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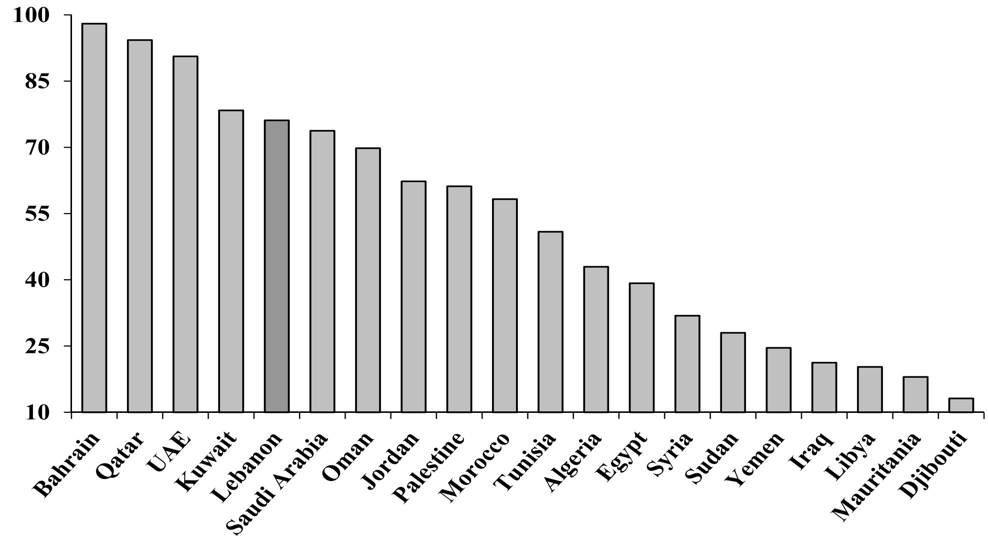
LEBANON THIS WEEK

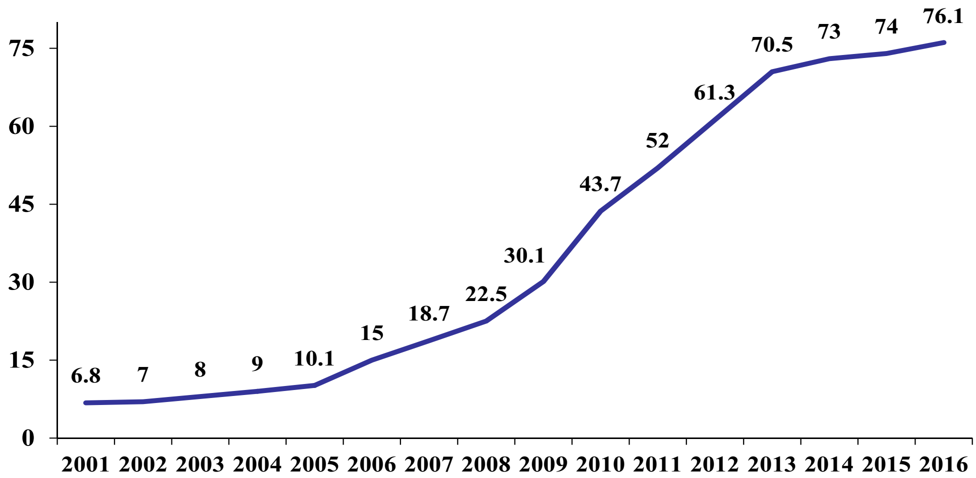
In This Issue

Charts of the Week

Internet Penetration Rates among Arab Countries at end-2016
(Subscriptions per 100 inhabitants)



Internet Penetration Rates in Lebanon
(Subscriptions per 100 inhabitants)



Source: International Telecommunication Union, Byblos Bank

Quote to Note

"It remains to be seen how these measures will play out on the economy, real wages, and public finances."

Citi, on the uncertain impact of the increase in public sector salaries and the accompanying new tax hikes

Number of the Week

1.01 million: Number of displaced Syrians in Lebanon who have been registered with the Office of the UN High Commissioner for Refugees as at the end of June 2017

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"	8.41	4.47	1,881,334	7.35%
Solidere "B"	8.28	6.43	151,150	4.70%
Byblos Common	1.61	(0.62)	114,481	7.95%
BLOM GDR	12.55	1.21	52,863	8.10%
BLOM Listed	11.40	0.88	39,550	21.41%
Audi GDR	6.09	1.50	23,000	6.38%
HOLCIM	12.26	4.79	19,814	2.09%
Audi Listed	5.95	(0.67)	17,472	20.78%
Byblos Pref. 08	102.00	0.99	5,000	1.78%
Byblos Pref. 09	102.00	0.00	1,716	1.78%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Dec 2017	4.00	99.75	4.73
Nov 2018	5.15	100.63	4.61
May 2019	6.00	101.25	5.23
Mar 2020	6.38	101.88	5.57
Oct 2022	6.10	99.13	6.30
Jun 2025	6.25	97.88	6.60
Nov 2026	6.60	99.00	6.75
Feb 2030	6.65	96.88	7.03
Apr 2031	7.00	99.25	7.09
Nov 2035	7.05	98.13	7.24

Source: Byblos Bank Capital Markets

	Aug 21-25	Aug 14-18	% Change	July 2017	July 2016	% Change
Total shares traded	2,327,717	1,936,220	20.2	5,916,251	2,886,513	105
Total value traded	$19,199,052	$16,232,830	18.3	$59,216,017	$18,444,372	221.1
Market capitalization	$11.45bn	$11.35bn	0.88	$11.39bn	$11.08bn	2.7

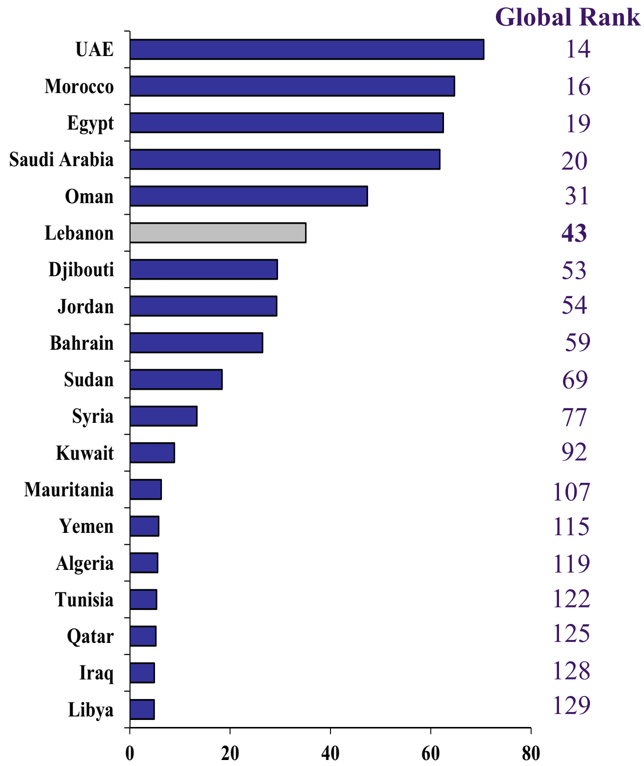
Source: Beirut Stock Exchange (BSE)

Lebanon ranks 43rd globally, sixth among Arab countries on Liner Shipping Connectivity Index

The 2017 United Nations Conference on Trade & Development's Liner Shipping Connectivity Index (LSCI) ranked Lebanon in 43rd place among 156 countries around the world and in sixth place among 19 Arab countries. Lebanon also came in 13th place among 46 upper middle income countries (UMICs) included in the survey. Lebanon's global rank regressed by seven spots from the 2016 survey, while its rank among Arab countries remained unchanged year-on-year. Based on the same set of countries, Lebanon posted the 11th steepest decline in rank globally.

The LSCI reflects how well countries are connected to global shipping networks. The index is a composite of five components that capture the deployment of container ships by liner shipping firms to a country's ports. They include the number of ships, the ships' container-carrying capacity, the number of companies providing services with their own operated ships, the number of services provided, and maximum vessel size. A country's score on the index is the average of the five components, with a higher score reflecting a better performance on the index.

Liner Shipping Connectivity Index for 2017 Arab Countries' Scores & Ratings



Source: UNCTAD, Byblos Research

Globally, Lebanon has a higher connectivity to global shipping networks than Uruguay, Slovenia and Croatia, and a lower connectivity than Pakistan, Argentina and Chile. It also has a higher connectivity to global shipping networks than Ecuador, Romania and Angola, and a lower connectivity than Peru, South Africa and Argentina among UMICs. Further, Lebanon has a lower connectivity than only the UAE, Morocco, Egypt, Saudi Arabia and Oman among Arab countries. Lebanon received a score of 35.1 points, down 16% from a score of 41.8 points in the 2016 survey. Lebanon's score was higher than the global average score of 26.5 points, the Arab average of 26.6 points, and the UMIC's average score of 24.4 points. Also, it was lower than the Gulf Cooperation Council (GCC) countries' average score of 36.7 points, but higher than that of non-GCC Arab countries of 22 points.

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

The Central Administration of Statistics' Consumer Price Index increased by 4.3% year on-year in the first seven months of 2017 compared to a decline of 2.3% in the same period of 2016. The CPI increased by 3.1% in July 2017 from the same month of 2016. The prices of alcoholic beverages & tobacco grew by 7.2% year-on-year in July 2017, followed by actual rents (+6.7%), prices of clothing & footwear (+6.4%), the cost of water, electricity, gas & other fuels (+5%), the cost of furnishings & household equipment (+4.7%), the prices of food & non-alcoholic beverages (+3.9%), imputed rents (+3.5%), recreation & entertainment costs (+2.9%), the cost of education (+2.7%), miscellaneous goods & services (+2.6%), prices at restaurants & hotels (+2.5%), transportation costs (+2.4%), healthcare costs (+0.7%) and communication costs (+0.6%). The distribution of actual rents shows that old rents grew by 12% annually in July 2017, while new rents increased by 3% from the same month of 2016.

Further, the CPI regressed by 0.2% in July 2017 from the preceding month, following a decrease of 0.1% in June 2017. Healthcare costs grew by 2.1% month-on-month in July 2017, followed by the prices of furnishings & household equipment, recreation & entertainment costs and miscellaneous goods & services (+0.5% each), the cost of food & non-alcoholic beverages (+0.4%), the prices of alcoholic beverages & tobacco (+0.3%), and actual rents and prices at restaurants & hotels (+0.1% each). In contrast, the prices of clothing & footwear regressed by 5.1% month-on-month in July 2017, followed by transportation costs (-1.4%) and the prices of water, electricity, gas & other fuels (-0.8%). In parallel, imputed rents, the cost of education and communication costs were unchanged month-on-month in July 2017. The CPI grew by 0.6% month-on-month in the North in July 2017. In contrast, it regressed by 0.5% month-on-month in Mount Lebanon, by 0.4% in Beirut, by 0.3% in the Bekaa, and by 0.1% in each of Nabatieh and the South. In parallel, the Fuel Price Index declined by 3.2% in July 2017, while the Education Price Index was nearly unchanged from the preceding month.

Moody's Investors Service downgrades sovereign ratings to 'B3' on rising debt level

Moody's Investors Service downgraded Lebanon's long-term issuer ratings from 'B2' to 'B3' and changed the outlook from 'negative' to 'stable'. The ratings are six notches below investment grade. It also lowered the foreign currency deposit ceiling from 'B2' to 'B3' and the foreign currency bond ceiling from 'ba3' to 'B1', while it kept the short-term foreign currency deposit ceiling at 'NP'. In addition, it downgraded Lebanon's senior unsecured Medium Term Note Program from '(P)B2' to '(P)B3'. Further, it maintained Lebanon's local-currency bond and deposit ceilings at 'Ba2'.

The agency attributed the downgrades to the continuous increase in the country's public debt level since 2011 due to the persistently wide fiscal deficits. It noted that the public debt had reached a low of 121% of GDP in 2011, but has been growing systematically since then and projected it to reach 140% of GDP in 2018, which would constitute the third highest level among rated sovereigns. It added that other fiscal and debt metrics, such as annual gross financing needs, debt-servicing payments as a share of government revenues, and the debt-to-revenues ratio reflect the elevated debt burden.

Moody's considered that the recent tax measures are very unlikely to reduce the fiscal deficit in 2017 and 2018. It indicated that the tax increases that the Parliament ratified in July aim simply to offset the planned increase in public sector salaries, and that authorities need to take additional measures to reverse the rising debt trajectory. It noted that the absence of a ratified budget continues to impede the formulation and implementation of debt-stabilizing reforms. It added that the Cabinet's approval of a budget earlier this year raises the prospect of its ratification by Parliament, which would be the first ratified budget since 2005. But it cautioned that its impact will be unclear and its ratification will come too late to halt the erosion of the country's fiscal strength.

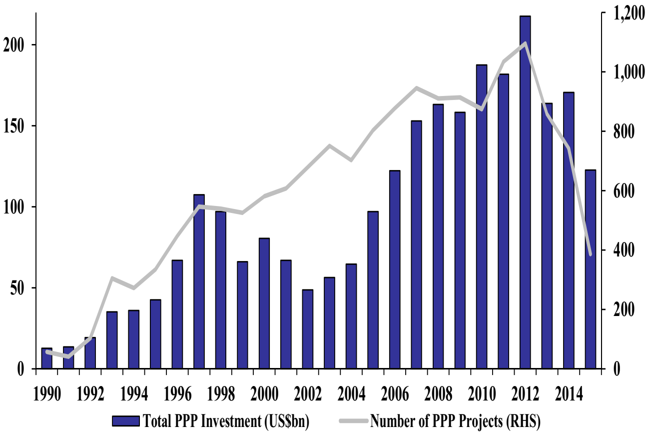
In parallel, the agency indicated that the 'stable' outlook reflects the political consensus reached at the end of 2016 and the return to a fully functioning government, which are likely to support political stability, institutional strength and reform momentum going forward. It added that Lebanon has a strong track record of servicing its debt under stressed conditions, and that its external buffers have continued to improve in recent years. Also, it noted that substantial financial inflows, especially foreign currency deposits, continue to more than offset the current account deficit and bolster foreign-exchange reserves at Banque du Liban. It added that the return of political stability has boosted deposit inflows, which have historically demonstrated remarkable resilience to political shocks. It considered that Lebanon requires deposit inflows of around $9bn this year to sustain financial stability, but deposits have already increased by $5.5bn in the first half of 2017.

Moody's said it would upgrade Lebanon's ratings if fiscal reforms lead to a durable reversal in the debt trajectory, and in case of a significant improvement in the country's large external imbalances.

Parliament ratifies public-private partnership law

The Lebanese Parliament ratified on August 16, 2017 the Public-Private Partnership Law (PPP), which regulates the participation of the private sector in public infrastructure projects in Lebanon in electricity, roads, public transportation, telecommunication and waste management, among others. The World Bank defines a PPP as "a long-term contract between a private party and a government entity to provide a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance."

Number and Value of PPP Projects in Emerging Markets



Source: World Bank, Byblos Research

The law provides details about the procedures required to launch a PPP project in Lebanon, the terms of the contract between the public and private entities and the government's monitoring process of the execution of the project. It designates the Higher Council for Privatization and PPP Partnerships (HCP) as an intermediary between the private sector and government entities. The law allows the HCP, ministries, municipalities and other public administrations to propose PPP projects, which would require the approval of the Council of Ministers. Then, a regulatory committee, consisting of the HCP, the concerned ministry and other government representatives, would be formed to follow through on the project. The committee can invite private companies that are interested in the PPP project to apply for a prequalification round, and will then be in charge of issuing, renewing and terminating licenses.

Lebanon's fiscal deficit averaged 8.5% of GDP annually during the 2006-16 period, with capital spending averaging 1.3% of GDP per year. Also, the public debt level is estimated to have reached 152% of GDP in 2016, one of the highest such ratios globally. The weak state of the country's public finances highlights its limited fiscal space to implement much-needed infrastructure projects, improve the competitiveness of the economy and stimulate economic activity.

Goldman Sachs maintains its assessment of Lebanese Eurobonds at 'undervalued'

In its valuation of the sovereign credits of 55 emerging markets, global investment bank Goldman Sachs indicated that Lebanon's Eurobonds that have a maturity of three to seven years are 'undervalued'. The bank used a model that estimates which sovereign bonds are 'undervalued', 'fair' or 'expensive' by comparing the difference between the actual spreads and its model-implied spreads. The difference between the actual spread of 424 basis points (bps) on Lebanon's Eurobonds and the Goldman Sachs' model-implied spread of 248 bps shows that the undervaluation is at 176 bps. The model-implied valuation metric is based on the current level of investor risk appetite, as well as on the current and expected future path of macroeconomic fundamentals in emerging markets. Goldman Sachs' valuations are as of August 1, 2017.

Lebanon's Eurobonds, along with those of Jamaica (193 bps), Kenya (116 bps), Ghana (106 bps) and Argentina (61 bps), are the only 'undervalued' bonds among 17 'B'-rated sovereigns included in Goldman Sachs' universe. Also, the Eurobonds of Lebanon and Jamaica are the most undervalued among the 17 'B'-rated sovereigns and 16 'BB'-rated countries. The bank noted that the actual spread on Lebanese Eurobonds is the seventh widest spread across the 17 'B'-rated and the overall 55 emerging markets. In addition, Goldman Sachs considered as 'undervalued' the Eurobonds of six sovereigns in other rating categories. They consist of one 'A'-rated country, two 'BBB'-rated sovereigns and three 'BB'-rated countries.

In addition, Goldman Sachs classified Lebanon's Eurobonds that have a maturity of seven to 12 years as 'undervalued'. The difference between the actual spread of 438 bps on Lebanon's Eurobonds and the Goldman Sachs' model-implied spread of 305 bps shows that the undervaluation is at 133 bps.

Further, Lebanon's long-term Eurobonds were the only 'undervalued' bonds among 17 'B'-rated sovereigns for this maturity. The bank indicated that the actual spread on long-term Lebanese Eurobonds constituted the seventh widest spread across the 17 B-rated countries and 50 emerging markets. In comparison, it considered as 'undervalued' the Eurobonds of two sovereigns in other rating categories. They consist of one 'A'-rated country and one 'BB'-rated sovereign.

Further, Goldman Sachs classified Lebanon's Eurobonds that have a maturity of 12 years or more as 'undervalued'. The difference between the actual spread of 402 bps on Lebanon's Eurobonds and the Goldman Sachs' model-implied spread of 327 bps shows that the undervaluation is at 75 bps. Lebanon's extra long-term Eurobonds were the only 'undervalued' bonds among six 'B'-rated sovereigns. Goldman Sachs indicated that the actual spread on long-term Lebanese Eurobonds constituted the fourth widest spread across six B-rated countries and the fifth widest among 31 emerging markets. It considered as 'undervalued' the Eurobonds of five sovereigns in other rating categories. They consist of one 'A'-rated country and four 'BBB'-rated sovereigns.

Industrial activity deteriorates in first quarter of 2017

Banque du Liban's quarterly business survey of the opinions of business managers shows that industrial production deteriorated during the first quarter of 2017, with the balance of opinions standing at -11 compared to zero in the fourth quarter of 2016 and to -8 in the first quarter of 2016. The balance of opinions was the highest in the South at +26, followed by the Bekaa (-6), Beirut & Mount Lebanon (-17) and the North (-27). The business survey reflects the opinions of managers of industrial enterprises about their businesses, in order to depict the evolution of a number of key economic variables. The balance of opinions for overall demand for industrial goods stood at -12 in the first quarter of 2017 compared to -3 in the previous quarter and to -15 in the first quarter of 2016. The balance of opinions about demand for industrial goods was the highest in the South at +26, followed by the Bekaa (-10), Beirut & Mount Lebanon (-17) and the North (-22).

In parallel, the balance of opinions for the volume of investments in the industrial sector stood at -9 in the first quarter of 2017 compared to -1 in the preceding quarter, while it was unchanged from the same quarter of 2016. The balance of opinions about the volume of investments was the highest in the Bekaa and the South at -3 each, followed by Beirut & Mount Lebanon (-8) and the North (-29). Also, the balance of opinions for foreign demand of industrial goods stood at -20 during the first quarter of 2017 compared to -21 in the fourth quarter of 2016, while it was unchanged year-on-year. The balance of opinions for foreign demand of industrial goods was the highest in the Bekaa at +7, followed by Beirut & Mount Lebanon (-21), the North (-24) and the South (-76). The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in a particular indicator and the proportion of those who reported a decline in the same indicator.

Industrial Activity: Evolution of Opinions

Aggregate results	Q1-14	Q1-15	Q1-16	Q1-17
Production	-8	-15	-8	-11
Total demand	-10	-20	-15	-12
Foreign demand	-11	-20	-20	-20
Volume of investments	0	-14	-9	-9
Inventories of finished goods	-5	-15	-11	-13
Inventories of raw material	-3	-10	-12	-7
Registered orders	-13	-21	-14	-18

Source: Baneu du Liban Business Survey for First Quarter of 2017

Increase in public sector salaries, new taxes come into effect

Following the Lebanese Parliament's ratification on July 18, 2017 of the across-the-board adjustment to the salary scale of public sector employees and on July 19 of the related tax measures, as well as the signature of the President of the Lebanese Republic of both laws on August 21, 2017, the increase in the salary of public-sector employees will come into effect at the start of September. Also, all approved tax measures are expected to come into effect immediately, except for the increase in the VAT rate that should be implemented in October at the start of the fiscal quarter that follows the implementation of the salary scale adjustment.

The cost of the salary increase was initially estimated at about $800m annually but it then increased to about $1.2bn as legislators extended the adjustment to pensions for retired civil servants. But the exact cost is yet to be determined. In addition, the Parliament raised a large number of taxes and fees in an effort to cover the cost of the adjustment. Authorities have been debating the salary scale adjustment since 2012.

The Parliament increased the value-added tax rate, the corporate income tax and the tax rate on income from movable capital, which consists of interest revenues generated from deposits and on financial institutions' revenues generated from their fixed income portfolio. Further, it imposed a one-time fine on illegally-built seaside properties, increased the tax rate on lottery prizes and imposed a new fee on the value of real estate transactions. It also introduced a new fee on freight entering the ports in the country and increased 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 increased 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.

Further, the Parliament approved several other "reform" measures related to public sector employees, as it extended the working hours at government institutions from 2:00pm to 3:30pm, cancelled work in the public sector on Saturdays, and called for a survey to determine the exact number of employees and workers in the public sector, among other measures.

Select New Tax Measures

Tax	Old Rate	New Rate	Effective Increase
Value-added tax	10%	11%	10%
Proportionate stamp duty	0.3%	0.4%	33.3%
Corporate income tax	15%	17%	13.3%
Tax on income from movable capital	5%	7%	40%
Tax on dividend distribution	5%	10%	100%
Tax on lottery prizes	10%	20%	100%
Tax on real estate sales contracts	n/a	2%	New tax
Tax on capital gains from disposal of fixed assets	n/a	15%	New tax
Tax on cement production	n/a	LBP6,000 per ton	New tax
Tax on imported cigarettes	n/a	LBP250 per pack	New tax
Tax on imported tobacco	n/a	LBP250 per pack	New tax
Tax on imported cigars	n/a	LBP500 per cigar	New tax
Fee per incoming traveler	n/a	LBP5,000 per passenger	New tax
Fee on freight entering the ports	n/a	LBP80,000 per 20 foot container	New tax
Fee on freight entering the ports	n/a	LBP120,000 per 40 foot container	New tax
Fee on outgoing economy class ticket		LBP60,000	-
Fee on outgoing business class ticket		LBP110,000	-
Fee on outgoing first class ticket		LBP150,000	-
Fee per private jet passenger		LBP400,000	-

Source: Official Gazette, Byblos Research

Lebanese government launches digital platform for Diaspora

The Lebanese government launched the Diaspora Investment and Development (DiasporaID) platform that aims to connect members of the Lebanese Diaspora with their homeland. DiasporaID, which was developed with the support of a $1.05m grant from the United States Agency for International Development, aims to help Lebanese expatriates digitally engage in the development of projects across Lebanon through the mobilization of their expertise and resources. It would help raise funds for local projects, provide mentoring for youth and allow the marketing of products and services provided by small Lebanese businesses.

Users of the DiasporaID inside and outside Lebanon would list their company on the platform, as well as provide details about products and services that they offer, and would accordingly be matched with other entrepreneurs on the platform with complementary needs. The platform also allows skilled expatriates to provide virtual training to similar businesses in Lebanon that are in need of guidance. Further, the platform aims to provide expatriates with information about the history of their ancestral villages in Lebanon. The grant is part of a larger commitment by the U.S. government to support economic development and job creation in Lebanon, which includes $45m in investments over the past three years.

Lebanon is 72nd largest market for U.S. exports, key exports include vehicles, pharmaceuticals and mineral fuel & oil products in 2016

The United States Department of Commerce's 2017 Country Commercial Guide for Lebanon (CCG) indicated that Lebanon has many investment strengths that have encouraged foreign companies to set up offices in the country. It said that Lebanon's key advantages include a free-market economy, the absence of controls on the movement of capital and foreign exchange, a well-developed banking system with strong financial soundness indicators, a stable exchange rate, limited government intervention in foreign trade, a highly-educated labor force, good quality of life and limited restrictions on investors. It added that payments for business transactions are often made in US dollars, and that nearly all Lebanese banks have American correspondent banking relationships that facilitate financial transactions between U.S. exporters and Lebanese importers. But it noted that some issues continue to cause frustration among local and foreign businessmen. It pointed out that impediments include red tape and corruption, political risks, arbitrary licensing decisions, complex customs procedures, outdated legislation, an ineffectual judicial system, high taxes and fees, high telecommunication charges and slow Internet speed, poor electricity provision, flexible interpretation of laws, and weak enforcement of intellectual property rights. Also, it noted that Lebanon faces major financial issues, especially a very high public debt level and large external financing needs. It expected the business climate to remain sensitive to domestic and regional political and security developments. It anticipated that spillovers from the Syrian conflict would continue to negatively impact public infrastructure and services, as well as economic activity that is expected to remain below potential in the near-term.

The U.S. Department of Commerce said that Lebanon was the 72nd largest market for U.S. exports in 2016, while it was the 73th largest market in 2015. It added that the U.S. exported $1.2bn worth of goods to Lebanon last year, which accounted for 6.3% of total Lebanese imports, compared to U.S. exports of $1.02bn or 5.7% of Lebanese imports in 2015. It noted that the U.S. was the third largest source of imports for Lebanon in 2016, behind China and Italy. It said that major U.S. exports to Lebanon in 2016 were vehicles ($326m), mineral fuel & oil ($237m), chemical products ($193m), pharmaceuticals ($139m), machinery & electrical instruments ($118m), prepared foodstuff, beverages & tobacco ($68m), and vegetable products ($47m). The U.S Department of Commerce indicated that leading Lebanese sectors for U.S. exports and investment consist of the automotive market, the pharmaceuticals sector, medical equipment, the apparel sector, the safety & security market, as well as the agricultural sector.

The Commerce Department estimated U.S. automotive exports to Lebanon at $326m in 2016, up by 16% from $273m in 2015. It noted that the size of the automotive market in Lebanon grew by 5.6% to $1.7bn in 2016. It estimated the U.S. share of the local auto market at 18.3% in 2016. It added that demand for U.S. sport utility vehicles in Lebanon has been growing due to their ability to withstand the country's poor road conditions, while demand for U.S. automotive products such as brakes, clutches, engine lubricants and safety accessories is increasing because of their quality advantage over foreign competitors. It projected U.S. automotive exports to Lebanon at $297m in each of 2017 and 2018. In addition, U.S. agricultural exports to Lebanon totaled $126m in 2015 and accounted for 3.8% of Lebanon's total agricultural imports.

Further, the Commerce Department said that U.S. pharmaceutical exports to Lebanon increased from $130m in 2015 to $139m in 2016 and accounted for 11.4% of the country's total pharmaceutical imports, while U.S. exports of medical equipment to Lebanon regressed by 3% to $63m in 2016 and accounted for 22.3% of the market. It added that U.S. pharmaceutical products have an advantage over their European and Asian counterparts in the biotechnology, high-tech, anti-cancer and cardiovascular fields. It considered that the sustained demand for U.S. medical equipment reflects their high quality and competitive value. It indicated that Lebanon is the leading market for imported pharmaceutical drugs in the Levant, while the Lebanese pharmaceuticals market is valued at over $1bn, with potential growth of more than 5% annually. But it noted that the sector faces several challenges, such as the high cost of pharmaceuticals as well as the registration of copycat and counterfeit pharmaceuticals. It added that the legal framework governing pharmaceuticals is weak and constitutes a barrier to foreign investments, mainly for the introduction of new drugs. It projected U.S. pharmaceutical exports to Lebanon at $138m in each of 2017 and 2018, while it forecast U.S. exports of medical equipment to Lebanon to reach $69m in each of 2017 and 2018.

In addition, U.S. apparel exports to Lebanon were unchanged at $15m in 2016 and accounted for 2.8% of the country's total apparel imports last year. The Commerce Department projected such exports to remain at $15m in each of 2017 and 2018. In parallel, the exports of U.S. safety & security equipment to Lebanon fell from $4m in 2015 to $3m in 2016 and are expected to remain at this level in 2017 and 2018.

Banque du Liban launches financial inclusion strategy

Banque du Liban launched its Financial Inclusion Strategy that aims to promote the socio-economic and financial well-being of Lebanese citizens, as well as financial stability, economic development and growth. Financial inclusion refers to an environment that allows individuals and businesses to benefit from suitable and accessible financial products and services that meet their financial and banking needs. BdL said that the rate of financial inclusion in Lebanon is about 47%, which is significantly higher than the level of financial inclusion of 14% in the Arab world. It noted, however, that there is still room for improvement in channeling the liquidity of the financial sector to the development of productive sectors, as well as for the improvement of socio-economic conditions.

First, the strategy aims to enhance access to finance and to simplify financial transactions through an interactive and regulatory environment, modernized financial markets, as well as innovative financial tools and channels. Second, it intends to improve the financial understanding of individuals and businesses by raising their investment awareness and literacy. As such, it aims at helping them to acquire sound financial and investment skills so they can make responsible and informed decisions, such as long-term saving and retirement planning, as well as money management skills, among others. Third, the strategy targets financial consumer protection through a transparent and reliable system to submit, monitor and resolve complaints.

In addition, BdL pointed out that there is a need to develop and reinforce already established policies and measures in order to allow for effective financial inclusion. First, it indicated that the needs of the real economy, market players and consumers should be aligned with the objectives of banking and financial institutions through the proper study of the financing needs of society and the real economy and the means to meet those needs. Second, it emphasized the existing tradeoff between loan and equity financing in Lebanon, and noted that financial inclusion should be accompanied by improving financial supervision without limiting financial innovation. It added that new regulations should balance financial inclusion policies and their benefits in encouraging consumption, with the credit risks stemming from ongoing borrowing that compromise financial and social stability. Third, it stressed the importance of modernizing the legislative framework and introducing new laws that would improve the business environment and promote financial inclusion, such as the protection of the creditors' rights, insolvency law, law for fair competition and the electronic financial transactions law, among others.

In parallel, BdL indicated that the implementation of its Financial Inclusion Strategy would require the creation of an interactive digital platform that would allow all stakeholders to better collaborate and exchange experiences and professional skills. It added that another measure would involve providing the adequate learning material, training and capacity building to cultivate knowledge of financial and fiscal regulations, as well as introducing new practical financial inclusion regulations and reforms. Further, it stressed the importance of modernizing the financial infrastructure in order to enhance customer protection procedures and promote new financial services.

Value of real estate transactions up 15% in first seven months of 2017

Figures released by the Ministry of Finance indicate that there were 39,910 real estate transactions in the first seven months of 2017, constituting an increase of 14.9% from 34,736 deals in the same period of 2016. In comparison, the number of real estate transactions grew by 2.8% year-on-year in the first seven months of 2016, while it decreased by 13.6% in the first seven months of 2015. There were 6,326 real estate transactions in July 2017, constituting an increase of 31.4% from 4,816 deals in June 2017 and a rise of 33.2% from 4,748 deals in July 2016. Further, there were 8,396 real estate transactions in the Baabda area in the first seven months of 2017, representing 21% of the total. The North followed with 6,579 transactions (16.5%), then the Zahlé region with 4,560 deals (11.4%), the Metn district with 4,383 transactions (11%), the South with 4,152 deals (10.4%), the Keserwan area with 4,082 transactions (10.2%), Nabatieh with 3,623 deals (9.1%) and Beirut with 2,902 transactions (7.3%).

Also, the aggregate value of real estate transactions reached $5.4bn in the first seven months of 2017 and increased by 15.3% from $4.7bn in the same period of 2016. In comparison, the value of real estate deals increased by 6.9% in the first seven months of 2016 relative to the same period of 2015, while it declined by 14.4% year-on-year in the first seven months of 2015. The value of real estate transactions reached $883.6m in July 2017, up by 29.1% from $684.6m in June 2017 and by 51% from $585.3m in the same month last year. Further, the value of real estate transactions in Beirut reached $1.44bn and accounted for 26.7% of the total in the first seven months of 2017. The Baabda district followed with $1.15bn (21.3%), then the Metn region with $984.9m (18.3%), the Keserwan area with $570.3m (10.6%), the North with $444.9m (8.3%), the South with $395.8m (7.3%), the Zahlé area with $197.3m (3.7%) and Nabatieh with $158.3m (2.9%).

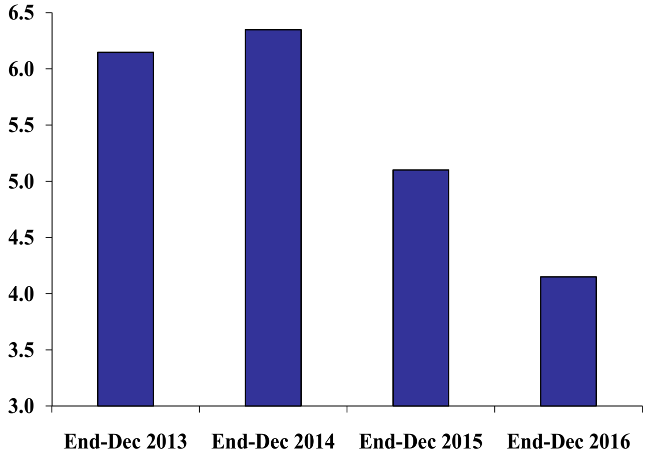
In parallel, the average value per real estate transaction was $134,988 in the first seven months of 2017, nearly unchanged from an average value of $134,569 in the same period of 2016 and relative to $129,390 in the first seven months of 2015. Further, there were 707 real estate transactions executed by foreigners in the first seven months of 2017, an increase of 26.5% from 559 deals in the same period of 2016, and compared to an annual decrease of 29.1% in the first seven months of 2016 and a rise of 36.6% 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 seven months of 2017 compared to 1.6% of deals in the same period of 2016 and to 2.3% of deals in the first seven months of 2015. Further, 28.9% of the real estate transactions executed by foreigners were in the Baabda district in the first seven months of 2017, followed by Beirut (15.1%), the South (14.1%), the Metn region (14%), Zahlé (9.2%), the Keserwan area (8.8%), the North (8.5%) and Nabatieh (1.4%).

Foreign investments of financial sector down 19% to $4.2bn

Figures issued by Banque du Liban show that the net investment portfolio of Lebanese banks and financial institutions in foreign debt and equity securities totaled $4.15bn at the end of 2016, constituting a decrease of 18.6% from $5.1bn at the end of 2015. Investments in long-term debt securities reached $2.27bn at end-2016 and accounted for 54.7% of the total, followed by investments in equities at $1.84bn (44.3%) and in short-term debt securities at $41.1m (1%). According to Banque du Liban, the figures cover the net assets of resident banks and financial institutions in foreign tradable debt and equity instruments. They help provide a clearer picture about the flow of funds from Lebanon and, therefore, about the balance of payments.

Foreign Investments of Financial Sector (US$bn)



Source: Central Bank, Byblos Research

Commercial banks' net portfolio of long-term debt securities, including banks' investments for their own account, on behalf of their clients and on a custodial basis, totaled $1.35bn and accounted for 59.3% of the financial sector's aggregate investments in such securities at the end of 2016. Medium- and long-term banks followed with $641m (28.2%), then insurance companies with $165.8m (7.3%) and financial institutions with $116.5m (5.1%). In parallel, commercial banks represented 91.3% of investments in short-term debt securities, followed by insurance companies with 4.3%, financial institutions with 2.7% and medium- and long-term banks with 1.4%. Further, commercial banks' investments in equities reached $726m and accounted for 39.5% of the financial sector's investments in such securities. Medium- and long-term banks followed with $682.3m (37.1%), financial institutions with $293m (15.9%), insurance companies with $135m (7.3%) and financial intermediaries with $2.9m (0.2%).

The distribution of investments by destination shows that the United States was the main recipient of equity investments by banks and financial institutions operating in Lebanon with $608.8m, or 33.1% of the total, at end-2016. Bahrain followed with equity investments worth $248.1m (13.5%), then Luxembourg with $191.8m (10.4%), France with $163.6m (8.9%) and Jordan with $112.5m (6.1%), while other countries accounted for the remaining 28% of total equity investments. In parallel, the United Kingdom received $464.3m or 20.5% of investments in long-term debt securities, followed by the United States with $350.3m (15.4%), France with $243.8m (10.7%), Germany with $210.7m (9.3%) and the Cayman Islands with $132.7m (5.8%), while other countries accounted for the remaining 38.2%. Further, Australia accounted for 49.7% of investments by Lebanese banks and financial institutions in short-term debt securities, followed by Bahrain (37%), the European Union and the United States (2.1% each) and the United Kingdom (1.4%), while other countries represented the remaining balance of 7.4% of total short-term debt securities.

BLC Bank exercises call option on preferred shares, approves issuance of new shares

The Extraordinary General Assembly of BLC Bank sal that was held on June 6, 2017 approved the redemptions and cancellation of 550,000 Series 'B' Preferred Shares at a premium call price of $103 per share. The Series 'B' Preferred Shares were issued in 2011, carried an annual dividend rate of 7% per share of the issue price, and were redeemable, non-cumulative and perpetual. Concurrently, the bank covered the LBP550m ($0.36m) deficit in the capital account from the redemption through the issuance of 550,000 new common shares at a par value of LBP1,000 ($0.66) per share. The new shares would be distributed gratis to existing shareholders in a proportion equivalent to the percentage of common shares they hold, while the bank covered the cost of the newly-issued shares through an internal transfer from its general reserves account to its capital account.

In parallel, BLC Bank approved the issuance of up to 400,000 new Series 'E' Preferred Shares. The shares will have an issue price of $100 per share, of which LBP1,000 is par value and the remaining $99.3 constitutes the issue premium. The Series 'E' Preferred Shares are non-cumulative, redeemable and perpetual, and they will carry an annual dividend rate of between 6.75% and 7% of the issue price, adjusted on a pro-rata basis for the fraction of the year during which the issuance of the shares occurs. The annual dividend payments are contingent on the availability of sufficient declared net profits. The Series 'E' Preferred Shares will be listed on the Beirut Stock Exchange, in line with previous issuances.

Balance sheet of investment banks up 5% in first half of 2017

Figures released by Banque du Liban show that the consolidated balance sheet of investment banks in Lebanon reached LBP7,423bn, or $4.9bn, at the end of June 2017, constituting an increase of 4.6% from $4.7bn at end-2016 and a rise of 7.5% from $4.6bn at end-June 2016. The cash balance and deposits of investment banks at commercial banks reached $2.21bn at the end of June 2017, increasing by 1.6% from $2.17bn at end-2016 and by a marginal 0.2% from $2.2bn at end-June 2016. Also, claims on the private sector totaled $1.5bn, constituting an increase of 3.7% from $1.45bn at end-2016 and a rise of 6% from $1.42bn a year earlier. Investments in government securities reached $789.8m at the end of June 2017, up by 12.3% from $703.5m at end-2016 and by 35% from $584.9m a year earlier.

On the liabilities' side, private sector deposits totaled $2bn at the end of June 2017, up by 0.8% from end-2016 but down by 2% from a year earlier. Resident deposits in foreign currency stood at $919.1m, followed by resident deposits in Lebanese pounds at $792m, non-resident deposits in foreign currency at $218.4m and non-resident deposits in Lebanese pounds at $66.3m. Liabilities to the public sector reached $183.7m at end-June 2017, constituting a decrease of 13% from $211.1m at the end of 2016 and a decline of 16.3% from $219.6m at end-June 2016. Also, commitments to the financial sector totaled $936.8m at the end of June 2017, reflecting an increase of 6.1% from $883m at end-2016 and a rise of 13.8% from $823.3m a year earlier. Further, the aggregate capital account of investment banks was $1.56bn at end-June 2017, up by 14.3% from $1.36bn at the end of 2016 and by 17.1% from $1.33bn a year earlier. There were 17 investment banks in Lebanon with a total of 22 branches as of March 2017.

Saradar Bank's net income at $3.3m in 2016, acquires 49% stake in microfinance provider Vitas

Saradar Bank sal announced that it has acquired a 49% stake in Vitas sal, a subsidiary of the U.S.-based Vitas Group, for an undisclosed amount. The acquisition is part of the bank's strategy to diversify its revenue base and assets. Based in Lebanon, Vitas sal provides microfinance solutions to entrepreneurs, individuals with limited income, and to local small businesses. The company has extended more than 200,000 microloans amounting to $350m since its formation in 1999. It currently has over 60 points of sale and 530 collection points through a network of its own branches, in addition to banking partnerships with local banks.

In parallel, Saradar Bank sal announced audited net profits of $3.3m in 2016 compared to net losses of $4.8m in 2015. The bank's net operating income grew by 3.1 times to $57.1m in 2016, with net interest income increasing by 91.2% to $25.2m and net fees & commissions receipts growing by 2.5 times to $11.1m. Total operating expenditures rose by 2.3 times to $49.1m in 2016, with staff expenses growing by 2.4 times to $33.4m and administrative & other operating expenses increasing by 2.1 times to $14m. The bank's cost-to-income ratio decreased to 65% in 2016 from 109.8% in 2015. In parallel, the bank's total assets reached $2bn at the end of 2016, reflecting an increase of 32.6% from $1.5bn at end-2015; while loans & advances to customers, excluding loans & advances to related parties, grew by 34.3% to $592.8m. Also, customer deposits, excluding deposits from related parties, totaled $1.55bn at end-2016, up by 28.3% from a year earlier. The bank's shareholders' equity reached $236m at end-2016 and grew by 23% from a year earlier.

Saradar Bank sal was established in June 2016 following the merger of Banque de l'Industrie et du Travail sal and Near East Commercial Bank sal. It has a network of 20 branches across Lebanon. Vitas Group is a global network of microfinance institutions operating in Lebanon, Jordan and Romania, with affiliates in Iraq, the West Bank & Gaza, Bosnia, Colombia and Ghana.

S&P downgrades MedGulf's ratings, places ratings on CreditWatch Negative

S&P Global Ratings downgraded the long-term counterparty credit and insurer financial strength ratings of the Mediterranean & Gulf Cooperative Insurance & Reinsurance Co. (MedGulf KSA) from 'BBB' to 'BBB-', which prompted the rating downgrade of its parent company, the Mediterranean & Gulf Insurance & Reinsurance Co. B.S.C (MedGulf Bahrain), from 'BBB+' to 'BBB'. It placed the ratings of both entities on CreditWatch Negative. MedGulf Bahrain is the parent company of MedGulf Lebanon sal, which is the largest insurer in the Lebanese market in the non-life segment.

The agency attributed the downgrades to MedGulf KSA's significant losses in the first half of 2017, which significantly led to the deterioration of its capital position. It noted that Medgulf KSA posted net losses of SAR510m, or $136m, in the first half of 2017 compared to the agency's expectations of net profits of $38.7m for full year 2017. It attributed the losses to weaker underwriting performance and an increase of $115.5m in provisions for doubtful debts, including $42.4m in losses related to intergroup transactions. It said that the insurer's accumulated losses are equivalent to around 75% of its share capital. Also, it pointed out that the downgrade takes into account some uncertainty regarding the Saudi Arabian Monetary Authority' stance about the collection of certain outstanding intergroup transactions, as well as the company's weakened solvency margin.

Further, S&P indicated that it placed the ratings on CreditWatch Negative mainly because of the insurer's solvency concerns, contingent on MedGulf KSA's ability to collect the outstanding intergroup transactions by mid-September 2017. In addition, it said that it could reassess MedGulf KSA's competitive position and business risk profile in case of continued operating losses, which would weigh on MedGulf Bahrain's ratings, given that Medgulf KSA contributes 80% of the premium income of its parent company.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked MedGulf Lebanon sal in first and 10th place in 2016 in terms of non-life and life premiums, respectively. The company's non-life premiums amounted to $102.5m at the end of 2016, and grew by 2.4% from the preceding year; while its life premiums dropped by 9% year-on-year to $13.3m. It had a 9.4% share of the local non-life market and a 2.6% share of the life market in 2016.

Corporate Highlights

Fitch affirms Majid Al Futtaim's ratings at 'BBB'

Fitch Ratings affirmed the long-term Issuer Default Rating (IDR) and the senior unsecured rating of the UAE-based conglomerate Majid Al Futtaim Holding LLC (MAF) at 'BBB', with a 'stable' outlook. It also affirmed MAF's short-term IDR at 'F3'.

The agency indicated that the affirmation of the IDRs reflects MAF's strong financial performance from improved results across its property, retail and ventures divisions, as well as the agency's expectation of solid future performance supported by strong rental income generation from MAF's property division. It noted that MAF's property division generates the majority of the group's cash flow and profitability, given its high occupation rates and resilient rental income. It added that the retail division, and to a lesser extent the ventures division, provide both geographic and service diversification for the group. Further, Fitch noted that the 'stable' outlook reflects its expectations that the group would be able to maintain relatively stable credit metrics despite the significant level of growth and expansion of capital expenditures.

Established in 1992, Majid Al Futtaim Holding LLC is one of the largest developers and operators of shopping malls and hypermarkets in the Middle East & North Africa region. It currently operates 21 shopping malls, 12 hotels and three mixed-use communities in the MENA region. It also holds exclusive rights to the French Carrefour franchise in 38 markets across the Middle East, Africa and Asia, and operates a portfolio of more than 210 outlets in 15 countries.

MAF's investments in Lebanon include City Centre Beirut, a shopping mall that was launched in April 2013, and a 50% stake in the ongoing Waterfront City project, a mixed-use residential and commercial real estate project located in Dbayeh north of Beirut. Lebanon generated 3.5% of MAF properties' consolidated revenues in 2016, while MAF's total assets in Lebanon accounted for 4.2% of the group's aggregate assets at the end of 2016.

Assurex's net earnings down 8% to $2.5m in 2016

Assurex Insurance & Reinsurance sal announced audited net profits of $2.5m in 2016, constituting a decrease of 8.3% from net earnings of $2.7m in 2015. The firm's audited balance sheet shows total assets of $72.6m at the end of 2016, up by 3.4% from $70.2m a year earlier. On the assets side, general company investments totaled $25.4m and increased by 12.8% from end-2015. They included $12.9m in cash & cash equivalents that increased by 16.1% year-on-year, $4.5m in land and real estate investments that grew by 20.2% from a year earlier, $4.6m in fixed income investments that were unchanged year-on-year and $0.9m in variable income investments that surged by 49.5% from end-2015. They also included $2.1m in blocked bank deposits and deposits with maturity of more than three months, of which $2.06m, or 97.3%, were blocked in favor of the Ministry of Economy & Trade as guarantees. Also, the reinsurance's share in technical reserves for the life category totaled $0.7m in 2016, down by 51.4% from 2015; while technical reserves for the non-life category amounted to $10.4m, up by 6.3% from the preceding year.

On the liabilities side, technical reserves for the non-life segment increased by 8.3% to $30.3m in 2016, while technical reserves for the life category reached $2.9m at end-2016 and regressed by 27.2% from a year earlier. Non-life technical reserves included unearned premium reserves of $17m that grew by 3% and outstanding claims reserves of $10.9m that rose by 21.7% year-on-year. Provisions for risks and charges reached $1.2m at the end of 2016 and increased by 9.2% from 2015. Also, shareholders' equity totaled $28.9m at end-2016, up by 3.6% from $27.9m a year earlier.

Al-Bayan magazine's annual survey of the insurance sector in Lebanon ranked Assurex in 12th and 21st place in 2016 in terms of non-life and life premiums, respectively. The firm's non-life premiums amounted to $33.4m at the end of 2016, and grew by 2.6% from the preceding year; while its life premiums increased by 8.2% year-on-year to $1.7m. It had a 3.1% share of the local non-life market and a 0.3% share of the life market in 2016.

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	Sep 2015	Aug 2016	Sep 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*	Sep 2015	Aug 2016	Sep 2016	Change**	Risk Level
Political Risk Rating	57.6	57.4	57.6		High
Financial Risk Rating	39.2	38.8	38.9		Low
Economic Risk Rating	31.3	29.7	29.7		High
Composite Risk Rating	64.0	62.9	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	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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