SGBL EcoNews

NEW CABINET TO SLASH FISCAL DEFICIT, FREEZE HIRING IN 2019

- **Total-led consortium to drill first well in 2019, Lebanon plans second licensing round**
- **Financial markets expect US rates to remain unchanged by January 2020**
- **Banks replenished their foreign assets in the last two months of 2018**

Lebanon's new Cabinet secured Parliamentary confidence with an outsized majority of 111 votes in the 128-member body, further easing pressure on bond prices in February. Ten-year bond yields retreated from 12.1% in mid-January to 9.5% by February 28 after the political breakthrough raised hopes for the implementation of fiscal reforms required to unlock $11bn in concessional loans and grants pledged for infrastructure at the CEDRE conference.

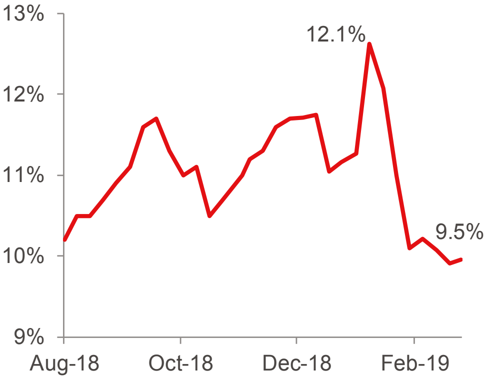
The formation of PM Saad Hariri's new government is expected to reduce refinancing risks and raise investor confidence, clearing the way for external investment support, a credit positive, according to Capital Intelligence (CI), a credit rating agency. The government authorized in February the issuance of new Eurobonds and any related swaps of existing foreign currency debt. Lebanon's gross public debt grew by 7% to $85.2bn in 2018, but foreign currency debt has remained relatively subdued at 39.3% of the total, compared with 45% a decade earlier.

A soft exit out of the debt overhang is possible, argued the Institute of International Finance (IIF), pointing to the authorities' recognition of the urgency of commitment to meaningful and widespread reforms to improve long-term fiscal sustainability and rebuild confidence. The IIF's bullish scenario sees the government launching deep fiscal consolidation by increasing tax compliance, reforming the public sector's retirement system, restructuring the electricity sector, slashing overtime pay and benefits for civil servants, and disposing of nonperforming state-owned properties. Reform measures would bring about a reduction in the fiscal deficit to 4.3% by 2023 from an estimated 11% of GDP in 2018, and spur economic growth of 5% by 2023 through investment and exports, the IIF projected.

Deep reforms would reduce the fiscal deficit to 4.3% of GDP by 2023 and spur economic growth of 5%, stated the IIF.

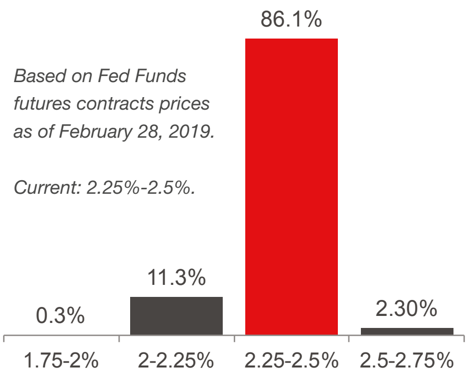
The new Cabinet has already declared its intention to launch "difficult and painful" reforms that would restore investor confidence and avert financial instability.

Lebanon 10-year bond yields



Source: Bloomberg, Economena, SGBL Research

Probabilities for target FFR on 29/1/2020



Source: CME Group, Economena, SGBL Research

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In particular, the Cabinet's policy statement stipulated commitment to a reduction in the fiscal deficit of at least 1% of GDP per annum over the next five years, partly by scaling back transfers to Electricité du Liban starting in 2019 and eliminating them by 2023. Furthermore, the Cabinet promised to freeze all hiring in the public sector in 2019 and to replace only half the number of retirees in the four following years.

Lebanon signed in 2018 two agreements with a Total-led consortium for exploration and production in blocks 9 and 4.

The government also announced plans to launch a second offshore oil and gas licensing round in the first half of 2019, capitalizing on recent natural gas discoveries in neighboring countries. Bidders will be given six months to prepare their commercial and financial bids with licenses awarded to any winning consortia by the end of the year. Lebanon signed in 2018 two agreements with a Total-led consortium for offshore oil and gas exploration and production works in blocks 9 and 4 where the first well is expected to be drilled in 2019.

BRIGHTER PROSPECTS FOR TOURISM AND BANKING

The formation of a new Cabinet prompted Saudi Arabia to lift its travel warning for Lebanon, adding to prospects for a recovery in Gulf tourism in the country. The number of visitors from Saudi Arabia had plunged by nearly two-thirds in the post-Syrian conflict period to reach 61,547 in 2018. By contrast, Saudi arrivals in Turkey grew 8.8x over the same period to 747,233 visitors, pointing to considerable potential for Lebanon's tourism sector after the lifting of the travel advisory. Retail trade activity in the Greater Beirut area, which had improved somewhat in 2018, should gain additional momentum in 2019 from higher Gulf visitor arrivals.

The outlook also appears brighter for financial services following the formation of a new Cabinet. Total deposits could grow by as much as 5.6% in 2019 and non-resident capital flows could climb by 36.8% to $9.6bn if the incoming Cabinet begins to implement deep fiscal and structural reforms, according to the IIF.

Deposits of non-residents had increased at a robust pace of 7.3% to $37.7bn in 2018.

Deposits of non-residents had increased at a robust pace of 7.3% to $37.7bn in 2018, reflecting sustained confidence among foreign investors in Lebanon's financial system. At the same time, banks replenished their deposits abroad after a sustained period of depletion; commercial banks' claims on the non-resident financial sector increased by 6.1% to $12bn at the end of 2018, including $2.4bn in the last two months of the year.

Interest rates in the domestic market may also gain some respite in 2019 in light of expected stability in the benchmark federal funds rate. The probability of a higher US policy rate by January 2020 stood at just 2.3% on February 28, as implied by federal funds futures contracts prices by the CME Group.

LEBANON ECONOMIC VISION HIGHLIGHTS UNTAPPED POTENTIAL

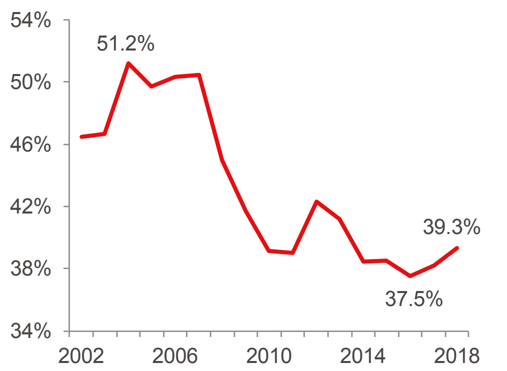
The Lebanese economy has the potential to grow in size by almost 50% to $79bn in real terms by 2025, with real GDP per capita reaching an estimated $15,000, according to the Lebanon Economic Vision (LEV), an integrated national plan commissioned by the government and developed by McKinsey & Company, a US-based management consulting firm.

The LEV identified five sectors for priority government support with the aim of capitalizing on emerging regional and global opportunities, as well as the country's comparative advantages. It proposed targeting financial services, tourism, industry, agriculture, and the knowledge economy to produce more than 35% of output by 2025, and leveraging Lebanon's vibrant diaspora to accelerate growth potential.

Lebanon can reduce the fiscal deficit to 3% of GDP and the debt-to-GDP ratio to 110% by 2025.

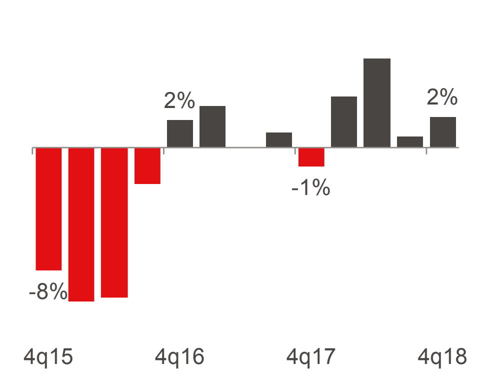
Under the vision's roadmap, Lebanon can reduce the fiscal deficit to 3% of GDP and the debt-to-GDP ratio to 110% by 2025, while swinging the balance of payments to a surplus of 10% of GDP. The country can also create an additional 370,000 jobs to reduce the unemployment rate from at least 20% in 2017 to a range of 6% to 8% by 2025 and even further to 4%-6% by 2035.

Gross foreign debt (% of total)



Source: BdL, MoF, Economena, SGBL Research

BTA retail trade index (% yoy)



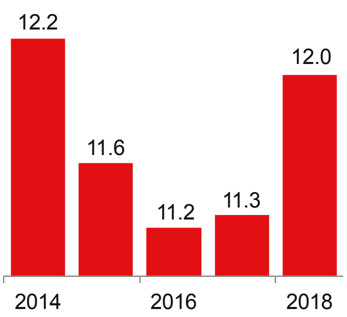
Source: BTA, Economena, SGBL Research

BANKS BOLSTER FOREIGN ASSETS, FUTURES SUGGEST STABLE INTEREST RATES

- **Banks' claims on the non-resident financial sector grew by 6.1% to $12bn in 2018**
- **Higher deposit rates predominantly reflect increases in the US policy rate**
- **Futures markets suggest stable US rates throughout 2019**

Private sector deposits at Lebanese banks grew by 3.3% to $174.3bn in 2018, according to Banque du Liban, against the backdrop of a protracted domestic political crisis and elevated regional geo-political risks. Deposits of non-residents climbed at a more robust pace of 7.3% to $37.7bn, an increase of $2.6bn during the year, reflecting sustained confidence among foreign investors in Lebanon's financial system. At the same time, banks replenished their deposits abroad after several months of depletion; commercial banks' claims on the non-resident financial sector increased by 6.1% to $12bn at the end of 2018, including $2.4bn in the last two months of the year.

Banks' claims on non-resident financial sector ($bn)



Source: BdL, Economena, SGBL Research

Growth in deposits, however, is coming at a larger cost for banks, and is disproportionally tilted towards foreign currencies, both signs of greater perceived risk throughout seven months of political gridlock. The dollarization rate of private sector deposits inched up by 1.9% to 70.6% by the end of 2018 and the weighted average interest rate on US dollar deposits increased by 1.26% to 5.2%.

Still, higher deposit rates were largely driven by trends in international rates and by the longer maturities of the country's deposit base. The Federal Reserve raised its range for the target fed funds rate four times in 2018, a cumulative increase of 1%, prompting an increase of 1.12% in the 6-month London InterBank Offered Rate (LIBOR) on US dollar. As a result, the spread between US dollar deposit rates and LIBOR widened by just 14 basis points to 2.26% during the year, even though the weighted maturity of foreign currency deposits almost tripled to seven months in 2018.

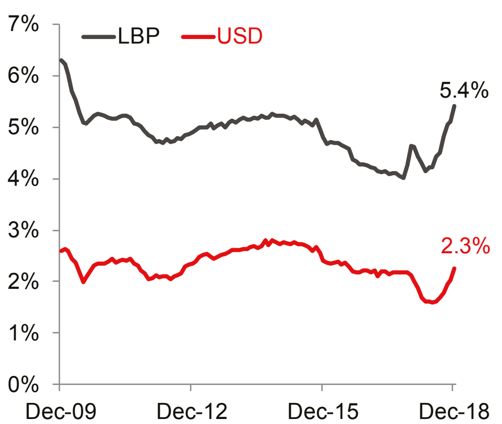
Financial markets have since recovered following the formation of a new Cabinet in late January 2019, spurring a rebound in Eurobond prices and boding well for banks' foreign assets. Commercial banks' foreign currency claims on the public sector had increased by 13.1% to $16bn at the end of 2018, BdL data showed.

Total deposits, including public sector deposits, could grow by as much as 5.6% in 2019, and non-resident capital flows could climb by up to 36.8% to $9.6bn if the incoming Cabinet begins to implement meaningful fiscal and structural reforms, stated the IIF.

Total deposits could grow by as much as 5.6% in 2019 if the incoming Cabinet undertakes deep reforms - IIF

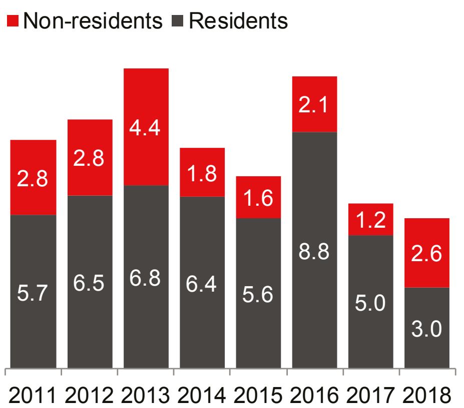
Financial markets expect the main US policy rate to remain unchanged over the coming year, which, along with improvement in the domestic political environment, should contribute to stability in domestic interest rates. The probability of a higher US policy rate by January 2020 stood at just 2.3% at the end of February 2019 as implied by fed funds futures contracts prices by the CME Group.

Deposit rates minus 6-month LIBOR on USD



Source: BdL, ABL, FRED, Economena, SGBL Research

Private sector deposits (change, $bn)



Source: BdL, ABL, Economena, SGBL Research

MEDICAL INSURANCE LIFTS INDUSTRY IN 2018, MOTOR SEGMENT LAGS BEHIND

- **Higher medical premiums were offset by rising healthcare costs**
- **Lower claims paid and higher investment income should help profit margins**
- **Injuries and fatalities from car accidents grew by double-digits through 2018**

Aggregate insurance premiums at Lebanon's 50 licensed insurance companies grew by 3.2% to $1.7bn in 2018, driven largely by acceleration in the medical segment, preliminary data by the Insurance Control Commission showed. Claims paid fell by 1.3% to $949m and net investment income increased by 2.1% to $155m, easing some of the pressure on margins from higher policy acquisition and maintenance costs during the year.

The sector displayed a high level of resilience against the backdrop of a challenging economic environment. BdL's Coincident Indicator, a proxy for economic activity, grew by just 0.6% in 2018, its slowest pace since 2012, in a sign of adverse conditions for incomes and for demand in the life insurance segment. Nevertheless, life premiums still posted some 4.2% growth to $519.1m and the number of subject matters inched up by 1.2% to a four-year high of 675,000.

Aggregate medical insurance premiums jumped by 6.9% to $511m, but were almost entirely offset by an increase of 5% to $362.2m in claims paid on the back of rising healthcare costs. Inflation in the healthcare sector accelerated to 5% in 2018, its fastest pace in at least a decade, driven by higher consumer prices of pharmaceutical products, according to the Central Administration of Statistics.

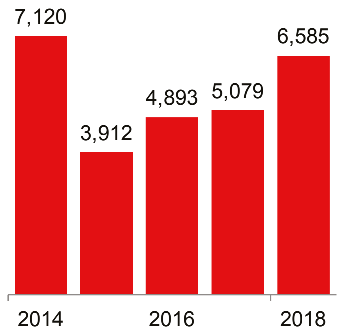
Customs data showed pharmaceutical imports reached a decade high of $1.3bn in 2018, third only to fuels and vehicles, buoyed by demand for high-priced medicines used in the treatment of chronic diseases, particularly cancer and cardiovascular diseases.

On the other hand, slumping sales of new cars left motor premiums up by just 0.4% to $379.1m in 2018, contributing to 22.6% of the insurance market. New vehicle registrations dropped by 11.4% to 35,301 vehicles during the year amid softening consumer confidence and slackening credit activity, according to the Association of Car Importers in Lebanon.

Increasingly perilous roads in Lebanon are also adding to the woes of motor insurers. The number of claims reported to insurance companies grew by average of 4.1% of the past three years, and the number of injuries and fatalities resulting from car accidents surged by 19% over the same period, data by the Internal Security Forces showed.

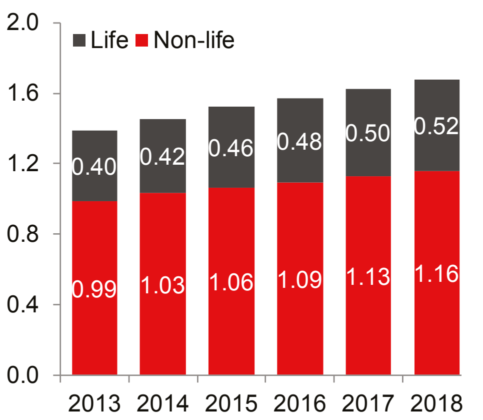
Meanwhile, written property and casualty premiums notched down by 1.1% to $269m even as the number of subject matters swelled by 6.7% to 688,000 in 2018. Real estate and construction activities, two important insurance drivers, plunged to a decade low during the year on higher interest rates and shrinking monetary stimulus for housing loans.

Car accidents: injuries and fatalities



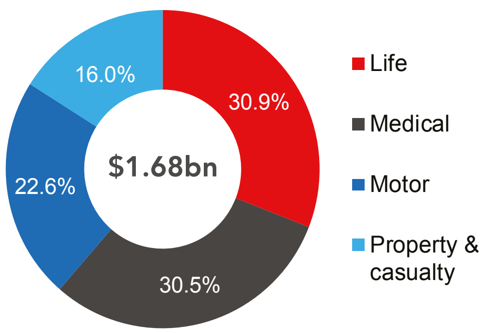
Source: ISF, Economena, SGBL Research

Gross written premiums ($bn)



Note: Based on preliminary quarterly data.
Source: ICC, Economena, SGBL Research

Gross written premiums in 2018



Note: Based on preliminary quarterly data.
Source: ICC, Economena, SGBL Research

DEEP REFORMS COULD SPUR GROWTH OF 5% BY 2023 - IIF

- **New cabinet formation to facilitate access to $11bn in concessional loans and grants**
- **Soft exit out of the debt overhang requires major fiscal and structural reforms**
- **Deposit inflows sufficient to finance the twin deficits in 2019**

The formation of a new Cabinet could facilitate Lebanon's access to $11bn in concessional loans and grants pledged for infrastructure at the CEDRE conference, which would help to increase public investment, address infrastructure bottlenecks, and boost growth, stated the Institute of International Finance (IIF) in a February note. The disbursement of funds, however, is contingent on the uncertain implementation of fiscal and structural reforms required by donor countries, noted the IIF.

Lebanon enjoys a long history of resilience to financial strains on the back of international donor support, a policy of prioritizing foreign currency obligations, the dominance of the creditor base by domestic banks, and a loyal diaspora, stated the IIF. However, the economy is still vulnerable to domestic and external risks due to its large stock of public debt and sizeable twin deficits, and the financial sector's dependence on deposit inflows to finance the country's fiscal and current account deficits.

A soft exit out of the debt overhang is possible, argued the IIF, pointing to the authorities' recognition of the urgency of commitment to meaningful and widespread reforms to improve long-term fiscal sustainability and rebuild confidence.

The IIF's bullish scenario sees the government launching deep fiscal consolidation by increasing tax compliance, reforming the public sector's retirement system, restructuring the electricity sector to eliminate transfers to Electricité du Liban by 2023, slashing overtime pay and benefits for civil servants, and disposing of nonperforming state-owned properties. Reform measures would bring about a reduction in the fiscal deficit to 4.3% by 2023 from an estimated 11% of GDP in 2018, and spur economic growth of 5% by 2023 through investment and exports, the IIF projected.

Deep reforms would include the elimination of transfers to Electricité du Liban by 2023.

On the other hand, limited reforms would likely be insufficient to drive a substantial increase in local and foreign investment. Economic growth could pick up to 3% by 2023 on the back of the re-opening of the Syria-Jordan transit route and participation in the reconstruction of Syria, stated the IIF. Limited non-resident capital inflows would lead the Central Bank to tap into its sizeable official reserves to meet the economy's financing needs, causing a decline in reserves from $39.7bn in 2018 to $24.2bn by 2023.

Nonetheless, the Lebanese pound peg to the US dollar, stable for more than two decades, would provide a strong basis for financial stability, but monetary policy would need to remain tight to support the peg and help attract adequate deposits, according to the IIF. The IIF expects deposit inflows to increase by 4.2% in 2019 under the scenario of limited reforms, enough to finance the twin deficits.

IIF illustrative scenarios			Scenario A*		Scenario B**	
	2017	2018e	2019f	2023f	2019f	2023f
Real GDP, % change	0.6	0.8	2.0	5.0	1.6	3.0
Private cosumption	4.1	0.6	1.5	3.5	1.3	2.1
Public consumption	6.3	6.8	-2.8	0.0	-3.6	0.5
Investment	0.4	-2.6	2.1	5.5	0.1	2.3
Exports of goods & services	-3.3	2.6	4.9	7.1	4.2	6.4
Imports of goods & services	6.3	-3.0	1.5	3.0	0.7	2.7
Current account, % of GDP	-23.2	-21.9	-20.1	-13.4	-20.2	-16.4
BdL FC assets, $bn	42.0	39.7	40.4	54.3	38.1	24.5
Overall balance, % of GDP	-7.0	-11.0	-7.9	-4.1	-9.5	-8.0
Primary balance, % of GDP	2.7	-0.5	3.8	7.5	2.3	4.7
Government debt, % of GDP	148.9	152.3	150.1	130.4	153.1	152.4
Total deposits, % change	4.3	3.8	5.6	7.0	4.2	5.0
Private sector credit, % change	7.3	-3.4	3.8	7.5	2.3	4.7

*Note: *deep reforms, **limited reforms. Source: IIF, Economena, SGBL Research*

LEBANON'S ECONOMIC VISION PROJECTS UNEMPLOYMENT RATE AT 8% BY 2025

- **Real GDP could grow by almost 50% to $79bn, debt-to-GDP could fall to 110%**
- **Tourism sector can draw 4 million tourists by 2025, create an additional 100,000 jobs**
- **Lebanon is well placed to serve as the region's financial services and technology hubs**

The Lebanese economy has the potential to grow in size by almost 50% to $79bn in real terms by 2025, with real GDP per capita reaching an estimated $15,000, according to the Lebanon Economic Vision (LEV), an integrated national plan commissioned by the government and developed by McKinsey & Company, a US-based management consulting firm.

The LEV identified five sectors for priority government support with the aim of capitalizing on emerging regional and global opportunities, as well as the country's comparative advantages. It proposes targeting financial services, tourism, industry, agriculture, and the knowledge economy to produce more than 35% of output by 2025, and leveraging Lebanon's vibrant diaspora to accelerate growth potential.

The vision foresees Lebanon overhauling its business environment by reducing the cost of doing business and corruption in the public sector. It stipulates the development of high value-add future-proofed productive sectors that would relieve the distress caused by large current account deficits. In addition, the LEV calls for fiscal discipline through improved collections and rational spending to control the public debt.

As a result, the vision aims to reduce the fiscal deficit to 3% of GDP and the debt-to-GDP ratio to 110% by 2025, while the balance of payments would swing into a surplus of 10% of GDP. The development strategy is forecast to create an additional 370,000 jobs, reducing the unemployment rate from at least 20% in 2017 to 6%-8% by 2025 and even further to 4%-6% by 2035.

THE MEDITERRANEAN RIVIERA

The tourism sector has the largest potential for job creation by 2025, according to the LEV. An estimated 100,000 additional jobs could be created by building on the country's strong natural endowments and strategic location to more than double the number of inbound tourists to 4 million by 2025. It called for distinctive offerings in city and entertainment, niche ultra-luxury eco-tourism, as well as business and medical tourism. In particular, developing specialized medical tourism and wellness offerings that target regional markets could generate up to $500m in revenues by 2025.

Lebanon Economic Vision, 2025 targets

	Real GDP* ($bn)	Jobs* ('000)
Tourism	2	100
Knowledge economy	2	60
Industry	3	50
Agriculture	1	5
Financial services	3	0
	Status in 2025	
Real GDP at 2017 prices ($bn)	79	
Real GDP per capita ($)	15,000	
Real GDP growth	5%-6% p.a.	
Unemployment rate	6%-8%	
Debt-to-GDP	110%	
Fiscal deficit (% of GDP)	3%	
Inflation	2.5%	
Balance of payments (% of GDP)	10%	

** Incremental GDP and jobs between 2025 and 2017.*
Source: MoET, McKinsey & Company, Economena, SGBL Research

SILICON VALLEY OF THE MIDDLE EAST

Meanwhile, the knowledge economy has the capacity to generate an additional 60,000 jobs by 2025, serving as the region's main knowledge process outsourcing destination and its top technology ecosystem. The LEV envisions the country becoming a regional creative hub, including multimedia, productive content development, growing the number of startups 10x to 2,000 by 2025.

MIDDLE EAST'S FINANCIAL HUB

With the world's highest deposits-to-GDP ratio, Lebanon's financial sector is well placed to serve as a regional hub and a global gateway for financial transactions, with potential for annual growth of 6% through 2025. In particular, the LEV proposes positioning the country as an investment management and offshoring hub, targeting middle-and-high net worth individuals, and developing centers of excellence in investment research, actuarial studies, and digital analytics.

REGION'S HIGH-VALUE CROPS BREADBASKET

The LEV envisages leveraging Lebanon's arable lands to turn the country into the main supplier of vegetation and high-quality fruits, such as avocados and tomatoes, in the Levant and the GCC. It points to sizeable potential from regulating and legalizing cannabis cultivation with the aim of producing high-value medicinal export products. The LEV stipulates the unlocking of regional export potential of commercial farmers by raising quality standards, and improvement in the productivity of smallholder farmers through the adoption of modern methods and technology. The proposed agricultural policies would expand agriculture exports 4.3x by 2025 and create an additional 5,000 jobs.

LEADER IN CREATIVE INDUSTRIES

In the industrial sector, the LEV calls for capitalizing on Lebanon's creative edge to become a leader in high human value-add artistic products including jewelry, fashion, and furniture, creating an additional 50,000 jobs by 2025. It proposes the development of next-generation national integrated industrial parks that provide a highly competitive environment to industrialists. It stipulates special focus on food processing, pharmaceuticals, consumer-facing products such as perfumes and cosmetics, and pre-fabricated construction and furniture targeting Syria and Iraq.

LATEST DATA

Key indicators	Unit	2017	Oct-18	Nov-18	Dec-18	%Y/Y	YTD	PYTD
Cleared cheques	$bn	68.25	6.08	5.36	5.48	-12.5	66.57	68.25
Real estate transactions	$bn	9.95	0.77	0.70	0.82	-12.6	8.13	9.95
Construction permits	Sqm, m	11.73	0.78	0.66	0.60	-33.9	9.02	11.73
Cement deliveries	Tons, m	5.15	0.46	0.38	n.a.	-14.1	4.47	4.72
Tourist arrivals	m	1.86	0.17	0.13	0.16	14.5	1.96	1.86
Airport traffic	m	8.24	0.68	0.63	0.68	8.1	8.84	8.24
Balance of payments	$bn	-0.16	-1.81	-0.95	-0.75	-	-4.82	-0.16
Money supply: M3	$bn	138.62	140.23	140.32	141.29	1.9	2.67	5.82
BSE volumes	m	86.99	4.90	14.32	5.41	-54.7	90.01	86.99
Passenger car sales		37,222	2,509	2,195	2,227	-31.0	33,012	37,222
Hotel occupancy (average)	%	63.77	69.6	68.5	n.a.	14.7	64.63	64.63

Indices	Unit	2017	Oct-18	Nov-18	Dec-18	%Y/Y	%YTD
Consumer Confidence Index - ARA		123.92	104.00	94.00	109.00	-29.7	-29.7
Consumer Price Index		100.55	108.89	109.04	108.02	4.0	4.0
Purchasing Managers' Index		46.60	46.20	46.70	46.20	0.2	0.2
BdL Coincident Indicator		305.87	309.20	316.50	300.70	-5.5	-5.5

Trade	Unit	2017	Oct-18	Nov-18	Dec-18	%Y/Y	YTD	PYTD
Imports	$bn	19.58	1.72	1.54	1.57	-4.0	19.98	19.58
Exports	$bn	2.84	0.26	0.24	0.25	-1.9	2.95	2.84
Trade balance	$bn	-16.74	-1.45	-1.29	-1.32	-4.3	-17.03	-16.74
Port of Beirut volumes	TEUs, m	1.31	0.12	0.11	0.10	-10.8	1.31	1.31

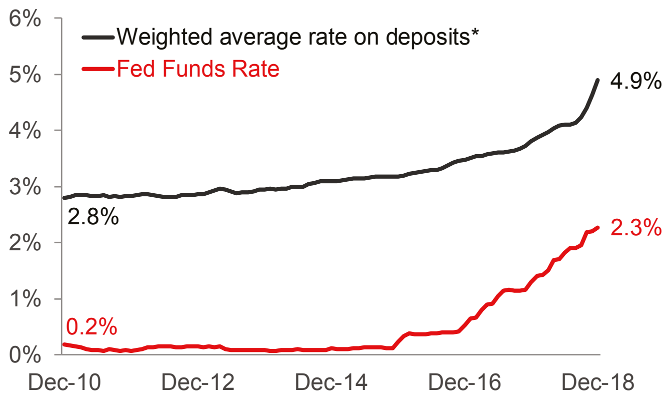
Financial and monetary	Unit	2017	Oct-18	Nov-18	Dec-18	%Y/Y	YTD	%YTD
Commercial bank assets	$bn	219.86	242.61	246.51	249.48	13.5	29.63	13.5
Claims on the resident private sector	$bn	53.45	51.83	51.93	51.80	-3.1	-1.65	-3.1
Claims on the non-resident private sector	$bn	6.07	6.84	6.83	7.12	17.2	1.05	17.2
Claims on the public sector including securities	$bn	31.95	33.35	32.55	33.60	5.2	1.65	5.2
Resident private sector deposits	$bn	133.51	135.76	135.81	136.56	2.3	3.05	2.3
Dollarization rate (average)	%	61.54	64.44	64.86	65.66	2.0	2.0	2.0
Non-resident private sector deposits	$bn	35.16	37.49	37.38	37.72	7.3	2.57	7.3
Dollarization rate (average)	%	87.32	87.88	88.18	88.57	0.7	0.7	0.7
Private sector deposits with commercial banks	$bn	168.66	173.25	173.19	174.28	3.3	5.62	3.3
Private loans / deposits	%	39.17	38.18	38.23	37.93	-2.1	-2.1	-2.1
Public sector deposits	$bn	10.20	9.77	8.53	9.30	-8.8	-0.90	-8.8
BdL foreign assets	$bn	47.77	45.86	44.84	44.28	-7.3	-3.48	-7.3
BSE market capitalization	$bn	11.47	9.75	9.72	9.68	-15.7	-1.80	-15.7
Gross public debt	$bn	79.53	84.04	83.66	85.13	7.0	5.60	7.0

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

US dollar interest rates

The increase in US dollar deposit rates in Lebanon mirrored an equivalent rise in the policy rate in the United States between 2011 and 2018. The spread between US dollar deposit rates in Lebanon and the effective federal funds rate stood at 2.6% at the end of 2018, unchanged from its level in December of 2010, according to ABL and the Federal Reserve Bank of NY.

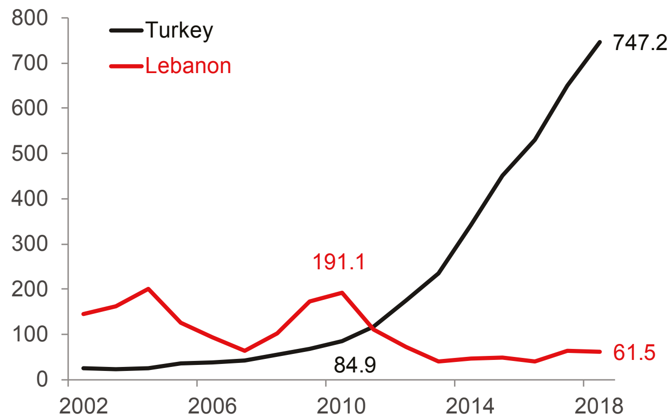


Note: Average of the last three months on new deposits.

Source: ABL, FRED, Economena, SGBL Research

Visitor arrivals from Saudi Arabia ('000)

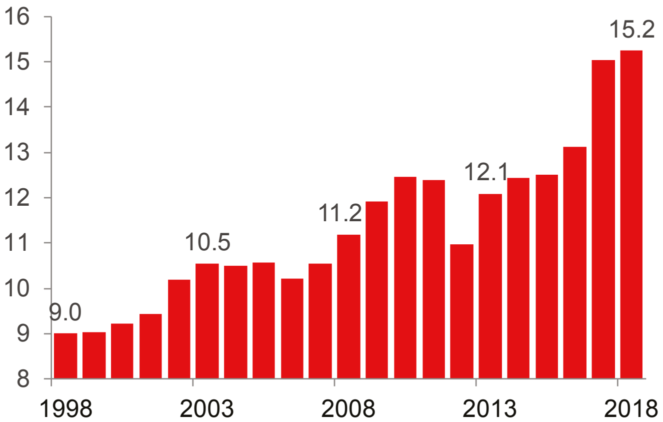
Saudi Arabia lifted in February its travel warning for Lebanon, which should help raise arrivals and tourism revenues from the Gulf country. Saudi arrivals had plunged by two-thirds in the post-Syrian conflict period to 61,547 in 2018. Meanwhile, Saudi visitors to Turkey grew 8.8x over the same period to 747,233, pointing to considerable untapped potential.



Source: CAS, Turkstat, Economena, SGBL Research

Electricity supply (billions of kWh)

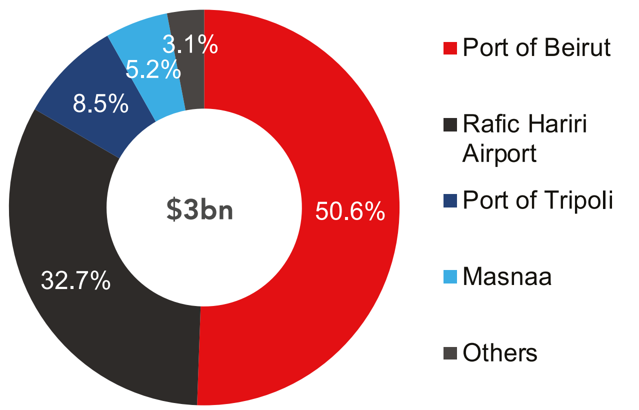
Lebanon's electricity supply increased by 1.4% to a record 15.2bn kWh in 2018, but still fell short of demand, leaving private generators to fill the gap. The bulk of the increase in electricity supply between 2012 and 2018 originated from power barges leased by the state as construction of large power plants continued to be held up by political disputes.



Source: BdL, Economena, SGBL Research

Exports by customs office (2018)

An estimated $1.5bn in Lebanese exports passed through the Port of Beirut in 2018, more than half of aggregate exports during the year, Customs data showed. Beirut's international airport came second with 32.7% of exports, followed by the Port of Tripoli with a market share of 8.5% and the Masnaa border crossing with Syria in fourth place at 5.2% of the total.



Source: Customs, Economena, SGBL Research

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