

## LEBANON THIS WEEK

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New car sales up 2.5% in 2017

Net profits of insurance sector up 8.5% to \$140m in 2016

Banking sector assets at \$216bn at end-November 2017

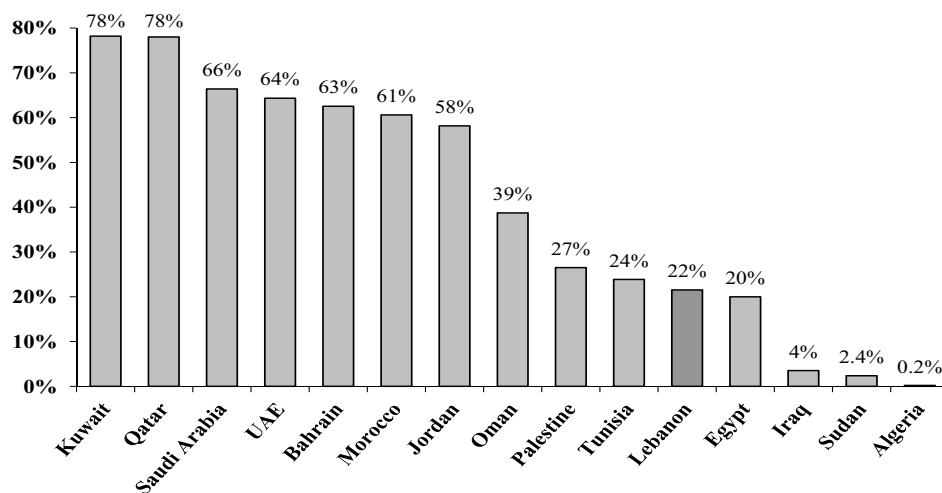
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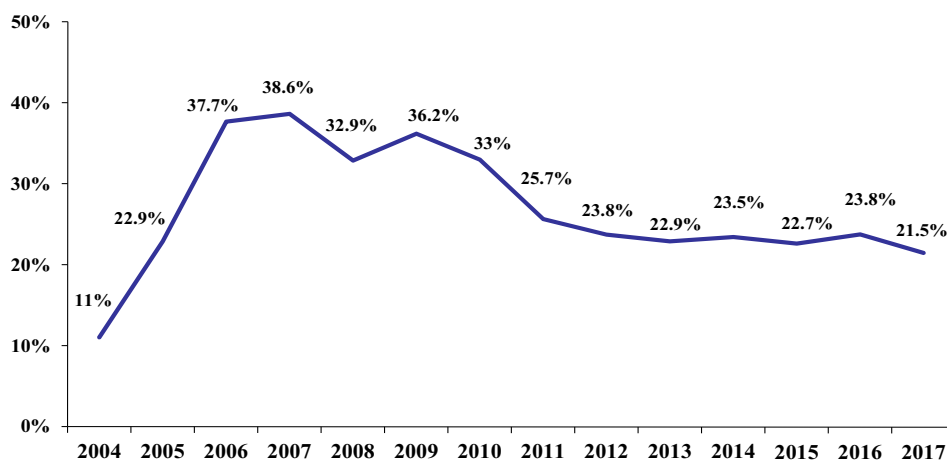
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### Charts of the Week

Stock Market Capitalization in Select Arab Countries in 2017 (% of GDP)



Stock Market Capitalization in Lebanon (% of GDP)



Source: Local Stock Exchanges, Institute of International Finance, International Monetary Fund, Arab Monetary Fund, Byblos Bank

### Quote to Note

“To promote sustainable growth, reforming the electricity sector and addressing governance issues remain priorities.”

*The International Monetary Fund, on the burden of the electricity sector and public mismanagement on the Lebanese economy*

### Number of the Week

**\$17,453:** Value of financial assets per adult in Lebanon as at June 2017, according to Credit Suisse

## Lebanon in the News

<b>\$m</b> (unless otherwise mentioned)	<b>2016</b>	<b>Aug 2016</b>	<b>May 2017</b>	<b>Jun 2017</b>	<b>Jul 2017</b>	<b>Aug 2017</b>	<b>% Change*</b>
Exports	2,977	340	240	214	217	251	(26.32)
Imports	18,705	1,951	1,559	1,454	1,619	1,594	(18.29)
Trade Balance	(15,728)	(1,610)	(1,320)	(1,240)	(1,402)	(1,343)	(16.59)
Balance of Payments	1,238	1,788	(592)	(758)	100	368	(79.40)
Checks Cleared in LBP	19,892	1,616	1,769	1,681	1,845	1,869	15.66
Checks Cleared in FC	48,160	4,205	3,904	3,882	4,310	4,100	(2.50)
Total Checks Cleared	68,052	5,821	5,673	5,563	6,155	5,969	2.54
Budget Deficit/Surplus	(3,667.15)	(452.21)	550.56	(496.83)	31.76	(513.46)	13.54
Primary Balance	1,297.65	(172.37)	1,192.83	(71.52)	300.34	(192.77)	11.84
Airport Passengers***	7,610,231	917,286	601,253	652,852	975,003	1,067,441	16.37

<b>\$bn</b> (unless otherwise mentioned)	<b>2016</b>	<b>Aug 2016</b>	<b>May 2017</b>	<b>Jun 2017</b>	<b>Jul 2017</b>	<b>Aug 2017</b>	<b>% Change*</b>
BdL FX Reserves	34.03	35.67	32.75	33.89	33.04	34.03	(4.59)
In months of Imports	21.83	18.28	21.00	23.31	20.41	21.35	16.77
Public Debt	74.89	74.05	76.72	76.45	76.89	77.27	4.35
Bank Assets	204.31	195.77	206.89	208.16	208.48	209.39	6.95
Bank Deposits (Private Sector)	162.50	157.09	166.14	167.73	168.39	169.16	7.68
Bank Loans to Private Sector	57.18	56.38	57.87	58.42	58.61	58.67	4.07
Money Supply M2	54.68	54.00	54.73	55.12	55.02	55.59	2.96
Money Supply M3	132.80	128.15	136.11	137.51	138.01	138.92	8.41
LBP Lending Rate (%)****	8.23	8.29	8.48	8.39	8.33	8.10	(19bps)
LBP Deposit Rate (%)	5.56	5.56	5.57	5.51	5.56	5.55	(1bps)
USD Lending Rate (%)	7.35	7.28	7.36	7.27	7.25	7.29	1bps
USD Deposit Rate (%)	3.52	3.39	3.62	3.58	3.64	3.63	24bps
Consumer Price Index**	(0.80)	(0.80)	4.30	3.50	3.10	5.10	-

\* 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

<b>Most Traded Stocks on BSE</b>	<b>Last Price (\$)</b>	<b>% Change*</b>	<b>Total Volume</b>	<b>Weight in Market Capitalization</b>
Solidere "A"	8.00	(0.62)	627,403	6.89%
Byblos Common	1.59	0.00	361,688	7.74%
BLOM GDR	12.90	1.57	66,006	8.21%
Solidere "B"	8.11	2.14	31,689	4.54%
Audi Listed	5.99	0.00	12,887	20.61%
BLOM Listed	11.75	0.43	7,500	21.75%
Audi GDR	5.77	(2.20)	6,000	5.96%
Byblos Pref. 08	104.90	3.25	1,000	1.81%
HOLCIM	14.25	(1.72)	400	2.39%
Byblos Pref. 09	104.90	0.00	-	1.81%

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

<b>Sovereign Eurobonds</b>	<b>Coupon %</b>	<b>Mid Price \$</b>	<b>Mid Yield %</b>
Nov 2018	5.15	100.00	5.14
May 2019	6.00	100.75	5.41
Mar 2020	6.38	101.50	5.62
Oct 2022	6.10	99.25	6.29
Jun 2025	6.25	96.13	6.93
Nov 2026	6.60	97.50	6.98
Feb 2030	6.65	94.50	7.34
Apr 2031	7.00	96.50	7.42
Nov 2035	7.05	95.88	7.47
Mar 2037	7.25	95.88	7.66

Source: Byblos Bank Capital Markets

	<b>Jan 8-12</b>	<b>Jan 2-5</b>	<b>% Change</b>	<b>December 2017</b>	<b>December 2016</b>	<b>% Change</b>
<b>Total shares traded</b>	1,198,756	259,597	361.8	11,929,343	17,811,981	(33)
<b>Total value traded</b>	\$9,531,024	\$2,397,042	297.6	\$116,215,896	\$121,409,329	(4.3)
<b>Market capitalization</b>	\$11.62bn	\$11.60bn	0.18	\$11.47bn	\$11.90bn	(3.6)

Source: Beirut Stock Exchange (BSE)



### Lebanon ranks 115th globally, 11th in Arab region in country risk in fourth quarter of 2017

In its quarterly survey of the country risk level in 186 countries, the Euromoney Group ranked Lebanon in 115th place worldwide and in 11th place among 19 Arab countries in the fourth quarter of 2017. Also, Lebanon came in 37th place among 53 upper middle-income countries (UMICs) included in the survey. Lebanon's global rank was unchanged from the third quarter of 2017, while it improved by 10 spots from 125th place in the fourth quarter of 2016. Regionally, Lebanon's rank was unchanged quarter-on-quarter, but it improved by one spot from 12th place in the fourth quarter of 2016. The survey evaluates individual country risk by assigning a weighting to six categories that cover Political Risks, Economic Performance, Access to Bank Finance & Capital Markets, Debt Indicators, Credit Ratings, and Structural Assessment. A higher score reflects a lower country risk level.

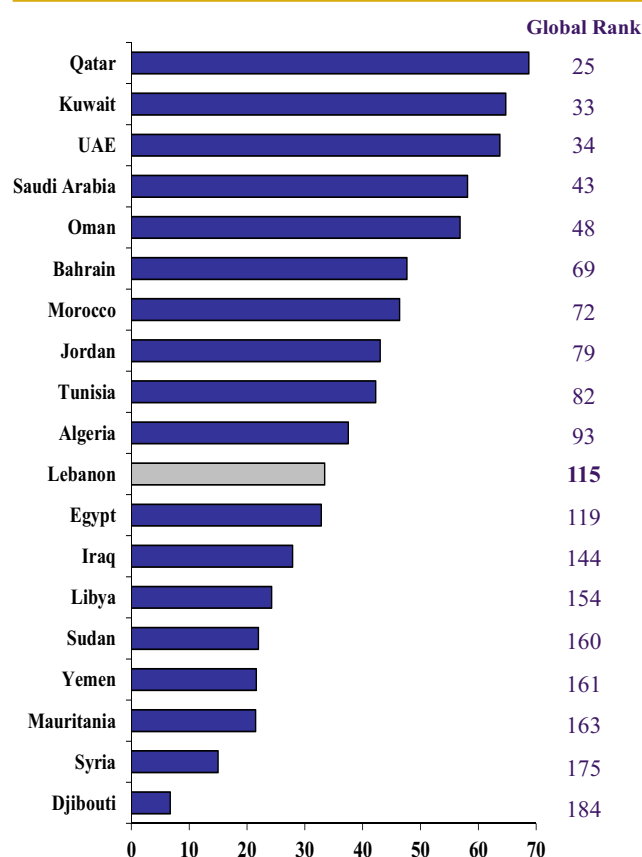
Globally, Lebanon had a lower country risk level than Zambia, Egypt and Mongolia, and a higher risk level than Papua New Guinea, Uganda and Ethiopia among economies with a GDP of \$10bn or more. It also ranked ahead of Iran and Iraq, and came behind Ecuador and Jamaica among UMICs. Lebanon's global rank regressed by eight spots in the fourth quarter of 2017 from the preceding quarter on the Debt Indicators category, by three notches on the Economic Performance factor, and by one spot on each of the Political Risks and the Structural Assessment categories. In contrast, its rank was unchanged from the preceding quarter on each of the Credit Ratings and the Access to Bank Finance & Capital Markets factors.

Lebanon received a score of 33.43 points in the fourth quarter of 2017, up by 0.8% from 33.16 points in the preceding quarter and by 5% from 31.83 points in the fourth quarter of 2016. Lebanon's score came below the global average score of 42.8 points and the average score of 38.6 points for UMICs and for Arab countries. Also, its score was lower than the Gulf Cooperation Council (GCC) countries' average score of 60 points, but it came above the average score of non-GCC Arab countries of 28.8 points.

Lebanon's score rose by 25% in the fourth quarter of 2017 from the preceding quarter on the Debt Indicators category, while it decreased by 0.9% on each of the Economic Performance and the Structural Assessment categories, and by 0.7% on the Political Risks factor. In parallel, Lebanon's score was unchanged quarter-on-quarter on each of the Credit Ratings and the Access to Bank Finance & Capital Market categories in the fourth quarter of 2017.

In parallel, Lebanon ranked ahead of Cameroon and behind Guatemala globally, while it came ahead of Mauritania and behind Algeria in the Arab region on the Political Risks category. Also, it ranked ahead of Bangladesh and behind the Dominican Republic worldwide, and came ahead of Libya and behind Iraq regionally in terms of Economic Performance. Further, Lebanon came ahead of the Philippines and behind Indonesia globally, and ranked ahead of Jordan and behind Morocco in the Arab region on the Structural Assessment category. Finally, Lebanon ranked ahead of Mongolia and behind Venezuela globally, and came ahead of Iraq and behind Mauritania regionally on the Debt Indicators category.

**Country Risk in Arab World in Fourth Quarter of 2017  
Scores & Rankings of Arab Countries**



Source: Euromoney Group, Byblos Research

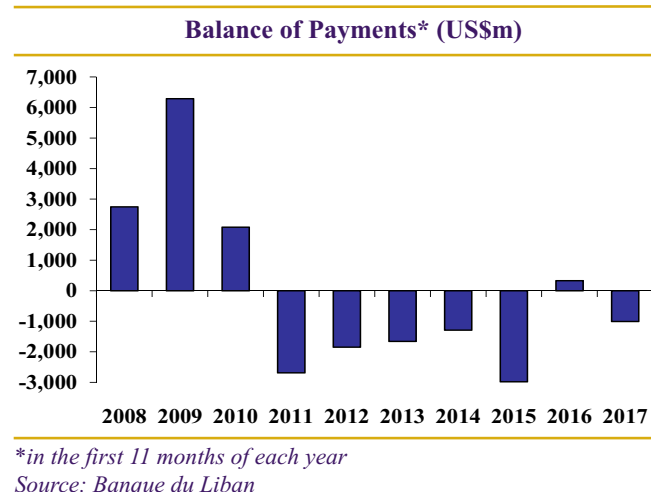
**Country Risk Indicators for Lebanon - Fourth Quarter of 2017**

	Weighting (%)	Score	Arab Rank	Global Rank	Arab Ave Score	Global Ave Score
Political Risks	30	10.16	12	131	11.67	13.72
Economic Performance	30	12.38	12	115	12.79	13.42
Structural Assessment	10	4.92	8	69	4.14	4.08
Debt Indicators	10	2.50	16	171	3.79	4.67
Credit Ratings	10	0.63	11	119	2.60	3.06
Access to Bank Finance & Capital Market	10	2.87	11	89	3.66	3.82

Source: Euromoney Group, Byblos Research

### Balance of payments posts deficit of \$1bn in first 11 months of 2017

Figures issued by Banque du Liban (BdL) show that Lebanon's balance of payments posted a deficit of \$1.01bn in the first 11 months of 2017 compared to a surplus of \$327.7m in the same period of 2016. The balance of payments posted a surplus of \$67.4m in November 2017 compared to a deficit of \$887.8m in October 2017 and a surplus of \$453m in November 2016. The November 2017 deficit was caused by a \$1.06bn increase in the net foreign assets of banks and financial institutions, which was partly offset by a decline of \$991m in those of the BdL. The cumulative deficit over the first 11 months of 2017 was caused by a decline of \$2.52bn in the net foreign assets of banks and financial institutions, which was partly offset by an increase of \$1.5bn in those of the BdL. Also, BdL indicated that it included Eurobonds issued by the Lebanese government in November 2017 in its foreign assets. 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.



### Expanding scope of tax on moving capital to weigh on financial sector

In the monthly meeting between Banque du Liban (BdL), the Banking Control Commission of Lebanon (BCCL) and the Association of Banks in Lebanon (ABL), Governor Riad Salamé indicated that monetary conditions in Lebanon have improved, as the US dollar has become abundantly available in the market and BdL is absorbing excess US dollar liquidity. He noted that interest rates on deposits will remain at the same levels they reached in November 2017, and that the average maturity of deposits has increased from 40 days to 75 days, which would ease the pressure on banks in case of sudden demand for foreign currency. He added that the yields on 10-year Lebanese Eurobonds dropped from 9% to 7%, while the spreads on Credit Default Swaps, or the cost of insuring government bonds against sovereign risk, decreased from about 7% to 4.5%.

In parallel, the ABL discussed the Ministry of Finance's decision to expand the scope of the 7% tax on moving capital to cover the income that the banks generate from their deposits at BdL and at correspondent banks, as well as on their interbank operations. It considered that the implementation of the tax on these sources of income would have a negative impact on the financial sector, on monetary stability in the country and on the overall Lebanese economy. It noted that the tax would increase the cost of financing the economy, which would weigh on economic activity. Also, the ABL indicated that the implementation of the tax on these sources of income would depress the banking sector's already low return on equity, which would make it difficult for banks to attract investors at a time when they are required to increase their capital in order to comply with international standards. It pointed out that higher capital levels are crucial for the banking sector, as they would allow banks to continue financing the sovereign amid heightened sovereign risks and the need for higher capital requirements. Also, it noted that there isn't any country in the world that taxes the returns from interbank operations and on deposits at central banks. The ABL and BdL agreed to follow up on this matter, especially with the Finance Ministry.

In parallel, Governor Salamé discussed the implementation of the International Financial Reporting Standard (IFRS9) by Lebanese banks. He reiterated that BdL will maintain a zero percent risk weight on Lebanese pound-denominated financial instruments, a 50% risk weight on the banks' foreign-currency deposits at BdL and a 100% risk weight on their holdings of Eurobonds. In addition, Governor Salamé indicated that external auditors must take into consideration the weights determined by monetary authorities when calculating the banks' expected credit losses. He called on the banks to calculate their own expected credit loss and to submit it to the BCCL. In turn, the BCCL will decide accordingly if there is a need to increase or amend the weights. Finally, Governor Salamé pointed out that banks will no longer have to set aside general reserves or reserves against various banking risks, given that these risks are already incorporated under the new IFRS9 requirements. He added that monetary and supervisory authorities will issue the relevant circulars at a later stage.

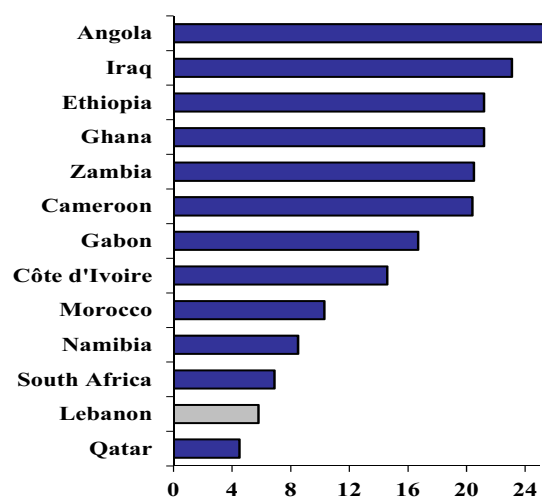
### External sovereign bonds post fifth lowest return in emerging markets in 2017

Figures issued by Citi Research indicate that Lebanon's external sovereign debt posted a return of 5.8% in 2017, constituting the fifth lowest return among 36 emerging markets included in the Citi EM Sovereign Bond Index. Lebanon's sovereign debt performance was better than Poland (+5.2%), Qatar (+4.5%), Russia (+4.1%) and Bolivia (+0.7%).

Lebanon underperformed the overall emerging markets' return of 9.7%, as well as the speculative grade sovereigns' return of 10.2% in 2017. Also, Lebanon's sovereign debt posted the second lowest return among 13 countries in the Middle East & Africa region in 2017, ahead of only Qatar.

Further, Lebanon's sovereign debt posted a return of 3.2% in December 2017, constituting the sixth highest return in emerging markets and in the Middle East & Africa region during the covered month, behind Angola and Gabon (+4% each), Zambia (+3.4%), and Ghana and Iraq (+3.3% each). Lebanon outperformed the emerging markets' return of 0.5% and the 'B'-rated sovereigns' return of 0.8% in December 2017.

**External Sovereign Debt Performance in the Middle East & Africa in 2017 (%)**



Source: Citi Research, Byblos Research

### Average value per real estate transaction up 4.6% in first 11 months of 2017

Figures released by the Ministry of Finance indicate that there were 66,458 real estate transactions in the first 11 months of 2017, constituting an increase of 15% from 57,774 deals in the same period of 2016. In comparison, the number of real estate transactions grew by 2% year-on-year in the first 11 months of 2016, while it decreased by 11.1% in same period of 2015. There were 6,182 real estate transactions in November 2017, down by 25.4% from 8,283 deals in October 2017 and up by 1.9% from 6,067 deals in November 2016. Further, there were 13,885 real estate transactions in the Baabda area in the first 11 months of 2017, representing 21% of the total. The North followed with 10,546 transactions (16%), then the Zahlé region with 7,679 deals (11.6%), the Metn district with 7,498 transactions (11.3%), the South with 7,155 deals (10.8%), the Keserwan area with 6,819 transactions (10.3%), the Nabatieh region with 6,049 deals (9.1%) and Beirut with 4,733 transactions (7.1%).

Also, the aggregate value of real estate transactions reached \$9bn in the first 11 months of 2017 and increased by 20.4% from \$7.5bn in the same period of 2016. In comparison, the value of real estate deals increased by 5.4% in the first 11 months of 2016 relative to the same period of 2015, while it declined by 11.6% year-on-year in the first 11 months of 2015. The value of real estate transactions reached \$859m in November 2017, down by 24.2% from \$1.1bn in October 2017 and up by 13% from \$760.1m in the same month last year. Further, the value of real estate transactions in Beirut reached \$2.5bn and accounted for 28% of the total in the first 11 months of 2017. The Baabda district followed with \$1.9bn (21%), then the Metn region with \$1.6bn (18%), the Keserwan area with \$926.3m (10.3%), the North with \$701.1m (7.8%), the South with \$661m (7.3%), the Zahlé area with \$351.7m (3.9%) and the Nabatieh region with \$269.5m (3%).

In parallel, the average value per real estate transaction was \$135,629 in the first 11 months of 2017, up by 4.6% from an average value of \$129,623 in the same period of 2016 and relative to \$125,490 in the first 11 months of 2015. Further, there were 1,226 real estate transactions executed by foreigners in the first 11 months of 2017, up by 26.8% from 967 deals in the same period of 2016, and compared to an annual decrease of 23.3% in the first 11 months of 2016 and a rise of 23.2% in the same period of 2015.

The number of real estate deals executed by foreigners accounted for 1.8% of total real estate transactions in the covered period compared to 1.7% of deals in the first 11 months of 2016 and to 2.2% of deals in the same period of 2015. Further, 28.1% of the real estate transactions executed by foreigners were in the Baabda district in the first 11 months of 2017, followed by Beirut (16.3%), the South (15.9%), the Metn region (12.9%), Zahlé (8.6%), Keserwan and the North (8.1% each), and the Nabatieh region (2%).



### Tourist spending up 6% in 2017, number of refunds up 3%

Figures issued by Global Blue, the VAT refund operator for international shoppers, show that total spending by tourists in Lebanon increased by 5.5% in 2017 compared to a decrease of 9% in 2016. Spending by tourists in Lebanon increased in nine out of 12 months in 2017, with March posting the highest annual growth rate of 16.9% and November and June posting the steepest contractions of 5.8% each.

Visitors from Saudi Arabia accounted for 14% of total tourist expenditures in 2017, followed by visitors from the UAE with 12%, Kuwait with 7%, Syria with 6%, Egypt, France and Jordan with 5% each, and Canada, Qatar and the United States with 4% each; while visitors from other countries accounted for the remaining 34%. Spending by visitors from Syria grew by 32.1% in 2017, followed by spending by tourists from Kuwait (+28.5%), Saudi Arabia (+15.4%), the United States (+10.6%), Qatar (+7.2%) and France (+3.4%). In contrast, spending by visitors from Egypt decreased by 18.5% last year, followed by spending by tourists from the UAE (-9%), Canada (-0.8%) and Jordan (-0.5%).

Further, Beirut attracted 80% of aggregate expenditures in 2017, followed by the Metn area with 14%, the Baabda district with 3% and the Keserwan region with 2%. On a city level, the Beirut Central District attracted 54% of tourist expenditures, followed by Ashrafieh (12%), Verdun (6%), Dbayeh and Jal el Dib (5% each), Hamra, Hazmieh and Mina El Hosn (3% each), and Jounieh and Sin el Fil (1% each); while other cities accounted for the remaining 7% of total expenditures last year.

In parallel, fashion & clothing accounted for 69% of total spending in 2017, followed by watches & jewelry with 16%, and department stores and home & garden products with 4% each, while other categories accounted for the remaining 7%. Spending at department stores rose by 19.5% last year, followed by expenditures on watches & jewelry (+5.5%), spending on home & garden products (+4.7%) and expenditures on fashion & clothing (+4%).

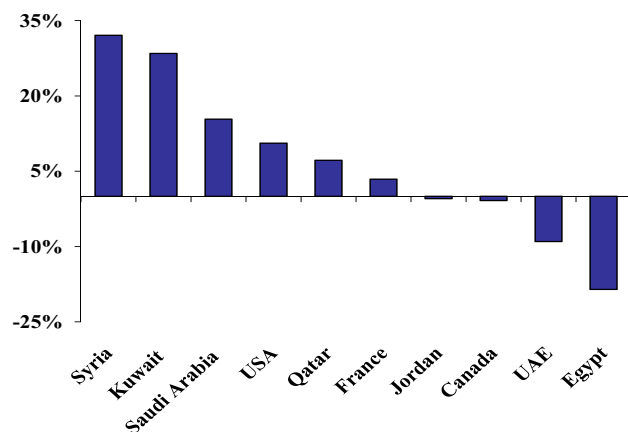
Also, the total number of refund transactions by visitors increased by 2.8% in 2017 compared to a drop of 11% in 2016. The number of refund transactions increased in seven out of 12 months last year, with April posting the highest annual growth rate of 31.4% and August registering the steepest decline of 11.6%. Visitors from Saudi Arabia accounted for 14% of total refund transactions in 2017, followed by those from the UAE (11%), Syria (8%), Kuwait (7%), Egypt (6%), Jordan (5%), France (4%), and Canada, Qatar and the United States (3% each), while other countries accounted for the remaining 36%. In parallel, the number of refund transactions by visitors from Syria jumped by 47.7% in 2017, followed by visitors from Kuwait (+33.3%), Saudi Arabia (+20.1%) and the United States (+11%). In contrast, the number of refund transactions by visitors from Egypt decreased by 24.2% in 2017, followed by those from Jordan (-8.4%), the UAE (-6.3%), France (-1.6%), and Canada and Qatar (-1.1% each).

In addition, fashion & clothing accounted for 75% of the number of refund transactions by visitors in 2017, followed by department stores with 8%, and home & garden products and watches & jewelry (2% each), while other categories represented the remaining 13%. Further, Beirut accounted for 68% of total refunds by visitors in 2017, followed by the Metn area with 21%, the Baabda district with 7% and the Keserwan region with 2%. On a city level, the Beirut Central District attracted 32% of total refund transactions by visitors in 2017, followed by Ashrafieh (20%), Verdun (9%), Dbayeh (12%), Hazmieh (7%), Hamra (4%), Jal el Dib (3%), Mina El Hosn (2%) and Sin el Fil (1%), while other cities attracted the remaining 10% of total refund transactions last year.

### 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 raise the Beirut Reference Rate (BRR) in US dollars to 7.03% in February 2018 from 6.93% in January 2018. The rate, considered as the reference rate for lending in foreign currency, replaced the London Interbank Offered Rate (LIBOR) in 2009, as the ABL decided that the LIBOR does not reflect the cost of funding and lending in Lebanon. In addition, the ABL recommended to its member banks to reduce the BRR in Lebanese pounds to 9.11% in February 2018 from the January 2018 rate of 10.7%. 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.

**Total Spending by Source in 2017**  
(% change from 2016)



Source: Global Blue, Byblos Research

### Financial conditions of Syrian refugees regress in 2017

A survey commissioned by the United Nations High Commissioner for Refugees (UNHCR), the World Food Program (WFP) and the United Nations Children's Fund (UNICEF) indicated that Syrian refugees are exhausting their limited resources and are adopting more severe coping mechanisms to survive.

The survey shows that a Syrian refugee in Lebanon spent an average of \$97.8 per month in 2017, down by 6% from \$104 in 2016. It noted that refugees in Beirut spent \$155.2 per capita on a monthly basis, followed by Syrians in the Keserwan district with \$150.4 per capita, in the Metn area with \$149.7 per capita and in Jbeil with \$146.3 per capita, while refugees in Baalbeck and Hermel spent \$66.1 and \$53.6 per capita, respectively. It added that per capita expenditures increased year-on-year in just eight districts in Lebanon, while they contracted in 16 districts. It said that the decline in spending could be attributed to fewer resources available to households.

Further, the survey indicated that household spending on food accounted for 44% of total monthly expenditures in 2017, followed by rent (18%) and healthcare (11%), while other categories, such as hygiene, telecom, water, transport and electricity, represented the remaining 27%. In addition, it pointed out that 80% of Syrian households paid rent, and that rent was the most important factor in the choice of housing. It noted that the average monthly rent among surveyed refugees across Lebanon increased by 15% to \$183 in 2017, and that refugees were struggling to find affordable housing. It added that monthly rent was the highest in Beirut and Mount Lebanon at \$328 and \$268, respectively, and was the lowest in the Bekaa and the Baalbek-Hermel areas at \$115 and \$88, respectively. It said that rent ranged from \$35 per month for a tent at informal settlements to an average of \$219 per month for residential housing.

Also, the survey revealed that 58% of households spent less than \$87 per month, which is below the Survival Minimum Expenditure Basket that includes basic items needed for the physical survival of a household. It estimated that 76% of Syrian refugee households lived below the poverty line of \$3.84 per person per day in 2017, up from 49% in 2014. In addition, the survey indicated that 19% of households reported that all their members had legal residency in Lebanon relative to 20% in 2016 and 29% in 2015. Also, 55% of households stated that none of their members had legal residency, up from 29% in 2016.

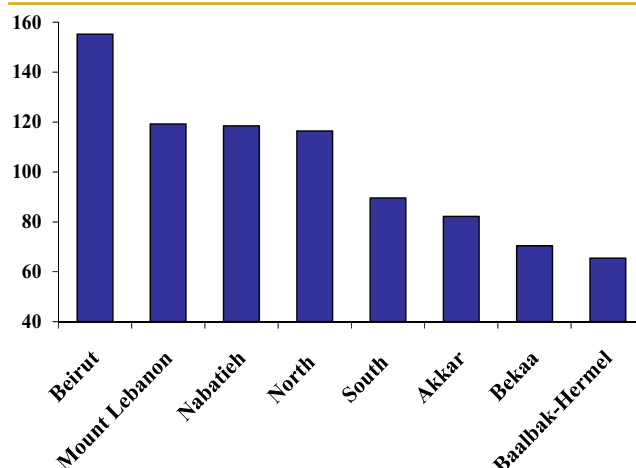
In parallel, the survey indicated that income opportunities remained a challenge for Syrian refugees. It noted that 62% of households cited informal credit from shops, friends and family as their primary source of income, up from 53% in 2016; while 33% of households revealed that they relied on food vouchers as their main source of income relative to 40% in 2016. Also, 23% of households said that temporary construction work was their primary source of income compared to 32% in 2016, while 15% noted that the services sector was their primary source of income relative to 25% in 2016. Further, 15% households said that work in the agricultural sector was their primary source of income compared to 21% in 2016, while 5% said that the manufacturing was their main source of income relative to 8% in 2016.

As a result, the survey pointed out that households adopted different strategies to cope with the reduced income, as 79.2% of households said that they reduced their spending on food and 77.3% noted that they bought food on credit. Also, 53.1% of households reported a decrease in spending on essential non-food items, 34.6% acknowledged that they spent from their savings and 24.9% indicated that they sold household goods.

Further, the survey showed that 86.8% of Syrian households are currently in debt, with 77.1% of households reporting debt in excess of \$200 each and 43% having debt in excess of \$600 each. It noted that indebted refugees have accumulated an average of \$798 in debt per household in 2017, down from \$857 in 2016. It added that households in Nabatieh, Jbeil, Beirut and Aley have the lowest amount of debt, while more than 50% of refugee households in the Becharré, Bint Jbeil, Hasbaya, Jezzine and Metn regions have debt above \$600 each. It said that 72% of households reported that they borrowed money to buy food, 27% noted that they resorted to debt to cover healthcare expenses and 43% revealed that they borrowed funds to pay rent. Also, 69% of households cited friends and relatives in Lebanon as the main sources of borrowed money, followed by supermarkets and shops (38%) and landlords (9%). Other sources of borrowing were reported to be friends or relatives outside Lebanon, local charities and money lenders.

The results are part of the 2017 Vulnerability Assessment for Syrian Refugees in Lebanon. The data was collected from 4,966 Syrian refugee households in 26 districts across Lebanon. The survey was conducted between May 9 and 24, 2017 for quantitative analysis, and discussion groups were held to gather qualitative information.

Spending per Syrian Refugee by Governorate (US\$)



Source: UNHCR, WFP, UNICEF, Byblos Research

### Subsidized interest loans down 13% to \$356m in first nine months of 2017

Figures released by Banque du Liban show that the amount of subsidized interest loans to productive sectors in Lebanon totaled \$356m in the first nine months of 2017, constituting a decrease of 13.4% from \$411.2m in the same period of 2016. Subsidized interest loans reached \$126.3m in the first quarter, \$103.9m in the second quarter and \$125.8m in the third quarter of 2017. The industrial sector benefited from \$194.6m in subsidized interest loans, equivalent to 54.7% of the total in the first nine months of the year, followed by the tourism sector with \$126.3m (35.5%) and agriculture with \$35.1m (9.9%). Subsidized medium- & long-term loans by Banque du Liban amounted to \$297.4m in the first nine months of 2017, equivalent to 83.5% of the total. The industrial sector accounted for 55.9% of subsidized medium & long-term loans, followed by the tourism sector with 38.7% and agriculture with 5.5%. The program was established in the second half of 1997 and consists of a 5% to 7% subsidy on the interest charged on loans extended to productive sectors.

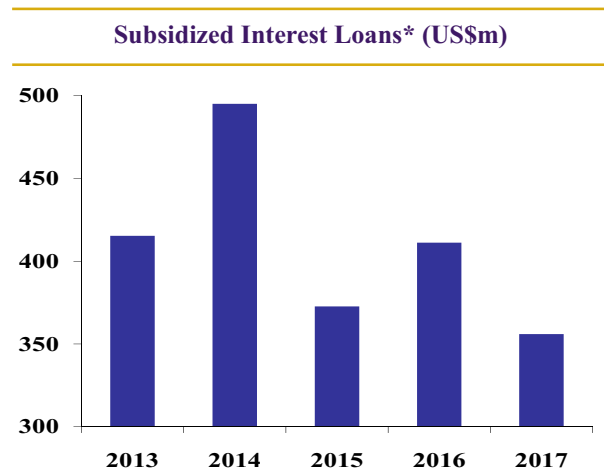
Also, subsidized interest loans guaranteed by the Kafalat Corporation reached \$51.6m, or 14.5% of the total, in the first nine months of 2017.

The industrial sector received 41.5% of Kafalat-backed subsidies, followed by the agricultural sector with 36.5% and the tourism sector with 21.9%. Kafalat provides financial guarantees for loans of up to \$430,000 for small- and medium-sized enterprises in productive sectors. In addition, subsidized interest loans granted by leasing companies amounted to \$7m in the first nine months of 2017, or 2% of the total, and were extended in full to the industrial sector. The cumulative amount of subsidized interest loans to productive sectors in Lebanon totaled \$7.32bn between 1997 and September 2017.

### Industrial activity slightly improves in third quarter of 2017

Banque du Liban's quarterly survey of the opinions of business managers shows that industrial production slightly improved during the third quarter of 2017, with the balance of opinions at -2 compared to -9 in the second quarter of 2017 and -4 in the third quarter of 2016. The balance of opinions was the highest in the South at +23, followed by the North (+16), Beirut & Mount Lebanon (-7) and the Bekaa (-14). The business survey reflects the opinions of managers of industrial enterprises about their businesses, in order to depict the evolution of a number of key economic variables. The balance of opinions for overall demand for industrial goods stood at -7 in the third quarter of 2017 compared to -15 in the second quarter of 2017, and was unchanged from the third quarter of 2016. The balance of opinions about demand for industrial goods reached +14 in each of the North and the South, followed by Beirut & Mount Lebanon (-13) and the Bekaa (-18).

In parallel, the balance of opinions for the volume of investments in the industrial sector stood at +3 in the third quarter of 2017 compared to -5 in the preceding quarter and to -8 in the same quarter of 2016. The balance of opinions about the volume of investments was the highest in the South at +17, followed by Beirut & Mount Lebanon (+4), and the Bekaa and the North (zero each). Also, the balance of opinions for foreign demand of industrial goods stood at -16 during the third quarter of 2017 compared to -20 in the preceding quarter and to -15 in the third quarter of 2016. The balance of opinions for foreign demand of industrial goods was the highest in the North at zero, followed by Beirut & Mount Lebanon and the Bekaa (-10 each), and the South (-86). The balance of opinions is the difference between the proportion of surveyed managers who consider that there was an improvement in a particular indicator and the proportion of those who reported a decline in the same indicator.



*\*in the first nine months of each year*

*Source: Banque du Liban, Byblos Research*

Industrial Activity: Evolution of Opinions				
Aggregate results	Q3-14	Q3-15	Q3-16	Q3-17
Production	5	-5	-4	-2
Total demand	1	-11	-7	-7
Foreign demand	-8	-23	-15	-16
Volume of investments	0	-13	-8	3
Inventories of finished goods	0	-12	-2	-8
Inventories of raw material	-3	-6	-4	-8
Registered orders	-8	-14	-9	-18

*Source: Banque du Liban Business Survey for Third Quarter of 2017*



### Payment cards reach 2.6 million at the end of September 2017, ATMs total 1,878

Figures released by Banque du Liban show that the number of payment cards issued in Lebanon reached 2,609,110 cards at the end of September 2017, constituting a decrease of 5.6% from end-2016 and a decline of 6.7% from the end of September 2016. Cards held by residents accounted for 96.5% of total cards issued in Lebanon at end-September 2017. The distribution of payment cards by type shows that debit cards with residents reached 1,487,196 and accounted for 57% of the total, followed by credit cards with residents at 552,961 (21.2%), prepaid cards with residents at 388,015 (14.9%), charge cards with residents at 90,406 (3.5%), debit cards held by non-residents at 60,420 (2.3%), credit cards with non-residents at 21,383 (0.8%), charge cards held by non-residents at 7,072 (0.3%) and prepaid cards with non-residents at 1,657 (0.1%).

Further, the aggregate number of points-of-sales accepting payment cards reached 41,673 at the end of September 2017, constituting an increase of 7.8% from end-2016 and of 1% from end-September 2016. As a result, there were 3.99 points-of-sales per square kilometer in Lebanon at the end of September 2017.

In parallel, the number of ATMs across Lebanon totaled 1,878 at the end of September 2017, constituting an increase of 85 ATMs from end-2016 and a growth of 106 ATMs from the end of September 2016. The Greater Beirut area had 725 ATMs at end-September 2017, equivalent to 38.6% of the total, followed by Mount Lebanon with 647 ATMs (34.5%), the North with 192 ATMs (10.2%), the South with 148 ATMs (7.9%), the Bekaa with 134 ATMs (7.1%) and Nabatieh with 32 ATMs (1.7%). As such, there were 179.7 ATMs per 1,000 square kilometers in Lebanon at the end of September 2017.

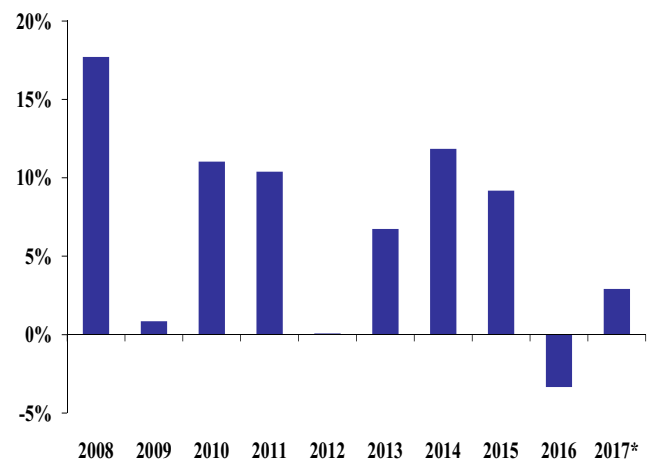
### Compensation of public-sector personnel up 4% in 2016, absorbs 33% of fiscal spending

Figures issued by the Ministry of Finance show that the compensation of public-sector personnel totaled \$4.9bn in 2016, constituting an increase of 3.6% from \$4.7bn in 2015. Salaries, wages and related benefits accounted for 64.9% of the total in 2016, followed by retirement benefits (24.6%), transfers to public institutions to cover salaries (6.1%) and end-of-service indemnities (4.4%). The rise in the compensation of public-sector personnel reflects a year-on-year increase in transfers to public institutions to cover salaries (+15%), in end-of-service indemnities (+9.8%), in retirement benefits (+4.6%), and in salaries, wages and related benefits (+1.9%). The compensation of public-sector personnel represented the largest component of total budgetary primary spending and accounted for 66% of such expenditures in 2016, compared to 67% in 2015. The compensation of public-sector personnel absorbed 33% of fiscal spending in 2016 relative to 35% in 2015.

In parallel, salaries, wages and related benefits paid to public-sector employees amounted to \$3.2bn in 2016, constituting an increase of 1.9% from \$3.1bn in 2015. This category includes basic salaries, employment benefits, allowances, contributions to civil servants' co-operatives, as well as contributions to other mutual funds providing health insurance for specific categories of civil servants, mainly civil and religious judges, and employees at the Parliament. Salaries and benefits of military personnel reached \$1.95bn and accounted for 61.9% of salaries, wages and related benefits paid to the public sector in the covered year. Educational personnel followed with \$695.2m (22% of the total), civil staff with \$302.5m (9.6%), the government's contribution to the employees' cooperative with \$176.5m (5.6%) and customs employees with \$23.9m (0.8%). Also, the Lebanese Army's salaries totaled \$1.25bn in 2016 and represented 64% of military personnel's salaries and benefits. The salaries of the Internal Security Forces followed with \$534m (27.3%), those of the General Security Forces with \$132m (6.8%) and the State Security Forces with \$38.5m (2%).

The overall increase in salaries, wages and related benefits paid to public-sector employees reflects a growth of \$85.6m in basic salaries, a rise of \$11.9m in employment benefits and an increase of \$8m in other payments such as bonuses given to non-military bodies, which were partly offset by a decrease of \$48.4m in allowances. Overall, basic salaries grew by 3.8% year-on-year to \$2.4bn in 2016, other payments disbursed to non-military bodies increased by 3.5% to \$234.8m and employment benefits rose by 8.2% to \$157.9m, while allowances regressed by 11.2% to \$383.4m in 2016.

### Growth in the Number of Credit Cards Held by Residents



\*change in the first nine months of 2017

Source: Banque du Liban, Byblos Research

### CDR completes \$8.24bn in projects between 1992 and 2016

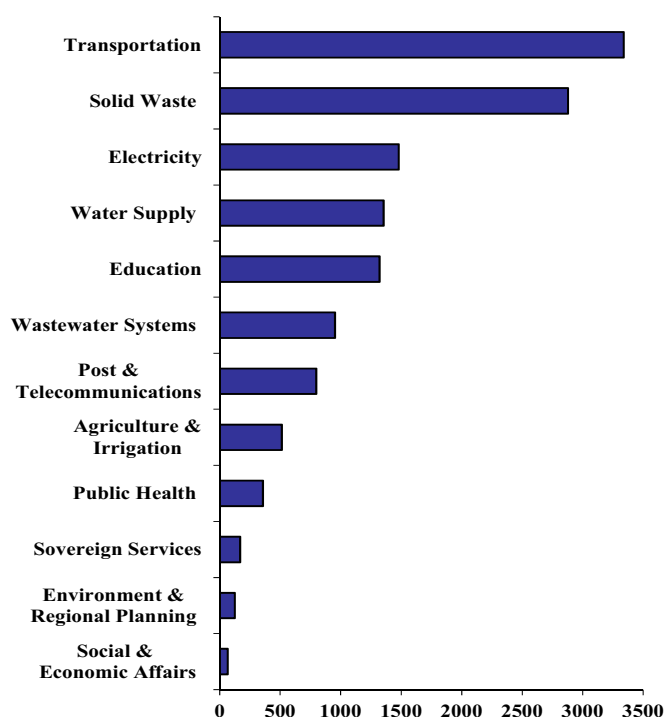
The Council for Development & Reconstruction (CDR) indicated that it signed contracts for an aggregate value of \$14bn during the 1992-2016 period. It added that it completed \$8.24bn in projects, or 58.7% of the total, during the covered period, while projects valued at about \$5.8bn, or 41.3% of the total, are still underway. The transportation sector attracted \$3.34bn of signed contracts, or 23.8% of the total, during the covered period; followed by the solid waste sector with \$2.88bn (20.5%); the electricity sector with \$1.48bn (10.5%); water supply with \$1.35bn (9.6%); education with \$1.32bn (9.4%); wastewater systems with \$954m (6.8%); post & telecommunications with \$798.8m (5.7%); agriculture & irrigation with \$512.7m (3.7%); public health with \$356m (2.5%); sovereign services, such as the construction of new government facilities and the improvement of existing ones, with \$168.2m (1.2%); environment & regional planning with \$124.1m (0.9%); and social & economic affairs with \$66.8m (0.5%); while other sectors attracted \$691.5m (4.9%) during the covered period.

Further, the CDR said that foreign funding totaled \$5.49bn during the 1992-2016 period and included \$1.29bn for electricity projects, \$1.13bn for transportation, \$914.3m for water supply, \$570m for education projects, \$483.1m for wastewater projects, \$396.4m for agriculture & irrigation, \$228.3m for public health, \$101.2m for environment & regional planning, \$33.6m for the solid waste sector, \$33.3m for post & telecommunications, \$24.4m for social & economic affairs and \$13.7m for sovereign services; while other sectors attracted \$268.6m in foreign funding during the covered period.

In parallel, the CDR noted that loans and grants, which were ratified, signed and approved between 1992 and 2016, amounted to \$11.85bn, with loans reaching \$8.48bn, or 71.6% of the total, and grants amounting to \$3.36bn or 28.4% of the total. The CDR adopts a general policy to secure soft loans for social services sectors and commercial loans for projects in productive sectors. The infrastructure sector attracted 32.6% of loans and grants in the covered period; followed by basic services such as potable water, sanitation and solid waste with 26.3% of the total; social and economic sectors such as education, health, housing, youth & sports and the environment with 24.2%; and productive sectors and other sectors such as agriculture, irrigation, private sector services, industry and tourism with 16.9%.

The World Bank provided 16.6% of overall financing between 1992 and 2016, followed by the Arab Fund for Economic & Social Development with 12.8%, the Islamic Development Bank (12.5%), the Kuwait Fund For Arab Economic Development (11.7%), the European Investment Bank (8.9%), the Saudi Fund for Development (8%), the European Union (6.6%), the Italian government (5%), the French Development Agency (3.7%), the Qatari government (2.8%), commercial banks (2.4%), the U.S. and Germany (1.5% each) and Japan (1.4%).

**Contracts Awarded between 1992 and 2016 (US\$m)**



Source: Council for Development & Reconstruction, Byblos Research

### New car sales up 2.5% in 2017

Figures released by the Association of Automobile Importers in Lebanon show that dealers sold 37,222 new passenger cars in 2017, constituting an increase of 2.5% from 36,326 cars sold in 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, 3,390 cars in October, 2,672 vehicles in November and 3,226 automobiles in December 2017.

Japanese cars accounted for 36.9% of total sales in 2017, followed by Korean vehicles with a 33.9% share, European automobiles (20%), American cars (8%) and Chinese vehicles (1.3%). The sales of new Chinese cars jumped by 81.8%, demand for American automobiles rose by 13.8%, the number of Japanese vehicles sold grew by 2% and sales of Korean vehicles increased by 1.3% in 2017; while the number of European cars sold declined by 1.7% year-on-year.

Kia is the leading brand in the Lebanese market with 7,610 vehicles sold in 2017, followed by Hyundai with 4,962 new cars sold, Toyota (4,269), Nissan (3,426), Suzuki (1,954), Chevrolet (1,820) and Renault (1,803). In parallel, 2,641 new commercial vehicles were sold in 2017, up by 3.6% from 2,548 commercial vehicles purchased in 2016. Overall, car dealers sold 39,863 new passenger automobiles and commercial vehicles in 2017, up by 2.5% from 38,874 vehicles sold in 2016.

In parallel, the number of new vehicles sold by Lebanon's top five distributors reached 26,243 in 2017 and accounted for 65.8% of new car sales. NATCO sal sold 7,623 vehicles, equivalent to 19.1% of the total, followed by Rasamny Younis Motor Co. sal with 5,643 cars (14.2%), Century Motor Co. sal with 5,066 automobiles (12.7%), Boustany United Machineries sal with 4,734 vehicles (11.9%), and Bassoul Heneiné sal with 3,177 cars (8%).

### Net profits of insurance sector up 8.5% to \$140m in 2016

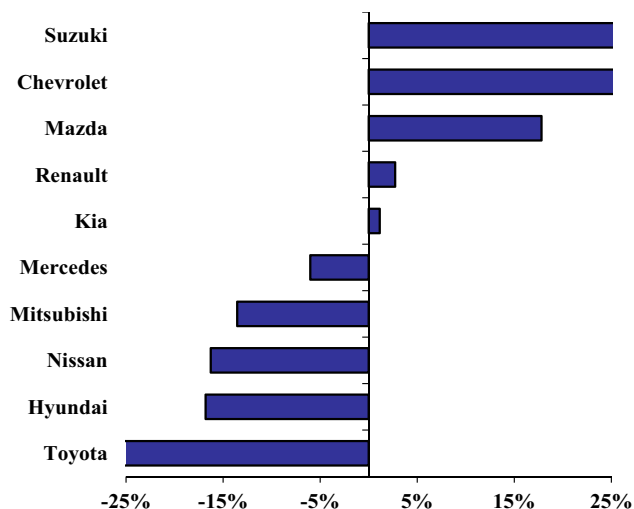
Figures released by the Insurance Control Commission (ICC) show that the declared net profits of 50 licensed insurance companies in Lebanon reached \$139.6m in 2016, constituting an increase of 8.5% from \$128.7m in 2015. Net profits from the life category accounted for 59.1% of the sector's net earnings and those from the non-life segment represented 40.9% of the total.

In parallel, the sector's net investment income totaled \$130.4m in 2016 and increased by 3.7% from the preceding year. Also, the sector's net profit margin reached 8.9% in 2016, up from 8.4% in 2015. The sector's return on assets reached 3% in 2016 relative to 2.9% in 2015, while its return on equity was nearly unchanged at 12.8% in 2016. In parallel, the sector's net premiums reached \$1.23bn, policy fees stood at \$237.7m and the cost of policies amounted to \$103.6m in 2016.

Also, net income from the life category totaled \$82.4m in 2016 and increased by 18.6% year-on-year, while net profits from the non-life category amounted to \$57.2m and declined by 3.4% in 2016. In the non-life branch, the health insurance category generated net profits of \$21.3m in 2016, followed by accidents with \$13.2m, fire insurance with \$11.7m, transportation with \$6.7m, civil liability with \$2.1m and contractors all risk with \$0.3m. In contrast, the motor and credit segments incurred net losses of \$2.2m and \$0.2m, respectively, in 2016.

Further, the sector's gross paid claims reached \$894.1m in 2016 and grew by 7.9% from 2015. Also, general expenditures totaled \$467.3m in 2016 and included \$238.1m in brokerage expenses and \$176.1m in administration costs, while net reinsurance expenditures totaled \$59.3m in 2016.

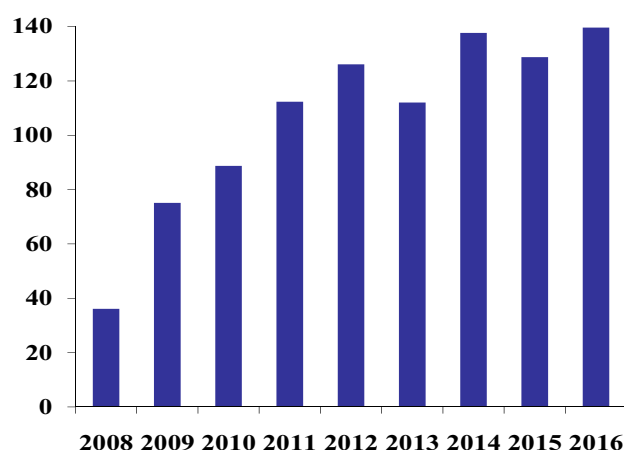
**Sales of Top 10 Car Brands in 2017**  
(% change\*)



\* year-on-year

Source: ALA, Byblos Research

**Net Profits of the Insurance Sector (\$m)**

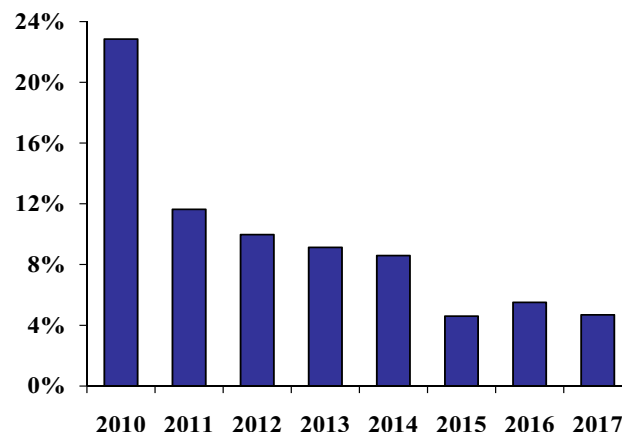


Source: Insurance Control Commission, Byblos Research

### Banking sector assets at \$216bn at end-November 2017

The consolidated balance sheet of commercial banks operating in Lebanon shows that total assets stood at \$216.2bn at the end of November 2017, constituting an increase of 5.8% from the end of 2016 and a growth of 7.6% from end-November 2016. Loans extended to the private sector reached \$59.5bn at the end of November 2017, up by 4.1% from end-2016 and by 5.4% from a year earlier. Loans to the resident private sector totaled \$53.4bn, constituting an increase of 4.7% from end-2016 and a rise of 5.4% year-on-year; while credit to the non-resident private sector totaled \$6.1bn at end-November 2017 and regressed by a marginal 0.4% from end-2016 and by 2.5% from a year earlier. In nominal terms, credit to the private sector grew by \$2.37bn in the first 11 months of 2017 relative to an increase of \$2.27bn in the same period of 2016. Lending to the resident private sector increased by \$2.39bn in the first 11 months of 2017 relative to a growth of \$2.65bn in the same period of 2016, while credit to the non-resident private sector decreased by \$25.2m in the first 11 months of the year compared to an increase of \$94.9m in the same period of 2016. The dollarization rate in private sector lending regressed to 70.2% at end-November 2017 from 72.6% a year earlier.

**Resident Private Sector Lending Growth\*  
(% Change)**



\* in the first 11 months of each year

Source: Association of Banks in Lebanon, Byblos Research

In addition, claims on non-resident banks reached \$10.77bn at the end of November 2017 and decreased by 4.2% from \$11.24bn at the end of 2016, while claims on the public sector stood at \$32.86bn at end-November 2017, down by 5.4% from end-2016. The average lending rate in Lebanese pounds was 7.98% in November 2017, while the same rate in US dollars was at 7.32%. Further, the deposits of commercial banks at Banque du Liban totaled \$101.1bn at end-November 2017, constituting an increase of 13.2% from end-2016 and a growth of 15% from a year earlier.

In parallel, private sector deposits of the non-financial sector totaled \$166.8bn at the end of November 2017, increasing by 2.7% from the end of 2016 and by 4.8% from a year earlier. Deposits in Lebanese pounds reached \$52.5bn at end-November 2017, down by 5.4% from end-2016 and by 4.9% year-on-year; while deposits in foreign currencies totaled \$114.3bn and grew by 6.9% from end-2016 and by 9.9% from end-November 2016. Aggregate non-resident deposits reached \$34.4bn at the end of November 2017, up by 1.2% from end-2016 and by 3.9% 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, by \$767.5m in August and by \$309.5m in October, while they regressed by \$63.7m in September and by \$2.59bn in November 2017. As such, total private sector deposits rose by \$4.31bn in the first 11 months of 2017 compared to an increase of \$7.61bn in the same period of 2016. Resident private sector deposits grew by \$3.91bn in the first 11 months of 2017 relative to a growth of \$6.38bn in the same period of 2016, while non-resident deposits rose by \$406m in the first 11 months of the year compared to a growth of \$1.23bn in the same period of 2016. Further, foreign-currency deposits grew by \$7.34bn in the first 11 months of 2017 relative to an increase of \$5.62bn in the same period of 2016.

In parallel, deposits of non-resident banks reached \$7.67bn at the end of November 2017 and increased by 22.1% from end-2016 and by 17.5% from a year earlier. The dollarization rate of deposits was 68.5% at the end of November 2017, up from 67.3% end-October 2017 and compared to 65.3% a year earlier. Further, the average deposit rate in Lebanese pounds was 5.88% in November 2017 compared to 5.54% a year earlier, while the same rate in US dollars was 3.8% relative to 3.48% in November 2016.

The ratio of private sector loans-to-deposits in foreign currency stood at 36.6%, well below Banque du Liban's limit of 70% and compared to 39.4% a year earlier. The same ratio in Lebanese pounds was 33.7% at end-November 2017 relative to 28.1% at the end of November 2016. As such, the ratio of total private sector loans-to-deposits reached 35.7%, nearly unchanged from 35.5% at end-November 2016. The banks' aggregate capital base stood at \$18.66bn at end-November 2017, up by 2.3% from \$18.24bn at the end of 2016.

## Ratio Highlights

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

\*Change in percentage points 15/16

\*\*Includes portion of public debt owed to non-residents, liabilities to non-resident banks, non-resident deposits (estimated by the IMF), Bank for International Settlements' claims on Lebanese non-banks

Source: Association of Banks in Lebanon, Institute of International Finance, International Monetary Fund, World Bank, Byblos Research Estimates & Calculations

Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

## Risk Metrics

Lebanon	Feb 2016	Jan 2017	Feb 2017	Change**	Risk Level
Political Risk Rating	54.5	56	56.5	▼	High
Financial Risk Rating	36.5	33.0	33.0	▲	Low
Economic Risk Rating	30.5	27.5	27.5	▲	Moderate
Composite Risk Rating	60.75	58.25	58.5	▲	High

MENA Average*	Feb 2016	Jan 2017	Feb 2017	Change**	Risk Level
Political Risk Rating	57.7	57.8	57.9	▼	High
Financial Risk Rating	40.2	38.3	38.3	▲	Low
Economic Risk Rating	31.0	29.6	29.6	▲	High
Composite Risk Rating	64.4	62.8	62.9	▲	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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