

LEBANON THIS WEEK

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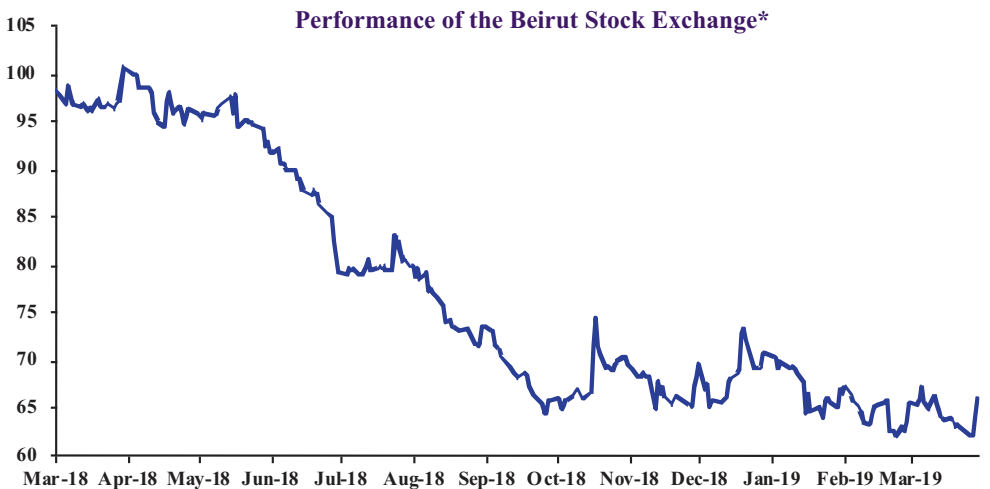
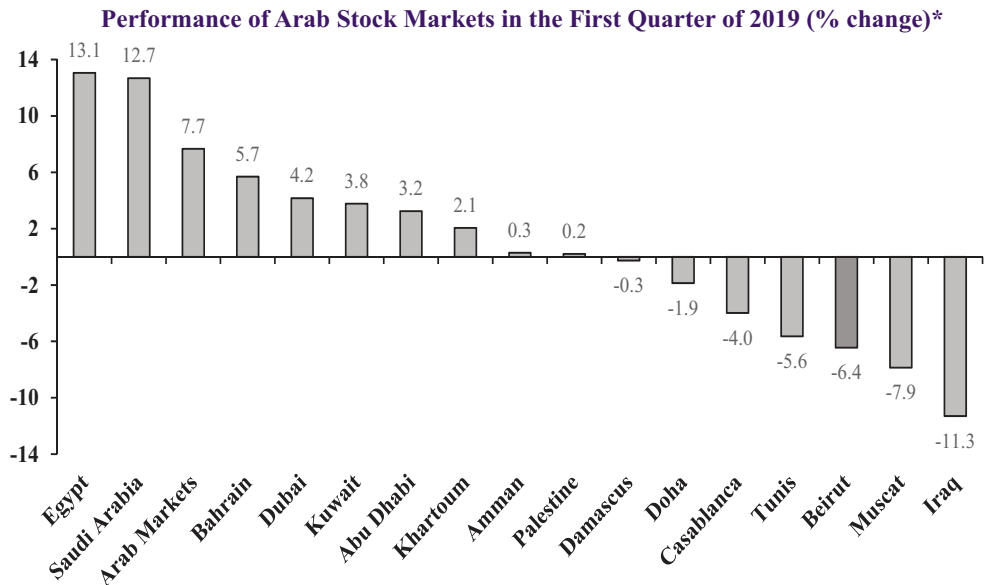
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*Capital Markets Authority Value Weighted Index

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

Quote to Note

"Lower revenue collection in 2018 is mainly due to weaker tax proceeds due to slow economic activity, as well as a lower-than-expected yield from tax measures introduced to finance the new civil servant salary scale."

Bank of America Merrill Lynch, on the across-the-board tax increases that back-fired on public finances and economic activity in 2018

Number of the Week

57%: Percentage of Lebanese who believe that the executive branch should take unpopular measures to sustain the economy, according to a survey conducted through the polling application LebanoStat

Lebanon in the News

\$m (unless otherwise mentioned)	2017	2018	% Change*	Jan-18	Nov-18	Dec-18	Jan-19
Exports	2,844	2,952	3.81	283	242	246	236
Imports	19,582	19,980	2.03	1,705	1,536	1,569	1,405
Trade Balance	(16,738)	(17,028)	1.73	(1,422)	(1,294)	(1,323)	(1,169)
Balance of Payments	(156)	(4,823)	2997.74	237	(954)	(748)	(1,380)
Checks Cleared in LBP	21,677	22,133	2.11	1,967	1,875	2,024	1,856
Checks Cleared in FC	46,578	44,436	(4.60)	3,952	3,481	3,455	3,046
Total Checks Cleared	68,255	66,569	(2.47)	5,919	5,356	5,479	4,902
Fiscal Deficit/Surplus**	(3,756)	(5,809)	-	(379)	(1,075)	-	-
Primary Balance**	1,428	(490.7)	-	(106)	(89.1)	-	-
Airport Passengers***	8,235,845	8,842,442	7.37	597,768	628,205	677,845	606,761
Consumer Price Index****	4.4	6.07	163bps	5.6	5.8	4.0	3.2

\$bn (unless otherwise mentioned)	Dec-17	Jan-18	Oct-18	Nov-18	Dec-18	Jan-19	% Change*
BdL FX Reserves	35.81	35.25	34.62	33.56	32.51	31.93	(9.41)
In months of Imports	18.57	20.67	20.15	21.85	20.72	22.73	9.97
Public Debt	79.53	80.40	84.04	83.66	85.14	85.32	6.12
Bank Assets	219.86	222.59	242.61	246.51	249.48	248.88	11.81
Bank Deposits (Private Sector)	168.66	169.14	173.25	173.19	174.28	172.11	1.75
Bank Loans to Private Sector	59.69	59.02	59.15	59.21	59.39	58.14	(1.48)
Money Supply M2	52.51	52.88	52.06	51.55	50.96	49.79	(5.84)
Money Supply M3	138.62	138.62	140.24	140.32	141.29	139.59	0.70
LBP Lending Rate (%)	8.09	8.56	9.60	10.15	9.97	10.41	185bps
LBP Deposit Rate (%)	6.41	6.53	7.74	7.97	8.30	8.93	240bps
USD Lending Rate (%)	7.67	7.74	8.30	8.57	8.57	8.89	115bps
USD Deposit Rate (%)	3.89	3.91	4.63	4.90	5.15	5.58	167bps

*year-on-year ** 2018 figures are for first 11 months of the year ***includes arrivals, departures, transit ****year-on-year percentage change

Note: bps i.e. basis points

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

Capital Markets

Most Traded Stocks on BSE	Last Price (\$)	% Change*	Total Volume	Weight in Market Capitalization
Byblos Common	1.36	2.26	39,349	8.05%
Solidere "A"	5.91	(7.66)	24,380	6.18%
BLOM GDR	9.60	(1.94)	14,100	7.42%
Solidere "B"	5.90	(7.67)	11,496	4.01%
Audi Listed	4.99	(0.20)	4,000	20.87%
HOLCIM	15.50	0.00	4,000	3.17%
Byblos Pref. 09	76.00	5.56	50	1.59%
BLOM Listed	9.27	0.00	-	20.86%
Audi GDR	4.99	0.00	-	6.26%
Byblos Pref. 08	76.00	0.00	-	1.59%

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

Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
May 2019	6.00	99.63	9.04
Mar 2020	6.38	97.50	9.26
Apr 2021	8.25	96.13	10.43
Oct 2022	6.10	89.00	9.91
Jun 2025	6.25	84.00	9.76
Nov 2026	6.60	83.00	9.81
Feb 2030	6.65	79.13	9.81
Apr 2031	7.00	78.63	10.11
Nov 2035	7.05	79.00	9.61
Mar 2037	7.25	79.50	9.68

Source: Byblos Bank Capital Markets

	Apr 1-5	Mar 26-29	% Change	March 2019	March 2018	% Change
Total shares traded	111,615	392,742	(71.6)	10,078,398	34,632,170	(70.9)
Total value traded	\$1,645,758	\$2,726,256	(39.6)	\$55,317,527	\$248,827,531	(77.8)
Market capitalization	\$9.56bn	\$9.63bn	(0.76)	\$9.63bn	\$11.85bn	(18.8)

Source: Beirut Stock Exchange (BSE)

CDS Lebanon	Mar 29, 2019	Apr 5, 2019	% Change**
CDS 1-year*	766.79	707.55	(7.7)
CDS 3-year*	860.57	785.58	(8.7)
CDS 5-year*	842.55	773.82	(8.2)

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

CDX EM 30*	Mar 29, 2019	Apr 5, 2019	% Change***
CDS 5-year**	96.57	97.01	0.5

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

mid-spread in bps *week-on-week

Non-resident capital inflows projected to increase by 20% to \$8.4bn in 2019 with start of reforms

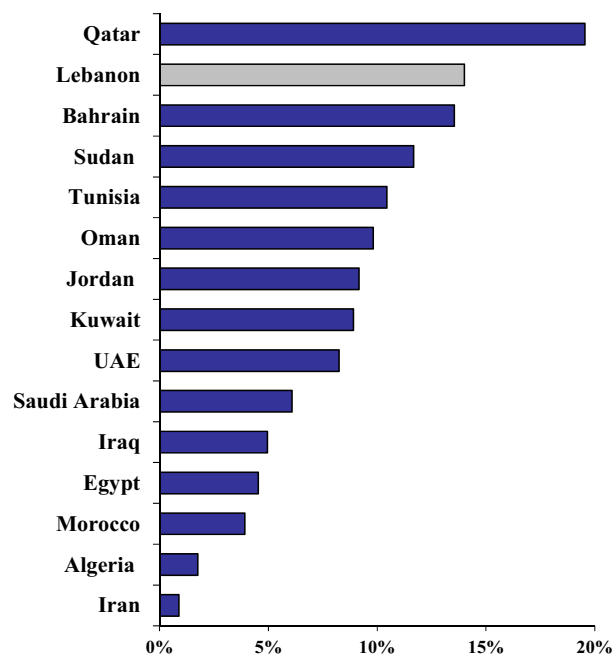
The Institute of International Finance projected non-resident capital inflows to Lebanon at \$8.4bn in 2019, which would constitute an increase of 20.4% from \$7bn in 2018, compared to a peak of \$15.6bn in 2009. Non-resident capital inflows to Lebanon would be the seventh highest among 15 countries in the Middle East & North Africa (MENA) region.

The IIF indicated that Lebanon's projected non-resident capital inflows for 2019 include \$4.6bn in other investment inflows, mainly banking-related flows, \$2.6bn in foreign direct investment (FDI), and \$1.2bn in portfolio inflows. It anticipated FDI inflows to decline by 10% (-\$286.5m) in 2019 from \$2.9bn in 2018, and portfolio inflows to decrease by 23.6% (-\$386.9m) from \$1.6bn last year, while it expected other investment flows to grow by 84% (+2.1bn) in 2019 from an estimated \$2.5bn in 2018. Non-resident capital inflows to Lebanon would account for 4.2% of total non-resident capital flows to MENA economies in 2019 and for 21.4% of total non-resident capital flows to the MENA region's oil importers. They would be equivalent to 14% of Lebanon's GDP in 2019 compared to 12.5% of GDP in 2018, and would represent the second highest level among the 15 MENA countries, behind Qatar (19.5% of GDP).

The IIF considered that the gradual increase in capital inflows this year is contingent on the government's implementation of structural reforms and on significant fiscal consolidation. It expected most of the inflows to be mainly multilateral and bilateral loans from official sources. It also anticipated non-resident deposits at Lebanese banks to grow gradually due to high interest rates.

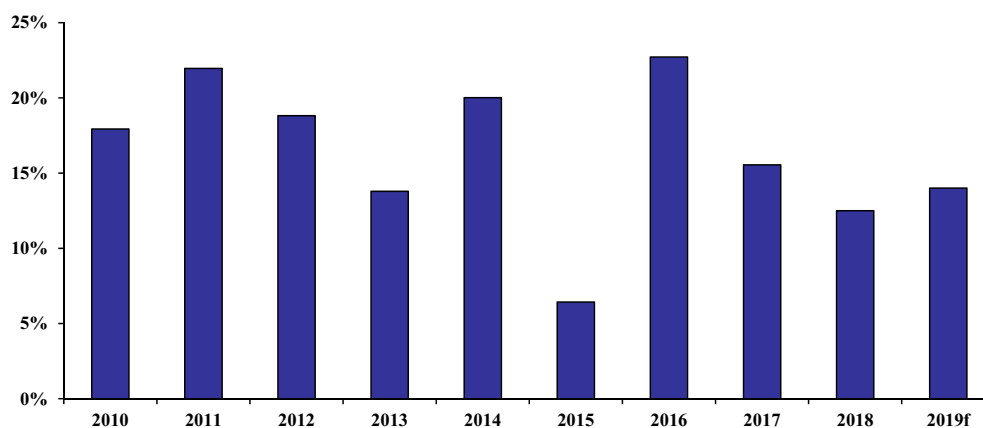
In comparison, non-resident capital inflows to Lebanon reached \$7bn in 2018 and decreased by 15.7% from \$8.3bn in 2017. They were the eighth highest among 15 countries in the MENA region in 2018. Lebanon posted the fourth smallest decrease in net capital inflows in 2018 among eight economies in the MENA region that registered a decline in their inflows last year. The decline in non-resident capital inflows to Lebanon last year reflected mainly a decrease of \$1.6bn, or 49.3%, in the inflows of portfolio investment, and a drop of \$13.8m, or 0.5%, in other investment flows, which were partly offset by a rise of \$307m, or 12%, in foreign direct investments. Non-resident capital inflows to Lebanon accounted for 3.6% of total non-resident capital inflows to the MENA region in 2018 and for 13.1% of total non-resident capital flows to the MENA region's oil importers.

Projected Non-Resident Capital Inflows to MENA Countries in 2019 (% of GDP)



Source: Institute of International Finance, Byblos Research

Non-Resident Capital Inflows to Lebanon (% of GDP)



Source: Institute of International Finance, Byblos Research

Economic outlook dependent on reforms implementation

Barclays Capital indicated that Lebanon's medium-term economic outlook mainly depends on the ability of the new Cabinet to pass the required and pressing reforms. It indicated that the adoption of the 2019 budget should be a top priority for the government, as it will send a strong message about the urgent need to address the country's fiscal imbalances. It added that the government has to send to Parliament the final fiscal accounts for the years 1993-2015 after they get approved by the Audit Court, which would improve fiscal transparency. It projected the fiscal deficit to narrow from 11% of GDP in 2018 to 9.8% of GDP in 2019 and 9% of GDP in 2020, while it anticipated the public debt level to reach 151% of GDP at the end of 2019 and 154% of GDP at end-2020.

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

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

In parallel, it considered that Lebanese banks have played a major role in sustaining public finances and in funding the current account deficit over a long period of time. It added that Banque du Liban (BdL) has actively increased its foreign currency reserves to support confidence in the currency peg to the US dollar. It expected the current account deficit to narrow from 25.6% of GDP in 2018 to 25.5% of GDP in 2019 and 22.9% of GDP in 2020. However, it said that the banks' net foreign asset position has weakened. Still, it noted that BdL will continue to provide foreign currency liquidity to the market in case of sustained deposit outflows, as its liquidity buffers are sufficient to absorb further temporary shocks. As such, it expected BdL and the Ministry of Finance to be able to manage the public debt level through 2019 and in the near term, given the significant liquidity buffers and the several available policy options.

EBRD commits €1.75m for implementation of renewable energy tenders

The Lebanese Center for Energy Conservation (LCEC) indicated that the European Bank of Reconstruction and Development (EBRD) committed €1.75m to retain one or more consulting firms to support the development and implementation of renewable energy tenders in Lebanon. The consultant will be a firm or a group of firms with expertise in economic, policy, commercial, legal and technical fields, as well as with experience in the power sector and proficiency in environmental and social impact assessments. The EBRD's assistance is part of its cooperation with the Ministry of Energy & Water to support the development of renewable energy in Lebanon.

In March 2019, the EBRD called on interested consultants to submit their expressions of interest before the April 24, 2019 deadline. It indicated that it will invite shortlisted companies to submit their proposals. It added that the qualified consulting firm or firms will provide, for a period of 30 months as of June 2019, detailed technical, financial and legal assistance for solar and storage tenders, and for onshore wind power tenders, as well as ongoing assistance to the LCEC.

Industrial exports up 3% to \$2.6bn in 2018

Figures released by the Ministry of Industry show that industrial exports totaled \$2.55bn in 2018, constituting an increase of 3% from \$2.47bn in 2017. Industrial exports reached \$213.8m in December 2018, up by 1.1% from \$211.4m in the preceding month, and down by 2.6% from \$219.6m in December 2017.

Exports of chemical products totaled \$470.5m and accounted for 18.5% of aggregate industrial exports in 2018, followed by machinery & mechanical appliances with \$449.2m (17.6%), foodstuffs & tobacco with \$398m (15.6%), base metal exports with \$394m (15.5%), plastics & rubber with \$187.4m (7.4%), pearls or semi-precious stones with \$153.7m (6%), and paper & paperboard with \$140.2m (5.5%). Arab countries were the destination of 51.3% of Lebanese industrial exports in 2018, followed by European economies with 18%, Asian countries with 12.3%, African economies with 11.4%, countries in the Americas with 5.6%, and markets in Oceania with 0.7%.

On a country basis, the UAE was the main destination of Lebanese industrial exports and accounted for 9.6% of the total in 2018, followed by Saudi Arabia with 8.2%, Syria with 8%, Iraq with 6.7%, Turkey with 5.4%, and Qatar with 4.8%. In December 2018, 15 Arab states, seven economies in Europe, five countries in Africa, four economies in Asia, two countries in the Americas and one country in Oceania imported \$1m or more each of Lebanese industrial products.

In parallel, imports of industrial equipment and machinery reached \$266.4m in 2018, up by 3.5% from \$257.4m in 2017. Italy was the main source of such imports and accounted for 31% of the total in 2018, followed by Germany with 18.5% and China with 14.5%. Further, imports of industrial equipment and machinery amounted to \$16.3m in December 2018, down by 29.6% from \$23.2m in December 2017. China was the main source of such imports with \$3.6m and accounted for 21.9% of the total in the covered month, followed by Germany with \$3.3m (20.1%), and Italy with \$2.9m (17.5%).

Gross public debt at \$85.2bn at end-February 2019

Lebanon's gross public debt reached \$85.2bn at the end of February 2019, constituting a marginal increase of 0.1% from \$85.1bn at the end of 2018 and a rise of 4.6% from \$81.5bn at end-February 2018. In nominal terms, the gross public debt grew by \$106.1m in the first two months of 2019 relative to an increase of \$2bn in the same period of 2018. Debt denominated in Lebanese pounds totaled \$51.5bn at end-February 2019, down by 0.3% from the end of 2018 and up by 1.1% from end-February 2018; while debt denominated in foreign currency stood at \$33.7bn, constituting a growth of 0.7% from end-2018 and a rise of 10.3% from end-February 2018. 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 from February 2018.

Local currency debt accounted for 60.4% of the gross public debt at the end of February 2019 compared to 62.5% a year earlier, while foreign currency-denominated debt represented the balance of 39.6% relative to 37.5% at end-February 2018. The weighted interest rate on outstanding Treasury bills was 6.18% and that on Eurobonds was 6.81% in February 2019. Further, the weighted life on Eurobonds was 7.67 years, while it was 1,627 days on Treasury bills.

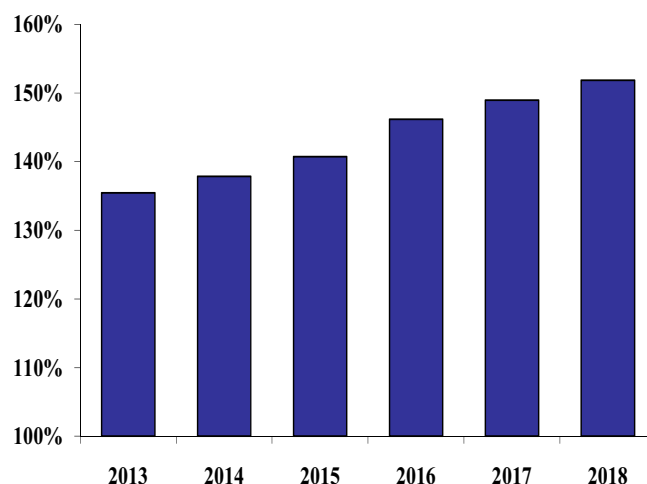
Commercial banks held 39.3% of the public debt as at end-February 2019 relative to 38.3% of the total at end-February 2018. BdL held 50.6% of the Lebanese pound-denominated public debt at the end of February 2019 compared to 51.5% a year earlier, while commercial banks held 34.9% of the local debt compared to 34.4% at end-February 2018. Also, public agencies, financial institutions and the public held 14.5% of the local debt at end-February 2019, relative to 14.1% at end-February 2018. Further, holders of Eurobonds and special T-bills in foreign currencies accounted for 93.7% of foreign currency-denominated debt holders at the end of February 2019, 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% annually to \$76.5bn at end-February 2019. Further, the gross market debt accounted for about 59.4% of the 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.

Net foreign assets of financial sector down by \$1.9bn in first two months of 2019

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, declined by \$1.93bn in the first two months of 2019 compared to an increase of \$165.2m in the same period of 2018. The net foreign assets of the financial sector declined by \$550.1m in February 2019, compared to a decrease of \$1.38bn in January 2019 and a decline of \$71.6m in February 2018. The month-on-month decline in February 2019 was caused by a drop of \$391.2m in the net foreign assets of BdL and a decrease of \$159m in those of banks and financial institutions. Also, the cumulative deficit in the first two months of 2019 was caused by a decline of \$1.14bn in the net foreign assets of banks and financial institutions and by a decrease of \$786.2m in those of BdL.

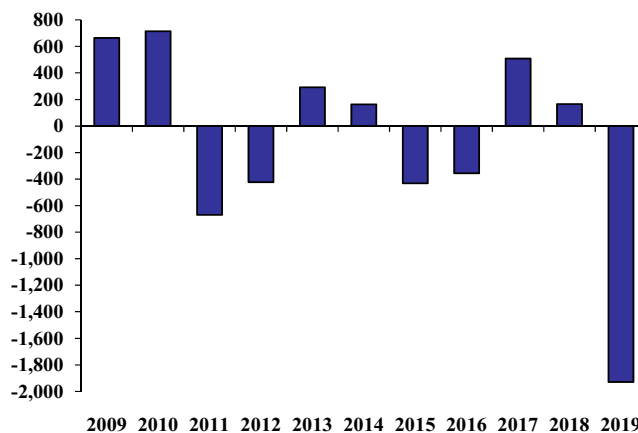
The net foreign assets of the financial sector grew by \$1.2bn in 2016, while they decreased by \$155.7m in 2017 and by \$4.8bn in 2018. The net foreign assets of the financial sector declined by the equivalent of 8.6% of GDP in 2018, and 0.3% of GDP in 2017, relative to an increase equivalent to 2.4% of GDP in 2016.

Lebanon's Gross Public Debt (% of GDP)



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

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



*in the first two months of each year

Source: Banque du Liban

Lebanese citizens are 91st happiest people in the world, 11th happiest in MENA region

The United Nations' 2019 survey about the level of happiness in 156 countries ranked Lebanon as the 91st happiest country globally and the 11th happiest nation among 20 countries in the Middle East & North Africa (MENA) region. Also, Lebanon came in 27th place among 39 upper middle-income countries (UMICs) included in the survey.

The UN's measure of happiness is based on annual polls that were conducted by opinion polling and consulting firm Gallup between 2016 and 2018, with the results converted into a numerical score for each country. The survey asked respondents to evaluate their lives by placing their current living conditions on a "ladder" scale ranging from zero to 10 and to assign a score accordingly, where zero reflects the worst possible life and 10 points the best possible life. The poll typically interviews 1,000 respondents per year in each country.

The survey indicated that social support, or having someone to count on when in distress, explains about 23.6% of Lebanese citizens' overall happiness, the 56th highest share globally. GDP per capita follows with 19% (60th highest share), then expectations of a healthy life with 15.7% (29th highest share globally), freedom to make life choices with 4.2% (20th lowest share), generosity or donating money to charity with 3.2% (87th highest share), and perceptions of corruption with 0.5% (18th lowest share). The survey found that the citizens of Finland are the happiest worldwide, while those of South Sudan are the least happy globally.

In parallel, Lebanon came in 82nd place among 133 countries in the world on data covering the 2005-2008 period. Lebanon's rank improves by one spot when using countries that have data for both the 2005-2008 and the 2016-2018 periods. Lebanon was one of 78 nations globally and one of six countries in the MENA region to post an increase in the level of happiness between the 2005-2008 survey and the 2016-2018 survey.

Globally, the survey's results show that Lebanese citizens are happier than the citizens of Indonesia, China and Vietnam, but are less happy than the citizens of Algeria, Morocco and Azerbaijan. Also, they are happier than their counterparts in China, Bulgaria and Jordan, but less happy than citizens in Turkmenistan, Algeria and Azerbaijan among UMICs. Lebanon received a score of 5.197 points for the 2016-2018 period, up from 4.912 points during the 2005-2008 period.

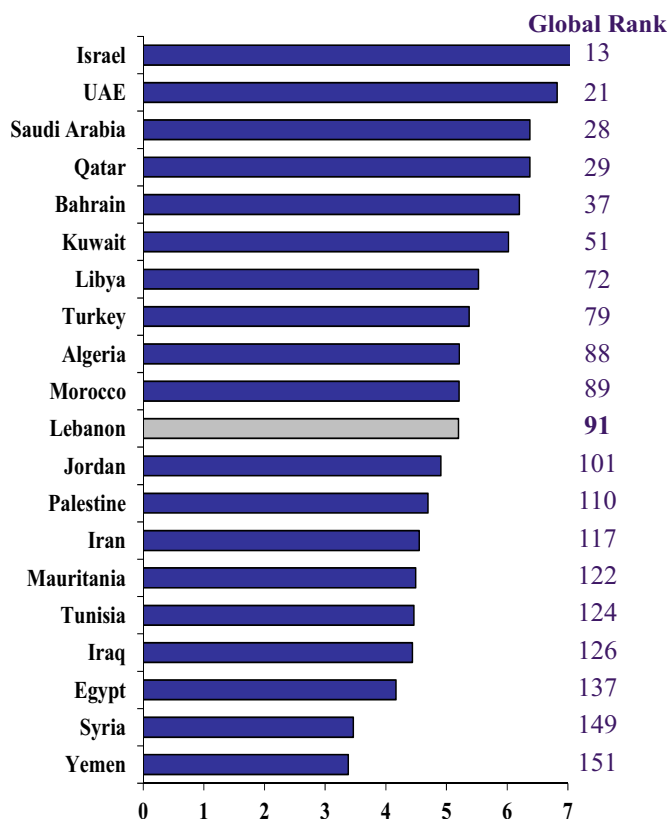
Banque du Liban's foreign assets down 3% to \$39bn in first quarter of 2019

Banque du Liban's (BdL) interim balance sheet totaled \$124.9bn at the end of March 2019, constituting a decrease of 11.1% from \$140.6bn at the end of 2018 and an increase of 1.1% from \$122.8bn at end-March 2018. The decline in the first quarter of the year is mainly due to the "netting" on the assets and liabilities' sides of BdL's balance sheet as part of the implementation of the new international accounting standard IFRS 9. Assets in foreign currency reached \$38.6bn at the end of March 2019, down by 2.8% from \$39.7bn at end-2018 and by 11.1% from \$43.4bn at end-March 2018. Assets in foreign currency declined by \$394.7m in January, by \$391.3m in February, and by \$320.1m in March 2019. This resulted in an aggregate decline of \$1.1bn in the first quarter of 2019. In comparison, BdL's assets in foreign currency increased by \$1.4bn in the first quarter of 2018, while they declined by \$499.5m in the first quarter of 2016 and by \$617.2m in the first quarter of 2017.

In parallel, the value of BdL's gold reserves grew by 1.2% from the end of 2018 and regressed by 2.6% year-on-year to reach \$11.9bn at the end of March 2019. The value of gold reserves reached a peak of \$16.7bn at the end of August 2011. Also, the securities portfolio of BdL declined by 1.6% year-on-year to \$31.9bn at end-March 2019.

In addition, loans to the local financial sector decreased by \$18.4bn, or 54.7%, from end-2018 to \$15.2bn at end-March 2019, as part of the "netting" procedure on the assets side. Further, deposits of the financial sector reached \$103.8bn at the end of March 2019 and decreased by \$16bn, or by 13.3%, from end-2018, as part of the "netting" procedure on the liabilities side. Also, the financial sector's deposits at BdL increased by \$3.1bn, or by 3.1%, from the end of March 2018, while public sector deposits at BdL totaled \$4.4bn at the end of March 2019 and decreased by \$649m, or 13%, from end-2018, and by \$2.2bn, or 34%, from end-March 2018.

Happiness Index for 2019
Scores & Rankings of Arab Countries



Source: United Nations, Byblos Research

Lebanon ranks 74th globally, ninth in MENA region on Knowledge Index

The 2018 Global Knowledge Index (GKI) ranked Lebanon in 74th place among 134 countries around the world and in ninth place among 18 countries in the Middle East & North Africa (MENA) region. Lebanon also came in 19th place among 34 upper middle-income countries (UMICs) included in the survey. Based on the same set of countries included in the 2017 and 2018 surveys, Lebanon's global rank regressed by 10 spots year-on-year, while its regional rank declined by two notches from the 2017 survey.

The GKI is a joint initiative between the United Nations Development Program and the Mohammed Bin Rashid Al Maktoum Knowledge Foundation. The index measures the multidimensional concept of knowledge, and aims to introduce a comprehensive approach to "knowledge-based development". It is composed of seven sub-indices that are Pre-University Education (15%); Technical Vocational Education & Training (15%); Higher Education (15%); Research, Development & Innovation (15%); Information & Communications Technology (15%); the Economy (15%); and the General Enabling Environment (10%). The index aims to guide policymakers and the private sector in fostering a development process that seeks to equip individuals with the necessary skills for the labor market of the future.

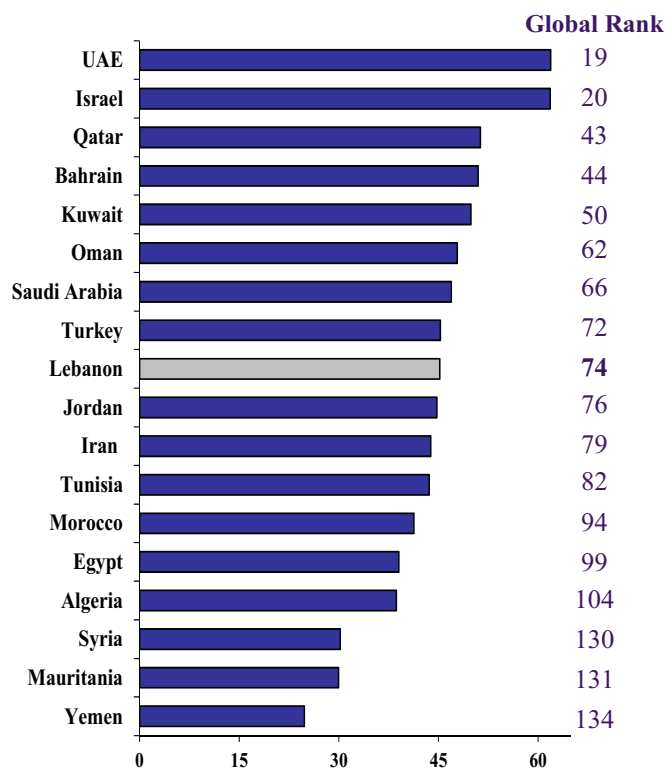
Globally, the knowledge level in Lebanon is better than the level of Botswana, Jordan and South Africa, while it is lower than the level of knowledge of Mongolia, Turkey and Colombia. Lebanon received a score of 45.2 points in 2018 compared to 46 points in the 2017 survey. Lebanon's score was lower than the global average score of 47.6 points and the UMICs' average score of 45.4 points, but it was higher than the MENA region's average score of 44.3 points.

Lebanon ranked ahead of Thailand, Greece and China, and came behind Chile, Panama and Peru on the Higher Education Sub-Index. This category, which is based on higher education inputs, as well as higher education outputs and quality, measures the level of education among the youth, as well as the development of their qualifications, knowledge, and skills, in order to improve a country's productivity and competitiveness in global markets. Lebanon ranked ahead of Thailand, China and Algeria, and behind Botswana, Colombia and Peru among UMICs. Regionally, it came ahead of Algeria, Iran, Turkey, Morocco, Mauritania, Syria and Yemen.

Also, Lebanon came ahead of Peru, Brunei Darussalam and Belarus, and ranked behind Costa Rica, Belize and Macedonia on the Research, Development & Innovation (RDI) Sub-Index. This category assesses how RDI contributes to increasing knowledge at the national and regional levels based on research and development, innovation in production, as well as on social innovation. Lebanon ranked ahead of Peru, Belarus and Romania, and came behind Costa Rica, Belize and Macedonia among UMICs; while it came ahead of Syria, Morocco, Jordan, Bahrain, Yemen, Egypt and Mauritania in the MENA region.

Further, Lebanon ranked ahead of Kyrgyzstan, Peru and Bhutan, and came behind India, Rwanda and Egypt on the Information & Communications Technology (ICT) Sub-Index. This category assesses how ICT supports the advancement of knowledge across all sectors based on ICT inputs and outputs. Lebanon ranked ahead of Peru, Namibia and Guyana, and came behind Iran, the Dominican Republic and Guatemala among UMICs; while it ranked ahead of Algeria, Syria, Mauritania and Yemen in the MENA region.

**Global Knowledge Index for 2018
Scores & Rankings of MENA Countries**



Source: Knowledge4all, Byblos Research

Components of the 2018 Global Knowledge Index for Lebanon

	Global Rank	MENA Rank	UMICs Rank	Lebanon Score	Global Avg Score	MENA Avg Score	UMICs Avg Score
Pre-university Education	73	7	18	54.1	54.5	49.3	54.4
The Economy	62	10	11	46.9	46.4	46.5	44.3
General Enabling Environment	103	11	31	52.1	62.3	54.5	60.4
Higher Education	76	11	20	37.6	40.2	38.3	38.2
Technical & Vocational Education and Training	29	2	5	58.6	50.9	46.9	47.8
Research, Development & Innovation	68	11	15	23.0	27.5	25.2	22.9
Information & Communications Technology	91	14	26	44.1	51.6	49.4	50.1

Source: Knowledge4all, Byblos Research

Cabinet approves launch of second licensing round for offshore oil & gas exploration and production

The Council of Ministers approved on April 4, 2019 the launch of the second licensing round for offshore oil & gas exploration and production in Lebanon's territorial waters. The Lebanese Petroleum Administration (LPA) indicated that five blocks are now open for bidding, including Block 1 and Block 2, which are located in the north of Lebanon's offshore Exclusive Economic Zone, Block 5 in the center, and Block 8 and Block 10 in the south of Lebanon's territorial waters. It also noted that companies that are interested in participating in the second licensing round have until the end of January 2020 to submit their bids. It invited interested firms to form consortiums composed of at least three companies each. The LPA will evaluate the bids, once they are submitted, and will prepare a recommendation to the Ministry of Energy & Water. It said that the Energy Ministry would sign the exploration and production agreement with the selected companies, 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. The consortium is expected to start its exploration of Block 4 by the end of 2019 and of Block 9 in 2020.

Broad money supply down 1% in first two months of 2019

Figures released by Banque du Liban show that money supply M1, which includes currency in circulation and demand deposits in Lebanese pounds, reached LBP10,525bn at the end of February 2019, constituting a decline of 9.7% from LBP11,661bn at the end of 2018 and a decrease of 0.8% from LBP10,608bn at end-February 2018. Currency in circulation stood at LBP4,631bn at the end of February 2019, down by 7.5% from LBP5,008bn at end-2018, but up by 1.3% from LBP4,573bn at end-February 2018. Also, demand deposits in local currency stood at LBP5,894bn at the end of February 2019, down by 11.4% from end-2018 and by 2.3% from end-February 2018. Money Supply (M1) expanded by 0.4% in February from LBP10,488bn at end-January 2019, with demand deposits in local currency growing by 1.2% and currency in circulation regressing by 0.7% month-on-month.

In addition, money supply M2, which includes M1 and term deposits in Lebanese pounds, reached LBP75,726bn at the end of February 2019, constituting a decrease of 1.4% from LBP76,828bn at the end of 2018, and a decline of 6% from LBP80,568bn a year earlier. Term deposits in Lebanese pounds totaled LBP65,201bn at the end of February 2019, nearly unchanged from LBP65,167bn at end-2018, while they declined by 6.8% from LBP69,960bn at end-February 2018. Money Supply (M2) increased by 0.9% in February from LBP75,056bn at end-January 2019, with term deposits in local currency rose by 1% month-on-month.

Further, broad money supply M3, which includes M2, deposits in foreign currency and debt securities issued by the banking sector, reached LBP210,836bn at the end of February 2019, constituting a decrease of 1% from LBP212,993bn at the end of 2018 and an increase of 0.4% from LBP210,052bn at end-February 2018. Deposits in foreign currency totaled LBP134,818bn at the end of February 2019, down by 0.8% from end-2018 and up by 4.3% from a year earlier. Also, debt securities issued by the banking sector amounted to LBP291bn at the end of February 2019, compared to LBP272bn at the end of 2018 and to LBP245bn at end-February 2018. Money supply (M3) increased by 0.2% from LBP210,434bn at the end of January 2019, with deposits in foreign currency decreasing by 0.2% month-on-month, and debt securities issued by the banking sector rising by 4.9% from the preceding month. In parallel, M3 regressed by LBP2,157bn in the first two months of 2019, due to a drop of LBP2,215bn in the net foreign assets of deposit-taking institutions and a decline of LBP2,125bn in claims on the private sector, which were partly offset by an increase of LBP505bn in net claims on the public sector and a surge of LBP1,678bn in other net items.

Banking sector assets at \$250bn at end-February 2019

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets stood at \$250.2bn at the end of February 2019, constituting a marginal increase of 0.3% from \$249.5bn at the end of 2018 and an expansion of 12.2% from \$223.1bn at end-February 2018. Loans extended to the private sector reached \$57.4bn at the end of February 2019, regressing by 3.4% from end-2018 and by 2.8% from a year earlier. Loans to the resident private sector totaled \$50.9bn, constituting decreases of 2.6% from the end of 2018 and of 3.6% from a year earlier. Also, credit to the non-resident private sector reached \$6.5bn at end-February 2019, declining by 8.8% from end-2018 and growing by 4.4% from a year earlier. In nominal terms, credit to the private sector dropped by \$2bn in the first two months of 2019 relative to a decrease of \$660.7m in the same period of 2018, as lending to the resident private sector contracted by \$1.38bn and credit to the non-resident private sector regressed by \$624.6m in the covered period. The dollarization rate in private sector lending rose from 67.9% at end-February 2018 to 69.1% at end-February 2019.

In addition, claims on non-resident financial institutions reached \$10.5bn at the end of February 2019 and declined by \$1.5bn, or 12.5%, from the end of 2018. Also, claims on the public sector stood at \$33.5bn at end-February 2019, nearly unchanged from end-2018. The average lending rate in Lebanese pounds was 10.55% in February 2019 compared to 8.67% a year earlier, while the same rate in US dollars was 8.91% relative to 7.9% in February 2018. Further, the deposits of commercial banks at Banque du Liban totaled \$134.4bn at the end of February 2019, constituting an increase of 23.7% from a year earlier.

In parallel, total private sector deposits reached \$172bn at the end of February 2019. They decreased by 1.3% from the end of 2018 and increased by 0.9% from end-February 2018. Deposits in Lebanese pounds reached the equivalent of \$50.6bn at end-February 2019, down by 1.3% from end-2018 and by 6.6% from a year earlier; while deposits in foreign currency totaled \$121.4bn, as they regressed by 1.3% in the first two months of 2019 and grew by 4.4% from \$116.3bn a year earlier. Resident deposits totaled \$135.3bn at the end of February 2019, decreasing by 0.9% or \$1.25bn from the end of 2018 and rising by 0.2% or \$329.5m from end-February 2018. Also, non-resident deposits reached \$36.7bn at end-February 2019, as they regressed by 2.8% or \$1.06bn from end-2018, and increased by 3.4% or \$1.2bn from a year earlier. In nominal terms, private sector deposits declined by \$2.18bn in January and by \$133m in February 2019. As such, aggregate private sector deposits dropped by \$2.3bn in the first two months of 2019 relative to an increase of \$1.8bn in the same period of 2018, with deposits in Lebanese pounds declining by \$649.7m and foreign-currency deposits dropping by \$1.66bn. The dollarization rate of private sector deposits was 70.6% at the end of February 2019, unchanged from the end of 2018, compared to 68.2% a year earlier.

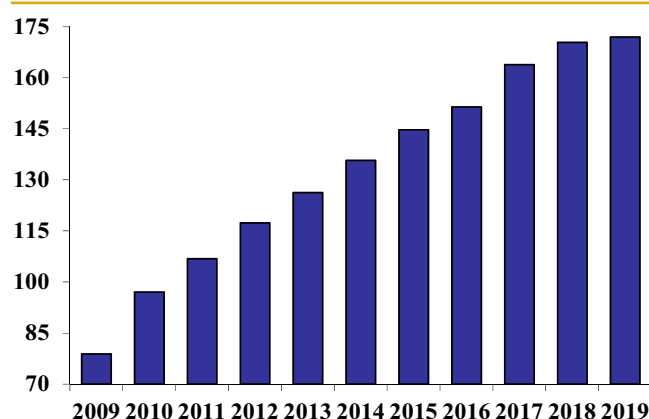
In parallel, deposits of non-resident financial institutions reached \$9.4bn at the end of February 2019 and increased by 19.1% from end-February 2018. Further, the average deposit rate in Lebanese pounds was 9.16% in February 2019 compared to 6.51% a year earlier, while the same rate in US dollars was 5.62% relative to 3.96% in February 2018. The ratio of private sector loans to deposits in foreign currency stood at 32.7% at the end of February 2019, compared to 34.5% a year earlier and well below Banque du Liban's limit of 70%. The same ratio in Lebanese pounds was 35% at end-February 2019 unchanged from the end of February 2018. As such, the total private sector loans-to-deposits ratio reached 33.4% compared to 34.6% at end-February 2018. The banks' aggregate capital base stood at \$22.2bn at end-February 2019, up by 3.3% from \$21.5bn a year earlier.

BBAC's net earnings at \$52m in 2018

BBAC sal, one of Lebanon's top 16 banks in terms of deposits, announced unaudited consolidated net profits of \$51.7m in 2018, constituting an increase of 5.3% from net earnings of \$49.1m in 2017. Net operating income grew by 8.5% year-on-year to \$155.7m in 2018, with net interest income declining by 2.9% to \$103.6m and net fees & commissions receipts increasing by 9.1% to \$30m. Non-interest income accounted for 33% of total income in 2018, up from 29% in 2017; with net fees & commissions representing 59% of non-interest earnings relative to 63.2% in 2017. Further, the bank's interest margin was 1.42% in 2018 relative to 1.64% in 2017, while its spread reached 1.38% in 2018 compared to 1.59% in 2017. Total operating expenditures grew by 15.5% to \$97.6m in 2018, with staff expenses increasing by 10.8% to \$50.6m and administrative & other operating expenditures growing by 25.8% to \$42.4m. Also, the bank's return on average assets was 0.69% in 2018 on an annualized basis relative to 0.73% in 2017, while its return on average equity reached 8.33% on an annualized basis compared to 8.39% in 2017. The bank's cost-to-income ratio increased from 56.25% in 2017 to 63.23% in 2018.

In parallel, the bank's assets reached \$8.13bn at the end of 2018, up by 17.3% from end-2017, while loans & advances to customers, excluding those to related parties, increased by 0.8% from end-2017 to \$1.76bn. Also, customer deposits, excluding those from related parties, totaled \$6.2bn at end-2018 and grew by 5.9% from the end of 2017. The loans-to-deposits ratio stood at 28.04% at the end of 2018, compared to 29.33% at end-2017. Further, the bank's shareholders' equity reached \$639.1m at end-2018, up by 5.8% from end-2017.

Total Private Sector Deposits* (US\$m)



*at end-February of each year

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)	(30.4)	1.11
Exports / Imports	15.6	14.5	14.8	0.25
Fiscal Revenues / GDP	19.4	21.8	21.2	(0.57)
Fiscal Expenditures / GDP	29.0	28.8	32.1	3.29
Fiscal Balance / GDP	(9.6)	(7.0)	(11.0)	(3.97)
Primary Balance / GDP	0.04	2.7	(0.5)	-
Gross Foreign Currency Reserves / M2	62.2	68.2	63.8	(4.39)
M3 / GDP	259.2	259.6	252.1	(7.55)
Commercial Banks Assets / GDP	398.7	411.8	445.1	33.32
Private Sector Deposits / GDP	317.1	315.9	310.9	(4.97)
Private Sector Loans / GDP***	111.6	111.8	105.9	(5.84)
Private Sector Deposits Dollarization Rate	65.8	68.7	70.6	1.90
Private Sector Lending Dollarization Rate	72.6	68.6	69.2	0.57

*change in percentage points 18/17

includes portion of public debt owed to non-residents, liabilities to non-resident banks, non-resident deposits (estimated by the IMF), Bank for International Settlements' claims on Lebanese non-banks * in January 2018, Lebanese banks started reporting their financials based on international accounting standard IFRS 9, and revised the 2017 figures accordingly

Source: Association of Banks in Lebanon, Institute of International Finance, International Monetary Fund, World Bank, Byblos Research Estimates & Calculations

Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

Risk Metrics

Lebanon	Apr 2017	Mar 2018	Apr 2018	Change**	Risk Level
Political Risk Rating	56.0	55.5	55.0	▲	High
Financial Risk Rating	33.0	33.0	33.0	➤	Moderate
Economic Risk Rating	27.5	28.5	28.5	▼	High
Composite Risk Rating	58.25	58.5	58.25	➤	High

MENA Average*	Apr 2017	Mar 2018	Apr 2018	Change**	Risk Level
Political Risk Rating	57.9	58.0	58.1	▼	High
Financial Risk Rating	38.2	38.1	38.2	➤	Low
Economic Risk Rating	29.7	31.4	31.9	▼	Moderate
Composite Risk Rating	62.9	63.7	64.1	▼	Moderate

*excluding Lebanon

**year-on-year change in risk

Source: The PRS Group, Byblos Research

Note: Political & Composite Risk Ratings range from 0 to 100 (where 100 indicates the lowest risk)

Financial & Economic Risk ratings range from 0 to 50 (where 50 indicates the lowest risk)

Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's Investors Service	Caa1	NP	Stable	Caa1		Stable
Fitch Ratings	B-	B	Negative	B-		Negative
S&P Global Ratings	B-	B	Negative	B-	B	Negative
Capital Intelligence Ratings	B	B	Negative	B	B	Negative

Source: Rating agencies

Banking Ratings

Banking Ratings	Outlook
Moody's	Stable

Source: Moody's Investors Service



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