

ECONOMIC BULLETIN

Year **2018**



FRANSABANK

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II. Aggregate Output and Demand

The economy experienced a mix of improvement in some sectors, and regression in some other sectors in 2018.

1- Agriculture and Industry

The amount of industrial and agricultural exports grew by a 4.4% from 2017 to reach USD 2.7 billion at the end of 2018.

Agricultural exports constitute nearly 20% of total exports of the country, against 80% for industrial exports. The agro-industry remains a major source of industrial and agricultural exports.

Lebanon's trade expansion was affected positively by the opening of the Jordanian-Syrian crossing following a transitional closing for some months of 2018.

2- Real Estate and Construction

Construction permits, an indicator of future construction activity and future supply in the real-estate sector, regressed by 23.1% from 2017 to reach 9.1 million square meters at the end of 2018.

Also, Cement deliveries declined by 5.3% on annual basis to reach nearly 4.5 million tons at the end of November-2018.

On the other hand, the number of real-estate transactions decreased by 17.4% from 2017 to reach 60,714 transactions at the end of 2018. Also, the amount of real-estate transactions dropped by 18.3% to reach USD 8.1 billion during the same period. These figures reflect a relatively shrinking real-estate sector in 2018.

3- Trade and Services

Some trade and services activities improved during 2018 when considering its leading indicators. Concerning the activity of Rafic Hariri International Airport, which is an indicator of maritime transport and tourism, the total number of passengers increased by 7.4% from 2017 to reach 8.8 million passengers at the end of 2018. Also, the

total freight at the Airport was 0.5% higher, and so does the aircraft activity by 3.4% between 2017 and 2018.

The hotel occupancy rate, an indicator of hotel activity and tourism as well, stabilized at 64.6% in 2017 and 2018. This rate reflects a good hotel activity primarily due to the improvement in touristic activity during 2018.

As regards to the Port of Beirut activity, an indicator of maritime transport and trade, the number of ships declined by 1.9% from 2017 to reach 1,872 ships in 2018. The number of containers also shrank by 2.6% to reach 874,246 containers; and the quantity of goods decreased by 7.5% to reach 7,985 thousand tons during the same period. The revenues of the Port were 3.5% lower from 2017 to reach nearly USD 231.5 million by the end of 2018.

The tourism activity was better in 2018 relative to 2017, with the number of tourists jumping by 5.8% on annual basis to reach nearly 1.96 million in 2018. Tourist spending increased by 6.5% in 2018 relative to 5.5% in 2017.

As for the car industry, the new car sales were lower in number by 3.6% from 2017 to reach 33,012 cars at the end of 2018.

4- Aggregate Demand

The aggregate demand in the Lebanese economy, in 2018, remained highly affected by private consumption spending, the major motivator of GDP growth, which contributes to more than two-thirds of the nation's GDP. Consumer spending is mainly fueled by that of the Lebanese, Syrians and Iraqis. Also, government spending remains a significant contributor to the growth of GDP. Net exports contributes negatively to the growth of GDP.

Private demand remains highly affected by Lebanon private investment which is relatively stagnant. It is also partially affected by the Syrian investments. As the Syrian turmoil endures, Syrians in Lebanon are gradually shifting their economic role from being mainly consumers to becoming income earners in the informal sector. This includes establishing micro and small business that sell goods (including those produced in Syria) at lower prices targeting the Lebanese and Syrian communities.

Report - Lebanon's Macro economy in 2018: Reforms to Stimulate Growth

I. General Introduction

Lebanon's macro economy slowed down during 2018 relative to 2017 due mainly to unfavorable domestic political environment and continued regional turmoil. The economy experienced a regression in the activity of real-estate, construction, and maritime transport. However, the activity of air transport, tourism, banking and export sectors improved. This was accompanied by improving monetary conditions.

Economic growth is estimated at 1% for 2018, despite the negative spillovers of the continued Syrian crisis on the domestic economy.

The monetary authorities have maintained its monetary stabilization policy in 2018. The country recorded a moderate inflation in this year.

The banking market of the country recorded a better activity in 2018 relative to 2017, but the Beirut Stock Exchange experienced a regressing activity.

The balance of payments achieved a substantial deficit in 2018 due to greater trade deficit and lower foreign capital inflows.

The fiscal conditions, however, remain highly unfavorable due to continued fiscal deficits and growing public indebtedness and its service.

Economic growth is expected to continue in 2019. This necessitates economic reforms that must be the major priority of the new government in order to support economic growth rates in the years to come. This should be accompanied by special efforts to address the continued negative repercussions of the Syrian crisis on the domestic economy and society.

Real-Sector Indicators

Indicators	2018	2017	Variation (%)
Construction Permits (SQM)	9,109,565	11,730,386	(23.1)
Construction Permits (number)	13,172	15,758	(13)
Cement Deliveries (tons)*	4,471,573	4,722,072	(5.3)
Real-Estate Transactions (USD, million)	8,134	9,954	(18.3)
Real-Estate Transactions (number)	60,714	73,541	(17.4)
Number of Tourists	1,963,917	1,856,795	5.8
Tourist Spending growth (%)	6.5	5.5	-
Number of Passengers at HIA	8,838,013	8,230,892	(7.4)
Cleared Checks (USD, million)	66,560	68,236	(2.5)
Cleared Checks (number)	11,881,511	12,329,322	(3.6)
New Car Sales (number)	33,012	37,222	(11.3)
Hotel Occupancy Rate (%)	64.6	64.7	-
Number of Containers at Beirut Port	874,246	897,779	(2.6)
Number of Ships at Beirut Port	1,872	1,909	(1.9)
Quantity of Goods at Beirut Port (tons, 000)	7,985	8,629	(7.5)
Revenues of Beirut Port (USD, million)	231.5	240.0	(3.5)
Amount of Kafalat Loans (USD, million)	40.1	66.4	(39.6)

* First 11 months.

Sources: Official and Related Directorates.

IV. Fiscal Policy and Indebtedness

The fiscal conditions remain highly unfavorable in light of continued fiscal deficits, growing public indebtedness, and the crowding-out effect of private investment initiated and fueled by increased public borrowing.

1- Fiscal Deficit

The fiscal figures for the first nine months of 2018 reveal that the public deficit, which mirrors internal deficit in the economy, surged by 125% from the corresponding period last year to reach USD 4.5 billion.

The public finances for the first nine months of 2018 reveal an increase of 3.2% in public revenues, and a higher growth in public spending by 26.6% during the same period.

As a result of these fiscal conditions on the revenues-spending front, the deficit-to-spending ratio reached 34.2% at end-September 2018 against 19.2% for the same period of 2017.

The total primary surplus which was USD 1,629 million for the first nine months of 2017 turned into a deficit of USD 591 million for the corresponding period of 2018.

2- Public Indebtedness

As a result of these developments on the fiscal front, public indebtedness continued its growth during 2018, with an increase of 7% in gross debt figures from the end of November 2017 to reach USD 85.1 billion at the end of 2018.

Excluding the public sector's deposits at the Central Bank and commercial banks from the gross debt figures, the net public debt increased by 9.5% on annual basis to reach USD 75.7 billion at end-2018.

Domestic debt increased by 5.1% on annual basis to USD 51.6 billion at end-2018. External debt, on the other hand, increased by 10.2% to USD 33.5 billion during the same period.

The total value of cleared checks, mirroring private investment and consumption spending, was 2.5% lower in 2018 relative to 2017, recording USD 66.5 billion at the end of 2018.

Also, returned checks increased from USD 1.43 billion in 2017 to USD 1.62 billion in 2018, thus growing on annual basis by 13.6%.

The amount of Kafalat loans, an indicator of the activity of SMEs and startups as well as private investment spending, decreased by 39.6% from 2017 to reach USD 40.1 million at the end of 2018. On the other hand, the Economic and Social Fund for Development guaranteed 346 loans for a total value of USD 5.9 million for SMEs in 2018.

III. Labor Markets and Social Conditions

1- Labor Supply

Lebanon's inability to generate sufficient jobs, due mainly to weak economic growth rates in the last years, has acute socio-demographic repercussions. Historically, real estate, construction, and tourism have been the real drivers of economic activity. Since these sectors either are not labor intensive nor attract lower skilled and cheaper foreign labor, growth in Lebanon does not adequately generate employment for the Lebanese nationals. Some 22,000 new Lebanese entrants to the labor market are expected in 2019 (excluding the Syrian refugees) according to the World Bank.

2- Unemployment

The unemployment rate in 2011, still not yet affected by regional hostilities, was nearly 11% (10% for the MENA region), and reflecting insufficient job opportunities. Unemployment has certainly worsened during the last years, reaching more than 20% in general and more than 40% among the youth in recent years.

According to the figures of the Lebanese General Labor Union, one out of three young persons with university education does not find a job opportunity. Half the young persons between 15 and 24 years who have secondary education are unemployed.

This development in the Lebanese labor market is changing the socio-demographic profile of the country: educated Lebanese citizens are seeking jobs in countries that require high skilled labor, increasing the Diaspora; while the non-Lebanese citizens dominate the unskilled labor market.

3- Social and Economic Pressures

The Lebanese General Labor Union estimates that 28.5% of the Lebanese live today under the poverty line, and more than 300 thousand citizens are unable to ensure their food.

Remittances from the Lebanese diaspora continue to be a major support to some Lebanese citizens. Its amount grew by 4.4% from USD 7.4 billion in 2017 to USD 7.8 billion in 2018, thus accounting for nearly 15% of Lebanon's GDP.

2- BTA – Fransabank Retail Index



Despite the fact that retail trade markets did experience a relative improvement in sales during the last month of 2018, a very poor level of activity characterized the two previous months. Sales figures in almost all sectors of retail trade did witness declines, even in the basic necessities sectors such as bakeries, alongside lower levels of activity in restaurants and snacks. Only food products and classic gift items (watches, perfumes, cellulars & toys), that are traditional gifts for this time of the year, did post a slight improvement from the third quarter levels.

Thus, the relative regain of activity that occurred during the month of December 2018 only contributed to temper the decline from last year's fourth quarter activity level.

The overall prevailing sentiment for this period was influenced by the difficulties encountered to form a new government, and by the lack of understanding between the various parties at stake, as well as by the absence of any measures taken to salvage the economy by the outgoing government or the parliament, in addition of no signs of a return in the short term of refugees who are exerting a very heavy pressure on the Lebanese economy.

The country's increase in its public debt, daily concerns about its monetary situation - albeit serious declarations made by the governor of the Central Bank, worsening

ratings by international agencies, and alarming declarations (although later clarified) by officials about the future of the economic conditions...

Came on top of an increasing level of unemployment within the Lebanese population and the scarcity of job opportunities, and of a persisting emulation for jobs exerted by a very large pool of an immigrant workforce that re-channels only a petty percentage of its locally generated revenues into the local markets, leading to a fast drop in the Lebanese households purchase power, hence resulting in further pressures on the consumption activity and levels, and generating lower turnovers in the retail trade markets.

Concurrently, traders' financial commitments remained the same, vis a vis public authorities such as the ministry of finance or the CNSS or municipalities etc..., or vis a vis banks and wholesalers to reimburse their credit facilities with overall rising interest rates, and also vis a vis their unchanged overheads.

At the same time, the CPI also posted a figure of +3.98% for the fourth quarter of 2018 as compared to the fourth quarter of 2017, as per the official CAS figures. It should be noted that sectorial inflation did reach high levels – for this period:

- +9.66% in the clothing and footwear sector,
- +6.18% in the food and non-alcoholic beverages sector,
- +5.40% in the education sector,
- +5.36% in the recreation, amusement, and culture sector,
- +5.03% in the furniture & decoration sector,
- +4.24% in the water, electricity, gas and other fuels sector...

3- Fiscal Ratios

When deflated by GDP, the public deficit is estimated to reach nearly 8% in 2018. On the other hand, the gross debt-to-GDP ratio surged upwards over the past five

years to reach 151.4% in 2018. These ratios are very high by international standards and clearly reflect the deep fiscal imbalances in Lebanon.

Public-Finances Indicators

Indicators	2018	2017	Variation (%)
Public Revenues (USD, billion) (9 months)	8,671	8,405	3.2
Public Expenditures (USD, billion) (9 months)	13,179	10,409	26.6
Fiscal Deficit (USD, billion) (9 months)	4,508	2,003	125
Deficit / Expenditures (%) (9 months)	34.2	19.2	-
Primary Surplus (USD, million) (9 months)	(591)	1,629	-
Gross Public Debt (USD, billion)	85.1	79.5	7.0
Net Public Debt (USD, billion)	75.7	69.3	9.5
Domestic Debt (USD, billion)	51.6	49.2	5.1
Foreign Debt (USD, billion)	33.5	30.4	10.2
Public Debt to GDP (%)	151.4	148.9	-

Sources: Ministry of Finance and Central Bank of Lebanon.

V. Inflation and Monetary Policy

The monetary authorities have maintained its monetary stabilization policy during 2018. Interest rates were raised to maintain deposits inside the banking sector and halt capital outflows. Inflation remained moderate during 2018.

1- Inflation

Due to the moderate growth rate recorded, Lebanon has experienced moderate inflation in 2018. Inflation was

6.1% in 2018 relative to 4.5% in 2017, against a deflation rate of 0.8% in 2016.

The moderate inflation recorded in 2018, was translated into moderate growth in money supply M3, which grew by nearly 2.2% in 2018.

As a result, the consolidated real retail turnover figures (i.e. after applying the inflation rate weight on the nominal results) have posted a decline of -4.45% between the fourth quarter of 2017 and the fourth quarter of 2018.

By excluding the fuel sector results (where an increase of +1.70% in volume was reported), the real turnover drop reaches -5.18% in comparison to the Q4 '17 figures excluding fuel.

Yearly Variation between 4th Quarter '17 and 4th Quarter '18

	Q4 - 2017	Q4 - 2018	
Nominal Year to Year Variation (incl. Liquid Fuels)	100.00	99.51	
Nominal Year to Year Variation (excl. Liquid Fuels)	100.00	98.75	
CPI between Dec '17 and Dec '18 (as per the official CAS figures)		+ 3.98% *	
Real Year to Year Variation (incl. Liquid Fuels)	100.00	95.55	- 4.45 %
Real Year to Year Variation (excl. Liquid Fuels)	100.00	94.82	- 5.18 %

The current outlook is based on hopes that the new government will get into motion very shortly, and that the immediate reactions to this new cycle will have a positive effect on all the sectors of the retail trade markets, because of all what this bears in terms of activation of the CEDRE support programs that are expected to revigorate the wheels of the Lebanese economy, thus re-instate optimism amongst local and foreign parties, including the Lebanese consumers, but also foreign visitors – especially those from Gulf countries, who have a very influential weight in local markets activation, and leave alone the substantial deposits that the governments of these countries are expected to effect in the local financial system. Further, such programs will hopefully lure back investors to the various sectors of the economy. All this will evidently have a very positive impact on the local economy, albeit not in the short term.

Also, the new government, and particularly the concerned ministries, are strongly requested to start the implementation of the various recommendations included in the McKinsey integrated national vision for the Lebanese economy. Most of these recommendations are expected to re-install the national economy on the path of growth, also albeit not in the short term. Yet, and until we start feeling the various impacts of these programs and measures, it will be necessary to undertake a critical salvation plan that would allow to overcome with success the current transitory period's shortfalls.

Until all of the above gets in place, the analysis of the performance of the various retail trade market sectors during the fourth quarter of this year clearly translates the downtrend in the overall turnover figures, and shows that priorities were set in the spending pattern of Lebanese households, with selective consumption channeling main spending to basic necessities, and were dictated by concerns over the local and regional developments, with all what this entails in terms of the personal and national financial situations, based on the classic economic theory of spending based on expected and not current revenue.

The main sectors where declines were registered during Q4 2018 as compared to Q4 2017, include:

- Shoes and Leather Products (-44.08%)
- Furniture (-42.43%)
- Construction Equipment and Engineering (-34.62%)
- Clothing (-13.28%)
- Cellular Phones (-13.12%)
- Commercial Shopping Centers (-13.00%)
- Household Electrical Equipment (-12.91%)
- Silverware and Decoration (-12.87%)
- Books & Stationery & Office Supplies (-10.07%)
- Watches and Jewelry (-9.70%)
- Optical and Hearing Aid Instruments (-9.03%)
- Toys (-7.92%)
- Supermarkets and Food Shops (-7.69%)

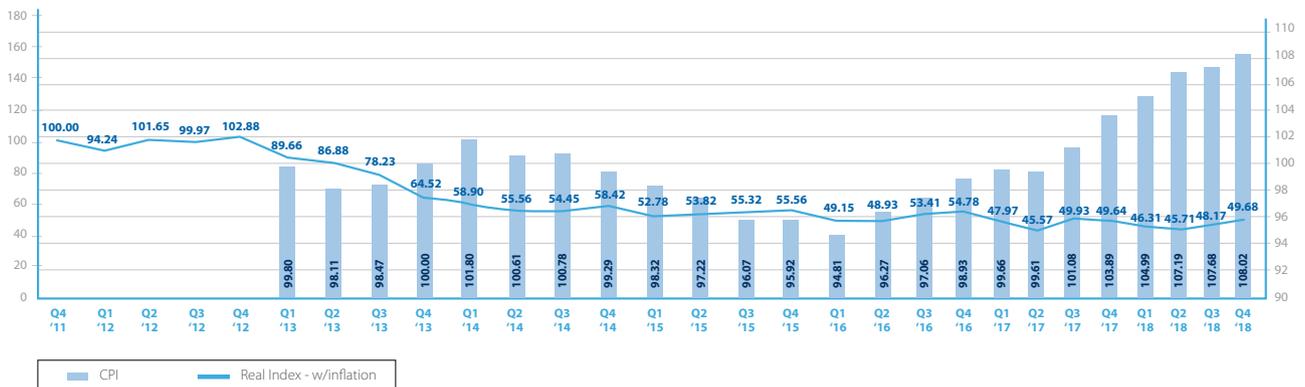
CPI (as per CAS official results)	
Q4 '14 / Q4 '13	- 0.71%
Q1 '15 / Q1 '14	- 3.38%
Q2 '15 / Q2 '14	- 3.37%
Q3 '15 / Q3 '14	- 4.67%
Q4 '15 / Q4 '14	- 3.40%
Q1 '16 / Q1 '15	- 3.57%
Q2 '16 / Q2 '15	- 0.98%
Q3 '16 / Q3 '15	+ 1.03%
Q4 '16 / Q4 '15	+ 3.14%
Q1 '17 / Q1 '16	+ 5.12%
Q2 '17 / Q2 '16	+ 3.48%
Q3 '17 / Q3 '16	+ 4.15%
Q4 '17 / Q4 '16	+ 5.01%
Q1 '18 / Q1 '17	+ 5.35%
Q2 '18 / Q2 '17	+ 7.61%
Q3 '18 / Q3 '17	+ 6.53%
Q4 '18 / Q4 '17	+ 3.98%
Q4 '14 / Q3 '14	- 1.49%
Q1 '15 / Q4 '14	- 0.98%
Q2 '15 / Q1 '15	- 1.12%
Q3 '15 / Q2 '15	- 1.18%
Q4 '15 / Q3 '15	- 0.16%
Q1 '16 / Q4 '15	- 1.15%
Q2 '16 / Q1 '16	+ 1.54%
Q3 '16 / Q2 '16	+ 0.82%
Q4 '16 / Q3 '16	+ 1.93%
Q1 '17 / Q4 '16	+ 0.74%
Q2 '17 / Q1 '17	- 0.04%
Q3 '17 / Q2 '17	+ 1.47%
Q4 '17 / Q3 '17	+ 2.78%
Q1 '18 / Q4 '17	- 1.06%
Q2 '18 / Q1 '18	+ 2.10%
Q3 '18 / Q2 '18	+ 0.45%
Q4 '18 / Q3 '18	+ 0.32%

BTA - Fransabank Retail Index for Q4 - 2018 (Base 100 : Q4 - 2011)

	2011					2012					2013					2014					2015				
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Real Index - w/out inflation	100	95.77	100.55	108.54	112.66	90.83	87.85	78.60	65.87	59.68	55.30	55.22	57.57	51.51	51.94	52.77	52.911								
Real Index - w/ inflation	100	94.24	101.65	99.97	102.88	89.66	86.88	78.23	64.52	58.90	55.56	54.45	58.42	52.78	53.82	55.32	55.56								
CPI						99.80	98.11	98.47	100.00	101.80	100.61	100.78	99.29	98.32	97.22	96.07	95.92								

	2016				2017				2018			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Real Index - w/out inflation	46.27	46.79	51.49	53.86	47.51	46.76	52.00	53.17	49.09	49.49	52.38	54.25
Real Index - w/ inflation	49.15	48.93	53.41	54.78	47.97	45.57	49.93	49.64	46.31	45.71	48.17	49.68
CPI	94.81	96.27	97.06	98.93	99.66	99.61	101.08	103.89	104.99	107.19	107.68	108.02

Evolution of the BTA - Fransabank Retail Index (Base 100 : Q4 - 2011)



The “BTA-Fransabank Retail Index” for the fourth quarter of 2018 displays a slight improvement, mainly due to end-of-year seasonal factors. It should however be noted that this improvement only occurred because of the improvement in the levels of consumption during the month of December, an improvement that minimized the negative effects of the poor performance during the first two months of that quarter.

Expectations are today based on the efforts of the new government, and especially of concerned ministries, to revive the national economy according to what was clearly announced in the new government’s statement, in terms of financial and monetary stability, public investments & expenditure, modernization of the public sector, structural & sectorial reforms, and the submission of a new strategy for productive and services sectors, and the materialization of the objectives of sustainable development.

- Musical Instruments (-5.36%)
- Home Accessories (-4.41%)
- Sports Items & Equipment (-4.16%)
- Perfumes and Cosmetics (-2.03%)
- Construction Material (-1.13%)
- Medical Equipment (-0.60%)

The sectors that witnessed better results were, in addition to the increase in the volume of fuel (+1.70% in volume):

- Pharmaceuticals (+11.56%)
- Used Cars Dealers (+8.76%)
- Restaurants and Snacks (+5.47%)
- Bakeries & Pastries (+4.71%)
- Tobacco (+4.12%)
- Liquor & Spirits (+0.63%)

On the other hand, and despite the fact that the CPI between Q3 '18 and Q4 '18 did not exceed +0.32%, the fourth quarter figures display a modest improvement in comparison to the second quarter results.

It should be noted here that this improvement did not meet expectations, and was mainly noticed in sectors that witness higher levels of activity traditionally during this season, such as the sectors of supermarkets & food products, perfumes, watches and jewelry, and also cellular phones and toys. It should also be noted that the pharmaceuticals sector's results posted higher figures despite the decrease in the prices of drugs and medicine.

Other sectors did witness lower levels of activity, mainly the sector of construction equipment (for obvious reasons), but also sectors that were expected to improve such as bakeries, tobacco, shoes, clothing, household equipment, furniture, and surprisingly as well commercial centers.

As a result, the overall consolidated real result for the fourth quarter was relatively positive, and displayed a real improvement of +3.95% as compared to the previous quarter (excluding Liquid Fuels, where a +1.13% increase was reported in terms of volume).

Sectors where declining activity was reported between Q4 2018 and Q3 2018, included, in addition to the -0.19% decline in commercial malls:

- Construction Equipment (-33.31%)
- Shoes and Leather Products (-31.66%)
- Furniture (-21.25%)
- Sports Items & Equipment (-15.02%)
- Tobacco (-14.49%)
- Bakeries & Pastries (-12.96%)
- Restaurants and Snacks (-8.58%)
- Home Accessories (-7.89%)
- Clothing (-7.08%)
- Optical Instruments (-2.91%)
- Musical Instruments (-1.41%)
- Books & Stationery & Office Supplies (-0.87%)
- Construction Materials (-0.46%)
- Medical equipment (-0.41%)

Positive results were posted, in addition to the fuels sector (+1.13%), in the following sectors:

- Cellular Phones (+28.28%)
- Toys (+20.52%)
- Liquors (+14.50%)
- Pharmaceuticals (+11.46%)
- Used Cars Dealers (+8.76%)
- Supermarkets and Food Shops (+5.84%)
- Silverware and Decoration (+5.53%)
- Watches and Jewelry (+4.22%)
- Household Electrical Equipment (+3.73%)
- Perfumes and Cosmetics (+2.74%)

As a result, with the base index 100 fixed at the fourth quarter of 2011, and with a quarterly inflation rate of +0.32% for the fourth quarter of 2018, as per the official CAS report, the "BTA-Fransabank Retail Index" registered (with all sectors included) 49.68 for the fourth quarter of the year 2018. This figure compares to the level of 48.17 for the third quarter of 2018.

Banking-Sector Indicators

Indicators	2018	2017	Variation (%)
Total Assets (USD, billion)	250	220	13.8
Total Deposits of Private Sector (USD, billion)	174.3	168.7	3.3
Total Loans to Private Sector (USD, billion)	60.0	60.3	(0.5)
Ratio of Private Sector's Loans to Deposits (%)	35.7	35.8	-
Dollarization of Private Sector Deposits (%)	70.6	68.7	-
Dollarization of Private Loans (%)	69.2	68.6	-
Banks' Capital (USD, billion)	20.2	19.1	5.4

Sources: Central Bank of Lebanon and Association of Banks in Lebanon.

2. Beirut Stock Exchange

The activity of the Beirut Stock Exchange (BSE), which mirrors the activity of the capital market, was inferior in 2018 relative to 2017. The total trading volume of BSE expanded by 3.6% on annual basis to reach 90.11 shares at end-2018. The aggregate turnover decreased by 16.7% to reach USD 635 million.

Market capitalization also dropped by 15.7% on annual basis, from USD 11.5 billion in 2017 to USD 9.68 billion in 2018. Its ratio to GDP reached 21.5% in 2017 and 17.2% in 2018, reflecting a narrow capital market in Lebanon. Market capitalization continues to be dominated by banking stocks, followed by real-estate stocks, and industrial stocks.

Beirut Stock Exchange Indicators

Indicators	2018	2017	Variation (%)
Market Capitalization (USD, billion)	9.68	11.48	(15.7)
Total Trading Volume (Shares)	90,109,683	86,989,317	3.6
Aggregate Turnover (USD, million)	635	762.1	(16.7)
Market Liquidity Ratio (%)	6.6	6.6	-

Sources: BSE and Central Bank of Lebanon.

3. Monetary Stabilization Policy

The Central Bank of Lebanon has continued its monetary stabilization policy during 2018, just like in the previous years. The stability in the exchange rate (USD 1 = LBP 1,507.5) persists, thus contributing to overall economic stability.

To support this monetary stability, the monetary authorities have maintained their policy of moderating growth in money supply. This is crucial also for keeping inflation moderate.

Monetary Indicators

Indicators	2018	2017	Variation (%)
USD/LBP Exchange Rate	1507.5	1507.5	-
Inflation Rate (%)	6.1	4.5	-

Sources: Central Bank of Lebanon, Association of Banks in Lebanon, and Central Directorate for Statistics.

VI. Financial Markets

The banking sector has maintained its growth in 2018, but the Beirut Stock Exchange (BSE) experienced a regressed activity.

1. Commercial Banking Sector

The Lebanese banking sector is liquid, profitable, and well regulated, but highly exposed to the public sector. Banks are well capitalized and resilient to difficult conditions and crises in the domestic economy and the region, owing to prudent investments and conservative actions by banks, in a highly controlled environment. The liquidity ratio is high well above 70%. The capital adequacy is strong, in excess of 15% in 2018. The commercial banks have maintained their regional presence, despite unfavorable conditions in several markets, in order to keep activity and income diversification.

The banking activity, as proxied by the consolidated balance sheet of commercial banks in Lebanon, has improved during 2018, recording USD 250 billion, as of end-2018, an increase of 13.8% from the end of 2017. The

sector's assets is estimated to represent nearly 445% of GDP in 2018 relative to 412% in 2017, one of the highest ratios worldwide.

The deposits of the private sector grew by 3.3% from end-2017 to reach USD 174.3 billion at the end of 2018.

On the other hand, private sector lending decreased by a moderate 0.5% to reach USD 60 billion during the same period.

The aggregate loans-to-deposits ratio was 35.7% at end-2018, relative to 35.8% in 2017. This reflects the relatively slow lending opportunities in the economy under current conditions.

The dollarization rate of deposits was 70.6% in 2018 relative to 68.7% in 2017. The dollarization rate of credit was 69.2% relative to 68.6% during the same period.

The capitalization of commercial banking sector increased by 5.4% from the end of 2017 to reach USD 20.2 billion at end-2018.

VIII. Economic Prospects

Lebanon's real economic growth rate is estimated at nearly 2-2.5% in 2019. Future growth will be largely motivated by the expected increase in private consumption, government spending, and private investments, especially if the new government implements the Cedre's sectorial, fiscal and economic reforms.

Better growth rates could be achieved in the years to come if the domestic authorities maintain its monetary stabilization policy, develop a credible policy mix to restore fiscal sustainability and halt the growth of public indebtedness, and implement structural reforms to reduce infrastructure bottlenecks and the crowding-out effect of public borrowing on the private sector. Structural reforms are necessary to support consumer and investor confidence. The government of Lebanon should also seek to reduce the spillovers of the Syrian crisis on the national economy. Lebanon should undertake serious steps and measures to exploit the oil and gas wealth, which could put the country on a robust growth trajectory and income diversification and growth.

VII. Foreign Sector

The balance of payments, mirroring the aggregate foreign sector activity, was in higher deficit in 2018 as in 2017. The capital inflows recorded in 2018 were not enough to offset the high trade deficit and produced a deficit in the balance of payments.

1. Foreign Trade

The trade deficit widened by 3.3% on annual basis to reach USD 15.7 billion in 2018, thus reflecting a radical and continued foreign deficit which represents nearly 27.9% of GDP in 2018, relative to 28.6% in 2017.

This surge in the trade deficit was the result of an annual increase in exports by 4.4% to reach USD 2.7 billion at end-2018, and an increase in imports by 2.6% to reach USD 18.4 billion during the same period.

2. Capital Inflows

The year 2018 experienced continued capital inflows reaching nearly USD 11.6 billion relative to a level of USD 14.3 billion in 2017, a decrease of 18.8% on annual basis.

These lower capital inflows were induced by a continued regional turmoil and political tension in Lebanon.

These capital inflows recorded in 2018 represent nearly 20.6% of GDP in 2018 relative to 26.8% in 2017. Hence, they contributed to the economic growth achieved in 2018.

3. Balance of Payments

The balance of payments (BOP) realized a deficit in 2018, recording a level of USD 4.1 billion relative to a lower deficit of USD 1 billion in 2017. The surplus of BOP recorded in 2016 was the first annual surplus since 2010, where the period 2011-2015 experienced deficits.

When considering the aggregate banking system (Central Bank, commercial banks, and financial institutions), the cumulative deficit in the BOP in 2018 resulted from a decrease of nearly USD 1.1 billion in net foreign assets of the Central Bank and a decrease of USD 3 billion in those of banks and financial institutions.

In this sense, the balance-of-payments deficit represented nearly 7.3% of GDP in 2018, while its deficit in 2017 was nearly 1.9% of GDP.

Foreign-Sector Indicators*

Indicators	2018	2017	Variation (%)
Trade Deficit (USD, billion)	15.7	15.3	2.3
Exports (USD, billion)	2.7	2.6	4.4
Imports (USD, billion)	18.4	17.9	2.6
Capital Inflows (USD, billion)	11.6	14.3	(18.8)
Balance of Payments (USD, billion)	(4.1)	(1.0)	-

* First 11 months.

Sources: Higher Customs Council and Central Bank of Lebanon.

The agricultural sector is a prime user of water, where irrigation needs in this sector are nearly 810 million cubic meters per year. The share of agricultural land equipped for irrigation represents nearly 80.2%, and the share of access to refined water resources accounts for 99%.

Since the eruption of war in Syria, the agricultural sector witnessed substantial pressures. Before the war, the Syrian labor force in this sector was nearly 260 thousand workers. After the war, they doubled in number to nearly 460 thousand, thereby accounting for 20% of the total number of registered refugees. This inflow of Syrian refugees to the agricultural sector has led to a significant deterioration in the daily wage of the Lebanese farmer from USD 23 before the war to USD 16 today.

On the exports side, the share of agricultural exports in total exports remains low, almost at 10% today. The Syrian, Iraqi, Jordanian, Saudi and other Gulf markets are prime importers of agricultural products from Lebanon.

On the other hand, agro-industry is a flourishing sector in the Lebanese economy. According to latest statistics for the period 2011-2014, this sector accounted for 26.3% of total value added of the industrial sector, 24.9% of its labor force, and 38% of its exports between 2012 and 2014.

As for the nutrition dimension, the food system is transforming from a system of nutritive elements to a system depending more and more on sugars and fats, thereby increasing obesity (10.9% for children, 28.2% for matured people, 72.8% for men, 59.4% for women). Such a transformation is causing chronic health problems.

III. Causes of Weak Food Sufficiency in Lebanon

There are several factors responsible for the observed weakness in food sufficiency conditions in Lebanon, most of which are directly related to the deterioration in agricultural activity.

The agricultural land in Lebanon is small and distracted. According to the latest general agricultural survey for

2010, the number of farmers reached 512 farmers, 70% of them have a property of less than one hectare in average. Those represent 18% of the total agricultural used area. Farms whose area range between 1 and 6 hectares represent 40% of the total used area, and 3.5% of big farmers whose land is in excess of 6 hectares for each account for 40% of the total used area. This concentration of small agricultural property causes weak agricultural production and low incomes, thereby encouraging the movement from the agricultural activity in rural areas.

The government's investment in the agricultural sector remains very low, even lower than the prevailing rates of the region. The share of the Ministry of Agriculture is only 0.5% a year of the total budget, while the regional ratio is in excess of 5%. This low share reflects the weak interest in this sector by the government.

The institutional breakdown of the agricultural sector also reflects the weak attention given to the agricultural sector. In fact, there are several public institutions that are involved in designing and implementing agricultural policies. For instance, CDR is involved in developing the sector's infrastructure. IDAL runs "Agri-Plus Program" to support local producers especially their export capacity. The Ministry of Economy and Trade provides a basic support program to wheat and tobacco producers. The "Green Project" builds agricultural infrastructure. The Ministry of Agriculture is responsible for formulating agricultural strategies and policies. The Ministry of Labor is responsible for agricultural labor force. The weak coordination between all these institutions leads to a major distraction in formulating and implementing agricultural policies, hence weakening further the agricultural sector and its economic and social contribution.

The agricultural sector suffers from a weak organizational, financial and legal infrastructure. Considering the organizational capability, only 25% of agricultural cooperatives are active. Also, only 1.5% of farmers have access to government support services, while 9% resort to private support services. Up to date, there is no Agricultural Record which ensures the access of farmers to social, health and agricultural services, despite the launching of this initiative by the Ministry of Agriculture and FAO over the past few years.

Study - Food Sufficiency in Lebanon: Current and Future Trends

I. Introduction

This study deals with the issue of food sufficiency in Lebanon, its current position and potential trends in the future; taking into consideration the difficulties and problems facing the agricultural sector, the prime factor affecting food sufficiency. The study highlights the current food sufficiency indicators, and its development over the past years, and poses the basic challenges facing the desired agricultural and food development. The study also shows the strategies formulated by the government of Lebanon, over past years, concerning agricultural and rural development, and water resources management. The study recommends a set of practical measures to improve the agricultural activity and hence food sufficiency in Lebanon in the years to come.

II. Current Situation of Food Sufficiency in Lebanon

Despite the fact that Lebanon's position is relatively better when compared to some countries of the Arab region in terms of food sufficiency, yet the population growth and the inflow of Syrian refugees have weak end food sufficiency in Lebanon.

According to a local study conducted on households' food sufficiency conditions in 2015, the percentage of households that experience such sufficiency constitutes 10% of total households in Lebanon.

A local survey shows that 49% of the Lebanese population in certain areas (mainly the Bekaa and South) are concerned about their ability to have sufficient food, while 31% said that they cannot have access to health and safe food over the year.

It is true that Lebanon is self-sufficient as far as fruits and vegetables are concerned (147% and 93% respectively).

However, the country is highly dependent on imported cereals (it imports nearly 83% of total cereals consumption). Hence, Lebanon is a net importer of food products, whereby local production meets only 20% of total local food consumption.

These food conditions are directly interrelated with the current position of the agricultural sector, the weakest sector in Lebanon's economy. This is due to the continued movement of population over past years from rural areas to cities (more than 25% of total population). It is also correlated with the weak support of the government to this sector. The agricultural sector represents today only 4% of GDP and 6% of total employment in Lebanon.

The movement from the agricultural sector, especially from the Bekaa valley (the largest agricultural area in Lebanon in terms of size and production) has been quite substantial over past years. The share of agricultural production declined from 23% of GDP by the end of the civil war to nearly 4% today.

The agricultural activity represents the major source of income and job opportunities in rural areas. It accounts for 25% of labor market and 80% of economic production in those areas.

Farmers are considered the poorest groups among other economic sectors, where 40% of them are under poverty line. The presence of a large number of Syrian refugees in the Bekaa area aggravates the poverty conditions of the Lebanese farmers especially that most of the refugees work in agriculture.

The land area ready to be cultivated accounts for 37% of Lebanon's total area, or nearly 330 thousand hectares. But the actual cultivated area stands at only 230 thousand hectares, half of it has access to water resources.

- Improving agricultural-production chains, covering the plant and animal sections.
- Strengthening corporate governance and sustainable utilization of natural resources.
- Developing agricultural scientific research and guidance, as well as operations of labs.
- Supporting the cooperative sector.
- Controlling the negative effects of climate change and natural disasters which affect the agricultural and food sectors.
- Encouraging the use of best practices in agriculture.
- Fighting various types of diseases that cause serious damages to agricultural crops.
- Strengthening the cereals programs by ensuring access to improved seeds for farmers with low costs.
- Implementing a capacity-building program in food sufficiency.
- With respect to animal-wealth management, a plan of combating chronic diseases should be implemented to support animals and the production of meat and milk.
- Regarding sustainable natural-resource management, actions should focus on improving irrigation-water productivity, mainly by implementing some projects to support the efficiency of water use for agricultural purposes.

Unfortunately, this global strategy for the food and agricultural sectors was not put into implementation in a proper way to date. Its implementation is vital for strengthening the food sufficiency position in Lebanon.

In fact, Lebanon cannot attain self-sufficiency as far as food is concerned, due to the above-mentioned problems and challenges. However, Lebanon can enhance its food sufficiency position if institutionalization and coordination takes place at the level of policies. This requires strategic alternatives regarding sectors and products, markets of low-cost imported products, and cost-effective management of natural resources (especially water resources).

Further support to food sufficiency in Lebanon requires a serious reform of the social safety net. This necessitates the development of institutional frameworks of the NSSF and Ministry of Public Health.

Concerning nutrition, the country needs to adopt the so-called "From Farmers to Consumers" initiative aimed at promoting agricultural products in local and foreign markets.

This is why the continuous implementation of the Food Safety Law (which was launched in 2015) is crucial in this respect. The resolution related to the launching of "National Food Security Commission", as stipulated by the Law, was taken four years ago, yet the government did not nominate members of this Commission. This makes the Law ineffective in reaching the desired national food sufficiency goals.

V. Conclusions and Recommendations

Lebanon needs to implement the already formulated national strategies related to agricultural development, food sufficiency, food safety, and management of agricultural and natural resources. This is crucial for supporting and improving the country's agricultural, rural and social development in coming years.

The government should focus on developing agricultural activities in rural areas, in order to decrease the movement of people from these areas to cities and to abroad. This is necessary for expanding agricultural land.

The government should also allocate a higher budget for agriculture, as this is crucial for increasing its economic and social contribution to overall growth and development. Public investments in agriculture are very vital for encouraging sustainable agricultural development. Also, encouraging the private sector to invest in agriculture could be a good initiative.

A well-planned coordination of agricultural policies, between the concerned public institutions, is necessary for securing the interests of the agriculture sector.

Another ultimate action for supporting agriculture in Lebanon is to increase the access of farmers to bank financing, as this is vital for ensuring sustainable agricultural development.

Another major problem facing agriculture is rain inconsistency over the year. Rain falls mainly in winter (90% during November and April). Lebanon reserves only 6% of total water resources, relative to 85% in the MENA region.

Lebanon depends to a large extent on ground water wells (50% of irrigation water) whose systems are traditional (irrigation by covering techniques) which provides 50-70% of irrigation activities. It is true that Lebanon has shifted largely, over past years, to advanced techniques such as spray irrigation and precision irrigation, however the remuneration of such techniques is still low by international standards. The greater reliance on ground water wells is causing a growing drain on this type of water resources.

Also, there is the problem of increased modernization in rural area, thus leading to lower areas for agriculture. Rural population whose share was 50% in the sixties of the past century, has dropped to almost 13% in 2008 and even to lower rates recently.

In addition, the use of agricultural areas has declined over the past twenty years from 18% to less than 10% in recent years. Furthermore, the large share of mountains in Lebanon's areas (nearly 75%) is causing deterioration in the agricultural activity. Such factors encourage further movement from rural areas.

Concerning finance, the share of commercial banks' loans devoted to the agricultural sector is quite low, constituting only 1% of its total loan portfolio. The guarantees for agriculture financed from EU under the "Rural and Agricultural Development Program" remains one of the major financing instruments for small farmers and SMEs with an interest rate of 3%.

There are several challenges facing Lebanon in terms of its food sufficiency capacity. The Bekaa valley, the largest agricultural area in Lebanon, reflects the problems of the agricultural sector. Families living in the valley for several generations in the 1950s and 1960s of the last century have moved to cities. Also unorganized construction in many areas surrounding the valley is causing lower areas for agriculture.

As for water-resources management necessary for agriculture, the water needed for some crops (lettuce, potatoes, apples, apricots, grapes, bananas, lemon and others) absorb a significant quantity of water resources needed for agriculture.

Another problem facing food sufficiency is the rise in the prices of food products. During 2007-2008, those prices rose by 8.2% and continued thereafter rising during the last years. Accordingly, the government reintroduced its subsidy policy covering wheat, bread and flour, following its decision to lift subsidization of these items. Such a price increase has led to lower nutrition levels due to the declining use of vitamins and basic minerals by the population. Also, such a price increase caused a declining capability by the poor to buy food.

Some local estimates point to a continued rise in the prices of food products in the coming fifteen years, thereby aggravating the food insufficiency and nutrition problems. By 2030, the expected growth in demand for food coupled by population rise and climate change will fuel inflation in food prices. For instance, prices of wheat in the Middle East is a forecasted to rise by 24.8%, corn prices by 29.7%, and manufactured rice by 15.1%.

IV. Needed Reforms and Actions for Supporting Food Sufficiency in Lebanon

In 2015, the Lebanese government adopted a national strategy to support the agricultural and food sector. The basic objectives of that strategy were: (i) fighting hunger; (ii) achieving higher levels of food sufficiency; (iii) improving nutrition; and (iv) encouraging sustainable agricultural development. If Lebanon has to enhance its food sufficiency, the above-mentioned strategy should be implemented in a proper way.

The strategy focuses on several action plans, mainly the following:

- Enhancing productivity and competitiveness of national agricultural products.

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The food gap in Lebanon is forecasted to grow further in the years to come, unless the above-mentioned policies and actions are put into proper implementation. The demand for food is growing over time, due to continued population growth, weak attention given to agriculture, and continued inflow of Syrian refugees. At the same

time, food supply is not matching demand growth due to declining agricultural land and climate change. This is why the government should take serious and quick measures to support agriculture, food sufficiency, and food safety.

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