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BYBLOS BANK SAL
Economic Research & Analysis Department

LEBANON THIS WEEK

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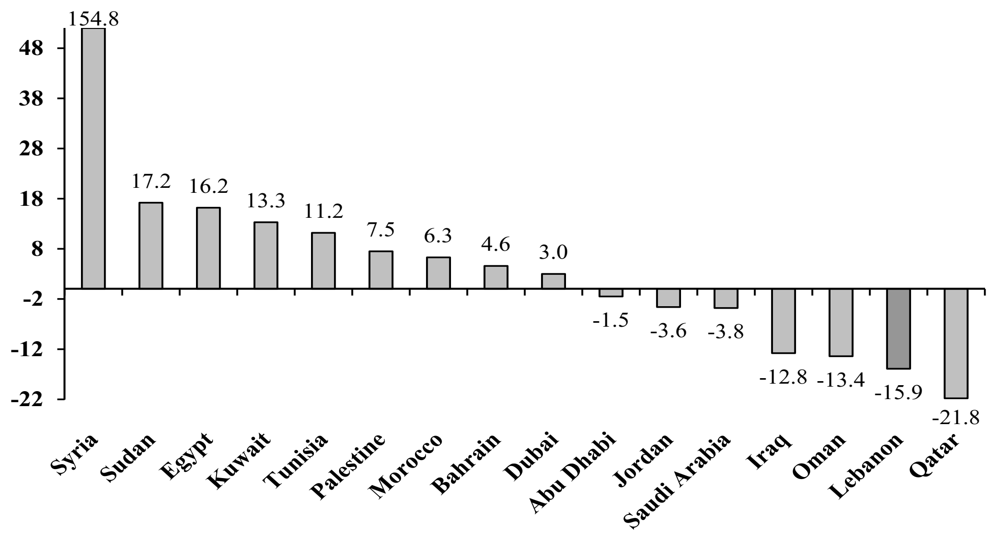
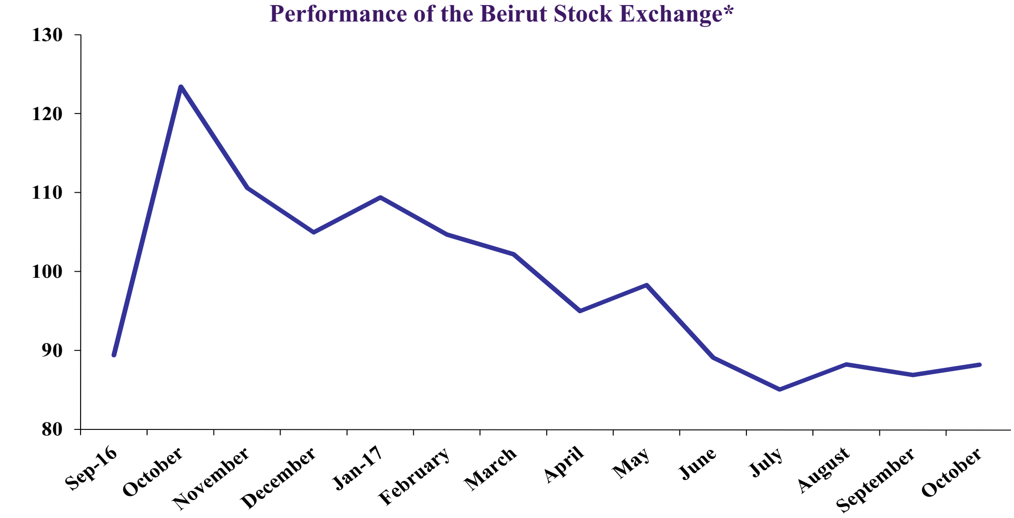


Performance of the Beirut Stock Exchange*



**Capital Markets Authority Value Weighted Index end of month values*
Source: Local Stock Markets, Capital Markets Authority, Byblos Bank

Quote to Note

"We expect the peg of the Lebanese pound to the US dollar to be maintained, supported by high foreign currency reserves of about $44bn."

The Institute of International Finance, on the stability of the Lebanese pound

Number of the Week

36: Lebanon's rank out of 137 countries in terms of ease of access to loans, according to the World Economic Forum's Global Competitiveness Index for 2017-2018

Lebanon in the News

$m *(unless otherwise mentioned)*	**2016**	**Jun 2016**	**Mar 2017**	**Apr 2017**	**May 2017**	**Jun 2017**	**% Change***
Exports	2,977	280	275	235	240	230	(17.96)
Imports	18,705	1,533	1,699	1,414	1,559	1,454	(5.15)
Trade Balance	(15,728)	(1,253)	(1,425)	(1,178)	(1,320)	(1,224)	(2.29)
Balance of Payments	1,238	(13)	46	(321)	(592)	(758)	5730.77
Checks Cleared in LBP	19,892	1,577	1,981	1,643	1,769	1,681	6.59
Checks Cleared in FC	48,160	4,076	4,198	3,693	3,904	3,882	(4.76)
Total Checks Cleared	68,052	5,653	6,179	5,336	5,673	5,563	(1.59)
Budget Deficit/Surplus	(3,667.15)	(168.55)	(477.46)	(131.85)	550.56	(496.83)	194.76
Primary Balance	1,297.65	198.14	58.51	309.55	1,192.83	(71.52)	-
Airport Passengers***	7,610,231	572,461	518,443	720,843	601,253	652,852	14.04

$bn *(unless otherwise mentioned)*	**2016**	**Jun 2016**	**Mar 2017**	**Apr 2017**	**May 2017**	**Jun 2017**	**% Change***
BdL FX Reserves	34.03	33.20	33.91	33.53	32.75	33.89	2.08
In months of Imports	21.83	21.65	19.96	23.72	21.00	23.31	7.63
Public Debt	74.89	72.90	77.18	76.93	76.72	76.45	4.87
Bank Assets	204.31	190.36	205.76	206.13	206.89	208.16	9.35
Bank Deposits (Private Sector)	162.50	154.66	164.35	165.49	166.14	167.73	8.45
Bank Loans to Private Sector	57.18	55.88	57.18	57.59	57.87	58.42	4.54
Money Supply M2	54.68	53.25	54.75	54.79	54.73	55.12	3.52
Money Supply M3	132.80	126.38	134.27	135.24	136.11	137.51	8.80
LBP Lending Rate (%)****	8.23	8.31	8.43	8.33	8.48	8.39	8bps
LBP Deposit Rate (%)	5.56	5.56	5.57	5.54	5.57	5.51	(5bps)
USD Lending Rate (%)	7.35	7.20	7.32	7.22	7.36	7.27	7bps
USD Deposit Rate (%)	3.52	3.31	3.53	3.62	3.62	3.58	27bps
Consumer Price Index**	(0.80)	(1.00)	5.10	4.40	4.30	3.50	-

** 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"	8.15	(1.81)	227,446	7.18%
Byblos Common	1.63	0.00	215,345	8.12%
Audi Listed	6.00	1.69	57,727	21.12%
BLOM GDR	12.60	(0.16)	18,780	8.20%
Solidere "B"	8.13	(1.45)	17,229	4.65%
HOLCIM	14.27	7.86	12,603	2.45%
BLOM Listed	11.65	0.52	1,160	22.05%
Audi GDR	6.04	2.37	1,000	6.38%
Byblos Pref. 09	102.10	0.00	-	1.80%
Byblos Pref. 08	102.00	0.00	-	1.80%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Dec 2017	4.00	99.91	4.57
Nov 2018	5.15	100.75	4.39
May 2019	6.00	101.13	5.23
Mar 2020	6.38	101.50	5.68
Oct 2022	6.10	98.88	6.37
Jun 2025	6.25	95.50	7.02
Nov 2026	6.60	96.63	7.11
Feb 2030	6.65	94.38	7.35
Apr 2031	7.00	96.38	7.43
Nov 2035	7.05	95.25	7.54

Source: Byblos Bank Capital Markets

	Oct 30 - Nov 3	Oct 23-27	% Change	October 2017	October 2016	% Change
Total shares traded	533,557	6,252,009	(91.1)	8,915,465	22,970,630	(61.2)
Total value traded	$3,341,618	$55,160,248	(93.9)	$78,667,175	$169,756,567	(53.7)
Market capitalization	$11.36bn	$11.30bn	0.51	$11.27bn	$11.87bn	(5)

Source: Beirut Stock Exchange (BSE)

Lebanon ranks 133rd globally, 12th among Arab countries in terms of ease of doing business

The World Bank Group's Doing Business 2018 report ranked Lebanon in 133rd place among 190 countries and jurisdictions worldwide and in 12th place among 22 Arab countries and territories in terms of the ease of doing business. Lebanon's rank regressed by one spot from 132nd place in the 2017 survey, while its regional rank was unchanged year-on-year. Lebanon also came in 41st place among 51 upper middle-income countries (UMICs) in the survey.

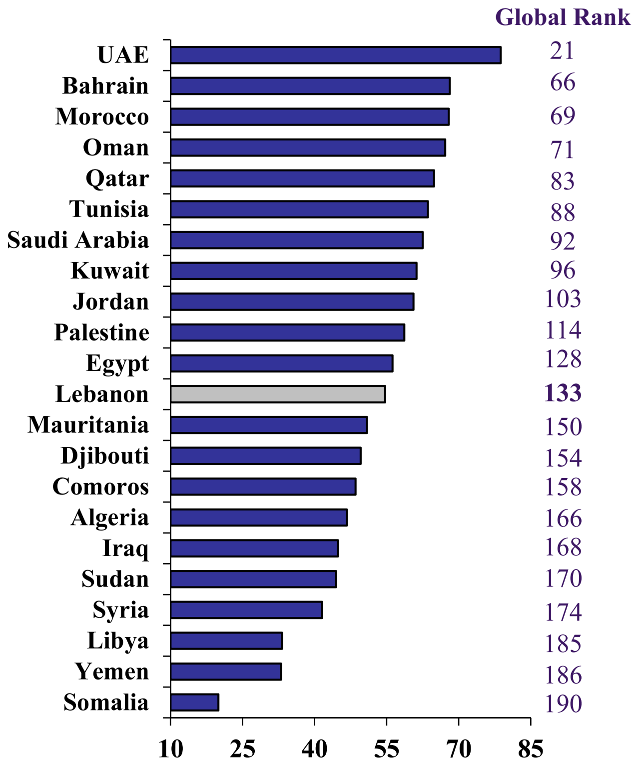
The index is a composite of 10 sub-indices of business regulations that track the time and cost to meet government requirements for business start-up, expansion, operations and insolvency. The ease of doing business rankings in the 2018 survey are based on the distance to frontier (DTF) score, which measures the gap between an economy's current performance and the best performer around the world on each sub-index. The DTF scores range from zero to 100, with a score of 100 representing the "frontier", or the best performer. The World Bank enhanced its methodology this year and revised the historical data accordingly.

Lebanon's DTF score is 54.67, down from 55.77 in the previous survey. It came slightly above the Arab average score of 53.5, but significantly below the global average of 61.6. Lebanon was among 41 countries and territories that posted a decline in their DTF score in the 2018 survey. The World Bank indicated that Lebanon did not enact any reform related to the business environment between June 2016 and June 2017, while 119 of the 190 economies covered enacted at least one business regulation reform during the same period.

Globally, Lebanon had a better business environment than Cambodia, Tanzania and Mozambique, and a weaker business climate than Brazil, Egypt and Nicaragua among economies with a GDP of $10bn or more. It also ranked ahead of only Algeria, Gabon, Iraq, Equatorial Guinea, Libya and Venezuela among UMICs.

Lebanon came behind 12 Arab countries on the Starting a Business Indicator. The survey noted that entrepreneurs need eight steps to start a business in Lebanon compared to an average of 7.7 procedures in Arab countries and 4.9 steps in OECD economies. Also, it takes 15 days to start a business in Lebanon compared to an average of 21.3 days in Arab countries and an average of 8.5 days in OECD states. Lebanon's DTF score reached 78.17 on this indicator compared to 78.45 in the 2017 survey, and came below the Arab countries' average of 79.73. The World Bank did not register any reform to the process of starting a business in Lebanon since 2011.

Ease of Doing Business in 2018
DTF Scores & Rankings of Arab Countries



Source: World Bank Group, Byblos Research

Components of the Ease of Doing Business in 2018

	Lebanon Score	Global Rank	Change in Score
Starting a Business	78.17	143	-0.1
Dealing with Construction Permits	59.66	142	-0.28
Getting Electricity	60.07	123	-0.13
Registering Property	59.93	102	-0.02
Getting Credit	40.00	122	-0.01
Protecting Investors	41.67	138	-
Paying Taxes	68.21	113	-
Trading Across Borders	59.71	140	-
Enforcing Contracts	49.85	134	-
Resolving Insolvency	29.42	147	-0.61

Source: World Bank Group, Byblos Research

Also, Lebanon ranked behind 13 Arab countries on the Enforcing Contracts indicator. The survey noted that a firm in Lebanon requires 721 days to enforce commercial contracts, compared to an average of 637.3 days in the Arab world and 577.8 days in OECD economies. Further, enforcing a contract in Lebanon costs 30.8% of the claim compared to 27.5% in the region and to 21.5% of the claim in OECD states. Lebanon's DTF score was 49.85 in the 2018 survey, unchanged from the 2017 survey, and came below the average of 52.34 for Arab countries.

Further, Lebanon ranked behind 14 Arab countries on the Registering Property indicator. The survey indicated that registering a property in Lebanon takes 34 days and costs 5.9% of the value of the property compared to an average of 39.3 days and 5.3% of the property value in Arab countries, and an average of 22.3 days and 4.2% of the property value in OECD economies. Entrepreneurs need eight steps to register a property in Lebanon compared to an average of 5.4 procedures in Arab countries, and an average of 4.7 steps in OECD economies. Lebanon's DTF score was 59.93 on this indicator, nearly unchanged from a score of 59.94 in the 2017 survey, and came below the Arab average of 60.71 points. The World Bank noted that, in 2016, Lebanon made transferring property more complex by increasing the time required for property registration.

Occupancy rate at Beirut hotels at 65%, room yields up 20% in first nine months of 2017

EY's benchmark survey of the hotel sector in the Middle East indicated that the average occupancy rate at hotels in Beirut was 65.2% in the first nine months of 2017, up from 58.9% in the same period of 2016 and compared to an average rate of 61.6% in 14 Arab markets included in the survey. The occupancy rate at Beirut hotels was the seventh highest in the region in the first nine months of 2017, while it was the sixth lowest in the same period of 2016. Also, the occupancy rate at hotels in Beirut rose by 6.3 percentage points year-on-year, constituting the largest increase among the 14 Arab markets. In comparison, the average occupancy rate in Arab markets increased by 0.4 percentage points year-on-year in the covered period. Occupancy rates at Beirut hotels were 56.7% in January, 66.7% in February, 62% in March, 68.8% in April, 70% in May, 45.3% in June, 74.9% in July, 68.7% in August and 74.1% in September 2017. In comparison, occupancy rates at Beirut hotels were 55.7% in January, 57% in February, 51.1% in March, 55.6% in April, 66.8% in May, 44.1% in June, 65.3% in July, 63% in August and 71.5% in September 2016.

Hotel Sector Performance in First Nine Months of 2017

	Occupancy Rate (%)	RevPAR (US$)	RevPAR % change
Jeddah	68.3	191	-14.9
Dubai	75.8	175	-6.4
Madina	51.2	162	12.5
Riyadh	63.5	142	-7.5
Ras Al Khaimah	72.6	108	-2.2
Kuwait City	47.4	107	8.6
Doha	59.5	106	-9.3
Muscat	65.8	103	-11.6
Manama	50.0	101	-8.4
Beirut	**65.2**	**99**	**19.8**
Makkah	53.1	88	-19.0
Abu Dhabi	74.4	83	-7.3
Amman	48.6	71	-9.8
Cairo City	66.5	57	91.8

Source: EY, Byblos Research

The average rate per room at Beirut hotels was $152 in the first nine months of 2017, ranking the capital's hotels as the fifth least expensive in the region relative to Cairo ($86), Abu Dhabi ($111), Amman ($145) and Ras Al Khaimah ($149). The average rate per room at Beirut hotels increased by 8.2% year-on-year in the covered period. Beirut, along with Cairo and Makkah, were the only markets to post an increase in their average rate per room in the covered period. The average rate per room in Beirut came below the regional average of $187.3 that regressed by 3.4% from the same period of 2016.

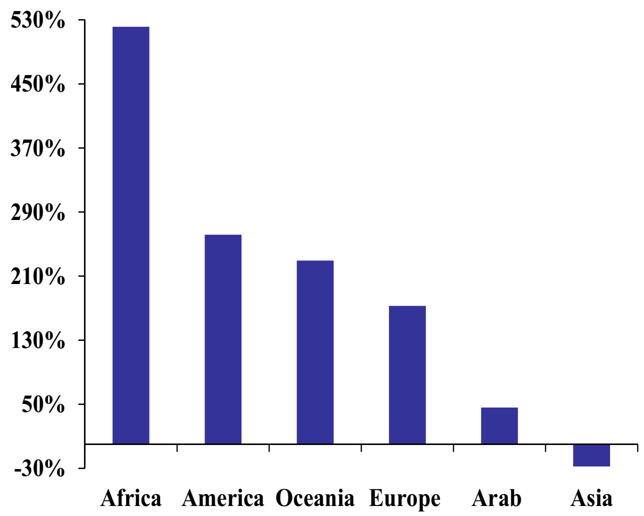
Further, revenues per available room (RevPAR) were $99 in Beirut in the first nine months of 2017, up from $83 in the same period of 2016. They were the fifth lowest in the region relative to Cairo ($57), Amman ($71), Abu Dhabi ($83) and Riyadh ($88). However, Beirut's RevPAR grew by 19.8% year-on-year and posted the second highest increase among Arab markets behind Cairo (+91.8%). Beirut posted RevPARs of $82 in January, $91 in February, $86 in March, $102 in April, $101 in May, $73 in June, $127 in July, $111 in August and $123 in September 2017. In comparison, RevPARs at hotels in Beirut was $79 in each of January and February, $68 in March, $72 in April, $95 in May, $55 in June, $97 in July, $91 in August and $107 in September 2016. Makkah posted the highest average rate per room in the region at $316, while Jeddah posted the highest RevPAR at $191 and Dubai posted the highest occupancy rate at 75.8% in the first nine months of 2017.

Tourist arrivals up 11% in first nine months of 2017

The number of incoming visitors to Lebanon totaled 1,449,517 in the first nine months of 2017, constituting an increase of 11.3% from 1,302,655 tourists in the same period of 2016 and a decline of 14.5% from 1,694,662 visitors in the first nine months of 2010. Also, the number of incoming visitors reached 162,135 in September 2017, down by 1.5% from 164,605 in September 2016 and by 19.9% from 202,529 in September 2010. Visitors from European countries accounted for 33.9% of the total in the first nine months of 2017, followed by those from Arab economies with 30.6%, the Americas with 18.3%, Asia with 7.1%, Africa with 5.7% and Oceania with 4.4%. Further, tourists from Iraq accounted for 12.3% of total visitors in the covered period, followed by visitors from the U.S. (9.6%), France (8.7%), Canada (6%), Germany (5.3%), Jordan (4.9%), Egypt (4.3%), Saudi Arabia (3.8%) and the United Kingdom (3.6%).

In parallel, the number of visitors from Europe increased by 12.7% year-on-year in the first nine months of 2017, followed by those from the Arab region (+12.1%), Oceania and the Americas (+10.8% each), Asia (+8.8%) and African countries (+4.4%). On a country basis, the number of tourists from Kuwait and Saudi Arabia doubled year-on-year each in the first nine months of 2017, followed by visitors from Brazil (+25.5%), Turkey (+17.5%), Italy (+13.1%), France (+11.9%), Germany (+11.6%), the U.S. (+11.4%), Sweden (+10.7%), the United Kingdom (+9.3%), Canada (+8%) and Jordan (+5.1%). In contrast, the number of visitors from the UAE fell by 6.2% year-on-year in the first nine months of 2017, followed by visitors from Venezuela (-4.1%), Iraq and Egypt (-2.2% each).

Change in the Number of Tourist Arrivals from Main Sources in First Nine Months of 2017*



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

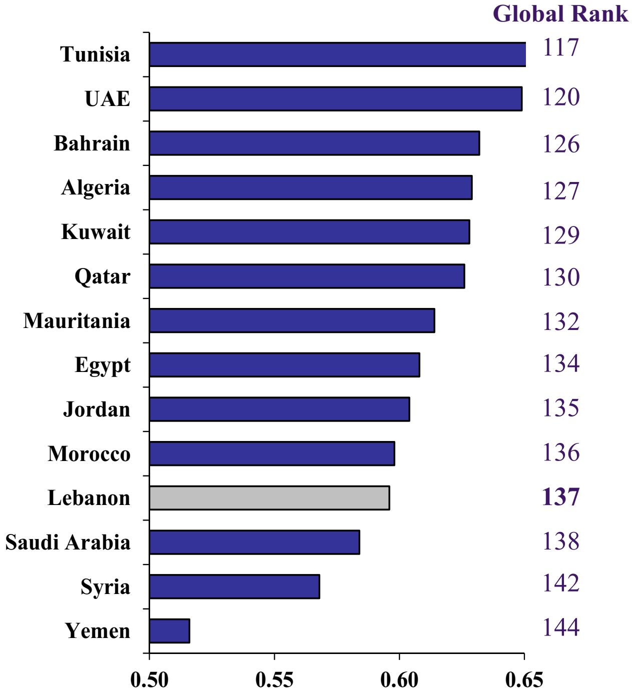
Lebanon ranks 137th globally, 11th among Arab countries in gender gap

The World Economic Forum ranked Lebanon in 137th place among 144 countries and in 11th place among 14 Arab countries on its Global Gender Gap Index for 2017. It also ranked Lebanon in 39th place among 40 upper middle-income countries (UMICs) included in the survey. Lebanon's global rank regressed by 10 spots based on the same set of countries from 2010 when it was first included in the index. The index ranks countries according to their proximity to gender equality rather than on the degree of female empowerment. It aims to capture the magnitude and scope of gender-based disparities in each country and to track their progress over time. The index is based on four sub-indices that measure Economic Participation & Opportunity, Educational Attainment, Health & Survival, and Political Empowerment.

Globally, Lebanon had a narrower gender gap than Saudi Arabia, Mali, Iran, Chad, Syria, Pakistan and Yemen. It also ranked ahead of only Iran among UMICs, and came ahead of only Saudi Arabia, Syria and Yemen among Arab countries. Lebanon received a score of 0.596 points, which means that Lebanon closed about 60% of the gender gap. Still, Lebanon's score was lower than the global average of 0.697 points, the UMICs' average of 0.698 points, and the Arab average of 0.607 points. Lebanon's score regressed by 0.3% from the 2016 survey, while it regressed by 2% from 2010.

Lebanon closed 44% of the gender gap between women and men in terms of the participation, remuneration and advancement in the workplace, relative to 65.3% globally. As such, Lebanon ranked ahead of Mauritania, Egypt, Timor-Leste, Morocco, Jordan, India, Iran, Yemen, Saudi Arabia, Pakistan and Syria worldwide on the Economic Participation & Opportunity Sub-Index.

Global Gender Gap Index for 2017
Scores & Rankings of Arab Countries



Source: World Economic Forum, Byblos Research

Also, Lebanon closed about 95.6% of the gender gap in educational attainment, slightly trailing the global average of about 95.9%. This category captures the gap between females' and males' current access to education through ratios of women to men in primary-, secondary- and tertiary-level education. As such, Lebanon ranked last among UMICs, while it came ahead of Syria and Bangladesh, and behind Algeria and Bolivia worldwide.

Further, Lebanon closed about 97% of the gap in health outcomes between women and men, slightly trailing the global average of about 97.3%. The health and survival category measures the differences between females and males' health as reflected by the gap between women's and men's healthy life expectancy and by the sex ratio at birth.

Finally, Lebanon closed about 1.9% of the gap between women and men in terms of political empowerment, while countries worldwide closed about 20.3% of the political gender gap. This category captures the ratio of females to males in ministerial-level positions and who hold parliamentary seats, in addition to the number of years that females serve in executive office. Lebanon ranked last among UMICs, and came ahead only Qatar and Yemen among Arab countries on the Political Empowerment Sub-Index.

Components of the 2017 Global Gender Gap Index for Lebanon

	Global Rank	Arab Rank	UMICs Rank	Lebanon Score	Global Average	Arab Average	UMICs Average
Economic Participation & Opportunity	133	7	39	0.440	0.653	0.422	0.648
Educational Attainment	109	10	40	0.956	0.959	0.947	0.989
Health & Survival	109	6	35	0.970	0.957	0.969	0.974
Political Empowerment	142	12	40	0.019	0.203	0.092	0.180

Source: World Economic Forum, Byblos Research

Trade deficit narrows by 2% to $11.8bn in first nine months of 2017

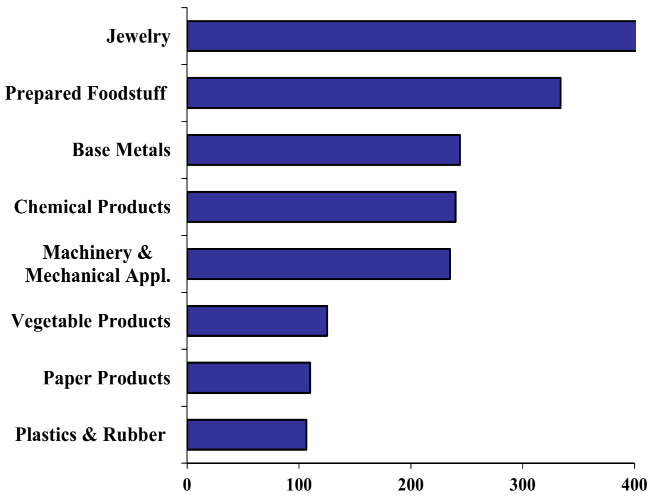
The total value of imports reached $13.9bn in the first nine months of 2017, constituting a decrease of 2.5% from the same period of 2016; while the aggregate value of exports declined by 5.1% to reach $2.1bn in the covered period. As such, the trade deficit narrowed by 2% to $11.8bn in the first nine months of 2017 due to a year-on-year decline of $351.2m in imports, which was partly offset by a $114.1m decrease in exports. The drop in imports mainly reflects a decline of $430.4m, or 13.9%, in the value of imported oil & mineral fuels, which was mainly offset by a rise of $75.6m, or 12%, in the value of imported vegetable products and an increase of $74.1m, or 9%, in the value of imported vehicles, aircraft & vessels.

Also, the value of imported oil & mineral fuels reached $2.67bn in the first nine months of 2017 and accounted for 19.2% of total imports in the covered period, compared to a share of 21.8% in the first nine months of 2016. In volume terms, imports of oil & mineral fuels decreased by 9.1% year-on-year to 6.5 million tons.

In addition, the decline in exports mainly reflects a drop of $192m, or 29.4%, in the value of exported jewelry in the first nine months of the year, which was partly offset by an increase of $65.8m, or 37%, in the value of exported base metals and a rise of $26.8m, or 2.9 times, in the value of exported mineral products. Further, the coverage ratio was 15.2% in the first nine months of 2017 compared to 15.6% in the same period of 2016.

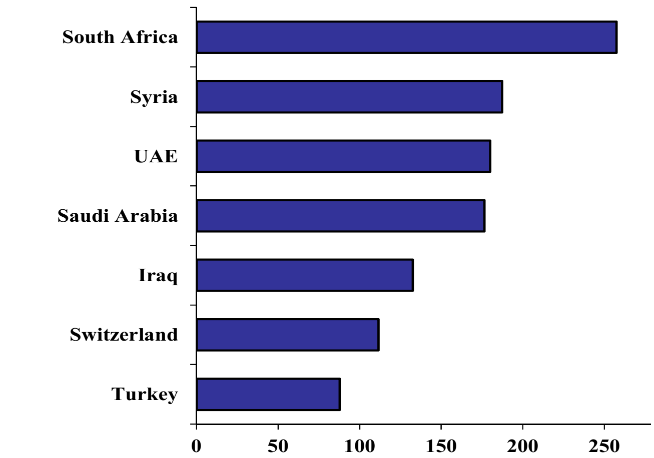
In parallel, exports to Switzerland doubled in the first nine months of 2017, those to Syria expanded by 46.7% and exports to Iraq grew by 6.1%, while exports to South Africa decreased by 50.3%, those to Saudi Arabia declined by 14.6% and those to the UAE regressed by 0.8%. Re-exports totaled $570.8m in the first nine months of 2017 compared to $368.1m in the same period of 2016. Also, the Port of Beirut was the exit point for 49.1% of Lebanon's total exports in the first nine months of 2017, followed by the Hariri International Airport (32.5%), the Port of Tripoli (8.6%), the Masnaa crossing point (4.4%), the Arida crossing point (3.7%), the Port of Saida (1.1%) and the Abboudieh crossing point (0.7%).

Main Lebanese Exports* ($m)



**in the first nine months of 2017*
Source: Lebanese Customs Administration, Byblos Research

Main Destinations of Lebanese Exports*($m)



**in the first nine months of 2017*
Source: Lebanese Customs Administration, Byblos Research

Lebanon's main non-hydrocarbon imports were chemical products that reached $1.56bn in the first nine months of 2017 and accounted for 11.2% of the total. Imports of machinery & mechanical appliances followed at $1.43bn (10.3%), vehicles, aircraft & vessels at $1.38bn (9.9%), prepared foodstuff at $1bn (7.3%), base metals at $936.2m (6.7%), jewelry at $737.5m (5.3%) and vegetable products at $706.6m (5.1%). In parallel, the Port of Beirut was the entry point for 71.5% of Lebanon's merchandise imports in the first nine months of 2017, followed by the Hariri International Airport (18.8%), the Port of Tripoli (6.9%), the Port of Saida (1.9%), the Masnaa crossing point (0.4%), the Arida crossing point (0.3%), and the Abboudieh and Tyre crossing points (0.1% each).

China was the main source of imports with $1.4bn, or 10% of the total, in the first nine months of 2017, followed by Italy with $1.3bn (9.1%), Greece with $1.03bn (7.4%), Germany with $893.4m (6.4%), the United States with $826.7m (6%) and Russia with $553m (4%). Imports from Greece grew by 1.4 times year-on-year in the first nine months of 2017, those from Italy improved by 21% and imported goods from Germany rose by 3.3%, while imported goods from China decreased by 13%, those from the United States dropped by 11.4% and imports from Russia regressed by 8.6% year-on-year.

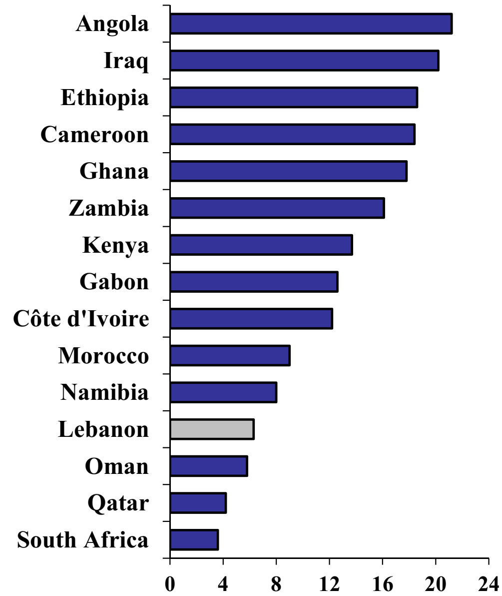
Sovereign bonds post eighth lowest return in emerging markets in first 10 months of 2017

Figures issued by Citi Research indicate that Lebanon's sovereign debt posted a return of 6.3% in the first 10 months of 2017, constituting the eighth lowest return among 42 emerging markets included in the Citi EM Sovereign Bond Index. Lebanon's sovereign debt performed better than Oman (+5.8%), the Philippines (+5.7%), Poland (+5.2%), Russia and Qatar (+4.2% each), South Africa (+3.6%), and Bolivia (+1%).

Lebanon underperformed the overall emerging markets' return of 7.3% and the 'B'-rated sovereigns' return of 9.7% during the covered period. Also, Lebanon's sovereign debt posted the fourth lowest return among 15 countries in the Middle East & Africa region in the first 10 months of 2017, ahead of Oman, Qatar and South Africa.

Further, Lebanon's sovereign debt posted a return of -0.9% in October 2017, constituting, along with South Africa and Mexico, the third lowest return in emerging markets during the covered month. Lebanon underperformed the emerging markets' return of 0.4% and the 'B'-rated sovereigns' return of 1.1% in October 2017. It also posted, along with South Africa, the lowest return in the Middle East & Africa region in October 2017.

Sovereign Debt Performance in the Middle East & Africa in First 10 Months of 2017 (%)

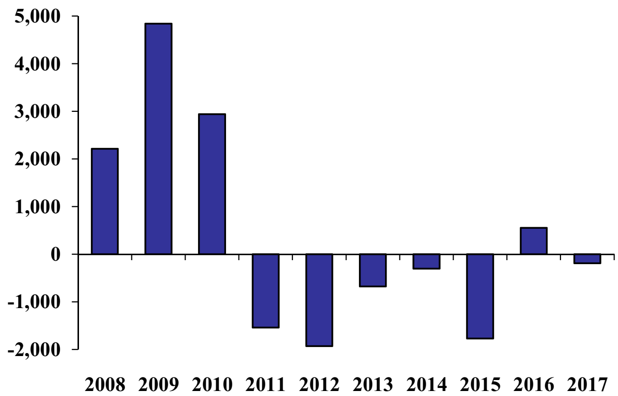


Source: Citi Research, Byblos Research

Balance of payments posts deficit of $190m in first nine months of 2017

Figures issued by Banque du Liban (BdL) show that Lebanon's balance of payments posted a deficit of $190.1m in the first nine months of 2017 compared to a surplus of $554.9m in the same period of 2016. The balance of payments posted a surplus of $457m in September 2017 compared to surpluses of $368.3m in August 2017 and of $188.7m in September 2016. The September 2017 surplus was caused by a rise of $1.1bn in the BdL's net foreign assets, which was partly offset by a decrease of $666m in those of banks and financial institutions. The cumulative deficit over the first nine months of 2017 was caused by a decline of $3.14bn in the net foreign assets of banks and financial institutions, which was partly offset by an increase of $2.95bn in those of the BdL. The balance of payments posted surpluses of $7.9bn in 2009, $3.3bn in 2010 and $1.2bn in 2016, and deficits of $2bn in 2011, $1.5bn in 2012, $1.1bn in 2013, $1.4bn in 2014 and $3.4bn in 2015.

Balance of Payments* (US$m)

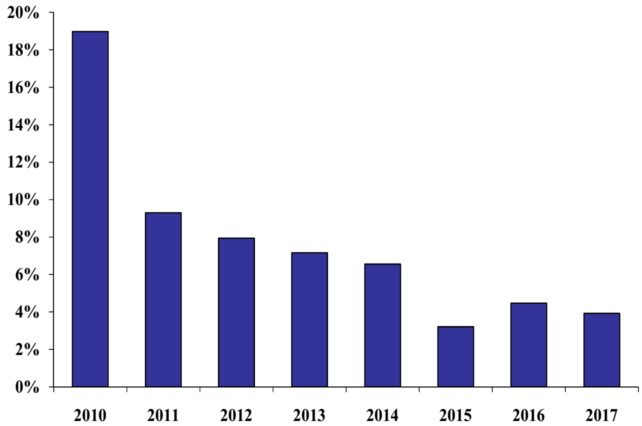


**in the first nine months of each year*
Source: Banque du Liban

Banking sector assets at $213.4bn at end-September 2017

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets reached $213.4bn at the end of September 2017, constituting an increase of 4.5% from the end of 2016 and a growth of 7.8% from end-September 2016. Loans extended to the private sector reached $58.9bn at the end of September 2017, up by 3.1% from end-2016 and by 4% from a year earlier. Loans to the resident private sector reached $53.05bn, constituting an increase of 3.9% from end-2016 and a rise of 5.7% year-on-year; while credit to the non-resident private sector totaled $5.9bn at end-September 2017 and regressed by 4.2% from end-2016 and by 9% from a year earlier. In nominal terms, credit to the private sector grew by $1.75bn in the first nine months of 2017 relative to an increase of $2.43bn in the same period of 2016. Lending to the resident private sector increased by $2bn in the first nine months of 2017 relative to a growth of $2.15bn in the same period of 2016, while credit to the non-resident private sector decreased by $258.7m in the first nine months of the year compared to an increase of $280.6m in the same period of 2016. The dollarization rate in private sector lending regressed to 70.4% at end-September 2017 from 73.6% a year earlier.

Resident Private Sector Lending Growth*
(% Change)



** in the first nine months of each year*
Source: Association of Banks in Lebanon, Byblos Research

In addition, claims on non-resident banks reached $10.14bn at the end of September 2017 and decreased by 9.8% from $11.24bn at the end of 2016, while claims on the public sector stood at $33.1bn at end-September 2017, down by 4.6% from end-2016. The average lending rate in Lebanese pounds was 8.31% in September 2017, while the same rate in US dollars stood at 7.53%. Further, the deposits of commercial banks at Banque du Liban totaled $99.2bn at end-September 2017, constituting an increase of 11.1% from end-2016 and a growth of 16.7% from a year earlier.

In parallel, private sector deposits of the non-financial sector totaled $169.1bn at the end of September 2017, increasing by 4.1% from the end of 2016 and by 6.9% from a year earlier. Deposits in Lebanese pounds reached $56bn at end-September 2017, up by 0.8% from end-2016 and by 1.1% year-on-year; while deposits in foreign currencies totaled $113.1bn and grew by 5.8% from end-2016 and by 10.1% from end-September 2016. Aggregate non-resident deposits reached $34.9bn at the end of September 2017, up by 2.8% from end-2016 and by 5.7% from a year earlier. In nominal terms, private sector deposits grew by $239.5m in January, by $1.12bn in February, by $492.9m in March, by $1.13bn in April, by $655.4m in May, by $1.6bn in June, by $656.1m in July and by $767.5m in August, while they regressed by $63.7m in September 2017. As such, total private sector deposits rose by $6.6bn in the first nine months of 2017 compared to an increase of $6.56bn in the same period of 2016. Resident private sector deposits grew by $5.65bn in the first nine months of 2017 relative to a growth of $5.4bn in the same period of 2016, while non-resident deposits rose by $945.3m in the first nine months of the year compared to an increase of $1.2bn in the same period of 2016. Further, foreign-currency deposits grew by $6.2bn in the first nine months of 2017 relative to an increase of $4.4bn in the same period of 2016.

In parallel, deposits of non-resident banks reached $7.13bn at the end of September 2017 and increased by 13.5% from end-2016 and by 8% from a year earlier. The dollarization rate of deposits was 66.9% at the end of September 2017, nearly unchanged from end-August 2017 and compared to 65% a year earlier. Further, the average deposit rate in Lebanese pounds was 5.53% in September 2017 compared to 5.58% a year earlier, while the same rate in US dollars was 3.65% relative to 3.43% in September 2016.

The ratio of private sector loans-to-deposits in foreign currency stood at 36.7%, well below Banque du Liban's limit of 70% and compared to 40.6% a year earlier. The same ratio in Lebanese pounds was 31.1% at end-September 2017 relative to 27% at the end of September 2016. As such, the ratio of total private sector loans-to-deposits reached 34.8%, down from 35.8% at end-September 2016. The banks' aggregate capital base stood at $18.65bn at end-September 2017, up by 2.3% from $18.2bn at the end of 2016.

Fransabank exercises call option on preferred shares and issues common shares

Fransabank sal redeemed and cancelled 425,000 Series "B"' Preferred Shares. Concurrently, the bank covered the LBP8.5bn ($5.6m) deficit in the capital account from the redemption through the issuance of 425,000 new common shares at a par value of LBP20,000 ($13.27) per share. The bank cancelled its Series "B" Preferred Shares on October 23, 2017 and distributed common shares gratis to existing shareholders, while it covered the cost of the newly-issued shares through an internal transfer from its reserves account to its capital account. The bank's share capital currently consists of 21,925,000 common shares.

Fransabank posted unaudited consolidated net profits of $84.7m in the first half of 2017. Its assets reached $21.39bn at the end of June 2017; while loans & advances to customers, excluding loans & advances to related parties reached $6.68bn at end-June 2017. Also, customer deposits, excluding deposits from related parties, totaled $16.07bn at the end of June 2017.

Stock market activity down 16% in first 10 months of 2017

Figures released by the Beirut Stock Exchange (BSE) indicate that trading volume reached 71,609,264 shares in the first 10 months of 2017, constituting a decrease of 25.6% from 96,283,569 shares traded in the same period of 2016; while aggregate turnover amounted to $602.2m, down by 24.8% from a turnover of $801.2m in the first 10 months of 2016. Market capitalization dropped by 5% from the end of October 2016 to $11.27bn, with banking stocks accounting for 85.2% of the total, followed by real estate shares (11.9%), industrial firms (2.6%) and trading stocks (0.3%). The market liquidity ratio was 5.3% in the covered period, compared to 6.8% in the first 10 months of 2016.

Banking stocks accounted for 60.7% of the aggregate trading volume in the first 10 months of the year, followed by real estate equities with 34.3%, the stocks of trading firms with 4.4% and industrial shares with 0.6%. Also, banking stocks represented 63.3% of the aggregate value of shares traded, followed by real estate equities with 34.5%, the shares of trading firms with 1.6% and industrial stocks with 0.6%. The average daily traded volume for the period was 354,501 shares for an average daily value of $3m. The figures reflect year-on-year decreases of 25.6% and 24.8% in volume and in value, respectively. In parallel, the Capital Markets Authority's Market Value-Weighted Index for stocks traded on the BSE regressed by 15.9% in the first 10 months of 2017, while the CMA's Banks Market Value-Weighted Index improved by 2.4% in the covered period.

Aggregate net profits of listed banks at $1bn in first nine months of 2017

Financial results issued by the six banks listed on the Beirut Stock Exchange show that their aggregate net profits reached $1.01bn in the first nine months of 2017, constituting a decrease of 14.6% from net earnings of $1.19bn in the same period last year. The decline in the listed banks' income is due mainly to a drop in Bank Audi's profits year-on-year in the third quarter of 2017. However, after the bank "normalized" its figures to account for non-recurring income and expenditures in the first nine months of 2016, its net income becomes $316m in the first nine months of 2016 and its net profits would increase by 8% to reach $341.4m in the first nine months of 2017. The non-recurring flows include exceptional net fees & commissions, the write off of investments, the impairment of goodwill and investments, and the booking of collective provisions in the first nine months of 2016. When accounting for Bank Audi's normalized results in the first nine months of 2016, the aggregate net income of the listed banks would increase by 5.5% year-on-year in the first nine months of 2017.

Further, the banks' aggregate pre-tax profits decreased by 16.2% year-on-year to $1.25bn in the covered period. The aggregate net interest income of the six banks, including net interest on financial instruments, totaled $2bn in the first nine months of 2017, up by 7.6% from $1.85bn in the same period of 2016; while their receipts from total net fees & commission declined by 60.4% year-on-year to $425.1m. Also, the total operating income of the listed banks reached $2.7bn in the covered period and decreased by 18.4% from $3.31bn in the same period last year. Further, the banks' collective cost-to-income ratio increased from 45.3% in the first nine months of last year to 47.3% in the same period of 2017.

In parallel, the aggregate assets of the publicly-listed banks increased by 4% from end-2016 to $124.1bn at the end of September 2017; while their total loans, including those to related parties, grew by 2.6% to $37.8bn. Also, total deposits, including those from related parties, increased by 3.1% from end-2016 to $99.6bn at end-September 2017. Further, the banks' aggregate shareholders' equity, including subordinated notes, increased by 2.4% from end-2016 to $12.7bn at the end of September 2017. The six banks' aggregate loans-to-deposits ratio stood at 38% at the end of September 2017 compared to 38.2% at end-2016. BLOM Bank had the lowest loans-to-deposits ratio at 28.4% relative to 28.9% at end-2016; followed by Byblos Bank with a ratio of 29.5% at end-September 2017, down from 30.3%; Bank of Beirut with 39.7% compared to 37.9% at end-2016; BLC Bank with 40.4% at end-September 2017 relative to 39.5%; Bank Audi with 48% at end-September 2017 up from 47.9%; and Banque BEMO with 52% at end-September 2017 relative to 47.5% at end-2016.

Results of Listed Banks in First Nine Months of 2017

	Audi	BLOM	Byblos	BoB	BLC	BEMO
Net Profits ($m)	341.4	356.9	114.5	152.0	36.1	13.3
% Change*	-37%	3.7%	0.8%	1.6%	30.2%	28.3%
Total Assets ($bn)	44.7	31.8	22.4	17.5	5.9	1.8
% Change**	0.9%	7.7%	7.6%	1.6%	2.9%	1.7%
Loans ($bn)	17.2	7.6	5.3	5.1	1.9	0.8
% Change**	-0.4%	6.4%	2.5%	5.8%	5.1%	9.2%
Deposits ($bn)	35.7	26.9	18.0	12.7	4.8	1.4
% Change**	-0.6%	8.4%	5.3%	0.9%	2.6%	-0.2%

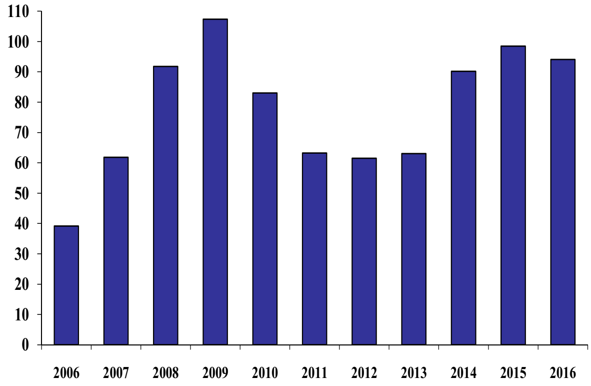
** year-on-year*
***Change from end-2016*
Source: Banks' financial statements, Byblos Research

Middle East Airlines to list 25% of its shares

Banque du Liban's (BdL) Governor Riad Salamé announced that national flag carrier Middle East Airlines (MEA), which is 99% owned by BdL, is planning to list 25% of the its shares on the Beirut Stock Exchange (BSE). He indicated that the shares will be listed following the privatization of the BSE and the launch of the electronic trading platform for securities and equities. He added that listing of the shares would require the approval of the Lebanese government, and would allow the private sector to own a stake in the company. The airline was tentatively planning to float about 25% of its shares on the Beirut Stock Exchange in the first quarter of 2009, but postponed it indefinitely due to unfavorable market conditions at the time.

Founded in 1945, MEA is part of the global airline alliance SkyTeam. The airline owns 14 Airbus planes and leases six other ones. There were 24,781 MEA flights in 2016, with 232 flights per week. In addition, MEA's freight volume totaled 87,256 tons in 2016. MEA's operating revenues reached $672m in 2016, down by 9% from $738.8m in the preceding year. The airline's posted cumulative net profits of $976m during the 2002-2016 period, compared to cumulative net losses of $726m during the 1975-2001 period.

MEA Net Profits (US$m)



Source: Middle East Airlines, Byblos Research

Moody's revises CMA CGM's outlook to 'positive'

Moody's Investors Service affirmed the Lebanese-owned and France-based container shipping group CMA CGM's corporate family rating at 'B1', its probability of default rating at 'B1-PD' and its senior unsecured bond ratings at 'B3'. But it revised the outlook on all the ratings from 'stable' to 'positive'. It attributed the outlook revision to the firm's improved operating performance as a result of better industry fundamentals, as well as its quick and effective response to capitalize on the recovery in the container market in the second quarter of 2017. It noted that the firm's earnings before interest and taxes (EBIT) margin stood at 8.9% in the second quarter of 2017 relative to -2.3% in the same quarter of 2016. It said that the strong margin performance was supported by an annual increase of 33.4% in volume and a 17.5% growth in freight rates in the second quarter of 2017. But it said that these gains were partly offset by a 5.4% rise in operating expenditures.

Further, the agency indicated CMA CGM's 'B1' corporate family rating reflects the company's leading market position, diverse, modern and flexible fleet, significant proportion of chartered vessels and operational efficiency, as well as its ongoing cost cutting efforts. Also, it said that the rating incorporates the company's expected deleveraging to below 5x by the end of 2017. In addition, Moody's noted that CMA CGM's liquidity level is good, with positive free cash flow of about $300m in 2017 after capital expenditures, and cash of $1.2bn at end-June 2017, as well as a total of $1.36bn of revolving credit facilities. However, Moody's pointed out that these rating strengths are counterbalanced by the highly competitive operating environment in the largely commoditized container liner industry, as well as the firm's predominantly short-term contracts that limit revenue visibility. It considered that downward rating pressures could develop if challenging market conditions lead to a leverage of above 5x for a prolonged period of time, to funds from operations interest expense coverage below 3x, or to a material deterioration of the company's liquidity profile.

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	Dec 2015	Nov 2016	Dec 2016	Change**	Risk Level
Political Risk Rating	54.5	54.5	55	▼	High
Financial Risk Rating	39.0	36.5	36.5	▲	Low
Economic Risk Rating	30.5	30.5	30.5	▶◀	Moderate
Composite Risk Rating	60.75	60.75	61.0	▼	Moderate

MENA Average*	Dec 2015	Nov 2016	Dec 2016	Change**	Risk Level
Political Risk Rating	57.7	57.6	57.6	▲	High
Financial Risk Rating	39.6	38.1	38.3	▲	Low
Economic Risk Rating	30.2	29.6	29.6	▲	High
Composite Risk Rating	63.8	62.6	62.8	▲	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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