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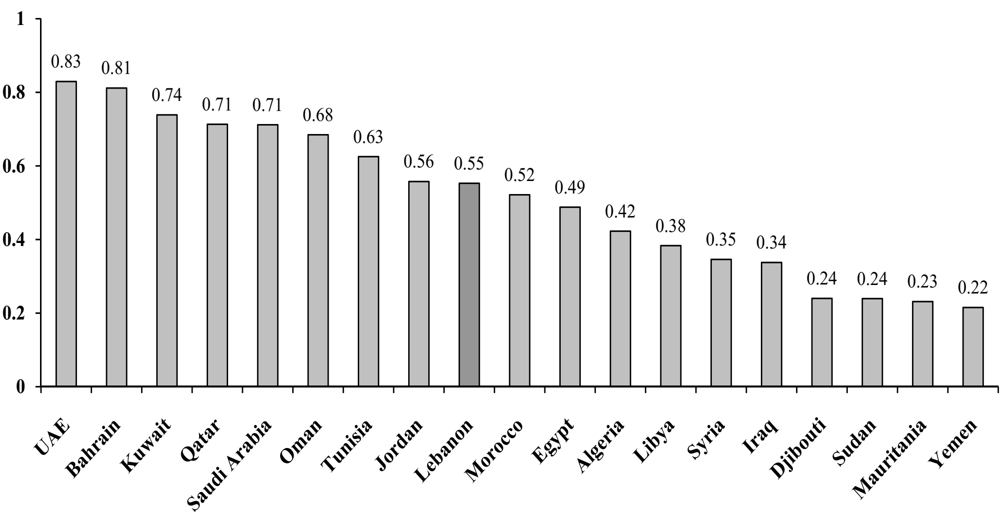
BYBLOS BANK SAL
Economic Research & Analysis Department

LEBANON THIS WEEK

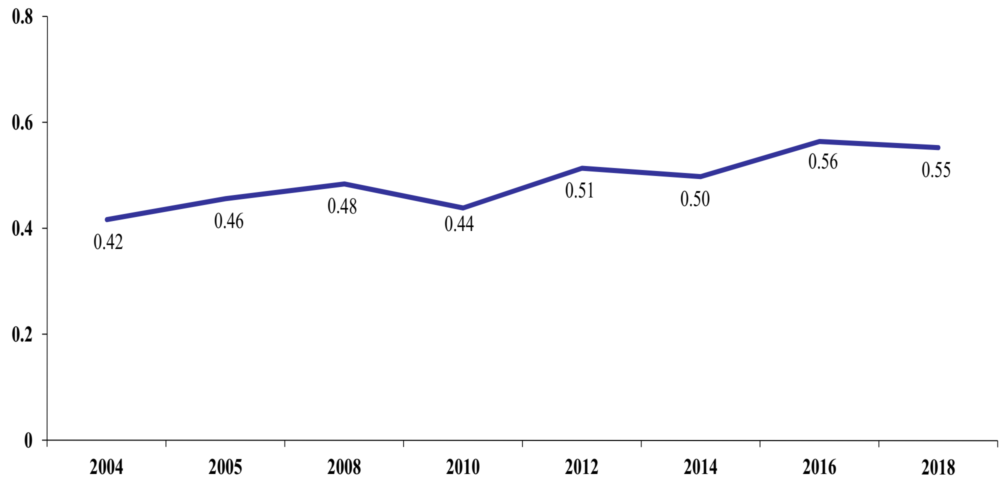
In This Issue

Charts of the Week

Development Level of Electronic Government in Arab Countries in 2018*



Evolution of Electronic Government Development in Lebanon*



**a higher score reflects a more developed electronic government system*
Source: United Nations' E-Government Development Index, Byblos Bank

Quote to Note

"Due to slow internet speed and high connectivity costs, electronic commerce has not significantly penetrated the Lebanese market."

The U.S. Department of Commerce, on the opportunity costs for the Lebanese economy of an underdeveloped telecommunications sector

Number of the Week

2.02%: The spread between the weighted average cost of funds and the weighted return on the uses of funds in US dollars at commercial banks in Lebanon as at May 2018, according to the Association of Banks in Lebanon

Lebanon in the News

$m (unless otherwise mentioned)	2017	Feb 2017	Nov 2017	Dec 2017	Jan 2018	Feb 2018	% Change*
Exports	2,844	226	229	251	283	248	9.73
Imports	23,130	1,648	1,726	2,278	1,705	1,436	-12.86
Trade Balance	(20,286)	(1,422)	(1,497)	(2,027)	(1,422)	(1,188)	-16.46
Balance of Payments	(156)	342	68	854	237	(80)	-123.32
Checks Cleared in LBP	21,677	1,676	1,880	2,131	1,733	1,686	0.59
Checks Cleared in FC	46,578	3,547	3,687	4,127	3,973	3,480	-1.89
Total Checks Cleared	68,255	5,223	5,567	6,258	5,706	5,166	-1.09
Budget Deficit/Surplus	(3,300.82)	(453.93)	(865.19)	(350.41)	(318.96)	(407.93)	-10.13
Budget Primary Balance	1,882.86	(189.09)	(119.74)	15.77	(46.38)	(145.03)	-23.30
Airport Passengers***	8,235,845	462,605	592,890	626,866	597,768	504,974	9.16

$bn (unless otherwise mentioned)	2017	Feb 2017	Nov 2017	Dec 2017	Jan 2018	Feb 2018	% Change*
BdL FX Reserves	35.80	35.44	35.69	35.80	35.25	34.39	-2.97
In months of Imports	18.57	21.50	20.68	15.72	20.67	23.95	11.36
Public Debt	79.52	76.15	79.37	79.52	80.39	81.54	7.08
Bank Assets	219.86	204.93	216.21	219.86	219.86	223.07	8.85
Bank Deposits (Private Sector)	168.67	163.86	166.81	168.67	168.66	170.45	4.02
Bank Loans to Private Sector	60.32	56.49	59.55	60.32	59.69	59.03	4.49
Money Supply M2	52.48	54.96	51.96	52.48	52.88	53.44	-2.75
Money Supply M3	138.38	133.83	136.99	138.38	138.62	139.34	4.11
LBP Lending Rate (%)****	8.09	8.37	7.98	8.09	8.56	8.67	30bps
LBP Deposit Rate (%)	6.41	5.56	5.88	6.41	6.53	6.51	95bps
USD Lending Rate (%)	7.67	7.14	7.32	7.67	7.74	7.90	76bps
USD Deposit Rate (%)	3.89	3.57	3.80	3.89	3.91	3.96	39bps
Consumer Price Index**	4.40	4.90	4.80	5.00	5.60	5.20	30bps

** Year-on-Year ** Year-on-Year percentage change ***includes arrivals, departures, transit*
***** Starting January 2016, lending rates in Lebanese pounds are reported before any subsidy or facility from reserve requirements according to Intermediate Circular No 389, and as such they are not comparable year-on-year*
Note: bps i.e. basis points
Source: Association of Banks in Lebanon, Banque du Liban, Ministry of Finance, Central Administration of Statistics, Byblos Research

Capital Markets

Most Traded Stocks on BSE	Last Price ($)	% Change*	Total Volume	Weight in Market Capitalization
Audi Listed	5.10	0.00	210,000	20.29%
Solidere "A"	6.59	(1.20)	54,954	6.56%
BLOM GDR	9.50	(1.45)	23,000	6.99%
Solidere "B"	6.64	0.30	14,727	4.30%
Byblos Common	1.40	(1.41)	13,767	7.88%
Audi GDR	5.15	(0.96)	8,000	6.15%
HOLCIM	16.60	0.48	1,000	3.22%
Byblos Pref. 08	79.00	(1.43)	430	1.57%
BLOM Listed	9.85	0.00	-	21.08%
Byblos Pref. 09	86.00	0.00	-	1.71%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Nov 2018	5.15	99.75	6.27
May 2019	6.00	98.88	7.59
Mar 2020	6.38	96.88	8.59
Oct 2022	6.10	88.38	9.59
Jun 2025	6.25	81.50	10.07
Nov 2026	6.60	80.75	10.09
Feb 2030	6.65	77.63	9.96
Apr 2031	7.00	78.75	9.99
Nov 2035	7.05	77.63	9.76
Mar 2037	7.25	78.88	9.73

Source: Byblos Bank Capital Markets

	Aug 20-24	Aug 13-17	% Change	July 2018	July 2017	% Change
Total shares traded	328,528	329,855	(0.4)	2,161,984	5,916,251	(63.5)
Total value traded	$2,102,322	$2,993,518	(29.8)	$22,895,761	$59,216,017	(61.3)
Market capitalization	$10.05bn	$10.08bn	(0.32)	$10.35bn	$11.39bn	(9.1)

Source: Beirut Stock Exchange (BSE)

Demand for housing improves in second quarter of 2018 on expectations of renewed mortgage subsidies

Demand for residential real estate in Lebanon improved in the second quarter of 2018, as reflected by the results of the Byblos Bank Real Estate Demand Index. The Index posted a monthly average of 43.7 points in the second quarter of 2018, constituting an increase of 31.8% from 33.2 points in the first quarter of 2018 and a decline of 16.3% from 52.3 points in the second quarter of 2017. The second-quarter results constitute their 14th lowest level in 44 quarterly readings.

Demand for housing in Lebanon improved in the second quarter of 2018, mainly due to the announcement in April by the ministries of Finance and Social Affairs that the government intends to allocate LBP 1,000 billion to subsidize interest rates on housing loans, which raised expectations that affordable mortgages for limited-income citizens will resume, following their suspension at the beginning of 2018. In addition, another important, but understated, factor that contributed to the improvement of the Index in the second quarter is the fact that Banque du Liban and commercial banks processed pre-approved applications for subsidized mortgages that were pending during the first quarter of the year, which allayed the concerns of applicants at the time.

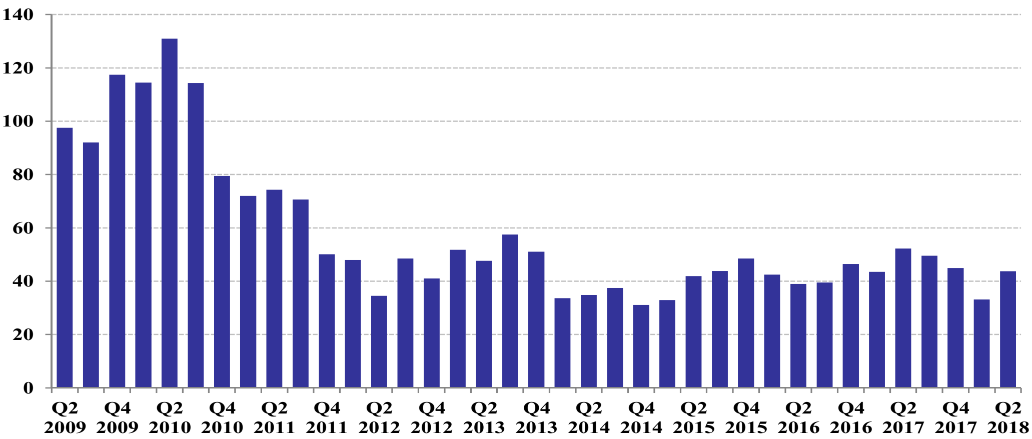
However, the increase of the Index in the second quarter does not represent a change in the dynamics of the housing market, as the improvement comes from a very low base following the first-quarter results that constituted the Index's third lowest level in 44 quarterly readings. In fact, the Index's average monthly score in the second quarter of 2018 is 67% lower than the peak of 131 points registered in the second quarter of 2010, and remains 60% below the annual peak of 109.8 points posted in 2010. It is also 27% lower than the Index's monthly trend average score of 60 points since the Index's inception in July 2007.

The answers of respondents to the Index's survey questions in the second quarter of 2018 show that 4.9% of Lebanese residents had plans to either buy or build a residential property in the coming six months, relative to 3.8% in the first quarter of the year and to 5.9% in the second quarter of 2017. In comparison, 6.8% of residents in Lebanon, on average, had plans to buy or build a residential unit in the country between July 2007 and June 2018, with this share peaking at nearly 15% in the second quarter of 2010.

Demand for housing in the second quarter of 2018 was the highest in the South, as 7.8% of its residents had plans to build or buy a house in the coming six months, compared to 3.4% in the first quarter of 2018. The Bekaa followed with 6% of its residents planning to build or buy a residential unit in the coming six months, up from 1.7% in the previous quarter; while 4.6% of residents in Mount Lebanon had plans to buy or build a house, relative to 3.2% in the preceding quarter. In addition, 4% of residents in the North intend to buy or build a residential unit, down from 6% in the first quarter of 2018, while 3% of residents in Beirut plan to build or buy a house, down from 4.6% in the previous quarter. Also, real estate demand increased among all income brackets in the second quarter of 2018.

The Byblos Bank Real Estate Demand Index is a measure of local demand for residential units and houses in Lebanon. The Index is compiled, implemented and analyzed in line with international best practices and according to criteria from leading indices worldwide. The Index is based on a face-to-face monthly survey of a nationally representative sample of 1,200 males and females living throughout Lebanon, whereby residents are asked about their plans to buy or build a house in the coming six months. The data segregates the Index based on age, gender, income, profession, geographic region and religious affiliation. The Byblos Bank Economic Research & Analysis Department has been calculating the Index on a monthly basis since July 2007, with November 2009 as its base month. The survey has a margin of error of ±2.83%, a confidence level of 95% and a response distribution of 50%. The monthly field survey is conducted by Statistics Lebanon Ltd, a market research and opinion-polling firm.

Byblos Bank Real Estate Demand Index



Source: Byblos Bank Economic Research & Analysis Department, based on surveys conducted by Statistics Lebanon

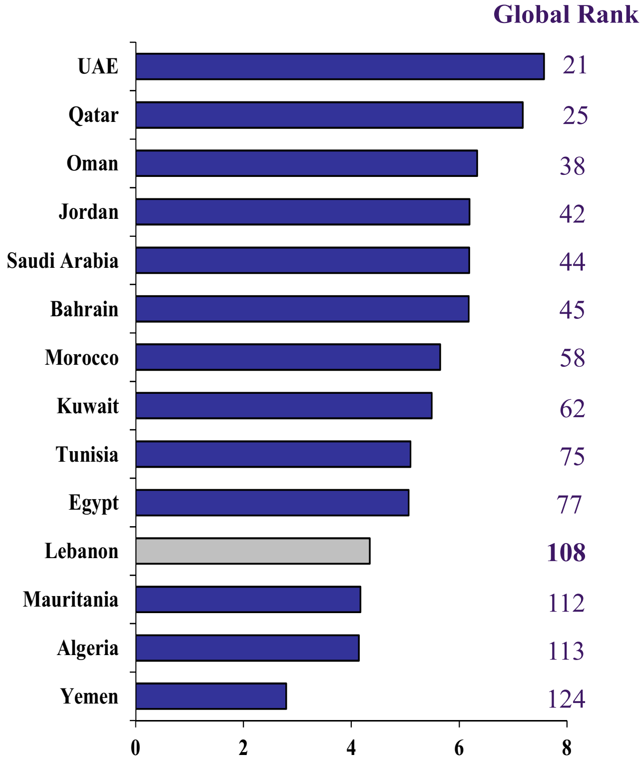
Lebanon ranks 108th globally, 11th among Arab countries in terms of property rights

The Property Rights Alliance ranked Lebanon in 108th place among 125 countries around the world and in 11th place among 14 Arab countries on its 2018 International Property Rights Index. Lebanon also came in 30th place among 32 upper middle-income countries (UMICs) included in the survey. Based on the same set of countries in the 2017 and 2018 surveys, Lebanon's rank regressed by seven spots from 100th place in 2017 to 107th place in 2018, constituting the 14th steepest deterioration globally.

The index measures the strength and protection of physical and intellectual property rights in a given country. It is a composite of 10 factors grouped into three equally weighted sub-indices that are the Legal & Political Environment Sub-Index, the Physical Property Rights Sub-Index and the Intellectual Property Rights Sub-Index. The index rates the property rights level of each country on a scale from zero to 10, with a score of 10 reflecting the highest level of property rights.

Globally, Lebanon has a stronger level of property rights than Cameroon, Ukraine and Nicaragua, while it has a weaker level of property rights than Mozambique, Ethiopia and Bosnia & Herzegovina among economies with a GDP of $10bn or more. Also, Lebanon's property rights system was better than Algeria and worse than Bosnia & Herzegovina among UMICs. Lebanon received a score of 4.3 points, nearly unchanged from the 2017 Index. Lebanon's score in 2018 came below the global average of 5.7 points, the Arab average of 5.5 points and the UMICs' average of 5.2 points. Finland has the highest property rights level worldwide, while Haiti has the lowest level globally.

International Property Rights Index 2018
Arab Countries Scores & Rankings



Source: Property Rights Alliance, Byblos Research

In parallel, Lebanon ranked ahead of India, Peru and Uruguay, while it came behind Morocco, South Africa and Nepal on the Physical Property Rights Sub-Index. This component examines the quality of the judicial protection of private property, the complexity of registering a property, and the ease of access to loans. Lebanon ranked ahead of Tunisia and behind Morocco in the Arab region, while it came ahead of Peru and behind South Africa among UMICs.

Also, Lebanon preceded only Albania, Armenia, Georgia, Bangladesh, Venezuela and Yemen globally on the Intellectual Property Rights Sub-Index. This category examines the level of protection of intellectual property, the strength of a country's patent laws, and the prevailing piracy rates. Lebanon came ahead of only Albania and Venezuela among UMICs and ahead of only Yemen regionally.

Further, Lebanon ranked ahead of only Nigeria, Pakistan, Ukraine, Chad, the Democratic Republic of Congo, Venezuela and Yemen globally on the Legal & Political Environment Sub-Index. This category examines the judiciary's independence from the influence of political and business groups, the extent that residents have confidence in and abide by the rules of society, the stability of the political system, and the control of corruption. Lebanon ranked ahead of only Yemen regionally, and preceded only Venezuela among UMICs.

Components of the 2018 International Property Rights Index for Lebanon

	Global Rank	Arab Rank	UMICs Rank	Lebanon Score	Global Average	Arab Average	UMICs Average
Physical Property Rights	57	9	11	6.6	6.5	6.6	6.3
Intellectual Property Rights	117	13	29	3.4	5.5	4.9	4.9
Legal and Political Environment	116	13	31	3.0	5.2	4.8	4.4

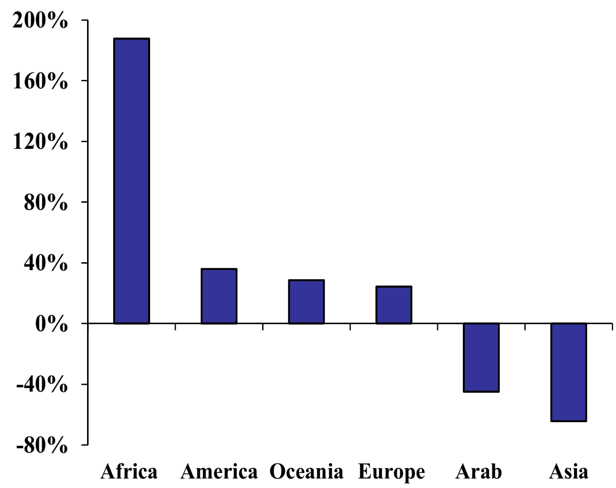
Source: Property Rights Alliance, Byblos Research

Tourist arrivals up 4% in first seven months of 2018

The number of incoming visitors to Lebanon totaled 1,115,866 in the first seven months of 2018, constituting an increase of 3.9% from 1,073,726 tourists in the same period of 2017 and a drop of 15.8% from 1,326,001 visitors in the first seven months of 2010, the record year for tourism activity in Lebanon. Also, the number of incoming visitors reached 262,779 in July 2018, up by 33.6% from 196,643 visitors in June 2018 and by 6.1% from 247,597 tourists in July 2017. Visitors from Europe accounted for 36% of the total in the first seven months of 2018, followed by those from Arab countries with 27.6%, the Americas with 19.2%, Asia with 7.3%, Africa with 5.9% and Oceania with 4.1%. Further, tourists from Iraq accounted for 10.8% of total visitors in the covered period, followed by visitors from the U.S. (10.3%), France (9.3%), Canada (6.1%), Germany (5.5%), Jordan (4.7%), Egypt (4.5%), England (3.8%), Saudi Arabia (2.8%) and Sweden (2.4%).

In parallel, the number of visitors from Oceania increased by 10.5% year-on-year in the first seven months of 2018, followed by those from Europe (+10.3%), the Americas (+8.4%), Africa (+3.5%) and Asia (+0.8%), while the number of visitors from the Arab region regressed by 5.8% year-on-year. On a country basis, the number of tourists from Brazil grew by 13.8% annually in the covered period, followed by visitors from Germany (+11.7%), France (+11.2%), Turkey (+11%), Egypt and the U.S. (+10.8% each), Sweden (+10.4%), Italy (+9.1%), England (+7.6%), Canada (+4.6%) and Jordan (+2.8%). In contrast, the number of visitors from the UAE dropped by 21.3% year-on-year in the first seven months of 2018, followed by visitors from Saudi Arabia (-19.4%), Kuwait (-14.4%), Iraq (-11.4%) and Venezuela (-4%).

Change in the Number of Tourist Arrivals from Main Sources in First Seven Months of 2018*



**from same period of 2010*
Source: Ministry of Tourism, Byblos Research

Consumer Price Index up 6.2% in first seven months of 2018

The Central Administration of Statistics' Consumer Price Index increased by 6.2% year on-year in the first seven months of 2018 compared to a growth of 4.2% in the same period of 2017. The CPI increased by 7.6% in July 2018 from the same month of 2017. The prices of water, electricity, gas & other fuels grew by 17% year-on-year in July 2018, followed by the prices of clothing & footwear (+14.6%), transportation costs (+12.9%), recreation & entertainment costs (+7.8%), actual rents (+6.1%), the prices of food & non-alcoholic beverages (+6%), healthcare costs (+5.9%), the cost of education (+4.1%), imputed rents (+3.8%), prices at restaurants & hotels (+3.5%), the prices of furnishings & household equipment (+2.9%), miscellaneous goods & services costs (+2.5%), the prices of alcoholic beverages & tobacco (+2%) and communication costs (+1%). The distribution of actual rents shows that old rents grew by 10.1% annually in July 2018, while new rents increased by 3.3% year-on-year.

Further, the CPI regressed by 0.2% in July 2018 from the preceding month compared to a month-on-month increase of 0.9% in June 2018. Healthcare costs increased by 1.7% month-on-month in July 2018, followed by the cost of food & non-alcoholic beverages (+0.5%), actual rents, prices at restaurants & hotels and recreation & entertainment costs (+0.3% each), the prices of alcoholic beverages & tobacco (+0.2%), imputed rents and communication costs (+0.1% each). In contrast, the prices of clothing & footwear decreased by 6.4% month-on-month in July 2018, followed by transportation costs (-0.6%), the prices of furnishings & household equipment and the cost of water, electricity, gas & other fuels (-0.4% each), while miscellaneous goods & services and the cost of education were unchanged in the covered month. The CPI increased by 0.1% month-on-month in July 2018 in the South. In contrast, the CPI regressed by 0.9% in the North, by 0.6% in Beirut and by 0.2% in Nabatieh, while it was unchanged in the Bekaa and Mount Lebanon from the previous month. In parallel, the Fuel Price Index decreased by 1.3% month-on-month in July 2018, while the Education Price Index was unchanged from June.

Coincident Indicator up 2.5% year-on-year in first half of 2018

Banque du Liban's Coincident Indicator, an index of economic activity in Lebanon, reached 298 points in June 2018 compared to 303.1 in May 2018 and 290.1 in June 2017. The Coincident Indicator, an average of 8 weighted economic indicators, decreased by 1.7% month-on-month and increased by 2.7% year-on-year in June 2018. The indicator averaged 311.8 in the first half of 2018, up by 2.5% from 304.2 in the same period of 2017. Also, the indicator averaged 309.7 in the 12 months ending June 2018, compared to 309 in the 12-month period ending May 2018 and 296.5 in the 12 months ending June 2017. As a result, the 12-month average coincident indicator was nearly unchanged month-on-month, while it grew by 4.4% year-on-year. In parallel, the indicator improved 12 times and regressed 14 times on a monthly basis in the month of June since 1993. It averaged 249.5 points in 2010, 255.7 points in 2011, 256.6 points in 2012, 264.7 points in 2013, 273.2 points in 2014, 278.6 points in 2015, 289.5 points in 2016 and 305.9 points in 2017.

Occupancy rate at Beirut hotels at 59%, room yields down 2.5% in first half of 2018

EY's benchmark survey of the hotel sector in the Middle East indicated that the average occupancy rate at hotels in Beirut was 58.9% in the first half of 2018, down from 61.9% in the same period of 2017 and compared to an average rate of 64.9% in 14 Arab markets included in the survey. The occupancy rate at Beirut hotels was the fifth lowest in the region in the first half of 2018, while it was the sixth lowest in the same period of 2017. The occupancy rate at hotels in Beirut regressed by three percentage points year-on-year in the covered period, constituting the third steepest decrease among the 14 Arab markets, behind only Doha (-6.5 percentage points) and Jeddah (-3.5 percentage points). In comparison, the average occupancy rate in Arab markets increased by 1.1% year-on-year in the first half of 2018. Occupancy rates at Beirut hotels were 49.1% in January, 61.3% in February, 63.5% in March, 68.5% in April, 50.9% in May and 60.9% in June 2018, compared to 56.3% in January, 68.3% in February, 63.1% in March, 70.6% in April, 69.5% in May and 44.1% in June 2017.

Hotel Sector Performance in First Half of 2018

	Occupancy Rate (%)	RevPAR (US$)	RevPAR % change
Dubai	78.3	192	(4.9)
Jeddah	57.7	153	3.3
Madina	70.0	135	(8.7)
Ras Al Khaimah	74.7	126	5.7
Kuwait City	60.8	119	3.5
Makkah	63.5	114	(11.9)
Beirut	**58.9**	**107**	**(2.5)**
Muscat	70.6	106	0.3
Manama	54.5	105	2.3
Riyadh	54.7	98	(3.9)
Doha	61.8	90	(16.6)
Abu Dhabi	81.2	84	(2.2)
Amman	53.4	74	(1.8)
Cairo City	68.3	69	19.1

Source: EY, Byblos Research

The average rate per room at Beirut hotels was $182 in the first half of 2018, the sixth highest rate in the region relative to Jeddah ($266), Dubai ($245), Kuwait ($196), Madinah ($193) and Manama ($192). The average rate per room at Beirut hotels increased by 2.5% year-on-year in the covered period. The average rate per room in Beirut was higher than the regional average of $174.1 that regressed by 2.5% from the first half of 2017.

Further, revenues per available room (RevPAR) were $107 in Beirut in the first half of 2018, down from $110 in the same period of 2017. They were the seventh highest in the region relative to Dubai ($192), Jeddah ($153), Madinah ($135), Ras Al Khaimah ($126), Kuwait ($119) and Makkah ($114). Beirut's RevPAR decreased by 2.5% year-on-year and posted the third lowest decline behind Amman (-1.8%) and Abu Dhabi (-2.2%). Beirut posted RevPARs of $74 in January, $88 in February, $110 in March, $120 in April, $89 in May and $134 in June 2018, compared to $87 in January, $99 in February, $106 in March, $127 in April, $121 in May and $92 in June 2017. Abu Dhabi posted the highest occupancy rate at 81.2%, while Jeddah had the highest average rate per room in the region at $266 and Dubai had the highest RevPAR at $192 in the first half of 2018.

Commercial activity regresses in first quarter of 2018

Banque du Liban's quarterly business survey of the opinions of business managers shows that the volume of commercial sales deteriorated during the first quarter of 2018, with the balance of opinions standing at -36 compared to -26 in the fourth quarter of 2017 and to -12 in the first quarter of 2017. The business survey reflects the opinions of enterprise managers about their business activity in order to depict the evolution of a number of key economic variables. The balance of opinions was the lowest in the South at -61, followed by the Bekaa region (-55), Beirut & Mount Lebanon (-30) and the North (-19).

The survey shows that the balance of opinions about the sales of food items was -15 in the first quarter of 2018 relative to -16 in the preceding quarter and to +2 in the first quarter of 2017. Also, the balance of opinions about the sales of inter-industrial goods was -38 in the covered quarter compared to -29 in the previous quarter and in the same quarter of 2017; while it was -48 for non-food products relative to -30 in the preceding quarter and to -12 in the first quarter of 2017. Further, the balance of opinions for inventory levels in all commercial sub-sectors was zero in the first quarter of 2018, compared to +1 in the previous quarter and to -10 in the first quarter of 2017. Opinions about the level of inventories were the highest in Beirut & Mount Lebanon as they reached +5, followed by the South (zero), the Bekaa region (-6) and the North (-10). The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in an indicator and the proportion of those who reported a decline in the same indicator.

Commercial Activity: Year-on-Year Evolution of Opinions

Aggregate results	**Q1-15**	**Q1-16**	**Q1-17**	**Q1-18**
Sales volume	-20	-24	-12	-36
Number of employees	-1	-1	-8	-8
Inventories of finished goods	-12	0	-10	0
Q1-18 Regional results	**Beirut / Mount Lebanon**	**North**	**South**	**Bekaa**
Sales volume	-30	-19	-61	-55
Inventories of finished goods	+5	-10	0	-6

Source: Banque du Liban business survey for first quarter of 2018

Utilized credits by private sector at $69bn at end-March 2018, advances against real estate account for 38% of total

Figures issued by Banque du Liban show that utilized credits by the private sector from commercial banks and financial institutions totaled $68.6bn at the end of March 2018, nearly unchanged from $68.65bn at end-2017 and constituting a growth of 6.4% from $64.4bn at end-March 2017. Trade & services accounted for $22.6bn or 33% of utilized credits at the end of March 2018, followed by personal credit with $21.6bn (31.5%), construction with $11.3bn (16.5%), industry with $6.7bn (9.8%), financial intermediaries with $3.5bn (5.2%) and agriculture with $787.5m (1.1%), while other sectors represented the remaining $1.96bn (2.9%). The distribution of credit by type shows that advances against real estate totaled $26bn and accounted for 38% of private sector utilized credits at the end of March 2018. Overdrafts followed with $19.6bn (28.6%), then advances against personal guarantees with $12.2bn (17.7%), advances against cash collateral or bank guarantees with $7.2bn (10.5%), advances against other real guarantees with $2.1bn (3.1%), and advances against financial values with $1.4bn (2.1%).

Also, the distribution of utilized credits in trade & services shows that wholesale trade accounted for 47.5% of overall trade & services credits; followed by retail with 17.8%; real estate, rent and employment services with 15.5%; hotels & restaurants and transport & storage with 7.1% each, and educational services with 4.9%. Personal credit accounted for 86% of the number of loan beneficiaries, followed by trade & services with 9.3% of beneficiaries, industry with 2.4%, construction with 1.4%, agriculture with 1.1% and financial intermediaries with 0.5%, while other sectors attracted the remaining 3.4% of loan beneficiaries.

The aggregate number of loan beneficiaries grew by 0.9% from the end of 2017 and by 3.7% from end-March 2017 to 621,040 at end-March 2018; while 69.3% of beneficiaries had loans ranging from LBP5m to LBP100m at the end of March 2018. Beirut and its suburbs accounted for 74.3% of bank credits and for 52.3% of beneficiaries. Mount Lebanon followed with 13.1% of credits and 18.8% of beneficiaries, then South Lebanon with 4.9% of credits and 10.2% of beneficiaries, North Lebanon with 4.5% of credits and 11.2% of beneficiaries, and the Bekaa region with 3.2% of credits and 7.6% of beneficiaries.

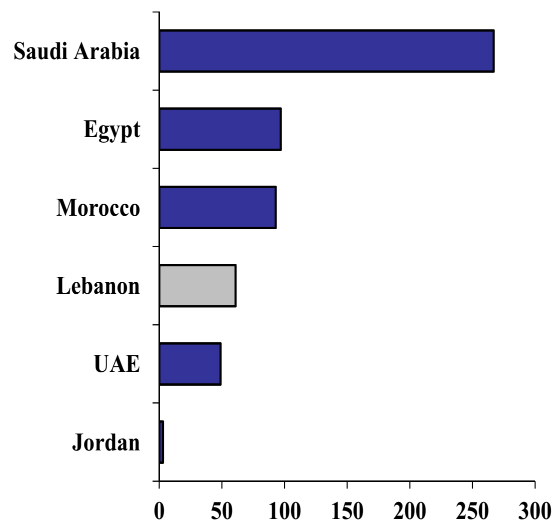
In parallel, the off-balance sheet liabilities of banks and financial institutions totaled $112.7bn at the end of March 2018, increasing by 0.3% from $112.3bn at end-2017 and by 4.7% from $107.7bn at end-March 2017. They include endorsement & guarantees of $104.5bn, or 92.7% of the total, followed by letters of undertaking with $3.1bn (2.7%), and commitments on notes with $2.3bn (2.1%).

Private equity deals at $61m in first half of 2018

Figures issued by financial information providers Bureau Van Dijk and Zephyr show that there were two private equity (PE) deals targeting companies in Lebanon for a total of $61m in the first half of 2018. In comparison, there was one PE deal worth $0.3m in the first half of 2017. The value of PE deals targeting companies in Lebanon was the fourth highest among six countries in the Middle East & North Africa (MENA) region with available figures on their deal values, and represented 10.7% of the region's aggregate deal value of $569m in the covered period. In comparison, the amount of private equity deals in Saudi Arabia reached $267m in the first half of 2018, followed by Egypt ($97m) and Morocco ($93m).

Also, the number of private equity deals targeting companies in Lebanon in the first half of 2018 was similar to those in Saudi Arabia and Tunisia, but was lower than the number of such deals in the UAE (19 deals), Egypt (eight deals), and Jordan and Morocco (three deals each). The two private equity deals in Lebanon consisted of the European Bank for Reconstruction and Development's acquisition of 2.51% of Bank Audi's common shares outstanding for a total of $60.2m, as well as an investment of $0.4m in online interior design platform Moodfit by Seeders Angel Group, Insure & Match Capital, Impact Fund by Middle East Venture Partners (MEVP) and iSME Capital.

Private Equity Deals in MENA Countries in First Half of 2018 (US$m)



Source: Bureau Van Dijk, Zephyr, Byblos Research

Revenues through Port of Beirut up 4% to $124m in first half of 2018

Figures released by the Port of Beirut show that the port's overall revenues reached $124m in the first half of 2018, constituting an increase of 4% from $119.2m in the same period of 2017. The Port of Beirut handled 3.9 million tons of freight in the covered period, down by 7.9% from 4.3 million tons in the first half of 2017. Imported freight amounted to 3.5 million tons in the first half of 2018 and accounted for 88.3% of the total, while the remaining 457,000 tons, or 11.7%, consisted of export cargo. A total of 920 ships docked at the port in the year-to-June 2018 compared to 925 vessels in the first half of 2017.

In parallel, revenues generated through the Port of Tripoli reached $7.8m in the first half of 2018, constituting a decrease of 11% from $8.8m in the same period of 2017. The Port of Tripoli handled 857,880 tons of freight in the covered period, constituting a decrease of 12.5% from 980,870 tons in the first half of 2017. Imported freight amounted to 708,536 tons and accounted for 82.6% of the total, while the remaining 149,344 tons, or 17.4%, were export cargo. A total of 310 vessels docked at the port in the first half of 2018, constituting a drop of 25.1% from 414 ships in the same period of 2017.

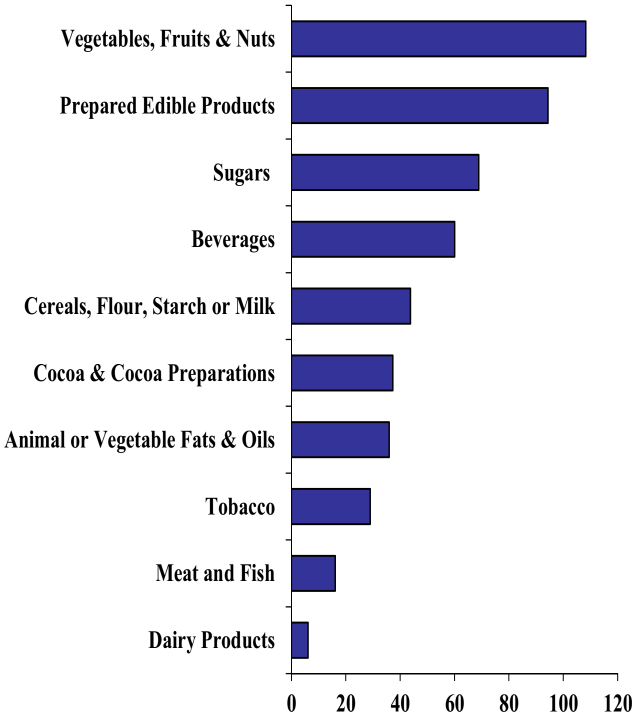
Exports of food & beverage products up 2% to $500m in 2017

The Chamber of Commerce, Industry & Agriculture of Beirut and Mount Lebanon (CCIB) indicated that the exports of Lebanese food and beverage (F&B) products accounted for 18% of the country's total exports in 2017, which makes the F&B industry the second largest exporter in Lebanon behind the jewelry sector. The Lebanese F&B industry produces a variety of national foods and beverages, which include alcoholic beverages, confectionery, bakery products, olive oil, pickles, preserves, spices, condiments, and processed and canned fruits & vegetables.

F&B exports reached $500.2m in 2017, up by 1.9% from $491m in 2016, while the imports of food and beverages were nearly unchanged at $1.9bn last year. As such, the sector's trade deficit narrowed slightly to $1.36bn in 2017. Syria was the main export destination of Lebanese F&B exports with $82.8m, or 16% of F&B exports, in 2017. Saudi Arabia followed with $62m (12.3%), then Iraq with $39.5m (7.8%), the U.S. $33m (6.5%), Qatar with $28.7m (5.7%), the UAE with $28.1m (5.6%) and Egypt with $20.7m (4.1%).

Exports of prepared vegetables, fruits and nuts reached $108.3m, representing 21.6% of total F&B exports in 2017. Exports of prepared edible products followed with $94.4m (18.8%), then those of sugar and confectionery products with $68.9m (13.8%), beverages with $60m (12%), cereals & milk with $43.8m (8.8%), cocoa and cocoa preparations with $37.3m (7.5%), animal products and vegetable fats & oils $35.9m (7.2%), tobacco with $29m (5.8%), meat & fish with $16.1m (3.2%), and dairy products $6.1m (1.2%).

Main Exports of Food & Beverage Products in 2017 ($m)



Source: CCIB, Byblos Research

The CCIB pointed out that Lebanon's competitive advantages include its climate diversity, soil fertility, abundant water resources, relatively cheap but skilled agricultural labor force, and its geographic proximity to Arab and European export markets. However, it said that the lack of an upgraded infrastructure, poor water management systems, power supply deficiencies, high energy costs, underdeveloped waste management systems, as well as the lack of modern technologies, technical assistance, and research & development services are the main challenges to the sector's competitiveness.

In parallel, the distribution of F&B imports shows that imports of dairy products to Lebanon reached $316.6m, or 17.1% of F&B imports to the country in 2017, followed by those of cereals and milk with $278.6m (15%), prepared edible products with $216m (11.6%), sugars and confectionery products with $203.3m (11%), animal products and vegetable fats & oils with $164m (8.8%), tobacco with $156.3m (8.4%), beverages with $130.1m (7%), food & beverage residues with $114.5m (6.2%), meat & fish with $105.5m (5.7%), cocoa and cocoa preparations with $88.3m (4.8%) and prepared vegetables, fruits & nuts with $82.2m (4.4%).

As such, the prepared food vegetables, fruits and nuts market registered a trade surplus of $26m in 2017. In contrast, the dairy products market registered a trade deficit at $310.4m, followed by the cereals & milk market with a deficit of $234.8m, the sugars & confectionery products sector with $134.4m, the animal products market with a deficit of $128m and the tobacco sector with a deficit of $127.3m.

France was the main source of imports of F&B products with $147.5m, or 7.9% of F&B imports to Lebanon in 2017. Turkey followed with $131.2m (7.1%), then Saudi Arabia with $96.9m (5.2%), Germany with $90.4m (4.9%), Egypt with $85.4m (4.6%), the United Kingdom with $79.2m (4.3%), the U.S with $62.7m (3.4%), Argentina with $61.2m (3.3%), Italy with $60.2m and Brazil with $60.1m (3.2% each), the UAE with $53.7m (2.9%), the Netherlands with $51.7m (2.8%), Cuba with $47.8m (2.6%), Thailand with $45.7m (2.5%) and Switzerland with $38.4m (2.1%).

The CCIB indicated that new trends are emerging in Lebanon's F&B industry, as customer preferences have been shifting towards more healthy and organic products. It added that food safety in the country has become a major area of concern, with consumers constantly questioning the source of their meals' raw materials. As such, it noted that consumers are becoming "label-readers" and have shown preference to sealed products that display nutrition facts on their packaging. Further, it pointed out that new technologies, including online shopping, are affecting the way consumers buy goods and services. In addition, consumers are becoming increasingly aware about the responsible and sustainable production of foods and beverages, are inquiring whether the products that they buy are compliant with international standards, and are showing interest in their suppliers' corporate social responsibility policies.

Banque du Liban limits loans-to-deposits ratio in Lebanese pounds at 25%

Banque du Liban (BdL) issued Intermediate Circular 503 on August 10, 2018 that amends Basic Circular 81 dated February 21, 2001 about financial institutions' operations that are related to credit, investment, shareholding and participation. The circular limited a commercial bank's net lending to the private sector in Lebanese pounds to the equivalent of 25% of its aggregate deposits in the same currency. It noted that banks that exceed this limit should deposit at BdL at a zero percent interest rate the equivalent of the amount that breaches the ceiling until they settle their position. It added that banks have until the end of 2019 to comply with the new limit, while banks that are unable to meet this deadline have to inform BdL.

In parallel, BdL issued Intermediate Circular 504 on August 10, 2018 that amends Basic Circular 23 issued on March 7, 1996 about the facilities that BdL can provide to commercial banks and financial institutions.

The circular allows Banque de l'Habitat to benefit until the end of 2018 from the new mechanism of BdL subsidies on housing loans, provided that the bank extends mortgages to clients from its own funds. Banque de l'Habitat, which only extends mortgages, is 80% owned by commercial banks and 20% owned by the government. BdL changed the mechanism of its loan subsidies in the stimulus package for 2018. Under previous stimulus packages, BdL extended loan facilities to domestic banks at an interest rate of 1% per year on a first-come first-served basis, which allowed banks to extend loans at reduced interest rates. However, starting this year, BdL has subsidized the interest rate on specific loans without providing credit facilities to commercial banks, which means that banks have to use their own funds to extend loans and will receive the subsidies from BdL at a later date.

In addition, the circular indicated that the credit facility that BdL provided to commercial banks under its previous stimulus packages will come due, in case a subsidized loan extended by a bank to a client becomes "doubtful" or "bad" or if the financed project is suspended. The circular requires banks to immediately inform BdL when the payments on such loans are more than 180 days past due. Further, the circular allows the rescheduling of loans that were extended under BdL's stimulus packages if they are converted from Lebanese pounds to US dollars, or if they were initially extended in US dollars.

Energy Ministry receives expressions of interest from 75 consortiums to build and operate PV farms

The Ministry of Energy & Water received expressions of interest (EOIs) from 75 consortiums from 29 countries for the construction and operation of three solar photovoltaic (PV) farms and associated battery energy storage components. The Lebanese Center for Energy Conservation (LCEC) noted that the three solar PV farms will have an aggregate power production capacity of 210 megawatt-peak (MWp) to 300 MWp. It pointed out that each solar farm will have a power generation capacity of 70 MWp to 100 MWp, while their battery energy storage component will have a minimum power capacity of 70 MW and a minimum storage capacity of 70 MWh.

A total of 52 consortiums showed interest in building and operating a PV farm and battery storage components in the Bekaa, 13 consortiums are interested in building a PV farm in the South, six groups intend to build a station in Mount Lebanon, three consortiums seek to establish a PV farm in the North, another three aim to build a station in Akkar, and one consortium is interested in building a PV plant in the Batroun area. Also, companies that submitted the EOIs include local firms, as well as international companies from China, France, Germany, Spain, the UAE, the United Kingdom, and the United States, among others. The LCEC indicated that the ministry will ask the companies that submitted an EOI to respond to an official Requests for Proposal (RFP) for the construction and operation of the PV farms and storage units. Upon reviewing the submitted RFPs, the ministry will then sign a power purchase agreement with selected companies based on their technical capability and experience, their ability to obtain sufficient funds to develop the project, as well as on the lowest price proposed by a bidder.

Further, the LCEC pointed out that the selected companies will have to finance, develop, design, build, own, operate and maintain the PV plants and the associated battery energy storage component, as well as to acquire land. They will also be responsible for all other aspects related to operating the plants and storage units. It also noted that Electricité du Liban (EdL), with the approval of the Ministry of Energy & Water, will contractually purchase the electricity produced by the PV farms for a period of 20 years, subject to terms and conditions defined in the PPA. It added that the ministry and EdL do not intend to purchase the plant's assets during the 20-year period. It noted that the project aims to promote renewable energy production in Lebanon in coming years.

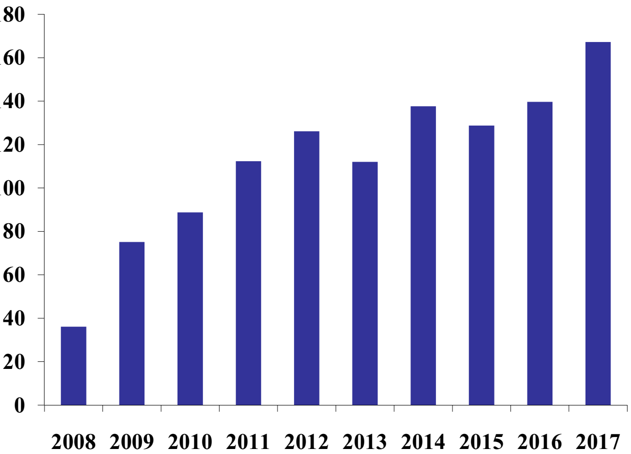
Corporate Highlights

Net profits of insurance sector up 20% to $167m in 2017

Figures released by the Insurance Control Commission (ICC) show that the declared net profits of 50 licensed insurance companies in Lebanon reached $167.2m in 2017, constituting an increase of 19.8% from $139.6m in 2016. Net profits from the life category accounted for 65.7% of the sector's net earnings in 2017 relative to 59% in 2016, while those from the non-life segment represented 34.3% of the total compared to 41% in the previous year. The sector's net profit margin reached 11% in 2017, up from 8.9% in 2016. Further, net investment income of the insurance sector totaled $131.5m in 2017 and grew by 0.9% from the preceding year. The sector's return on assets increased from 3% in 2016 to 3.6% in 2017, while its return on equity rose from 12.8% in 2016 to 14.7% in 2017.

In parallel, the sector's gross written premiums totaled $1.5bn in 2017, down by 2.8% from 2016. They consisted of net premiums that regressed by 1.9% to $1.2bn, policy fees that declined by 7.6% to $219.6m, and the cost of policies that reached $102.4m in 2017 compared to $103.6m in 2016.

Net Profits of the Insurance Sector ($m)



Source: Insurance Control Commission, Byblos Research

Also, net income from the life category totaled $109.9m in 2017 and increased by 33.3% year-on-year, mainly due to a rise of 210.6% in unit-linked net investment income, while net profits from the non-life category amounted to $57.4m and expanded by 0.3% in 2017. The results of the non-life branch show that the health insurance category generated net profits of $15.6m in 2017, followed by the accidents insurance category with $14.5m, fire insurance with $12.9m, motor with $4.4m, civil liability insurance with $3.2m, transportation coverage with $2.7m and contractors all risk insurance with $0.8m. Profits from the contractors all risk segment surged by 146.1% in 2017, those from the civil liability segment rose by 53.7%, net income from the accidents insurance segment increased by 10%, and profits from the fire insurance segment grew by 9.8% year-on-year. In contrast, profits from the transportation insurance segment declined by 59.6%, while those from health insurance regressed by 27% in 2017. In parallel, the credit insurance segment incurred net losses of $0.5m in 2017, nearly doubling from the previous year, while the motor segment posted profits of $4.4m in 2017 compared to losses of $2.2m in 2016.

Further, the sector's gross paid claims reached $904.8m in 2017 and grew by 1.2% from 2016. Also, general expenditures totaled $447m in 2017, down by 4.4% from the previous year, and included $221.7m in brokerage expenses and $170.7m in administration costs, while net reinsurance expenditures reached $51.3m in 2017 and declined by 13.4% from 2016.

Bankers Assurance's net income at $10.7m in 2017

Bankers Assurance sal announced audited net profits of $10.7m in 2017, constituting a decrease of 8.4% from $11.7m in 2016. The firm's audited balance sheet shows total assets of $198.2m at the end of 2017, up by 1.6% from $195.2m at the end of 2016. On the assets side, general company investments reached $89m at the end of 2017 and grew by 4.7% from a year earlier. They included $46.8m in cash & cash equivalents that increased by 5.1% year-on-year, $13.4m in fixed income instruments that expanded by 23% from a year earlier, $2.3m in land and real estate assets that were unchanged year-on-year, and $1.7m in variable income instruments that were also unchanged from end-2016. Further, the firm blocked $19.7m as bank deposits with maturity of more than three months and $2.4m in favor of the Economy Ministry as guarantees.

Unit-linked contracts investments totaled $17.7m at end-2017, constituting an increase of 18% from $15m a year earlier. They included $14m in mutual funds, $2.5m in fixed income investments and $1.2m in cash & similar investments. Unit-linked investments in mutual funds increased by 86% year-on-year, while those in fixed income decreased by 32.4% and those in cash & similar placements fell by 67.3% from 2016. Also, the reinsurance's share in technical reserves for the non-life category regressed by 31.6% to $8.7m in 2017, while that for the life segment grew by 3.2% to $4.8m last year.

On the liabilities side, unit-linked technical reserves reached $17.7m at the end of 2017 and grew by 18% from $15m a year earlier. Technical reserves for the non-life segment were nearly unchanged year-on-year at $78.1m, while technical reserves for the life category reached $9.8m at end-2017 and increased by 7.3% from a year earlier. Non-life technical reserves included unearned premium reserves of $46.5m that increased by 6.3%, outstanding claims reserves of $25.5m that dropped by 13.7%, and $2.9m in reserves incurred but not reported that grew by 55.3% year-on-year. Also, provisions for risks and charges reached $2.8m and rose by 13.6% from the previous year. The firm's shareholders' equity totaled $75.1m at end-2017 and increased by 5.2% from a year earlier.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked Bankers Assurance in first and 10th place in 2017 in terms of non-life and life premiums, respectively. The firm's non-life premiums totaled $106.2m in 2017 and grew by 6.7% from the previous year; while life premiums increased by 4.4% to $12.5m last year. It had a 9.5% share of the local non-life market and a 2.4% share of the life market in 2017. Overall, Bankers Assurance had a 7.2% market share of the Lebanese insurance market in 2017, ranking it in third place in terms of life and non-life premiums.

Top five freight forwarders' import activity down 12% in first half of 2018, export activity down 22%

Figures released by the Port of Beirut show that overall import shipping operations by the top five freight forwarders through the port reached 160,861 20-foot equivalent units (TEUs) in the first half of 2018, constituting a decrease of 12.2% from 183,165 TEUs in the same period of 2017. The five freight forwarders accounted for 76.9% of imports to the Lebanese market and for 51.7% of the total import freight forwarding market in the first half of 2018. Mediterranean Shipping Company (MSC) handled 62,028 TEUs in imports in the covered period, equivalent to a 20% share of the total freight forwarding import market. Merit Shipping followed with 34,967 TEUs (11.2%), then Sealine Group with 24,791 TEUs (8%), Metz Group with 21,794 TEUs (7%) and Tourism & Shipping with 17,281 TEUs (5.6%). Further, Tourism & Shipping registered a year-on-year increase of 173.7% in import shipping in the covered period, the highest growth among the top five freight forwarders, while Metz Group posted a decline of 28.1%, the steepest drop in the first half of 2018.

In parallel, export shipping operations by the top five freight forwarders through the Port of Beirut reached 32,135 TEUs in the first half of 2018, constituting a decrease of 21.8% from 41,073 TEUs in the same period of 2017. The five freight forwarders accounted for 79.2% of exported Lebanese cargo and for 10.2% of the total export freight forwarding market in the first half of 2018. Merit Shipping handled 14,589 TEUs of freight in the covered period, equivalent to 36% of the Lebanese cargo export market. Sealine Group followed with 5,719 TEUs (14.1%), then Metz Group with 5,435 TEUs (13.4%), MSC Shipping with 3,688 TEUs (8.8%) and LOTUS Shipping with 2,704 (6.7%). Further, LOTUS shipping posted a year-on-year increase of 8.2 times in export shipping in the covered period, the highest rise among the top five freight forwarders, while Merit Shipping posted a decrease of 31.5%, the steepest decline among the top five freight forwarders.

Creditbank's net earnings at $6.3m in first quarter of 2018

Creditbank sal, one of Lebanon's top 15 banks in terms of deposits, announced unaudited consolidated net profits of $6.3m in the first quarter of 2018, compared to net earnings of $2.5m in the same quarter of 2017. Net operating income increased by 24% year-on-year to $22.5m in the covered quarter, with net interest income improving by 57.3% to $18.3m and net fees & commissions receipts increasing by 23% to $4m. Non-interest income accounted for 21.5% of total income in the first quarter of 2018, down from 38.6% in the same quarter last year; with net fees & commissions representing 78.7% of non-interest earnings relative to 44% in the first quarter of 2017.

Further, the bank's interest margin was 1.99% in the first quarter of 2018 relative to 1.37% in the same quarter last year; while its spread reached 1.88% in the covered quarter compared to 1.29% in the first quarter of 2017. Total operating expenditures increased marginally by 0.3% to $15.3m year-on-year in the first quarter of 2018, with staff expenses decreasing by 1.1% to $9.7m and administrative & other operating expenditures growing by 2.6% to $4.8m. Also, the bank's return on average assets was 0.65% in March 2018 on an annualized basis relative to 0.28% in March 2017, while its return on average equity reached 6.26% on an annualized basis compared to 3.03% in March 2017. The bank's cost-to-income ratio decreased from 80.1% in the first quarter of 2017 to 65.3% in the same quarter of 2018.

In parallel, total assets reached $4bn at the end of March 2018, up by 2.4% from end-2017, while loans & advances to customers, excluding those to related parties, grew by 2.7% from end-2017 to $1.9bn. Also, customer deposits, excluding those from related parties, totaled $3.1bn at end-March 2018, unchanged from the end of 2017. The loans-to-deposits ratio stood at 60% at the end of March 2018, compared to 57.1% at end-March 2017. Further, the bank's shareholders' equity reached $407.4m at end-March 2018, up by 1.5% from end-2017.

Ratio Highlights

(in % unless specified)	2015	2016	2017e	Change*
Nominal GDP ($bn)	49.5	49.7	52.5	
Public Debt in Foreign Currency / GDP	54.7	56.6	57.9	1.30
Public Debt in Local Currency / GDP	87.4	94.1	93.6	(0.54)
Gross Public Debt / GDP	142.1	150.7	151.5	0.76
Total Gross External Debt / GDP	175.8	183.9	185.6	1.70
Trade Balance / GDP	(31.6)	(32.5)	(31.9)	0.60
Exports / Imports	15.9	15.6	14.5	(1.04)
Fiscal Revenues / GDP	19.3	20.0	22.1	2.17
Fiscal Expenditures / GDP	27.3	29.9	29.3	(0.62)
Fiscal Balance / GDP	(8.0)	(9.9)	(7.2)	2.79
Primary Balance / GDP	1.5	0.0	2.7	2.68
Gross Foreign Currency Reserves / M2	58.7	62.2	68.2	5.98
M3 / GDP	249.7	267.2	263.6	(3.61)
Commercial Banks Assets / GDP	375.7	411.1	418.8	7.69
Private Sector Deposits / GDP	306.2	327.0	321.3	(5.69)
Private Sector Loans / GDP	109.5	115.0	114.9	(0.16)
Private Sector Deposits Dollarization Rate	64.9	65.8	68.7	2.88
Private Sector Lending Dollarization Rate	74.8	72.6	71.0	(1.61)

*Change in percentage points 16/17
**Includes portion of public debt owed to non-residents, liabilities to non-resident banks, non-resident deposits (estimated by the IMF), Bank for International Settlements' claims on Lebanese non-banks
Source: Association of Banks in Lebanon, Institute of International Finance, International Monetary Fund, World Bank, Byblos Research Estimates & Calculations
Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

Risk Metrics

Lebanon	Dec 2016	Nov 2017	Dec 2017	Change**	Risk Level
Political Risk Rating	55	54.5	55		High
Financial Risk Rating	36.5	33.0	33.0	▲	Moderate
Economic Risk Rating	30.5	27.5	28.5	▲	High
Composite Risk Rating	61.0	57.5	58.25	▲	High

MENA Average*	Dec 2016	Nov 2017	Dec 2017	Change**	Risk Level
Political Risk Rating	57.6	58.0	58.2	▼	High
Financial Risk Rating	38.3	38.5	38.5	▼	Low
Economic Risk Rating	29.6	31.0	30.9	▼	Moderate
Composite Risk Rating	62.8	63.8	63.9	▼	Moderate

*excluding Lebanon
**year-on-year change in risk
Source: The PRS Group, Byblos Research
Note: Political & Composite Risk Ratings range from 0 to 100 (where 100 indicates the lowest risk)
Financial & Economic Risk ratings range from 0 to 50 (where 50 indicates the lowest risk)

Ratings & Outlook

Sovereign Ratings	Foreign Currency			Local Currency		
	LT	ST	Outlook	LT	ST	Outlook
Moody's	B3	NP	Stable	B3		Stable
Fitch Ratings	B-	B	Stable	B-		Stable
Standard & Poor's	B-	B	Stable	B-	B	Stable
Capital Intelligence Ratings	B	B	Stable	B	B	Stable

Source: Rating agencies

Banking Ratings	Outlook
Moody's	Stable

Source: Moody's Investor Services

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