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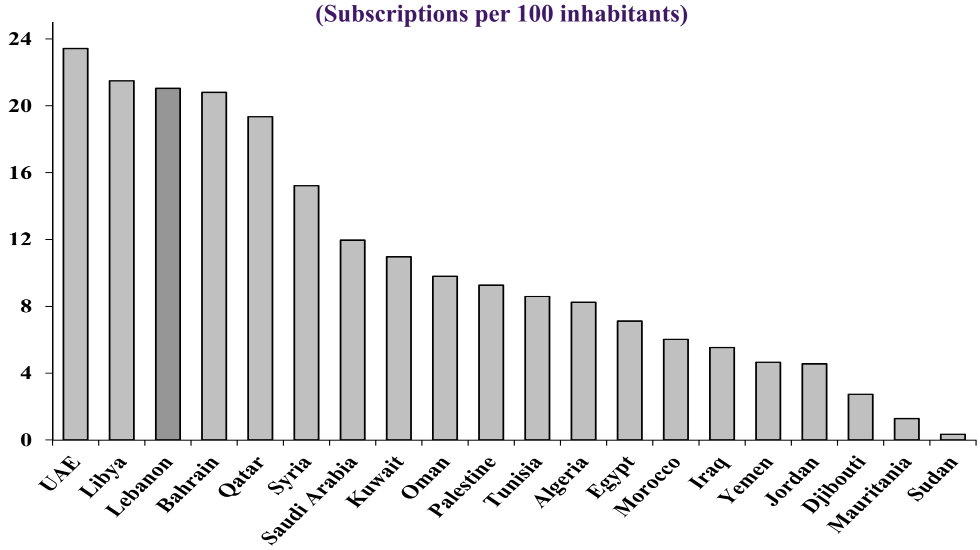
BYBLOS BANK SAL
Economic Research & Analysis Department

LEBANON THIS WEEK

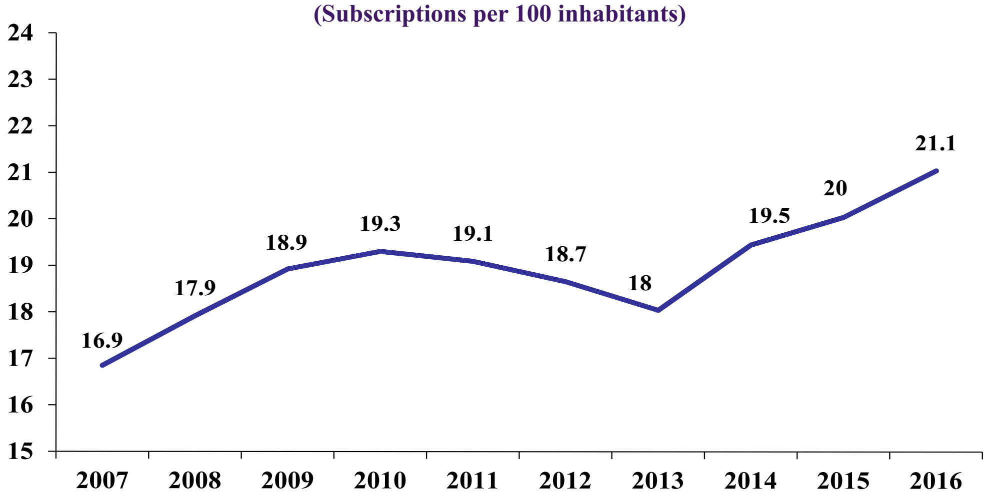
In This Issue

Charts of the Week

Fixed Telephone Penetration Rates among Arab Countries at the end of 2016
(Subscriptions per 100 inhabitants)



Fixed Telephone Penetration Rates in Lebanon
(Subscriptions per 100 inhabitants)



Source: International Telecommunication Union, Byblos Bank

Quote to Note

"Passing a budget with reliable fiscal adjustment measures would send a strong signal of commitment to reduce the public debt and will boost confidence."

The International Monetary Fund, on the positive market implications in case the Lebanese Parliament ratifies the first state budget in 12 years

Number of the Week

$3.5bn: Equity capital funds of Banque du Liban at the end of 2016, according to figures released by the central bank

Lebanon in the News

$m *(unless otherwise mentioned)*	2016	Feb 2016	Nov 2016	Dec 2016	Jan 2017	Feb 2017	% Change*
Exports	2,977	228	247	244	229	226	(0.88)
Imports	18,705	1,377	1,450	1,536	1,604	1,648	19.68
Trade Balance	(15,728)	(1,149)	(1,203)	(1,292)	(1,375)	(1,422)	23.76
Balance of Payments	1,238	363	453	910	167	342	(5.74)
Checks Cleared in LBP	19,892	1,538	1,684	1,879	1,733	1,676	8.97
Checks Cleared in FC	48,160	3,988	3,968	3,880	3,973	3,547	(11.06)
Total Checks Cleared	68,052	5,526	5,652	5,759	5,706	5,223	(5.48)
Budget Deficit/Surplus	(3,667.15)	(260.49)	(706.12)	(513.35)	330.43	(453.93)	74.26
Primary Balance	1,297.65	(23.60)	(40.58)	(111.56)	558.07	(189.09)	701.1
Airport Passengers***	7,610,231	442,212	555,931	598,009	539,089	462,605	4.61

$bn *(unless otherwise mentioned)*	2016	Feb 2016	Nov 2016	Dec 2016	Jan 2017	Feb 2017	% Change*
BdL Gross FX Reserves	34.03	31.42	34.38	34.03	35.02	35.44	12.77
In months of Imports	*21.83*	*22.82*	*23.71*	*22.15*	*21.83*	*21.50*	(5.77)
Public Debt	74.89	71.22	74.55	74.89	76.17	76.13	6.89
Bank Assets	204.3	186.59	200.95	204.3	204.38	204.93	9.83
Bank Deposits (Private Sector)	162.5	151.42	159.19	162.5	162.73	163.86	8.22
Bank Loans to Private Sector	57.18	54.56	56.49	57.18	56.95	57.01	4.49
Money Supply M2	54.68	52.29	54.12	54.68	54.50	54.96	5.11
Money Supply M3	132.8	123.49	130.04	132.8	132.88	133.83	8.37
LBP Lending Rate (%)****	8.23	8.18	8.26	8.23	8.47	8.37	-
LBP Deposit Rate (%)	5.56	5.57	5.54	5.56	5.55	5.56	(1bps)
USD Lending Rate (%)	7.35	7.31	7.16	7.35	7.26	7.14	(17bps)
USD Deposit Rate (%)	3.52	3.22	3.48	3.52	3.52	3.57	35bps
Consumer Price Index**	(0.80)	(2.94)	1.78	3.14	4.68	4.93	-

** 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
Solidere "A"	8.00	(0.12)	686,558	7.06%
Byblos Common	1.61	0.63	192,564	8.03%
Audi Listed	5.85	(1.68)	30,516	20.63%
BLOM GDR	12.50	(1.57)	29,085	8.15%
BLOM Listed	11.40	(1.72)	7,685	21.62%
Byblos Pref. 09	102.00	0.00	5,400	1.80%
Solidere "B"	8.02	3.22	3,843	4.60%
Byblos Pref. 08	102.00	0.00	2,700	1.80%
Audi GDR	6.00	0.00	2,236	6.35%
HOLCIM	12.51	0.00	-	2.15%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Dec 2017	4.00	99.86	4.52
Nov 2018	5.15	100.50	4.68
May 2019	6.00	101.38	5.12
Mar 2020	6.38	102.13	5.44
Oct 2022	6.10	99.75	6.19
Jun 2025	6.25	97.63	6.64
Nov 2026	6.60	98.88	6.77
Feb 2030	6.65	96.75	7.05
Apr 2031	7.00	98.88	7.13
Nov 2035	7.05	97.75	7.28

Source: Byblos Bank Capital Markets

	Sept 18-22	Sept 11-15	% Change	August 2017	August 2016	% Change
Total shares traded	1,007,488	684,258	47.2	8,062,990	8,672,726	(7.03)
Total value traded	$8,506,838	$3,915,230	117.3	$68,311,180	$86,998,154	(21.5)
Market capitalization	$11.34bn	$11.41bn	(0.66)	$11.47bn	$10.98bn	4.4

Source: Beirut Stock Exchange (BSE)

Surveyed economists expect real GDP growth at 2% in 2017

Bloomberg's quarterly survey of economists and analysts about the outlook on the Lebanese economy projected real GDP growth at 2% in 2017, compared to a June 2017 forecast of 2.3%, while it expected growth to accelerate to 2.5% in 2018. The individual forecasts of growth rates for 2017 ranged from 1.3% to 3%, while the consensus forecast among 87.5% of participants is that real GDP would grow by 2.3% or less this year. The results displayed a median real GDP growth figure of 2% for this year. The survey's results are based on the opinions of eight economists and analysts based in Lebanon and abroad. Bloomberg conducted the poll between September 17 and September 20, 2017.

Also, participants forecast Lebanon's average inflation rate at 3.6% in 2017 and at 3% in 2018. The opinions of polled economists differed on the direction of consumer prices in 2017 with expectations ranging from 1% to 4%, while 87.5% of participants agreed that the inflation rate would be between 2.5% and 4% this year. The poll's results revealed a median inflation rate of 3.6% for 2017.

In addition, surveyed economists forecast Lebanon's fiscal deficit at 8.8% of GDP in 2017 and at 9% of GDP in 2018. All participants expected the fiscal deficit to remain between 8% of GDP and 10% of GDP this year, with 37.5% of those polled projecting a fiscal deficit of 9% of GDP or higher. The median for the fiscal deficit came at 8.8% of GDP for this year.

Further, polled economists projected the current account deficit at 17.9% of GDP this year and at 17% of GDP in 2018. Also, all surveyed economists expected the current account deficit to be in double-digits in 2017 and to range between 15.5% of GDP and 22.5% of GDP. The poll's results show that the median current account deficit would be 17.9% of GDP in 2017.

In parallel, respondents assigned an average probability of 20.3% for Lebanon to enter into recession in the next 12 months. The opinions of surveyed economists were similar, with probabilities ranging between 20% and 21%. The poll's results indicated a median probability of 20% for a recession in 2017.

Constitutional Council overturns tax increases

The Constitutional Council annulled on September 22, 2017 Law 45 about the tax measures that were introduced to finance the cost of the increase in the scale and salaries of public-sector employees. The law was approved by Parliament on July 18 and was signed by the President of the Republic on August 21. The Constitutional Council based its decision on four main factors. First, it noted that the voting process in Parliament was not compliant with the Lebanese Constitution, as it was conducted by a show of hands rather than by a roll-call/voice vote as dictated by the constitution. Second, it indicated that Law 45 was issued in the absence of a budget and was not part of a budget as stipulated by the constitution. In addition, it said that Law 45 allocated a set of revenues towards specific spending, which violates the inclusiveness rule of public revenues and spending that prohibits the allocation of revenues to specific expenditures. Third, it considered that the computing of the tax on income from movable capital, which consists of interest revenues generated from deposits and on revenues generated from fixed income portfolio, would discriminate against taxpayers and will result in double taxation. Fourth, it pointed out that article 11 in Law 45 about the fine on illegally-built seaside properties lacks clarity, which would complicate its implementation.

Law 45 increased the value-added tax rate, the corporate income tax and the tax rate on income from movable capital. Further, it imposed a tax on capital gains from the disposal of fixed assets and a one-time fine on illegally-built seaside properties, and increased the tax rate on lottery prizes. It also introduced a new fee on freight entering the ports in the country and raised the tax on imported tobacco and alcohol products. In addition, it imposed a fee on non-Lebanese entering the country by land and increased the tax on air passengers leaving the country. It also raised the fixed stamp duty on official paperwork and documents, raised the public notaries' fees collected on behalf of the Treasury, and imposed a fee on cement production, among many other measures.

Prior to the Constitutional Council’s decision, the Institute of International Finance developed a scenario about the trajectory of public finances that assumes that the tax increases will be permanently rescinded and that authorities will make some progress in fighting tax evasion. Under this scenario, the IIF projected public revenues to improve from 20.1% of GDP in 2017 to 20.3% of GDP in 2018 and 20.5% of GDP in 2019, with tax receipts increasing from 14.2% of GDP in 2017 to 14.4% of GP in 2018 and 14.6% of GDP in 2019. As such, it forecast the fiscal deficit at 8.9% of GDP in 2017 and 9.1% of GDP in 2018, before narrowing to 8.4% of GDP in 2019; while it projected the public debt level to increase from 150% of GDP in 2017 to 151.2% of GDP in 2018 and 152.4% of GDP in 2019.

Parliament approves petroleum tax law

The Lebanese Parliament ratified on September 19, 2017 the Petroleum Tax Law, or the draft law on tax provisions related to petroleum activities in accordance with Law No. 132 of August 2010. The new law imposes a 4% tax on petroleum activities and a 20% income tax on the profits of operating hydrocarbon companies. The approval of the Petroleum Tax Law finalizes the legal framework for the oil & gas sector in Lebanon, according to which pre-qualified companies would participate in the first offshore licensing round. As such, the ministry called on the pre-selected oil companies to prepare and submit their bids by October 12, 2017 for the licensing of exploration of five out of the 10 blocks in the Lebanese Exclusive Economic Zone, in accordance with the newly-approved tax law.

The Ministry of Energy & Water recently postponed the offshore gas licensing round from September 15 until October 12, 2017 in order to allow the Parliament to approve the tax law and, consequently, to enable oil firms to submit the required records and documents based on the new legislation.

Moody’s revises outlook on Lebanese banking sector from 'negative' to 'stable'

Moody's Investors Service revised from 'negative' to 'stable' the outlook on Lebanon's banking system for the next 12 to 18 months, due to progress in the country’s policy effectiveness, as well as because of better economic activity. It noted that continued deposit inflows and substantial liquidity buffers support the financial system’s ability to finance the private sector and the fiscal deficit, which it expects to average 9% of GDP in 2017 and 2018.

Moody's pointed out that the renewed political stability provides a more stable operating environment for banks. However, it said that the country's weak infrastructure, which is exacerbated by the presence of a large number of Syrian refugees, as well as limited business volumes, weigh on economic activity. As such, it forecast a nominal lending growth at 6% over the coming 12 to 18 months, unchanged from 2016, supported by Banque du Liban’s (BdL) stimulus packages.

In terms of asset risks and capital, the agency expected the banks' elevated sovereign exposure, which represented 50% of the banks' assets at the end of June 2017, to rise and to constitute the main credit risk for banks. It indicated that the sovereign exposure links the banks’ creditworthiness to that of the government and exposes them to high interest rate risk. Also, it forecast the regulatory capital ratios to increase in the coming 12 to 18 months, as higher Basel III capital requirements are implemented. It pointed out that the new rules issued by BdL at the end of 2016 will gradually increase the minimum requirement for the Basel III common equity Tier One ratio to 10%, the Tier One capital ratio to 13% and the total capital adequacy ratio to 15% by the end of 2018. However, it anticipated the banks’ capital buffers to remain modest, given the banks' high sovereign exposure, as well as the volatile operating environment in Lebanon.

In addition, it anticipated the banks' asset quality to moderately deteriorate over the coming 12 to 18 months, mainly due to the banks' large exposure to the real estate and construction sectors. Further, it expected household finances to be constrained by slow wage and employment growth, but it anticipated households to continue to service their housing loans, especially that interest rates on mortgages have declined in recent years due to BdL’s subsidies.

The agency expected the pressure on loan performance to be offset by large general provisions, as banks allocated most of their one-off revenues in 2016 towards general provisions. It noted that the additional provisions would allow banks to manage future impairments and would facilitate their transition to new international accounting rules IFRS-9 starting in January 2018, which would require them to set aside provisions for expected losses.

In terms of profitability and efficiency, Moody's expected the sector's profitability to come under pressure in case of a substantial increase in taxes and amid subdued new business volumes. It estimated that an increase from 15% to 17% in the corporate tax rate and a rise from 5% to 7% in the tax rate on interest income from fixed income securities could impact the banks’ earnings. In this case, it said that the income from fixed income securities would be taxed twice and would significantly increase the banks’ tax burden. It projected the banks to post a net income of between 1% and 1.1% of tangible assets in the coming 12 to 18 months, in case authorities implement the tax increase, which would be below the average of 1.2% in 2016 and the average of 1.4% of rated banks in the Middle East & Africa.

In terms of funding and liquidity, Moody's pointed out that the banking sector benefits from solid liquidity buffers and deposit-based funding, which support the system's overall stability. It noted that the additional $10.9 billion in private-sector deposits in the Lebanese banking system in 2016, of which 80% were in foreign currency, as well as BdL's financial operations, resulted in a pick-up in deposit growth. It estimated deposits in Lebanon to account for over 300% of GDP, one of the highest ratios globally.

Telecommunications Ministry signs memorandum of understanding to increase Internet speed in Lebanon

The Ministry of Telecommunications signed a memorandum of understanding (MoU) with the Cyprus Telecommunications Authority (Cyta) that aims to increase Internet speed across Lebanon through improving Lebanon’s share in the cables that connect France to Lebanon via Cyprus. It indicated that Lebanon’s share in the submarine cable Alexandros would increase from 310 gigabytes per second (Gbps) to 1,920 Gbps until 2034, with no additional costs on the Lebanese government. In turn, Lebanon’s allocated capacity would increase tenfold from 60 Gbps to 600Gbps. Further, the cost of updating the equipment that will operate the cable is $700,000 and will be funded entirely by Cyta.

Also, the ministry noted that the MoU aims to establish the new submarine cable Europe to replace the existing Cadmos cable, which is expected to stop functioning in 2019. The ministry also pointed out that fiber-optic Internet would be implemented in coming weeks, which would allow an Internet speed of 50 megabytes per second across Lebanon. The fiber optic cable project is part of the five-year “Lebanon 2020 Digital Telecom Vision” that the ministry launched in July 2015 to develop the country’s telecom infrastructure. The ministry said that the use of fiber optic cables, instead of copper cables, would reduce by 50% the quantity of cables needed to connect the same number of households.

External debt post 25th lowest return in EMs, Eurobonds at OverWeight

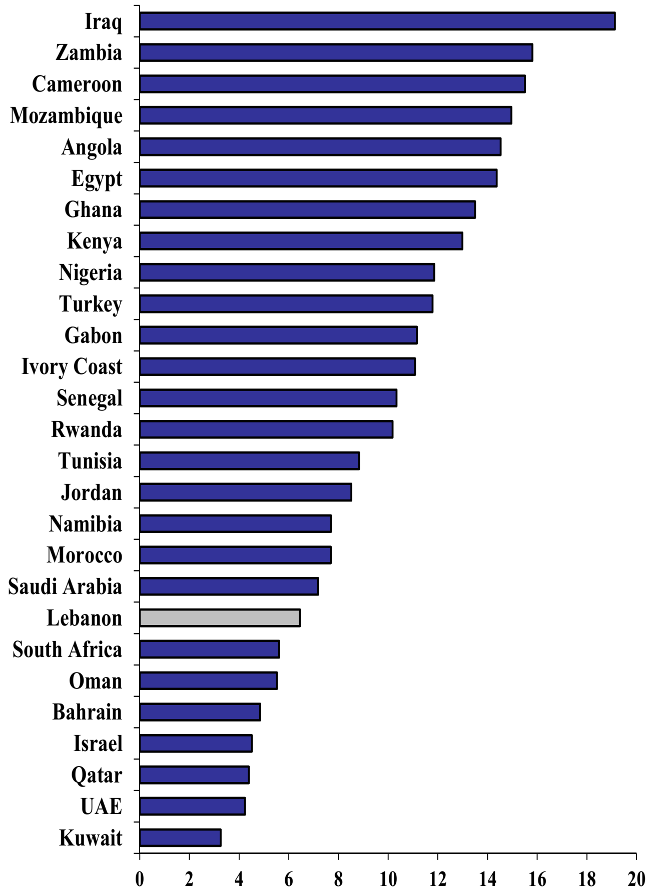
Figures issued by Merrill Lynch indicate that Lebanon's external debt posted a return of 6.45% in the first eight months of 2017, constituting the 16th lowest return among 44 markets in the Central & Eastern Europe and the Middle East & Africa (CEEMEA) region, as well as the 25th lowest return among 76 emerging markets included in Merrill Lynch's External Debt EM Sovereign Index. Lebanon underperformed the overall emerging markets' return of 8.12% during the covered period. Further, Lebanon's external debt posted the eighth lowest return among 27 countries in the Middle East & Africa region in the first eight months of the year, ahead of South Africa (+5.61%), Oman (+5.52%), Bahrain (+4.85%), Israel (+4.51%), Qatar (+4.39%), the UAE (+4.24%) and Kuwait (+3.26%).

In parallel, Merrill Lynch upgraded its recommendation for Lebanon's external debt from "MarketWeight" to "OverWeight" in its emerging markets bonds portfolio. It attributed its decision to technical factors following Banque du Liban's liquidity operations that have led to the undervaluation of Lebanon's external debt.

Further, Lebanon's external debt posted a return of 0.16% in August 2017, constituting the third lowest return in the CEEMEA region, and the fourth lowest in emerging markets during the covered month. Lebanon underperformed the emerging markets' return of 1.67% in August 2017. It also posted the third lowest return in the Middle East & Africa region in August 2017, ahead of Bahrain (+0.03%) and Namibia (-0.11%).

In parallel, Merrill Lynch indicated that the option-adjusted spread on Lebanese Eurobonds was 451 basis points at the end of August 2017 compared to 507 basis points at end-August 2016. It constituted the eighth widest spread in the CEEMEA region and the 13th widest among emerging markets. The spread on Lebanese Eurobonds was wider than the emerging markets' overall spread of 262 basis points at the end of August 2017.

External Debt Performance in the Middle East & Africa in First Eight Months of 2017 (%)



Source: Merrill Lynch, Byblos Research

Lebanon has a weight of 2.7% on Merrill Lynch's External Debt EM Sovereign Index, the fifth largest weight in the CEEMEA universe and the 11th largest among emerging economies. Lebanon accounted for 5.1% of allocations in the CEEMEA region.

Coincident Indicator up 6% year-on-year in first seven months of 2017

Banque du Liban's Coincident Indicator, an index of economic activity in Lebanon, reached 304 points in July 2017 compared to 290.1 in June 2017 and 272.5 in July 2016. The Coincident Indicator, an average of 8 weighted economic indicators, increased by 4.8% month-on-month and by 11.6% year-on-year in July 2017. The indicator averaged 304.1 in the first seven months of 2017, up by 5.7% from 287.7 in the same period of 2016. Also, the indicator averaged 299.2 in the 12 months ending July 2017, compared to 296.5 in the 12-month period ending June 2017 and 285.7 in the 12 months ending July 2016. As a result, the 12-month average coincident indicator grew by 0.9% month-on-month and by 4.7% year-on-year. In parallel, the indicator regressed 15 times, improved nine times and was unchanged once on a monthly basis in the month of July 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 and 289.5 points in 2016.

Council of Ministers approves guidelines for sustainability of electricity supply

The Council of Ministers approved on September 7, 2017 production and transport guidelines for electricity for the 2017-2030 period, which were prepared by Electricité du Liban (EDL) in cooperation with Électricité de France (EDF) and were submitted to the Minister of Energy & Water. The guidelines aim to achieve electricity supply 24 hours a day in Lebanon, in line with international standards, within the fourth year of implementation. They outline steps to be implemented in the production and transport of electricity across the country over the next 15 years in order to ensure sustainable power production. The scheme requires the establishment of new plants that include eight thermal plants, four water plants, 13 solar fields, three wind production fields and a waste production plant. Based on studies conducted by EDL, the overall project would require funding that exceeds EUR4bn. The first stage of the project would consist of investments of EUR2bn in the production of electricity and of EUR262m in the transport of electricity, while the second stage would comprise investments of EUR1.5bn in electricity production and EUR151m in power transportation.

Consumer Price Index up 4% in first eight months of 2017

The Central Administration of Statistics' Consumer Price Index increased by 4.4% year on-year in the first eight months of 2017 compared to a decline of 2.1% in the same period of 2016. The CPI increased by 5.1% in August 2017 from the same month of 2016. The prices of clothing & footwear grew by 17.5% year-on-year in August 2017, followed by the cost of water, electricity, gas & other fuels (+10.1%), the prices of alcoholic beverages & tobacco (+7.3%), actual rents (+6.6%), the cost of furnishings & household equipment (+6.2%), transportation costs (+5.8%), the prices of food & non-alcoholic beverages (+4.9), imputed rents (+3.5%), miscellaneous goods & services (+3.1%), recreation & entertainment costs (+2.9%), prices at restaurants & hotels (+2.7%), the cost of education (+2.6%), healthcare costs (+1.6%) and communication costs (+0.6%). The distribution of actual rents shows that old rents grew by 11.5% annually in August 2017, while new rents increased by 3.1% from the same month of 2016.

Further, the CPI grew by 1.1% in August 2017 from the preceding month, following a decrease of 0.2% in July 2017. The prices of clothing & footwear increased by 2.3% month-on-month in August 2017, followed by the prices of water, electricity, gas & other fuels (+2.2%), healthcare and transportation costs (+1.3%), the cost of food & non-alcoholic beverages (+1%), the prices of furnishings & household equipment (+0.7%), imputed rents (+0.6%), actual rents (+0.4%), prices at restaurants & hotels (+0.3%), miscellaneous goods & services (+0.2%) and alcoholic beverages & tobacco (+0.1%). In parallel, the cost of education and communication and recreation & entertainment costs were unchanged month-on-month in August 2017. The CPI grew by 1.4% month-on-month in Mount Lebanon in August 2017, by 1.2% in Nabatieh, by 0.9% in the Beirut, by 0.8% in the North, by 0.7% in the South and by 0.4% in the Bekaa. In parallel, the Fuel Price Index increased by 5.1% in August 2017, while the Education Price Index was nearly unchanged from the preceding month.

Value of real estate transactions up 20% in first eight months of 2017

Figures released by the Ministry of Finance indicate that there were 47,723 real estate transactions in the first eight months of 2017, constituting an increase of 17.6% from 40,587 deals in the same period of 2016. In comparison, the number of real estate transactions grew by 2% year-on-year in the first eight months of 2016, while it decreased by 12.3% in same period of 2015. There were 7,813 real estate transactions in August 2017, constituting an increase of 23.5% from 6,326 deals in July 2017 and a rise of 33.5% from 5,851 deals in August 2016. Further, there were 10,009 real estate transactions in the Baabda area in the first eight months of 2017, representing 21% of the total. The North followed with 7,731 transactions (16.2%), then the Zahlé region with 5,537 deals (11.6%), the Metn district with 5,292 transactions (11.1%), the South with 5,053 deals (10.6%), the Keserwan area with 4,914 transactions (10.3%), Nabatieh with 4,353 deals (9.1%) and Beirut with 3,430 transactions (7.2%).

Also, the aggregate value of real estate transactions reached $6.5bn in the first eight months of 2017 and increased by 20.2% from $5.4bn in the same period of 2016. In comparison, the value of real estate deals increased by 6.5% in the first eight months of 2016 relative to the same period of 2015, while it declined by 13.8% year-on-year in the first eight months of 2015. The value of real estate transactions reached $1.1bn in August 2017, up by 23.6% from $883.6m in July 2017 and by 52.8% from $714.8m in the same month last year. Further, the value of real estate transactions in Beirut reached $1.76bn and accounted for 27.1% of the total in the first eight months of 2017. The Baabda district followed with $1.36bn (21%), then the Metn region with $1.17bn (18.1%), the Keserwan area with $692m (10.7%), the North with $516.2m (8%), the South with $473.1m (7.3%), the Zahlé area with $258.8m (4%) and Nabatieh with $192.1m (3%).

In parallel, the average value per real estate transaction was $135,779 in the first eight months of 2017, up by 2.3% from an average value of $132,781 in the same period of 2016 and relative to $127,187 in the first eight months of 2015. Further, there were 843 real estate transactions executed by foreigners in the first eight months of 2017, an increase of 28.3% from 657 deals in the same period of 2016, and compared to an annual decrease of 28.1% in the first eight months of 2016 and a rise of 36.4% in the same period of 2015.

The number of real estate transactions by foreigners accounted for 1.8% of total real estate deals in the first eight months of 2017 compared to 1.6% of deals in the same period of 2016 and to 2.3% of deals in the first eight months of 2015. Further, 28% of the real estate transactions executed by foreigners were in the Baabda district in the first eight months of 2017, followed by Beirut (15.4%), the South (14.8%), the Metn region (13.6%), Zahlé (9.5%), the North (8.5%), the Keserwan area (8.3%) and Nabatieh (1.8%).

Industrial exports down by 7% to $1bn in first half of 2017

Figures released by the Ministry of Industry show that industrial exports totaled $1.2bn in the first half of 2017, constituting a decrease of 6.8% from $1.3bn in the same period of 2016. Industrial exports reached $199m in June 2017, down by 3.4% from $205.9m in the preceding month and by 11.7% from $225.3m in June 2016. Exports of machinery & mechanical appliances totaled $248.2m and accounted for 20.5% of aggregate industrial exports in the first half of 2017, followed by prepared foodstuffs & tobacco with $246.6m (20.4%), chemical products with $180.2m (14.9%), base metals with $159.1m (13.1%), pearls & precious or semi-precious stones & metals with $72.4m (6%), and plastics & rubber with $69m (5.7%). Arab countries were the destination of 56.6% of Lebanese industrial exports in the first half of 2017, followed by European economies with 14.3%, African countries with 11.5%, Asian economies with 9.5%, countries in the Americas with 6.1% and markets in Oceania with 0.7%. On a country basis, the UAE was the main destination of Lebanese industrial exports and accounted for 10.9% of the total in the first half of 2017, followed by Saudi Arabia with 10.6%, Iraq with 9.2%, Syria with 8%, Turkey with 4.2% and Jordan with 3.8%. In June 2017, 13 Arab states, nine African countries, eight European economies, four Asian economies and two countries in the Americas imported $1m or more each in Lebanese industrial products.

In parallel, imports of industrial equipment and machinery reached $115.2m in the first half of 2017, down by 12.1% from $131m in the same period of 2016. Italy was the main source of such imports and accounted for 21.5% of the total in the first half of 2017, followed by China with 21.1% and Germany with 17.5%. Further, imports of industrial equipment and machinery amounted to $22.2m in June 2017, up by 10.9% from $20m in the same month of 2016. China was the main source of such imports with $5.3m and accounted for 24% of the total in the covered month, followed by Germany with $5.1m (23.2%) and Italy with $2.9m (13.2%).

Compensation of public-sector personnel up 4% in first 11 months of 2016, absorbs 33% of fiscal spending

Figures issued by the Ministry of Finance show that the compensation of public-sector personnel totaled $4.4bn in the first 11 months of 2016, constituting an increase of 3.9% from $4.2bn in the same period of 2015. Salaries, wages and related benefits accounted for 65.2% of the total in the first 11 months of 2016, followed by retirement benefits (25%), transfers to public institutions to cover salaries (5.2%) and end-of-service indemnities (4.6%). The rise in the compensation of public-sector personnel reflects a year-on-year increase in transfers to public institutions to cover salaries (+14.6%), in end-of-service indemnities (+9.7%), in retirement benefits (+4.6%), and in salaries, wages and related benefits (+2.5%). The compensation of public-sector personnel represented the largest component of total budgetary primary spending and accounted for 66% of such expenditures in the covered period, compared to 67% in the first 11 months of 2015. The compensation of public-sector personnel absorbed 33% of fiscal spending in the first 11 months of 2016 relative to 35% in the same period of 2015.

In parallel, salaries, wages and related benefits paid to public-sector employees amounted to $2.9bn in the first 11 months of 2016, constituting an increase of 2.5% from $2.8bn in the same period last year. This category includes basic salaries, employment benefits, allowances, contributions to civil servants' cooperatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly civil and religious judges, and employees at the Parliament. Salaries and benefits of military personnel reached $1.8bn and accounted for 62.7% of salaries, wages and related benefits paid to the public sector in the covered period. Educational personnel followed with $622.9m (21.7% of the total), civil staff with $274.6m (9.6%), the government's contribution to the employees' cooperative with $150m (5.2%) and customs employees with $21.9m (0.8%). Also, the Lebanese Army's salaries totaled $1.2bn in the first 11 months of 2016 and represented 64.2% of military personnel's salaries and benefits. The salaries of the Internal Security Forces followed with $490.9m (17.1%), those of the General Security Forces with $118.1m (4.1%) and the State Security Forces with $34.5m (1.2%).

The overall increase in salaries, wages and related benefits paid to public-sector employees reflects a growth of $90.9m in basic salaries, an increase of $6.6m in other payments such as bonuses given to non-military bodies and a rise of $5.3m in employment benefits, which were partly offset by a decrease of $34.5m in allowances. Overall, basic salaries grew by 4.4% year-on-year to $2.1bn in the first 11 months of 2016, employment benefits rose by 4.1% to $134m and other payments disbursed to non-military bodies increased by 3.5% to $198.3m while allowances regressed by 8.7% to $360.9m in the first 11 months of 2016.

Corporate Highlights

Banque du Liban increases ceiling on subsidized housing loans

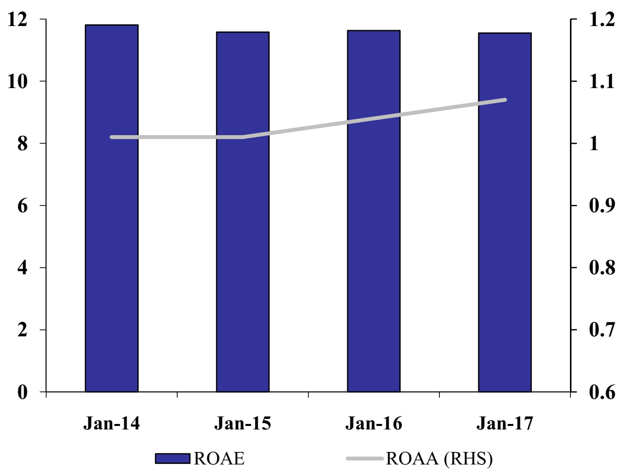
Banque du Liban issued Intermediate Circular 473 on September 18, 2017 that amends Basic Circular 23 issued on March 7, 1996 about the facilities that BdL can provide to commercial banks and financial institutions. The circular increased the ceiling of mortgages that banks can extend under the BdL's stimulus package from LBP800m, or $530,680, to LBP1.2bn, or $796,020. As part of its stimulus package, BdL extends loan facilities to domestic banks on a first-come first-served basis at an interest rate of 1% per year. In turn, banks extend loans to the private sector at reduced interest rates. Under the stimulus package, banks can finance 60% of a housing loan extended in local currency before February 8, 2017, and 75% of a housing loan granted after February 7, 2017.

Also, the increase in the ceiling on mortgages was similarly applied to Basic Circular 84 dated June 2, 2001 about the reserve requirements of commercial banks. The circular stipulates that banks can reduce their reserve requirements by 60% from the balance of housing loans granted in Lebanese pounds before February 8, 2017, by 75% from the balance of housing loans granted after February 7, 2017, and by 60% from the balance of non-subsidized non-housing loans granted in Lebanese pounds. It states that the borrower is not allowed to benefit from other banking facilities to settle the cost of the apartment. However, mortgages can be increased for one time in the case of apartments that are under construction, and by an amount equivalent to the above-mentioned ceiling.

Net profits of top 14 banks up 10% to $1.17bn in first half of 2017, ROAA at 1.07% and ROAE at 11.55%

The unaudited consolidated net profits of the Alpha Group of banks reached $1.17bn in the first half of 2017, constituting an increase of 10.1% from net earnings of $1.06bn in the same period of 2016. The Alpha Group consists of 14 banks with deposits in excess of $2bn each. Total net operating income regressed by a marginal 0.3% year-on-year to $2.72bn, with aggregate net interest income increasing by 2.9% to $1.89bn and net fees & commissions expanding by 1.1% to $436.1m. In addition, net gains on financial assets at fair value fell by 28% year-on-year to $273.5m in the first half of 2017, with net interest income from financial assets dropping by 14% to $131.1m and net profits on foreign exchange declining by 34.6% to $66.4m. Also, net gains on financial investments decreased by 46.1% year-on-year to $138.6m in the first half of the year. Non-interest income accounted for 32.6% of total income in the first half of 2017, down from 33.7% in the same period last year; with net fees & commissions representing 44.7% of non-interest income, up from 42.8% in the first half of 2016. Also, the net interest spread regressed to 1.84% in the first half of 2017 from 1.93% in the first half last year.

Profitability Metrics of Top 14 Banks* (%)



*on an annualized basis

Source: Bankdata Financial Services, Byblos Research

In parallel, total operating expenditures decreased by 2.5% to $1.43bn year-on-year in the first half of 2017, with staff expenses declining by 4.1% to $811.3m, but administrative & other operating expenses growing by 0.7% to $523.2m. Further, the cost-to-income ratio was 47.9% in the first half of this year, down from 49.1% in the first half of 2016. The banks' return on average assets was 1.07% in June 2017 on an annualized basis relative to 1.04% in June 2016; while their return on average equity was 11.55% in June 2017 on an annualized basis compared to 11.63% in June 2016.

The banks' total assets reached $222bn at the end of June 2017, constituting an increase of 2.5% from end-2016 and a rise of 7.4% from end-June 2016. Net loans & advances to customers totaled $66bn, up by 3.1% from end-2016 and by 1.8% from the end of June 2016; while credit extended to related parties regressed by 18.4% from end-2016 to $669.6m at the end of June 2017. Customer deposits totaled $176.8bn at the end of June 2017, reflecting a growth of 3.5% from end-2016 year-on-year and of 6.2% from a year earlier; while deposits from related parties regressed by 0.7% to $3.8bn at end-June 2017. The banks' shareholders equity reached $20.3bn at the end of June 2017 and increased marginally by 0.4% from end-2016.

In parallel, the banks' loans-to-deposits ratio decreased from 38.6% at the end of June 2016 to 36.9% at end-June 2017. The loans-to-deposits ratio in local currency was 26.3% compared to 23.4% at end-June 2016, while the ratio in foreign currency was 41.3% at the end of June 2017 relative to 45.1% a year earlier. Further, the primary liquidity-to-assets ratio was 36% at the end of June 2017, up from 30.3% at end-June 2016. In addition, the banks' gross doubtful loans-to-gross loans ratio increased from 5.6% at end-June 2016 to 5.82% at the end of June 2017. Also, the loan-loss reserves on doubtful loans covered 71.61% of gross doubtful loans at end-June 2017, down from a coverage of 73.82% a year earlier. Further, the ratio of collective provisions-to-net loans increased from 1.26% at the end of June 2016 to 1.63% at end-June 2017.

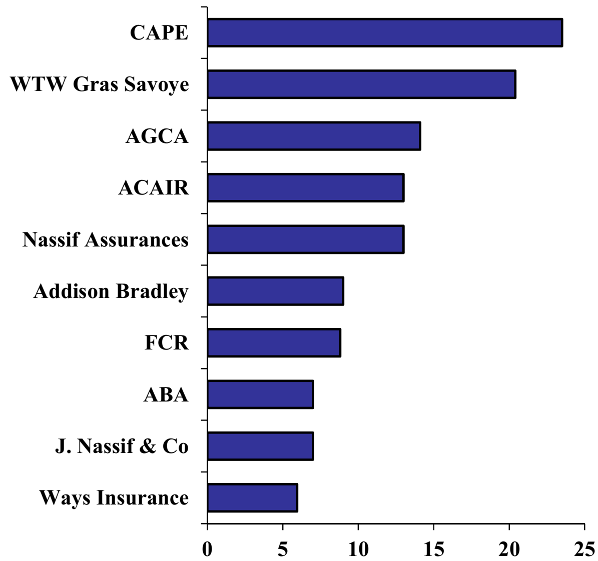
Premiums generated by independent insurance brokers down 1% to $232m in 2016

Al-Bayan magazine's annual survey of insurance brokers in Lebanon shows that the total premiums generated by independent brokers operating across the country reached $231.7m in 2016, constituting a decrease of 1.4% from $235.1m in 2015. The figures cover premiums generated by 95 active independent brokers in the market. They exclude premiums generated by brokers affiliated with commercial banks and those who operate exclusively for a specific insurance company.

The brokers included in the survey generated 14.5% of total insurance premiums written in 2016 relative to 15.4% of the total in 2015. Cape Insurance Broker came in first place with $23.5m in premiums generated last year, equivalent to 10.1% of the total. WTW Gras Savoye followed with $20.4m (8.8%), then Agence Générale de Courtage d'Assurances (AGCA) with $14.1m (6.1%), and Insurance Consultancy & Risk Assessment (ACAIR) and Nassif Assurances with $13m each (5.6% each) as the top five brokers in the survey.

The top 10 insurance brokers generated $121.8m in premiums last year and accounted for 52.5% of the total, relative to premiums of $120.2m and a share of 51.1% in 2015. Three of the top 10 brokers, which are Cape Insurance Broker, WTW Gras Savoye and AGCA, posted decreases in their premiums, six of them posted increases, while the premiums of ACAIR were unchanged year-on-year. Further, 45 brokers generated more than $1m in premiums, 19 brokers had premiums ranging from $0.5m to $1m, and the remaining 31 brokers posted premiums of less than $0.5m each. In parallel, the premiums of Ace Insurance Brokers decreased by 68% to $660,000, the steepest decline among brokers year-on-year, and ranked in 54th place in the 2016 survey.

Top 10 Insurance Brokers by Premiums in 2016 (US$m)



Source: Al-Bayan magazine, Byblos Research

Bancassurance's net income at $17m in 2016

Bancassurance sal, a life-insurance company owned by Banque Libano-Française, Fransabank and BLC Bank, announced audited net profits of $16.5m in 2016, constituting an increase of 12% from net earnings of $14.7m in 2015. Its audited balance sheet shows total assets of $386.5m at the end of 2016, constituting a growth of 16.7% from $331.1m at end-2015. On the assets side, general company investments reached $364.3m and increased by 16% from a year earlier. They included $272.2m in fixed income investments, $7m in variable income investments, $6.5m in mutual funds and $3.5m in cash and cash equivalents. They also included $70.3m in blocked bank deposits and deposits with maturity of more than three months, of which $995,025 were blocked in favor of the Ministry of Economy & Trade as guarantees. Also, unit-linked contract investments totaled $0.94m at end-2016, constituting a decline of 64.6% from $2.6m a year earlier. These investments were allocated in full to mutual funds. Also, the reinsurance's share in technical reserves for the life category decreased by 11.6% to $1.4m in 2016.

On the liabilities side, technical reserves for the life segment reached $311.9m at end-2016 and increased by 13.2% from a year earlier. They included unearned premium reserves of $28.9m that grew by 7.8% from a year earlier, outstanding claims reserves of $2.5m that decreased by 0.7% and $0.5m in reserves incurred but not reported that rose by 7.1% year-on-year. Provisions for risks and charges reached $6m in 2016 and were nearly unchanged from a year earlier. Also, the firm's shareholders' equity totaled $46.3m at the end of 2016, up by 24.2% from $37.3m at end-2015.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked Bancassurance sal in second place in 2016 in terms of life premiums. The firm's life premiums amounted to $76m last year, constituting an increase of 1.9% from $74.6m in 2015. It had a 15.1% share of the life market in 2016.

Net profits of Syrian affiliates of Lebanese banks at $2m in first quarter of 2017 when excluding foreign exchange gains on structural positions

Financial results issued by the affiliates of seven Lebanese banks operating in Syria show that their aggregate unaudited net profits reached SYP1.1bn in the first quarter of 2017, constituting a decline of 96.4% from SYP30.4bn in the same quarter of 2016. The significant decrease in profits was mainly due to a SYP32bn decline in unrealized foreign exchange gains on structural positions from SYP32.1bn in the first quarter of 2016 to SYP109m in the first quarter of this year. In US dollar terms, the net profits of the seven banks decreased by 97.3% from $81.2m in the first quarter of 2016 to $2.2m in the same quarter of 2017. The US dollar figures reflect the prevailing official exchange rate that depreciated from an average of SYP374.9 per US dollar in the first quarter of 2016 to an average of SYP498.6 per US dollar in the first quarter of 2017. The aggregate net income of the seven banks becomes SYP997.7m, or $2m, in the first quarter of 2017 when excluding foreign exchange gains on structural positions, compared to losses of SYP1.65bn, or $4.4m, in the first quarter of 2016. The profits of Bank Audi Syria regressed by SYP7.75bn year-on-year in the first quarter of 2017, followed by a decline of SYP6.2bn in those of Fransabank Syria, a decrease of SYP5.3bn in the income of Banque BEMO Saudi Fransi, a drop of SYP4.3bn in the profits of Bank of Syria & Overseas, a decrease of SYP2.9bn in those of Bank Al-Sharq, the affiliate of Banque Libano-Française sal, a reduction of SYP1.84bn in the net earnings of Syria Gulf Bank, the affiliate of First National Bank sal, and a decline of SY995.3m in the profits of Byblos Bank Syria from the first quarter of 2016.

The net interest income of the seven banks totaled SYP3.2bn in the first quarter of 2017, up by 12.3% from SYP2.9bn in the same quarter last year; while their net fees & commission income decreased by 5.2% to SYP1.1bn. In US dollar terms, the banks' net interest income totaled $6.5m in the first quarter of the year, down by 15.5% from $7.7m in the first quarter of 2016; while their net fees & commission income stood at $2.2m, reflecting a drop of 28.7% from $3.1m in the same quarter last year. This decrease in US dollar figures is explained by the devaluation of the Syrian pound. The seven banks' total operating income reached SYP5bn in the first quarter of 2017, reflecting an 86.6% decrease from SYP37bn in the first quarter last year, while their total operating expenses reached SYP4.3bn in the first quarter of the year, down by 52% from the same quarter last year. In US dollar terms, the banks' operating income totaled $9.9m in the first quarter of the year relative to $98.8m in the same quarter of 2016; while their operating expenses stood at $8.6m, down by 63.9% from $23.7m in the first quarter of 2016. The banks' operating income becomes SYP4.85bn in the first quarter of 2017 when excluding foreign exchange gains on structural positions, relative to SYP4.95bn in the same quarter last year.

In parallel, the banks' aggregate assets reached SYP822.7bn at the end of March 2017, nearly unchanged from SYP821bn at end-2016. In US dollar terms, the assets of the seven banks stood at $1.65bn at the end of March 2017, nearly unchanged from end-2016. Also, the banks' total loans reached SYP108.1bn at end-March 2017, up by 8.4% from SYP99.7bn at the end of 2016. In US dollar terms, the aggregate loans of the seven banks reached $216.8m at the end of March 2017 relative to $200m at the end of 2016.

Further, the banks' customer deposits totaled SYP483.1bn at the end of March 2017, nearly unchanged from SYP483.3bn at the end of 2016. In US dollar terms, customer deposits at the seven banks reached $969m at the end of March 2017 compared to $969.3m at the end of 2016. The ratio of the banks' loans-to-customer deposits stood at 22.4% at the end of March 2017 relative to 20.6% at end-2016. Also, the aggregate shareholders' equity of the banks reached SYP144.9bn, or $290.7m, at the end of March 2017, constituting an increase of 1% from SYP143.4bn at end-2016.

Results of Affiliates of Lebanese Banks in Syria in First Quarter of 2017

	Banque BEMO Saudi Fransi	Bank of Syria & Overseas	Fransabank Syria	Bank Audi Syria	Byblos Bank Syria	Syria Gulf Bank	Bank Al-Sharq
Net Profits	$0.84m	$0.21m	$0.2m	$0.02m	$0.17m	$0.69m	$0.09m
Total Assets	$476.8m	$390.6m	$235.4m	$219.7m	$140.6m	$107.6m	$79.5m
% Change*	1.2%	-0.3%	0.2%	4.2%	-5.2%	-8.3%	9.7%
Loans	$72.7m	$8.4m	$50.9m	$20.8m	$27.7m	$17.5m	$18.7m
% Change*	4.6%	1.2%	30.6%	-8.1%	12.3%	-7.8%	11%
Customer Deposits	$375.1m	$221.2m	$89.8m	$103.8m	$68m	$72.3m	$38.8m
% Change*	0.8%	1.2%	0.8%	2.2%	-6.5%	-11.3%	14.6%

**Change from end-2016*
Source: Banks' financial statements

Ratio Highlights

(in % unless specified)	2014	2015	2016e	Change*
Nominal GDP ($bn)	50.0	51.1	52.0	
Public Debt in Foreign Currency / GDP	51.2	53.0	54.2	1.26
Public Debt in Local Currency / GDP	81.9	84.6	89.6	4.98
Gross Public Debt / GDP	133.1	137.6	144.0	6.42
Total Gross External Debt / GDP**	170.0	174.7	176.6	1.90
Trade Balance / GDP	(34.4)	(29.5)	(30.0)	(0.47)
Exports / Imports	16.2	16.6	16.1	(0.49)
Fiscal Revenues / GDP	21.8	18.7	19.1	0.30
Fiscal Expenditures / GDP	27.9	26.5	28.6	2.1
Fiscal Balance / GDP	(6.1)	(7.7)	(9.5)	(1.8)
Primary Balance / GDP	2.6	1.4	0.04	(1.4)
Gross Foreign Currency Reserves / M2	66.5	58.7	62.7	3.94
M3 / GDP	235.4	241.9	250.0	8.11
Commercial Banks Assets / GDP	351.4	364.0	392.9	28.9
Private Sector Deposits / GDP	288.9	296.6	312.5	15.8
Private Sector Loans / GDP	101.8	106.1	108.7	3.85
Private Sector Deposits Dollarization Rate	65.7	64.9	65.0	0.10
Private Sector Lending Dollarization Rate	75.6	74.8	73.6	(1.23)

**Change in percentage points 15/16*
***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	Oct 2015	Sep 2016	Oct 2016	Change**	Risk Level
Political Risk Rating	54.5	54.5	54.5	↔	High
Financial Risk Rating	39.0	36.5	36.5	↑	Low
Economic Risk Rating	33.0	30.5	30.5	↑	Moderate
Composite Risk Rating	63.25	60.75	60.75	↑	Moderate

MENA Average*	Oct 2015	Sep 2016	Oct 2016	Change**	Risk Level
Political Risk Rating	57.7	57.6	57.6	↑	High
Financial Risk Rating	39.3	38.9	38.7	↑	Low
Economic Risk Rating	31.2	29.7	29.7	↑	High
Composite Risk Rating	64.1	63.1	63.0	↑	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	Negative	B3		Stable
Fitch Ratings	B-	B	Stable	B-		Stable
Standard & Poor's	B-	B	Stable	B-	B	Stable
Capital Intelligence	B	B	Stable	B	B	Stable

Source: Rating agencies

Banking Ratings	Banks' Financial Strength	Banking Sector Risk	Outlook
Moody's	E+		Negative

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