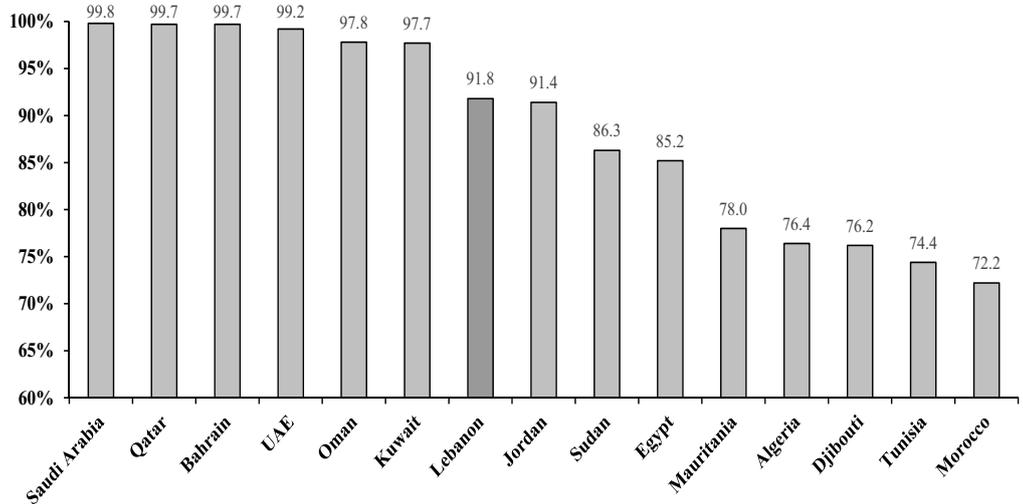
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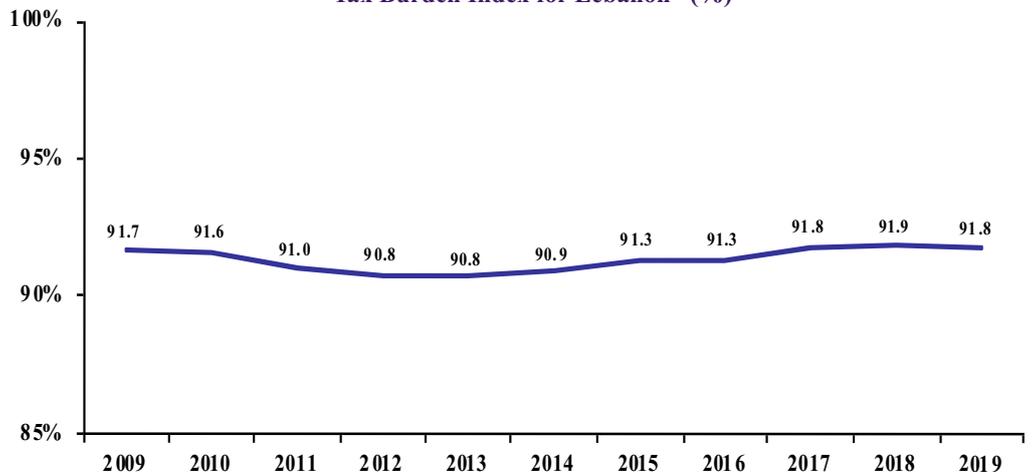
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Charts of the Week

Tax Burden Index for Arab Countries for 2019* (%)



Tax Burden Index for Lebanon* (%)



*a higher score reflects a lower tax burden

Source: Heritage Foundation 2019 Index of Economic Freedom, Byblos Bank

Quote to Note

"The formation of a Cabinet helps authorities restore domestic confidence and provides an opportunity to address macroeconomic imbalances."

Bank of America Merrill Lynch, on the impact of the government's formation after an eight-month deadlock

Number of the Week

13.3%: Percentage of female ministers in the newly-formed government of national unity

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
Byblos Common	1.35	(0.74)	54,290	8.22%
Solidere "B"	6.01	(8.10)	52,412	4.21%
Solidere "A"	6.21	(7.45)	34,980	6.69%
BLOM GDR	8.88	(0.11)	11,499	7.07%
BLOM Listed	8.94	(1.22)	5,800	20.70%
Byblos Pref. 08	70.00	(2.78)	355	1.51%
Audi GDR	4.75	0.00	-	6.13%
HOLCIM	15.33	0.00	-	3.22%
Audi Listed	4.64	0.00	-	19.97%
Byblos Pref. 09	70.00	0.00	-	1.51%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
May 2019	6.00	99.38	8.21
Mar 2020	6.38	96.75	9.61
Apr 2021	8.25	96.75	9.94
Oct 2022	6.10	90.13	9.36
Jun 2025	6.25	85.00	9.45
Nov 2026	6.60	85.50	9.25
Feb 2030	6.65	81.00	9.46
Apr 2031	7.00	81.00	9.69
Nov 2035	7.05	80.25	9.42
Mar 2037	7.25	79.63	9.65

Source: Byblos Bank Capital Markets

	Feb 4-8	Jan 28-Feb 1	% Change	January 2019	January 2018	% Change
Total shares traded	169,870	293,712	(42.2)	50,963,287	5,509,441	825
Total value traded	\$906,513	\$2,079,073	(56.4)	\$152,075,282	\$45,845,113	231.7
Market capitalization	\$9.29bn	\$9.41bn	(1.26)	\$9.38bn	\$11.77bn	(20.3)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Feb 1, 2019	Feb 7, 2019	% Change**
CDS 1-year*	863.08	780.66	(9.55)
CDS 3-year*	767.51	719.63	(6.24)
CDS 5-year*	718.72	703.06	(2.18)

Source: ICE CMA; *mid-spread in bps **between February 1 and 7

CDX EM 30*	Feb 1, 2019	Feb 7, 2019	% Change***
CDS 5-year**	96.85	96.8	(0.05)

Source: ICE CMA; * CDX Emerging Market CDS Index-Series 30
mid-spread in bps * between February 1 and 7

Growth prospects contingent on level of fiscal adjustment and structural reforms

The Institute of International Finance considered that Lebanon's new government faces significant economic challenges amid severe fiscal and current account imbalances, and a difficult external environment. It noted that Lebanon needs to implement deep structural reforms in order to unlock about \$11bn that the international community pledged to the country at the CEDRE conference. The IIF prepared two scenarios for the Lebanese economy, given the uncertainty about the extent and depth of reforms, with the first scenario consisting of substantial fiscal adjustment and structural reforms, and the second one based on limited reforms.

Under the first scenario, the IIF expects the government to implement revenue mobilization measures and spending cuts, as well as to combat corruption. It anticipated the government to consolidate agencies, departments and divisions in line with recommendations by a parliamentary committee, to restructure the electricity sector in order to gradually reduce Treasury transfers to Electricité du Liban (EdL) and eliminate them by 2023, as well as to increase tax compliance. It added that other measures consist of reforming the public-sector retirement system, suspending the payment of bonuses and over-time pay in the public sector, reducing non-essential benefits for high-level civil servants, ministers and members of Parliament, as well as selling non-performing state assets. It considered that the implementation of deep reforms would support confidence and would maximize the country's ability to access the CEDRE funds. Under this scenario, the IIF projected real GDP growth to accelerate from 0.8% in 2018 to 5% by 2023, driven by public investments and net exports, and projected the fiscal deficit to narrow from 11% of GDP in 2018 to 4.4% of GDP by 2023. Further, it anticipated the country's debt metrics to shift to a sustainable downward path, and forecast the debt level to decline to 131.8% of GDP by 2023. It considered that a rebound in economic activity, a narrowing of the fiscal and current account deficits, as well as the significant decline in the public debt-to-GDP ratio would help improve investor confidence and support the currency peg to the US dollar. Further, it said that non-resident capital inflows to the country, mainly in the form of foreign direct investment, concessional loans from donors, and non-resident deposits, would improve significantly, and expected them to increase from 11% of GDP in 2018 to 14% of GDP in 2019. It forecast Banque du Liban's (BdL) assets in foreign currency to increase to \$54.3bn by the end of 2023.

Under the second scenario, the IIF considers that the political will to enact reforms will not be enough to overcome entrenched opposition. It projected economic activity to slightly accelerate to 1.6% in 2019, supported by the formation of a new government and BdL's \$1.05bn stimulus package. However, it indicated that the uncertainty about the prospects of much-needed reforms will weigh on domestic and foreign investors' sentiment, who will adopt a wait-and-see approach. It added that, under such a scenario, the disbursements of concessional loans from the international community would be partial and insufficient to improve the infrastructure. It said that economic growth could gradually pick up to 3% by 2023. Also, the IIF projected the fiscal deficit at around 8% of GDP and the debt levels to remain at about 150% of GDP by 2023. It noted that transfers to EdL would decrease due to lower global oil prices and increased reliance on less expensive gas, despite the lack of deeper structural reforms, and that tax receipts would remain generally flat in terms of GDP due to continued tax evasion. It reiterated that the Lebanese pound's peg to the US dollar provides a strong anchor for financial stability, and considered that a tight monetary policy would support the peg and help attract adequate deposits. It anticipated deposit inflows to improve in 2019 and to be enough to finance the country's fiscal and current account deficits.

IIF's Medium-Term Scenarios

	2017	2018	Deep Reforms Scenario					Limited Reforms Scenario				
			2019	2020	2021	2022	2023	2019	2020	2021	2022	2023
Real GDP Growth, %	0.6	0.8	2.0	2.7	4.0	4.7	5.0	1.6	1.9	2.7	3.0	3.0
Current Account (% of GDP)	-23.2	-21.9	-20.1	-17.8	-15.8	-14.6	-13.4	-20.2	-18.5	-17.7	-17.0	-16.4
Non-Resident Inflows (% of GDP)	15.6	12.5	15.9	16.3	15.6	14.7	14.0	13.9	10.4	9.6	9.2	8.7
BdL's Foreign Currency Assets, \$bn	42.0	39.7	40.4	42.6	46.2	50.0	54.3	38.1	35.0	31.7	28.1	24.5
Fiscal Balance (% of GDP)	-7.0	-11.0	-8.0	-7.6	-6.6	-5.6	-4.4	-9.4	-9.1	-8.6	-8.2	-8.0
Primary Balance (% of GDP)	2.7	-0.5	3.7	4.8	5.7	6.4	7.4	2.6	3.6	4.2	4.7	4.8
Government Debt (% of GDP)	148.9	152.3	150.3	147.3	143.7	138.3	131.8	152.2	152.0	151.6	151.0	150.6

Source: Institute of International Finance

EBRD affirms €1.1bn pledge to Lebanon

Following the formation of the Lebanese government, the European Bank for Reconstruction and Development (EBRD) reconfirmed its CEDRE-related pledge to extend €1.1bn in soft loans to Lebanon. The bank's commitment is part of the \$11.2bn that the international community pledged to Lebanon at the CEDRE conference, which took place in April 2018 in Paris. The funds aim to finance infrastructure projects that the Lebanese government submitted in its Capital Investment Program. The EBRD noted that it identifies several opportunities in Lebanon's energy sector, including in the renewable energy, agribusiness, manufacturing and services sectors, as well as in the country's green economy, industrial zones, and municipal and infrastructure projects.

The EBRD has invested over €8bn in 195 projects since 2012 in the southern and eastern Mediterranean region, including total investments of EUR238m in seven projects in Lebanon since September 2017. Established in 1991, the EBRD aims to support economies and promote the private sector in 39 economies in Southeastern Europe, Central Europe and Baltic States, Eastern Europe and the Caucasus, Central Asia, and the Southern and Eastern Mediterranean region. The bank currently has 69 shareholders that include 67 countries as well as the European Union and the European Investment Bank.



New Cabinet pledges fiscal, economic and structural reforms

The new Council of Ministers approved on February 7, 2019 the Ministerial Statement that outlines its political and economic policies during its mandate. The government stressed the need to carry out fast and effective reforms in order to avoid a worsening of economic, financial and social conditions in the country. As such, the government committed to a fast and effective implementation of an economic, structural, investment and social program that is based on the pillars outlined in the government's Vision for Stabilization and Development that it presented at the CEDRE conference. It noted that the program is based on a basket of financial, investment, and sectoral legislations and reforms that should be implemented in full in order to yield the targeted results.

The statement highlighted the need to accelerate the implementation of \$3.3bn worth of projects that received funding prior to the CEDRE conference, as well as the start of the first and second phases of Lebanon's Capital Investment Program (CIP). It added that the private sector will finance about \$5bn, or 29% of the total cost of the CIP during the first two phases, estimated at \$17bn over eight years, reflecting the importance of public-private partnerships.

In terms of fiscal and monetary reforms, the statement said that Lebanon will maintain its policy of exchange rate stability, which provides an anchor for economic and social stability. It called for coordinated fiscal and monetary policies in order to reduce the public debt level, mainly by increasing the size of the economy and reducing the fiscal deficit. Further, it indicated that starting with the 2019 budget, the government will commit to fiscal reforms that would narrow the fiscal deficit by at least 1% of GDP per year over the next five years, through the reduction of public spending and a gradual cut of Treasury transfers to Electricité du Liban (EdL). It added that fiscal reforms will include measures to expand the tax base, enhance tax collection, reduce wasteful spending, as well as fight tax and customs evasion, and modernize tax administration laws. In addition, the statement stressed the need to reduce public consumption in the 2019 budget by 20% from the 2018 budget, and to improve fiscal governance by enhancing the transparency of the budget and developing the electronic platform at the Ministry of Finance.

The government pledged to restructure the public sector by freezing recruitment in 2019 in all civilian and military branches and by conducting a comprehensive survey to determine the number of existing workers and employees in the public sector and their positions, and to address overstaffing. Also, the government plans to review UNDP programs with ministries and public agencies, and to reform the public-sector pension system.

Further, the Ministerial Statement included several structural reforms, such as endorsing a national anti-corruption strategy and related legislation, as well as enforcing the "access to information" law that Parliament enacted in January 2017. Further, the government intends to implement a comprehensive strategy to achieve the government's digitization, and to update the public procurement law. In parallel, the government plans to improve the business environment by the enactment of draft laws about companies' insolvency and the protection of intellectual property, among others.

In parallel, the statement highlighted the government's commitment to reforming the electricity, oil & gas, solid waste, water, telecommunication and transportation sectors, among others. The reforms to the oil & gas sector include launching a second licensing round for offshore oil & gas exploration and production before the end of 2019; endorsing the draft law on establishing a sovereign wealth fund, and starting onshore oil & gas exploration, among others. Further, the government intends to develop a telecommunication policy aimed at liberalizing the sector; to continue the transformation of the network to fiber-optics, as well as to finalize the deployment of 3G, 4G and 5G networks across the country. In addition, the statement pointed out that the government plans to develop a strategy to modernize and diversify Lebanon's productive and services sectors, mainly through initiatives in the agricultural, industrial, tourism, financial services and knowledge economy sectors.

Government formation is credit positive for Lebanon

Moody's Investors Service indicated that the formation of the new government in Lebanon is credit positive, as it expected the Cabinet to implement the necessary fiscal reforms to unlock the \$11bn that the international community pledged to Lebanon at the CEDRE conference. It pointed out that the new Cabinet would convene immediately to discuss the 2019 budget and the implementation of long-delayed economic reforms. It said that the government's key priorities include spending cuts, as well as tax and electricity reforms that would help Lebanon meet the CEDRE-related requirements. It added that the reforms aim to narrow the fiscal deficit, which it estimated to have exceeded 10% of GDP in 2018. Further, it considered that the implementation of the first phase of the \$23bn Capital Investment Program has the potential to significantly boost economic growth in case it is accompanied by reforms. It added that signs of fiscal consolidation would improve investor and depositor confidence.

However, Moody's considered that credit risks are elevated. It anticipated fiscal consolidation to remain challenging amid low single-digit economic growth over the next three years, which would put the burden of consolidation on the spending side, including reductions in the public-sector wage bill and in Treasury transfers to the loss-making and state-owned Electricité du Liban. It said that the growth in bank deposits has slowed down, given the persistently wide current account deficits of more than 20% of GDP and weaker capital inflows since 2011. It noted that deposits are a key funding channel for the government's large fiscal and external imbalances. It added that Lebanon's fiscal and external positions will remain weak unless the formation of the government is followed by improved depositor and investor confidence that, in turn, leads to a sustained recovery in capital inflows.



Net foreign assets of financial sector down by \$4.8bn in 2018

Figures issued by Banque du Liban (BdL) show that the net foreign assets of the financial sector, which are a proxy for Lebanon's balance of payments, decreased by \$4.8bn in 2018 compared to a decline of \$115.7m in 2017. The net foreign assets of the financial sector decreased by \$747.5m in December 2018 compared to a drop of \$953.9m in November 2018 and a rise of \$853.8m in December 2017.

The decline in December 2018 was caused by a decrease of \$1.2bn in the net foreign assets of BdL, which was partly offset by an increase of \$465.1m in those of banks and financial institutions. Also, the cumulative decrease in 2018 was caused by a drop of \$2.5bn in the net foreign assets of banks and financial institutions and by a decline of \$2.3bn in those of BdL. BdL indicated that it settled a total of \$2.6bn in maturing Eurobonds' principal and coupons, as well as several external loans and letters of credit between November 1 and December 15, 2018, which weighed on its net foreign assets.

The net foreign assets of the financial sector grew by \$7.9bn in 2009, \$3.3bn in 2010 and \$1.2bn in 2016, while they decreased by \$1.1bn in 2013, \$1.4bn in 2014, \$3.4bn in 2015 and \$155.7m in 2017. The net foreign assets of the financial sector declined by the equivalent of 8.6% of GDP in 2018, 0.3% of GDP in 2017, relative to an increase equivalent to 2.4% of GDP in 2016 and declines of 6.7% of GDP in 2015 and 2.9% of GDP in 2014.

Airport passengers up 1.5% in January 2019

Figures released by the Beirut-Rafic Hariri International Airport (HIA) show that 606,761 passengers utilized the airport (arrivals, departures and transit) in January 2019, constituting an increase of 1.5% from 597,768 passengers in January 2018. The number of arriving passengers regressed by 1.3% year-on-year to 269,655 in January 2019, compared to a growth of 10.8% in the same month last year and to a rise of 1.4% in January 2017. Also, the number of departing passengers increased by 2.5% year-on-year to 332,397 in January 2019, relative to a rise of 11% in the same month last year and to a decline of 2.1% in January 2017.

In parallel, the airport's aircraft activity expanded by 5% annually to 5,629 take-offs and landings in January 2019, compared to an increase of 0.7% in the same month of 2018 and to a decline of 7.1% in January 2017. In addition, the HIA processed 6,394 metric tons of freight in the covered month that consisted of 4,151 tons of import freight and 2,243 tons of export freight. Middle East Airlines had 2,163 flights in January 2019 and accounted for 38.4% of HIA's total aircraft activity.

Opened letters of credit at \$6.6bn for imports and \$3.4bn for exports in 2018

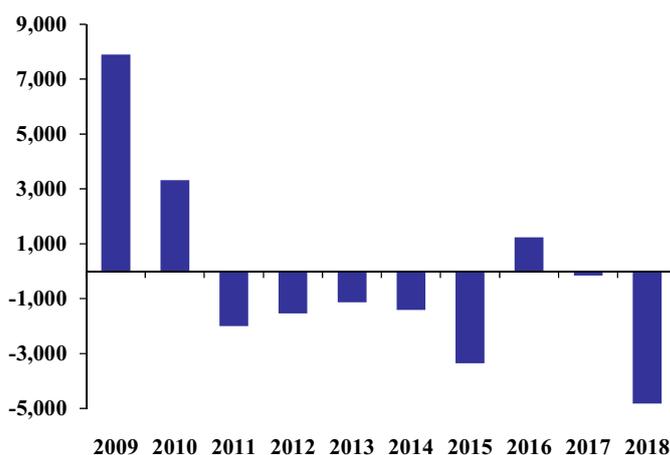
Figures released by Banque du Liban indicate that the value of letters of credit (LCs) opened to finance imports to Lebanon totaled \$6.6bn in 2018, constituting an increase of 15.6% from \$5.7bn in 2017. Further, utilized credits for imports reached \$6bn last year, up by 4.1% from \$5.76bn in 2017, and accounted for 90.8% of opened LCs for imports in 2018. Also, outstanding import credits stood at \$1bn at the end of 2018 compared to \$1.04bn a year earlier. In addition, the aggregate value of inward bills for collection reached \$1.04bn in 2018, constituting a decline of 21.2% from \$1.32bn in 2017. The outstanding value of inward bills for collection reached \$64m at the end of 2018 relative to \$75.5m at end-2017.

In parallel, the value of documentary letters of credit opened to finance exports from Lebanon reached \$3.44bn in 2018, up by 6.8% from \$3.22bn in 2017. Further, utilized credits for exports reached \$2.75bn last year, up by 1.6% from \$2.7bn of used credits in 2017, and accounted for 80% of opened LCs for exports in 2018. Also, outstanding export credits stood at \$865.3m at the end of 2018 compared to \$869.5m a year earlier. In addition, the aggregate value of outward bills for collection amounted to \$1.35bn in 2018, constituting an increase of 5.4% from \$1.28bn in 2017. The outstanding value of outward bills for collection reached \$370.9m at the end of 2018 relative to \$396.7m at end-2017.

Coincident Indicator up 1.2% year-on-year in first 11 months of 2018

Banque du Liban's Coincident Indicator, an index of economic activity in Lebanon, reached 316.5 points in November 2018 compared to 309.2 in October 2018 and 323.9 in November 2017. The Coincident Indicator, an average of 8 weighted economic indicators, increased by 2.4% month-on-month and declined by 2.3% year-on-year in November 2018. The indicator averaged 308.4 in the first 11 months of 2018, up by 1.2% from an average of 304.7 in the same period of 2017. Also, the indicator averaged 309.2 in the 12 months ending November 2018, compared to an average of 309.8 in the 12-month period ending October 2018 and to an average of 303.7 in the 12 months ending November 2017. As a result, the 12-month average coincident indicator was nearly unchanged month-on-month, while it grew by 1.8% year-on-year. In parallel, the indicator improved 20 times and regressed six times on a monthly basis in the month of November since 1993. It averaged 249.5 points in 2010, 255.7 points in 2011, 256.6 points in 2012, 264.7 points in 2013, 273.2 points in 2014, 278.6 points in 2015, 289.5 points in 2016 and 305.9 points in 2017.

Change in Net Foreign Assets of Financial Sector (US\$m)



Source: Banque du Liban

Gross public debt at \$85bn at end-2018

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. In nominal terms, the gross public debt grew by \$5.6bn in 2018, relative to increases of \$4.64bn in 2017, \$4.56bn in 2016, \$3.76bn in 2015, \$3.09bn in 2014, \$5.8bn in 2013, \$4bn in 2012, \$1.07bn in 2011 and \$1.47bn in 2010.

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. In May 2018, the Finance Ministry issued \$5.5bn in Lebanese Eurobonds and exchanged them with LBP8,250bn worth of Lebanese pound-denominated Treasury bills from Banque du Liban's (BdL) portfolio in order to reduce the cost of debt servicing, which explains the growth in foreign-currency debt. 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. When using the Institute of International Finance's estimate for the 2018 nominal GDP, local currency debt would stand at 92.1% of GDP, while foreign currency denominated

debt was 59.7% of GDP. The weighted interest rate on outstanding Treasury bills was 6.11% and the rate on Eurobonds was 6.81% in December 2018. Further, the weighted life of Eurobonds was 7.83 years, while it was 1,628 days for Treasury bills.

Commercial banks held 39.5% of the public debt as at end-2018 relative to 40.2% of the total at end-2017. BdL held 50.1% of the Lebanese pound-denominated public debt at the end of 2018, up from 48% a year earlier; followed by commercial banks with 35.2% of the local debt, down from 37.5% at end-2017. Also, public agencies, financial institutions and the public held 14.7% of local debt at end-2018, up from 14.5% a year earlier. In parallel, holders of Eurobonds and special T-bills in foreign currencies accounted for 93.7% of foreign currency-denominated debt holders at the end of 2018, followed by multilateral institutions with 4.1% and foreign governments with 2.2%. In addition, the net public debt, which excludes public sector deposits at BdL and at commercial banks from overall debt figures, grew by 9.5% annually to \$75.7bn at end-2018. Further, the gross market debt accounted for about 61.2% of the total public debt. Gross market debt is the total public debt less the portfolios of the BdL, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II related debt.

Construction activity regresses in third quarter of 2018

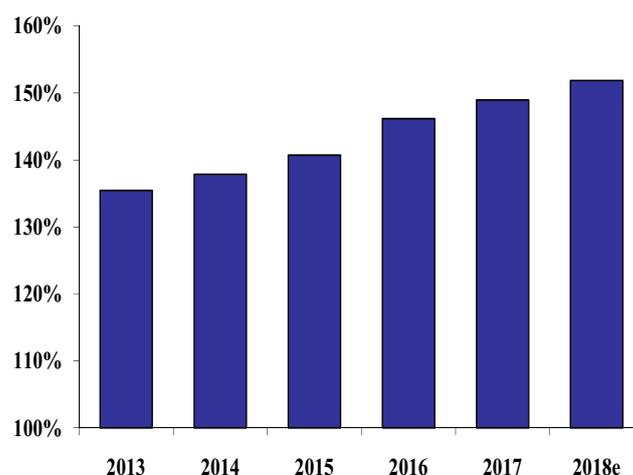
Banque du Liban's quarterly business survey about the opinions of business managers shows that general construction activity deteriorated in the third quarter of 2018, with the balance of opinions standing at -52 compared to -48 in the second quarter of 2018 and -21 in the third quarter of 2017. The business survey reflects the opinions of enterprise managers about the evolution of their businesses, in order to depict the trend of a number of key economic variables. The balance of opinions about construction activity was -51 in the covered quarter compared to -53 in the second quarter of 2018 and to -21 in the third quarter of 2017. The balance of opinions about construction activity was the highest in the North at -15, followed by Beirut & Mount Lebanon (-43), the South (-87), and the Bekaa (-89). Also, the balance of opinions about public works stood at -42 in the third quarter of 2018 compared to -41 in the preceding quarter and to -4 in the third quarter of 2017. Opinions about the level of public works were the highest in the North at -23, followed by Beirut & Mount Lebanon (-33), the Bekaa (-63), and the South (-100).

In parallel, the balance of opinions about the portfolio of projects was -59 in the third quarter of 2018 relative to -55 in the second quarter of 2018 and to -39 in the third quarter of 2017. The balance of opinions about the portfolio of projects was the highest in the North at -42, followed by Beirut & Mount Lebanon (-54), the Bekaa (-73), and the South (-93). Further, the balance of opinions about construction costs reached +4 in the covered quarter, down from +16 in the second quarter of 2018 and +13 in the third quarter of 2017. The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in a particular indicator and the proportion of those who reported a decline in the same indicator.

Construction and Public Work Activity: Evolution of Opinions				
Aggregate results	Q3-15	Q3-16	Q3-17	Q3-18
General activity	-20	-10	-21	-52
Construction	-25	-13	-21	-51
Public work	-14	-14	-4	-42
Portfolio of projects	-34	-27	-39	-59
Construction costs	-17	+7	+13	+4
Investments (% of yes)	32%	35%	29%	20%

Source: Banque du Liban Business Survey for Third Quarter of 2018

Lebanon's Gross Public Debt (% of GDP)



Source: Central Administration of Statistics, Ministry of Finance, Institute of International Finance

Banking sector assets reach \$250bn at end-2018, equivalent to 445% of GDP

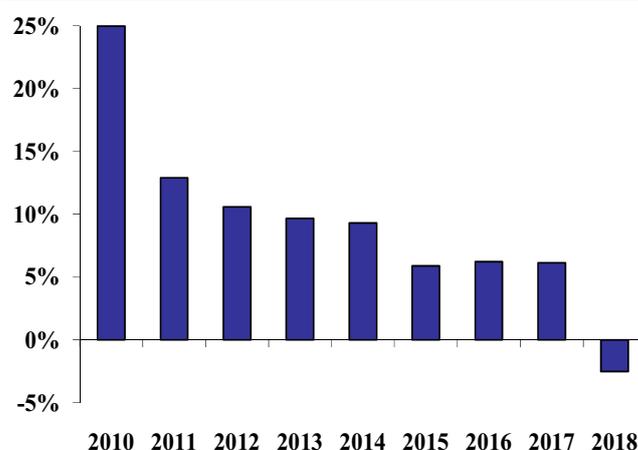
The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets stood at \$249.5bn at the end of 2018, constituting an increase of 13.5% from the end of 2017. The banking sector's assets were equivalent to 445.1% of GDP in 2018 relative to 411.8% in 2017. Loans extended to the private sector reached \$59.4bn at the end of 2018, regressing by 0.5% from a year earlier. Lending to the private sector was equivalent to 106% of GDP in 2018 relative to 111.8% of GDP in 2017. Loans to the resident private sector totaled \$52.3bn, constituting a decrease of 2.5% from the end of 2017, and were equivalent to 93.2% of GDP last year compared to 100.4% of GDP in 2017. Also, credit to the non-resident private sector reached \$7.1bn at end-2018 and grew by 17.2% from end-2017. In nominal terms, credit to the private sector regressed by \$300m in 2018, as lending to the resident private sector contracted by \$1.35bn and credit to the non-resident private sector rose by \$1.05bn in the covered period. The dollarization rate in private sector lending grew from 68.6% at end-2017 to 69.2% at the end of 2018.

In addition, claims on non-resident financial institutions reached \$12bn at the end of 2018 and rose by \$689.3m, or 6.1%, from the end of 2017. Also, claims on the public sector stood at \$33.6bn at end-2018, up by 5.2% from a year earlier, mainly due to Banque du Liban's (BdL) sale of about \$3bn in Eurobonds from its portfolio to banks in May of 2018. The average lending rate in Lebanese pounds was 9.97% in December 2018 compared to 8.09% a year earlier, while the same rate in US dollars was 8.57% relative to 7.67% in December 2017. Further, the deposits of commercial banks at BdL totaled \$130.2bn at the end of 2018, and increased by 26% from a year earlier.

In parallel, total private sector deposits reached \$174.3bn at the end of 2018, increasing by 3.3% from the end of 2017. Private sector deposits were equivalent to 311% of GDP in 2018 relative to 316% of GDP in 2017. Deposits in Lebanese pounds reached the equivalent of \$51.2bn at end-2018, down by 2.9% from a year earlier, while deposits in foreign currency totaled \$123.1bn and grew by 6.2% from end-2017. Resident deposits totaled \$136.6bn at the end of 2018, increasing by 2.3% from the end of 2017. Also, non-resident deposits reached \$37.7bn at end-2018, up by \$2.57bn, or 7.3% from a year earlier. In nominal terms, private sector deposits grew by \$475.4m in January, by \$1.31bn in February, by \$727.3m in March, by \$229.2m in April, by \$975.8m in May, by \$934.5m in June, by \$210m in August, by \$712.6m in September and by \$1.09bn in December, while they regressed by \$305m in July, by \$690m in October and by \$56.3m in November 2018. As such, aggregate private sector deposits expanded by \$5.62bn in 2018 relative to an increase of \$6.17bn in 2017, with deposits in Lebanese pounds declining by \$1.55bn and foreign-currency deposits growing by \$7.17bn. The dollarization rate of private sector deposits was 70.6% at the end of 2018 relative to 68.7% at end-2017.

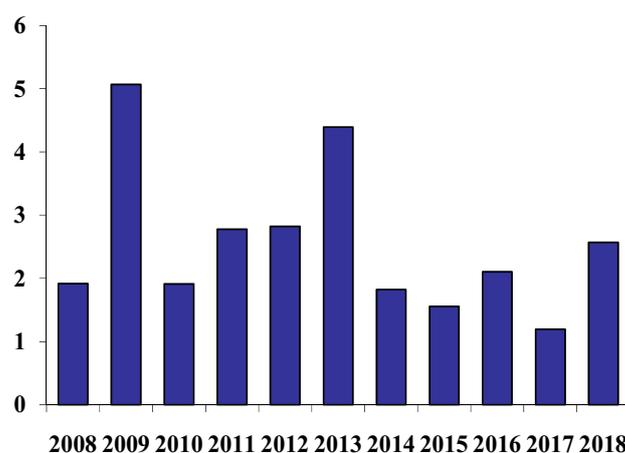
In parallel, deposits of non-resident financial institutions reached \$9.3bn at the end of 2018 and increased by 23.8% from end-2017. Further, the average deposit rate in Lebanese pounds was 8.3% in December 2018 compared to 6.41% a year earlier, while the same rate in US dollars was 5.15% relative to 3.89% in December 2017. The ratio of private sector loans-to-deposits in foreign currency stood at 33.4% at the end of 2018, well below BdL's limit of 70% and compared to 35.3% a year earlier. The same ratio in Lebanese pounds was 35.7% at end-2018 relative to 35.5% at the end of 2017. As such, the total private sector loans-to-deposits ratio reached 34.1%, which is lower than 35.4% at end-2017. The banks' aggregate capital base stood at \$20.2bn at the end of 2018, up by 5.4% from \$19.1bn a year earlier.

Resident Private Sector Lending Growth (% Change)



Source: Banque du Liban, Byblos Research

Increase in Non-Resident Private Sector Deposits (US\$bn)



Source: Banque du Liban, Byblos Research



Payment cards reach 2.74 million at end-September 2018, ATMs total 1,968

Figures released by Banque du Liban show that the number of payment cards issued in Lebanon reached 2,744,589 cards at the end of September 2018, constituting an increase of 4.2% from end-2017 and of 5.2% from the end of September 2017. Cards held by residents accounted for 96.5% of total cards issued in Lebanon at end-September 2018. The distribution of payment cards by type shows that debit cards with residents reached 1,556,067 and accounted for 56.7% of the total, followed by credit cards with residents at 565,324 (20.6%), prepaid cards with residents at 431,042 (15.7%), charge cards with residents at 96,006 (3.5%), debit cards held by non-residents at 64,997 (2.4%), credit cards with non-residents at 22,172 (0.8%), charge cards held by non-residents at 7,508 (0.3%) and prepaid cards with non-residents at 1,473 (0.1%).

Further, the aggregate number of points-of-sales accepting payment cards reached 44,917 at the end of September 2018, constituting an increase of 5.7% from end-2017 and a rise of 7.8% year-on-year. As a result, there were 4.3 points-of-sales per square kilometer in Lebanon at the end of September 2018.

In parallel, there were 1,968 ATMs across Lebanon at the end of September 2018, constituting an increase of 3.5% from 1,902 ATMs at end-2017 and a growth of 4.7% from 1,880 machines a year earlier. Mount Lebanon had 724 ATMs at end-September 2018, equivalent to 36.8% of the total; followed by the Greater Beirut area with 723 ATMs (36.7%), the North with 193 ATMs (9.8%); the South with 157 ATMs (8%); the Bekaa with 139 ATMs (7.1%), and Nabatieh with 32 ATMs (1.6%). As such, there were 188 ATMs per 1,000 square kilometers in Lebanon at end-September 2018.

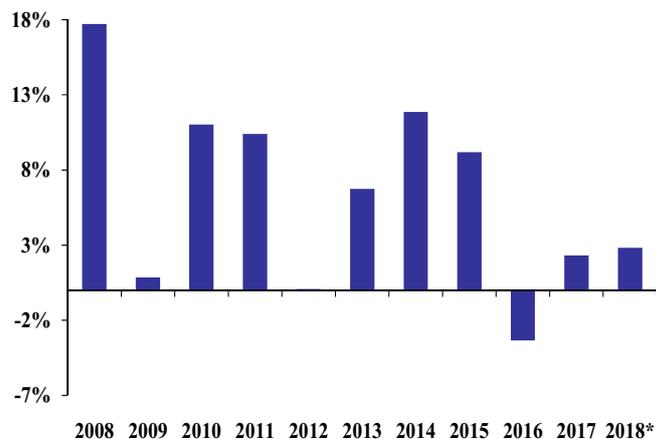
Balance sheet of financial institutions down 8% in 2018

Figures released by Banque du Liban show that the consolidated balance sheet of financial institutions in Lebanon totaled LBP2,321bn, or \$1.54bn at the end of 2018, constituting a decrease of 7.7% from LBP2,513bn, or \$1.67bn, at end-2017.

On the assets side, claims on resident customers reached \$674.8m at end-2018, down by 6.3% from the end of 2017, while claims on non-resident customers stood at \$70m at end-2018 and increased by 81% from end-2017. In addition, claims on the resident financial sector reached \$331.8m at end-2018, down by 24.2% from end-2017; while claims on the non-resident financial sector totaled \$94.3m at the end of 2018 and increased by 14.2% from end-2017. Also, claims on the public sector totaled \$4.8m at end-2018, constituting a decline of 18.5% from end-2017; while the securities portfolio, which includes Lebanese Treasury bills and Eurobonds, reached \$111.3m at end-2018, down by 18.3% from end-2017. In parallel, currency and deposits with local and foreign central banks amounted to \$44.6m at the end of 2018 and increased by 93.2% from \$23.1m at end-2017.

On the liabilities side, deposits of resident customers stood at \$157.6m at the end of 2018, constituting an increase of 12% from end-2017; while deposits of non-resident customers reached \$20.4m at the end of 2018, and decreased by 21% from end-2017. Liabilities to the resident financial sector amounted to \$372.6m at end-2018, down by 13.6% from end-2017; while those to the non-resident financial sector increased by 35.6% from end-2017 to \$143.3m. Also, public sector deposits decreased by 69.1% in 2018 to \$4.5m, while debt securities issued totaled \$149.1m at end-2018 and regressed by 28% from end-2017. Further, the aggregate capital account of financial institutions amounted to \$468.3m at the end of 2018, constituting a decrease of 3.4% from end-2017.

Growth in the Number of Credit Cards Held by Residents



*change in first nine months of 2018

Source: Banque du Liban, Byblos Research

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)	(30.6)	0.78
Exports / Imports	15.6	14.5	14.7	0.17
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	Stable	B-	B	Stable
Capital Intelligence Ratings	B	B	Negative	B	B	Negative

Source: Rating agencies

Banking Ratings

Banking Ratings	Outlook
Moody's	Stable

Source: Moody's Investors Service



Economic Research & Analysis Department
Byblos Bank Group
P.O. Box 11-5605
Beirut – Lebanon
Tel: (961) 1 338 100
Fax: (961) 1 217 774
E-mail: research@byblosbank.com.lb
www.byblosbank.com

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BYBLOS BANK GROUP

LEBANON

Byblos Bank S.A.L
Achrafieh - Beirut
Elias Sarkis Avenue - Byblos Bank Tower
P.O.Box: 11-5605 Riad El Solh - Beirut 1107 2811- Lebanon
Phone: (+ 961) 1 335200
Fax: (+ 961) 1 339436

IRAQ

Erbil Branch, Kurdistan, Iraq
Street 60, Near Sports Stadium
P.O.Box: 34 - 0383 Erbil - Iraq
Phone: (+ 964) 66 2233457/8/9 - 2560017/9
E-mail: erbilbranch@byblosbank.com.lb

Sulaymaniyah Branch, Kurdistan, Iraq
Salem street, Kurdistan Mall - Sulaymaniyah
Phone: (+ 964) 773 042 1010 / (+ 964) 773 041 1010

Baghdad Branch, Iraq
Al Karrada - Salman Faeq Street
Al Wahda District, No. 904/14, Facing Al Shuruk Building
P.O.Box: 3085 Badalat Al Olwiya – Iraq
Phone: (+ 964) 770 6527807 / (+ 964) 780 9133031/2
E-mail: baghdadbranch@byblosbank.com.lb

Basra Branch, Iraq
Intersection of July 14th, Manawi Basha Street, Al Basra – Iraq
Phone: (+ 964) 770 4931900 / (+ 964) 770 4931919
E-mail: basrabranch@byblosbank.com.lb

UNITED ARAB EMIRATES

Byblos Bank Abu Dhabi Representative Office
Al Reem Island - Sky Tower - Office 2206
P.O.Box: 73893 Abu Dhabi - UAE
Phone: (+ 971) 2 6336050 - 2 6336400
Fax: (+ 971) 2 6338400
E-mail: abudhabirepoffice@byblosbank.com.lb

ARMENIA

Byblos Bank Armenia CJSC
18/3 Amiryan Street - Area 0002
Yerevan - Republic of Armenia
Phone: (+ 374) 10 530362 Fax: (+ 374) 10 535296
E-mail: infoarm@byblosbank.com

NIGERIA

Byblos Bank Nigeria Representative Office
161C Rafu Taylor Close - Off Idejo Street
Victoria Island, Lagos - Nigeria
Phone: (+ 234) 706 112 5800
(+ 234) 808 839 9122
E-mail: nigeriarepresentativeoffice@byblosbank.com.lb

BELGIUM

Byblos Bank Europe S.A.
Brussels Head Office
Rue Montoyer 10
Bte. 3, 1000 Brussels - Belgium
Phone: (+ 32) 2 551 00 20
Fax: (+ 32) 2 513 05 26
E-mail: byblos.europe@byblosbankeur.com

UNITED KINGDOM

Byblos Bank Europe S.A., London Branch
Berkeley Square House
Berkeley Square
GB - London W1J 6BS - United Kingdom
Phone: (+ 44) 20 7518 8100
Fax: (+ 44) 20 7518 8129
E-mail: byblos.london@byblosbankeur.com

FRANCE

Byblos Bank Europe S.A., Paris Branch
15 Rue Lord Byron
F- 75008 Paris - France
Phone: (+33) 1 45 63 10 01
Fax: (+33) 1 45 61 15 77
E-mail: byblos.europe@byblosbankeur.com

CYPRUS

Limassol Branch
1, Archbishop Kyprianou Street, Loucaides Building
P.O.Box 50218
3602 Limassol - Cyprus
Phone: (+ 357) 25 341433/4/5 Fax: (+ 357) 25 367139
E-mail: byblosbankcyprus@byblosbank.com.lb

ADIR INSURANCE

Dora Highway - Aya Commercial Center
P.O.Box: 90-1446
Jdeidet El Metn - 1202 2119 Lebanon
Phone: (+ 961) 1 256290
Fax: (+ 961) 1 256293