

## LEBANON THIS WEEK

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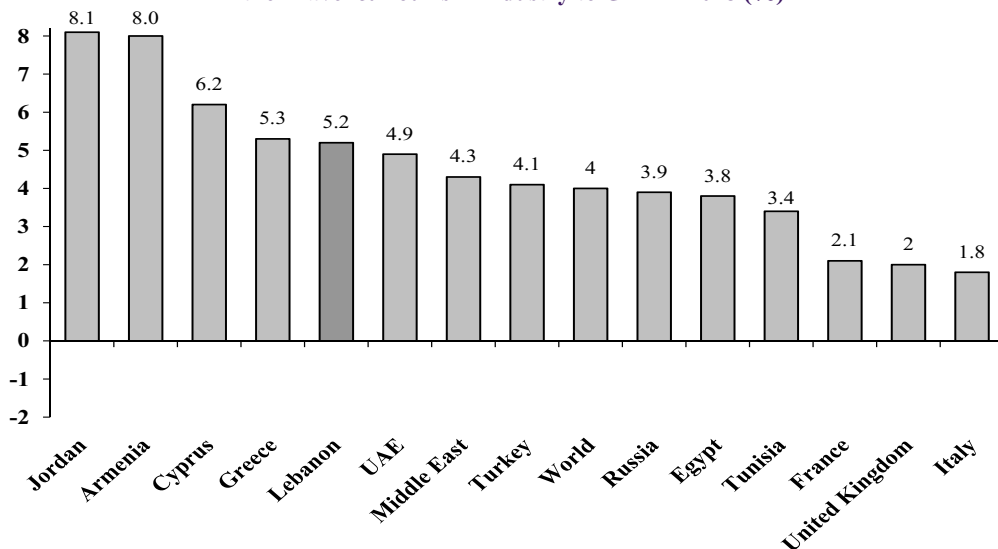
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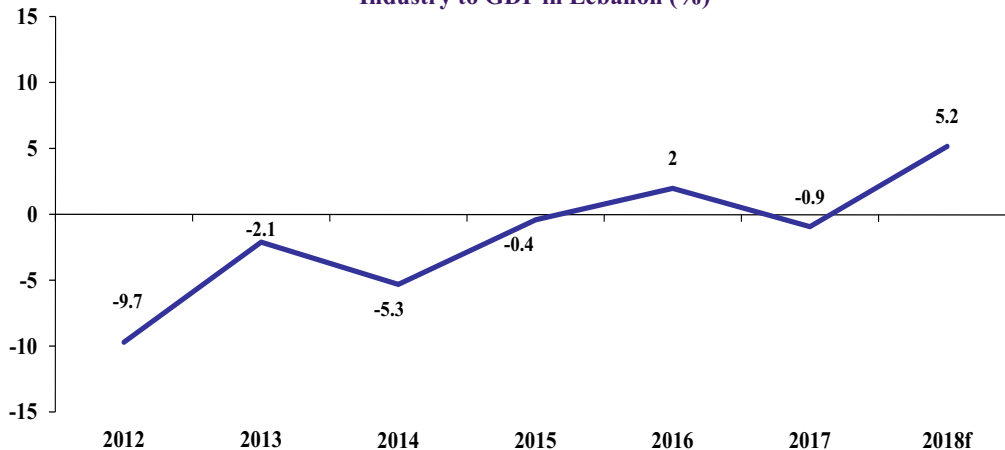
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### Charts of the Week

**Projected Growth in the Total Contribution of the Travel & Tourism Industry to GDP in 2018 (%)**



**Growth in the Total Contribution of the Travel & Tourism Industry to GDP in Lebanon (%)**



Source: World Travel & Tourism Council, Byblos Bank

### Quote to Note

“There should be a transparent, predictable and accountable enabling environment to attract private financing to priority public investments.”

*The World Bank, on a basic requirement to kick start public private partnerships for infrastructure projects in Lebanon*

### Number of the Week

**124:** Lebanon's rank out of 137 countries in terms of the transparency of the government's policy-making, according to the World Economic Forum's Global Competitiveness Index for 2017-18

## Lebanon in the News

\$m (unless otherwise mentioned)	2017	Dec 2016	Sep 2017	Oct 2017	Nov 2017	Dec 2017	% Change*
Exports	2,844	244	210	251	229	251	2.70
Imports	23,130	1,536	1,297	1,690	1,726	5,826	279.18
Trade Balance	(20,286)	(1,292)	(1,087)	(1,439)	(1,497)	(5,575)	331.43
Balance of Payments	(156)	910	457	(888)	68	854	(6.16)
Checks Cleared in LBP	21,677	1,879	1,475	1,993	1,880	2,131	13.41
Checks Cleared in FC	46,578	3,880	3,010	4,147	3,687	4,127	6.37
Total Checks Cleared	68,255	5,759	4,485	6,140	5,567	6,258	8.67
Budget Deficit/Surplus	(3,300.82)	(513.35)	(651.25)	(273.18)	(865.19)	(350.41)	(31.74)
Primary Balance	1,882.86	(111.56)	(145.72)	166.63	(119.74)	15.77	-
Airport Passengers***	8,235,845	598,001	861,828	616,742	592,890	626,866	4.83

\$bn (unless otherwise mentioned)	2017	Dec 2016	Sep 2017	Oct 2017	Nov 2017	Dec 2017	% Change*
BdL FX Reserves	35.80	34.03	35.06	36.77	35.69	35.80	5.21
In months of Imports	18.57	22.15	27.03	21.76	20.68	6.15	(72.25)
Public Debt	79.52	74.90	78.16	78.47	79.37	79.52	6.17
Bank Assets	219.86	204.31	213.42	215.79	216.21	219.86	7.61
Bank Deposits (Private Sector)	168.67	162.50	169.09	169.40	166.81	168.67	3.80
Bank Loans to Private Sector	60.32	57.18	58.93	59.13	59.55	60.32	5.49
Money Supply M2	52.48	54.68	55.50	55.07	51.96	52.48	(4.02)
Money Supply M3	138.38	132.80	138.87	138.68	136.99	138.38	4.20
LBP Lending Rate (%)****	8.09	8.23	8.31	8.24	7.98	8.09	(14bps)
LBP Deposit Rate (%)	6.41	5.56	5.53	5.56	5.88	6.41	85 bps
USD Lending Rate (%)	7.67	7.35	7.53	7.39	7.32	7.67	32 bps
USD Deposit Rate (%)	3.89	3.52	3.65	3.72	3.80	3.89	37 bps
Consumer Price Index**	4.40	3.10	4.10	4.60	4.80	5.00	190 bps

\* 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	Sovereign Eurobonds	Coupon %	Mid Price \$	Mid Yield %
Audi Listed	5.75	(2.38)	454,925	20.31%	Nov 2018	5.15	99.88	5.38
Byblos Common	1.66	(1.19)	169,842	8.29%	May 2019	6.00	100.25	5.75
Solidere "A"	8.25	1.35	164,617	7.29%	Mar 2020	6.38	100.50	6.08
Audi GDR	5.75	1.05	105,000	6.09%	Oct 2022	6.10	97.13	6.86
Solidere "B"	8.21	2.63	66,114	4.72%	Jun 2025	6.25	94.00	7.34
BLOM GDR	11.20	(2.78)	51,951	7.31%	Nov 2026	6.60	93.25	7.69
BLOM Listed	11.19	1.27	18,842	21.26%	Feb 2030	6.65	90.13	7.95
HOLCIM	14.75	2.43	875	2.54%	Apr 2031	7.00	92.00	8.00
Byblos Pref. 08	102.20	0.00	-	1.81%	Nov 2035	7.05	91.13	8.00
Byblos Pref. 09	106.50	0.00	-	1.88%	Mar 2037	7.25	91.88	8.10

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

Source: Byblos Bank Capital Markets

	Apr 16-20	Apr 10-13	% Change	March 2018	March 2017	% Change
Total shares traded	1,051,831	503,872	108.7	34,632,170	2,874,774	1104.7
Total value traded	\$7,227,960	\$2,933,141	146.4	\$248,827,531	\$30,759,439	708.9
Market capitalization	\$11.32bn	\$11.34bn	(0.19)	\$11.85bn	\$12.47bn	(5.0)

Source: Beirut Stock Exchange (BSE)



## Demand for housing regresses in first quarter of 2018

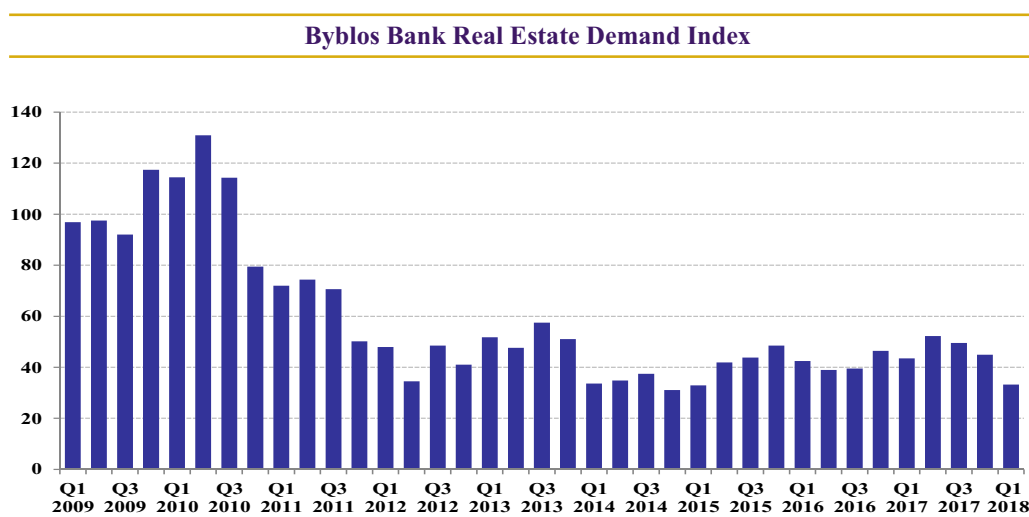
Demand for residential real estate in Lebanon decelerated significantly in the first quarter of 2018, as reflected by the results of the Byblos Bank Real Estate Demand Index. The Index posted a monthly average of 33.2 points in the first quarter of 2018, constituting a decrease of 26.1% from 44.9 points in the fourth quarter of 2017 and a decline of 23.7% from 43.5 points in the first quarter of 2017. The first-quarter results constitute their lowest level since the second quarter of 2015 and their third lowest level in 43 quarterly readings. In addition, the Index's average monthly score in the first quarter of 2018 is 74.7% lower than the peak of 131 points registered in the second quarter of 2010, and remains 69.8% below the annual peak of 109.8 points posted in 2010. It is also 45% lower than the Index's monthly trend average score of 60.3 points since the Index's inception in July 2007.

Demand for housing in Lebanon declined sharply in the first quarter of 2018 due to the suspension of interest rate subsidies on housing loans at the beginning of the year. Banque du Liban, in cooperation commercial banks, has subsidized interest rates on housing loans since 2009 through various measures and mechanisms. The subsidies were supposed to be temporary and for a limited period of time, in order to give the executive branch time to develop a housing policy. But the successive governments took things for granted as it assumed that these subsidies would continue indefinitely. The depletion of available cash for subsidized mortgages reduced local demand and negatively affected citizens' decision to buy a house in the first three months of the year.

In addition, most Lebanese found themselves priced out of the market without any subsidy support, which significantly impacted their decisions to buy or build a house. The suspension of the subsidy program has weighed on the willingness of prospective buyers to acquire a residential unit, given that buying a house constitutes one of the most important investment decisions for the Lebanese, and the value of a house is usually the single most important non-financial asset for Lebanese residents. In fact, this trend was reflected in the answers of respondents to the Index's survey questions in the first quarter of 2018, as only 3.8% of Lebanese residents had plans to either buy or build a residential property in the coming six months compared to 5.1% in fourth 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 March 2018, with this share peaking at nearly 15% in the second quarter of 2010.

Demand for housing in the first quarter of 2018 was the highest in the North, as 6% of its residents had plans to build or buy a house in the coming six months, compared to 9.8% in the fourth quarter of 2017. Beirut followed with 4.6% of its residents planning to buy or build a residential unit in the coming six months, unchanged from the preceding quarter; while 3.4% of residents in the South had plans to buy or build a house, down from 4.5% in the preceding quarter. In addition, 3.2% of residents in Mount Lebanon intend to buy or build a residential unit, down from 4.3% in the fourth quarter of 2017, while 1.7% of residents in the Bekaa had plans to build or buy a house, down from 2.1% in the previous quarter. Also, real estate demand declined among all income brackets in the first 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, administrative district, 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  $\pm 2.83\%$ , 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.



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

### Fiscal adjustment and infrastructure upgrade to reduce fiscal deficit to 6.4% of GDP by 2023 and stabilize public debt level

The International Monetary Fund conducted preliminary simulations for the Lebanese economy over a five-year horizon that covers the 2019-23 period. The simulations are based on four scenarios that are a baseline scenario of unchanged policies, a scenario of policy adjustments, as well as two other scenarios that take into account the implementation of the Capital Investment Program, which is the \$23bn capital expenditures plan that the Cabinet approved to upgrade the country's infrastructure.

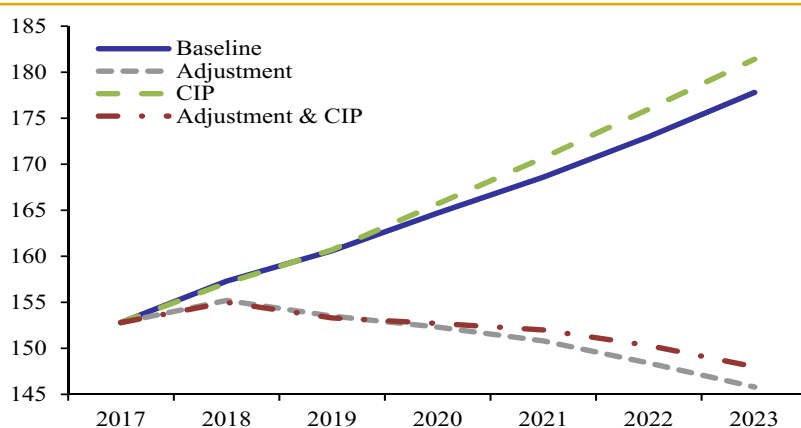
Under the baseline scenario of unchanged policies, the IMF expected Lebanon's economic performance and financial inflows to be subdued during the coming five years, amid a moderate pickup in trade activity, structural challenges that constrain the country's potential growth, and the ongoing conflict in Syria. It projected real GDP growth to average 2.5% annually during the 2019-23 period, driven in part by higher external demand. It projected the average inflation rate at 4.3% in 2018 and to average about 2.6% in the 2019-23 period. Further, it expected the fiscal deficit to average 11.9% of GDP annually in the next five years and to reach 13% of GDP in 2023, and for the public debt level to increase from 152.8% of GDP at the end of 2017 to 157.3% of GDP at end-2018 and to reach 177.8% of GDP by end-2023. It anticipated foreign currency reserves to decrease from \$40.6bn at end-2017 to \$37.5bn at end-2018 and to reach \$18.6bn by end-2023. It considered that, in case of an early resolution of the Syrian conflict, Lebanon would benefit from the re-establishment of trade routes and from improved regional investor confidence, and eventually from the reconstruction projects. It expected that this would have a significant impact on growth and public finances, but would not be enough for debt sustainability.

In its second scenario that consists of policy adjustments, the IMF assumed that the government would implement a reform agenda that focuses on fiscal, monetary and structural reforms in order to improve the economic outlook and put the public debt level on a downward path. First, it said that authorities would target fiscal adjustment measures in order to reduce the fiscal deficit, such as increasing the value-added tax rate, reinstating gasoline excise and fuel taxes to pre-2012 levels, as well as gradually raising electricity tariffs. Second, it considered that the government would step up structural reforms, including those in the electricity sector, as well as addressing corruption and governance issues in the public sector, which would improve competitiveness and promote sustainable growth. In this context, it projected real GDP growth at 0.8% in 2018 and to average 2.2% during the 2019-23 period. It expected the fiscal deficit to narrow from 8.9% of GDP in 2018 to 5.2% of GDP in 2023, and to average 5.5% of GDP annually in the 2019-23 period. As such, it forecast the public debt level to decrease gradually from 155.2% of GDP at end-2018 to 145.8% of GDP by end-2023. It anticipated foreign currency reserves to substantially increase from \$39.7bn at end-2018 to \$51.9bn by end-2023.

In parallel, the IMF pointed out that under its third scenario where authorities implement the CIP without any changes in current policies, the program would provide support for growth but would worsen the public debt trajectory. In this context, it projected real GDP growth at 2.3% in 2018 and to average 3% annually during the 2019-23 period. It expected the fiscal deficit to widen from 11.6% of GDP this year to 14.2% of GDP in 2023 and to average 13.4% of GDP annually in the 2019-23 period. As a result, it forecast the public debt level to increase from 157.1% of GDP at end-2018 to 181.4% of GDP by end-2023. It anticipated foreign currency reserves to decrease from \$38bn at end-2018 to \$22.1bn by end-2023.

Under its fourth scenario, the IMF indicated that the implementation of the CIP, along with the government's efforts to implement wider fiscal and structural reforms, would improve Lebanon's growth outlook, create more employment, as well as stabilize the public debt level and put it on a downward trend. It added that the CIP would yield higher growth rates if it is implemented along with improvements in public investment management. In this context, it projected real GDP growth at 1.6% in 2018 and to average 3% during the 2019-23 period. It forecast the fiscal deficit to narrow from 9.9% of GDP in 2018 to 6.4% of GDP in 2023 and to average 7% of GDP annually in the 2019-23 period. As such, it expected the public debt level to decline from 155% of GDP at end-2018 to 148% of GDP by end-2023. It anticipated foreign currency reserves to rise from \$39.7bn at end-2018 to \$53bn by end-2023.

**Public Debt Trajectory under IMF's Four Scenarios (% of GDP)**



Source: International Monetary Fund, Byblos Research

### Nearly half of Lebanese adults have an account at a financial institution, 12% made a transaction through the Internet or mobile phones

Figures issued by the World Bank show that 44.8% of Lebanese above 15 years old had an individual or a joint account at a formal financial institution at the end of 2017, down from 46.9% at end-2014, and relative to 37% of adult Lebanese at the end of 2011. The Bank defines a formal financial institution as a commercial bank, credit union, cooperative, post office or microfinance institution. Lebanon's account penetration rate ranks in 85th place among 144 countries globally, in 29th place among 38 upper-middle income countries (UMICs), and in ninth place among 16 countries in the Middle East & North Africa (MENA) region. Globally, Lebanon's bank account penetration rate is higher than that of Moldova (43.8%), Guatemala (43.5%) and Honduras (42.9%), and lower than penetration rates in Armenia (45.3%), Colombia (44.9%) and Botswana (44.8%). Lebanon's bank account penetration rate is lower than the global rate of 67.1%, the UMIC's penetration rate of 72.8%, and the MENA region's penetration rate of 47.1%.

On a gender basis, 56.7% of Lebanese males and 33% of Lebanese females who are 15 years or older had an individual or a joint bank account at the end of 2017, relative to 62.4% and 33%, respectively, at the end of 2014. The share of females in Lebanon with an account or a joint account is lower than the global and the UMICs' averages of 63.7% and 69%, respectively, as well as than the MENA region's rate of 37.8%. Similarly, the bank account penetration rate of Lebanese males is lower than the global rate of 70.6% and the UMICs' rate of 76.6%, but is slightly higher than MENA region's rate of 56.1%.

In parallel, 80% of Lebanese adults who have an account at a financial institution reported one or more withdrawals from their account in 2017, relative to 78.7% in 2014. This rate is higher than the global average rate of 72.1%, the average rate of UMICs of 77.5% and the average rate of MENA region countries of 77.6%.

Further, 54% of Lebanese adults who do not have an account at a financial institution cite insufficient funds as the main reason. Also, 33% of adults said they do not have an account, because another family member already has an account, 20% cited high costs of financial services, 13% mentioned their lack of trust in financial institutions, 5% said they do not need formal financial services, 3% referred to religious reasons, while 1% said that they are located far away from financial institutions.

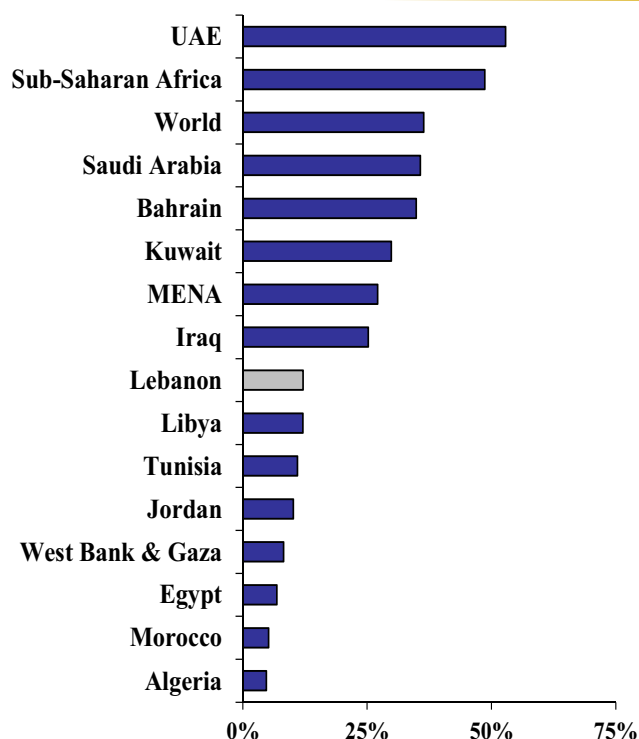
Also, 12.1% of Lebanese adults who have an account used a mobile phone or the Internet to make a transaction through that account or through the use of a mobile money service in 2017. Transactions include making payments, purchases, or sending or receiving money. The share of Lebanese adults who made an online or mobile phone transaction in 2017 was the 22nd lowest among 143 countries globally, the eighth lowest among 38 UMICs and the eighth lowest among 16 MENA countries. It was higher than the share of adults who made an online or mobile phone transaction in Libya, Tunisia and Ecuador, and lower than that of Panama, Mauritania and Peru. The share of Lebanese adults who made a financial transaction from their account using the Internet or a mobile phone in 2017 was lower than the global average (36.4%), the UMICs' average (41.8%), and the average of MENA countries (27.1%).

### Value of cleared checks down 1.6%, returned checks up 14% in first quarter of 2018

The value of cleared checks reached \$16.8bn in the first quarter of 2018, constituting a decline of 1.6% from \$17.1bn in the same quarter of 2017. In comparison, the value of cleared checks increased by 1.3% in the first quarter of 2017 and decreased by 0.4% in the same period of 2016. The value of cleared checks in Lebanese pounds grew by 2.6% year-on-year to the equivalent of \$5.5bn in the first quarter of 2018, while the value of cleared checks in US dollars declined by 3.6% to \$11.3bn in the covered quarter. The dollarization rate of cleared checks regressed from 68.5% in the first quarter of 2017 to 67.1% in the same period of 2018. Further, there were 2.97 million cleared checks in the first three months of 2018, down by 1.2% from 3.01 million in the same period of 2017.

In parallel, the value of returned checks in domestic and foreign currency was \$364.5m in the first quarter of 2018 compared to \$319m in the same period of 2017 and \$349m in the first quarter of 2016. This constituted an increase of 14.3% year-on-year in the first three months of 2018 relative to a drop of 8.6% in the same period of 2017 and a decline of 15.9% in the first quarter of 2016. Also, there were 63,887 returned checks in the covered quarter, up by 16.4% from 54,900 returned checks in the first three months of 2017.

Adults who Used a Mobile Phone or the Internet to Make a Transaction Through Account (% of Adults with Account)



Source: World Bank, Byblos Research



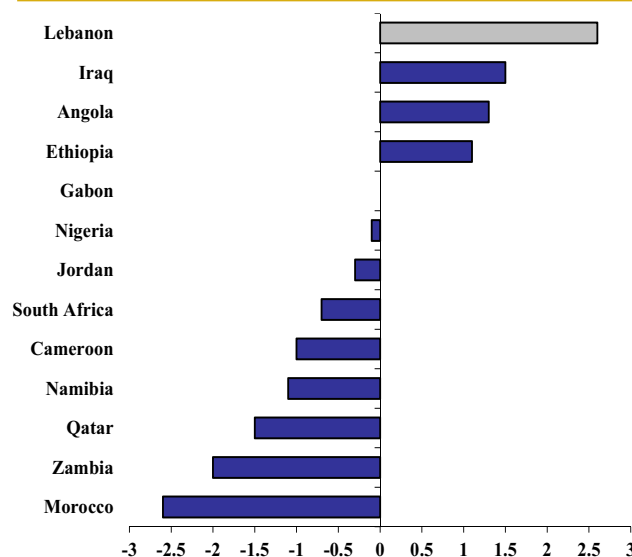
### External bonds post second highest return in emerging markets in first quarter of 2018

Figures issued by Citi Research indicate that Lebanon's external sovereign debt posted a return of 2.6% in the first quarter of 2018, constituting the second highest return among 40 emerging markets included in the Citi EM Sovereign Bond Index. Lebanon's sovereign debt return was lower than that of Belize (+3.5%) in the covered quarter.

Lebanon outperformed the overall emerging markets' return of -1.7%, the 'B'-rated sovereigns' return of -1.4% and the speculative grade sovereigns' return of -1.3% during the covered period. Also, Lebanon's sovereign debt posted the highest return among 13 countries in the Middle East & Africa region in the first three months of 2018.

Further, Lebanon's sovereign debt posted a return of 2.4% in March 2018, constituting the second highest return in emerging markets during the covered month. Lebanon's sovereign debt underperformed only Ethiopia (+4.1%) in March 2018. Lebanon outperformed the emerging markets' return of 0.6%, the 'B'-rated sovereigns' return of 0.9% and the speculative grade sovereigns' return of 0.5% during the covered month.

### External Sovereign Debt Performance in the Middle East & Africa in First Quarter of 2018 (%)



Source: Citi Research, Byblos Research

### ESFD guaranteed 114 loans in first quarter of 2018

The Economic & Social Fund for Development (ESFD) indicated that it guaranteed 114 loans for a total of LBP2.8bn, or \$1.9m, to small- and medium-sized enterprises in the first quarter of 2018. Overall, the ESFD guaranteed 10,043 loans for an aggregate value of LBP186.3bn, or \$123.6m, between 2003 and March 2018. Mount Lebanon accounted for 29.5% of the total number of loans guaranteed by the ESFD since 2003, followed by Nabatieh (21.9%), the North (17.7%), the South (13.5%), the Bekaa (12.7%) and Beirut (4.8%). The ESFD has guaranteed 3,914 loans, or 39% of the total, to the services sector, followed by the trade sector with 3,626 loans (36.1%), the industrial sector with 1,476 loans (14.7%) and the agricultural sector with 1,027 loans (10.2%). It claims that it has helped create 8,467 new jobs since 2003.

The ESFD guarantees 50% of the loan principal and accrued interest for 120 days. It provides financial and technical support to small and medium-sized enterprises, through financial intermediaries, to finance projects in poor regions of the country. The ESFD was established in November 2000 based on the signing of a financing agreement between the European Commission and the Lebanese government through the Council for Development & Reconstruction. The ESFD is funded by the European Union and the Lebanese government.

### Banque du Liban bans double swiping of payment cards and requests usage of EMV technology

Banque du Liban (BdL) issued Intermediate Circular 489 on March 23, 2018 that amends Basic Circular 63 issued on June 10, 1999 about debit, credit and charge cards. First, the amendment requires merchants to limit the usage of payment cards to the point of sales (POS) machines at their shops and establishments, and to refrain from using or double swiping such cards on any other machines. "Double swiping" occurs when merchants swipe a card for the second time at their cash register in order to collect important card payment details and cardholders' personal data for their internal accounting purposes and/or marketing purposes. By double swiping a card, a merchant can access and store in his computer system the customers' payment card data, including sensitive information encoded on the magnetic stripe. This, in turn, can compromise the cardholders' information in case the merchant's POS, cash register or computer system is illegally accessed, as the card information can be stolen, which could lead to forging and to fraudulent transactions.

Second, the circular stipulated that all banks, financial institutions, and Lebanese and foreign companies licensed to issue debit, credit or charge cards must use EMV technology, which consists of an electronic chip and a secret PIN code, when issuing all payment cards. The EMV technology, which is named after its original developers Europay, MasterCard and Visa, is the global standard for payment cards and features payment instruments with embedded microprocessor chips that store and protect cardholder data. BdL gave banks and financial institutions until June 30, 2019 to abide by the new rules.

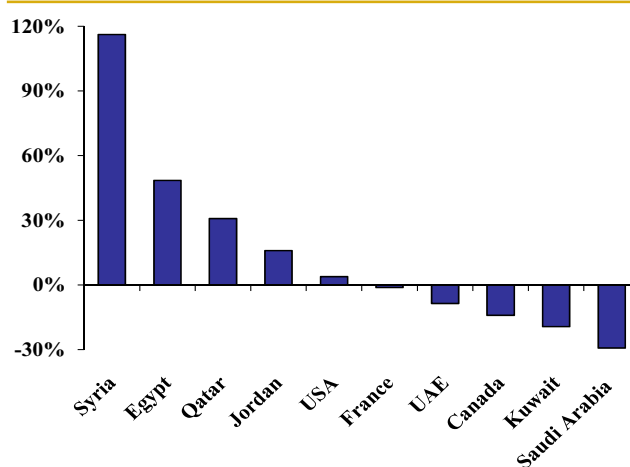
Figures released by Banque du Liban show that the number of payment cards issued in Lebanon reached 2,633,459 cards at the end of 2017, constituting an increase of 0.9% from end-September 2017 and a decrease of 4.7% from end-2016. Cards held by residents accounted for 96.6% of total cards issued in Lebanon at end-2017. Further, the aggregate number of points-of-sales accepting payment cards reached 42,506 at the end of 2017, constituting an increase of 2% from end-September 2017 and a rise of 10% from end-2016.

### Tourist spending up 1.6% in first quarter of 2018, number of refunds up 5%

Figures issued by Global Blue, the VAT refund operator for international shoppers, show that total spending by tourists in Lebanon increased by 1.6% in the first quarter of 2018 compared to a growth of 8% in the first quarter of 2017. Spending by tourists in Lebanon decreased by 0.1% in January and by 5.3% in February, while it rose by 10.8% in March 2018.

Visitors from the UAE accounted for 12% of total tourist expenditures in first quarter of 2018, followed by visitors from Saudi Arabia with 11%, Syria with 10%, Egypt and Kuwait with 6% each, France and Qatar with 5% each, Jordan and the United States with 4% each, and Canada with 3%; while visitors from other countries accounted for the remaining 34%. Spending by visitors from Syria grew by 116.1% in the covered quarter, followed by spending by tourists from Egypt (+48.4%), Qatar (+30.8%), Jordan (+15.9%) and the United States (+3.9%). In contrast, spending by visitors from Saudi Arabia decreased by 29.3% in the first quarter of 2018, followed by spending by tourists from Kuwait (-19.3%), Canada (-14.1%), the UAE (-8.5%) and France (-1.1%).

**Total Spending by Source in First Quarter of 2018**  
(% change from first quarter of 2017)



Source: Global Blue, Byblos Research

Further, Beirut attracted 80% of aggregate expenditures in the covered quarter, followed by the Metn area with 14%, the Baabda district with 3% and the Keserwan region with 2%. On a city level, the Beirut Central District attracted 53% of tourist expenditures, followed by Ashrafieh (10%), Verdun (9%), Dbayeh and Jal el Dib (5% each), Mina El Hosn (4%), Hazmieh (3%), Hamra and Sin el Fil (2% each) and Jounieh (1%); while other cities accounted for the remaining 6% of total expenditures during the first quarter of 2018.

In parallel, fashion & clothing accounted for 65% of total expenditures in the first quarter of 2018, followed by watches & jewelry with 19%, and spending at department stores and home & garden products with 4% each, while other categories accounted for the remaining 8%. Spending at department stores rose by 19.8% in the first three months of the year and expenditures on watches & jewelry increased by 11.3%, while spending on fashion & clothing dropped by 2.9% and outlays on home & garden products regressed by 1.3% year-on-year in the covered period.

Also, the total number of refund transactions by visitors grew by 4.9% in the first quarter of 2018 compared to an increase of 1% in the same quarter of 2017. The number of refund transactions increased by 5.1% in January, decreased by 4.2% in February, and rose by 14.3% in March 2018. Visitors from Saudi Arabia and the UAE accounted for 12% of total refund transactions in the first quarter of 2018, followed by those from Syria (11%), Egypt (9%), Kuwait (6%), France and Jordan (4% each), and Canada, Qatar and the United States (3% each), while other countries accounted for the remaining 33%. In parallel, the number of refund transactions by visitors from Syria jumped by 63.1% in the covered quarter, followed by visitors from Egypt (+36.1%), the UAE (+9.9%), the United States (+9.3%), France (+9.1%), Jordan (+8%) and Canada (+5.2%). In contrast, the number of refund transactions by visitors from Kuwait decreased by 16.8% in the first quarter of 2018, followed by those from Saudi Arabia (-15.6%) and Qatar (-6.1%).

In addition, fashion & clothing accounted for 72% of the number of refund transactions by visitors in the first quarter of 2018, followed by the number of refunds at department stores with 9%, home & garden products (3%) and watches & jewelry (2%). Also, the number of refunds for other categories represented the remaining 14%. Further, Beirut accounted for 71% of total refunds by visitors in the covered quarter, followed by the Metn area with 20%, the Baabda district with 6% and the Keserwan region with 2%. Also, the Beirut Central District attracted 30% of total refund transactions by visitors in the first quarter of 2018, followed by Ashrafieh (17%), Verdun (16%), Dbayeh (11%), Hazmieh (6%), Hamra (4%), Jal el Dib (3%), Mina El Hosn (2%), and Jounieh and Sin el Fil (1% each), while other cities attracted the remaining 9% of total refund transactions in the covered quarter.

### Association of Banks amends reference rate on US dollar lending, keeps Lebanese pound rate unchanged

The Association of Banks in Lebanon (ABL) recommended to its member banks to raise the Beirut Reference Rate (BRR) in US dollars to 7.3% in May 2018 from 7.24% in April 2018. The rate, considered as the reference rate for lending in foreign currency, replaced the London Interbank Offered Rate (LIBOR) in 2009, as the ABL decided that the LIBOR does not reflect the cost of funding and lending in Lebanon. In addition, the ABL recommended to its member banks to maintain the BRR in Lebanese pounds at 10.7% in May 2018. The BRR in US dollars and Lebanese pounds were adopted in March and May 2009, respectively. The ABL considers that the BRR does not replace the Beirut Prime Lending Rate in each currency, but constitutes the basis to calculate the prime rate after adding the cost of liquidity and refinancing, credit risk and the profitability of banks.



### **Subsidies on housing loans to resume**

The Ministry of Finance (MoF), the Ministry of Social Affairs (MoSA) and the Public Corporation for Housing announced a plan that would reactivate subsidies on housing loans for Lebanese citizens, but under stricter conditions. Banque du Liban and commercial banks had been subsidizing interest rates on housing loans since 2009, but the available funds to subsidize mortgages dried up in early 2018. The plan stipulates that the MoF would allocate LBP1,000bn from the Treasury to cover interest subsidies on housing loans extended to limited-income persons. The subsidies will be allocated to loans that are provided through the Public Housing Corporation and Banque de l'Habitat. The package requires the approval of the Parliament, which is expected in the coming months.

Under the new plan, the Public Housing Corporation will only consider the loan applications of Lebanese citizens that have a monthly income that is equivalent to six times the minimum wage or lower, or about \$3,500 or lower, while Banque de l'Habitat would accept the loan applications of citizens that earn between seven and 10 times the minimum wage. Further, the new interest rates on the housing loans would be about 5%. In comparison, the interest rate on housing loans through the Public Housing Corporation were 3.74% previously, while those on loans through Banque de l'Habitat were 3%.

In addition, the subsidies will apply for loans for the purchase of apartments that have a surface area of up to 200 square meters, while the maximum duration for loan repayment will not exceed 20 years. Also, the loan ceiling for mortgages provided through the Public Housing Corporation would not exceed LBP270m, or about \$179,104 per acquired unit, as was the case previously; while the ceiling for mortgages provided by Banque de l'Habitat would not surpass LBP375m, or about \$248,756 per residential unit, while it was up to LBP1.2bn, or \$800,000 previously.

In January 2018, BdL allocated LBP750bn in subsidies for housing loans under its \$1bn stimulus package for 2018. In March 2018, BdL issued Intermediate Circular 487 that allowed banks that exceeded their 2018 quotas to benefit for one-time only from the subsidies that BdL pays on housing loans, since most banks exhausted their individual quotas for housing loans subsidies in Lebanese pounds for 2018. BdL indicated that banks will benefit from this facility on a first-come first-served basis, provided that each bank does not exceed its individual quota for 2019 that is set by BdL. The circular noted that the exception covers housing loans in Lebanese pounds that have already been approved by commercial banks or by agencies that have protocols about housing loans in place, such as the Public Corporation for Housing, the Lebanese Army and the judiciary, and that the loan applications have been dispatched to BdL prior to March 15, 2018. It added that banks have until the end of April to benefit from this extension. The circular indicated that BdL will cover the interest subsidies starting from 2019 and that the subsidies under this scheme will be deducted from the banks' quota in the 2019 stimulus package.

### **Energy Ministry calls on private sector to develop PV Farms with Battery Energy Storage**

The Ministry of Energy & Water called on the private sector to submit an Expressions of Interest (EOI) for the construction and operation of solar photovoltaic (PV) farms and associated battery energy storage components. Specifically, the Lebanese Center for Energy Conservation (LCEC) noted that private companies will develop three solar PV farms with battery energy storage units, which have a power capacity of 210 megawatt-peak (MWp) to 300 MWp. It pointed out that each solar farm would have a power generation capacity of 70 MWp to 100 MWp, while their battery energy storage component would have a minimum power capacity of 70 MW and a minimum storage capacity of 70 MWh. It also indicated that interested private companies would be required to propose suitable sites for the plants. Companies have until July 12, 2018 to submit the EOIs.

The LCEC indicated that the ministry would send to the companies that have submitted an EOI an official Request for Proposal (RFP) document, which specifies the criteria that they have to meet about their past performance, technical capacity and financial eligibility, as well as the overall process and timeframe of building the PV farms. Based on the results of the RFP documents, the ministry will select the companies that submitted the lowest bids and provided sound administrative, technical and environmental proposals. The selected companies would then sign the Power Purchase Agreement (PPA), which includes information on the starting date of the project, a timetable for the delivery of electricity, penalties for under-delivery, as well as payment and termination terms. The selected companies are expected to receive licenses to operate in 2019.

Further, the LCEC pointed out that the selected companies would finance, develop, acquire land, design, build, own, operate and maintain the PV plants and the associated battery energy storage component, and would 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 plants 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 would contribute to increasing the share of renewable energy production in Lebanon in the 2021-25 period.

In addition, the LCEC indicated that the construction of PV plants and their battery energy storage component would be possible due to Law 288 dated April 2014, Law 54 dated October 2015, which are expected to be extended in the near term. The laws allow the Council of Ministers to issue permits and licenses to the private sector to generate electricity from renewable energy sources and transport it through the national grid.



### Average value per real estate transaction up 3.6% in first quarter of 2018

Figures released by the Ministry of Finance indicate that there were 14,181 real estate transactions in the first quarter of 2018, constituting a decrease of 17% from 17,081 deals in the same quarter of 2017. In comparison, the number of real estate transactions grew by 14% year-on-year in the first quarter of 2017, and increased by 15.7% in the same quarter of 2016. There were 2,823 real estate transactions in the Baabda area in the first quarter of 2018, representing 20% of the total. The North followed with 2,314 transactions (16.3%), then the Zahlé region with 1,889 deals (13.3%), the South with 1,659 deals (11.7%), the Metn district with 1,520 transactions (10.7%), the Keserwan area with 1,324 transactions (9.3%), the Nabatieh region with 1,302 deals (9.2%) and Beirut with 975 transactions (6.9%).

Also, the aggregate value of real estate transactions reached \$2bn in the first quarter of 2018 and decreased by 14% from \$2.3bn in the same quarter of 2017. In comparison, the value of real estate deals increased by 10% in the first quarter of 2017 from the same quarter of 2016, and rose by 31.1% year-on-year in the first quarter of 2016. Further, the value of real estate transactions in Beirut reached \$565.4m and accounted for 28.1% of the total in the first quarter of 2018. The Baabda district followed with \$384.5m (19.1%), then the Keserwan area with \$328.4m (16.3%), the Metn region with \$293.9m (14.6%), the South with \$142.3m (7.1%), the North with \$130.7m (6.5%), the Zahlé area with \$70.8m (3.5%) and the Nabatieh region with \$53.3m (2.6%).

In parallel, the average value per real estate transaction was \$141,845 in the first quarter of 2018, up by 3.6% from an average value of \$136,975 in the same quarter of 2017 and relative to \$142,002 in the first three months of 2016. Further, there were 273 real estate transactions executed by foreigners in the first quarter of 2018, down by 3.2% from 282 deals in the same period of 2017, compared to a rise of 17.5% year-on-year in the same quarter of 2017 and to a decrease of 21.8% in the first quarter of 2016. The number of real estate deals executed by foreigners accounted for 1.9% of total real estate transactions in the first quarter of 2018 compared to 1.7% of deals in the same quarter of 2017 and to 1.6% of deals in the first three months of 2016. Further, 22.7% of the real estate transactions executed by foreigners were in the Baabda district in the first quarter of 2018, followed by Beirut (20.1%), the South (16.1%), the North (12.5%), the Metn region (12.1%), Zahlé (9.5%), Keserwan (5.5%) and Nabatieh (1.5%).

### Revenues through the Port of Beirut up 15% to \$43.5m in first two months of 2018

Figures released by the Port of Beirut show that the port's overall revenues were \$43.5m in the first two months of 2018, up by 15.1% from \$37.8m in the same period of 2017. The Port of Beirut handled freight of 1.4 million tons in the covered period, up by 1.5% from 1.3 million tons in the same period of 2017. Imported freight amounted to 1.2 million tons in the first two months of 2018 and accounted for 87.8% of the total, while the remaining 166,000 tons, or 12.2%, consisted of export cargo. A total of 311 ships docked at the port in the covered period compared to 291 vessels in the first two months of 2017.

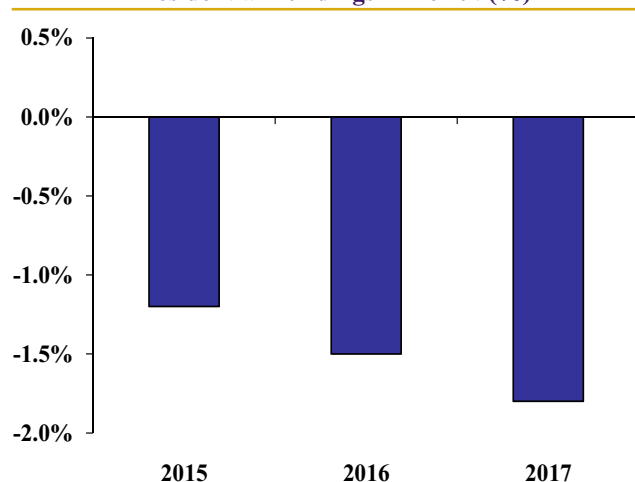
In parallel, revenues generated through the Port of Tripoli reached \$3m in the first two months of 2018, constituting a decrease of 9.2% from \$3.3m in the same period of 2017. The Port of Tripoli handled an aggregate weight of 263,262 tons of freight in the covered period, constituting a decrease of 24.5% from 348,800 tons in the first two months of last year. Imported freight amounted to 207,501 tons and accounted for 78.8% of the total, while the remaining 55,761 tons, or 22.2%, were export cargo. A total of 93 vessels docked at the port in the first two months of 2018, constituting a drop of 29.5% from 132 ships in the same period of 2017.

### Asking prices for new apartments in Beirut down 2% in 2017

Figures released by Property advisory firm RAMCO show that the asking prices by developers for first floor apartments in residential buildings under construction in Beirut decreased by 1.8% in 2017. This constituted the fourth consecutive annual decline in the asking price for units in projects under construction in the capital. The study covered 194 residential buildings under construction across 56 residential neighborhoods in Beirut in 2017. The prices exclude any negotiation margin or discount.

RAMCO indicated that the asking prices of apartments in 70 projects under construction decreased in 2017, with the sale price of units in 18 projects declining by 10% to 20% year-on-year. In comparison, the asking price of units at 62 projects regressed in 2016. In contrast, it pointed out that the asking price of apartments in 24 projects under construction increased in 2017, while prices of units at 25 projects under construction grew in 2016. Further, it noted that asking prices for apartments at 100 projects under construction, or 51.6% of the total, were unchanged in 2017 compared to prices of units at 141 projects, or 57% of the total, in 2016. It noted that developers that maintained their prices in 2017 preferred to wait for a potential customer in order to extend a discount.

### Change in Asking Prices for First-Floor Apartments in Residential Buildings in Beirut (%)



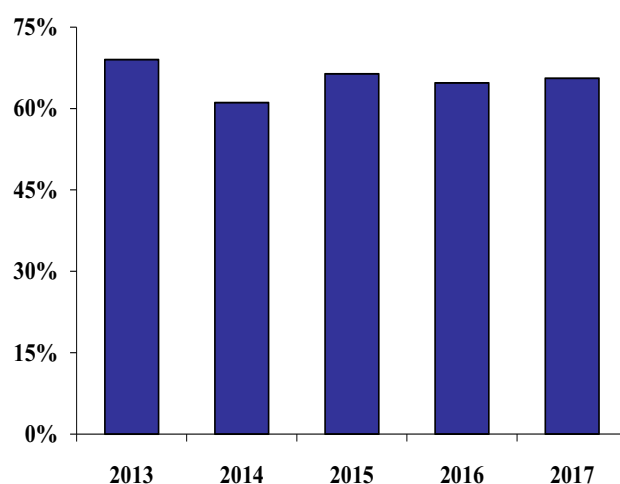
Source: RAMCO

### Byblos Bank approves \$111.5m in dividends for 2017, payout ratio at 66%

The Ordinary General Assembly of Byblos Bank sal that was held on April 20, 2018 approved the distribution of \$111.5m in gross dividends for common and preferred shares for 2017, representing a payout ratio of 65.6% relative to a ratio of 64.7% in 2016. The Bank allocated LBP212 (\$0.141) per share to holders of common shares and Global Depository Receipts (GDRs), and \$8 per share for the holders of Preferred Shares Class 2008 and Preferred Shares Class 2009. The Bank will start paying dividends on April 26, 2018 net of a 10% withholding tax. It will also disburse the dividends in US dollars to GDR holders starting on May 2, 2018 through the Bank of New York Mellon after deducting tax and other expenses. Byblos Bank's share capital consists of 565,515,040 common shares and GDRs, 2,000,000 Preferred Shares Class 2008 and 2,000,000 Preferred Shares Class 2009.

Also, the General Assembly re-elected the Board of Directors for a three-year term. The Board members are Mr. Semaan F. Bassil, Dr. François S. Bassil, Baron Guy L. Quaden, Mr. Des S. O'Shea, Mr. Ahmad T. Tabbara, Mr. Bassam A. Nassar, Mr. Faisal M. Ali Al Tabsh, Dr. Henry T. Azzam, Mr. Alain C. Tohmé and Mr. Yves R. Jacquot.

Byblos Bank's Dividend Payout Ratio (%)



Source: Byblos Bank

Byblos Bank sal declared unaudited net profits of \$170.1m in 2017, constituting an increase of 2.9% from \$165.3m in 2016. Also, the Bank's aggregate assets reached \$22.7bn at the end of 2017 and grew by 9.1% from \$20.8bn at end-2016. Net loans & advances to customers totaled \$5.43bn at the end of 2017 and expanded by 5.2% from end-2016, while net loans & advances to related parties reached \$14.6m. Also, total customer deposits amounted to \$17.7bn at the end of 2017 and rose by 5.3% from end-2016, and deposits from related parties stood at \$252.6m.

### Kafalat loan guarantees down 19% to \$15m in first quarter of 2018

Figures released by the Kafalat Corporation show that loans extended to small- and medium-sized enterprises (SMEs) under the guarantee of Kafalat reached \$14.95m in the first quarter of 2018, constituting a decrease of 18.6% from \$18.4m in the same period of 2017. Kafalat provided 113 loan guarantees in the covered period, down by 22.6% from 146 guarantees in the first quarter of 2017. The average loan size was \$132,328 in the first quarter of 2018 compared to \$125,760 in the same period of 2017. Mount Lebanon accounted for 46% of the total number of guarantees, followed by the Bekaa with 17.7%, Nabatieh and Beirut with 9.7% each, the South with 8.6% and the North with 8%. Also, the agriculture sector accounted for 38.9% of the total number of guarantees in the first quarter of 2018, followed by the industrial sector with 38.1%, tourism with 17.7%, specialized technologies with 3.5% and handicraft with 1.8%.

Kafalat is a state-sponsored organization that provides financial guarantees for loans of up to \$430,000 earmarked for the setup and expansion of SMEs in productive sectors. It guarantees up to 75% of the loan amount and a similar percentage of the accrued interest. It also guarantees up to 90% of the loan amount for innovative start-ups and a similar percentage of the accrued interest. Interest rate subsidies are financed by the Ministry of Finance and administered by Banque du Liban. The National Institute for the Guarantee of Deposits holds a 75% stake in Kafalat, while the remaining 25% is held by 50 Lebanese banks.

### Top five freight forwarders' import activity down 9% in first two months of 2018, export activity down 16%

Figures released by the Port of Beirut show that overall import shipping operations by the top five freight forwarders through the port reached 54,029 20-foot equivalent units (TEUs) in the first two months of 2018, constituting a decrease of 9.1% from 59,440 TEUs in the same period of 2017. The five freight forwarders accounted for 80.7% of imports to the Lebanese market and for 52.2% of the total import freight forwarding market in the first two months of 2018. Mediterranean Shipping Company (MSC) handled 19,803 TEUs in imports in the covered period, equivalent to a 19.1% share of the total freight forwarding import market. Merit Shipping followed with 10,187 TEUs (9.8%), then Sealine Group with 9,422 TEUs (9.1%), Metz Group with 9,057 TEUs (8.8%) and Gezairy Transport with 5,560 TEUs (5.4%). Further, MSC registered the highest increase in import shipping at 13.7% among the top five freight forwarders, while Gezairy Transport posted the steepest decline at 37.8% in the first two months of 2018.

In parallel, export shipping operations by the top five freight forwarders through the Port of Beirut reached 11,430 TEUs in the first two months of 2018, constituting a decrease of 16.1% from 13,618 TEUs in the same period of 2017. The five freight forwarders accounted for 85.3% of exported Lebanese cargo and for 11% of the total export freight forwarding market in the first two months of 2018. Merit Shipping handled 4,047 TEUs of freight in the first two months of 2018, equivalent to 30.2% of the Lebanese cargo export market. Metz Group followed with 2,662 TEUs (19.9%), then Sealine Group with 2,460 TEUs (18.4%) and MSC Shipping with 1,181 TEUs (8.8%). Further, Lotus Shipping had 1,080 TEUs in the first two months 2018 relative to zero TEUs in the same period of 2017, while Merit Shipping posted the only decrease at 48.1% among the top five freight forwarders.

### **First National Bank's net earnings at \$36m in 2017**

First National Bank sal, one of Lebanon's top 15 banks in terms of deposits, announced unaudited consolidated net profits of \$36.3m in 2017, constituting a decline of 11.2% from net earnings of \$40.8m in 2016. Net operating income dropped by 4.5% to \$102.2m last year, with net interest income rising by 35.7% to \$63.5m and net fees & commissions receipts increasing by 5.8% to \$8.1m year-on-year. Non-interest income accounted for 18.3% of total income in 2017, down from 25.5% in the previous year; with net fees & commissions representing 42.7% of non-interest earnings relative to 27.8% in 2016. Further, the bank's interest margin was 1.89% in 2017 relative to 1.95% in 2016; while its spread reached 1.8% in 2017 compared to 1.86% in the preceding year. Total operating expenditures were nearly unchanged at \$59.6m in 2017, with staff expenses at \$35.7m and administrative & other operating expenditures decreasing by 2.1% to \$20.3m. Also, the bank's return on average assets was 0.77% in 2017 relative to 0.95% in 2016, while its return on average equity reached 8.38% in 2017 compared to 9.94% in 2016. The bank's cost-to-income ratio stood at 57.6% in 2017, up from 55.2% in 2016.

In parallel, total assets reached \$4.9bn at the end of 2017, up by 8.6% from end-2016, while loans & advances to customers, excluding those to related parties, grew by 6.1% from end-2016 to \$1bn. Also, customer deposits, excluding those from related parties, totaled \$3.8bn at end-2017 and increased by 9.6% from the end of 2016. The loans-to-deposits ratio decreased from 28.5% at end-2016 to 27.53% at the end of 2017. Further, the bank's shareholders' equity reached \$441.8m at end-2017, up by 4.2% from the end of 2016.

### **Arope's net income up 2% to \$18.5m in 2017**

Arope Insurance sal announced audited net profits of \$18.5m in 2017, constituting an increase of 2.1% from \$18.1m in 2016. The company's audited balance sheet shows total assets of \$404.4m at the end of 2017, up by 5.7% from \$382.5m at end-2016. On the assets side, general company investments totaled \$282.3m at the end of 2017, up by 5.5% from \$267.6m a year earlier. They included \$32.5m in cash & cash equivalents, \$24.2m investments in subsidiaries and associates, \$10.3m in fixed income investments and \$5.3m in investment funds. Also, blocked bank deposits and deposits with maturity of more than three months stood at \$207.4m, of which \$0.6m, or 0.3%, were blocked in favor of the Ministry of Economy & Trade as guarantees. Further, the reinsurance share in technical reserves for the life category increased by 7% to \$19.1m in 2017, while that for the non-life category grew by 29.4% to \$21.6m last year.

On the liabilities side, technical reserves for the life segment increased by 14.6% to \$106.3m at end-2017, while technical reserves for the non-life category reached \$97.2m and increased by 8.1% from the preceding year. Non-life technical reserves included unearned premium reserves of \$66.6m that rose by 2.3% in 2017 and outstanding claims' reserves of \$25.6m that grew by 20.7% year-on-year. Provisions for risks and charges reached \$5.6m in 2017 and increased by 4.1% from a year earlier. Also, the firm's shareholders' equity totaled \$141.3m at the end of 2017, up by 7.2% from a year earlier.

*Al-Bayan* magazine's annual survey of the insurance sector in Lebanon ranked Arope Insurance in sixth and eighth place in 2017 in terms of life and non-life premiums, respectively. The firm's life premiums in 2017 were nearly unchanged at \$38.7m from a year earlier; while its non-life premiums increased by 7.1% year-on-year to \$64.5m. It had a 7.4% share of the domestic life market and a 5.8% share of the local non-life market. Arope Insurance had a 6.3% share of the overall insurance market and ranked in sixth place in total premiums in 2017.

## Ratio Highlights

(in % unless specified)	2015	2016	2017e	Change*
Nominal GDP (\$bn)	49.5	49.7	53.1	
Public Debt in Foreign Currency / GDP	54.7	56.6	57.2	0.65
Public Debt in Local Currency / GDP	87.4	94.1	92.5	(1.59)
Gross Public Debt / GDP	142.1	150.7	149.8	(0.95)
Total Gross External Debt / GDP	175.8	183.9	185.6	1.70
Trade Balance / GDP	(30.5)	(31.6)	(38.2)	(6.56)
Exports / Imports	16.3	15.9	12.3	(3.61)
Fiscal Revenues / GDP	19.4	20.0	21.5	1.50
Fiscal Expenditures / GDP	27.4	29.9	29.1	(0.80)
Fiscal Balance / GDP	(8.0)	(9.9)	(7.6)	2.30
Primary Balance / GDP	1.0	(0.4)	1.9	-
Gross Foreign Currency Reserves / M2	58.7	62.2	68.2	5.98
M3 / GDP	249.7	267.2	260.6	(6.59)
Commercial Banks Assets / GDP	375.7	411.1	414.0	2.95
Private Sector Deposits / GDP	306.2	327.0	317.6	(9.32)
Private Sector Loans / GDP	109.5	115.0	113.6	(1.46)
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	Sep 2016	Aug 2017	Sep 2017	Change**	Risk Level
Political Risk Rating	54.5	55.5	55.5	▼	High
Financial Risk Rating	36.5	33.0	33.0	▲	Moderate
Economic Risk Rating	30.5	27.5	27.5	▲	High
Composite Risk Rating	60.75	58.0	58.0	▲	High

MENA Average*	Sep 2016	Aug 2017	Sep 2017	Change**	Risk Level
Political Risk Rating	57.6	57.8	57.8	▼	High
Financial Risk Rating	38.9	38.0	38.1	▲	Low
Economic Risk Rating	29.7	30.6	30.4	▼	Moderate
Composite Risk Rating	63.1	63.2	63.1	↔	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	B	B	Stable	B	B	Stable

Source: Rating agencies

Banking Ratings	Outlook
Moody's	Stable

Source: Moody's Investors Services





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## UNITED ARAB EMIRATES

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