

LEBANON THIS WEEK

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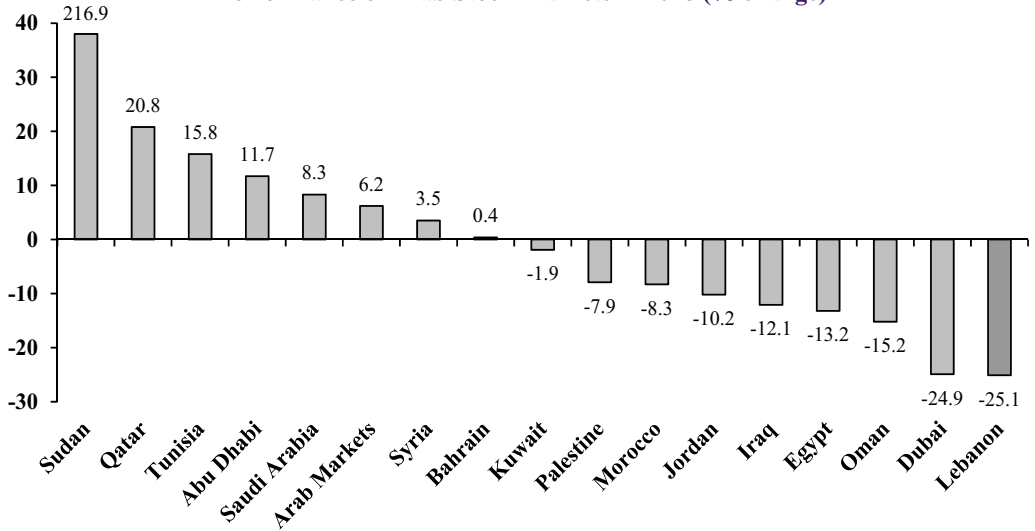
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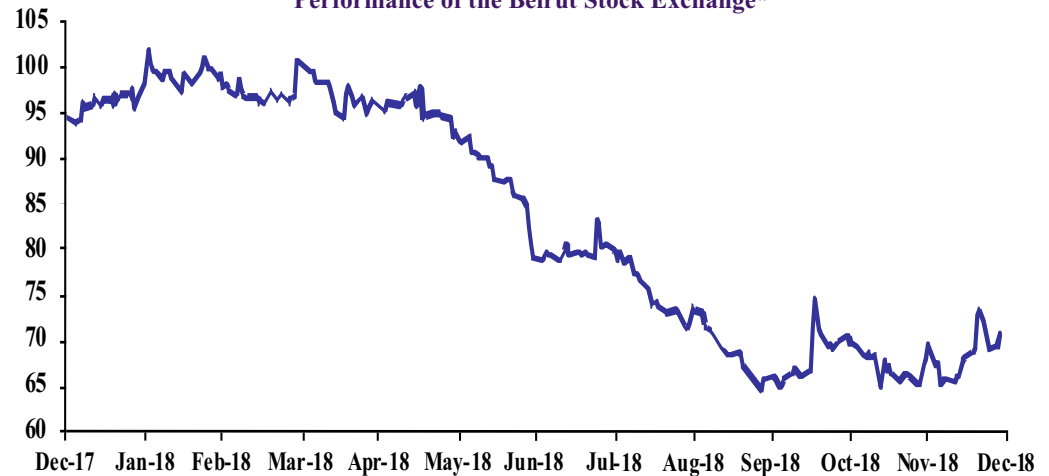
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Performance of Arab Stock Markets in 2018 (% change)



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

"Lebanon's institutions have a track record of supporting the government's willingness and capacity to meet its debt payments, even through highly challenging economic, social and political periods."

Moody's Investors Service, on the Lebanese government's ability to meet its debt obligations

Number of the Week

\$6.1bn: Lebanon's current account deficit in the first half of 2018, according to Banque du Liban

Lebanon in the News

\$m (unless otherwise mentioned)	2017	Jan-Oct 2017	Jan-Oct 2018	% Change*	Oct-17	Sep-18	Oct-18
Exports	2,844	2,364	2,464	4.23	251	214	265
Imports	19,582	16,223	16,874	4.02	1,769	1,438	1,718
Trade Balance	(16,738)	(13,859)	(14,411)	3.98	(1,517)	(1,224)	(1,454)
Balance of Payments	(156)	(1,078)	(3,122)	189.68	(888)	(146)	(1,810)
Checks Cleared in LBP	21,674	17,663	18,235	3.24	1,993	1,885	2,064
Checks Cleared in FC	46,562	38,751	37,493	(3.25)	4,147	3,655	4,017
Total Checks Cleared	68,254	56,429	55,735	(1.23)	6,140	5,540	6,081
Fiscal Deficit/Surplus**	(3,756)	(2,003)	(4,508)	125	(492.4)	(1,125)	-
Primary Balance**	1,427.8	1,628.9	(590.9)	-	(52.6)	(665.1)	-
Airport Passengers***	8,235,845	7,016,089	7,536,392	7.42	616,742	849,299	684,617
Consumer Price Index****	4.4	4.3	6.3	200bps	4.6	6.5	6.3

\$bn (unless otherwise mentioned)	2017	Oct 2017	Jul 2018	Aug 2018	Sep 2018	Oct 2018	% Change*
BdL FX Reserves	35.81	36.77	34.21	33.92	34.15	34.62	(5.85)
In months of Imports	18.57	20.79	14.76	18.64	23.75	20.15	(3.07)
Public Debt	79.53	78.48	82.90	83.69	83.85	84.02	7.06
Bank Assets	219.86	215.79	236.31	238.46	241.12	242.61	12.43
Bank Deposits (Private Sector)	168.66	169.40	173.01	173.22	173.94	173.25	2.27
Bank Loans to Private Sector	59.69	58.59	59.22	59.40	59.42	59.15	0.96
Money Supply M2	52.51	54.98	53.58	53.21	52.71	52.06	(5.32)
Money Supply M3	138.62	138.82	140.85	141.04	141.35	140.24	1.02
LBP Lending Rate (%)	8.09	8.24	8.66	8.81	9.31	9.60	136bps
LBP Deposit Rate (%)	6.41	5.56	6.94	7.03	7.39	7.74	218bps
USD Lending Rate (%)	7.67	7.39	7.96	8.12	8.11	8.30	91bps
USD Deposit Rate (%)	3.89	3.72	4.14	4.20	4.36	4.63	91bps

*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
BLOM GDR	9.40	0.97	34,989	7.19%
Solidere "A"	6.99	(0.14)	29,502	7.24%
Solidere "B"	6.89	(4.17)	681	4.64%
Audi GDR	4.87	0.00	-	6.05%
Byblos Common	1.37	0.00	-	8.02%
HOLCIM	15.50	0.00	-	3.13%
Byblos Pref. 08	70.00	0.00	-	1.45%
BLOM Listed	9.25	0.00	-	20.58%
Audi Listed	4.90	0.00	-	20.27%
Byblos Pref. 09	70.00	0.00	-	1.45%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
May 2019	6.00	98.50	10.13
Mar 2020	6.38	95.00	11.02
Apr 2021	8.25	93.88	11.38
Oct 2022	6.10	85.13	11.06
Jun 2025	6.25	78.38	11.03
Nov 2026	6.60	76.88	11.07
Feb 2030	6.65	74.25	10.65
Apr 2031	7.00	74.50	10.79
Nov 2035	7.05	74.13	10.32
Mar 2037	7.25	74.25	10.43

Source: Byblos Bank Capital Markets

	Jan 2-4, 2019	Dec 24-28, 2018	% Change	December 2018	December 2017	% Change
Total shares traded	65,172	4,241,140	(98.5)	5,407,192	11,929,343	(54.7)
Total value traded	\$536,704	\$21,392,685	(97.5)	\$27,863,342	\$116,215,896	(76.0)
Market capitalization	\$9.66bn	\$9.68bn	(0.14)	\$9.68bn	\$11.47bn	(15.7)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Jan 4, 2019	Dec 28, 2018	% Change**
CDS 1-year*	931.25	774.94	20.2
CDS 3-year*	875.54	766.85	14.2
CDS 5-year*	810.90	749.67	8.2

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

CDX EM 30*	Jan 4, 2019	Dec 28, 2018	% Change***
CDS 5-year**	95.76	95.23	0.6

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

Remittance inflows to Lebanon at \$3.6bn in first half of 2018

Figures released by Banque du Liban show that expatriates' remittance inflows to Lebanon totaled \$3.61bn in the first half of 2018, constituting an increase of 0.3% from \$3.6bn in the first half of 2017 and a rise of 4.2% from \$3.47bn in the second half of 2017. Remittance inflows to Lebanon reached \$1.85bn in the first quarter of 2018, unchanged from the same quarter of 2017, while they totaled \$1.76bn in the second quarter of 2018, up by 0.6% from the same quarter of 2017. The figures include workers' remittances and the compensation of employees, according to the World Bank's definition of remittances. Banque du Liban's figures are the only official data on remittance flows to and from Lebanon.

In addition, remittance inflows to Lebanon in the first half of 2018 increased to their fourth highest semi-annual level between 2002 and 2018. Remittance inflows to the country averaged \$3.56bn during the first half of each year between 2008 and 2018, and reached a high of \$3.79bn in the first half of 2008. Overall, remittance inflows to Lebanon grew at a compound annual growth rate of -0.5% between the first half of 2008 and the same period of 2018.

In parallel, remittance outflows from Lebanon amounted to \$2.37bn in the first half of 2018, up by 11.2% from \$2.13bn in the first half of 2017 and by 2.3% from \$2.3bn in the second half of 2017. Remittance outflows totaled \$1.17bn in the first quarter and \$1.2bn in the second quarter of 2018. In addition, remittance outflows in the covered period reached their third highest level for the first half of a year during the 2002-18 period. They averaged \$2.2bn during the first half of each year between 2008 and 2018, with a high of \$2.57bn in the first half of 2013.

As such, net remittance inflows to Lebanon reached \$1.24bn in the first half of 2018, their seventh highest level for the first half of a year since 2002, and increased by 8% from \$1.14bn in the second half of 2017. They decreased by 15.5% from \$1.46bn in the first half of 2017.

Consumer Price Index up 6.3% in first 11 months of 2018

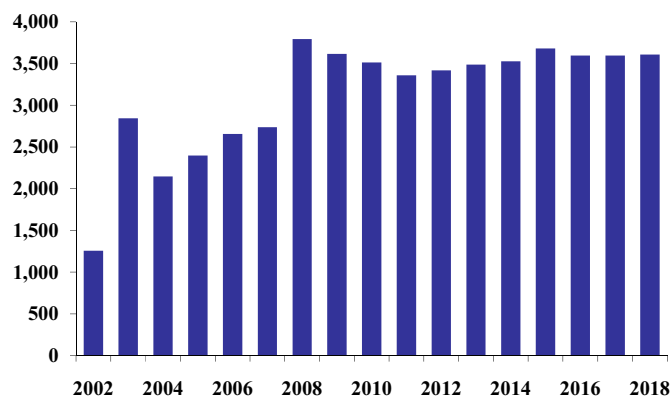
The Central Administration of Statistics' Consumer Price Index increased by 6.3% in the first 11 months of 2018 from the same period of 2017, compared to a growth of 4.4% in the first 11 months of 2017. Also, the CPI increased by 5.8% in November 2018 from the same month of 2017. The prices of clothing & footwear grew by 13.6% in November 2018 from the same month of 2017, followed by the prices of water, electricity, gas & other fuels (+12.3%), the prices of food & non-alcoholic beverages (+6.7%), transportation costs and recreation & entertainment costs (+6.2% each), the cost of education (+5.4%), the prices of furnishings & household equipment (+5.2%), actual rents (+3.8%), imputed rents (+2.8%), healthcare costs (+2.5%), prices at restaurants & hotels and miscellaneous goods & services costs (+2.2% each), the prices of alcoholic beverages & tobacco (+1.4%), and communication costs (+0.8%). Also, the distribution of actual rents shows that old rents grew by 6.2% annually in November 2018, while new rents increased by 2.1% year-on-year.

Further, the CPI grew marginally by 0.1% in November 2018 from the preceding month compared to a month-on-month increase of 1.1% in October 2018. The prices of furnishings & household equipment increased by 2.6% month-on-month in November 2018, followed by the cost of food & non-alcoholic beverages (+1.5%), the prices of clothing & footwear (+0.4%), prices at restaurants & hotels (+0.2%), and the cost of recreation & entertainment, imputed rents, miscellaneous goods & services and actual rents (+0.1% each). In contrast, transportation costs regressed by 1.9% month-on-month in November 2018, followed by the cost of water, electricity, gas & other fuels (-0.6%) and communication costs (-0.1%). The prices of alcoholic beverages & tobacco, healthcare costs and the cost of education were unchanged in the covered month. The CPI increased by 0.4% month-on-month in November 2018 in the South, by 0.2% in each of the North and the Bekaa, by 0.1% in each of Beirut and Mount Lebanon, while it was unchanged in Nabatieh from the previous month. In parallel, the Fuel Price Index decreased by 3.5% month-on-month in November 2018, while the Education Price Index was unchanged in the covered month.

Coincident Indicator up 1.6% year-on-year in first 10 months of 2018

Banque du Liban's Coincident Indicator, an index of economic activity in Lebanon, reached 309.2 points in October 2018 compared to 292.3 in September 2018 and 306 in October 2017. The Coincident Indicator, an average of 8 weighted economic indicators, increased by 5.8% month-on-month and by 1% year-on-year in October 2018. The indicator averaged 307.5 in the first 10 months of 2018, up by 1.6% from an average of 302.8 in the same period of 2017. Also, the indicator averaged 309.8 in the 12 months ending October 2018, compared to an average of 309.5 in the 12-month period ending September 2018 and to an average of 302.7 in the 12 months ending October 2017. As a result, the 12-month average coincident indicator was nearly unchanged month-on-month, while it grew by 2.4% year-on-year. In parallel, the indicator improved 23 times, regressed two times and was unchanged once on a monthly basis in the month of October 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.

Remittance Inflows to Lebanon* (\$USm)



*in first half of each year

Source: Banque du Liban, Byblos Research

McKinsey recommends 160 initiatives to address economic challenges

The Ministry of Economy & Trade issued the report that the Lebanese government commissioned from consulting firm McKinsey & Company titled "Lebanon Economic Vision", with quantifiable targets for 2025 and for 2035. The study identifies five economic sectors that present the highest economic potential for Lebanon, which are agriculture, industry, tourism, financial services, and the Knowledge Economy. It provides a list of 160 priority initiatives related to the five economic sectors, to the Lebanese Diaspora, and to government actions in infrastructure, public administration, fiscal policy and legislation to support the sectors.

The study allocates 15 initiatives to the agricultural sector in order to achieve a "high-value, high-quality" sector that generates "sustainable wealth" for farmers and rural communities. The initiatives aim to enhance yield and quality; to improve local food markets; to shift agricultural cultivation towards higher-value crops and livestock such as tomatoes and avocados; and to unlock export potential by facilitating access to international markets, among others. The study considers that the first phase, which consists of the highest priority initiatives, should focus on developing a regulatory framework to legalize the cultivation of cannabis for medicinal purposes, assuming that government policies are in place. The second phase focuses on launching an alternative subsidy program for tobacco farmers. The third phase consists of improving water sustainability by strengthening regulations and enforcement, and increasing transparency in wholesale markets through digital channels.

Further, the report assigns 12 initiatives to the industrial sector to transform Lebanon into a "niche regional leader in creative and high-value industries and a hub for regional processing". The initiatives aim to prioritize high potential sub-sectors, to develop National Integrated Industrial Parks and to improve access to finance, among others. According to the study, the highest priority initiative is to develop an industrial construction technology zone close to the northern border in order to capitalize on the reconstruction efforts in Syria. The second phase stipulates building other industrial zones in southern and coastal regions and to update the National Technical and Vocational Education Training programs to align them with best practices. The third phase consists of developing a "dry port" near the town of Chtaura in the Bekaa, in order to ease the pressure on the Port of Beirut, and of streamlining customs inspections processes.

In addition, the study earmarks 22 initiatives to the tourism sector, with a focus on business and specialized medical tourism. The initiatives focus on increasing the number of leisure visitors by building core offerings in Beirut, Byblos and Tyre, and by developing ultra-luxury "eco-tourism" hubs. They also aim to promote Lebanon as a "high value for money" destination for business tourists, as well as to position Lebanon as a "convenient" destination targeting regional medical tourists, among others. The highest priority initiative is to earmark about \$14m for marketing Lebanon in 15 Arab countries, core European markets and the main countries of the Lebanese Diaspora; as well as to launch a national campaign to clean public beaches. The second phase consists of creating an entertainment and gaming strip in the greater Beirut area by extending gaming licenses and renovating Casino du Liban, while the third phase focuses on marketing Lebanon as a medical tourism and wellness destination.

Also, the study allocates 28 initiatives to the financial services sector in order to help it expand beyond banking, as well as to allow Lebanon to become an "investment management & offshoring hub" and to export financial services. The first phase of initiatives consists of drafting a detailed banking strategy and of developing an "asset management value proposition" by signing double taxation agreements for target countries, such as those in the Caspian region. The second phase focuses on enabling capital markets by increasing demand for capital, such as through the rapid listing of state-owned enterprises and the funding of the Capital Investment Program from debt markets. The third phase consists of providing merger incentives to consolidate the banking sector.

Moreover, the study assigns 28 initiatives to the Knowledge Economy to help Lebanon become a "knowledge-driven digital nation", and to act as a "talent hub for technology, outsourcing, creative industries and education". The highest priority initiative consists of establishing an outsourcing park in a region outside Beirut & Mount Lebanon, such as Tripoli. The second phase focuses on developing and launching a campaign to promote the Lebanese "Innovation Economy", while the third phase consists of improving the education system and expanding the talent pool. Further, the report earmarks 16 initiatives to develop a "proactive emigration policy", and to engage the Lebanese Diaspora in "actively contributing to Lebanon's economic and social development". Finally, the study allocates 39 initiatives to the government in order to help the five sectors and the Diaspora reach the pre-set targets.

Contribution to GDP in Real 2017 prices (US\$bn)			
	2017	2025	2035
Agriculture	1.6	2.2	3.2
Industry	4.6	8	11.7
Tourism	1.6	3.7	5.4
Financial Services	4.8	7.8	11.4
Knowledge Economy	1.4	3.8	5.6

Source: McKinsey & Company projections

Fitch Ratings affirms Lebanon's sovereign ratings at 'B-', revises outlook to 'negative'

Fitch Ratings affirmed at 'B-' Lebanon's long-term foreign and local currency Issuer Default Ratings (IDRs), and revised the outlook from 'stable' to 'negative' on the ratings. It also affirmed at 'B-' the ratings on Lebanon's senior unsecured foreign currency bonds and Country Ceiling, while it kept at 'B' the short-term foreign and local currency IDRs.

The agency indicated that the ratings are supported by Lebanon's resilient banking sector and perfect track record of public debt repayments, as well as by other structural strengths, such as a high GDP per capita and broader human development indicators that are well above similarly-rated peers and that are more in line with the median of 'BBB'-rated sovereigns. In contrast, it noted that the ratings are constrained by the country's weak public finances, heightened political risks and subdued economic activity.

Fitch attributed its outlook revision to a further weakening in Lebanon's public finances and to signs of rising pressures on Lebanon's financing model, including a slowdown in deposit growth and the increasing reliance on financial operations by Banque du Liban (BdL) in response to these pressures. It expected the fiscal deficit to widen from an average of 8.2% of GDP annually during the 2012-17 period to 10.6% of GDP in 2018, due to the increase in public-sector wages and salaries, higher Treasury transfers to the loss-making and state-owned Electricité du Liban, as well as to a pickup in capital expenditures. It forecast the deficit to remain above 10% of GDP annually during the 2019-20 period in case of higher debt servicing costs, subdued economic growth and the absence of material fiscal reforms. In this context, it projected the public debt level to reach 158% of GDP by the end of 2020 and 169% of GDP by end-2023. In parallel, it anticipated that higher interest rates in 2019 will feed through into the issuance of domestic debt and further weigh on the government's debt servicing costs, which it forecasts at 49% of public revenues next year.

In parallel, Fitch indicated that private sector deposit growth at commercial banks has slowed down from an annual average of \$8.7bn during the 2011-17 period to about \$3.7bn in the first 10 months of 2018. Still, it noted that BdL's gross foreign currency reserves remain high despite the persistently wide current account deficit, but that they are facing downward pressure. It said that foreign reserves regressed from \$34.6bn at the end of October 2018 to about \$33.1bn at end-November following the repayment of maturing Eurobonds.

In addition, Fitch pointed out that BdL has increasingly supported the economy and the financial sector since 2011 through several financial operations and stimulus packages. It considered that the extent of BdL's financial operations during the 2016-18 period reflects the pressure the Lebanese economy has been facing. Further, it said that Lebanon's growth prospects continue to be modest in the absence of a strong reform program, an improvement in the external environment, or an increase in investment through the implementation of CEDRE-related projects. It also indicated that the factional nature of domestic politics leaves the country vulnerable to periods of political vacuum and policy uncertainty. Further, it noted that factors that could lead to a rating upgrade include an improvement in public debt dynamics and an increase in non-resident deposit inflows, as well as greater domestic and regional political stability.

Banque du Liban's foreign assets down 5.5% to \$40bn in 2018

Banque du Liban's (BdL) interim balance sheet totaled \$140.6bn at the end of 2018, constituting an increase of 3.5% from \$135.8bn at the end of September 2018 and a rise of 18.9% from \$118.3bn at end-2017. Assets in foreign currency reached \$39.7bn at the end of 2018, down by 8.9% from \$43.5bn at end-September 2018 and by 5.5% from \$42bn at end-2017. BdL indicated that it settled a total of \$2.61bn in maturing Eurobonds' principal and coupons, as well as several external loans and letters of credit between November 1 and December 15, 2018.

Assets in foreign currency rose by \$958.8m in January, by \$412.9m in February, by \$29.9m in March, by \$2.2bn in May and by \$253.8m in July 2018, while they declined by \$268.5m in April, by \$1.1bn in June, by \$858.8m in August, by \$34.4m in September, by \$374.3m in October, by \$2.3bn in November and by \$1.2bn in December 2018. This resulted in an aggregate annual decline of \$2.3bn in 2018. In comparison, BdL's assets in foreign currency increased by \$1.3bn in 2017, by \$3.6bn in 2016 and by \$2.6bn in 2014, while they declined by \$771m in 2015 and by \$445m in 2013.

In parallel, the value of BdL's gold reserves grew by 7.8% from end-September 2018 and regressed by 1.6% year-on-year to reach \$11.8bn at the end of last year. The value of gold reserves reached a peak of \$16.7bn at the end of August 2011. Also, the securities portfolio of BdL grew by 5.4% year-on-year to \$30.8bn at end-2018.

Further, deposits of the financial sector reached \$119.8bn at the end of 2018 and increased by \$6.2bn, or by 3.9%, from end-September 2018, and by \$22.3bn, or by 22.9%, from the end of 2017. In addition, public sector deposits at BdL totaled \$5bn at the end of 2018 and decreased by \$818m, or 14%, from end-September 2018, and by \$871.5m, or 14.8%, from end-2017.

Banque du Liban expands list of AML/CFT indicators

Banque du Liban (BdL) issued Intermediate Circular 513 on December 24, 2018 that amends Basic Circular 83 dated May 18, 2001 about the Regulations on the Control of Financial and Banking Operations for Fighting Money Laundering and Terrorist Financing. The circular expanded to 17 the number of indicators that banks should take into account, for indicative purposes, as evidence of operations involving money laundering or terrorist financing. It asked banks to monitor cash deposits that result from the sale of a real estate property and that are followed by cash withdrawals or bank transfers to the seller or to any party related to the seller, with the aim of cancelling the sale transaction. Prior to the amendment, the list included 16 indicators, such as large or recurrent foreign exchange operations using cash funds, unusual e-banking operations, and cash deposits and/or bank transfers that are not consistent with the customer's usual activities, among others.



LPA recommends four blocks for second licensing round for offshore oil & gas exploration and production

The Lebanese Petroleum Administration (LPA) recommended the opening of four out of the 10 blocks in Lebanon's Exclusive Economic Zone (EEZ) for the second licensing round for offshore oil & gas exploration and production in Lebanon. The blocks consist of Block 1, which is located in the north of Lebanon's offshore EEZ, Block 5 in the center, and Blocks 8 and 10 in the south of Lebanon's territorial waters.

The LPA noted that interested companies have to submit their pre-qualification applications during the first quarter of 2019, and will be evaluated based on legal, technical, commercial, quality, health, safety and environmental factors. According to the LPA, the results of the prequalification round are scheduled to be announced by the end of March 2019. The LPA said that the pre-qualified companies that are interested to participate in the licensing round will be required to form a consortium composed of at least three companies each that include at least one operator. It added that the pre-qualified companies will have until the end of September 2019 to submit their bids. Once the bids are submitted, the LPA will evaluate them and prepare a recommendation to the Ministry of Energy & Water. Finally, it said that the Energy Ministry would sign the exploration and production agreement with the selected companies by the end of 2019, subject to the Council of Ministers' approval.

A total of 53 oil and gas companies pre-qualified by April 2017 to submit their bids for the first licensing round for offshore oil & gas exploration and production in Lebanon. However, Lebanon received by the October 2017 deadline two bids submitted by one consortium, which consists of France's Total S.A., Italy's Eni International BV and Russian firm JSC Novatek for Block 4 in the center of Lebanon's territorial waters and for Block 9 in the south of the territorial waters. In December 2017, the Council of Ministers approved the bid submitted by the consortium for offshore oil & gas exploration and production in Lebanon.

Compensation of public-sector personnel up 25% in first nine months of 2018, absorbs 56% of revenues

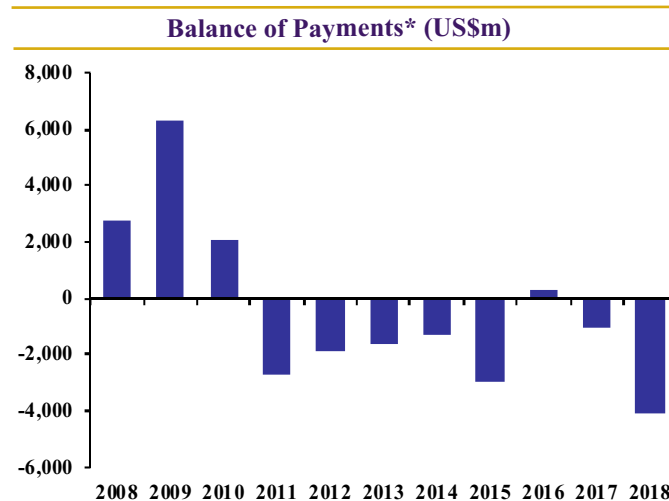
Figures issued by the Ministry of Finance show that the compensation of public-sector personnel totaled \$4.8bn in the first nine months of 2018, constituting an increase of 25.3% from \$3.8bn in the same period of 2017. The double-digit increase is due to the new public-sector salary scale that was enacted by the Lebanese Parliament in July 2017. Salaries, wages and related benefits accounted for 61.9% of the total in the first nine months of 2018, followed by retirement benefits (23.6%), end-of-service indemnities (9.4%), and transfers to public institutions to cover salaries (5%). The compensation of public-sector personnel represented the largest component of current primary spending and accounted for 66% of such expenditures in the covered period compared to 68.3% in the first nine months of 2017. Also, compensation of public-sector personnel represented 55.5% of total fiscal receipts in the first nine months of 2018 relative to 45.7% in the same period of 2017. It absorbed 36.5% of overall fiscal spending in the first nine months of 2018 compared to 36.9% in the first nine months of 2017.

Salaries, wages & related benefits paid to public-sector employees reached \$3bn in the first nine months of 2018, constituting an increase of 19% from \$2.5bn in the same period of 2017. This category includes basic salaries, employment benefits, allowances, contributions to civil servants' cooperatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly civil and religious judges, and employees at the Parliament. In addition, retirement benefits grew by 17% to \$1.1bn in the first nine months of 2018, while end-of-service indemnities rose by 159.3% to \$452.4m, and transfers to public institutions to cover salaries expanded by 30.1% to \$241.5m in the covered period.

Balance of payments posts deficit of \$4.1bn in first 11 months of 2018

Figures issued by Banque du Liban (BdL) show that Lebanon's balance of payments posted a deficit of \$4.1bn in the first 11 months of 2018 compared to a deficit of \$1bn in the same period of 2017. The balance of payments posted a deficit of \$953.9m in November 2018 compared to a deficit of \$1.8bn in October 2018 and to a surplus of \$68.2m in November 2017. The November 2018 deficit was caused by a decrease of \$2.27bn in the net foreign assets of BdL, which was partly offset by an increase of \$1.3bn in those of banks and financial institutions. Also, the cumulative deficit in the first 11 months of 2018 was caused by a decline of \$3bn in the net foreign assets of banks and financial institutions and by a decrease of \$1.1bn in those of BdL. BdL indicated that it settled a total of \$2.61bn in maturing Eurobonds' principal and coupons, as well as several external loans and letters of credit between November 1 and December 15, 2018.

The balance of payments posted surpluses of \$7.9bn in 2009, \$3.3bn in 2010 and \$1.2bn in 2016, and deficits of \$2bn in 2011, \$1.5bn in 2012, \$1.1bn in 2013, \$1.4bn in 2014, \$3.4bn in 2015 and \$155.7m in 2017. The balance of payments posted a deficit equivalent to 0.3% of GDP in 2017, relative to a surplus equivalent to 2.4% of GDP in 2016 and deficits of 6.7% of GDP in 2015 and 2.9% of GDP in 2014.



*in the first 11 months of each year

Source: Banque du Liban

Number of real estate transactions down 18% in first 11 months of 2018

Figures released by the Ministry of Finance indicate that there were 54,687 real estate transactions in the first 11 months of 2018, constituting a decrease of 17.7% from 66,458 deals in the same period of 2017. In comparison, the number of real estate transactions grew by 15% year-on-year in the first 11 months of 2017 and increased by 2% annually in the same period of 2016. There were 10,836 real estate transactions in the Baabda area in the first 11 months of 2018, representing 19.8% of the total. The North followed with 8,513 deals (15.6%), then the Zahlé region with 6,839 transactions (12.5%), the South with 6,420 deals (11.7%), the Metn district with 6,153 transactions (11.3%), the Keserwan area with 5,277 deals (9.6%), the Nabatieh region with 4,885 transactions (8.9%), and Beirut with 4,137 deals (7.6%).

Also, the aggregate value of real estate transactions reached \$7.3bn in the first 11 months of 2018 and decreased by 18.9% from \$9bn in the same period of 2017. In comparison, the value of real estate deals grew by 20.4% annually in the first 11 months of 2017 and increased by 5.4% year-on-year in the same period of 2016. Further, the value of real estate transactions in Beirut reached \$2.15bn and accounted for 29.4% of the total in the first 11 months of 2018. The Baabda district followed with \$1.48bn (20.2%), then the Metn region with \$1.25bn (17.1%), the Keserwan area with \$816.1m (11.2%), the South with \$528.3m (7.2%), the North with \$491.6m (6.7%), the Zahlé area with \$293m (4%) and the Nabatieh region with \$209.5m (2.9%).

In parallel, the average value per real estate transaction was \$133,715 in the first 11 months of 2018, down by 1.4% from an average of \$135,629 in the same period of 2017 and relative to \$129,623 in the first 11 months of 2016. Further, there were 1,064 real estate transactions executed by foreigners in the first 11 months of 2018, down by 13.2% from 1,226 deals in the same period of 2017 and compared to 967 deals in the first 11 months of 2016. The number of real estate deals executed by foreigners accounted for 1.9% of total real estate transactions in the covered period compared to 1.8% of deals in the first 11 months of 2017 and to 1.7% of deals in the same period of 2016. Further, 24.2% of the real estate transactions executed by foreigners were in the Baabda district, followed by Beirut (21.4%), the South (12.5%), the Metn region (11.6%), the North (10.2%), the Keserwan area (9%), the Zahlé area (8.9%), and the Nabatieh region (2.3%). Also, Saudi nationals accounted for 56% of total real estate transactions executed by foreigners in November 2018, followed by Syrians (7.7%), Kuwaitis (6%), Iraqis (4.8%), Qataris (2.8%), French nationals (2.3%), and British citizens (1.6%).

Airport passengers up 7% in 2018

Figures released by the Beirut-Rafic Hariri International Airport (HIA) show that 8,842,442 passengers utilized the airport (arrivals, departures and transit) in 2018, constituting an increase of 7.4% from 8,235,845 passengers in 2017. The number of arriving passengers grew by 8.1% to 4,436,574 in 2018, compared to an increase of 8.6% in 2017 and to a rise of 7.5% in 2016. Also, the number of departing passengers increased by 6.6% to 4,401,439 in 2018, relative to a growth of 8% in 2017 and to a rise of 3.6% in 2016.

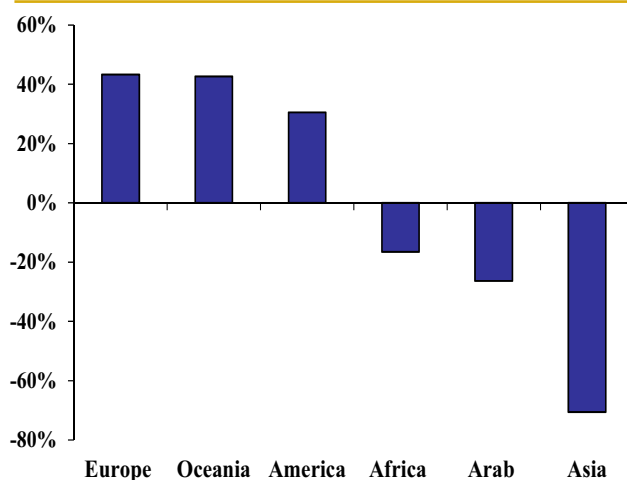
In parallel, the airport's aircraft activity expanded by 3.4% to 73,626 take-offs and landings in 2018, compared to an increase of 0.6% in 2017 and to a growth of 2.7% in 2016. In addition, the HIA processed 97,418 metric tons of freight in 2018 that consisted of 57,640 tons of import freight and 39,778 tons of export freight. Middle East Airlines had 25,916 flights in 2018 and accounted for 35.2% of HIA's total aircraft activity.

Tourist arrivals up 5% in first 11 months of 2018

The number of incoming visitors to Lebanon totaled 1,801,411 in the first 11 months of 2018, constituting an increase of 5.1% from 1,714,812 tourists in the same period of 2017 and a drop of 10.6% from 2,015,755 visitors in the first 11 months of 2010, the record year for tourism activity in Lebanon. Also, the number of incoming visitors reached 129,520 in November 2018, up by 5.7% from 122,511 tourists in November 2017. Visitors from Europe accounted for 36% of the total in the first 11 months of 2018, followed by those from Arab countries with 28.4%, the Americas with 18.3%, Asia with 7.1%, Africa with 5.8%, and Oceania with 4.4%. Further, tourists from Iraq accounted for 10.9% of total visitors in the covered period, followed by visitors from the U.S. (9.7%), France (9.2%), Canada (5.8%), Germany (5.4%), Jordan (4.7%), Egypt (4.6%), England (3.8%), Saudi Arabia (3%) and Sweden (2.3%).

In parallel, the number of visitors from Europe increased by 10.2% year-on-year in the first 11 months of 2018, followed by those from the Americas (+9%), Oceania (+6.9%), Africa (+4.3%), Asia (+2.3%), while the number of visitors from the Arab region regressed by 2.5% year-on-year. On a country basis, the number of tourists from Brazil grew by 14.4% annually in the covered period, followed by visitors from Sweden (+12.6%), the U.S. (+11.1%), France (+10.4%), Egypt (+10%), England (+9.9%), Italy (+9.8%), Turkey (+8.5%), Germany (+7.2%), Canada (+5.8%) and Jordan (+1.8%). In contrast, the number of visitors from the UAE dropped by 13.7% year-on-year in the first 11 months of 2018, followed by visitors from Saudi Arabia (-13.3%), Iraq (-7.3%), Kuwait (-6.5%), and Venezuela (-3.5%).

Change in the Number of Tourist Arrivals from Main Sources in First 11 Months of 2018*



*from same period of 2010

Source: Ministry of Tourism, Byblos Research

Fiscal deficit at \$4.5bn in first nine months of 2018, equivalent to 34.2% of expenditures

Figures released by the Ministry of Finance show that the fiscal deficit reached \$4.5bn in the first nine months of 2018 compared to a deficit of \$2bn in the same period of 2017. The deficit was equivalent to 34.2% of total budget and Treasury expenditures compared to 19.2% of spending in the same period of 2017. Government expenditures reached \$13.2bn and grew by 26.6% from the first nine months of 2017, while revenues increased by 3.2% year-on-year to \$8.7bn. As such, the widening of the deficit reflects a rise of \$2.8bn in overall expenditures, which was marginally offset by an increase of \$265.8m in total revenues in the covered period. The growth in spending is due to an increase of \$2.1bn in general expenditures, a rise of \$379.8m in transfers to municipalities, and an expansion of \$284.6m in debt servicing cost in the covered period.

On the revenues side, tax receipts grew by 2% year-on-year to \$6.55bn in the first nine months of 2018, of which 29%, or \$2bn, were in VAT receipts that increased by 11.4% year-on-year. Tax receipts accounted for 81.6% of budgetary revenues and for 75.5% of total Treasury and budgetary receipts. The distribution of other tax revenues shows that receipts from taxes on income, profits & capital gains increased by a marginal 0.6% to \$2.44bn in the first nine months of 2018; revenues from customs regressed by 4.2% to \$1bn; receipts from property taxes dropped by 19.1% to \$558m; while revenues from taxes on goods & services increased by 12.7% to \$340m and receipts from stamp fees expanded by 23.5% to \$298.6m.

The distribution of income tax receipts shows that the tax on interest deposits accounted for 35.7% of income tax revenues in the first nine months of 2018, followed by the tax on profits with 35%, taxes on wages & salaries with 18.2% and the capital gains tax with 10.1%. Receipts from the tax on interest deposits surged by 94.1%, revenues from taxes on capital gains grew by 21.7%, and receipts from taxes on wages & salaries rose by 14.8%, while revenues from taxes on profits dropped by 37% in the covered period. Also, the distribution of property taxes shows that revenues from real estate registration fees fell by 22.8% to \$349m in the first nine months of 2018, receipts from the built property tax regressed by 0.8% to \$156.6m, and revenues from the inheritance tax dropped by 34.3% to \$52.4m. Further, non-tax budgetary receipts grew by 4.5% year-on-year to \$1.5bn. They mainly included \$871m in revenues generated from government properties that increased by 3.9% year-on-year, as well as \$458.9m in receipts generated from administrative fees and charges that rose by 10.6% year-on-year. Receipts from telecommunication services expanded by 22.7% to \$651m. They accounted for 74.7% of income from government properties and for 44.1% of non-tax budgetary revenues in the covered period.

On the expenditures side, total budgetary expenditures, which include general expenditures and debt servicing, increased by 24.3% to \$12bn in the first nine months of 2018. General spending expanded by 34.2% year-on-year to \$8.1bn, and included \$1.23bn in transfers to Electricité du Liban that grew by 38% annually, and \$1bn in outlays from previous years that rose by 31.1% year-on-year, among other general spending items. Also, debt servicing totaled \$3.9bn in the first nine months of 2018 and increased by 7.8% from the same period of 2017. Debt servicing accounted for 29.7% of total expenditures and for 32.7% of budgetary spending, while it absorbed 45.2% of overall revenues and 48.8% of budgetary receipts. Interest payments on Lebanese pound-denominated debt grew by 1.3% to \$2.4bn in the first nine months of 2018, while debt servicing on foreign currency debt rose by 22.6% to \$1.4bn. Further, Treasury transfers surged by 56.4% to \$1.2bn in the covered period, as transfers to municipalities grew from \$142.7m in the first nine months of 2017 to \$522.6m in the same period of this year. The primary budget balance posted a deficit of \$44m in the first nine months of 2018, or 0.4% of budgetary expenditures, while the overall primary balance posted a deficit of \$591m, or 4.5% of spending.

Fiscal Results in the First Nine Months of each Year

	2017 (US\$m)	2018 (US\$m)	Change (%)
Budget Revenues	7,832	8,022	2.4%
Tax Revenues	6,420	6,546	2.0%
Non-Tax Revenues	1,412	1,476	4.5%
<i>of which Telecom revenues</i>	531	651	22.7%
Budget Expenditures	9,644	11,983	24.3%
Budget Surplus/Deficit	(1,812)	(3,961)	118.6%
<i>In % of budget expenditures</i>	(18.8%)	(33.1%)	
Budget Primary Surplus	1,820	(44)	
<i>In % of budget expenditures</i>	18.9%	(0.4%)	
Treasury Receipts	573	649	13.2%
Treasury Expenditures	765	1,196	56.4%
Total Revenues	8,405	8,671	3.2%
Total Expenditures	10,409	13,179	26.6%
Total Deficit	(2,003)	(4,508)	125%
<i>In % of total expenditures</i>	(19.2%)	(34.2%)	
Total Primary Surplus/Deficit	1,629	(591)	
<i>In % of total expenditures</i>	15.6%	(4.5%)	

Source: Ministry of Finance, Byblos Research



Trade deficit up 4% to \$14bn in first 10 months of 2018

Total imports reached \$16.9bn in the first 10 months of 2018, constituting an increase of 4% from \$16.2bn in the same period of 2017; while aggregate exports grew by 4.2% year-on-year to \$2.5bn in the covered period. As such, the trade deficit widened by 4% annually to \$14.4bn in the first 10 months of 2018 due to an increase of \$651.4m in imports, which were partly offset by a rise of \$100m in exports.

The growth in imports during the covered period was mainly due to an increase of \$694.1m, or 5.5%, in imported non-hydrocarbon products, which was marginally offset by a decrease of \$42.7m, or 1.2%, in imported mineral products. Imported oil & mineral fuels reached \$3.6bn in the first 10 months of 2018 and accounted for 21.1% of total imports in the covered period.

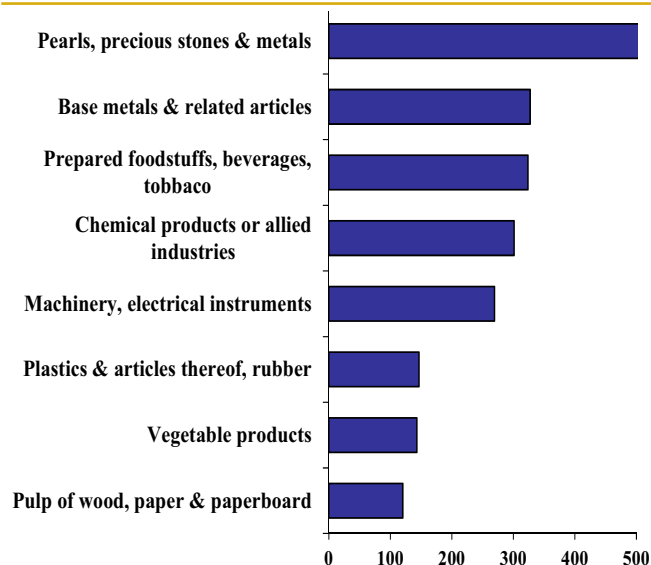
In addition, the increase in exports in the first 10 months of 2018 was mainly due to a surge of \$63m, or 13%, in the exports of jewelry; a growth of \$51.4m, or 18.7%, in exported base metals; a rise of \$32.2m, or 12%, in exported chemical products; and an increase of \$23.3m, or 18.9%, in the exports of plastics & rubber. They were partly offset by a decline of \$56.6m, or 15%, in the exports of prepared foodstuff and a drop of \$19.1m, or 43.7%, in exported mineral products.

Further, exported goods to the UAE expanded by 88.2% year-on-year in the first 10 months of 2018, those to Qatar grew by 42.4% and exports to Turkey increased by 15.5%. In contrast, exported goods to South Africa dropped by 40.1%, those to Syria fell by 23.1%, exported goods to Iraq decreased by 15.3%, those to Saudi Arabia declined by 14.1%, and exports to Switzerland regressed by 8.6% year-on-year in the covered period. Re-exports totaled \$275.3m in the first 10 months of 2018 compared to \$650.3m in the same period of 2017. Also, the Port of Beirut was the exit point for 51% of Lebanon's exports in the first 10 months of 2018, followed by the Hariri International Airport (32.8%), the Port of Tripoli (8.6%), the Masnaa crossing point (4.7%), and the Port of Saida (1.5%).

In parallel, Lebanon's main non-hydrocarbon imports were machinery & mechanical appliances that reached \$2bn in the first 10 months of 2018 and increased by 22.1% from the same period of 2017. Imported chemical products followed at \$1.8bn (+5.1%), then vehicles, aircraft & vessels at \$1.4bn (-9.7%), prepared foodstuff at \$1.12bn (-2.5%), jewelry at \$1.1bn (+38.5%), base metals at \$1.07bn (+1.4%) and animal products at \$856.1m (+16.4%). The Port of Beirut was the entry point for 72% of Lebanon's merchandise imports in the covered period, followed by the Hariri International Airport (20%), the Port of Tripoli (6.5%), and the Port of Saida (1.1%).

China was the main source of imports with \$1.7bn, or 10.2% of the total, in the first 10 months of 2018, followed by Greece with \$1.5bn (8.7%), Italy with \$1.3bn (7.7%), the U.S. with \$1.2bn (7.1%), Germany with \$979.8m (5.8%), Turkey with \$818.2m (4.8%), and France with \$569.2m (3.4%). Imported goods from Greece expanded by 29.6% year-on-year in the covered period, those from Turkey grew by 25.4% and imports from China rose by 9.1% year-on-year in the covered period. In contrast, imported goods from Italy dropped by 8.3%, those from France decreased by 5.8%, imports from the U.S. declined by 4.6% and those from Germany regressed by 3.7% year-on-year in the first 10 months of 2018.

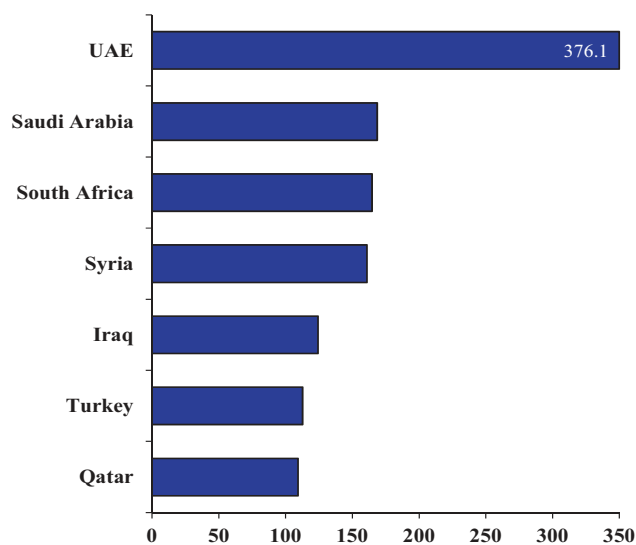
Main Lebanese Exports* (US\$m)



*in the first 10 months of 2018

Source: Lebanese Customs Administration, Byblos Research

Main Destinations of Lebanese Exports* (US\$m)



*in the first 10 months of 2018

Source: Lebanese Customs Administration, Byblos Research

Non-resident deposits up 6.3% in first 11 months of 2018, up 9% year-on-year

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets stood at \$246.5bn at the end of November 2018, constituting an increase of 12.1% from the end of 2017 and an expansion of 14% from end-November 2017. Loans extended to the private sector reached \$59.2bn at the end of November 2018, regressing by 0.8 from end-2017 and growing by 0.3% from a year earlier. Loans to the resident private sector totaled \$52.4bn, constituting decreases of 2.3% from the end of 2017 and of 1.2% from a year earlier; while credit to the non-resident private sector reached \$6.8bn at end-November 2018 and grew by 12.5% from end-2017 and by 13% from a year earlier. In nominal terms, credit to the private sector regressed by \$477.2m in the first 11 months of 2018, as lending to the resident private sector contracted by \$1.2bn and credit to the non-resident private sector grew by \$759.4m in the covered period. The dollarization rate in private sector lending rose from 67.9% at end-November 2017 to 68.5% at end-November 2018.

In addition, claims on non-resident financial institutions reached \$11.2bn at the end of November 2018 and regressed by \$105m, or 0.9%, from the end of 2017. Also, claims on the public sector stood at \$32.5bn at end-November 2018, up by 1.9% from end-2017, mainly due to Banque du Liban's sale of about \$3bn in Eurobonds from its portfolio to banks in May of this year. The average lending rate in Lebanese pounds was 10.15% in November 2018 compared to 7.98% a year earlier, while the same rate in US dollars was 8.57% relative to 7.32% in November 2017. Further, the deposits of commercial banks at Banque du Liban totaled \$129.9bn at the end of November 2018, constituting an increase of 27.8% from a year earlier.

In parallel, total private sector deposits reached \$173.2bn at the end of November 2018, increasing by 2.7% from the end of 2017 and by 3.8% from a year earlier. Deposits in Lebanese pounds reached the equivalent of \$52.1bn at end-November 2018, down by 1.2% from end-2017 and by 0.7% from end-November 2017; while deposits in foreign currency totaled \$121bn, and grew by 4.4% from end-2017 and by 5.9% from \$114.3bn a year earlier. Resident deposits totaled \$135.8bn at the end of November 2018, increasing by 1.7% from the end of 2017 and by 2.5% from end-November 2017. Also, non-resident deposits reached \$37.4bn at end-November 2018, up by \$2.2bn, or 6.3% from end-2017 and by \$3bn, or 8.8% 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 and by \$712.6m in September, 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 \$4.53bn in the first 11 months of 2018 relative to an increase of \$4.3bn in the same period of 2017, with deposits in Lebanese pounds declining by \$615.6m and foreign-currency deposits growing by \$5.14bn. The dollarization rate of private sector deposits was 69.9% at the end of November 2018, relative to 68.7% at end-2017, and compared to 68.5% a year earlier.

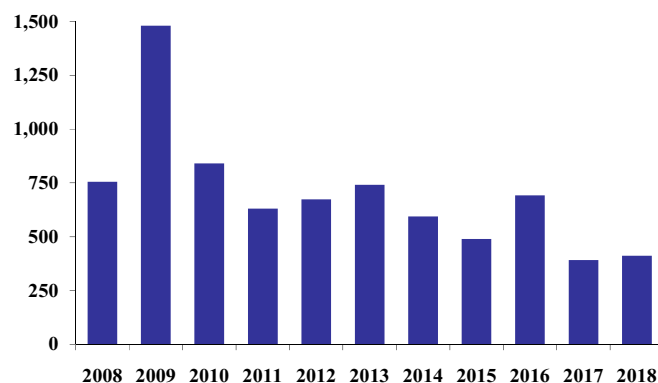
In parallel, deposits of non-resident financial institutions reached \$8.99bn at the end of November 2018 and increased by 20.2% from end-2017 and by 17.2% from end-November 2017. Further, the average deposit rate in Lebanese pounds was 7.97% in November 2018 compared to 5.88% a year earlier, while the same rate in US dollars was 4.9% relative to 3.8% in November 2017. The ratio of private sector loans-to-deposits in foreign currency stood at 33.5% at the end of November 2018, well below Banque du Liban's limit of 70% and compared to 35.1% a year earlier. The same ratio in Lebanese pounds was 35.8% at end-November 2018 relative to 36.1% at the end of November 2017. As such, the total private sector loans-to-deposits ratio reached 34.2%, which is below 35.4% at end-November 2017. The banks' aggregate capital base stood at \$20.2bn at end-November 2018, up by 8.2% from \$18.7bn a year earlier.

Stock market index down 25% in 2018

Figures released by the Beirut Stock Exchange (BSE) indicate that trading volume reached 90,109,683 shares in 2018, constituting an increase of 3.6% from 86,989,317 shares traded in 2017; while aggregate turnover amounted to \$635m, down by 16.7% from a turnover of \$762.1m in 2017. Market capitalization regressed by 15.7% from the end of 2017 to \$9.68bn, with banking stocks accounting for 84.2% of the total, followed by real estate equities (12.1%), industrial shares (3.4%) and trading firms' equities (0.4%). The market liquidity ratio was 6.6% in 2018, nearly unchanged from 2017.

Banking stocks accounted for 77.5% of the aggregate trading volume in 2018, followed by real estate equities with 20.1%, industrial shares with 2.1%, and trading stocks with 0.3%. Also, banking stocks represented 74% of the aggregate value of shares traded, followed by real estate equities with 21.6%, industrial stocks with 4.2% and trading stocks with 0.1%. The average daily traded volume for the period was 375,457 shares for an average daily value of \$2.6m. The figures reflect an increase of 4.5% in average volume, and a decline of 16% in the average value in 2018. In parallel, the Capital Markets Authority's Market Value-Weighted Index for stocks traded on the BSE dropped by 25.1% in 2018, while the CMA's Banks Market Value-Weighted Index regressed by 27% last year.

Average Monthly Growth of Private Sector Deposits* (US\$m)



*in the first 11 months of each year

Source: Banque du Liban, Byblos Research

Solidere's consolidated net losses at \$99m in first half of 2018

Solidere, the Lebanese Company for the Development and Reconstruction of Beirut Central District sal, announced consolidated audited net losses of \$99.1m in the first half of 2018 compared to net losses of \$18.9m in the same period of 2017. The consolidated results include Solidere's standalone financials and those of its subsidiaries (the Group), which mainly include Solidere International Limited, and other subsidiaries such as Solidere Management Services sal, BCD Cinemas sal, Beirut Waterfront Development sal, and Beirut Hospitality Company Holding sal.

The Group did not generate revenues from land sales in the first half of 2018, compared to revenues of \$94,500 from land sales in the same period of 2017, while consolidated revenues from rented properties regressed by 3.9% year-on-year to \$29.5m in the covered period. Also, consolidated revenues from services rendered grew by 20.8% to \$4m in the first half of 2018, while receipts from hospitality services dropped from \$169,852 in the first half of 2017 to \$1,302 in the covered period.

In parallel, the firm's cost of revenues rose by 11.7% to \$16.6m in the first half of 2018, while its net operating income reached \$17.1m in the covered period, down by 26.6% from the first half of 2017. Also, general and administrative expenses of the Solidere Group dropped by 28.9% to \$13.7m in the first six months of 2018. In addition, net impairment provisions reached \$78.7m in the first half of 2018 relative to \$1.1m in the same period of 2017, while provisions for contingencies dropped from \$5m in the first half of 2017 to \$500,000 in the covered period.

Further, Solidere stated that its consolidated assets reached \$2.57bn at the end of June 2018 and decreased by 5.3% from \$2.71bn at end-2017, with the inventory of land and projects in progress totaling \$1.2bn. The firm's consolidated liabilities, including bank overdrafts, term bank loans and accounts payable, regressed by 5.3% from end-2017 to \$769.2m at the end of June 2018. The Group's consolidated shareholders' equity was \$1.8bn at the end of June 2018, down by 5.2% from \$1.9bn at end-2017.

Solidere is Lebanon's fourth largest listed firm on the Beirut Stock Exchange in terms of market capitalization as at the end of 2018. The prices of Solidere A closed at \$7 per share at the end of 2018, down by 12.6% from \$8.01 per share at end-2017, while Solidere B shares closed at \$7.19 per share, down by 10% from \$7.98 per share at the end of 2017.

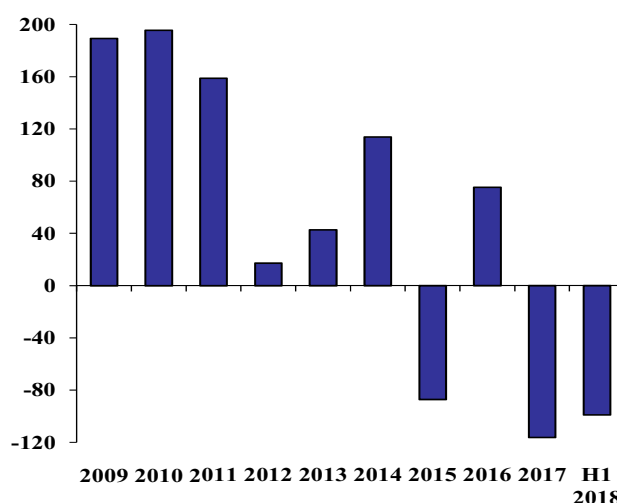
In parallel, Solidere announced that Société Générale de Banque au Liban (SGBL) sal sold from its portfolio 1,500,000 Solidere A shares at a price of \$6.88 per share, 1,000,000 Solidere B shares at \$6.68 per share and 1,000,000 Solidere B shares at a price of \$6.69 per share to its insurance affiliate SGBL Insurance sal. As such, SGBL's stake in Solidere stood at 13,000,000 shares, or 7.88% of Solidere's total capital, and the share of SGBL Insurance reached 3,500,000 shares, or 2.12% of Solidere's total share capital as at the end of November 2018.

EBRD to extend \$20m to BUTEC Utility Services

The European Bank for Reconstruction and Development (EBRD) announced that it plans to extend \$20m to BUTEC Utility Services (BUS), a subsidiary of the BUTEC Group. The funding, which consists of an \$18m loan and a \$2m concessional tranche extended by the Global Environmental Facility (GEF), aims to support BUS's 2018-21 service contract with Electricité du Liban (EdL). The GEF is a multilateral donor funded organization which provides the EBRD with grants, technical cooperation and concessional lending in order to promote sustainable environmental development and reduce greenhouse gas emissions in developing economies. The \$20m funding package aims to contribute to the upgrade and expansion of the electricity distribution network in Lebanon and to the deployment of smart meters, in order to improve the reliability and efficiency of the distribution grid. In turn, the funding aims to improve the quality of BUS' services to its customers, which include 520,000 households, and would allow the reduction of greenhouse gas emissions by 297 kiloton of CO2 equivalent per year. The EBRD declined to provide details about the terms of the loans.

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. The EBRD has invested over EUR8bn in 195 projects since 2012 in the southern and eastern Mediterranean region, including total investments of EUR227m in six projects in Lebanon since September 2017. In parallel, BUTEC Utility Services designs, implements, operates and maintains the electrical distribution network in Lebanon, as well as provides customer and metering services on behalf of EdL. The company's operations cover around 30% of the Lebanese territory, extending from the northern part of Greater Beirut to the north of the country.

Solidere Net Profits* (US\$m)



*on a consolidated basis

Source: Solidere Financial Statements

Moody's revises outlook on three Lebanese banks following similar action on the sovereign

Moody's Investors Service affirmed at 'B3' the long-term deposit ratings of Byblos Bank, Bank Audi and BLOM Bank, and at 'A3.lb/LB-2' the banks' national scale deposit ratings. It also maintained at 'b3' the banks' baseline credit assessments (BCA), at 'B2(cr)' their long-term Counterparty Risk Assessments, and at 'B2/Not Prime' the banks' long-term Counterparty Risk Ratings (CRRs). It revised the outlook on the banks' long-term deposit and national scale ratings from 'stable' to 'negative'.

The agency noted that its ratings affirmation and outlook revision follow its earlier similar action on the Lebanese sovereign. It indicated that the banks' 'B3' deposit ratings reflect their strong domestic market position, as well as their adequate liquidity profile and deposit-based funding structure. It noted that its ratings affirmation reflects its view that the banks' financial fundamentals have remained relatively resilient in the context of the challenging operating environment. It considered that the banks continue to attract deposits, but at higher interest rates, supported by transactions with Banque du Liban (BdL) that provide the banks with higher returns.

In parallel, Moody's pointed out that the government's weakening creditworthiness is weighing on the banks' standalone credit profiles, given the high credit linkages between their balance sheets and the sovereign credit risk. It added that the banks' direct exposure to the government, along with the concentration of their operations in the Lebanese market, make them vulnerable to sovereign event risk and constrain their BCAs at the sovereign level. It added that the banks' exposure to sovereign credit risk, particularly to BdL, has continued to increase throughout 2018.

Further, Moody's attributed its outlook revision to its expectations that Lebanon's fiscal metrics could further weaken in the absence of fiscal consolidation measures that would unlock the funds pledged at the CEDRE conference and partly reverse the recent widening in risk premia. It also indicated that the 'negative' outlook on the banks' ratings reflects its anticipation that the banks' asset quality and profitability could come under pressure given the challenging macroeconomic conditions. Still, it noted that deposit inflows remain sufficient, but have slowed in 2018 due to the political deadlock, subdued growth, rising global interest rates and tighter emerging market liquidity. It added that a slowdown in deposit inflows could challenge the banking sector's ability to finance the government and the economy. In parallel, Moody's said that it could revise the outlook on the banks' ratings to 'stable' in case of an improvement in the operating environment and in the sovereign's risk profile.



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	B3	NP	Negative	B3		Negative
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



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