ECONOMIC BULLETIN

2018 Third Quarter

FRANSABANK

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Lebanon's Macro Economy in the First Nine Months of 2018

I. General Introduction

Lebanon's macro economy has continued its weak growth during the first nine months of 2018, due mainly to continued internal political conflict and unfavorable regional conditions.

The activity of some real economic sectors improved, while that of other sectors contracted, leading to diverse effects on aggregate demand and supply in the national economy.

The monetary authorities have maintained its monetary stabilization and high interest-rate policies to support monetary stability and stimulate capital inflows. The country recorded a higher inflation rate due to expanding economic activity and money supply.

The balance of payments achieved a deficit in the first nine months of 2018, compared to a lower deficit for the same period last year.

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

Economic reforms must be the major priority of domestic authorities in order to support economic growth rates in the years to come, in line with the CEDRE Conference which allocated a foreign aid of USD 11.6 million for Lebanon. This should be accompanied by special efforts to address the continued negative repercussions of the Syrian crisis on the domestic economy and society.

II. Real Sector

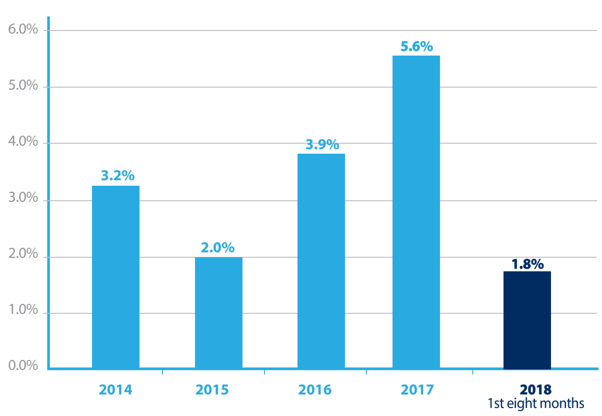
The real sector of Lebanon's economy experienced a non-uniform performance in the first nine months of 2018 relative to the corresponding period last year. The activity of some economic sectors enhanced, while that of other sectors contracted, thus producing diverse effects on aggregate economic activity, both on the demand and supply sides.

The Central Bank's Coincident Indicator, reflecting the overall performance of the real sector (since it comprises 11 real-sector indicators) reported an annual growth of 1.8% for the first eight months of 2018. This level is lower than the one recorded in 2017 (5.6%), 2016 (3.9%), 2013 and 2014 (3.2% for each year), but higher than the one recorded in 2015 (2%).

The indicators that registered growth are: airport passengers, exports, electricity production, imports and tourists. The indicators that registered a decline are: construction permits, property sales, Beirut Port's merchandise activity, new car sales, cement deliveries, and cleared checks.

During this period, private consumption has increased, fueled mainly by the rise in wages of the public-sector employees following the ratification of the wage scale. However, private investment remains weak, due to the wait-and-see case prevailing in Lebanon.

- Development of Central Bank's Coincident Indicator (CI) (growth rates) -



1- Agriculture and Industry

The value of agricultural and industrial exports reached USD 2 billion for the first eight months of 2018, relative to USD 1.9 billion for the corresponding period of 2017, with an annual growth of 4.3%. Also, the value of agricultural and industrial imports increased by 4.8% from USD 13.1 billion to USD 13.7 billion during the same period.

These figures clearly reflect a better performing export activity and import activity, especially following the reopening of some routes namely the Jordan-Syrian border. These figures also reflect a positive contribution of the export activity to overall demand in the economy.

Electricity Production, an indicator of industrial activity, improved by 1.5%, from 9,993 mkw in the first eight months of 2017 to 10,146 mkw in the first eight months of 2018.

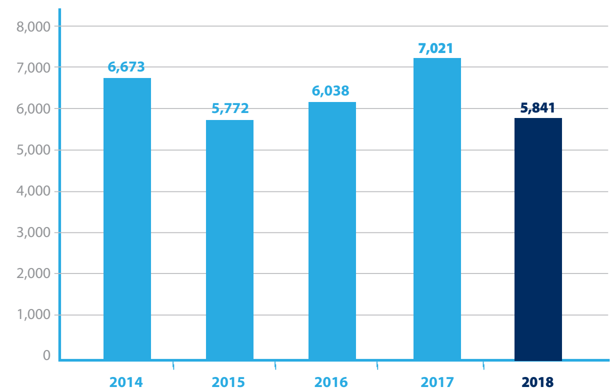
2- Real Estate and Construction

According to the figures of the Real Estate Registry and Ministry of Finance, the number of property sales operations decreased by 16.8% on annual basis to reach 43,963 operations in the first nine months of 2018. Also, the value of property sales dropped by 16.8% annually to reach USD 5.84 billion during the same period. This is partially affected by the recent seizure of housing loans by the Public Institution for Housing. These figures reflect a declining real-estate activity in the first nine months of 2018 as far as the demand side is considered.

Construction permits declined by 2.3%, from nearly 9.1 million sqm in the first nine months of 2017 to 7 million sqm in the same period of 2018. This suggests a curbed demand in the real-estate sector.

Cement deliveries dropped by 4.7% on annual basis to reach 3.2 million tons in the first eight months of 2018. This suggests a curbed supply in the real-estate sector during this period of 2018 relative to the same period last year.

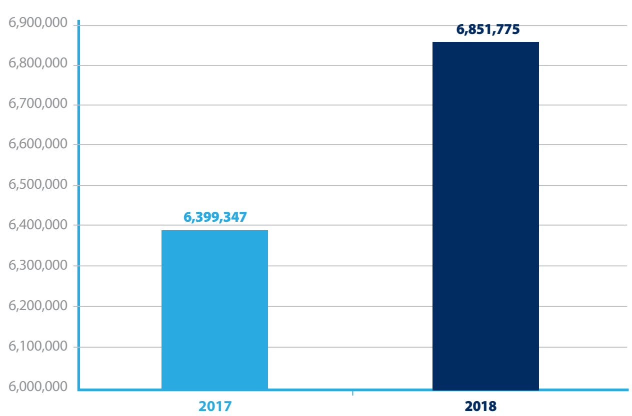
- Value of Real-Estate Transactions, First Nine Months (USD, Million) **-**



3- Trade and Services

The statistics released by the **Hariri International Airport** indicate that the total number of passengers increased by 7.1% on annual basis to reach 6,851,775 passengers in the first nine months of 2018. The total freight handled by the airport recorded 42,334 metric tons in the first nine months of 2018. The number of aircrafts recorded an increase of 3.5% on annual basis to reach 56,527 planes during the said period. These figures suggest an improvement in the airport activity.

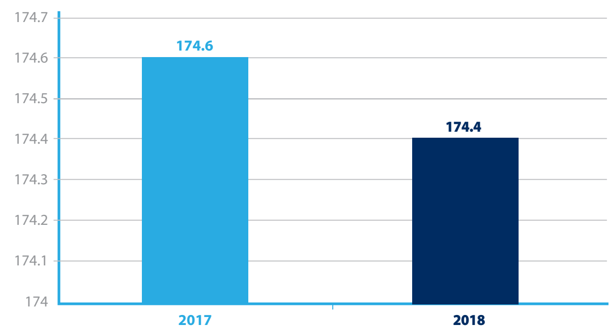
- Passengers at the Airport - First Nine Months -



According to the statistics of the **Port of Beirut**, its revenues recorded a decrease by 0.1% on annual basis to reach USD 174.7 million in the first nine months of 2018. The number of ships recorded an annual decrease of 0.2% to reach 1,413 ships during the same period. In parallel, the number of containers recorded an annual decrease of 1% to reach 653,861 containers during the same period.

The quantity of goods declined by 7.1% year-on-year to reach 5,945 thousand tons in the first nine months of 2018. These figures indicate that the Port of Beirut activity, an indicator of maritime transport and trade, was curbed during the period under consideration.

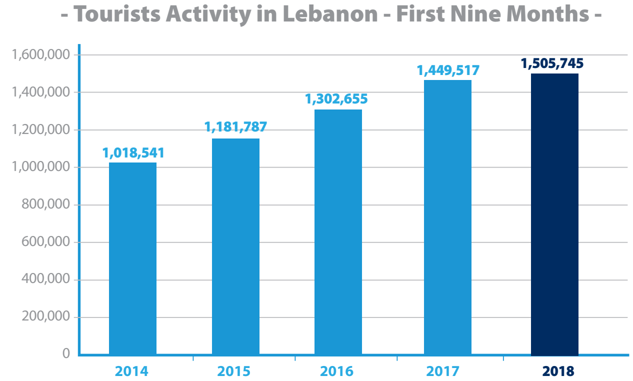
- Port of Beirut Revenues, First Nine Months (USD, Million) **-**



The **number of tourists** visiting Lebanon totaled 1,505,745 tourists in the first nine months of 2018, growing by 3.9% from 1,449,517 tourists in the corresponding period last year. The distribution of these tourists according to nationality shows that visitors from European countries constituted 35.7% of the total number of tourists, followed by visitors from Arab countries (27.8%), Americas (19.1%), Asia (6.9%), Africa (5.8%), and Oceania (4.6%).

According to the Survey of Ernst and Young, the Beirut's **hotel occupancy rate**, an indicator of tourism activity, decreased from 65.4% in the first nine months of 2017 to 63.6% in the same period of 2018. The average room rate rose by an annual rate of 0.5% from USD 186 to USD 187, but the rooms yield fell by 2.1% from USD 122 to USD 119 during the same period. These figures reflect a declining hotel activity during the period under consideration.

- Tourists Activity in Lebanon - First Nine Months -



The statistics of the Association of Automobile Importers in Lebanon show that the number of **new sold cars** totaled 26,081 cars in the first eight months of 2018, with an annual decrease of 6.6% from 27,934 new cars sold in the same period last year.

According to the statistics of the Association of Banks in Lebanon, the total value of **cleared checks**, mirroring private consumption and investment spending, decreased by 1.2% on annual basis, from USD 50.3 billion in the first nine months of 2017 to USD 49.7 billion in the same period of 2018. The total value of returned checks increased by 10.5% on annual basis to reach USD 1.2 billion in the same period of 2018. This reflects a curbed private spending during the period under consideration.

The Economic and Social Fund for Development (ESFD) reported that it guaranteed 293 loans for a total of USD 4.9 million to **SMEs in Lebanon** in the first nine months of 2018. The Kafalat loans decreased in amount from USD 447 million to USD 282 million during the same period. SMEs constitute a major pillar of the corporate sector, and supporting it is a driving force of economic activity and job creation in Lebanon.

Real-Sector Indicators

Indicators	2017 First Nine Months	2018 First Nine Months	% Change
Agricultural & Industrial Exports (USD, billion)	1.9	2.0	4.3
Real-Estate Transactions (number)	51,993	43,263	(16.8)
Real-Estate Transactions (USD, billion)	7.0	5.84	(16.8)
Number of Tourists	1,449,517	1,505,745	3.9
Spending of Tourists (% growth)	7.0	5.4	-
Number of Passengers at HIA	6,399,347	6,851,775	7.1
Aircraft Activity at HIA	54,615	56,527	3.5
Value of Returned Checks (USD, million)	1.086	1.2	10.5
Number of Returned Checks	169,765	201,004	18.4
Cleared Checks (USD, billion)	50.3	49.7	(1.2)
Cleared Checks (number in millions)	9.1	8.9	(2.1)
New Car Sales (number)*	27,934	26,081	(6.6)
Hotel Occupancy Rate (%)	65.4	63.6	(2.8)
Goods Quantity at Beirut Port (000, tons)	6,399	5,945	(7.1)
Numbers of Containers at Beirut Port	655,171	653,861	(0.2)
Number of Ships at Beirut Port	1,416	1,413	(0.2)
Revenues of Beirut Port (USD, million)	174.6	174.4	(0.1)
ESFD Guaranteed Loans (number)	-	293	-
ESFD Guaranteed Loans (USD, million)	-	4.9	-
Kafalat Loans (number)	447	282	(37.0)
Kafalat Loans (USD, million)	54.2	36.2	(33.3)
Cement Deliveries (tons)*	3,354,258	3,196,992	(4.7)
Construction Permits (number)	11,938	10,356	(13.3)
Construction Permits (sqm)	9,092,087	7,001,029	(23.0)
Electricity Production (mkw)*	9,993	10,146	1.5

(*) First Eight Months.

Sources: Official and Related Directorates.

III. Fiscal Policy and Indebtedness

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

1- Fiscal Deficit

The statistics of the Ministry of Finance has revealed a substantial surge in the total fiscal deficit, by nearly 234.5%, from USD 907 million for the first half of 2017 to nearly USD 3 billion for the same period of 2018. This substantial fiscal deficit resulted from a decline of 2% in total revenues to nearly USD 6 billion, and an increase of 28.8% in total spending to nearly USD 9 billion.

One should observe that the government was expecting an increase in its revenues for 2018, following the introduction of some new taxes and the raise of some other taxes in 2017, by nearly USD 1.2 billion. But the results came in an opposing way, where customs revenues declined by 3.9%, income tax revenues dropped by 10.1%, real-estate fees decreased by 18.7%, and revenues from profit taxes fell by 38.5% during this period. Only the VAT revenues increased by 9.7%, and so did taxes on wages and salaries 17.9% during this period.

It is worth noting here that transfers to municipalities increased substantially in the first half of 2018 relative to the corresponding period last year. The growth was 333.8% and is due to the parliamentary elections' campaigns which took place last year. Also, financial collection by the treasury declined by 1.97% on annual basis during the said period.

If we suppose that the average monthly fiscal deficit stands at USD 506 million, then one can estimate its level for 2018 at nearly USD 6 billion, which then represents nearly 11% of GDP.

Public Finances Indicators USD, million)

Indicators	2017 First Half	2018 First Half	% change
Total Revenues	6,060	5,940	(1.97)
Total Spending	6,967	8,977	28.8
Total Deficit	907	3,036	234.5
VAT Revenues	1,132	1,242	9.7
Salaries & Wages Taxes	259	305	17.9
Customs Revenues	690	663	(3.9)
Income Taxes	2,042	1,836	(10.1)
Real-Estate Fees	295	240	(18.7)
Profit Taxes	1,319	811	(38.5)

Source: Ministry of Finance.

2- Public Debt

According to the Ministry of Finance figures, public indebtedness of Lebanon increased by 5.4% in the first nine months of 2018, from USD 79.6 billion at end-2017 to USD 83.8 billion at end-September 2018. The debt-to-GDP ratio stands currently at more than 150% which is quite high by international standards.

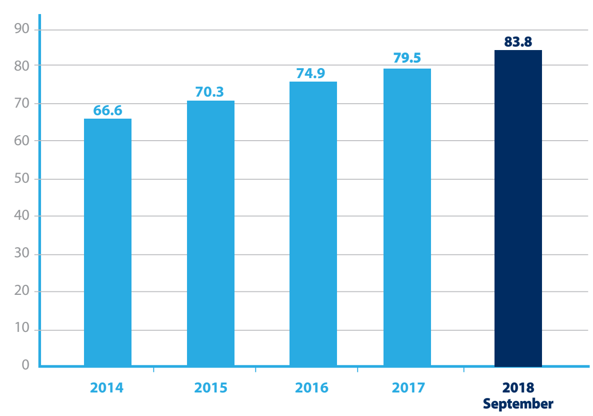
The domestic public debt declined by 1.4% in the first nine months of 2018 to reach USD 48.4 billion at end-September 2018, while the foreign public debt increased by 16.6% to USD 35.4 billion during this period. As for net public debt, which excludes deposits of the public sector at BDL and commercial banks, it went up by 6.2% to USD 73.6 billion during this period.

Indicators of the Public Debt (USD, billion)

Indicators	End 2017	End September 2018	% change
Gross Public Debt	79.6	83.8	5.4
Domestic Public Debt	49.1	48.4	(1.4)
Foreign Public Debt	30.4	35.4	16.6
Public-Sector Deposits at Central Bank	5.9	5.8	(0.9)
Public-Sector Deposits at Commercial Banks	4.3	4.4	1.6
Net Public Debt	69.4	73.6	6.2

Source: Ministry of Finance.

- Evolution of the Public Debt (USD, Billion) -



IV. Inflation and Monetary Policy

The monetary authorities have maintained its monetary stabilization policy as well as its high interest-rate policy, to support currency stability and stimulate capital inflows. This period experienced higher inflation.

1- Central Bank

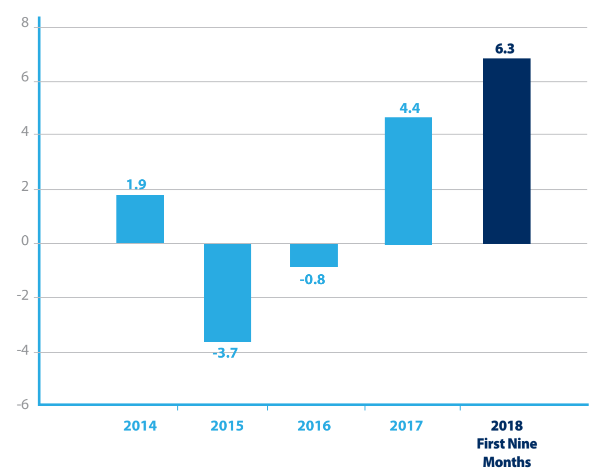
The Central Bank's statistics reveal that its balance sheet increased by 16% on annual basis to reach USD 135.8 billion at the end of September 2018, compared to USD 117 billion during the same period of 2017. Assets in foreign currencies reached USD 43.5 billion at the end of September 2018, with an annual decrease of 1.1% from USD 44 billion at the end of September 2017.

As for the gold reserves, its value declined by 8.1% year-on-year to reach USD 10.9 billion as of end-September 2018.

2- Inflation

The Price Index of the Central Administration of Statistics increased by 6.3% on annual basis for the first nine months of 2018, compared to a lower level of 4.3% in the same period of 2017. This reflects the growth of inflation in the first nine months of 2018, following deflation in 2016 and 2015. This inflation is stimulated by the expanding economic activity, and monetary expansion where broadly-defined money supply M3 increased by an annual rate of 1.3% to reach USD 141 billion at end-September 2018.

- Evolution of Average Annual Inflation Rate (%) -



3- BTA – Fransabank Retail Index

There is no doubt that the multiple declarations of the Governor of the Central Bank and his affirmative confidence are playing a crucial role in confirming the steadiness and stability of the monetary situation in the country. It is also clear for everyone that the international community has adopted a clear supportive attitude towards Lebanon for obvious geo-political considerations.

Meanwhile, and until the vision becomes clearer as to where the economy is heading, retail trading markets remained very gloomy and had to continue bearing a very weak pace of activity during the third quarter of this year, especially in the wake of declining numbers of visitors to the country – foreign tourists (mainly from gulf countries) and Lebanese diaspora, whose weight on the consumption inertia is traditionally very positive particularly during the summer and festive seasons. All these factors obviously concurred to set turnovers for this period at much lower levels than the same period of last year.

Such a situation is the natural result of a combination of numerous factors that continue to undermine the local economy. In addition to the above-mentioned lower numbers of visitors, one should not ignore the constantly declining purchasing power of Lebanese households; this being a result of the crisis that continues to hit most economic sectors, and the inability to address the competition that the migrant labor force is creating in the local marketplace across all its productive sectors. This is occurring in the midst of uncertain times where months are flowing without the ability to form a government after the parliamentary elections that took place during the second quarter – with all what this ensues in terms of refrain and fears from economic and social agents and players who are very much aware of the incapacity of the current cabinet to launch any economic salvation programs or adopt any corrective measures that would encourage local or foreign investors to undertake any new productive project in the country before the announcement of a new government.

In light of the above, all hopes are currently tied to the profile of the new executive "team", and more so to the profile of its new members / ministers, and to urging those lay down the critically needed economic salvation program and undertake immediate measures that would facilitate the start of the inception of the CEDRE support measures decided last April by the international community. Such support is crucial for the revitalization of the economy through its various and varied investment schemes, and for the revival of the various and varied economic sectors, alongside the implementation of the recommendations outlined in the McKinsey study that was concluded few months ago.

It should be, however, noted that results and positive impact are – to date, yet not guaranteed, and could definitely not occur in the short foreseeable term.

For the short term, concerned and specialized parties in the new government should focus on laying down a salvation program with immediate effects on the ground that would contribute into boosting the levels of liquidity in the markets and re-activating the economic / consumption "wheel" in an effort to generate again a long-awaited growth pattern.

In the meantime, the consolidated turnover figures continued to post a sharp decline for the third quarter of this year in comparison to the same quarter of 2017, while these results were also deceiving as the better levels in comparison to the second quarter of 2018 were not encouraging at all despite the seasonal factors and the occurrence of Eid al Adha during that period, both supposed to be extremely boosting activators of consumption on which traders build usually high expectations with regards to their annual volumes of sales.

On the other hand, the CPI also maintained its upward trend, and registered + 6.53 % for the third quarter of 2018 as compared to the third quarter of 2017, as per the official CAS figures. It should be noted that sectorial inflation did reach – for this period, + 21.44 % in the Clothing and footwear sector, + 13.88 % in the Housing water, electricity, gas and other fuels sector, + 8.81 % in the Transportation sector, + 5.94 % in the Recreation, amusement, and culture sector, + 5.30 % in the Food and non-alcoholic beverages sector, + 4.13 % in the Education sector, etc…

It should be stressed that a large part of this inflation is the result of the increases or the new taxes and impositions voted lately by the parliament despite the strong stance taken by the Lebanese Economic Organizations against such decision, and against its wrong timing with the ongoing crisis situation in Lebanon. The result, as could be seen, is a rise in prices across all economic sectors, despite the excessive sacrifices that traders have agreed to offer in terms of prices and facilities of payment.

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 '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 '16 / Q4 '17	+ 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 %**

As a result, the consolidated real retail turnover figures have posted a sharp decline between the third quarter of 2017 and the third quarter of 2018, reaching – 9.23 % (i.e. after applying the inflation rate weight on the nominal results).

By excluding the fuel sector results (where an increase of + 1.45 % in volume was reported as compared to Q3'2017), the real turnover drop reaches – 10.63 % in comparison to the Q3 '17 figures excluding fuel.

Yearly Variation between 3rd Quarter '17 and 3rd Quarter '18

	Q3 - 2017	Q3 - 2018	
Nominal Year to Year Variation (incl. Liquid Fuels)	100.00	97.99	
Nominal Year to Year Variation (excl. Liquid Fuels)	100.00	96.79	
CPI between Sep'17 and Sep'18 (as per the official CAS figures)		**+ 6.53 %***	
Real Year to Year Variation (incl. Liquid Fuels)	100.00	90.77	**- 9.23 %**
Real Year to Year Variation (excl. Liquid Fuels)	100.00	89.37	**- 10.63 %**

* CAS – CPI – Sep '18

The economic community in Lebanon is anxiously waiting for the formation of a new government for the donor countries that have participated in the CEDRE conference to start extending their support to the Lebanese economy thus helping it raise up again in its various sectors, and for the various ministries to start the application of the main McKinsey study recommendations, thus revitalizing the various affecting factors and putting the markets on a dynamic path of renewed growth.

Until that moment, the analysis of the performance of the various retail trade market sectors during the third quarter of this year clearly translates the priorities in the spending pattern of Lebanese households, with a selective consumption pattern channeling main spending to basic necessities, while foreign spending remained marginal, and a wait and see attitude that continues to prevail.

The main sectors where declines were registered include:

- Shoes and Leather Products (- 51.02 %)
- Optical and Hearing Aid Instruments (- 30.19 %)
- Musical Instruments (- 28.51 %)
- Clothing (– 21.89 %)
- Silverware and Decoration (- 20.46 %)
- Pharmaceuticals (- 19.69 %)
- Cellular Phones (- 19.62 %)
- Commercial Shopping Centers (- 19.00 %)
- Household Electrical Equipment (- 10.99 %)
- Watches and Jewelry (- 10.92 %)
- Supermarkets and Food Shops (- 9.47 %)
- Toys (- 9.18 %)
- Construction Equipment (- 6.34 %)
- Furniture (- 5.12 %)
- Home Accessories (- 2.60 %)
- Perfumes and Cosmetics (- 1.75 %)
- Sports Items & Equipment (- 1.28 %)
- Construction Material (- 1.13 %)
- Liquor & Spirits (- 0.80 %)

The sectors that witnessed better results were, in addition to the increase in the volume of fuel (+ 1.45 % in volume):

- Bakeries & Pastries (+ 10.48 %)
- Medical Equipment (+ 9.67 %)
- Tobacco (+ 5.14 %)
- Used Cars Dealers (+ 3.52 %)
- Books & Stationery & Office Supplies (+ 2.51 %)
- Restaurants and Snacks (+ 0.78 %)

On the other hand, and despite the fact that the CPI between Q2 '18 and Q3 '18 did not exceed + 0.45 %, the third quarter figures display a modest improvement in comparison to the second quarter results.

It should be noted here that this marginal improvement occurred despite the seasonal factors and the Eid Al Adha fell during this third quarter, with their usually traditional surge in consumption.

What is witnessed instead is that sectors such as the sector of supermarkets and food shops, cellular phones, or even Books & Stationery & Office Supplies have posted declines and not increases in their quarterly turnover figures.

Other sectors have improved because of the traditional driving seasonal and festive factors, such as Bakeries & Pastries, Liquor & Spirits, Tobacco, Restaurants and Snacks, and also Perfumes and Cosmetics, Clothing and Sports Items & Equipment, and to a lesser extent Home Accessories and Household Electrical Equipment.

As a result, the overall consolidated result for the third quarter was positive, and displayed a real improvement of +5.37% as compared to the previous quarter (excluding Liquid Fuels, where a + 7.66 % increase was reported in terms of volume).

Sectors where declining activity was reported included:

- Musical Instruments (- 20.54 %)
- Cellular Phones (- 15.61 %)
- Books & Stationery & Office Supplies (- 14.77 %)
- Supermarkets and Food Shops (- 13.94 %)
- Pharmaceuticals (- 10.43 %)
- Optical Instruments (- 4.01 %)
- Construction Materials posted (- 1.03 %)
- Construction Equipment (- 0.98 %)

Positive results were posted, in addition to the fuels sector and to the expected shopping malls activity (+11.22%), in the following sectors:

- Liquors (+ 25.17 %)
- Tobacco (+ 24.86 %)
- Bakeries & Pastries (+ 18.91 %)
- Watches and Jewelry (+ 18.19 %)
- Sports Items & Equipment (+ 15.49 %)
- Restaurants and Snacks (+ 15.44 %)
- Used Cars Dealers (+ 15.23 %)
- Perfumes and Cosmetics (+ 14.58 %)
- Furniture (+ 13.13 %)
- Clothing (+ 11.22 %)
- Home Accessories (+ 10.22 %)
- oys (+ 4.72 %)
- Household Electrical Equipment (+ 3.62 %)
- Silverware and Decoration (+ 3.30 %)
- Shoes and Leather Products (+ 2.74 %)

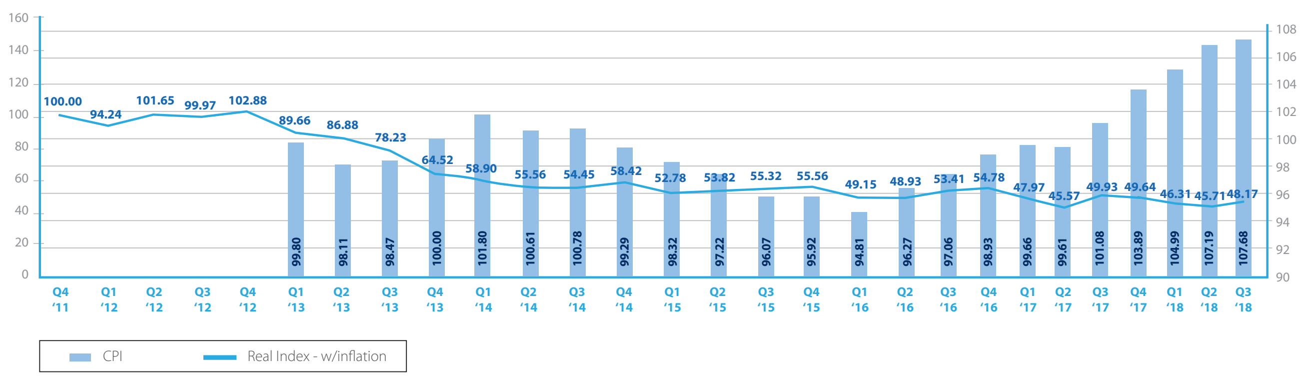
As a result, with the base index 100 fixed at the fourth quarter of 2011, and with a quarterly inflation rate of +0.45% for the third quarter of 2018, as per the official CAS report, "BTA-Fransabank Retail Index" (with all sectors included) registered 48.17 for the third quarter of the year 2018. This figure compares to the level of 45.71 for the second quarter of 2018.

BTA - Fransabank Retail Index for Q3 - 2018 (Base 100 : Q4 - 2011)

	2011	2012				2013				2014			
	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
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
CPI						99.80	98.11	98.47	100.00	101.80	100.61	100.78	99.29

	2015				2016				2017				2018		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Real Index - w/out inflation	51.51	51.94	52.77	52.911	46.27	46.79	51.49	53.86	47.51	46.76	52.00	53.17	49.09	49.49	**52.38**
Real Index - w/ inflation	52.78	53.82	55.32	55.56	49.15	48.93	53.41	54.78	47.97	45.57	49.93	49.64	46.31	45.71	**48.17**
CPI	98.32	97.22	96.07	95.92	94.81	96.27	97.06	98.93	99.66	99.61	101.08	103.89	104.99	107.19	**107.68**

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



The "BTA-Fransabank Retail Index" for the third quarter of 2018 translates, as in previous quarters, the harsh conditions that the trading community has been facing for years now, and reflects the persisting downtrend of the local economy. Official instances are fully aware of the gravity of the prevailing situation and are putting this matter on top of the priorities that the new government will have to address. For this, hopes are for a quick formation of a new cabinet, for the new corrective and salvatory measures to start being implemented.

4- Stabilization Policy

The Central Bank of Lebanon has continued its monetary stabilization policy during the first nine months of 2018, just like in the previous years. The stability in the exchange rate (USD1 = LBP 1,507.5) persists, thus contributing to overall monetary and economic stability.

To support this monetary stability, the monetary authorities have maintained its policy of moderating growth in money supply which increased by 1.3% only between September 2017 and September 2018. This is crucial also for controlling inflation.

Monetary Indicators

Indicators	2017 First Nine Months	2018 First Nine Months	% Change
USD/LBP Exchange Rate	1,507.5	1,507.5	0.0
Central Bank's Balance Sheet (USD, billion)	117.0	135.8	16.0
Central Bank's Assets in FX (USD, billion)	44.0	43.5	(1.1)
Central Bank's Gold Reserves (USD, billion)	11.86	10.9	(8.1)
Inflation Rate (%)	4.3	6.3	-
Money Supply M3*	139.2	141.0	1.3

(*) First Nine Months.
Sources: Central Bank of Lebanon, Association of Banks in Lebanon, and Central Administration of Statistics.

V. Financial Markets

The banking sector has continued its growth in the half nine months of 2018, but the capital-market activity regressed, and so did the activity of financial institutions during the same period.

1- Banking Sector

The statistics of the Association of Banks in Lebanon and the Central Bank indicate that the total assets of commercial banks stood at USD 241.1 billion as of end-September 2018, with an annual growth of 13% from end-September 2017.

The loans extended by commercial banks to the private-sector increased by 1.7% annually to reach 59.4 billion at end-September 2018. The dollarization rate of private-sector lending increased from 67.7% at end-September 2017 to 69.0% at end-September 2018.

The loans extended to the public sector increased by 4% on annual basis to reach USD 33.2 billion at end-September 2018.

The deposits of commercial banks at the Central Bank reached USD 123.9 billion at end-September 2018, with an annual growth of 24.9%.

The total private-sector deposits grew by 2.9% on annual basis to reach USD 173.9 billion at end-September 2018. The dollarization rate of these deposits increased from 66.9% at end-September 2017 to 69.1% at end-September 2018.

The private-sector loans-to-deposit ratio was 34.2% at end-September 2018, compared to 34.6% at end-September 2017.

The commercial banks' capital base expanded by 7.7% year-on-year to reach USD 20.1 billion at end-September 2018.

The net profits of six Lebanese banks listed on the BSE (Bank Audi, BLOM Bank, Byblos Bank, Bank of Beirut, BLC Bank and Bank BEMO) increased by 8.6% on annual basis, from USD 1 billion at end-September 2017 to USD 1.1 billion at end-September 2018.

Indicators of Commercial Banks (USD, billion)

Indicators	2017 First Nine Months	2018 First Nine Months	% Change
Total Assets	213.4	241.1	13.0
Private-Sector Deposits	179.1	173.9	2.9
Private-Sector Loans	58.4	59.4	1.7
Loans to Public Sector	33.07*	33.2	4.0
Deposits at Central Bank	99.2	123.9	24.9
Dollarization of Private Lending (%)	67.7	69.0	-
Dollarization of Private Deposits (%)	66.9	69.1	-
Loans to Deposits (%)	34.6	34.2	-
Private Funds	18.7	20.1	7.7

(*) End of 2017.
Sources: Central Bank of Lebanon and Association of Banks in Lebanon.

2- Financial Institutions

The total balance sheet of financial institutions in Lebanon totaled USD 1.57 billion as of end-September 2018, down by 6.8% from end-2017. The claims on resident customers dropped by 6.6% to USD 673 million, and the claims on resident financial sector also decreased by 21.8% during the same period. The claims on public sector shrank by 18.3%, while its deposits regressed by 74.5%.

The resident customer deposits increased by 13.2% to USD 159.3 million as of end-September 2018. The resident financial sector liabilities were 13% lower between end-2017 and end-September 2018.

The capital accounts of financial institutions declined by a low 1.6%, from USD 485 million as of end-2017 to USD 477 million as of end-September 2018.

These figures suggest a shrinking activity of the financial institutions operating in Lebanon in the first nine months of 2018.

Indicators of Financial Institutions (USD, million)

Indicators	End 2017	2018 First Nine Months	% Change
Total Balance Sheet	1,670	1,570	(5.9)
Claims on Resident Customers	720.6	673	(6.6)
Claims on Resident Financial Sector	438.1	342.6	(21.8)
Claims on Public Sector	5.8	4.8	(18.3)
Resident Customer Deposits	140.7*	159.3	13.2
Resident Financial Sector Liabilities	431.4	378.8	(12.2)
Public Sector Deposits	14.5	3.7	(74.5)
Capital Accounts	485	477	(1.6)

(*) First Nine Months.
Source: Central Bank of Lebanon.

3- Beirut Stock Exchange

The figures announced by the Beirut Stock Exchange (BSE) indicate that total trading volume reached 65.5 million shares in the first nine months of 2018, with an increase of 4.4% from 62.7 million shares in the same period last year.

But the total trading value decreased by 6.9% from USD 523.6 million to USD 487.7 million during the same period.

Market capitalization of BSE decreased by 14.7% on annual basis to reach USD 9.68 billion at end-September 2018.

The market liquidity ratio improved to 5.0% as of end-September 2018, relative to 4.6% in the same period of 2017.

Beirut Stock Exchange Indicators

Indicators	2017 First Nine Months	2018 First Nine Months	% Change
Market Capitalization (USD, billion)	11.35	9.68	(14.7)
Total Trading Value (USD, million)	523.6	487.7	(6.9)
Total Trading Volume (Shares, thousand)	62,694	65,480	4.4
Liquidity Ratio (%)	4.6	5.0	

Sources: BSE and Central Bank of Lebanon.

VI- Foreign Sector

The balance of payments, mirroring the aggregate foreign sector activity, experienced a deficit in the first nine months of 2018 relative to a lower deficit for the same period of 2017, due to stable capital inflows and widening trade deficit.

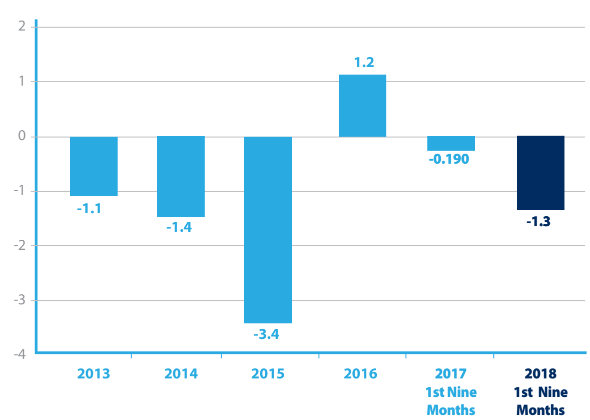
1- Trade Balance

For the first eight months of 2018, the value of total exports reached USD 2 billion, with an increase of 4.3% from a year later. In parallel, total imports grew by 4.8% to reach USD 13.7 billion during the same period. As such, the trade deficit widened by 4.8% on annual basis to reach USD 11.7 billion at end-August 2018.

The export-to-import coverage ratio was stable at 14.5% in the first nine months of 2017 and 2018.

These figures indicate a better trade activity for Lebanon, fueled by an improving export activity and also improving import activity. The total amount of foreign trade expanded from USD 15 billion at end-August 2017 to USD 15.7 billion at end-August 2018, by USD 500 million during this period.

- **Balance of Payments** (USD, Billion) -



2- Capital Balance

The financial inflows to Lebanon stabilized at nearly USD 10.6 billion in the first nine months of 2017 and 2018. This mirrors continued capital inflows from foreign markets, which is partially stimulated by higher interest rates in Lebanon.

3- Balance-of-Payments

The statistics announced by the Central Bank show that Lebanon's balance of payments recorded a deficit of USD 1.3 billion in the first nine months of 2018, relative to a lower deficit of USD 190 million in the same period last year. The recorded deficit was due to a decrease of USD 2.9 billion in the net foreign assets of banks and financial institutions, and an increase of USD 1.6 billion in the net foreign assets of the Central Bank.

Foreign-Sector Indicators (USD, billion)

Indicators	2017 First Eight Months	2018 First Eight Months	% Change
Trade Deficit	11.2	11.7	4.8
Exports	1.9	2.0	4.3
Imports	13.1	13.7	4.8
Capital Inflows	10.6	10.6	0.0
Balance of Payments	(0.6)	(1.1)	-
Balance of Payments (First Nine Months)	(0.190)	(1.3)	-

Sources: Higher Customs Council and Central Bank of Lebanon.

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VII- Growth Prospects

Real economic growth for 2018 is estimated at 1-1.7%, down from previous estimates of 1.5-2%, based on the current performance of economic sectors and international estimates of IMF and Economic Intelligence Unit (EIU). This decline in growth estimates is caused by the current delay in forming a new government and hence continued political conflict in Lebanon. This growth in Lebanon remains lower than that recorded for MENA (4.5%), Mashreq countries (4.8%), emerging and developing countries (4.7%), and the world economy (3.7%), according to IMF estimates.

The economic growth which could be achieved in 2018 will be fueled by the sustained expansion in private and government consumption spending, private investment, export and import activity, and hence domestic demand. It will be also fueled by the slight improvement in the agricultural and industrial activity, and the better performing services sector, and hence domestic supply.

Economic growth prospects could be better in the coming period, especially if a new government is formed in the near future which would implement the CEDRE sectorial, economic and financial reforms.

Lebanon is not threatened by its monetary stability, as some political and economic parties are declaring. The country is experiencing a continued economic growth, uninterrupted capital inflows, high foreign currency reserves at the Central Bank, moderate inflation, growing banking sector with substantial assets, continued borrowing by the government from domestic and foreign sources, high private consumption, high dollarization, and substantial liquidity in domestic markets. Also, the international credit rating agencies (such as S&P and Moody's) have maintained a positive financial rating for Lebanon. In addition, the fiscal deficit-to-GDP ratio dropped from 14% to 10% between 2006 and 2018, and the debt-to-GDP ratio also declined from 183% to 150% during the same period.

Study - Electricity Sector in Lebanon: Crisis Challenges & Reform Measures

Introduction

This study deals with the electricity-sector crisis in Lebanon, which has aggravated over the last years; its history and real causes; its past and current conditions; its potential future trends; the size of power deficit and its trajectory; the effects of the crisis on economic, financial and social levels; and the reform attempts of the sector and major reasons for its failure. The study also highlights the position of the electricity sector in the government's "Capital Investment Program" (CIP) and the vision of the international community for its effective reform. In addition, the study indicates the significance of "corporatization" of EDL as a crucial component of the reform process of the electricity sector. The study presents several recommendations for the measures and actions needed to reform this sector.

I. Electricity Sector: Past, Present and Future Conditions

The Lebanese remember very well how the power provision was 24/24 before the eruption of civil war in 1975. During that period, Lebanon was exporting electricity to some neighboring countries like Syria. In this respect, the status of the electricity sector before 1975 was as follows:
- Production capacity: 569 mw.
- Consumption: 355 mw.
- Surplus: 120 mw.
- Daily power provision: 24 hrs.

Between 1975 and 1992, the electricity sector started to deteriorate, recording a deficit in production and provision, as follows:
- Production capacity: 1,075 mw.
- Consumption: 1,125 mw.
- Deficit: 150 mw.
- Daily power provision: 20 hrs.

Few months following the end of the war in 1992, and the launching of the reconstruction process, the power provision was 18-19 hrs daily. But it started to deteriorate gradually, since then, where the power provision declined to 10-15 hrs daily in some areas, and to 21 hrs daily in Beirut.

Between 1992 and 2018, the electricity sector status was as follows:
- Production capacity: 2,300 mw.
- Consumption: 3,500 mw.
- Deficit: 1,200 mw.
- Daily power provision: 10-15 hrs (except Beirut 21 hrs).

The Interruption in power supply has forced people, institutions and companies to depend on own private generators or subscribe in public generators owned by the private sector, paying monthly fees higher than those paid to EDL. As such, they are paying two bills, one to the government, and the other to owners of the private generators. Consequently, financial burdens are increasing on the Lebanese citizens. Also, corporates and institutions working in the productive and services sectors, are facing the challenge of high production costs, leading to lower competitive capacities, and consequently to weakening of the potentials of the Lebanese economy.

It is significant to ask why the conditions of the electricity sector are worsening and aggravating and its link to EDL?

EDL has a special monopoly in the generation, transmission, and distribution of power to all the Lebanese regions. It owns seven thermal plants, in Zouk, Jiyeh, Tyre, Baalbeck, Zahrani, Der Amar and Harishah, all using fuel, diesel and gas. The presumed power generation capacity of these plants is estimated at 2038 MW, but actually they produce only 1685 MW, which means that there is a loss of 353 MW.

On the other hand, EDL owns three power generation plants using water energy: Litani plant, Nahr Al-Bared plants, and Nabaa Al-Safa plants. The presumed power generation capacity of these plants is estimated at 2206 MW, but actually they generate power less than this capacity.

The estimated power generation capacity of all those plants, in current years, is nearly 2300 MW, while

Lebanon's needs are estimated at 3500 MW, thus leading to a power deficit of 1200 MW. The available domestic and international estimates assert that Lebanon needs a power generation capacity of 4153 MW at peak hours by year 2023. This raises the power deficit in Lebanon by year 2023 to nearly 1853 MW in case no power generation capacity is added to cope with the expected increase in the demand for this power..

II. Causes of the Electricity Crisis

The current electricity sector in Lebanon is unable to provide continued and cost-effective power to all regions. Its deteriorating conditions are due to political, economic and financial reasons. The sector remains a hostage of the continued political conflicts; ineffective management; weak institutional, administrative and technical capabilities; weak operational and maintenance investments; weak supportive infrastructure; and inefficient rehabilitation and development projects in this sector.

Other reasons include the continued malfunctioning production plants; substantial shortage in energy-generating stations and transmission networks; outdating power generation stations where the age of some stations goes back to 20 years and others to 40 years; attacks on public networks; and weak collection of power fees.

The recurrent Israeli attacks on Lebanon, during certain periods, have led to the destruction of some power generation plants, and public networks. This caused lower generation, transmission and distribution of electricity to several Lebanese regions which were exposed to such attacks.

Also, there is the technical, non-technical and financial losses of the electricity sector.

EDL manages a wide network of major transmission grids, of 1615 km, of which 1336 km air lines and 279 km underground lines. This network needs urgent additional linkages.

EDL loses nearly 45% of the generated power due to technical losses, or weak and deteriorating parts of the transmission and distribution network. Add to this the non-technical loss due to the theft of 25% of generate power, and a third loss due to the uncollected 5% of the issued bills, despite the fact that the maintenance and collection activities are undertaken by private companies since 2010.

There is also a major development that took place over the last years and increased the demand for power: the hosting of some 1.5 million Syrian refugees who are sharing the already weak electricity supply in the country.

One of the major reasons of the current electricity crisis in Lebanon is the subsidization of the sector. EDL sells the generated energy at a cost lower than the production cost; and the price of electricity goes up and down in line with the international price of fuels.

Since electricity is subsidized by the government, it is obvious that EDL does not have the incentive to increase power generation, since any increase in the supply of electrical power will incur higher financial losses. Also, such a subsidy encourages the society to consume more energy. The financial losses of EDL is due to several reasons: (i) Exempting some regions from paying the electricity bills due to security and social reasons; (ii) uncollected electricity bills from specific regions due to political reasons; (iii) Some influencing parties do not pay the due bills; (iv) Some EDL employees have specific privileges concerning the tariff; (v) Electricity companies in some regions have also specific privileges concerning the tariff; and (vi) Some new subscribers in government electricity have no electricity meters so far, which increases their consumption of the electrical power with no bills due.

All these unstable conditions in the electricity sector have led to deteriorating services, loss of consumer confidence, high electricity cost, and weak retention of costs. As such, the electricity sector relies heavily on the subsidization provided by the government in order to cover the annual financial losses of EDL.

III. Economic, Financial and Social Implications of the Electricity Crisis

The deterioration of the general conditions of the electricity sector has several negative repercussions on the Lebanese economy, private sector, and social groups. Available data indicate that nearly 75% of the Lebanese companies consider the sector as the prime impediment to its growth and competitive edge, due to higher production costs and weaker competition in the face of foreign imported products, let alone the already weak competition of the national exported products in regional and international markets.

In this context, the relevant industrial institutions in Lebanon and the World Bank indicate that the industrial sector incur annual loses of USD 400-500 million due to interrupted electrical power for several hours daily.

Also, this electricity problem increases the financial burdens on citizens who pay two bills, one for the government, and the other for owners of the private generators.

The governments of Lebanon did not adopt serious and effective actions to reform the electricity sector over the past years. This has caused substantial and growing financial drain to the government's public finances, due to continued transfers to EDL, by nearly USD 1-1.5 billion annually. This has raised the level of government's financial support to the electricity sector to over USD 36 billion in current years which represents more than 45% of the gross public debts which currently stands at USD 80 billion, and 67% of GDP.

One can project that the electricity deficit to increase further in the coming period, thereby feeding the public debt and hampering future economic growth, unless the government undertakes effective actions to reform the electricity sector.

IV. Reform and Development Measures for the Electricity Sector

The government and concerned authorities have attempted to deal with the electricity crisis over the past years. In fact, in 2003, the late Prime Minister Rafic Hariri prepared a new law for the electricity sector that was approved by the government and the Parliament. The Law organizes the sector across two lines: the first is the establishment of the regulating authority, and the second is the generation of electricity. Unfortunately, following the assassination of Hariri, namely in 2005, the law was not implemented, nor any new contract, and nor any construction of a new plant or any development of an existing one. Only two Turkish power-generating ships were rented, one providing 170 MW and the other 70 MW, with high costs as indicated by some observers.

In line with the encouragement of the World Bank, the government showed interest in private sector participation in the electricity sector. In this respect, the "Electricity Organizing Law" no. 462 dated 2/9/2002 was approved. The law assured the appointment of the electricity regulatory authority, and the specific roles of the government, the regulatory authority, and the private sector. Unfortunately, the preceding governments seized the implementation of this law, did not appoint the regulatory authority, and resumed the previous law issued by the Decree no. 16878 dated July 10, 1964 which established EDL with its vertically monopoly structure for the power generation, transmission and distribution functions.

The World Bank had proposed a plan for restructuring and reforming the electricity sector in 2006. The plan focused on the following pillars:

(i) Implementation of cost-cutting projects.
(ii) Restructuring EDL, and enhancing the management and human skills, in order to increase efficiency and productivity.
(iii) Injecting new skills and potentials into EDL, so as to implement cost-cutting projects and enhance total supply of electricity.

In turn, the Ministry of Energy and Water conducted a paper on "The Electricity Policy for the Period 2010-2015", which was approved and endorsed by the Council of Ministers by the Resolution no. 1 dated 21/6/2010. The paper targeted the stability of the electricity sector, financial balance, provision of power supply 24/24, and transforming Lebanon into a power-exporting country by year 2018.

The Ministry's plan focuses on the following pillars:

(i) Generation of 4000 MW in year 2014.
(ii) Generation of 5000 MW starting 2015, mainly by renting energy; establishment of a fuel-power plant with a capacity of 700 MW; rehabilitation and development of the Jiyeh, Zouk, Der Amar, Zahrani, Baalback, Tyre and Harisheh plants; and establishment of new plants with 1500 MW using the PPP model and 1000 MW later.

(iii) Construction of a station for transforming liquid gas into natural gas, and importing liquid natural gas through tenders.
(iv) Signing contracts with transmission service providers.
(v) Establishment of a maritime port for liquid natural gas.
(vi) Restructing EDL.
(vii) Formation of a joint Ministerial Committee to supervise the implementation of this plan.

The paper estimated the total cost of this plan at USD 4.8 billion, to be provided as follows:
(i) USD 2.3 billion from the private sector.
(ii) USD 1 billion from external sources.
(iii) USD 1.5 billion from the Lebanese Government.

But, unfortunately, this plan was not implemented because of the emerging political conflict.

It is worth noting here that the Cabinet dealt directly with the electricity file in 2011, issuing the Law no. 181 which specifies a specific interval (three months) for appointing the electricity regulatory authority and other directions, but the political parties did not carry this mission to date.

Also, it is worth mentioning that the government approved, in 2011, the spending of USD 1.2 billion to achieve a 24/24 power supply daily, but only 750 MW was provided from the two Turkish power generating ships. By this, the electricity crisis continues.

The Lebanese government has planned for a reform plan for the electricity sector in its economic and investment program which was presented to CEDRE Conference in April 2018. What is worrying is that if the government resorts further to the alternative of renting new power-generating ships, and does not implement real reforms in the electricity sector, then Lebanon may not get the financial aid approved by the World Bank, International Monetary Fund, Arab Funds and Donor countries which all stressed the need to reform the electricity sector.

Therefore, the implementation of a reform plan for the electricity sector is always impeded by the political will and continued political conflict. The sector is a hostage of unstable political conditions. It is hoped that the new government would implement the CEDRE required reforms and hence the electricity-sector reforms, in order to enhance the sector's prospects and its contribution to GDP.

V. The Electricity Sector and the Government's Capital Investment Program

The government of Lebanon conducted a global economic study entitled "A Vision for Stabilization, Growth and Employment" which was presented to the CEDRE Conference in Paris in April 2018. Through this study, the government targeted international financing for the sake of modernizing and developing Lebanon's infrastructure. Lebanon received an approval for international financial aid in excess of USD 11 billion from regional and international governments, and economic and financial organizations.

The government's economic study included several economic, sectorial and financial reforms, of which the reform of the electricity sector. The study targeted the attraction of private investments to this sector in several phases.

The total costs of the Capital Investment Program of the government stands at nearly USD 17.3 billion, extending between 2018 and 2025 for two phases 2018-2021 and 2022-2025. The program targets the sectors of water, waste water, solid wastes, transport, electricity, telecoms, tourism and manufacturing. The total costs are distributed as follows: USD 10.8 billion for the first phase (2018-2021), and USD 6.4 billion for the second phase (2022-2025). The financing sources are determined as follows: USD 2.3 billion from the government, USD 5 billion from the private sector, and USD 10 billion from official lenders and donors.

The amount of capital investments allocated to the electricity sector reaches USD 3.6 billion, distributed between USD 2.3 billion for the first phase (2018-2021), and USD 1.4 billion for the second phase (2022-2025). These planned investments account for 20.8% of the total planned investments in the government's program.

The Lebanese Government's Capital Investment Program By Sectors (USD, million)

Sectors	First Phase (2018-2021)	Second Phase (2022-2025)	First and Second Phases (2018-2025)
Water	2,257	878	3,135
Waste Water	1,364	1.040	2,404
Solid Waste	1,400	0	1,400
Transport	2,863	2,800	5,683
Electricity	2,151	1,441	3,592
Telecoms	700	0	700
Industrial & Tourism Infrastructure	84	255	339
Total	**10,819**	**6,434**	**17,253**
Financing:			
- Government			2,253
- Private Sector			5,000
- Official Lenders & Donors			10,000

Source: Lebanese Government.

By planning such investments to the electricity sector, the government seeks to enhance the overall productivity of the national economy and reducing the cost of doing business by the private sector.

The Lebanese government envisages that all new generation capacity in the electricity sector, except for the replacement plant, will be provided by the private sector under "Power Purchase Agreements", including power generation from sources other than hydrocarbons, including solar and wind.

Also, the government also envisages the building of new plants for the production of liquid natural gas by the private sector so as to support the process of transformation from fuel to gas in the already existing plants. This transformation will reduce the cost of power generation and pollution. Pending the completion of construction of new capacity, the government is considering the possibility that part of the gap in electricity supply will be covered under power purchase arrangements with private sector power barges. The investments in transmission and distribution networks with ongoing and new projects are required not only to expand the networks in line with the increase in generation capacity as part of the Capital Investment Program, but more importantly in the short term to reduce the excessive technical losses. This would also contribute to reducing budget transfers to EDL.

The Government adopted in its economic study and Capital Investment Program, an "Emergency Electricity Policy" which includes:

(i) Power purchase arrangements with private sector power barges with a supply capacity of 825 MW, during the construction of new power plants in partnership with the private sector under "Independent Power Producer" (IPP) arrangements enabled by the PPP law.

(ii) Construction of liquid natural gas infrastructure under PPP arrangements as part of the strategy to adopt a clean source of energy for power generation other than hydrocarbons, which would reduce electricity generation costs.

(iii) Construction of photovoltaic and wind power facilities under PPP arrangements as part of the objective to diversify to clean energy. The Government has recently entered into IPP agreements for the development of wind power and tenders have been issued for the construction of solar photovoltaic plants.

(iv) Electricity tariffs will be adjusted with a view to reduce EDL's losses.
(v) Establishing the regulatory authority to regulate the sector, as per article 7 of Law no. 462/2002 entitled "Regulation of the Electricity Sector". The Government intends to review the aforementioned law with the objective of updating it.
(vi) Corporatization of EDL so that it becomes a well-established company with an assigned Board. The Board must overview EDL's functions based on commercial foundations and create the necessary framework for activities related to generation, transmission and distribution. In addition to that, the status of the contracted employees within EDL will be settled in order to secure EDL's operation and sustainability.

VI. Corporatization of EDL

The Higher Council for Privatization conducted in May 2002 a study on the corporatization of EDL, and presented it to the Council of Ministers for approval. The Council is delegated to implement the corporatization process of EDL, according to the Law no. 462/2002.

The Council's plan for restructuring EDL focuses on the following pillars:
1- Establishing a holding company.
2- Division of the activity of selling and buying power from the transmission activity, thereby establishing the "Power Selling and Buying Company" under the supervision of the Regulatory Authority and the custody of the Ministry of Energy and Water.
3- Granting licenses to the automatically privatized companies.

Two propositions were presented concerning the principles of the suggested restructuring of EDL:
(i) A restructuring that maintains the unity of EDL; independence of each of the activities of generation, transmission and distribution; establishment of a holding company which owns the shares of all companies derived from EDL in the short term; establishment of three power generation companies distributed among the current plants taking into consideration the conditions of competition encouragement and private-sector involvement.
(ii) Establishment of a transmission company which comprises, in the first stage, three independent activities: power transmission, network operation, and buying and selling power. Later, the buying-selling activity will be run by an independent company, so as to divide the financial-affairs segment from the operational-activity segment. Equality should be preserved between all public and private companies working in the electricity sector on commercial basis. This proposition includes also: dealing with the bad performance of the overall sector, seizure of indirect support, and encouragement of private-sector investments.

This restructuring plan for EDL as a step towards reforming the electricity sector was not put into implementation. Hence, the corporatization of EDL stands still due to the lack of general political consensus.

VII. Practical Measures and Steps Needed for the Reform of Electricity Sector

Reforming the electricity sector, in an effective and real way, requires the adoption of a national strategy based on three major pillars:
1- Pillar One: The role of the public sector in formulating and approving a national policy that continues for a certain period. All derived plans, laws and decrees should be in conformity with this policy.
2- Pillar Two: The role of the private sector (and some public sector) as a source of financing, construction, operation and maintenance for the sector.
3- Pillar Three: The role of the Regulatory Authority, as a transparent and independent authority, responsible for organizing, licensing, supervision, and implementing the government policy in this sector.

Also, it is necessary to seize the monopolistic policy in the electricity sector, and opening it to competition and private-sector participation. This is crucial for:

1- Enhancing the generation capacity available to the society.
2- Better power service, at a suitable and low cost.
3- Improving and developing the power sector, as well as its economic contribution.
4- Lessening the financial burdens on the government's public finances.

It is crucial that the Government adjusts the current power tariff to accommodate the real cost of power generation by EDL. This could mean freeing the tariff to be determined by the forces of demand and supply whereby an optimal price could emerge, a price that:
1- Seizes the financial deficit of EDL.
2- Reduces the annual budget deficit almost to its half.
3- Increases power generation.
4- Reduces the overall burden on citizens, perhaps by eliminating the cost of the power bill of private generators.

Growing dependence on alternative or clear or renewable energies is an appropriate solution to the electricity crisis in Lebanon, due to economic, environmental and social reasons. Hence, the Government should seek to depend more and more on such energies for power-generation; reducing the overall power, economic and environmental bill; and provision of power 24/24 for the society.

Renewable energies include wind energy (batteries are charged by the wind), solar energy (batteries are charged by the sun), water energy (power generation by water dams), sea waves (power generation by mills), and photovoltaic panels (housing power generation by the sun).

Eventually, a hybrid and integrated system of all these energies could be an appropriate alternative for developing the power sector in Lebanon.

We can also recommend other practical and necessary measures for reforming the electricity sector, such as:
1- The Government could allow the private sector to participate in some power-generation segments, whereby private companies could provide power to final consumers directly. The sector's monopoly could stay in the hands of the Government to handle the activities of construction and maintenance of the high-voltage grid networks.
2- The Government has to resort to power generation from the garbage plants spread in some regions.
3- The Government should seriously and effectively combat corruption, and enhance the power management.
4- Construction of new power-generation plants (three to four plants) to accommodate the power shortage (nearly 2600 MW).
5- The Government could directly buy fuel from exporters without using import companies, hence reducing overall costs.
6- Implementation of PPP projects in the power sector, mainly to establish new power-generation plants.
7- Rehabilitation of Zouk, Jiyeh, and Der Amar plants with private-sector projects.

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