N°76 | January 2019

GOVERNMENT PROMISES FISCAL REFORMS IN 2019 AS GROWTH FLAGS

- **Growth may remain subdued at 1%-2% through 2021 – Moody's**
- **Hospitality and exports kick off 2019 with considerable momentum**
- **BdL to announce fresh funding for housing loans in 2019**

January 1, 2019

Lebanon's economic growth is projected to remain subdued in 2019, but prospects are upbeat for private consumption, hospitality, exports, and transportation activity. Real GDP growth is forecast to remain in the 1%-2% range through 2021, predicted Moody's Investors Service, a US-based credit ratings agency.

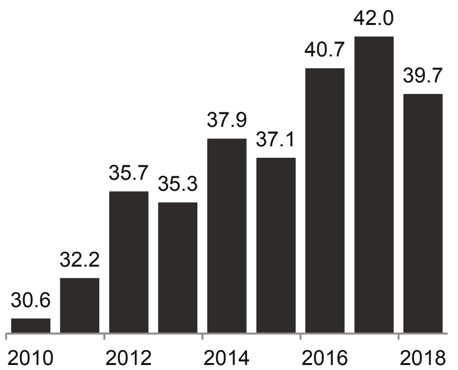
The country navigated turbulent domestic political winds and global headwinds particularly from the US Federal Reserve's tightening, but finished the year with positive trends in several key indicators. The Central Bank, aided by falling oil prices in international markets, succeeded in putting inflation back in check after surging in the first half of the year, and made sufficient foreign currency available for the government to meet its financing needs while maintaining its peg to the US dollar.

As a result, foreign assets, excluding gold reserves, decreased by $2.3bn to $39.7bn during the year, still hovering around their record high of $42bn at the end of 2017. Consumer inflation slowed to 5.8% in November for the sixth straight month after peaking at 7.6% in June, data by the Central Administration of Statistics (CAS) showed.

The hospitality sector ended a bumper year with considerable momentum as improved security drove an influx of European, North American, and Australian citizens to the country. Visitor arrivals to Lebanon jumped by 10% yoy to 1.8 million in the first 11 months of 2018, the second highest on record in the post-war period. Arrivals from Qatar more than doubled to 10,421 visitors, signaling a gradual improvement in Lebanon's touristic appeal to the Gulf country's population.

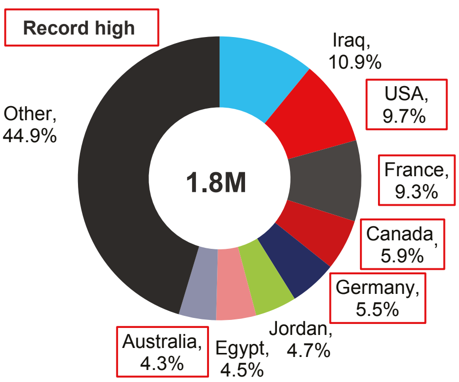
Goods exports grew by 4.2% yoy to $2.5bn through October 2018, their fastest pace in six years, driven largely by an uptick in the pearls and precious stones trade.

BdL foreign assets, excluding gold ($bn)



Note: Include Lebanon Eurobonds starting 2017.
Source: BdL, Economena, SGBL Research

Visitor arrivals by nationality (Jan-Nov 2018)



Source: MoT, CAS, Economena, SGBL Research

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Real estate sales transactions decreased by 18.9% yoy to $7.3bn in the first 11 months of 2018.

Other industries too posted strong export results, particularly plastics, iron and steel, fertilizers, and animal and vegetable oils and fats.

The housing market should gain some respite in 2019 after the Central Bank promised to provide fresh stimulus funding for housing loans in the new year. Real estate sales transactions had decreased by 18.9% yoy to $7.3bn in the first 11 months of 2018 after borrowing rates increased and subsidized loans were completely exhausted by the early months of the year.

On the other hand, the transport sector is proving resilient to both regional and domestic crises with passenger traffic at Beirut's international airport swelling by 7.3% yoy to a record high of 8.2 million passengers in the first 11 months of 2018. The sector's real output grew at a compounded annual growth rate of 6.7% over the five-year period through 2017. The expansion of ridesharing businesses such as Uber and Careem is lending support to transportation activity in the capital, and growing demand for international tourism is driving fast growth in air travel.

The outlook for the sector looks especially bright in light of the government's Capital Investment Programme (CIP). An estimated $2.6bn were allocated to the transport sector at the April 2018 CEDRE conference; specific projects include the expansion of the Port of Tripoli to serve as a major gateway to Syria and Iraq, the construction of a railway linking Tripoli port to Syria, the introduction of Bus Rapid Transit lines connecting major cities, and the expansion of Beirut's international airport.

CHALLENGING DOMESTIC AND GEOPOLITICAL RISKS

Nevertheless, domestic and geopolitical risks are getting harder for Lebanon to handle, posing greater risk to the government's liquidity position and financial stability, stated Moody's in a December note in which it affirmed the sovereign's B3 ratings, but changed its outlook to negative from stable. Lebanon last held a B3 rating with a negative outlook in the aftermath of the July 2006 war between November 2006 and March 2008.

Lebanon's fiscal deficit swelled to $4.5bn in the first nine months of 2018, $2bn more than in the same period of 2017, data by the Ministry of Finance showed. The widening in the deficit stemmed from an additional $972.5m in personnel costs resulting from the approval of a new public sector salary scale, as well as increases of $379.8m and $339m in transfers to municipalities and to Electricité du Liban (EdL) respectively during the period.

Actual revenues in the first nine months of 2018 fell short of budgetary projections.

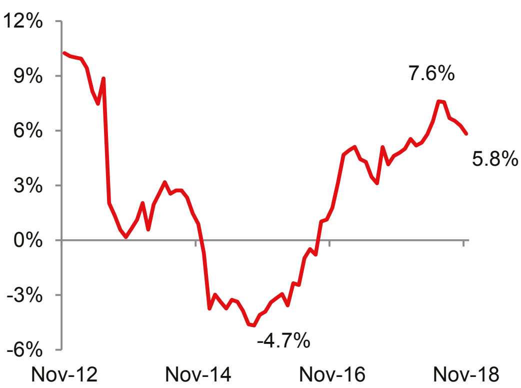
Parliament had passed new tax measures in late 2017 aimed at raising sufficient revenues to cover the cost of the new public sector salary scale. However, actual revenues in the first nine months of 2018 fell short of expectations; total revenues grew by just 3.2% yoy to $8.7bn, but were projected in the 2018 budget to increase at a rate of 15%.

FORTHCOMING ADMINISTRATION PROMISES REFORMS

The outlook for the 2019 budget is meanwhile clouded by uncertainty over the formation of a new Cabinet. The PM-designate announced in December 2018 that his forthcoming Cabinet would seek to reduce the state's transfers to EdL by $600m in 2019 and to put forward a bold reform package that would help unlock billions of dollars in grants and concessional loans for infrastructure pledged by the international donor community at the CEDRE conference.

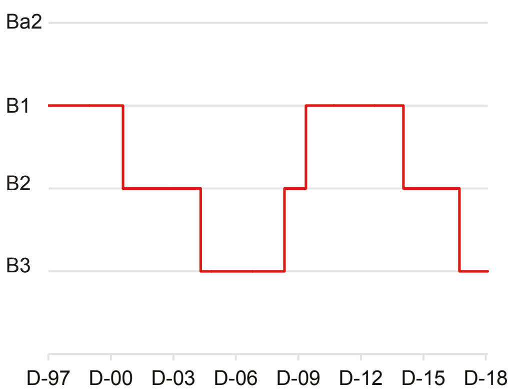
The International Monetary Fund had urged authorities in 2018 to implement immediate and substantial fiscal adjustment through a combination of revenue and spending measures. In particular, the IMF recommended restoring the VAT on diesel which had been suspended since 2011, raising taxes on gasoline prices, lifting electricity tariffs, and increase tax compliance.

Consumer Price Index (%yoy)



Source: CAS, Economena, SGBL Research

Lebanon sovereign ratings by Moody's



Source: Moody's Investors Service, Economena, SGBL Research

SMALLER GAINS ON FINANCIAL ASSETS WEIGH ON PROFITS OF ALPHA GROUP BANKS

- **Robust growth of 15.8% yoy in net interest income through September 2018**
- **Stronger recoveries offset deterioration in asset quality**
- **Alpha banks shrink their loan portfolios as deposit growth slows**

Alpha Group banks, the 15 lenders with over $2bn in deposits, reported a drop of 13.8% yoy to $1.7bn in their net profits in the first nine months of 2018, data compiled by Bankdata Financial Services showed. Domestic net profits fell at a more moderate pace of 9.7% yoy to $1.5bn during the same period, as several banks continued to scale down their operations abroad.

Political uncertainty and weak economic activity took their toll on deposit growth which slowed to just 2.4% yoy by September. Differences, however, were stark among Alpha banks; Société Générale de Banque au Liban drew an additional $1.1bn in domestic deposits in the first nine months, the most among Alpha banks, while two banks saw their deposits shrink.

Despite slower aggregate deposit growth, core activities remained robust, buoyed by rising interest rates and returns on placements with Banque du Liban. Spreads widened by 6 basis points since September 2017 to 1.93% by September 2018, and net interest income grew by 15.8% yoy to $3.4bn. Improved recovery efforts, debt restructuring, and aggressive provisioning practices in earlier years are helping Alpha banks absorb much of the recent deterioration in asset quality. Credit losses on doubtful loans doubled to $460.5m through September amid modest economic activity, but recoveries almost tripled to $252.3m.

On the other hand, smaller gains on financial assets contributed to a decline of $326.6m in operating income in the first nine months, overwhelming the slimming down of staff costs and other operating and administrative expenses. Income tax payments also jumped by 27.4% yoy to $113.1m, further chipping away at banks' strong core operating results during the period.

Smaller gains on financial assets contributed to a decline of $326.6m in operating income.

Slower real GDP growth and growing government financing needs led banks to raise their exposure to public sector securities since the start of the year. As a result, Alpha banks' aggregate portfolio of Lebanese government and Central Bank securities grew by $1.7bn to $64.4bn during the period. Sovereign Eurobond holdings jumped by $2.3bn to $15.5bn in the first nine months, while holdings of Central Bank US dollar Certificates of Deposit decreased by $2.3bn after banks discounted their CDs to subscribe to new Eurobond issues in May 2018.

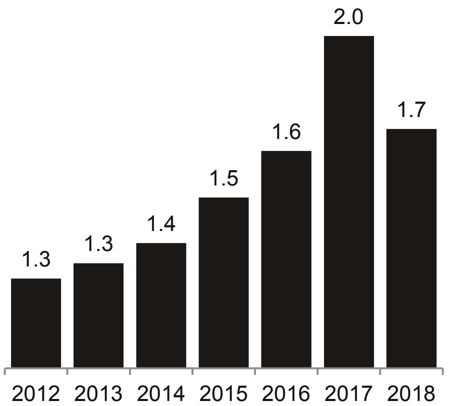
By contrast, banks shied away from Treasury bill auctions, choosing instead to subscribe to higher-yielding BdL Lebanese Pound CDs. The trend is expected to reverse somewhat after the interest differential and lack of private sector demand prompted the government to raise rates on new primary Treasury bill issues starting December 2018. At the same time, the Central Bank introduced in 2018 a cap of 25% of deposits on bank loans, and trimmed down its stimulus package. As a result, credit to the private sector came to a virtual halt, with domestic loan portfolios contracting by 2.2% in the first nine months to $48bn by September 2018.

Alpha Group, Jan-Sep 2018

	Net profit ($m)	Assets ($bn)
Bank Audi	409.7	45.7
BLOM Bank	383.0	35.7
SGBL	147.4	23.5
Bank of Beirut	146.9	18.4
Byblos Bank	114.3	24.4
Fransabank	108.1	23.6
IBL Bank	100.1	8.1
BLF	91.7	14.8
Credit Libanais	54.2	12.3
BankMed	46.3	17.3
BBAC	39.4	7.8
First National Bank	21.8	5.2
LGB Bank	20.3	5.5
Creditbank	16.2	4.1
Saradar Bank	-1.4	2.7
Alpha Group	**1,697.9**	**249.2**

Source: Bankdata, Economena, SGBL Research

Alpha Group banks, net profit (Jan-Sep, $bn)



Source: Bankdata, Economena, SGBL Research

FISCAL DEFICIT SWELLED TO $4.5BN BY SEPTEMBER ON HIGHER PERSONNEL COSTS

- **Revenue growth is falling short of budgetary projections in 2018**
- **Rising coupon rates on new Treasury bills starting December 2018**
- **Budget for 2019 expected to include fiscal reforms needed to unlock international aid**

Lebanon's fiscal deficit swelled to $4.5bn in the first nine months of 2018, $2bn more than in the same period of 2017, data by the Ministry of Finance showed. The widening in the deficit stemmed from an additional $972.5m in personnel costs resulting from the approval of a new public sector salary scale, as well as increases of $379.8m and $339m in transfers to municipalities and to Electricité du Liban (EdL) respectively during the period.

Debt service payments grew by 8.1% yoy, equivalent to an increase of $283.3m, to $3.8bn through September, due almost entirely to a larger stock of public debt. The Central Bank subscribed to $5.8bn worth of Treasury bills at an interest rate of 1% in 2018, driving down the weighted cost of local currency debt by 77 basis points to 6.13% by October.

In December, however, the government began issuing long-term securities to commercial banks and the public at higher rates, to more closely mirror returns on Central Bank Certificates of Deposit, including 15-year T-bills carrying coupons of 10.5%. Higher rates are likely to add to the state's debt service costs in 2019, while reducing the Central Bank's need to regularly subscribe to new issuances.

Parliament passed new tax measures in late 2017 aimed at raising sufficient revenues to cover the cost of the new public sector salary scale. However, actual revenues in the first nine months of 2018 fell short of expectations; total revenues grew by just 3.2% yoy to $8.7bn, but were projected in the 2018 budget to increase at a rate of 15%.

In particular, the government had expected to raise its income tax collections by 20% to $3.3bn in the full year 2018; instead, they remained unchanged in the first nine months of the year. Similarly, the blow to revenues from the slump in the property market was more severe than anticipated; real estate registration fees plummeted by 22.8% yoy to $348.9m through September compared with the budget's projection of a moderate decline of just 8% in 2018.

By contrast, revenues poured in at a robust pace from the VAT and the tax on interest income, which posted growth of 11.4% yoy to $1.9bn and 94.1% yoy to $870.6m respectively after the government hiked the first to 11% from 10% and the latter to 7% from 5%.

The Cabinet has yet to submit to Parliament a draft budget for 2019 following delay in the formation of a new Cabinet. However, the PM-designate announced in December that the government would seek to reduce the state's transfers to EdL by $600m and to put forward a bold reform package that would help unlock billions of dollars in grants and concessional loans for infrastructure pledged by the international community at a Paris-held CEDRE conference.

Increase in spending (Jan-Sep, yoy, $m)	
Personnel costs	972
Municipalities	380
EdL	339
Debt service	283
Others	50
Total increase	**2,770**

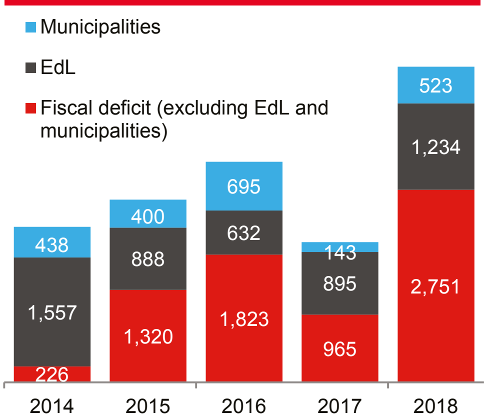
Source: MoF, Economena, SGBL Research

Revenues in the first 9 months of 2018

	Value ($m)	% yoy
Value Added Tax	1,892.70	11.4%
Interest tax	870.6	94.1%
Taxes on profits	854.2	-36.9%
Telecom	650.9	22.7%
Tax on wages	445.1	14.8%
Customs	371.1	3.7%
Property registration	348.9	-22.8%
Excise tax on fuel	338.9	-2.7%
Capital gains	245.4	21.7%
Excise tax on cars	230.8	-8.8%
Beirut airport	41.9	-34.6%
Total revenues	**8,671.10**	**3.2%**

Source: MoF, Economena, SGBL Research

Fiscal deficit (Jan-Sep, $m)



Source: MoF, Economena, SGBL Research

MOODY'S AFFIRMS LEBANON'S B3 RATINGS, OUTLOOK NEGATIVE

- **Government needed to unlock foreign aid, partly reverse widening of risk premia**
- **Higher geopolitical risks following US withdrawal from Iran nuclear agreement**
- **External vulnerability mitigated by ample foreign exchange reserves**

Domestic and geopolitical risks are getting harder for Lebanon to handle, posing greater risk to the government's liquidity position and financial stability, stated Moody's Investors Service, a US-based credit ratings agency in a December note in which it affirmed the sovereign's B3 ratings, but changed its outlook to negative from stable. Lebanon last held a B3 rating with a negative outlook in November 2006 - March 2008, the aftermath of the July 2006 war.

The agency's ratings affirmation is predicated on the assumption that a government would be formed in the near term and would implement fiscal consolidation measures that could release some international loans and partly reverse the widening in risk premia in recent months. Lebanon's 5-year Credit Default Swap spreads, the cost to insure against default and a measure of perceived default risk, closed the year at 750 basis points, up from 521 basis points at the end of 2017. The widening in risk premia is largely a result of domestic and geopolitical risks, according to Moody's.

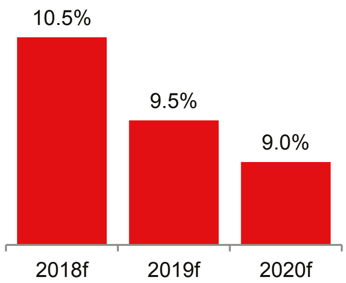
Moody's sees increased geopolitical risk in light of the withdrawal of the United States from the nuclear agreement with Iran and the imposition of new sanctions in late October which may further increase uncertainty among investors and the international donor community, explained Moody's.

Domestically, political tensions and the policy standstill risk further jeopardizing capital inflows and committed donor disbursements, with significant repercussions on Lebanon's ability to maintain financial stability and service its debt at sustainable costs, stated Moody's. As a result, Moody's expects limited narrowing of the fiscal deficit to 9.5% of GDP in 2019 and subdued real GDP growth of 1%-2% over the next three years. Debt affordability, measured by interest as a percent of revenue, will exceed 50% in 2019 following the government's decision to begin issuing domestic debt closer to market rates. Debt service costs had reached 44.3% of revenues in the 12-month period through September 2018, only a tad above their 10-year average.

The government's liquidity risks are exacerbated by a slowdown in private sector deposit growth likely resulting from heightened political risk, higher interest rates by the US Federal Reserve, and lower confidence in sustained financial stability, according to Moody's.

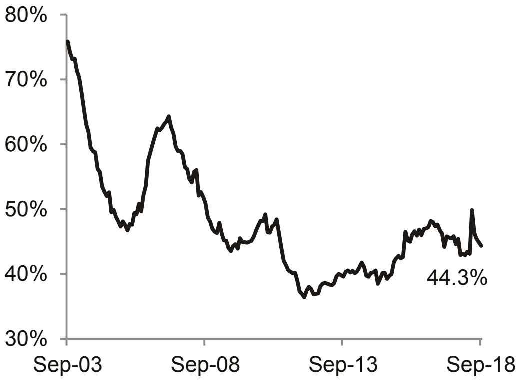
Lebanon's external vulnerability, however, is mitigated by the Central Bank's large stock of foreign exchange reserves, which, at $34.6bn as of October 2018, provides ample coverage of goods and services imports, argued Moody's. Still, the ratio of net foreign assets to M3 is declining toward the 20% upper threshold deemed prudent under IMF reserve adequacy metrics for countries with large banking systems, warned Moody's.

Fiscal deficit (% of GDP)



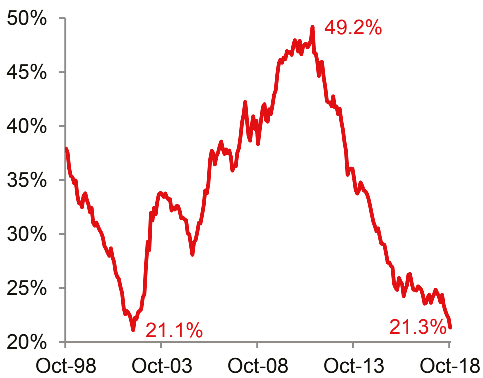
Source: Moody's, Economena, SGBL Research

Debt service, 12-month average (% of revenue)



Source: MoF, Economena, SGBL Research

Net foreign assets (% of M3)



Source: BdL, Economena, SGBL Research

REAL GDP GROWTH SLOWED TO 0.6% IN 2017, TRANSPORT SECTOR PULLED AHEAD

- **Drags came from financial services and construction activity**
- **Transport sector consistently outperforming, still offers considerable promise**
- **Hotels and restaurants activity grew by 8.9%, its fastest pace since 2009**

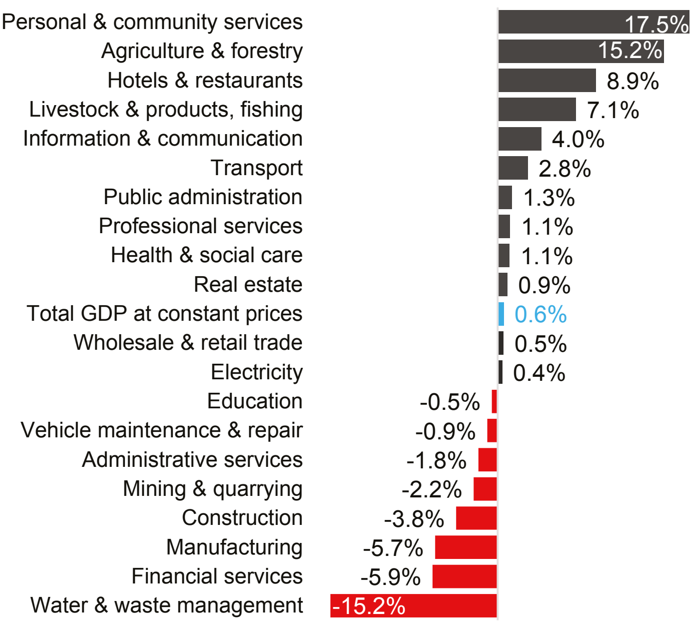
Lebanon's real GDP growth slowed to 0.55% in 2017, down from 1.7% the previous year, primarily as a result of slumping construction and financial services activities, data by the Central Administration of Statistics showed. The country had kicked off 2017 on a strong footing following a breakthrough that put an end to vacancy in Lebanon's top government post and paved the way for the formation of a national consensus Cabinet.

The country's fortunes turned in the second half of the year with heightened political and economic uncertainty in the aftermath of the PM Hariri – Saudi Arabia crisis and the approval of higher public sector salaries and tax measures.

Financial services, the country's fourth largest sector contributing to 8.3% of GDP, shrank by 5.9% in 2017 as a result of a high base in 2016 when the Central Bank conducted sizeable financial engineering operations with commercial banks. The drag from smaller swap operations was partially offset by widening interest spreads on US dollar accounts, a trend that has resumed well into 2018, according to data from the Association of Banks in Lebanon.

A drop in cement deliveries by 2.2% to 5.2 million sqm in 2017 reflected a slowdown in construction activity. The sector's output contracted by 3.8% in real terms in light of political headwinds at the end of the year and the Central Bank's decision to scale back its subsidized residential mortgage program, bringing to a virtual halt housing loan production by the second half of the 2018.

GDP at constant prices (2017, % change)



Source: CAS, Economena, SGBL Research

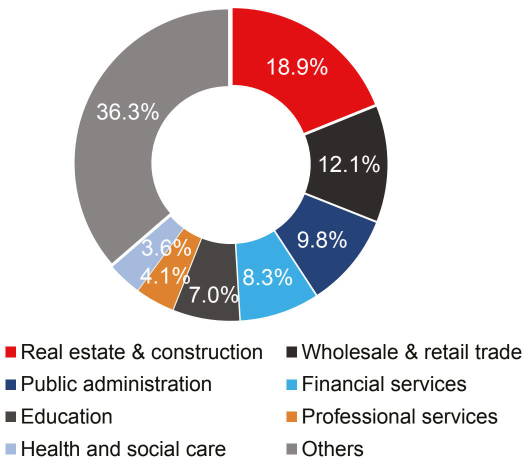
At the same time, Banque du Liban's knowledge economy drive appears to have paid off somewhat in 2017. BdL announced in 2013 a series of incentives and guarantees for Lebanese banks to take up equity stakes in startup enterprises under Circular 331. Real output in the Information and Communication sector grew by 4% to $1.4bn in 2017, expanding its share of total output to a 14-year high of 3.2%.

Meanwhile, the transport sector proved resilient to both regional and domestic crises with a compounded annual growth rate of 6.7% over the past five years, including 2.8% in 2017. The expansion of ridesharing businesses such as Uber and Careem is lending support to transportation activity in the capital, and growing demand for international tourism is driving fast growth in air travel. Passenger traffic at Beirut's international airport swelled by 8.2% to a record 8.2 million passengers, with Middle East Airlines carrying an estimated 35.6% of total disembarked and embarked passengers.

The outlook for the sector looks especially bright in light of the government's Capital Investment Programme (CIP). An estimated $2.6bn were allocated to the transport sector at the April 2018 CEDRE conference; specific projects include the expansion of the Port of Tripoli to serve as a major gateway to Syria and Iraq, the construction of a railway linking Tripoli port to Syria, the introduction of Bus Rapid Transit lines connecting major cities, and the expansion of Beirut's international airport.

Hotels and restaurants, whose output contributed to 3% of GDP, reported real growth of 8.9% in 2017, their fastest pace since 2009. Improved security and the easing of the political crisis led to an influx of visitors, including record European and North American arrivals. Total arrivals grew by 10% to 1.7 million visitors, raising hotel occupancy rates at Beirut's 4- and 5-star hotels to 63.8% from 59.5% in 2016, according to Ernst & Young.

GDP at current prices (2017)



Source: CAS, Economena, SGBL Research

LATEST DATA

Key indicators	Unit	2017	Sep-18	Oct-18	Nov-18	%Y/Y	YTD	PYTD
Cleared cheques	$bn	68.25	5.54	6.08	5.35	-3.8	61.09	62.00
Real estate transactions	$bn	9.96	0.69	0.77	0.70	-18.1	7.31	9.02
Construction permits	Sqm, m	11.73	0.62	0.77	n.a.	-24.4	7.77	10.11
Cement deliveries	Tons, m	5.15	0.43	0.46	n.a.	-6.4	4.09	4.28
Tourist arrivals	m	1.86	0.17	0.17	0.13	5.7	1.80	1.71
Airport traffic	m	8.24	0.85	0.68	0.63	6.0	8.16	7.61
Balance of payments	$bn	-0.16	-0.15	-1.81	n.a.	-	-3.12	-1.08
Money supply: M3	$bn	138.62	141.35	140.23	n.a.	1.0	1.62	6.02
BSE volumes	m	83.86	3.15	4.90	14.32	315.1	84.61	71.93
Passenger car sales		37,222	2,436	2,509	2,195	-17.9	30,785	33,996
Hotel occupancy (average)	%	63.98	72.3	69.6	n.a.	1.3	64.24	65.91

Indices	Unit	2017	Sep-18	Oct-18	Nov-18	%Y/Y	%YTD
Consumer Confidence Index - ARA		123.92	103.00	104.00	94.00	-36.5	-39.4
Consumer Price Index		100.55	107.68	108.89	109.04	5.8	5.0
Purchasing Managers' Index		46.60	45.80	46.20	46.70	1.1	1.3
BdL Coincident Indicator		305.87	292.30	309.20	n.a.	1.0	-2.9

Trade	Unit	2017	Aug-18	Sep-18	Oct-18	%Y/Y	YTD	PYTD
Imports	$bn	19.58	1.82	1.44	1.72	-2.9	16.87	16.22
Exports	$bn	2.84	0.23	0.21	0.26	5.2	2.46	2.36
Trade balance	$bn	-16.74	-1.59	-1.22	-1.45	-4.2	-14.41	-13.86
Port of Beirut volumes	TEUs, m	1.31	0.11	0.11	0.12	-3.2	1.09	1.07

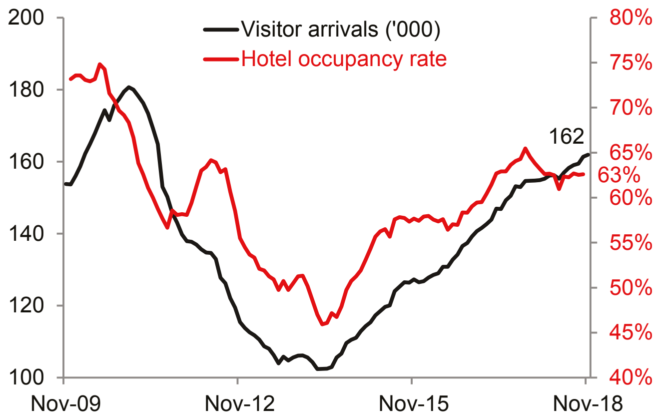
Financial and monetary	Unit	2017	Aug-18	Sep-18	Oct-18	%Y/Y	YTD	%YTD
Commercial bank assets	$bn	219.86	238.46	241.12	242.61	12.4	22.76	10.4
Claims on the resident private sector	$bn	53.45	52.23	52.18	51.83	-1.3	-1.62	-3.0
Claims on the non-resident private sector	$bn	6.07	6.65	6.76	6.84	17.0	0.77	12.7
Claims on the public sector	$bn	0.16	0.18	0.18	0.18	26.2	0.03	16.4
Resident private sector deposits	$bn	133.51	136.55	136.91	135.76	1.4	2.25	1.7
Dollarization rate (average)	%	61.54	63.84	64.26	64.44	2.7	63.54	0.8
Non-resident private sector deposits	$bn	35.16	36.67	37.03	37.49	5.6	2.33	6.6
Dollarization rate (average)	%	87.32	87.27	87.17	87.88	-0.1	87.48	0.0
Private sector deposits with commercial banks	$bn	168.66	173.22	173.94	173.25	2.3	4.58	2.7
Private loans / deposits	%	39.17	38.25	38.11	38.18	-1.1	38.56	-1.9
Public sector deposits	$bn	10.20	10.71	10.11	9.77	-5.5	-0.43	-4.2
BdL foreign assets	$bn	47.77	45.04	45.06	45.86	-5.5	-1.91	-4.0
BSE market capitalization	$bn	11.47	9.96	9.68	9.75	-13.5	-1.73	-15.0
Gross public debt	$bn	79.53	83.69	83.85	84.02	7.1	4.49	5.7

Public finance	Unit	2017	Jul-18	Aug-18	Sep-18	%Y/Y	YTD	PYTD
Revenues	$bn	11.62	1.31	0.82	0.61	11.1	8.67	8.41
Value Added Tax	$bn	2.31	0.37	0.15	0.13	22.4	1.89	1.70
Telecommunications	$bn	1.28	0.17	0.17	0.00	-	0.65	0.53
Income taxes	$bn	2.79	0.29	0.17	0.14	83.9	2.44	2.43
Customs taxes	$bn	1.43	0.12	0.11	0.12	7.9	1.02	1.06
Expenditures	$bn	15.38	1.35	1.12	1.73	49.1	13.18	10.41
Transfers to EdL	$bn	1.33	0.21	0.14	0.15	171.9	1.23	0.90
Debt service	$bn	4.99	0.24	0.30	0.46	-8.6	3.79	3.50
Primary balance	$bn	1.43	0.22	0.01	-0.67	503.8	-0.59	1.63
Fiscal balance	$bn	-3.76	-0.04	-0.30	-1.13	82.8	-4.51	-2.00

YTD: year-to-date, PYTD: previous year-to-date. Source: MoF, BdL, BSE, ARA, Customs, Markit, EY, RHIA, CAS, Economena, SGBL Research

Tourism indicators (12-month moving average)

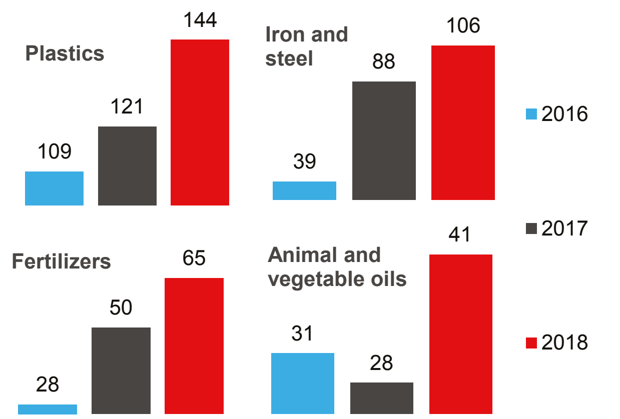
Visitor arrivals to Lebanon closed in on 2 million persons during the 12-month period through November 2018. Fewer visitors, however, converted into hotel guests at 4- and 5-star hotels in Beirut; occupancy rates softened a little to 62.6% in the 12 months through October, down from 65.5% through October 2017, survey data by Ernst & Young showed.



Source: EY, Economena, SGBL Research

Select goods exports (Jan-Oct, $m)

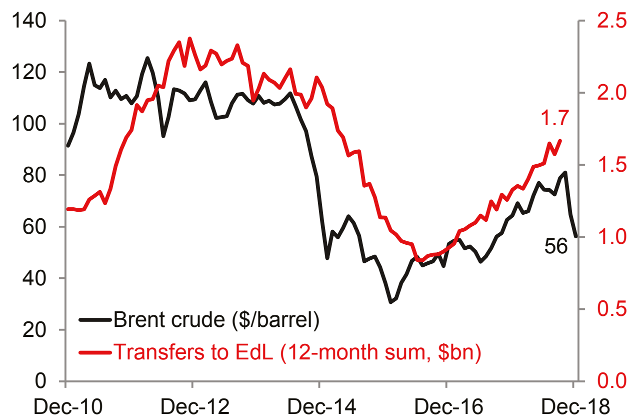
Goods exports grew by 4.2% yoy to $2.5bn through October 2018, their fastest pace in six years, driven largely by an uptick in the pearls and precious stones trade. Other industries too posted strong export results, particularly plastics, iron and steel, fertilizers, and animal and vegetable oils and fats.



Source: Customs, Economena, SGBL Research

Oil prices and transfers to EdL

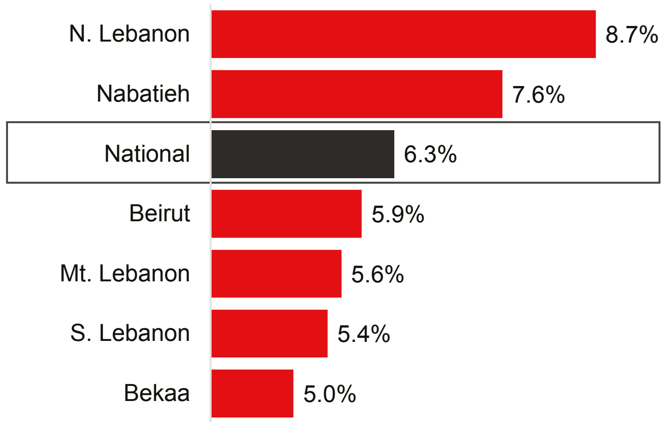
The government stepped in to cover a deficit of $1.7bn at Electricité du Liban in the first nine months of 2018 after fuel prices shot up by 40% yoy during the period. Global crude oil, however, has given back almost its entire gains since then, closing the year at just over $50 a barrel, likely boding well for spending on electricity in the first half of 2019.



Source: FRED, EIA, MoF, Economena, SGBL Research

Consumer price index (Jan-Nov, average %yoy)

Inflation slowed in November for the sixth month a row, but momentum from the start of the year left prices up by an average of 6.3% in the first 11 months compared to the same period in 2017. Consumer price inflation in the Bekaa grew by 5% yoy, the slowest pace in the country, while price increases in North Lebanon reached an average of 8.7%.



Source: CAS, Economena, SGBL Research