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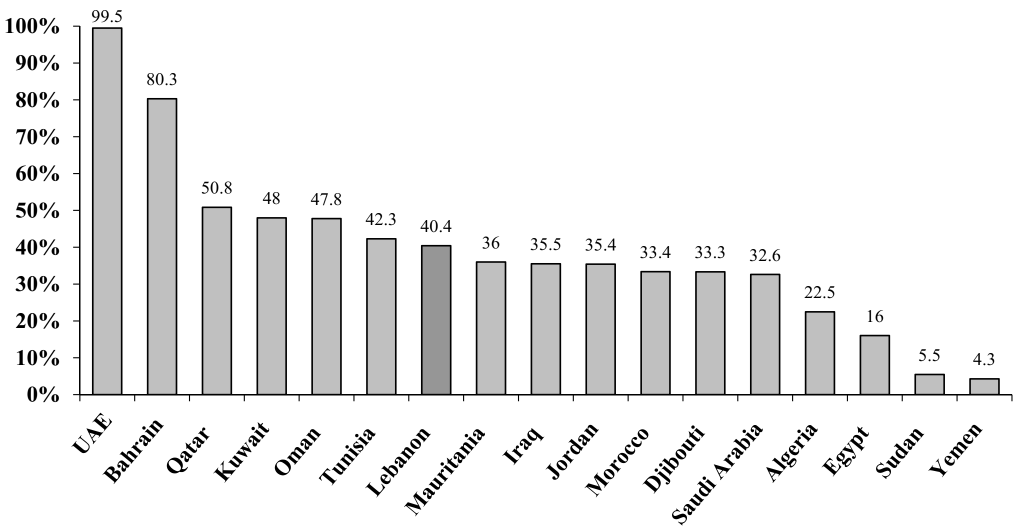
BYBLOS BANK SAL
Economic Research & Analysis Department

LEBANON THIS WEEK

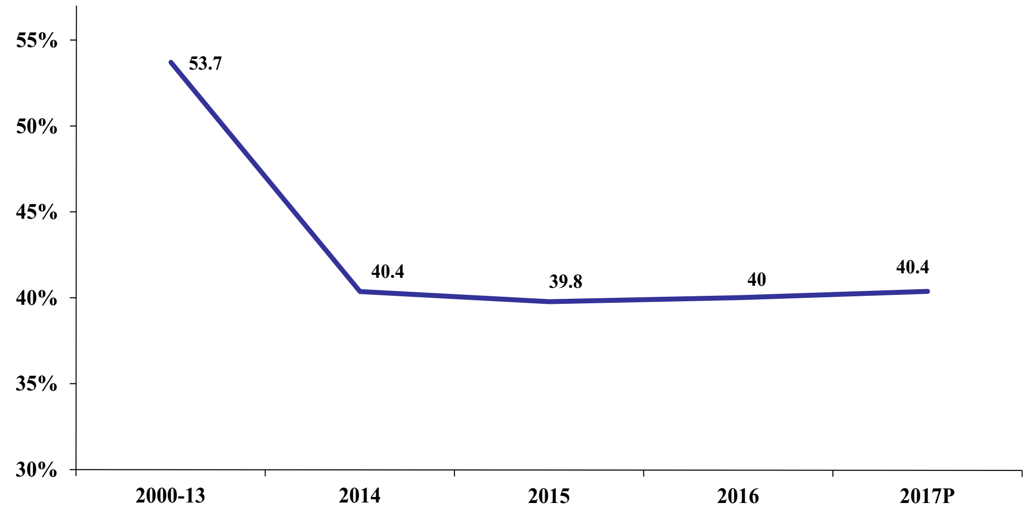
In This Issue

Charts of the Week

Projected Exports of Goods & Services from Arab Countries in 2017 (% of GDP)



Exports of Goods & Services from Lebanon (% of GDP)



Source: International Monetary Fund - October 2017, Institute of International Finance, Byblos Bank

Quote to Note

"The formidable size and savings capacity of the Lebanese Diaspora means that both remittances and deposit flows into Lebanon are very unlikely to come to a halt."

Nomura Securities, on the stability of capital inflows to Lebanon

Number of the Week

6%: Number of visitors to Lebanon from Gulf Cooperation Countries as a percentage of total tourist arrivals in the first 9 months of 2017, according to the Ministry of Tourism

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"	7.50	(7.98)	297,755	6.83%
BLOM GDR	11.49	(8.81)	176,113	7.74%
Solidere "B"	7.60	(6.52)	146,375	4.50%
BLOM Listed	10.97	(5.84)	91,801	21.49%
Byblos Common	1.60	(1.84)	63,933	8.24%
Audi GDR	5.85	(3.15)	27,695	6.39%
HOLCIM	13.51	(5.33)	24,373	2.40%
Audi Listed	6.00	0.00	22,530	21.85%
Byblos Pref. 08	102.00	0.00	5,069	1.86%
Byblos Pref. 09	102.20	0.10	313	1.86%

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

Sovereign Eurobonds	Coupon %	Mid Price $	Mid Yield %
Dec 2017	4.00	99.91	4.60
Nov 2018	5.15	96.87	8.48
May 2019	6.00	96.50	8.50
Mar 2020	6.38	95.50	8.55
Oct 2022	6.10	91.00	8.38
Jun 2025	6.25	88.50	8.33
Nov 2026	6.60	88.50	8.44
Feb 2030	6.65	88.00	8.22
Apr 2031	7.00	89.00	8.38
Nov 2035	7.05	87.75	8.38

Source: Byblos Bank Capital Markets

	Nov 6-10	Oct 30 - Nov 3	% Change	October 2017	October 2016	% Change
Total shares traded	880,172	533,557	59	8,915,465	22,970,630	(61.2)
Total value traded	$10,102,716	$3,341,618	202.3	$78,667,175	$169,756,567	(53.7)
Market capitalization	$10.97bn	$11.36bn	(3.37)	$11.27bn	$11.87bn	(5)

Source: Beirut Stock Exchange (BSE)

Lebanon in the News

Demand for housing decelerates in third quarter of 2017

Demand for residential real estate in Lebanon decelerated in the third quarter of 2017, as reflected by the results of the Byblos Bank Real Estate Demand Index. The Index posted a monthly average of 49.6 points in the third quarter of 2017, constituting a decrease of 5.2% from 52.3 points in the second quarter of the year and a rise of 25.4% from a low base of 39.5 points in the third quarter of 2016. The results for the third quarter constitute the 21st highest level in 41 quarterly readings.

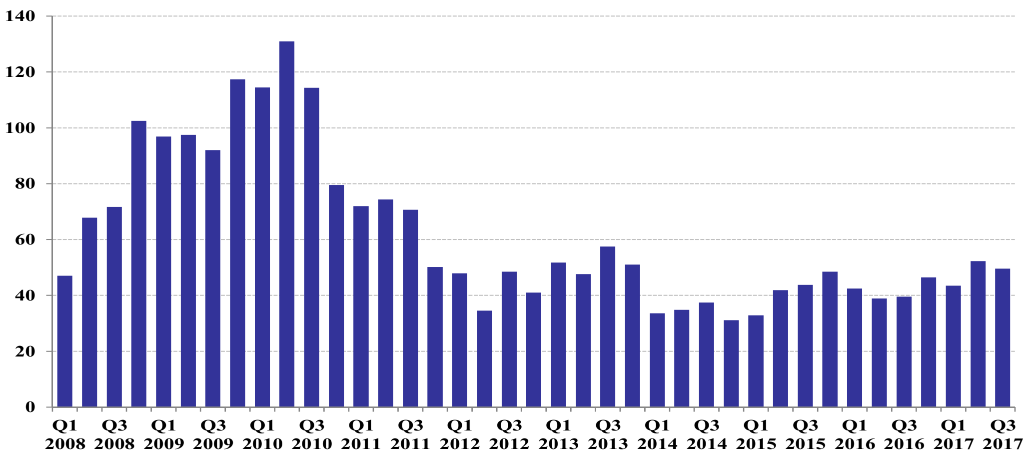
Demand for residential real estate in Lebanon decelerated in the third quarter of 2017 following a 20% surge in the second quarter of the year, as the Parliament's ratification in July of a series of taxes and fees, which covered the real estate sector, derailed the brief momentum of the preceding quarter. The Index regressed by 13.4% July and by 11.7% in August, before slightly improving by 3.8% in September, with the outcome in September representing a retreat of 26% from the Index's recent peak reached in December 2016. In fact, the Index's average monthly score in the third quarter of 2017 is still 62.2% lower than the peak of 131 points registered in the second quarter of 2010, and remains 55% below the annual peak of 109.8 points posted in 2010. Also, it is 19.2% lower than the Index's monthly trend average score of 61.4 points since the Index's inception in July 2007.

Further, the Index's results reflect the intentions of the Lebanese to buy or build a house, but these intentions need a conducive environment to translate into actual sales. In fact, only 5.6% of Lebanese residents had plans to either buy or build a residential property in the coming six month. In comparison, 7% of residents in Lebanon, on average, had plans to buy or build a residential unit in the country between July 2007 and September 2017, with this share peaking at about 15% in the second quarter of 2010.

In parallel, demand for housing in the third quarter of 2017 was the highest in the North, as 9.7% of its residents had plans to build or buy a house in the coming six months, compared to 7.4% in the preceding quarter. Mount Lebanon followed with 5.7% of its residents planning to build or buy a residential unit in the coming six months relative to 7.5% in the second quarter of 2017; while 5% of residents in Beirut had plans to buy an apartment, down from 6.4% in the preceding quarter. In addition, 3.4% of residents in the South intend to buy or build a house, up from 2.4% in the second quarter, while 2.8% of residents in the Bekaa had plans to build or buy a residential unit, down from 3.2% in the preceding quarter. In addition, real estate demand decreased in three out of four income brackets in the third quarter of 2017, while demand by those who earn between USD 1,500 and USD 2,499 increased by 3% quarter on quarter.

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

Byblos Bank Real Estate Demand Index



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

Lebanese banking sector has low level of potential vulnerability, similar to sectors in the U.S. and Germany

In its semi-annual risk assessment of 115 banking systems in advanced and emerging economies, Fitch Ratings placed Lebanon's banking sector among 87 banking systems with a "low level of potential vulnerability", the highest category on Fitch's Macro-Prudential Indicator (MPI). The MPI identifies the build-up of potential stress in banking systems due to a specific set of circumstances. It aims to highlight potential systemic stress that could materialize up to three years after an early warning is first detected. As such, it identifies instances of rapid real credit growth over successive two-year periods, along with growth in real property prices, an appreciation in the real exchange rate or a rise in real equity prices. Its assessment is based on three years of annual data, with a trigger in any of the three years determining a country's MPI score. It said that an MPI score of '1' denotes low potential vulnerability, while a score of '2' reflects moderate vulnerability and a score of '3' denotes a high level of vulnerability to potential systemic stress.

Lebanon's MPI score has been unchanged since October 2013, when Fitch upgraded Lebanon's score to '1' from a previous score of '2'. As such, Lebanon, along with Angola, Bahrain, Cameroon, Cape Verde, Gabon, Iraq, Kenya, Kuwait, Lesotho, Morocco, Namibia, Nigeria, Rwanda, Saudi Arabia, the Seychelles, South Africa, Tunisia, the UAE, Uganda and Zambia have an MPI score of '1' in the Middle East & Africa region. Other countries in this category include Canada, Denmark, Finland, France, Germany, Japan and the United States.

In parallel, the agency indicated that Lebanon's banking sector was among 12 banking systems that have a Banking System Indicator (BSI) of 'b'. The BSI is a measure of intrinsic banking system quality or strength, derived from Fitch's Viability Ratings for banks. It deliberately excludes potential support from shareholders or governments since the objective is to highlight systemic weaknesses that might trigger the need for such support. The BSI is an asset-weighted average of bank Viability Ratings for at least two-thirds of banks in any banking system, including systemically important unrated banks.

Lebanon came in the 'b' category, along with Egypt and Nigeria in the Middle East & Africa region, as well as Argentina, Armenia, the Dominican Republic, Ecuador, Sri Lanka and Vietnam, among others. Fitch said that 60% of banking systems in developed countries have BSIs of 'a' or higher. It added that only four banking sectors in developed economies have a BSI of 'aa' and only one sector has a BSI of 'ccc' or lower. Also, it indicated that the typical level of banking strength in emerging markets is weaker and is distributed evenly across the 'bbb', 'bb' and 'b' categories, with only two banking sectors in the 'a' category and four sectors in the 'ccc' category. Lebanon, Argentina, Armenia, Belarus, the Dominican Republic, Ecuador, Kazakhstan and Nigeria are the only countries with an MPI score of '1' and a BSI Strength of 'b'.

Confidence in banking sector and currency stability to remain strong

The Institute of International Finance expected confidence in the Lebanese pound to remain strong following the suddden resignation of Prime Minister Saad Hariri, and for the currency peg to the US dollar to be maintained, supported by ample foreign currency reserves at Banque du Liban, a strong banking system and a loyal depositor base. It noted that authorities managed to preserve the stability of the Lebanese pound since 1999, and that deposits continued to grow during previous episodes of political and security shocks, such as the assassination of Prime Minister Rafic Hariri in 2005, the Israeli war in 2006 and the recent presidential vacuum and institutional paralysis that lasted from May 2014 until October 2016.

Further, the IIF expected depositors' commitment towards Lebanon to remain strong despite the political uncertainties, given their deep trust in the financial system and the perceived stability of the fixed exchange rate regime. It forecast deposit growth to decelerate slightly from 7% year-on-year at the end of September 2017, but to remain well above the critical deposit growth rate that is required to finance the fiscal deficit with new inflows. It projected the growth in deposits to pick-up significantly in case the current political tensions subside.

In parallel, the IIF considered that the resignation of PM Hariri may result in a protracted political stalemate, which could weigh on economic activity given that foreign and local investors need a functioning government and political stability. As such, it revised its forecast for Lebanon's real GDP growth for 2017 from 2.4% prior to the resignation of PM Hariri to 2.2% currently, and from 2.9% previously to 1.8% for 2018. But it did not foresee a deterioration in domestic security conditions, even if the collapse of the government leads to a protracted political crisis. Still, it considered that the Lebanese economy could benefit from the current geopolitical environment following the defeat of the Islamic State terrorist group in Iraq and Syria.

Coincident Indicator up 5.4% year-on-year in first nine months of 2017

Banque du Liban's Coincident Indicator, an index of economic activity in Lebanon, reached 291.2 points in September 2017 compared to 302 in August 2017 and 284.6 in September 2016. The Coincident Indicator, an average of 8 weighted economic indicators, decreased by 3.6% month-on-month and increased by 2.3% year-on-year in September 2017. The indicator averaged 302.5 in the first nine months of 2017, up by 5.4% from 287 in the same period of 2016. Also, the indicator averaged 301.1 in the 12 months ending September 2017, compared to 300.6 in the 12-month period ending August 2017 and 288.3 in the 12 months ending September 2016. As a result, the 12-month average coincident indicator grew by 0.18% month-on-month and by 4.4% year-on-year. In parallel, the indicator regressed 14 times and improved 11 times on a monthly basis in the month of September since 1993. It averaged 249.5 points in 2010, 255.7 points in 2011, 256.6 points in 2012, 264.7 points in 2013, 273.2 points in 2014, 278.6 points in 2015 and 289.5 points in 2016.

Financial sector has resources to face political uncertainties

Following the resignation of Prime Minister Saad Hariri, Fitch Ratings indicated that Lebanon's 'B-' sovereign ratings and the associated 'stable' outlook already incorporate a high degree of political risk, and that the Lebanese financial system has been resilient during previous periods of political uncertainty. It indicated that the current growth rates of bank deposits, including non-resident deposits, are robust enough to meet the government's large financing needs. It added that Banque du Liban's (BdL) foreign currency reserves are elevated enough to support the currency peg to the US dollar. It considered that the BdL could quickly respond in the event of rising pressure on foreign currency reserves or in case of deposit outflows. It noted that the BdL has increasingly supported the economy and the banking sector amid subdued economic activity and episodes of political uncertainty since 2011. It added that the BdL conducted financial swap operations and provided financial stimulus packages since 2011, to increase its stock of foreign assets and to support the economy.

However, the agency considered that the unexpected resignation of PM Hariri could reverse the gradual political progress that has been achieved so far in 2017 and could renew pressure on the country's economy. It pointed out that political uncertainties may slow down policy-making, including the ratification of the 2018 budget. It added that the parliamentary elections that are scheduled for May 2018 could be delayed, which could lead to another extended period of policy inaction.

Energy Ministry receives 42 proposals to build PV plants

The Ministry of Energy & Water received 42 offers from companies to build photovoltaic (PV) plants across Lebanon. An inter-ministerial committee would evaluate the outstanding offers in coming two weeks and plans to select bidders based on their qualifications and their offers, while the chosen companies would then require the approval of the Council of Ministers. Overall, 12 out of the 42 offers will be selected to construct 12 PV plants, or three plants in each of the Bekaa & Hermel, the South & Nabatieh, the North & Akkar and Mount Lebanon. The plants would have an overall power capacity of 180 megawatts (MW), or 10MW to 15MW per plant.

In parallel, the Lebanese Center for Energy Conservation pointed out that a Concentrated Solar Power (CSP) plant with a one megawatt capacity will be installed in a facility owned by the Lebanese Army in the Bekaa region in early 2018. A CSP plant generates solar power by using mirrors or lenses to concentrate a large area of sunlight onto a smaller area. The project was approved by the Lebanese Parliament, and is expected to be launched following the authorization of the Ministry of Energy & Water.

The 12 PV plants and the CSP plant are part of the Second National Energy Efficiency Action Plan for the Republic of Lebanon (NEEAP 2016-20), which aims to develop the renewable energy sector in the country. The NEEAP 2016-20 also seeks to tackle energy efficiency in the generation, transmission and distribution of electricity, as well as to promote energy saving measures in major industries, such as the construction, agricultural, transportation, industrial and public sectors.

Association of Banks amends reference rate on US dollar and Lebanese pound lending

The Association of Banks in Lebanon (ABL) recommended to its member banks to increase the Beirut Reference Rate (BRR) in US dollars to 6.83% in December 2017 from 6.82% in October 2017. The rate, considered as the reference rate for lending in foreign currency, replaced the London Interbank Offered Rate (LIBOR) in 2009, as the ABL decided that the LIBOR does not reflect the cost of funding and lending in Lebanon. In addition, the ABL recommended to its member banks to decrease the BRR in Lebanese pounds to 8.65% in December 2017 from the October 2017 rate of 8.68%. The BRR in US dollars and Lebanese pounds were adopted in March and May 2009, respectively. The ABL considers that the BRR does not replace the Beirut Prime Lending Rate in each currency, but constitutes the basis to calculate the prime rate after adding to the prime lending rate the cost of liquidity and refinancing, credit risk and the profitability of banks.

Opened letters of credit at $4.4bn for imports and $2.5bn for exports in first nine months of 2017

Figures released by Banque du Liban indicate that the value of letters of credit (LCs) opened to finance imports to Lebanon totaled $4.4bn in the first nine months of 2017, constituting an increase of 20.2% from $3.7bn in the same period of 2016. Further, utilized credits for imports reached $4.6bn in the first nine months of the year, up by 31.6% from $3.5bn in the same period last year. Also, outstanding import credits amounted to $10.1bn in the first nine months of 2017, up by 21.9% from the same period last year. Further, the aggregate value of inward bills for collection reached $1.05bn in the first nine months of the year, constituting a rise of 20% from $878m in the same period for 2016. Outstanding bills for collection reached $70.4m at the end of September 2017 relative to $135.9m at end-September 2016.

In parallel, the value of documentary letters of credit opened to finance exports from Lebanon reached $2.5bn in the first nine months of 2017, up by 102% from $1.25bn in the same period of 2016. Further, utilized credits for exports reached $2.02bn in the covered period, up by 48.8% from $1.36bn of used credits in the first nine months of 2016. Also, outstanding export credits reached $8.1bn in the first nine months of 2017, constituting a rise of 25.6% from $6.46bn in the same period last year. The aggregate value of outward bills for collection amounted to $1bn in the first nine months the year, constituting a decrease of 9.7% from $1.1bn in the same period of 2016. The outstanding value of outward bills for collection reached $402.8m at end-September 2017 relative to $827.5m a year earlier.

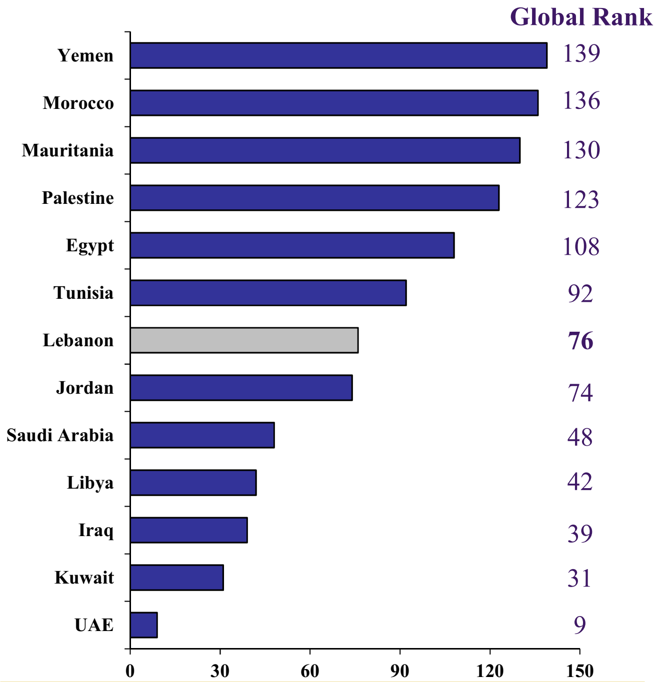
Lebanon ranks 76th globally, seventh among Arab countries in terms of charitable activity

The Charities Aid Foundation's (CAF) World Giving Index for 2017 ranked Lebanon in 76th place among 139 countries around the world and in seventh place among 13 Arab countries. Lebanon also came in 17th place among 35 upper middle-income countries (UMICs) included in the survey. Based on the same set of countries included in each of the 2017 and 2016 surveys, Lebanon's global rank improved by two spots from the 2016 survey, which constituted, along with Austria, Japan, Malta, the Netherlands and Serbia, the ninth smallest increase globally. In parallel, Lebanon's rank among Arab countries was unchanged year-on-year.

The CAF World Giving Index reflects the level of charitable activities and giving behavior within a country. The Index's score is calculated as the simple average of the percentage of people in each country who were involved in three giving behaviors that consist of helping a stranger, donating money to a charity or volunteering one's time to an organization. The Index includes data collected during 2016 from 139 countries that represent 5.2 billion adults, or 95% of the world's adult population.

Globally, charitable contributions in Lebanon are higher than in the Republic of Congo, Pakistan and Senegal, but lower than in South Sudan, Jordan and Brazil. Lebanon was also more benevolent than Romania, Argentina and Kazakhstan, but less giving than Turkmenistan, Jordan and Brazil among UMICs. Further, it was more philanthropic than Tunisia, Egypt, Palestine, Mauritania, Morocco and Yemen among Arab countries.

2017 Charities Aid FoundationWorld Giving Index Arab Countries Scores & Rankings



Source: Charities Aid Foundation, Byblos Research

Lebanon received a score of 31%, unchanged from the 2016 survey. Lebanon's score was lower than the global average score of 33.3%, but higher than the UMIC's average score of 30.3% and the Arab average score of 30.2%. Also, it was lower than the Gulf Cooperation Council (GCC) countries' average score of 43%, but higher than that of non-GCC Arab countries of 26.3%.

Further, Lebanon ranked ahead of Belgium, Mexico and Venezuela, but behind Portugal, Afghanistan and Kyrgyzstan in terms of the proportion of people who are engaged in helping a stranger. Also, Lebanon ranked ahead of Cyprus, Belgium and Spain, but behind Nepal, Northern Cyprus and Taiwan in terms of money donations. In addition, Lebanon ranked ahead of Poland, Macedonia and Russia, but behind Saudi Arabia, Spain and Mexico in terms of time spent volunteering.

Treasury transfers to Electricité du Liban up 72% to $362m in first four months of 2017

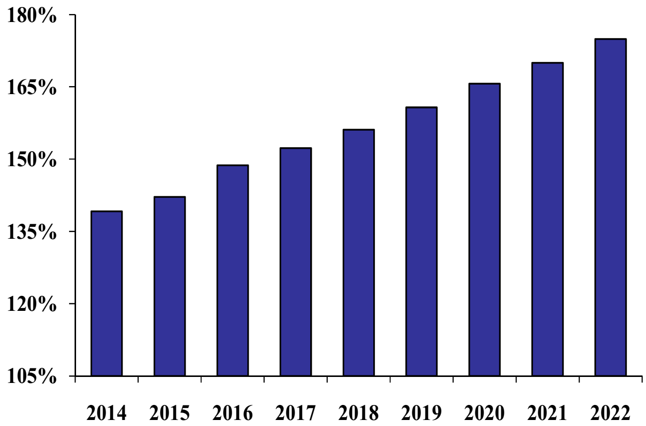
Figures released by the Finance Ministry show that Treasury transfers to Electricité du Liban (EdL) totaled $362m in the first four months of 2017, constituting a rise of 72.2% from $210.2m in the same period of 2016. The ministry said that reimbursements to the Kuwait Petroleum Corporation (KPC) and to the Algerian energy conglomerate Sonatrach totaled $357.3m, or 98.7% of transfers, in the covered period, while EdL's debt servicing represented the balance of $4.7m, or 1.3% of the total. It attributed the rise in transfers to an increase of $152.6m, or 74.5%, in payments to KPC and Sonatrach in the first four months of 2017, which was marginally offset by a decrease of $835,821 or 15.2%, in debt servicing.

The ministry said that the rise in payments to KPC and Sonatrach reflects a 48.2% year-on-year increase in oil prices at the time the oil contracts were executed, which was partly offset by a decrease of 8.7% in the quantity of imported gas and a flat growth in the quantity of imported fuel oil. Also, it pointed out that EdL contributed 2.8% of the repayments to the two oil suppliers in the first four months of 2017, down from 9.5% in the same period of 2016. EdL transfers accounted for 11.8% of primary expenditures in the first four months of 2017, compared to 6% in the same period of 2016. They constituted the third largest expenditures item after debt servicing and public sector salaries & wages in overall fiscal spending. EdL transfers were equivalent to 5.1% of GDP in 2012, 4.2% of GDP in each of 2013 and 2014, 2.2% of GDP in 2015 and 1.8% of GDP in 2016.

Gross public debt at $78bn at end-September 2017

Lebanon's gross public debt reached $78.2bn at the end of September 2017, constituting an increase of 4.4% from $74.9bn at the end of 2016 and a rise of 4.6% from $74.7bn at end-September 2016. In nominal terms, the gross public debt grew by $3.3bn in the first nine months of 2017 relative to an increase of $4.4bn in the same period of 2016. Debt denominated in Lebanese pounds totaled $48.3bn at end-September 2017, up by 3.3% from the end of 2016 and by 5.9% from end-September 2016; while debt denominated in foreign currency stood at $29.8bn, constituting a growth of 6.1% from end-2016 and an increase of 2.5% from a year earlier. Local currency debt accounted for 61.8% of the gross public debt at the end of September 2017 compared to 61.1% a year earlier, while foreign currency-denominated debt represented the balance of 38.2% relative to 38.9% at end-September 2016. The weighted interest rate on outstanding Treasury bills was 6.9% and that on Eurobonds was 6.4% in September 2017. Further, the weighted life on Eurobonds was 6.74 years, while that on Treasury bills was 1,354 days.

Lebanon's Gross Public Debt (% of GDP)



Source: International Monetary Fund

Commercial banks held 42.4% of the public debt as at end-September 2017 relative to 47.3% of the total at the end of September 2016. Banque du Liban (BdL) held 50.0% of the Lebanese pound-denominated public debt at the end of September 2017 relative to 43.9% a year earlier, while commercial banks held 34.5% of the local debt compared to 40.3% at end-September 2016. Also, public agencies, financial institutions and the public held 15.5% of the local debt at end-September 2017, down from 15.8% a year earlier. Further, holders of Eurobonds and special T-bills in foreign currencies accounted for 92.4% of foreign currency-denominated debt holders at the end of September 2017, followed by multilateral institutions with 4.4% and foreign governments with 3.1%. In addition, the net public debt, which excludes public sector deposits at the BdL and at commercial banks from overall debt figures, grew by 5.8% annually to $68bn at end-September 2017. Further, the gross market debt accounted for about 63.6% of the total public debt. Gross market debt is the total public debt less the portfolios of the BdL, the National Social Security Fund, bilateral and multilateral loans, as well as Paris II related debt.

In parallel, S&P Global Ratings rates Lebanon's long-term foreign and local currency sovereign credit ratings at 'B-'. But the agency's Credit Default Swap Market Derived Signal Score, an indicator of risk appetite by foreign investors, shows that Lebanon's sovereign debt is considered by the market to have a 'B-' risk level as at November 9, 2017, which is similar to the S&P sovereign rating.

Industrial exports down by 3.5% to $1.4bn in first seven months of 2017

Figures released by the Ministry of Industry show that industrial exports totaled $1.43bn in the first seven months of 2017, constituting a decrease of 3.5% from $1.48bn in the same period of 2016. Industrial exports reached $215.7m in July 2017, up by 8.4% from $199m in the preceding month and by 20.6% from $178.8m in July 2016. Exports of machinery & mechanical appliances totaled $286.7m and accounted for 20.1% of aggregate industrial exports in the first seven months of 2017, followed by prepared foodstuffs & tobacco with $280.6m (19.7%), chemical products with $230.4m (16.1%), base metals with $186m (13%), paper and paperboard with $87.3m (6.1%), plastics & rubber with $82.4m (5.8%), and pearls & precious or semi-precious stones & metals with $79.6m (5.6%). Arab countries were the destination of 56.3% of Lebanese industrial exports in the first seven months of 2017, followed by European economies with 14.2%, African countries with 11.2%, Asian economies with 10.9%, countries in the Americas with 5.6% and markets in Oceania with 0.6%. On a country basis, Saudi Arabia was the main destination of Lebanese industrial exports and accounted for 10.6% of the total in the first seven months of 2017, followed by the UAE with 10.4%, Iraq with 9.5%, Syria with 8%, Turkey with 4.3% and Jordan with 3.7%. In July 2017, 11 Arab states, 10 European economies, seven African countries, four Asian economies and two countries in the Americas imported $1m or more each in Lebanese industrial products.

In parallel, imports of industrial equipment and machinery reached $137m in the first seven months of 2017, down by 7.3% from $147.8m in the same period of 2016. China was the main source of such imports and accounted for 22% of the total in the first seven months of 2017, followed by Italy with 21.8% and Germany with 15.7%. Further, imports of industrial equipment and machinery amounted to $21.8m in July 2017, up by 29.9% from $16.8m in the same month of 2016. China was the main source of such imports with $5.8m and accounted for 26.7% of the total in the covered month, followed by Italy with $5.1m (23.3%) and France with $2m (8.9%).

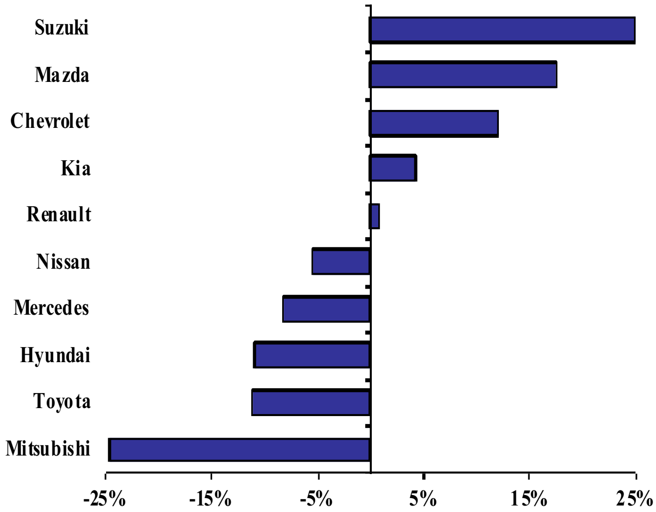
New car sales up 1% in first 10 months of 2017

Figures released by the Association of Automobile Importers in Lebanon show that dealers sold 31,324 new passenger cars in the first 10 months of 2017, constituting an increase of 0.6% from 31,141 cars sold in the same period of 2016. Individuals and institutional clients purchased 2,420 new cars in January, 2,562 vehicles in February, 3,136 automobiles in March, 2,536 cars in April, 3,182 vehicles in May, 4,362 automobiles in June, 3,690 cars in July, 3,475 vehicles in August, 2,571 automobiles in September and 3,390 cars in October 2017.

Japanese cars accounted for 37.3% of total sales in the first 10 months of 2017, followed by Korean vehicles with a 33.7% share, European automobiles (19.8%), American cars (7.9%) and Chinese vehicles (1.3%). The sales of new Chinese cars jumped by 80.2%, the demand for American automobiles grew by 16.6% and the number of Japanese vehicles sold increased by 0.8% year-on-year in the first 10 months of 2017; while the number of European cars sold declined by 2.9% and the sales of Korean vehicles regressed by 2.4% year-on-year.

Kia is the leading brand in the Lebanese market with 6,411 vehicles sold in the first 10 months of 2017, followed by Hyundai with 4,114 new cars sold, Toyota (3,733), Nissan (2,813), Suzuki (1,697), Renault (1,524) and Chevrolet (1,520). In parallel, 2,272 new commercial vehicles were sold in the first 10 months of 2017, up by 4.4% from 2,176 commercial vehicles purchased in the same period of 2016. Overall, car dealers sold 33,596 new passenger automobiles and commercial vehicles in the first 10 months of 2017, up by 0.8% from 33,317 vehicles sold in the same period of 2016.

Sales of Top 10 Car Brands in First 10 Months of 2017 (% change*)



** year-on-year*
Source: AIA, Byblos Research

In parallel, the number of new vehicles sold by Lebanon's top five distributors reached 22,142 in the first 10 months of 2017 and accounted for 65.9% of new car sales. NATCO sal sold 6,415 vehicles, equivalent to 19.1% of the total, followed by Rasamny Younis Motor Co. sal with 4,656 cars (13.9%), Century Motor Co. sal with 4,201 automobiles (12.5%), Boustany United Machineries sal with 4,147 vehicles (12.3%), and Bassoul Heneiné sal with 2,723 cars (8.1%).

Mitigated impact of recent political developments on banking sector

Moody's Investors Service considered that the resignation of Prime Minister Saad Hariri could affect the Lebanese economy through delays in economic and institutional reforms, and a slowdown in economic activity which could have an impact on the banks' asset quality and profitability.

The agency indicated that the banking sector in Lebanon has weathered periods of extreme tensions in the past. It noted that deposit outflows lasted up to two months following the assassination of Prime Minister Rafic Hariri, but private sector deposits still grew by 4% in 2005. It added that deposits increased by 7% in 2006 despite a 33-day war with Israel. Further, it said that Banque du Liban's (BdL) foreign currency reserves, which reached $43.5bn at the end of October 2017, along with the commercial banks' international placements, cover about one-third of total customer deposits. It noted that this provides a significant buffer against any capital outflows and supports the currency peg to the US dollar.

Moody’s stated that Lebanon could go through another round of political paralysis, which may constrain its ability to enact economic policy, to increase capital spending and to implement much-needed reforms. In turn, this would weigh on economic activity and household confidence. As such, it indicated that a slowdown in economic growth could lead to a deceleration in lending activity. However, it considered that Lebanese banks have enhanced their solvency and strengthened their loss-absorption capacity following large general provisions accumulated in 2016 and higher capital requirements.

The agency pointed out that banks may need to increase their interest rates on deposits to maintain a steady inflow of deposits, in case political tensions increase and if global interest rates rise faster than anticipated. It noted that the BdL has yet to hike its policy rate and, instead, conducted financial engineering operations in 2016 and 2017 to attract foreign deposits and strengthen its foreign currency reserves.

Kafalat loan guarantees down 23% to $60m in first 10 months of 2017

Figures released by the Kafalat Corporation show that loans extended to small- and medium-sized enterprises (SMEs) under the guarantee of Kafalat reached $59.9m in the first 10 months of 2017, constituting a decrease of 23.4% from $78.2m in the same period of 2016. Kafalat provided 491 loan guarantees in the covered period, down by 17.1% from 592 guarantees in the first 10 months of 2016. The average loan size reached $122,000 in the first 10 months of 2017 compared to $132,034 in the same period of 2016. Mount Lebanon accounted for 41.1% of the total number of guarantees, followed by the Bekaa with 18.5%, the South with 14.7%, the North with 9.8%, Nabatieh with 9.6% and Beirut with 6.3%. Also, the agricultural sector accounted for 39.9% of the total number of guarantees in the first 10 months of 2017, followed by the industrial sector with 33.6%, tourism with 20.6%, handicraft with 4.1% and specialized technologies with 1.8%.

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

Nearly 50% of Lebanese are satisfied with career growth opportunities

A survey conducted by regional job portal Bayt.com and market research agency YouGov indicated that 45% of respondents in Lebanon indicated that they are satisfied with the career growth opportunities at their current job, compared to 43% of surveyed participants in Arab countries who share the same opinion. In contrast, 39% of respondents in Lebanon are not satisfied with the growth opportunities at their current jobs. The share of respondents in Lebanon who are content with their career opportunities is the fifth lowest among Arab economies, ahead of only Saudi Arabia (40% of respondents), Egypt (38% of participants), Algeria (37% of respondents) and Jordan (36% of participants). The survey covered a sample of 2,126 adults in Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia and the UAE. The survey was conducted online between August 1 and August 22, 2017, and covered a sample of 95 respondents in Lebanon.

Further, 43% of respondents in Lebanon consider that the number of employees in their company decreased from six months earlier, compared to 40% of surveyed participants in the Arab region who shared similar views. The share of respondents in Lebanon who consider that the number of staff in their company declined in the past six months is the second highest among 11 Arab countries, lower than only Saudi Arabia (58% of participants). In parallel, 27% of respondents in Lebanon expected the number of employees in their company to decrease in the next six months relative to 29% of surveyed participants in the Arab region with similar views.

In addition, 59% of surveyed participants in Lebanon are not satisfied with their current salary and allowances, compared to 51% of respondents in the Arab region who share similar views, while 26% of participants in the country expressed satisfaction about their current salary. The share of respondents who are not content in their current salary & allowances is the second highest in the region, lower than only Egypt (61% of participants). Also, 42% of respondents in Lebanon are not satisfied with the level of job security in their current organization, similar to the share of surveyed participants in the Arab region who share similar views, while 34% of participants in the country expressed satisfaction with the level of job security in their current organization.

In addition, 43% of surveyed participants in Lebanon are unsatisfied with the level of training and development related to their job, relative to 44% of respondents in the Arab region who have the same opinion, while 41% of participants expressed satisfaction in the country with the level of training and development related to their job. The share of respondents in Lebanon who are content with the level of training and development related to their job is the fourth lowest in the region, ahead of Saudi Arabia (31% of respondents) and Egypt and Jordan (34% of respondents each). Further, 44% of respondents in Lebanon are content with their work-life balance relative to 46% of surveyed participants in the Arab world. The share of respondents in Lebanon who are content with in their work-life balance is the third lowest in the region, ahead of only Egypt (42% of respondents) and Jordan (41% of participants).

Balance sheet of financial institutions up 9% in first nine months of 2017

Figures released by Banque du Liban show that the consolidated balance sheet of financial institutions in Lebanon reached LBP2,320bn, or $1.54bn at the end of September 2017, constituting an increase of 9.2% from LBP2,125bn at end-2016 but a decrease of 6.9% from LBP2,493bn at end-September 2016. On the assets side, financial institutions' cash and bank deposits totaled $533.2m at the end of September 2017, constituting a drop of 7% from the end of 2016 and a decline of 14.5% from a year earlier. Claims on the private sector reached $732.7m at end-September 2017, reflecting an increase of 0.9% from end-2016 and a decline of 18.4% from end-September 2016. Also, claims on the public sector totaled $127.6m at the end of September 2017, constituting a decline of 6.6% from end-2016 and a drop of 5.2% from a year earlier.

In parallel, liabilities to the private sector totaled $159.8m at the end of September 2017, constituting declines of 27.4% from end-2016 and of 55.2% from a year earlier; while liabilities to the financial sector reached $563.3m at end-September 2017, representing a drop of 2.2% from end-2016 and a decline of 15.2% from end-September 2016. Further, the aggregate capital accounts of financial institutions amounted to $498.5m at the end of September 2017, constituting an increase of 6.4% from end-2016 and of 2% from a year earlier. There were 50 financial institutions with a total of 76 branches operating in Lebanon at the end of June 2017.

Net profits of Syrian affiliates of Lebanese banks at $7m in first half of 2017 when excluding foreign exchange gains on structural positions

Financial results issued by the affiliates of seven Lebanese banks operating in Syria show that their aggregate unaudited net profits reached SYP3.6bn in the first half of 2017, constituting a decline of 91.1% from SYP40.5bn in the same period of 2016. The significant decrease in profits was mainly due to a SYP39.87bn decline in unrealized foreign exchange gains on structural positions from SYP40.03bn in the first half of 2016 to SYP159.4m in the first half of this year. In US dollar terms, the net profits of the seven banks decreased by 92.3% from $94.1m in the first half of 2016 to $7.2m in the same period of 2017. The US dollar figures reflect the prevailing official exchange rate that depreciated from an average of SYP430.5 per US dollar in the first half of 2016 to an average of SYP498.6 per US dollar in the first half of 2017. The aggregate net income of the seven banks becomes SYP3.45bn, or $6.9m, in the first half of 2017 when excluding foreign exchange gains on structural positions, compared to earnings of SYP489.2m, or $1.1m, in the first half of 2016. The profits of Bank Audi Syria regressed by SYP8.85bn year-on-year in the first half of 2017, followed by a decline of SYP8.3bn in those of Fransabank Syria, a decrease of SYP5.8bn in the income of Banque BEMO Saudi Fransi, a drop of SYP4.8bn in the profits of Byblos Bank Syria, a decrease of SYP3.5bn in those of Bank Al-Sharq, the affiliate of Banque Libano-Française sal, a reduction of SYP3.46bn in the net earnings of Bank of Syria & Overseas and a decline of SY2.2bn in the profits of Syria Gulf Bank, the affiliate of First National Bank sal from the first half of 2016.

The net interest income of the seven banks totaled SYP7bn in the first half of 2017, up by 15.3% from SYP6.1bn in the same period last year; while their net fees & commission income decreased by 7.8% to SYP2.7bn. In US dollar terms, the banks' net interest income totaled $14.1m in the first half of the year, relative to $14.2m in the first half of 2016; while their net fees & commission income stood at $5.4m, reflecting a drop of 20.4% from $6.8m in the same period last year. This decrease in US dollar figures is explained by the devaluation of the Syrian pound. The seven banks' total operating income reached SYP10.6bn in the first half of 2017, reflecting a 78.9% decrease from SYP50.1bn in the first half last year, while their total operating expenses reached SYP5.5bn in the first half of the year, down by 31.6% from the same period last year. In US dollar terms, the banks' operating income totaled $21.2m in the first half of the year relative to $116.4m in the same period of 2016; while their operating expenses stood at $11m, down by 40.9% from $18.7m in the first half of 2016. The banks' operating income becomes SYP10.4bn in the first half of 2017 when excluding foreign exchange gains on structural positions, relative to SYP10.1bn in the same period last year.

In parallel, the banks' aggregate assets reached SYP825.5bn at the end of June 2017, up by 0.5% from SYP821bn at end-2016. In US dollar terms, the assets of the seven banks stood at $1.66bn at the end of June 2017, nearly unchanged from $1.65bn end-2016. Also, the banks' total loans reached SYP112.1bn at end-June 2017, up by 12.4% from SYP99.7bn at the end of 2016. In US dollar terms, the aggregate loans of the seven banks reached $224.8m at the end of June 2017 relative to $200m at the end of 2016.

Further, the banks' customer deposits totaled SYP486.4bn at the end of June 2017, up by 0.7% from SYP483.3bn at the end of 2016. In US dollar terms, customer deposits at the seven banks reached $975.6m at the end of June 2017 compared to $969.3m at the end of 2016. The ratio of the banks' loans-to-customer deposits stood at 23% at the end of June 2017 relative to 20.6% at end-2016. Also, the aggregate shareholders' equity of the banks reached SYP147.7bn, or $296.3m, at the end of June 2017, constituting an increase of 3% from SYP143.4bn, or $287.7m at end-2016.

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

	Banque BEMO Saudi Fransi	Bank of Syria & Overseas	Bank Audi Syria	Fransabank Syria	Byblos Bank Syria	Syria Gulf Bank	Bank Al-Sharq
Net Profits	$3.18m	$4.57m	$0.63m	$0.61m	$0.23m	-$2.21m	$0.25m
Total Assets	$488.6m	$399.2m	$226.8m	$216.1m	$145.0m	$103.5m	$76.7m
% Change*	3.7%	1.9%	7.5%	-8.1%	-2.3%	-11.8%	5.8%
Loans	$76.0m	$7.7m	$23.2m	$51.5m	$28.0m	$16.0m	$22.3m
% Change*	9.4%	-6.9%	2.4%	32.2%	13.3%	-15.6%	31.8%
Customer Deposits	$376.5m	$221.9m	$107.1m	$93.0m	$72.0m	$66.7m	$38.4m
% Change*	1.2%	1.6%	5.4%	4.4%	-0.9%	-18.2%	13.7%

**Change from end-2016*

Source: Banks' financial statements

Ratio Highlights

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

**Change in percentage points 15/16*
***Includes portion of public debt owed to non-residents, liabilities to non-resident banks, non-resident deposits (estimated by the IMF), Bank for International Settlements' claims on Lebanese non-banks*
Source: Association of Banks in Lebanon, Institute of International Finance, International Monetary Fund, World Bank, Byblos Research Estimates & Calculations
Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

Risk Metrics

Lebanon	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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